

Fostering Equitable and Sustainable Transit-Oriented Development

Briefing Papers for a Convening on Transit-Oriented Development

*Held by the Center for Transit-Oriented Development, Living Cities
and Boston College's Institute for Responsible Investment
at the Ford Foundation*

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Overview

Briefing Papers on Equitable and Sustainable Transit-Oriented Development

Prepared by David Wood, Boston College Institute for Responsible Investment
and Allison Brooks, Center for Transit Oriented Development

TRANSIT-ORIENTED DEVELOPMENT (TOD) is an integrated approach to land use and transportation development that creates long-term prosperity for society at large. TOD that is equitable and sustainable fosters healthy and prosperous communities, in which diverse groups of people have greater mobility choices and access to opportunity. If done right, TOD can have a myriad of social, environmental and economic benefits for people and communities, from reduced costs of living, better access to jobs, and economic growth, to healthier lifestyles and, through reduced automobile use, important reductions in greenhouse gas emissions. Given the profound demographic, economic, and environmental shifts the United States is experiencing, there is ample evidence that there is a substantial demand for TOD that is not being met, and that this demand is likely to grow in coming years.

Despite the benefits and trends favoring equitable and sustainable TOD, creating these types of places has proven difficult in practice. New development and redevelopment near transit is increasingly recognized by a range of stakeholders as an important real estate, community, and economic development model, but it remains a niche market in the real estate industry, while public policy and financing structures remain inadequate at all levels of government. TOD that actively seeks to create or preserve a mix of incomes and amenities in communities faces even more challenges, as current policies and market structures actually work against the robust, diverse communities that are its goal.

The five papers presented here were written as briefing papers for a meeting convened by the Center for Transit-Oriented Development (CTOD), Living Cities and the Boston College Institute for Responsible Investment, hosted at the Ford Foundation in February 2009. The goal of this convening was to bring a diverse set of stakeholders together – including public agencies, investors, for-profit and non-profit developers, intermediaries, foundations, and elected officials – to assess the opportunities for promoting and bringing to scale the market for equitable and sustainable TOD in the current economic and political climate. In particular, these papers are focused on the critical roles different stakeholder groups can play both individually and collectively to catalyze opportunities for TOD implementation across the country, and to explore new models and tools that will respond to the needs of the 21st century.

The briefing papers address sustainable TOD, the barriers to achieving it, and ways to promote its growth, from a variety of perspectives, including:

- *A framing paper from the Center for Transit-Oriented Development – what is the ideal for TOD we want to see on the ground v. the reality of current land-use and development patterns and what has actually been achieved?*
- *The role of the public sector – what are important considerations for public policy and public leadership in creating sustainable TOD?*
- *The role of the investment community – what are the varieties of public and private financing required to create sustainable TOD?*
- *The role of private developers – to what degree can private developers work to create more equitable and sustainable TOD? What are their key areas of expertise as well as their limitations?*
- *The role of the philanthropic sector – what are foundations doing now and what additionally can they do to proactively support needed reforms and activities to help bring TOD to scale?*

Together, these papers map out a series of common and distinct barriers faced by the wide variety of stakeholders involved in producing sustainable TOD. They also offer a series of suggestions to overcome these barriers, and point to the potential for more coordinated action among these stakeholder groups, including an alignment of resources and strategies, to achieve common goals and a shared vision for TOD. Here we offer a brief account of some key points.

Equitable and Sustainable TOD – A Common Definition

THE PAPERS REVEAL THAT, although more work needs to be done, there is a broad consensus among stakeholders on the definition of what constitutes equitable and sustainable TOD. Briefly, the definition for what we consider successful TOD includes:

- *Easy public access to transit that links homes to places of work, entertainment, education, and other regional destinations; a diverse mix of incomes in residential development*
- *A diverse mix of uses in commercial development*
- *Access to quality public spaces and civic amenities*
- *Easy and safe environment for walking and biking for residents, employees, and visitors*

One key point: the evaluation of equitable and sustainable TOD takes place at a district, transit corridor, and regional scale, rather than just a project or neighborhood level. The elements listed here can be linked together in a variety of built environments – from job centers and main streets to neighborhoods and suburban centers – linked together by well-coordinated transit systems.

Sustainable TOD – The Market Today

THE PAPERS HIGHLIGHT several key reasons why sustainable TOD is difficult to achieve, among them:

Transit and land-use decisions are made separately: Too often, policy decisions favor transit locations that fail to optimize transit-oriented development opportunities, privileging short-term expediency over long-term value. Zoning and land-use restrictions can also prevent communities and developers from being able to capture the opportunities to create more compact, walkable and affordable communities that take advantage of transit locations.

THE RESULT: *The built environment continues to favor automobile dependence, while many locations near transit fail to produce the types of development needed to support equitable TOD.*

Land use decisions are made at the project level and neighborhood scale and fail to consider corridor or regional level issues: Land use policy and public and private investment decisions are often based on individual project and/or neighborhood considerations, yet creating sustainable TOD also requires planning and coordination at the level of the transit corridor and region.

THE RESULT: *The important connections between where people live, work, shop, and play are often not factored in to important decisions about where transit investments are made and where housing and jobs are currently located, or where they should be created.*

Robust social and environmental benefits require extra effort: TOD itself can be more complicated and resource intensive than traditional real estate development, as it engages multiple real estate disciplines (residential, commercial, retail, and so on), and often requires higher upfront costs for planning, community engagement, infrastructure, and building materials. Creating social and environmental benefits such as affordable housing, energy efficient buildings, and civic institutions and community amenities, requires additional expertise, and can also be capital and labor intensive. Realization of these benefits also requires careful and inclusive work among a wide variety of stakeholders. Sustainable TOD often relies on mission-driven advocates – from public, private, philanthropic, and community-based and non-profit institutions – to navigate the political, regulatory, and cultural maze to achieve its goals.

THE RESULT: *Sustainable TOD requires working around existing and often dysfunctional systems and is difficult to achieve at scale.*

Assembling land is expensive: Because transit line locations are often announced well before they are actually built, land speculation can occur years before construction. Land prices thus make the provision of affordable housing and other community amenities more difficult to provide. In addition, new transit corridors are most often auto-oriented places that

require significant public and private investment to transition into more compact, walkable and transit-centered communities. The reality is that the benefits of TOD take time and coordination to develop. The experience in many places where the transit line has yet to be built is that property owners and developers create auto-oriented development – say big-box retail – on key parcels along these future transit corridors because the community has not yet experienced the catalytic potential of the transit line. This makes it much more difficult to create the more compact, walkable, mixed-use environments along these corridors that truly optimize the transit investment.

THE RESULT: *Land speculation and short time horizons can reduce TOD to the high end of the market, at the expense of the broader societal benefits that can and should be created at these sites.*

Moving Forward

WHAT CAN BE DONE to reduce these barriers, and to catalyze equitable and sustainable TOD? The papers converge on a series of opportunities, both near- and medium-term, that may facilitate a strong multi-sector movement towards achieving the TOD outcomes we seek. Here are a few issues and recommendations that emerge from the papers, and the meeting for which they were prepared:

Coordination of transit and land-use decisions: At the federal level, new criteria for public investment in transit and community development, with a more intentional integration of the two, can help better tie transit decisions to the creation, preservation and revitalization of the built environments that yield the highest social return on investment, through lower costs of living, reduction of greenhouse gas emissions, and better access to jobs. At the regional level, better coordination of successful TOD outcomes across corridors and regions can help communities be more efficient and effective at serving all their members.

RECOMMENDATION: *The creation of standards for sustainable TOD that can be incorporated into policy making at all levels of government, along with support for implementation at the local and regional scale.*

Implementation of a coordinated, multi-sector approach to planning, investment and development that involves meaningful community engagement: Equitable and sustainable TOD almost invariably requires public, private, philanthropic and community investments to coordinate issues of community infrastructure that range from transportation choices and affordable housing, to retail, commercial, and industrial districts, to schools, libraries, parks, and other civic amenities. Regional groups that are well positioned to bring together multiple stakeholders – such as community foundations – and that can provide the venue for stakeholders to develop coordinated plans that span over the multiple years required to take sustainable TOD from its early planning stages to reality on the ground.

RECOMMENDATION: *Robust technical assistance from a central organization that can facilitate a well-coordinated and informed multi-stakeholder process at the regional level. The assistance would include the identification of stakeholders and conveners best situated to support sustainable TOD that is responsive to local needs. It would also include support for ongoing multi-stakeholder dialogue and investment.*

Developing new models for the 21st century to help create healthy, connected communities that serve diverse people: The creation of connected, walkable, mixed-use communities and regions is an old concept, but a relatively new discipline in an era dominated by auto-oriented, market-driven development. Proceeding down a path of business as usual is not going to help scale TOD activities to the level needed to effectively provide for the needs of current and future generations. Developing new models and tools for planning, financing, and developing equitable and sustainable TOD will be essential for impact at scale. For instance, financing mechanisms by which valuable land near existing or future transit corridors can be acquired and developed to ensure the benefits of TOD are realized are the types of tools that can help set communities on the right course. Tax credit and other incentives to encourage investment with a sustainable focus could potentially offer similar benefits. There is a need to facilitate the coming together of inter-disciplinary actors – from public, private, and non-profit sectors – to share best practices and research, and to identify and prioritize opportunities that will support the level of coordination and strategic alignment required in an era of scarce resources.

RECOMMENDATION: *Ongoing, applied research to develop a range of tools designed for different stakeholder groups to identify and facilitate opportunities for equitable and sustainable TOD. This research should consider tools that facilitate land use policies, financing models, and the coordination of existing and potential subsidies and credits that support the robust, resilient communities as the result of TOD investment.*

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Understanding Transit-Oriented Development

Lessons Learned 1999-2009

By **Dena Belzer and Shelley Poticha**

Center for Transit-Oriented Development

Introduction

WHILE THE CONCEPT of “transit-oriented development” (TOD) is not necessarily a new idea, interest in concentrating future development in proximity to high quality transit systems has grown exponentially since the beginning of this decade, culminating in the current imperative to reduce greenhouse gas emissions and slow the impacts of global warming. But, while most people now understand and agree with the principle of transit-oriented development, actually building new buildings and districts that are transit- rather than auto-oriented has proved to be very challenging except in a few specific contexts. Indeed, many of the most recent exemplars excel in one or two aspects of TOD – transit route alignment, station area planning, incorporation of community benefits, use of sustainability strategies, building design, etc. – rather than provide complete demonstrations of ideal TOD.

Implementing sustainable and equitable TOD on any significant scale stems from a confluence of challenges:

- *The wide range of places where TOD could occur and the range of physical and market related challenges associated with these places make creating an easily understood definition of TOD difficult.*
- *Insufficient understanding of the nuanced role of market forces as they influence the actions of private and public sector actors, as well as the ability to deliver on community values.*
- *Few functioning tools (and many conflicting policies) to ensure that public investments in transit and TOD benefit all households.*
- *Disjointed alignment of the interests and actions of the various stakeholders in TOD resulting in suboptimal leveraging of land, resources and money.*
- *Lack of sufficient financial resources to meet the wide range of needs associated with providing TOD such as: parcel assembly, infrastructure upgrades, pedestrian improvements and other “place making” elements.*

Until these challenges are addressed, we are unlikely to see TOD move from a boutique to a mainstream movement, nor are we likely to see the full potential of TOD realized. This paper is intended to provide a short overview of the issues we have identified through the research and technical assistance undertaken by the Center for Transit Oriented Development (CTOD). It is not an exhaustive review, but a summary of findings that may be discussed in further depth.

The Potential Benefits of TOD

WHILE PROPONENTS of the concept often present TOD as a panacea for solving all of society’s ills, there is a growing body of evidence that supports the theory that if a substantial portion of American’s future development was located in dense, mixed-use, mixed-income walkable districts connected to regional destinations by high quality transit, a series of important current challenges could be mitigated:

- The overall cost of living in these communities may be lower since households would have the option of spending less on transportation than they do currently. This would significantly benefit low- and moderate-income households who are most burdened by high travel costs.
- Greenhouse gas emissions from the transportation sector would be lower as fewer households would use their cars for daily commuting and other activities.

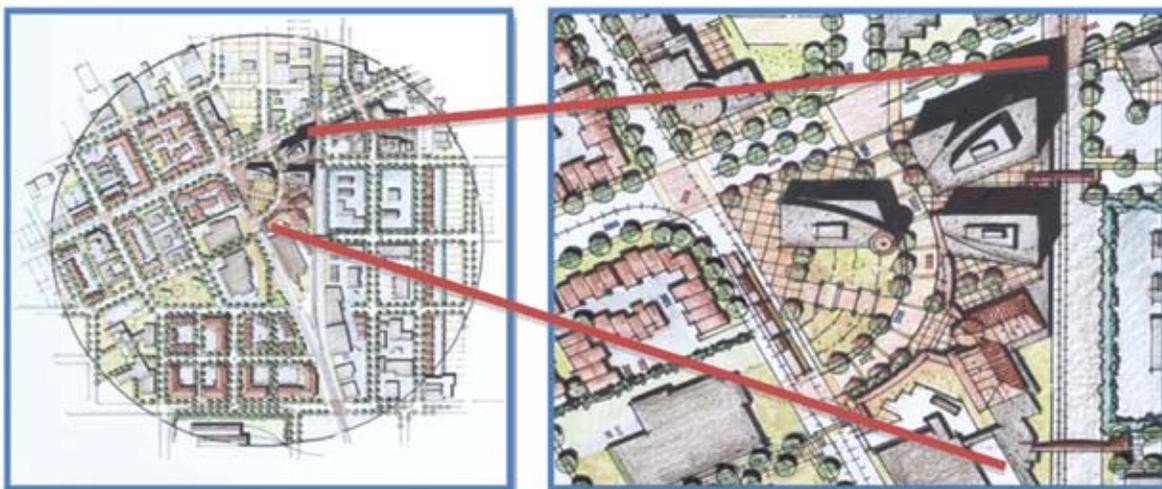
- Individuals who had the option of walking for a significant portion of daily activities would reduce their risk of obesity-related health problems.
- Local governments would realize a “green dividend” from both the concentration of economic development in urban and suburban centers and from people spending money on local goods and services, rather than on gas and auto maintenance.
- Businesses would be better positioned to retain employees as access to walkable urban environments has been noted as a key attractor for knowledge-talent.
- Developers would be better able to “meet the market” profitably and efficiently.
- Transit’s operating deficit could be reduced as more people ride and steady sources of income are secured.
- Urban and dense suburban living would become more desirable, as the types of amenities that currently make low density living attractive – parks, good schools, safe streets, affordable housing – are provided in location efficient places.

