

June 23, 1998

University Mall Case: Part I

Times were changing, and they were getting tougher all the time. At least they were for Mr. Richard Woodbury, president of the Woodbury Corporation. The bottom line was that he had some difficult decisions to make and he had to make them fast. Woodbury Corporation owned and operated the University Mall Shopping Center (University Mall) in Orem, Utah. The mall had enjoyed relative prosperity, being the only mall in Utah County. However, that was about to change. Provo City was developing a mall of its own, just a few miles away, that was due to be finished within the year. The University Mall had three anchor stores: Z.C.M.I., J.C. Penney, and Mervyn's. J.C. Penney had already announced its intention to accept economic incentives to move from the University Mall to the new mall in Provo. Z.C.M.I. had also received an attractive offer to receive economic incentives to move from its present location to the new mall, which it was considering heavily. Woodbury had to act quickly. One anchor was gone and another was likely to leave in short order. But what were his options? What could he offer to entice his anchors to stay put, and make it economically viable for them to remain? Those questions didn't seem to have any easy answers.

University Mall History

Woodbury developed the University Mall and opened it for business on April 4, 1973. Z.C.M.I. was an original anchor store in the University Mall and actually owns the store and approximately 15 acres of real property in the University Mall development. In January of 1998, Woodbury Corporation began the first phase of a massive renovation project to improve the mall's image and atmosphere and help it compete with the new Provo Towne Center Mall. The renovation was projected to cost Woodbury between \$10 million and \$12 million.

University Mall is the focal point and the largest shopping center on the University Parkway retail corridor, which is the largest generator of retail sales in Orem (nearly 43%). In the fiscal year 1996/1997, 41.6% (\$11,484,567) of Orem City's general fund revenues came

from the sales tax, of which 42.6% (\$4,894,395) came from the University Parkway corridor, and approximately 11.3% (\$1,447,256) of the City's sales tax revenues came from the University Mall itself. Over 20% of the revenues from the University Mall were contributed by Z.C.M.I. (over \$300,000). Obviously, a healthy University Mall is critical to the viability of the entire University Parkway corridor, and a significant source of tax revenue for the City.

The success of any mall, the University Mall being no exception, is based on strong anchor stores. The anchors help provide the Adraw@ that allows the smaller stores to succeed and when a mall loses a critical anchor, the viability of the remaining stores is in jeopardy. When two anchors leave, it becomes extremely difficult to attract new anchors to the mall to replace those leaving and the entire mall runs the risk of becoming deserted. Once a mall is put into a tailspin, it may take years to recover. This scenario has happened time and again as malls in small towns become blighted areas. Needless to say, Woodbury needed to find a way to entice Z.C.M.I. to stay in its present location.

Provo Towne Center Economic Incentives Offer

J.P. Realty, the developer of the Provo Towne Center Mall, was negotiating with Z.C.M.I. to get them to pull up stakes and move to the mall under construction in South Provo. They were already successful in wooing J.C. Penney with an offer of a 25 percent ownership in the mall. The mall already had two strong anchors committed to locating there in Dillard's and Sears. If they could entice Z.C.M.I. to locate there as well, they would be in a very strong position to become the leading mall in Utah County. The most Woodbury could discover about the most recent offer to Z.C.M.I. said the offer called for the store (Z.C.M.I.) to sign over its Orem property to J.P. Realty in return for locating in the Provo Mall. Mr. Woodbury had to consider all his options. What could he offer to entice Z.C.M.I. to stay?

University Mall Case: Part II

As negotiations progressed between Z.C.M.I. and its two suitors, Woodbury and J.P. Realty, it became apparent to Woodbury that it would take more than the developer could offer to keep Z.C.M.I. in the University Mall. They had mentioned in negotiations that tax incentives from the city of Orem might help tip the scales in favor of the University Mall. Mr. Woodbury decided to look into the possibility. As a developer, he was well aware that cities often used tax incentives to lure business to their municipalities. Perhaps he could approach the city and convince them to help. Would they be willing? What would his argument be to entice them to help out?

Provo City

Mr. Woodbury wanted to look first at Provo City to see what kind of incentives, if any they were offering to the developers of the Provo Towne Center. Leland Gamette, Provo's economic development director, made it clear that his city had never used tax incentives to bring retailers into Provo. He said, "Provo City was not involved in the negotiations between J.P. Realty and Z.C.M.I. Provo City has never offered sales tax rebates or sales tax incentives of any kind for the recruitment of any retailer...Provo City stands behind its policy of creating a business-friendly environment by keeping the playing field level. We want our business community to know that we are dedicated to the long-term, and to that end we will not alter the competitive playing field by the use of recruitment-based incentives." However, Mr. Woodbury did discover that while Provo was not offering tax incentives, it helped the Provo Towne Center through a property tax rebate and by making street and water line improvements to the mall, actions that were money in the bank for the developers.