Defining Ideal TOD

THE CORE IDEA of transit-oriented development is that people with a wide range of incomes can live and work near a transit system that will allow them to take care of some of their daily trips using transit, rather than driving. Since the most transit supportive neighborhoods also tend to be dense neighborhoods, this density also supports a mix of land uses: housing, work places, stores, schools, and restaurants. And, because of this mix of uses, people can also take care of some of their daily needs by walking or biking to various destinations. Thus, the virtuous circle between the “four D’s” – density, diversity, destinations, and design – enable people to reduce the amount of money they spend on travel and the number of vehicle miles traveled by car.

Transit-Oriented Districts

In discussing TOD, people often get confused between individual development projects and the entire district or zone that lies within walking distance of any given transit station. A plethora of research shows that commuters are willing to walk on a regular basis to transit if they live within a half-mile of a fixed-guideway (rail or bus rapid transit) station that easily connects to their workplace or school. For bus and streetcars, the average walking dimension is a corridor roughly a quarter-mile on either side of the line. Thus, the area of influence for transit is much larger than simply the station and the buildings immediately around the station.



Transit-Oriented District

Transit-Oriented Development Project

Acknowledgement that TOD is a district, rather than just a project, theoretically helps implement the ideal vision for TOD:

- *New, dense development can be located on a wider array of sites that are attractive to the market for a variety of reasons, not simply due to proximity to transit. This lowers financial risk and helps build value.*
- *More households and jobs are potential patrons of transit and the shops and services that might be next to the station.*
- *Development in the district can better mediate the often conflicting demands of place-making and transportation needs because facilities and uses can be located where they make sense, not solely based on parcel ownership.*
- *Financing tools, such as tax-increment financing (TIF) or parking districts, are more successful if they are able to extend over a larger area to capture value.*

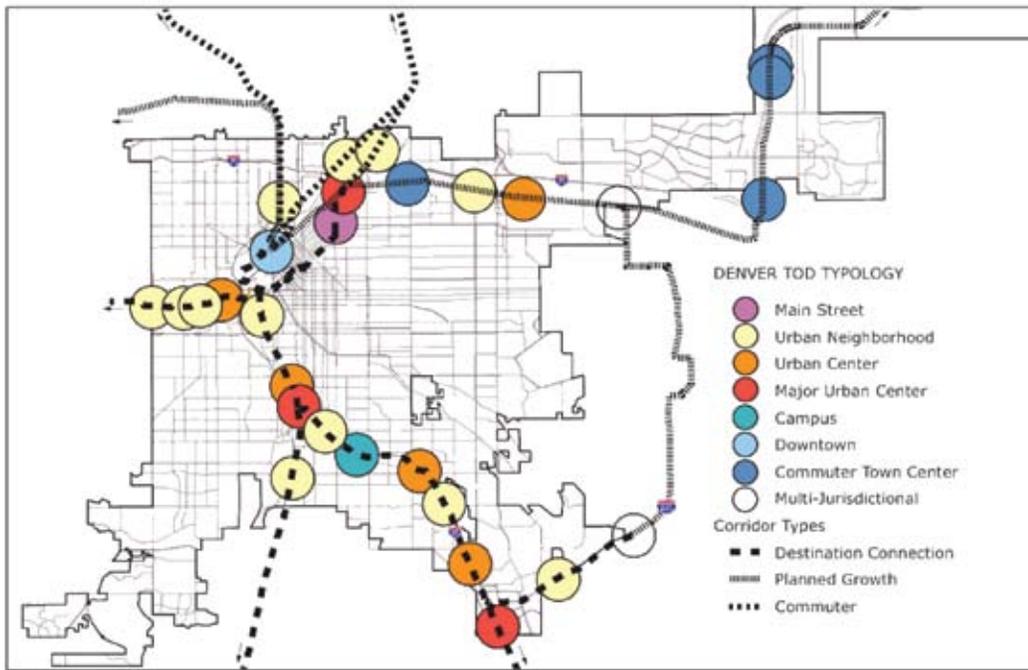
A TYPOLOGY OF TOD

| TOD Typology | Desired Land Use Mix | Desired Housing Types | Commercial Employment Types | Proposed Scale | Transit Connectivity | Color Code | Examples |
|-------------------------------------|--|--|--|------------------------|---|---|---|
| Regional Center | Office Residential Retail Entertainment Civic Uses | Multi-Family and Loft | Prime Office and Shopping | 5 Stories and above | Intermodal Facility/ transit hub. Major Regional Destination with quality feeder connections |  |  |
| Urban Center | Office Retail Residential Entertainment | Multi-Family/Loft/ Townhome | Employment Emphasis, with more than 250,000 sf office and 50,000 sf retail | 5 Stories and above | Sub-Regional Destination. Some Park n Ride. Linked district circulator and feeder transit service |  |  |
| Suburban Center | Residential Retail Office | Multi-Family/ Townhome | Limited Office. Less than 250,000 sf office. More than 50,000 sf retail | 3 Stories and above | Sub-Regional Destination. Some Park n Ride. Linked district circulator and feeder transit service |  |  |
| Neighborhood | Residential Neighborhood Retail | Multi-Family/ Townhome/Small Lot Single Family | Local-Serving Retail. No more than 50,000 sf | 2-5 Stories | Walk up station. Very Small Park and Ride, if any. Local and express bus service. |  |  |
| Main Street | Residential Neighborhood Retail | Small Lot Single Family | Main Street Retail Infill | 2-4 Stories | Bus or streetcar corridors. Feeder transit service. Walk up stops. No parking. |  |  |
| Campus/ Special Events Center | University/Campus Sports Facilities | Limited Multi-Family | Limited Office/Retail | varies | Large Commuter Destination. |  |  |

A Typology of TOD

Not all places that touch a transit system should be expected to serve the same functions, provide the same mix of uses, or be built a precisely the same densities. Indeed, when a new transit line is built, it often extends through a combination of existing neighborhoods and sites that have the potential for significant new development. While the classic “hub and spoke” pattern of many transit systems typically funnels rail lines into a city center, there is an increasing recognition that transit performs best if it links up a variety of destinations: downtown core areas, near-in urban neighborhoods, hospitals, colleges and universities, sports and entertainment facilities and suburban town centers. The districts that emerge around each of these “anchor tenants” are all likely to be quite different – some with new high rise towers, others with very minimal new development – yet all of these places are covered under the umbrella of “transit-oriented development.”

Despite the focus on station areas or transit-oriented districts, transit systems are being planned as “networks,” rather than lines, that knit together a region’s vast array of neighborhoods, destinations and centers. A person might leave their home in the morning, walk to a nearby bus stop, catch a bus that connects to a light rail line, then ride into the city center where they walk the last few blocks to their office. At the end of the day, they might take a streetcar to a nearby restaurant, then bus home along an entirely different route. The regions that have attracted the greatest amount of development around transit facilities and made significant shifts in auto ownership and transit ridership are those regions that have highly interconnected transit networks, linked with safe and direct walking and bicycling networks. In these successful cases, TOD is not an isolated occurrence, but a network of places and nodes.



The City of Denver used a TOD Typology to indicate the desired mix and intensity of development at specific transit stations and to show that not all stations will be built in identical patterns. This helped residents understand that their existing neighborhoods would change only modestly and signaled to developers where the City planned to support intensive, new TOD.

The Reality TOD

Where Has TOD Worked?

During the run up in the housing market there was tremendous interest from the development community in building high density residential units in downtowns, near-to-downtown neighborhoods and in large mixed-use projects in suburban locations where the project was big enough and had enough critical mass to create its own “place” or context. Many of these projects included mixed-use buildings and were in locations that took advantage of proximity to major employment and/or cultural and entertainment centers that already existed. By and large, the TOD phenomenon of the last decade occurred in strong market regions with either existing legacy transit systems or where new transit lines were built. Regions with vulnerable or weak economies (or portions of regions that had weak markets) did not see tremendous TOD activity.

Simultaneous with the housing boom was a renewed interest in light rail, commuter rail, bus rapid transit and streetcar projects. During the period from 1998 and 2008, 175 new fixed guideway transit lines entered the New Starts Program, the federal funding source for transit capital. These projects are being built in diverse regions from San Francisco, to Cleveland, to Tampa. Today, 80 cities and regions throughout the country are planning approximately \$250 billion of additional transit projects.

Only a very few regions have seen the TOD and transit networks change behavior in significant ways: Portland, Oregon, and Washington, D.C., pop out as two regions that have simultaneously built new transit, focused development around transit stations and have begun to layer on bicycle and pedestrian networks to extend the potential for TOD. In both of these regions, non-auto travel modes far exceed the national average. Denver, Charlotte, Houston and Salt Lake City have all adopted plans to significantly expand their bus and rail networks. Of these, Denver and Charlotte in particular have successfully attracted development near existing and planned transit stations.

Market Forces Played a Key Role in the Success of New TOD

In most cases where new TOD projects have been built over the last five years, cities have often been required to revamp their zoning ordinances to allow for different kinds of building types, including taller buildings and mixed-use buildings. Zoning requirements for parking were also changed in many of these places, with parking ratios dropping below 1 parking space for every unit in some center cities and developers experimenting with selling housing units separately from parking stalls.

However, these regulatory changes were made as much to respond to market forces as to lead them. In fact, planners were able to make these changes because the demographic sea change of young households moving back to center cities,

immigrant families moving into cities and older suburbs, and empty nesters downsizing from single family units to apartments that had been predicted since the late 1990s finally became a reality. “Hidden in Plain Sight,” a report prepared by CTOD, documented the demographic mix of households living near transit and projected a future market for TOD housing based on demographic trends. The news that roughly a quarter of all future housing could be sought out by households seeking the convenience of transit helped reassure local elected officials that demands by developers to build higher density housing with lower parking ratios would succeed.

In general, the regions where TOD has occurred with the greatest frequency are regions with strong economic indicators and pent-up housing demand. This further reinforces one of CTOD’s early findings that transit does not create markets, but it can amplify and motivate the shape and location of TOD in regions with working markets (Rhetoric to Reality, Belzer and Autler, 2004).

Upper Income Households Have Driven TOD Construction

While many of the early high profile developments around transit stations were led by non-profit affordable housing developers (e.g. Fruitvale Transit Village), anecdotal evidence suggests that most of the recently built TOD projects have been marketed to upper income households who can afford the higher cost of development in transit zones. The higher costs for TOD are the result of a confluence of factors:

- *Expenses associated with changing zoning and building codes to allow higher density, mixed-use buildings.*
- *Cost of community engagement, particularly in regions where moderate and high density product did not exist prior to the proposed TOD.*
- *High land price expectations by property owners who see long-term value of TOD.*
- *Brownfield remediation expenses.*
- *Coordination with the transit agency to site and construct transit facilities, such as stations, parking or bus transfers.*
- *Provision of new streets, parks and other place-making amenities that create identity.*
- *Higher construction costs for dense building types.*
- *Provision of excess parking spaces in high cost structures.*
- *Local requirements for community benefits with limited cost offsets for developers.*
- *General imbalance between the supply of and demand for attractive, walkable neighborhoods.*

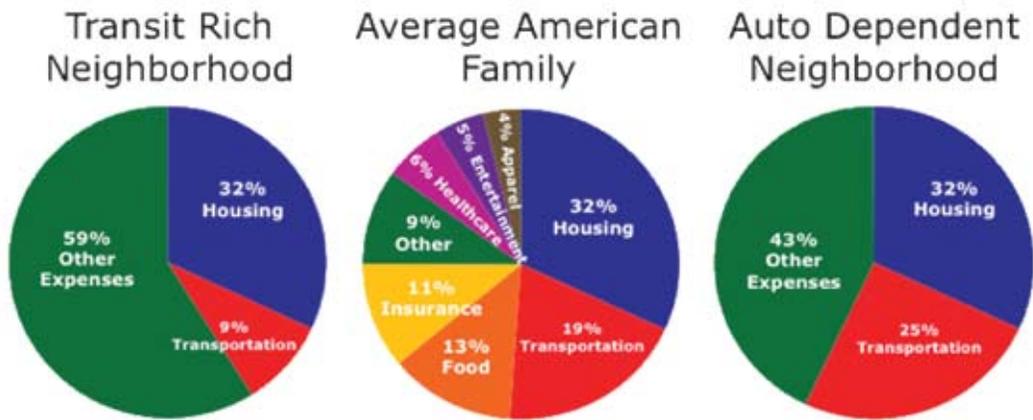
There Has Been a Failure to Provide TOD for All

Low- and moderate-income households, for whom transit is often an essential service, have not been well provided for by the market, except in places with functioning inclusionary housing programs, very proactive housing agencies or savvy integration of land entitlements, developer agreements and public agency partnerships. Furthermore, where the market sees value in existing neighborhoods, rental housing prices often escalate, making it difficult for existing residents to remain in place as the neighborhood changes.

Portland’s Pearl District is probably the best current example of integrated, multi-sector planning and implementation. The Memorandum of Understanding executed between the Portland Development Commission, Tri-Met (the transit agency) and developers calls for linkages between zoning entitlements and provision of parks, affordable housing and transit. Today, the Pearl District is one of the liveliest in the region, market rents and sales command a premium, a new central park provides a neighborhood focal point, at least 25 percent of new housing is affordable to moderate, low and very low income households and the former industrial area is connected to the regional transit network via a modern streetcar. Portland’s success, however, was unique – the product of an alignment of land opportunities, political willingness and a community of practitioners with strong development and transit expertise.

There is an urgency, however, to do a better job of integrating housing for low and moderate-income households into TOD. Not only do these households use transit at more reliable rates than those with high incomes (thus supporting the transit system), but they also stand to benefit the most from the cost savings of TOD. The simple truth is that when a household has the option of walking, biking or taking transit for some daily trips, they spend less on transportation expenditures, such as gas, car maintenance or owning multiple vehicles. This cost savings can in turn be used for shelter, food, education, etc.

Non-profit builders have been challenged to fill the need for affordable housing in transit corridors. Often by the time a community developer has lined up the funds to build a TOD project, the price of land in the corridor is prohibitively high.



If the cost of housing is held constant, fewer and shorter auto-based trips means significantly lower transportation costs per household

Source: Center for TOD Housing + Transportation Affordability Index, 2004 Bureau of Labor Statistics

Tax credit programs that often work well in low cost land environments cannot be deployed in high cost transit corridors. And, non-profits are often stymied by transit agencies seeking to maximize revenues from transit-owned properties or cities with few resources to write down land prices to a sufficient level to make affordable housing projects pencil out.

“Legacy” Transit Systems Provide an Important Benchmark for TOD

In 2007, the Ford Foundation published a paper prepared by the CTOD finding that in the year 2000 transit zones were more diverse both racially and by income than comparable non-transit-oriented neighborhoods. This indicates that a wide variety of people are attracted to neighborhoods with the qualities of TOD and shows the importance of maintaining racial and economic diversity in future TOD. However, the tools available to ensure that “legacy TOD” remains diverse are limited: most of the efforts on TOD have focused on new development, rather than preservation of existing neighborhoods.

Furthermore, in a recent report Reconnecting America produced through a partnership with AARP and the National Housing Trust in which we mapped the number of federally subsidized housing units within a half-mile of transit in 20 metropolitan regions across the United State, we found over 250,000 units of privately-owned federally subsidized housing are located within walking distance of quality transportation (rail or bus with 15-minute headways or better). The startling finding was that over 75 percent of those units, serving low-income individuals and families, seniors and people with disabilities, have federal affordability contracts through HUD that are set to expire within the next five years. Given that property values near transit are highly desirable and have held their value compared to properties further from transit in the current housing foreclosure crisis, there is a real potential the owners of what are currently Section 8 units will opt out of the federal program, particularly since the program has been poorly run and underfunded over the last eight years. This loophole presents a significant threat to what is now and will be a very needed source of low-cost housing.

Planning and Zoning are Helpful, but Not Sufficient

In order for communities to score high enough on the New Starts rating system to receive federal funding for new transit capital investments, station area land use plans must be prepared and zoning codes are often amended. Generally these plans are prepared as the transit lines are engineered – after the transit alignment is selected and after the specific location for the station is selected. This sequence works to the disadvantage of TOD, as often the location of a planned station maximizes transit service and access, but doesn’t necessarily maximize the development potential of sites along the corridor or considers the access needs of existing residents. There is a growing interest from cities and counties to move station siting and planning forward in the process, but as this is not currently part of the transit funding process, it is only after a community has built at least one transit line that the entities with land use control have the expertise to work more closely with the transit agency.

In addition, planning tools, like zoning, are mostly “passive” tools that are put in place to shape private activity. But the market has to be functioning for these tools to work – to build the mix of uses and the building densities that optimize TOD. Without market momentum, planning tools are like sails with no wind. Thus, in marginal markets or weak markets, zoning alone is unlikely to catalyze TOD.

Transit Demand Outstrips Supply

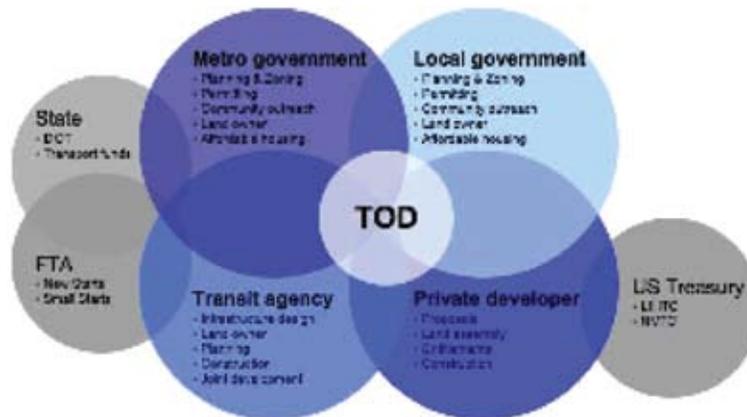
The last decade has seen a remarkable rise in transit ridership and a renewed interest in building new transit facilities. Mayors, governors and other elected officials are gradually realizing that transit is popular and if implemented with TOD in mind, it can generate substantial community and monetary benefits. Even as the national economy moved into a recession, 75 percent of local ballot measures to fund new transit investments passed in November 2008.

But there are barriers to building and operating more transit. The federal New Starts Program does not have sufficient funds to come even close to meeting demand (the last federal transportation authorization, SAFTEA-LU, allocated \$6.9 billion to new transit investments, while the demand is closer to \$250 billion). And, as state and local government budgets shrink, getting matching funds for transit will be even more difficult. Additionally, practitioners in the transit field are generally in agreement that the rules by which federal funds are allocated skew toward transit investments that favor inexpensive alignments (freeway medians), auto access (park-and-ride) and dis-incent the public-private-philanthropic partnerships that have been at the center of the most successful TOD examples.

Lack of Alignment Among Stakeholders Results in Suboptimum TOD

Getting TOD to realize its potential benefits requires strong agreement among the implementing stakeholders. Numerous parties are involved in TOD implementation – but no one organization is truly “in charge” of station area development and financing. The process includes government entities at the federal, state, regional, and local level, plus private sector interests, non-profits and community advocates. Players in the process exert their influence in various ways and coordination is essential to realize a vision that is more than the sum of parts and truly leverages the investments made by individual interests. The lack of a coordinating entity that can bring together these varied interests and “hold” the vision for TOD is one of the most significant barriers between TOD today and ideal TOD.

TOD Requires Coordination of Numerous Institutions with Individualized Goals



Source: Fleissig and Carlton

Moving Forward: New Tools, New Roles, New Partnerships to Bridge the Gap Between Real and Ideal TOD

A starting point for action might include:

Align Transit and Urban Policies at All Levels of Government

Policy and funding silos that currently govern decision-making about transit and TOD are a significant barrier to building more transit, focusing growth around transit and ensuring that TOD benefits all. Reform is needed at all levels of government, but particularly at the federal level, to reward communities seeking to integrate land use patterns with transportation investments at the regional scale, support sensible decisions regarding transit alignment and station siting

to maximize the potential for sustainable and equitable TOD, ensure that mechanisms are in place so that communities benefit from new investments in transit and development, enable for-profit and non-profit developers to meet the demand for TOD, and forge working partnerships among stakeholders to tailor TOD to local conditions.

At the federal level, this could be accomplished by revamping the New Starts program, by requiring regional Blueprint Plans that integrate land use and transportation investment decisions and measure greenhouse gas and equity outcomes, by increasing the proportion of transportation funds that go to transit and streamlining their disbursement, and by attaching location criteria to the allocation of housing, community development, energy, environmental remediation and other transportation funds.

Create New Tools for Ensuring Equitable and Sustainable TOD

As described above, there is a threat that sites adjacent to transit corridors will not be built to their full TOD potential and that low- and middle-income households will not benefit from transit as the market for TOD returns. Planning and zoning are unlikely to be sufficient in many cases to address the financial challenges faced by cities and developers. New tools are needed that help meet the affordability gap and ensure that high value lands are indeed built with optimal TOD. This is likely to require financing mechanisms that are not necessarily driven by short-term market rate return expectations. TOD Land Acquisition funds are one possible tool that aims at securing property in a transit corridor before significant price escalation occurs. Another tool could be a low-return/longer term fund to support the small-scale development in transit-oriented districts that complements larger, market-driven development.

Form New Entities to Facilitate Multi-Sector Partnerships for TOD

One of the barriers to expediting the implementation of TOD is the lack of alignment between stakeholders in terms of goals, roles, processes and funding. In community after community we have seen the actions of the transit agency and city government working at cross purposes (and against market reality) and the desires of community groups lost in the shuffle. Multi-sector partnerships led by impartial entities such as Community Foundations could help facilitate consensus-building for policy change and/or long range regional planning, but it is most needed at the corridor level where communities are best able to engage and where multiple resources could be leveraged to maximize community and environmental benefits.

Get the Next Generation of TOD Underway

There has been plenty of TOD activity over the past decade and for the most part, the real estate industry recognizes the role TOD will play as sustainability and climate change become more important to the general public. But as discussed in this paper, we are falling short. New models of sustainable and equitable transit and TOD are needed to catalyze similar development in growing and mature transit regions. A demonstration program should be considered that provides focused support for expediting the construction of transit and TOD in five to 10 regions that have already shown an interest and willingness to adopt the concept.

Train and Educate Practitioners

Much of what makes TOD attractive in the market is the unique character and identity of places, yet if we are going to meet the demand for TOD and make serious headway on realizing the benefits of TOD, a greater level of standardization is needed. Finding that balance between standardization and craftsmanship requires practitioners to have a strong understanding of the basics of defining and implementing TOD so that an appropriate level of resources can be devoted to retaining or creating the uniqueness of existing and future TOD. Training, tools and peer-to-peer networking will be important to growing the number of practitioners able to implement.

Support a National Entity to Facilitate Transformative Change

While regional and corridor-scale entities are needed to facilitate the planning and implementation of transit and TOD, there remains a need for a national entity that can track activities among regions, pollinate tools and best practices across regions, track the performance of innovative programs, educate practitioners in the techniques of high performing TOD, advocate for policy changes and nurture the next generation of tools to support sustainable and equitable TOD. CTOD's current mission fulfills a portion of this need, but with the rapid changes in attitude around the country toward transit and TOD, it may be time to explore the feasibility of creating a new national intermediary to support TOD.

3

The Public Sector Perspective

Prepared by Catherine Cox Blair

Center for Transit-Oriented Development

Introduction

THE PURPOSE of this briefing paper is to identify the tools cities regularly use to facilitate sustainable TOD, the challenges cities face to realize the ultimate vision for TOD, and ways the public sector could improve the facilitation of sustainable TOD in the future. The findings presented in this paper are based in large part on practical experience of the author in metropolitan Denver, along with interviews conducted with city staff and staff from regional metropolitan organizations working on TOD. The paper identifies a common set of strategies, partnerships, regulations and funding mechanisms used to facilitate TOD. Interviews also revealed that, even when a municipality adopts these strategies – such as appropriate planning; community engagement; supportive zoning; design standard; and the establishment of urban renewal areas – it can still have significant difficulty realizing its goal of sustainable TOD. There are many barriers to realizing the vision for sustainable TOD including a lack of community support for density; a public aversion to change; the need for infrastructure and pedestrian amenities; and an inability to control land. More often than not, the major barrier is the inability to acquire or control land around a station area. Cities frequently identify land banking around station areas as a critical tool to support the evolution of sustainable TOD.

The paper first looks generally at the tools that cities use, and the barriers they face, in supporting sustainable TOD. It then turns to the experience of the city of Denver as a case study for how these tools do and do not work to achieve these goals. Finally, it examines two small area TODs that can serve as examples of the barriers to building sustainable, equitable,

| Policy and Regulations | Financing | Other |
|---|--|---|
| Planning – Vision, planning and public process | Local capital improvement program (CIP), bonds for infrastructure (roads, streetscape, sidewalk, utilities), local business improvement districts (BIDs) | Technical resources and knowledge – GIS, maps, and demographic information |
| Policy guidance – Comprehensive plan, station area plans, small area plans, neighborhood plans | Urban Renewal – Tax increment financing (TIF) and eminent domain | Relationships – internal agencies and external agencies, public and developers, nonprofits, community development corporations (CDCs) |
| Regulations and Zoning – Entitlements, overlay districts, inclusionary housing, parking, design, street and open space guidelines and standards | Funding – Community development block grants (CDBG), low income housing tax credits (LIHTC), new market tax credits, and other Federal funding | |

Current Tools Cities Use to Support TOD

AS SHOWN IN the table above, cities use a number of tools to support the planning and redevelopment process. None are particularly unique to support TOD; rather, they are traditional policy, regulatory and financial tools typical to the planning and implementation process. However, given TOD is typically more complicated and lengthy than a traditional redevelopment project, these tools alone do not achieve sustainable TOD that offer housing for a mix of incomes.

How Well Do These Tools Work in Planning for Future Stations and Planning Around Existing Stations?

The planning process is the most prevalent tool used by cities to cue up land for development and reinvestment near transit stations. Cities typically have adopted comprehensive plans and small area plans or TOD plans for specific station areas. Adopted plans provide the policy guidance for city agencies, elected officials, and developers on redevelopment proposals and for the use of city resources and programs to support plan recommendations. Following a public process, plans also set expectations for community change with the neighborhood, public and private decision-makers, and developers and investors.