Orem City

Mr. Woodbury knew that the City of Orem had a history of luring new business into the city with tax incentives. The previous mayor, Stella Welsh, offered a deal to the Provo-Orem Ford dealership in April of 1997 to relocate on Sandhill Road in Orem. The deal called for the city to give the dealer 60 percent of the sales taxes collected at the site, to a maximum of \$150,000 per year, over a 15-year period in return for the dealership to relocate to Orem from Provo. The city would also pay the dealership \$250,000 for a right-of-way to widen Sandhill Road at that point. The mayor defended the deal saying that it would net the city \$8.6 million over the 15 year period. R.C. Willey and Eagle Hardware were other business that received incentives to relocate to Orem.

However, Orem had a new mayor, Joseph Nelson, who campaigned on an anti-tax incentive platform. He actively opposed Mayor Stella Welsh's use of sales tax rebates to bring new business to Orem to compete against established businesses. "It's a fairness issue," he argued. Woodbury wondered whether the new mayor would be amenable to partnering with the University Mall owners to keep Z.C.M.I. in Orem and possibly attract a new anchor to the mall with some help from both the mall owners and the city. Mayor Nelson had to see that it was in the city's own best interest - wasn't it? Why might they not be willing to help? There were a lot of questions to be considered.

University Mall Case: Part III

Good News???

Woodbury was successful in convincing Orem City to help it offer a package of incentives that would make it economically beneficial for Z.C.M.I. to remain in its present location in the University Mall. With Z.C.M.I. and Mervyn's as anchors, the mall was in a good position to attract a decent third anchor and maintain its current economic position.

Woodbury had been negotiating hard with Nordstrom to bring a store to Utah County. Nordstrom was the only other significant department store with operations in Utah, and the premier upscale department store at that. However, Nordstrom had a history of demanding extensive incentives from municipalities in return for their locating in that municipality. It was uncertain whether the city of Orem could meet its requirements. Traditionally, Nordstrom located its stores in larger metropolitan areas. Then Woodbury finally received what it had been hoping for: a letter of intent from Nordstrom, Inc. to come to the mall to replace J.C. Penney as the third anchor in the year 2000. Both Z.C.M.I. and Nordstrom announced their intentions to anchor the mall contingent on the agreements signed by both Woodbury Corp. and the City of Orem. The agreements called for the city to provide incentives in the form of sales tax rebates, land and payments to Woodbury and to Z.C.M.I. The agreement could cost the city up to \$24.05 million over the next twenty years. Woodbury would spend nearly \$10 million to keep Z.C.M.I. in place and up to another \$25 million (net present value calculated to the date Nordstrom opens for business) to attract and retain Nordstrom to the mall. **Exhibits 1 and 2** contain the critical parts of the two agreements between the four parties.

The agreements left Woodbury wondering if it would be worth it in the end. Did these deals make financial sense for his company? Did it make sense for the City? He was happy that his mall would remain vibrant and strong, but did he do the right thing? Please read the articles attached that give a flavor to many of the issues involved with this case. Do you agree or disagree with the viewpoints presented. What alternatives, if any were there for Woodbury and the City? What would have happened had there been no agreement?

Possible issues to discuss

- 1) Evaluate the different incentives offered by Provo and Orem. Which would be more enticing to you as a retailer or developer? Which are more appropriate or fair from the standpoint of taxpayer/owners/retailer?
- 2) What are the implications of your business being a major source of tax revenue in a particular city? Could there be ethical dilemmas involved if you use your Amuscle@?
- 3) Discuss the implications for a developer/municipality knowing that certain retailers require extensive tax incentives to locate in certain areas.
- 4) What kind of liability/legal issues might a developer be confronted with if incentives are used? (Law suits from citizens, other business owners in mall - ie. People for Fair Taxation, etc.)
- 5) What should the role of government be in promoting economic development within its municipality?
- 6) Lessons learned? What issues must a mall developer consider when choosing a location and anchor tenants for its mall?
- 7) What is the implication for Provo Towne Center Mall now that University Mall will house both Z.C.M.I. and Nordstrom, both upscale department stores, while the Provo mall has J.C. Penney, Sears and Dillard's? The University Mall now appears to be a much stronger competitor. Should it have fought harder for Z.C.M.I.? Would it have been worth it to up the ante to get them to relocate? Would it have been in the best interest of Provo City to help provide incentives to entice Z.C.M.I. to relocate?