Supporting regulations such as zoning, design guidelines and housing ordinances typically follow the planning process. These zoning regulations and guidelines may require minimum densities, include TOD and pedestrian oriented design principles, and reduce parking requirements. Many times they include inclusionary zoning rules to maintain housing affordability.

Cities use funds from their operating budgets for visioning, planning and community process. Capital improvement program (CIP) funds, local bond programs, tax increment finance (TIF) and special districts are used for supportive TOD infrastructure. Federal funds such as CDBG, HOME Funds, and low income housing tax credits (LIHTC) are often used to support affordable and workforce housing projects.

In addition to the policy and financing tools, there is a great deal of knowledge and technical resources within a city bureaucracy. Because staff are working in communities they are often the most cognizant and passionate about which neighborhoods are in need of reinvestment and ripe for a catalytic project. They are also the most knowledgeable about ways to avoid or balance possible displacement that may result from redevelopment. City staff and management have relationships with internal and external agencies, the public, developers, and nonprofits organizations. These relationships result in the necessary partnerships to bring sustainable TOD to fruition. City departments have enormous technical resources such as GIS, mapping, and demographic information that is not always readily available to developers and non-profit organizations.

Challenges to Realize the Vision of TOD

THERE ARE NUMEROUS challenges in a city's quest to realize the opportunity for sustainable TOD. For example, the public sector often lacks staff with substantive real estate experience or knowledge. There is a reliance on urban renewal authorities to bring the real estate expertise but many station areas are not always appropriate for urban renewal tools, such as cases where the finding of blight is a precondition for their use. In addition there is a negative public perception of cities entering into the real estate business, especially in the West. In a time when municipal budgets are tight, layoffs and furloughs looming, and cuts in services are projected, it is not politically palatable for cities to spend resources on land acquisition. And, there is always the view that the threat of eminent domain is out there, even if it is a tool of last resort.

Although there are numerous attempts nationwide to streamline the planning and redevelopment process, most cities still require developers to navigate a cumbersome bureaucratic process. Frequently there are too many actors within a city given the multiple departments and often not enough political leadership to advocate for a project at a high level. Redevelopment projects get bogged down in negotiations with city staff, elected officials and the community resulting in a protracted development process. Developers want predictability which in turn means less time and money spent on process and more money available for the physical project.

Financing land acquisition is difficult for municipalities. Few cities have an active real estate fund and asset management is focused on land for city services such as fire stations, libraries and offices. The availability of federal dollars such as community development block grants (CDBGs) is shrinking. Local community development corporations (CDCs) have dwindling resources to buy land. Although cities often look to the philanthropic community for additional resources, the lengthy decision-making of the grant process does not align with the quick turn around on needed property acquisition.

In many western states, TIF is a very limited tool because property taxes are very low, meaning sales tax is the primary revenue generator, which requires significant commercial development to generate revenue – thereby making it an unfeasible tool for weak retail locations. For instance, in the strong property rights state of Arizona, TIF is illegal, preventing the city of Phoenix from using TIF to support their TOD efforts. Arizona also approved Proposition 207 in 2006 making the regulatory environment very difficult for sustainable TOD. If a city imposes or adopts a land use regulation that potentially diminishes the value of land then the property owner shall be compensated.

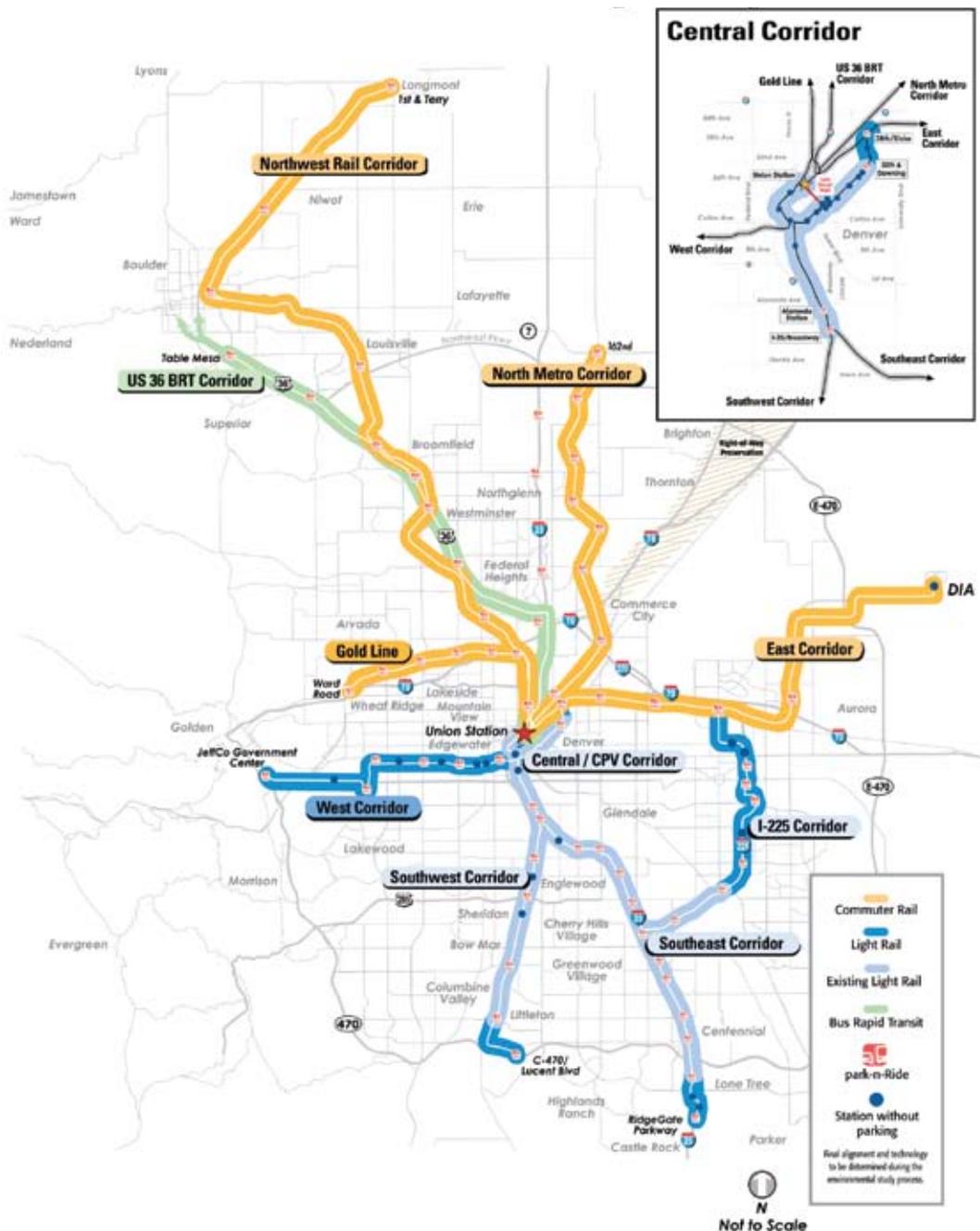
Finally, land speculation around station areas can artificially inflate the cost of land. Property owners often have high and unreasonable asking prices in anticipation of a transit station and TOD. While the current market forces present some obvious challenges with the lack of available capital it may also be an opportune time to buy as prices come down.

The Profusion of Actors

It is important to recognize the many actors in planning and redevelopment process for TOD. The actors typically have varying resources and tools, and together they should bring the resources to implement the sustainable TOD vision. However, too many actors can complicate the process, and TOD projects often implicate many stakeholders, including: public agencies, elected officials, transit agencies, regional metropolitan organizations, urban renewal authorities, housing authorities, non-profit organizations and service providers, neighborhood organizations and community activists, community development corporations, foundations, developers, and lenders.

A Regional TOD Effort: Denver

A recent national survey by the Pew Research Center's Social & Demographic Trends Project finds that nearly half (46 percent) of the public would rather live in a different type of community from where they currently reside. When asked



about specific metropolitan areas where they would like to live, respondents rank Denver, San Diego and Seattle at the top of a list of 30 cities, and Detroit, Cleveland and Cincinnati at the bottom. With the mountains in the backyard and over 300 days of sunshine a year, it was no surprise that Denver tops the list of the most desirable places to live out of 10 big cities.

With the Denver region currently serving as home to 2.5 million people and another 1 million expected to move to the metro area by 2030, improvements in transportation infrastructure are critical to maintaining the quality of life that attracts so many to this area. In the past 10 years ridership on RTD (the regional transportation district) has increased more than 28 percent. In 2008, RTD carried over 103 million riders. Ridership on the current rail system has exceeded even the most optimistic projections, carrying more than 66,000 riders per day.

The Regional Transit System – FasTracks

IN NOVEMBER 2004, voters from across the Denver Metropolitan Region passed the \$4.7 billion FasTracks ballot measure allowing the Regional Transportation District (RTD) to build a regional transit system. Costs have since escalated to \$6.9 billion. This system would augment the four light rail corridors currently in operation.

FasTracks is a 12-year comprehensive plan to build and operate high-speed rail lines and expand and improve bus service and park-n-Rides throughout the region. FasTracks components include:

- 122 miles of new light rail and commuter rail
- 18 miles of bus rapid transit service
- 57 new transit stations
- 21,213 additional parking spaces at transit park-n-Rides
- Enhanced bus service and FastConnects throughout the region

FasTracks is funded through a combination of funding sources, including most significantly the voter-approved sales tax increase of 0.4 percent (4 pennies on every \$10). Since 2004, RTD has revised the FasTracks financial plan to account for the sharp escalation in the price of construction materials and sales tax revenues that have not kept pace with original projections. It is now estimated to be underfunded by \$2.2 billion, and voters may be asked to pass another 0.4-cent sales tax increase this November.

There was enormous regional political will and public support for the passage of this unprecedented transit build-out. The business community, mayors and elected officials from both sides and many cities and counties came together in a unique partnership to support the ballot measure. The FasTracks ballot measure was embraced by voters based on two arguments:

- *The region needs alternative transportation to remain economically competitive, and*
- *Clustering growth around transit stations would create sustainable communities desired by Denver Metro voters.*

Subsequent experience with the implementation of FasTracks has revealed the difficulties, even with planning, funding, regulatory tools, and community support in place, to achieve the desired accessible, equitable, dense communities around transit stations. RTD is responsible for planning, building, operating and maintaining the transit system and has a hands-off approach to TOD. Land use planning and redevelopment around the station areas is the responsibility of the local jurisdictions. Most jurisdictions have responded by planning for TOD opportunities around each of the transit stations and promoting the TOD prospects with the development community.

City of Denver TOD Initiative

FROM THE BEGINNING, the city and county of Denver viewed FasTracks as more than a transit system – rather as a means to create great urban plans that provide a range of mixed-income housing types and mixed-use neighborhoods around transit that allow people access to jobs, services and recreation. A private market for such development, with a consumer base and interested developers to deliver this sort of product, exists in the area.

A 2005 study by the Center for Transit Oriented Development (CTOD) showed that the demand for housing near transit in the Denver region has been strong and as the transit system grows, that demand will increase. Specifically, the types of households who tend to seek out TOD – singles, couples without children, the elderly, and low-income households – are also the types of households that are projected to grow the most in the region of the next 25 years. FasTracks represents a significant opportunity to capitalize on the convergence of demographic trends, consumer preferences and a willingness of residents in the region to invest public monies to support such a vision.

To better leverage the public investment being made in transit, the city established the Denver Transit Oriented Development Initiative. A dedicated team of interdisciplinary staff was assigned to participate on the planning and implementation of TOD for Denver, with a focus on best exploiting the opportunities unique to each of the wide variety of existing and future transit stations. In particular, the city sought to address issues around pedestrian connectivity, appropriate infrastructure, streetscaping, ensuring a range of housing types, and land assemblage.

As a first step, the Denver TOD team, working with the Center for Transit Oriented Development (CTOD), created a TOD Strategic Plan to serve as a policy document and guide for Denver policy-makers, management and staff to facilitate the harnessing of private market capital in support of the city's long-term goals. The strategic plan provides a definition of TOD and includes a typology of different station types ranging from an urban neighborhood to a commuter town center. The plan also identifies existing tools and resources and the need for new policies and funding sources to support Denver's TOD vision. Key to the a city-wide TOD program was an inter-departmental cooperation with eight city departments, RTD, the urban renewal authority, the housing authority and the mayor's office. Together the internal stakeholders built a coalition of local Denver stakeholders including elected officials and key constituents; created numerous station area plans; developed public housing redevelopment strategies in collaboration with the Denver Housing Authority; and evaluated and updated parking and zoning practices.

In conjunction with local funding, Denver secured \$1.4 million in federal funding to produce small area plans at 10 existing and future transit stations and one regional market study to support the small area plans. Through the community engagement process, the small area plans created a vision for change at each of the station areas – each small area plan included recommendations for TOD-supportive uses and densities; new zoning to support TOD; infrastructure such as roadway improvements, pedestrian connections, streetscaping and drainage improvements; and implementation plans to realize the community's TOD vision for each station area. In addition to the small area plans, Denver secured \$6.86 million in construction dollars from a local bond program for TOD infrastructure at four stations.

Despite Denver's efforts at planning and public investment, the city has found its goals hard to realize, largely because of the difficulties in coordinating land use and development. In particular, those station areas that do not have a large assemblage or one primary owner/developer have not seen any significant momentum for redevelopment. At too many stations, land speculation and property owner expectations have set land prices too high for acquisition in the current market (though there is recent indication that prices are coming down). Just the existence of multiple property owners with small parcels can make the assemblage process long, complicated and costly for the developer. In addition, infrastructure requirements associated with sustainable, walkable communities – for example, new roadways that include sidewalks and streetscaping, new curbs and gutters for drainage improvements – can be too expensive for a developer to absorb the costs alone, or to be effectively solved by a single property owner.

The city's efforts are still not enough and other partners face challenges to create sustainable TOD. RTD's focus is on the construction and operation of the transit system, not real estate or community development. Right-of-way acquisitions for the transit corridors have resulted in a very contentious and public debate on eminent domain. RTD has had to expend time and energy countering assertions that the transit agency is condemning property for real estate development and diverting attention from TOD opportunities.

Because construction costs have escalated there is an expectation that municipalities will shoulder more of the costs in a required "local match" for the transit system build-out. There is pressure on RTD and the elected officials to deliver a project on time and as close to the original budget as possible. These challenges have shifted attention towards the transit construction and away from the opportunity for sustainable TOD and the broader benefits the system can offer.

The non-profit community partners have paid close attention. Affordable housing advocates, CDCs, Enterprise Community Partners and the Urban Land Conservancy (ULC) are keenly aware of the prospects and possible lost opportunities for sustainable TOD. The ULC – whose mission is to acquire, develop, and/or preserve community assets in urban areas for a variety of community needs such as schools, affordable housing, and office space for nonprofits – has responded. Because of the rise of land speculation and a fear of losing valuable community assets, the ULC has acquired at least two properties near transit stations to hold in anticipation of market changes to create permanent affordable housing. In addition, the city of Denver, ULC and Enterprise are working to launch a 10-year acquisition fund scaled at \$15 million with the objective to create or preserve 1,200 affordable units at transit stations or along high capacity transit corridors. The fund is supported by local and national foundations, housing and finance agencies, and community development financial institutions.

Challenged TOD Sites – Examples

Westminster Crossing, Westminster, Colorado

THE CITY OF WESTMINSTER, Colorado, has reached out to developers, investors and businesses to take advantage of the redevelopment opportunities in the Westminster Crossing project area. The area encompasses approximately 90 acres of property, primed for redevelopment activity, within a quarter-mile of the south Westminster transit station in the FasTracks system. Westminster Crossing is also only a half-mile from access to highway U.S. 36, conveniently connecting both Denver (15 minutes) and Boulder (15 minutes). The project area is ripe with redevelopment opportunity given about 50 acres of adjacent undeveloped land, along with older, marginally utilized commercial and industrial property immediately adjacent to the planned transit station.

The Westminster Crossing TOD plan is laid out in a manner allowing development interests to quickly determine the land use types and densities permitted within smaller subareas. The plan includes a list of permitted uses and level of development permitted assuming off-street surface parking is to be provided. Additional density may be given consideration based upon alternative parking demand or the integration of structural parking. In other words, Westminster Crossing is a well-sited location, with regulatory support for TOD in place.

Similarly, the framework for public financing support is in place. The South Westminster Urban Renewal Area has made development eligible for potential funding assistance dependent upon type, quality and revenue producing capability of new development activity. The area is also located in the Adams County State Enterprise Zone and the city's Brownfields Revitalization Area, making qualified development and businesses eligible for state and federal funding. Given these opportunities, businesses and developers may be able to take advantage of a variety of regulatory, tax, and financial incentives and assistance from sources such as:

- *Tax increment financing (TIF);*
- *Community Development Block Grant funds;*
- *Development-related fees and use tax concessions or rebates;*
- *Flexibility in the application of regulatory requirements;*
- *City-financed installation of public infrastructure;*
- *Low-interest loans; and*
- *Tax credit programs.*

Nevertheless, relatively little development has occurred, largely because of the difficulties in creating viable opportunities that bring developers to the table. The immediate challenge is assembling a parcel large enough for a scale of development that generates a significant return to a developer and still yields the vision in the TOD plan. Some of the parcels have residual value because of existing buildings even though they aren't viable for reuse. Developers are willing to pay \$10-\$15 a square foot and the asking prices are \$25-\$30 a square foot. Westminster may have established the urban renewal area prematurely since the clock is ticking in advance of any redevelopment and before the market was ready to support reinvestment. TIF also necessitates strong commercial development to generate any increment. The CIP funds set aside for infrastructure are minuscule given the need for new roads and utilities in this former industrial area. Westminster would like to more aggressively acquire land but has been unable to identify a source of funds.

West Baltimore MARC, Baltimore, Maryland

West Baltimore, once a flourishing neighborhood, has suffered from Federal and local highway plans and policies of the 1960s. Today, there is a revitalization movement in the community that focuses on opportunities brought about by the MARC (Maryland Area Regional Commuter train) station as well as a proposed Red Line rail corridor and other economic development and investment opportunities. The station experiences 1,000 daily boardings to Washington, D.C. In October 2005, residents, businesses, churches, schools, nonprofit organizations and state and local government came together to form the West Baltimore Coalition (WBC) to develop a common vision for redevelopment around the MARC station.

Baltimore has used every available resource and tool to implement the TOD dream for the West Baltimore MARC station. There is enormous political and community will for, and state support given to, Maryland's proactive Smart Growth climate. The city conducted a very community based visioning and planning process; adopted an urban renewal plan and aggressively acquired land around the West Baltimore MARC station. The city even acquired land around the transit

station (and many others) and now disposition has become the challenge because Baltimore needs to get the land off of the rolls and into productive use. At the West MARC station, one holdout, an owner of an old ice house that is run down, burned out and blighted, is waiting for a high bid on the property. This abandoned and underused property is adjacent to the MARC station and the linchpin parcel to the reinvestment necessary to create a diverse, mixed income TOD that provides a range of housing, local services and jobs.

Conclusions and Recommendations

TOD IS OFTEN SEEN as a panacea for reinvestment in disadvantaged urban communities and an opportunity to create sustainable communities in more suburban contexts. Even with the multitude of tools and resources at a city's disposal, it is still difficult to realize the full potential for sustainable TOD. Cities face the challenge of resources, political leadership, public perception and are ultimately at the mercy of the real estate market, especially in this challenged time of accessing capital. The challenges are shared in both strong and weak market cities. Tough economic times have taxed city budgets, leaving cities with few or no resources to acquire land. With significant drops in revenues, cities are facing budgetary crisis that necessitates cuts in services, furloughs and possible layoffs. There is a negative public perception of cities acquiring property or acting as developers, especially in the West. Even if funds were available to acquire land, the public backlash against buying land is very real.

A partnership with the foundation community on a land acquisition fund would help offset development costs and catalyze reinvestment in TOD areas. Most cities – Denver, Phoenix and the Bay Area – have identified land banking as a critical tool to achieving sustainable TOD through strategic planning or other processes. As Ken Kirky from the Association of Bay Area Governments said, “If foundations really want to leverage their dollars, a TOD land acquisition fund would be an outstanding use of funds to incentivize development around transit stations, especially in distressed communities that lack real resources.” As noted earlier, this is the objective of the Urban Land Conservancy and partners, the MacArthur Foundation, Enterprise Community Partners and the city of Denver. As land speculation subsides and asking prices align with market realities, the time to acquire land is now when land prices are lower. Cities can plan really well in a weak market and be ready to respond when the market turns around if key parcels are in control by an appropriate party. The role of foundations is even more essential and timely. Foundations interested in this prospect should work with municipalities that have identified the need for such a fund. Together, cities and foundations should identify a pilot project to test the structure, administration and success of a possible fund.

ACKNOWLEDGEMENTS: This paper has benefitted from a number of discussions on the topic of TOD. Thanks especially to Gideon Berger, Tom Boone, Tony Chacon, Seema D. Iyer, Ph.D., Kenneth Kirky and Sandra Zwick for their local stories and insights.

4

The Investment/Finance Perspective

Prepared by *William Kohn Fleissig*, Communitas Development Inc.
and *Ian R. Carlton*, University of California at Berkeley

Aligning Transit and Real Estate: An Integrated Financial Strategy

Introduction

BUILT TRANSIT-ORIENTED DEVELOPMENT (TOD) has a mixed track record, with most examples realizing neither their planning benefits nor their financial expectations. This paper distinguishes three levels of TOD:

- *TOD 1.0, focused on federal funding formulas that are disconnected from real estate market forces;*
- *TOD 2.0, a more integrated transit and real estate funding strategy that is conceived and coordinated on a corridor scale; and*
- *TOD 3.0, an emerging model that aligns development districts transit with broader community needs and emerging sustainability initiatives, focusing on “Livability Benefits.”*

Lastly, the authors offer suggestions for achieving the transition from TOD 1.0 to TOD 3.0 by implementing a more market focused financing structure.

To date, **TOD 1.0** has faltered because TOD projects are typically burdened with higher land and infrastructure costs, mandatory mixed-use programs, and site phasing which make TOD a less attractive investment alternative for private equity and bank debt when compared with suburban or other infill sites. Transit planners are motivated by policy-based funding criteria that promote transit along inexpensive right-of-ways. As inexpensive land is an indicator of poor real estate market conditions, transit planning inherently negatively impacts TOD potential. TOD 1.0 has relied on subsidies to remain a competitive investment option but government can justify only minimal subsidies for a finite number of projects. A new strategy is required. A fundamental flaw of TOD 1.0 has been its focus on overcoming poor real estate markets rather than coordinating transit investments with viable real estate markets. The transit implementation process determines TOD corridor connections, station locations within existing real estate markets, and station area infrastructure and design.

TOD 2.0 treats transit implementation as the first half of a sequential six-step TOD implementation process culminating in vertical real estate development. Early transit implementation steps, like Route Alignment (Step 1), must evaluate the real estate market conditions along the route to determine if vertical development (Step 6) is viable given TOD’s intrinsic cost burdens. The TOD 2.0 process plans development at the corridor level to match real estate markets. TOD 2.0 relies heavily on an implementation advocate for existing and future TOD districts in early stages of the process – addressing the time lag between transit planning and real estate development – and overcome jurisdictional competition for new development and tax dollars.

TOD 3.0 focuses on the positive community impacts of concentrating development and services along a transit system, which we are labeling as “Livability Benefits” – the ultimate goal of transit and TOD – and adds a new seventh step to the TOD 2.0 six-step process. Livability Benefits include improved access to emerging employment centers, accessible job training and education facilities, affordable and workforce housing, increased open space and watershed areas, and enhanced metropolitan sustainability. This new paradigm orients all of the steps identified in TOD 2.0 towards achieving Livability Benefits. In TOD 3.0, transit implementation steps emphasize an integrated financial strategy supporting expanded Livability Benefits, rather than separately focused on transit efficiency (as in TOD 1.0) or enhanced revenue through more dense vertical real estate development (as in TOD 2.0).

This paper points to two evolutionary steps that can promote economically viable and more livable transit-oriented communities: (1) coordinating transit and real estate development in one sequential process and (2) advancing TOD goals beyond vertical real estate development to encompass community “Livability Benefits” that are often required of developers

and typically mandated by state and/or local laws. These changes will require empowering a coordinating entity and adjusting policy. The authors are also exploring financing mechanisms – including real estate value capture – that will foster these changes. Building economically viable and more livable transit-oriented communities will entail significant coordination and developing new skills. While this effort will require skilled leadership and savvy negotiators, there is a greater ability to realize TOD that has been envisioned but inconsistently delivered.

TOD 1.0 – Current Disconnect

TOD IMPLEMENTATION and financing discussions have historically focused on station planning and real estate development processes. Conversations have focused on relatively high TOD real estate costs. Planners have focused on creating zoning and design guidelines, economic development professionals have provided developer subsidies to spur TOD construction, and developers have balanced government and community desires with real estate markets and their investors’ expectations. Little attention has been paid to the transit implementation process that actually determines the real estate market and surroundings in which transit stations are constructed. Transit implementation generates difficulties for TOD and it is a major reason that built TOD is successful only on rare occasions. This section will describe why we think TOD to-date, TOD 1.0, has performed below expectations.

TOD Costs Are Higher Than Comparable Suburban Investment Options

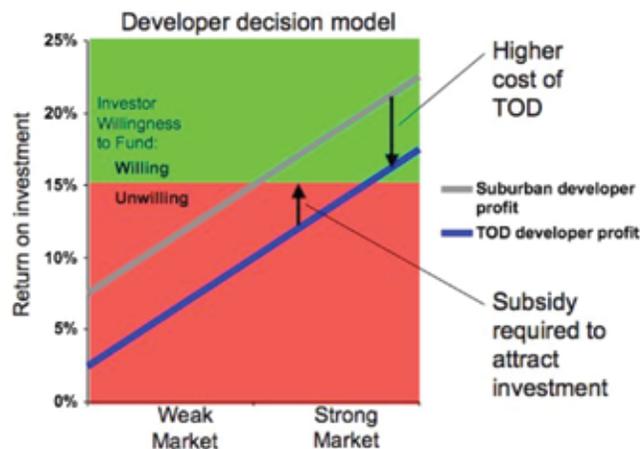
Urban, walkable, and mixed-use TOD projects are overburdened with additional costs when compared to competing real estate investments. TOD has significantly more expense than other suburban or infill real estate product and has difficulty competing for investment dollars.

These additional cost factors include:

- *Urban land v. “Greenfield” land*
- *Upgraded Urban utilities v. “Greenfield” utilities*
- *Environmental cleanup issues v. Unblemished sites or low-impact prior uses*
- *Mid and High-rise construction v. Low-rise construction*
- *Mixed Use buildings v. Single Use buildings*
- *Structured parking v. Surface parking*
- *Higher level of design finish through design review process v. Standard finishes with minimal city review*
- *Complex street network infrastructure v. Minimal networks*
- *Diverse pedestrian, auto, and transit accommodations v. Auto-oriented design*

Figure 1: TOD investment v. suburban/other infill

Suburban Development Attracts Equity Over Higher-Cost, Lower-Profit TOD



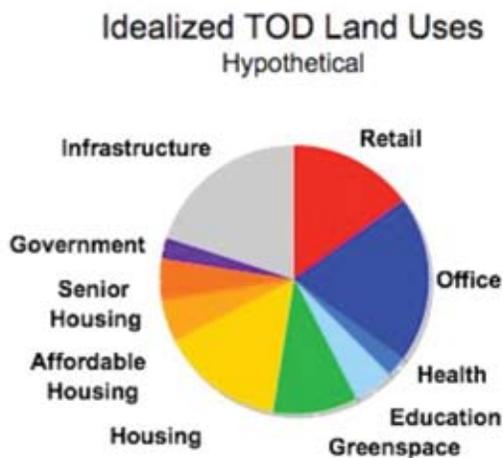
Limited Influence of Zoning

While a necessary local policy step, station area planning and zoning does not overcome the high costs of building TOD projects. In fact, the zoning applied to TOD areas often adds more complexity and cost with master plan requirements, phasing options for future development, and layers of additional standards for landscaping, parks, streets, and buildings. Many proponents of station area development believe that station planning and zoning would produce community-benefiting TOD. However, zoning is just one factor that is taken into account in determining where and how equity is allocated by real estate professionals:

- Zoning / Density / Building Standards
- Available Infrastructure / Utilities
- Auto Access
- Market Rents / Demand
- Pipeline of Planned Projects / Absorption
- Cost Parameters
- Environmental Issues / Cleanup
- Site Visibility / Adjacent Land Development
- Community Requirements

As shown in Figure 2, zoning that requires idealized TOD may increase costs, dampen profits, and actually decrease the potential that TOD will be implemented.

Idealized Mixed-use Programs Ignore Real Estate Market Realities



Zoning for Ideal TOD Could Stifle Development by Reducing Revenues

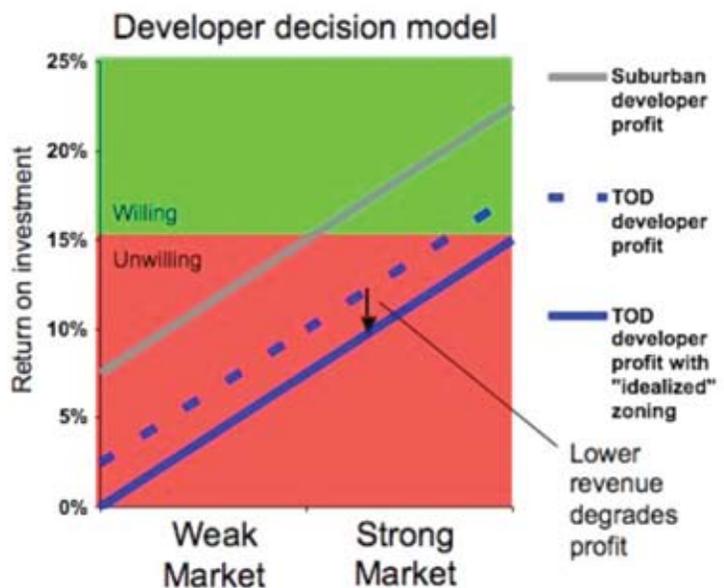


Figure 2: Idealized TOD zoning can impact TOD potential

Asynchronous Timing Can Impact Development Potential

People familiar with transit projects are not surprised that it can take anywhere from 10 to 15 years from initial feasibility to opening day. The multiple engineering milestones from early Alternatives Analysis to Record of Decision; the political challenges facing local jurisdictions who must approve planning alternatives, environmental impacts, and revenue measures; the local dynamics among environmentalists, housing advocates, developers, neighborhood and business interests regarding corridor alignments and station locations; and the changing funding decisions made by Congress and the FTA all combine to lengthen the transit building process when using Federal funds. The typical time frame is realistic, yet daunting.

Compare 10 to 15 years for transit implementation to a typical timeframe for development projects – site acquisition, entitlements, design, construction, and initial leasing takes between three to five years. This time differential between transit and development discourages most developers from focusing on future station areas as viable investments. It's difficult to justify spending much time, effort or money on site acquisition for TODs when the payoff is so far down the road. Investors can often find more profitable investment vehicles.

Because transit is a decade away, few developers are at the table when transit is initially planned. Without an advocate, TOD real estate objectives can be lost amongst a myriad of other political concerns, funding criteria, and expert opinions. It is no surprise that difficulties arise when developers arrive on the scene just before transit opens and find that transit engineers, urban planners, and other interests spent upwards of a decade building transit systems in areas that are not suitable for real estate development.

In addition, if land markets are viable, land speculators often arrive on the scene soon after transit implementation intentions are revealed. Utilizing debt financing and private equity, speculators buy and sell land on short cycles and drive up prices during early stages of transit planning.

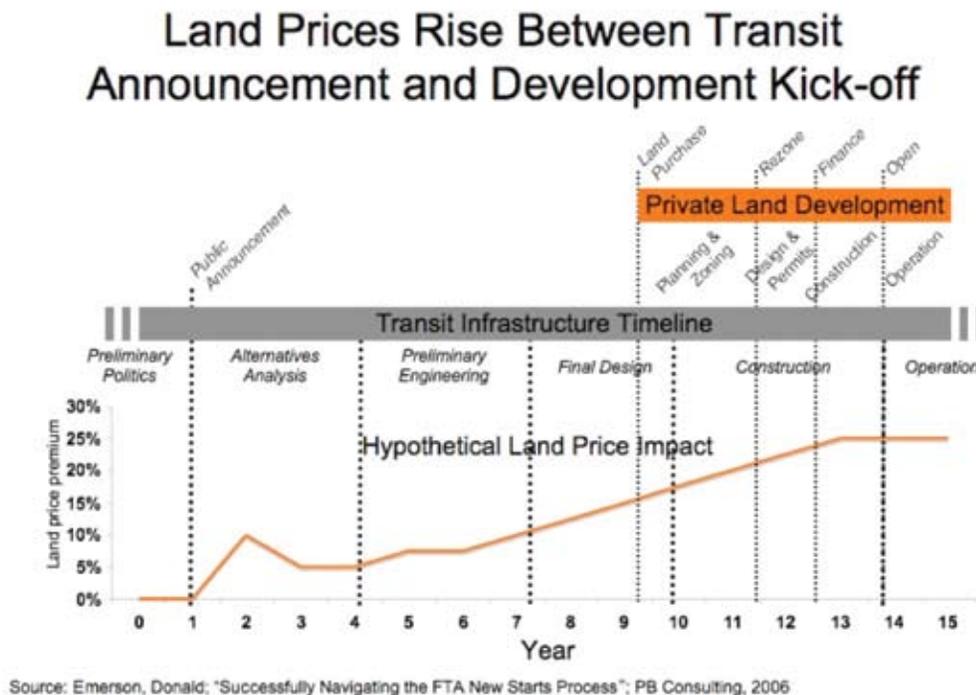


Figure 3: Transit infrastructure v. real estate development timeline

Dominant Transit Financing Source Promotes Station Locations in Poor Real Estate Markets

As seen in Figure 4, government financing for transit infrastructure is dominated by federal funds from the Federal Transit Administration (FTA). The FTA issues funds through a competitive process and transit system designers adjust their proposals to meet the FTA guidelines.

Federal Funds Typically Dominate Transit Infrastructure Financing

Typical Transit Funding Sources



Figure 4: Federal “cost effectiveness” criterion dominates transit infrastructure design

FTA “Cost Effectiveness” Funding Criterion Determines Transit Design

Promotes simple systems along inexpensive right-of-way
cheap land = poor markets

$$\text{Cost Effectiveness} = \frac{\Delta \text{ Capital Cost} + \Delta \text{ Operations} + \Delta \text{ Maintenance}}{\Delta \text{ Hours of User Benefit}}$$

Must achieve “medium” rating to overcome FTA hurdle for consideration regardless of other attributes

Promotes attracting more riders in low-cost manner
Park & Ride v. development

Source: Emerson, Donald; “Successfully Navigating the FTA New Starts Process”; PB Consulting, 2006

FTA decision makers focus heavily on their “Cost Effectiveness” calculation.¹ Essentially a cost-benefit ratio, the calculation promotes the lowest cost means to attract the greatest ridership. Transit designers are given incentives to build a low-cost park & ride parking spot – assumed to generate one round trip per day – rather than pay a higher land price to construct a station near an existing development. In doing so, federal officials are pushing transit towards low-cost land – low-cost land indicating a poor real estate market – rather than pushing transit towards better real estate markets where land is more expensive and TOD potential is much greater.

Transit Funding Incentives are Policy-based While Real Estate Finance is Market-based

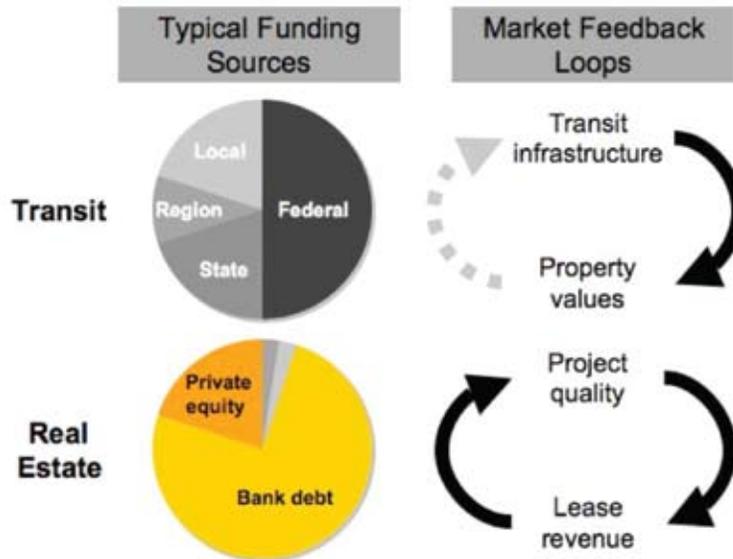


Figure 5: TOD 1.0 financing components and missing market feedback loop

¹Emerson, Donald; “Successfully Navigating the FTA New Starts Process”; PB Consulting, 2006; Accessed 2/1/09 online: <http://www.indympo.org/SiteCollectionDocuments/www.indympo.org/PDF/ftanewstartprocess.pdf>

Transit Implementation and Real Estate Development Financing Incentives Are Misaligned

The disconnect between transit implementation objectives and real estate development incentives is perpetuated by the distinct financing structure of each. Transit finance is dominated by government sources that are allocated competitively to projects with the lowest risk and lowest cost. On the other end of the spectrum, real estate development finance focuses on balancing risk and costs with rewards.

The outcome of this financing disconnect is exhibited in vacant land and acres of park & ride lots surrounding transit stations throughout the country. Because policy-driven transit finance pushes transit towards low-cost land in poor real estate markets, TOD is often infeasible around these stations.

Transit and Real Estate Implementation Involve a Complex Array of Players

Numerous parties are involved in TOD implementation – both delivering transit and developing real estate. The process includes government entities at the federal, state, regional, and local level. Private players include for-profit and non-profit entities. Special interest groups and advocates are also involved in TOD implementation.

TOD 1.0 Requires Coordination Of Numerous Institutions With Individualized Goals

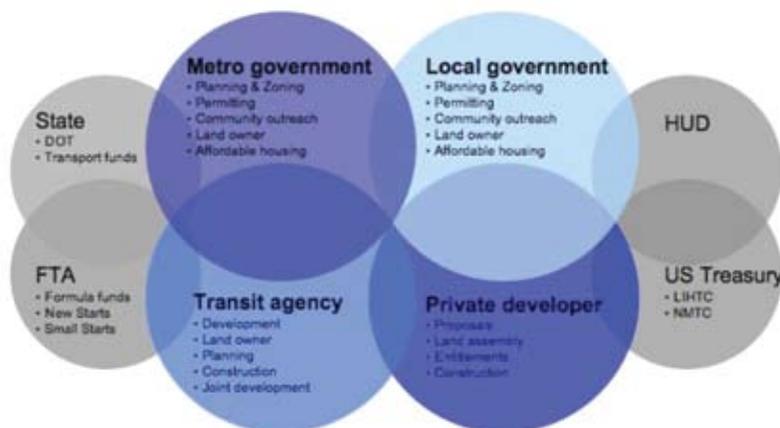


Figure 6: TOD 1.0 Participants

A growing influence on transportation policy and investment has emerged with greater force – an expanding group of “special issue advocates” who look beyond the goal of increased mobility to advance their particular issue. TOD proponents include social justice organizations, affordable housing professionals, “good planning” coalitions and open space preservation advocates. Today, these players play a regular role in the process and are often provided a seat at the transit planning table from the outset to help transit plans achieve greater political support.

The demands these various groups place on transit and TOD often degrade real estate revenues, increase project costs, and erode real estate profits. This can make TOD projects relatively unattractive real estate investments. While all parties play an important role in TOD implementation, their number and diversity of interest can create complexity that contributes to unsuccessful TOD outcomes.

Public Sector Cannot Justify Adequate TOD Subsidies

Many developers will tell you that a subsidy could make their project profitable, attract investors, and spur TOD development. And this is probably true. However, all of the sizable hindrances working against TOD require a counterbalancing subsidy of equal or greater magnitude. Still, many jurisdictions have found the means to partially subsidize many TOD sites.

Successful first-generation TOD 1.0 has relied on various public sector subsidy and assistance strategies to help offset costs. Subsidized debt financing has reduced debt burdens for TOD projects. Likewise, community development grants, state

grants, and tax increment (TIF) bonds have been successfully incorporated into TOD funding. Government-owned property has also been contributed to help lower land costs.

Several strategies have been suggested to alter this systemic challenge of higher development costs. Chris Leinberger, an urban strategist with the Brookings Institution, has suggested that real estate cultivate a new level of patient private equity with different return and timing expectations.² In this way, TOD projects can prioritize long-term returns, cover greater up-front costs, and attract standard short-term debt financing. This approach offers a strategy to address the timing and infrastructure burden typical for station area development. Given near term lending and market conditions, this approach is not likely to be tested for several years.

Conventional TOD Assistance:

- *Direct financial grants for:*
 - *Housing affordability*
 - *Infrastructure*
 - *Land procurement*
 - *Minority-Owned Business Development*
- *Publicly funded below-market rate debt financing*
- *Low-interest municipal/infrastructure bond financing*
- *Tax increment financing*
- *Below-market rate transfer or lease of government owned land*
- *Expedited building permits and permitting costs*

TOD 1.0 Has Lacked The Recipe for Success

As described above, TOD 1.0 suffers from cost, timing, and transit funding issues. Most fundamental, transit is often built in market areas that are not suitable for TOD development. Walkable, sustainable, and equitable TOD has considerable cost burdens relative to other development types and either extensive subsidies or superior market locations can help TOD generate profit levels that make it a relatively attractive investment. Subsidies work – even in the worst markets – but are limited in scope and scale. Ultimately, successful TOD requires good markets, good station areas, and excellent coordination between numerous parties all dedicated to its success.

To reach a new level of execution success, TOD will have to better adapt to the unique adversity it faces. Transit planners and engineers will need to be cognizant of the real estate markets where they propose to build stations and governments will need to work with the private sector to overcome timing and cost related issues. If TOD is to succeed consistently, a new paradigm is required.

TOD 2.0 – Coordinated Corridors

IN A NEW TOD 2.0 PARADIGM, transit implementation is subsumed as the first phase of TOD implementation. Real estate market considerations currently fall outside of the objectives of transit planners because their TOD 1.0 financial incentives promote low-cost, efficient transportation with near disregard of real estate markets. However, when treated as the first phase of a sequential process, transit planners must consider the real estate potential required to successfully implement later steps of their process. Because real estate markets differ along transit corridors, communities will have to plan for TOD at the corridor scale, not just at the project or station area level. Inter-jurisdictional collaboration will have to overcome disproportionate benefits and burdens generated by corridor-wide TOD planning. Finally, a new TOD 2.0 coordinating entity will be required to bring “coordinated TOD corridors” to fruition.

TOD 2.0 Merges Transit and Real Estate Development Processes

Historically, transit implementation and real estate development have been treated as distinct processes. As discussed in greater detail in Appendix 1, this paper boils these two complex processes down to three steps, A through C. In both processes, Steps A through C are sequential and each step is profoundly influenced by the execution of all prior steps.

² Leinberger, Chris: “Back to the Future: The Need for Patient Equity in Real Estate Development Finance”; *The Brookings Institution*, 2007

What has not been given enough credence in TOD conversations is the influence that Transit Steps have on Real Estate Steps. For instance, locating stations (Transit Step B) in undeveloped pasturelands will require significant infrastructure development (Real Estate Step B) before vertical development (Real Estate Step C) can occur. TOD site location choices – and therefore real estate market choices – are actually made by transit planners when they determine transit routes and station locations. TOD 2.0 recognizes these heretofore-distinct processes into a sequential six-step TOD implementation process that focuses on vertical development as the final outcome.

TOD 2.0 Considers Transit and Real Estate Implementation One Contiguous Process

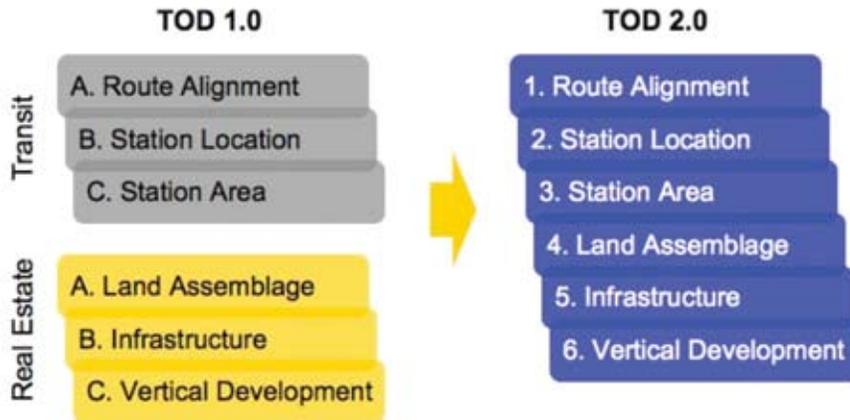


Figure 7:
TOD 1.0 v. TOD 2.0
implementation steps

TOD 2.0 Transit Planning Focuses on Real Estate Potential

As an alternative to TOD subsidies, building TOD in better real estate markets can improve real estate profitability and make TOD a competitive real estate investment. Higher revenues achieved in better real estate markets can overcome the higher costs and greater complexity inherent in TOD. Figure 7 illustrates how shifting “up market” improves TOD profitability.

Building Transit in Superior Real Estate Markets Can Spur TOD Development

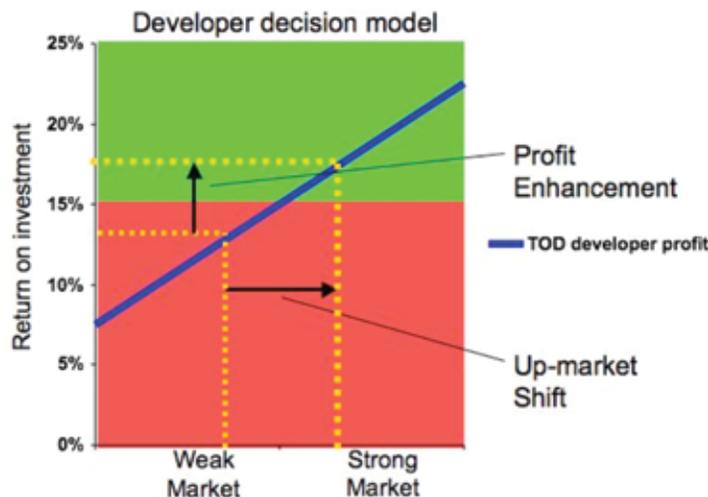


Figure 8: TOD can become a competitive investment through a market shift.

Combining transit and real estate development into a six-step real estate focused TOD implementation process requires extensive adjustment to the following:

- 1) *Transit planning guidelines*
- 2) *Transit financing incentives*
- 3) *Communication between transit planners, communities, and developers*

To work in a sequential and interdependent TOD 2.0 process, transit planning standards will have to be reconsidered and new guidelines implemented. New guidelines will have to consider:

- *Real estate market forces in routing decisions*
- *Local real estate market forces in station location choices*
- *Real estate project impacts of station area designs.*

To achieve this, transit planners will have to gain understanding, and perhaps some skills, of the real estate development sector.

Greater financial integration between transit implementation steps and later steps of TOD 2.0 implementation can take several routes:

- *The most influential option is that FTA funding criteria be adapted to focus more on TOD potential. Federal funds represent 50 percent of transit capital financing and act as de facto transit planning guidelines.*
- *Also, a new market-based transit funding source, one earmarked for real estate acquisition and development, could alter the incentives of transit planners. Such a funding source could supplement or substitute for FTA funding and might be based on land sales, shared development fees, property tax funds, or other real estate related revenue streams.*

Other routes likely exist but are not contemplated in this paper.

Additionally, communication between transit planning and later steps in the TOD 2.0 process will require advancements. TOD players must speak either a common language or all their counterparts' technical "languages." Conversations will also have to occur between planners and developers and the actual TOD developers along a particular transit line may not be identified until a decade after that conversation needs to occur. New forums will have to be developed, perhaps between transit planners and a developer stakeholder group that can help overcome the timing discrepancies inherent in TOD implementation. Most importantly, conversations will have to address the varied interests of all parties involved and may require a process facilitator.



Figure 9: Good development

Communities and Land Use Planners Must Consider Development at the Corridor Scale

To maximize TOD in the TOD 2.0 process, communities and land use planners will have to work with transit planners at the corridor scale. Transit infrastructure may pass through several jurisdictions and, without intervention, each would attempt to maximize retail sales taxes, increase park space, or meet other community needs. It is also likely that each municipality would zone for optimal, or “idealized,” TOD containing all possible community benefits. However, the real estate markets along a corridor vary substantially and “ideal” TOD can only occur in exceptional market conditions. If station areas are zoned to match real estate markets and considered at the corridor scale, a greater quantity and quality of TOD can be built.

Zoning For “Ideal” TOD at Each Station Ignores Local Market Demand - Yields Minimal TOD

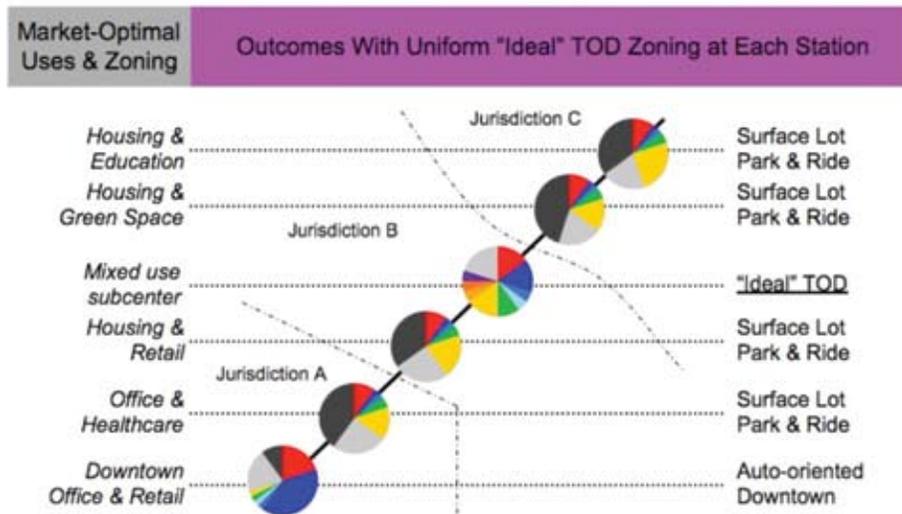


Figure 10: Locally focused TOD zoning yields limited successful TOD.

Market-based Zoning at Corridor Level Maximizes Development at Each Station

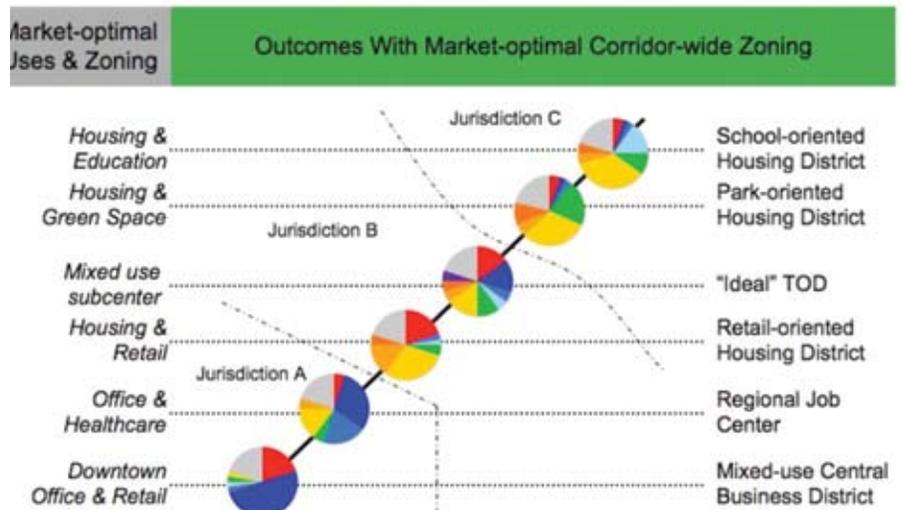


Figure 11: Zoning corridor-wide for TOD according to station area markets maximizes TOD potential.

Aggregate Corridor Outcomes Optimized With Corridor-wide & Market-based TOD Zoning

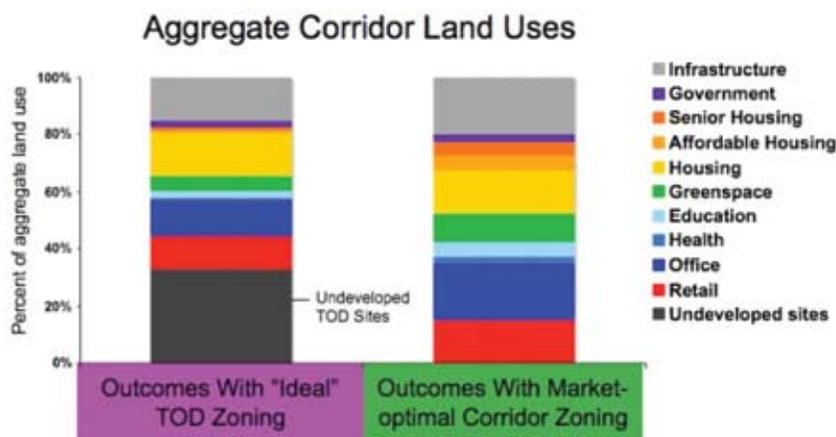


Figure 12: Aggregate TOD outcomes are optimized with corridor-wide planning.

Corridor-wide Planning Will Incorporate Existing Communities in TOD Optimization

Providing existing communities with new transit can have significant corridor-wide real estate impacts:

- Existing office and commercial near a new station makes new housing development more feasible on undeveloped sites at other stations along the corridor
- Existing recreational, open space, and other public facilities near new stations makes all undeveloped sites more valuable along the corridor
- Existing households living along the corridor makes new retail development more feasible near new stations

Providing existing communities with new transit can have significant transit impacts:

- Can provide immediate patronage and farebox revenue
- Can help balance bi-directional passenger flows

Existing communities benefit from new transit service:

- Enhanced transportation options
- Improved access to other communities
- Greater access to new TOD
- Appreciating real estate values

TOD 2.0 Implementation Must Overcome Disparate Station Area Benefits and Burdens

Considering TOD at the corridor level is complicated by the fiscal and social impacts on local jurisdictions. These impacts may disproportionately benefit some jurisdictions or burden other jurisdictions. Inter-governmental agreements will have to be struck to balance benefits and burdens evenly across a new TOD 2.0 corridor so that all jurisdictions are willing to participate in corridor-wide TOD planning.

As an example, an existing community may experience gentrification with rising property taxes that push out original residents. In distributing uses along a corridor, some communities may receive a disproportionate share of affordable housing or park space. Balancing benefits and burdens along the corridor will be necessary to gain community support for TOD 2.0.

Fiscal impacts will need to be balanced carefully as well. Some jurisdictions, for instance those with station areas predominantly zoned for housing, may suffer a disproportionate fiscal burden related to schools. Likewise, a jurisdiction with a station area zoned as open space may be burdened with maintenance and operations costs and no commensurate property tax benefits. These jurisdictions may suffer financially from corridor-wide TOD planning.

Potential cost burdens:

- *New park operations*
- *Increased school enrollment*
- *Additional municipal services*

On the flip side, some jurisdictions may have station areas zoned for new retail and commercial development that generate new property and sales tax revenues. These jurisdictions will benefit greatly from corridor-wide TOD planning.

Potential revenue improvements:

- *Enhanced real estate values and property taxes*
- *Additional sales tax receipts around stations*
- *Profitable parking charges for limited resource*

Because benefits and burdens may be disproportional allocated across jurisdictions when planning for TOD at the corridor level, governments will be reluctant to support plans that benefit other areas more than their own. To achieve TOD 2.0, some form of inter-government agreement (IGA) will have to be produced so that all jurisdictions can fairly share transit and TOD benefits and costs. The TOD 1.0 process does not have an entity that can manage this type of coordination. TOD 2.0 may require the formation of a new entity to broker IGA and produce fair fiscal results for the various jurisdictions.

Coordinating Entity Required to Accomplish TOD 2.0

TOD 2.0 merges two historically separate processes that occur along different timelines, involve different parties, require different expertise, and have very different incentive structures. Due to the complexities that TOD 2.0 introduces relative to TOD 1.0, a new entity must be created. A TOD 2.0 coordinator will need to speak all the technical languages of the various parties involved in TOD implementation and carry out a bevy of coordination responsibilities so that TOD can be optimized successfully.

TOD 2.0 Leverages Coordinating Entity to Advocate Market Perspective Throughout Transit Implementation Process

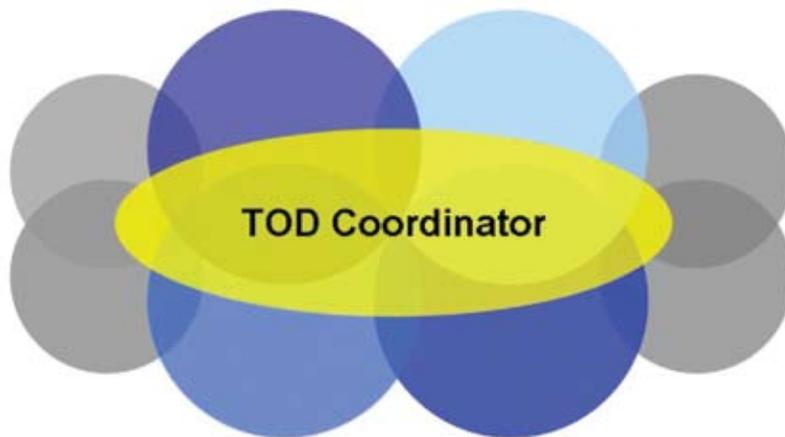


Figure 13: TOD 2.0 includes a coordinator that fills an organizational gap.

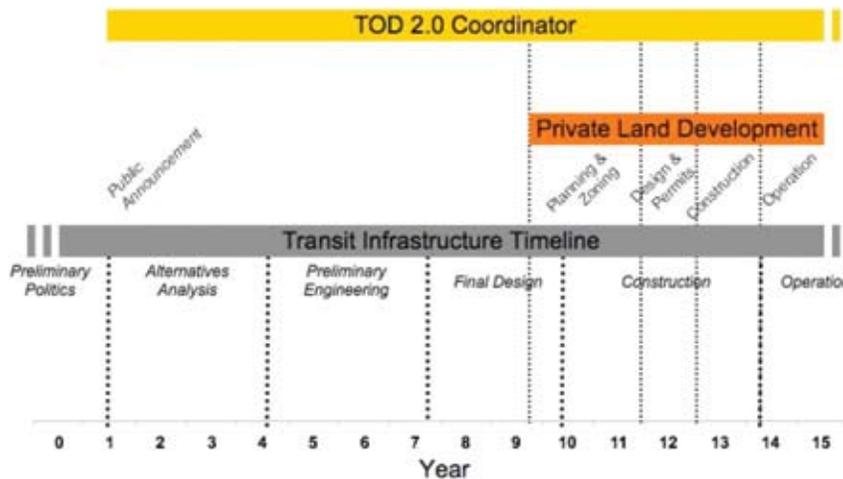
Implementation Areas Requiring Integrated and Coordinated Decisions:

- *Align route with existing and future destinations*
- *Locate stations as part of larger development plan*
- *Manage integration of planning, engineering, and funding*
- *Facilitate PPP for Value Capture*

- Execute Inter-Governmental Agreements to balance benefits and burdens along corridor
- Acquire key parcels that are essential for TOD implementation
- Allocate uses and entitle station areas across entire length of corridor
- Extend corridor mobility with frequent shuttles (similar to Boulder, Colorado)

Additionally, the TOD Coordinator will help overcome the timing gap between Transit Implementation and Real Estate Development.

TOD 2.0 Coordinator Role Begins When Transit Is Introduced and Bridges TOD Timing Gap



Source: Emerson, Donald; "Successfully Navigating the FTA New Starts Process"; PB Consulting, 2006

Figure 14: TOD 2.0 includes a coordinator that fills a timing gap.

TOD 3.0 – Livability Goal

A NEW MODEL, TOD 3.0, will give credence to TOD-related livability goals. Though it has not been explicitly recognized as a component of the TOD implementation process to-date, Livability Benefits have become the de facto TOD end-goal that extends from vertical real estate development. Livability Benefits now promoted by planners, community activists, and local organizations have become key drivers of transport and land use planning, and Livability frames the entitlements discussion for any new development, especially TOD. Affordable housing advocates, open space funds, and social equity organizations have long seen TOD as a means to a greater end but without recognition as the key outcome of TOD, they remain “fiscal burdens” or “policy hoops” that real estate professionals must overcome to achieve vertical development. Rather than perceive them as insertions in, additions to, and burdens on real estate development, TOD 3.0 considers Livability Benefits as the underlying framework for TOD.

Livability Benefits Become Part of TOD 3.0 Transit Planning Calculus

As a foundational step in the TOD implementation process, Livability Benefits become the driver for all prior process steps. Just as a TOD 2.0 paradigm shift forces transit planners to consider real estate development potential, TOD 3.0 requires transit planners and local partners to consider the Livability Benefits they are generating when they propose a new transit plan. As owners of later steps in the TOD implementation process, real estate developers will also need to include Livability Benefits in their planning and proformas. It is fair to say that developers have already proceeded down this path as the standard TOD entitlement process including certain aspects of community benefits.

TOD 3.0 Focuses the TOD Implementation Process on Livability Benefit Outcomes



Figure 15:
New Step 7:
Livability Benefits

Livability Has Been Championed by Communities and Codified in Recent Laws

Transit professionals must look beyond the mobility and access benefits that transit provides as community leaders and state laws have already expanded their expectations of transit.

Examples of Emerging Livability Drivers:

- *Sustainability...energy efficiency, green building, minimal footprint, AB32 (CA), SB375 (CA)*
- *Housing Affordability...fair-share workforce housing, inclusionary zoning, jobs-housing balance*
- *Social Equity...new green industry jobs, training, transport access, goods and service accessibility*
- *Habitat...open lands, parks, watershed, conservation*
- *Local Preferences...density restrictions, historical preservation, limiting housing gentrification, walkability*
- *Global Warming...reduced Vehicle Miles Traveled*

Livability Benefits are community specific, reflecting unique cultural, environmental, economic, and other factors. There is no complete list of Livability Benefits but Table 1 below outlines some potential community improvements that can be feasibly achieved through TOD.

TOD 3.0 Relies on the Coordinated Corridors of TOD 2.0

As discussed in TOD 2.0, trying to achieve “ideal TOD” at each station location will hamper vertical real estate development. Likewise, pursuing ideal livability goals at each station area (e.g. one park, one school, one farmers market, and 100 affordable housing units at each station node) could also hamper vertical development. TOD 3.0 will rely on TOD 2.0 coordination strategies to achieve maximum Livability Benefits corridor-wide.

Table 1: Livability Benefits Menu – Each Region to Determine Priorities

| Category | Benefit Description |
|----------------------|--|
| Mobility | <ul style="list-style-type: none"> • Pedestrian/Bicycle improvements • Parking (simple provision/shift to deck from surface parking) • Local shuttles • Car/bike sharing facilities |
| Equity | <ul style="list-style-type: none"> • Affordable housing • Diversity programs • Gentrification mitigation |
| Environment | <ul style="list-style-type: none"> • Site remediation • VMT Reductions / Air quality programs • Noise abatement • Water resources • Visual – e.g. façade enhancements • Habitat preservation |
| Public space | <ul style="list-style-type: none"> • Open/green space • Watershed enhancements • Recreation/active space • Streetscape enhancements • Trails • Historic structure preservation |
| Economic development | <ul style="list-style-type: none"> • Concentrating Green jobs • Job training • Small and Minority Business assistance |
| Education | <ul style="list-style-type: none"> • Kindergarten / Daycare / After-school services • Charter Schools • Magnet Schools |
| Services | <ul style="list-style-type: none"> • Street/Sidewalk cleaning service • Increased police patrols / Ambassador force • Farmers markets • Other social services |
| Infrastructure | <ul style="list-style-type: none"> • School facility improvements • Community facility construction • Undergrounding utilities • Upgrading infrastructure |

Using the coordinated TOD 2.0 model, livability components can be achieved across a corridor. A corridor’s need for public recreation facilities can be met in one station area that is suitable in location, land cost, and accessibility. The same corridor could have other station areas suitable for major office and retail developments that help reduce Vehicle Miles Traveled (VMT). Another station area may have limited development to help preserve historic structures while yet another has low land prices that can help subsidize a vibrant affordable housing development.

Influential advocates will continue to push for livability and, because TOD is one method of creating livable communities, they will advocate for TOD implementation on a national scale. There will be continued political pressure to increase transit access, frequency and connectivity. There will be local pressure to surround new transit infrastructure with Livable TOD. Transit planners, land use planners, and communities must make Livability Benefits a key driver of their policies, decisions, and actions as they move towards implementing successful TOD.

TOD 3.0 Coordinates With Livability Proponents To Maximize Corridor-wide Livability Benefits



Figure 16: Coordinator can optimize Livability Benefits corridor-wide

Conclusions

Current TOD implementation has yielded mixed results due to a number of inherent issues:

- *TOD real estate development is burdened by higher costs*
- *Transit-oriented zoning cannot overcome poor real estate markets*
- *Transit implementation timing and real estate timing are asynchronous*
- *Transit funding sources cause stations to be built in poor real estate markets*
- *Transit and real estate financing drivers are misaligned – government-based v. market-based*
- *TOD implementation involves numerous players that are not necessarily focused on TOD outcomes*
- *Governments cannot justify the subsidies required to promote TOD around stations in poor markets*

TOD 2.0 would make transit alignment the first step in the TOD implementation process. In a new comprehensive 6-step process, transit planners (early steps) would have to consider real estate markets and TOD potential when choosing transit routes, station locations, and station areas designs. Land use planners and communities would have to consider TOD real estate development at the corridor scale to match varied real estate markets and optimize corridor-wide TOD potential. Existing communities would play a foundational role in new transit corridors and make undeveloped station areas more valuable due to their transit access to existing goods, services, and real estate. An empowered TOD 2.0 coordinator would

have to help balance disparate station area benefits and burdens, perhaps implementing Intra-Governmental Agreements to share corridor revenues and costs. The TOD 2.0 coordinator would also represent real estate development early in the transit implementation process and work with all of the players involved in TOD implementation.

TOD 3.0 would transform Livability Benefits – often promoted or demanded by planners, community members, or environmental advocates – into the ultimate goal of the TOD implementation process. Adding Livability Benefits as the seventh step of the process and the framework for all prior decisions transforms Livability Benefits from a cost burden on the real estate proforma into the fundamental design goal of transit planning and real estate development. By considering Livability Benefits early in a TOD 2.0 integrated process, real estate developers should still find profitable vertical development projects because their fiscal needs would be considered in the calculus when transit was initially designed.

There is considerable work to be done to achieve the progress proposed in this paper. In addition to enabling a TOD Coordinating Entity and making significant policy changes, the authors have explored adjustments to the TOD financing models that could foster the TOD 2.0 and TOD 3.0 transition. As discussed in Appendix 2, real estate value capture would likely play an important role in maximizing successful and more livable transit-oriented communities.

Next Steps

- *Amplify the rationale for a coordinating TOD sponsor through APTA, CTOD, ULI, APA and other professional organizations.*
- *Investigate how DOT, FTA, HUD and other federal entities might endorse regional pilot programs.*
- *Explore conversations with selected transit agencies, MPOs, and local communities to identify candidate corridors to execute the emerging coordination model.*
- *Continue education with foundations, LISC, Enterprise, Living Cities, etc., to flesh out financial models to support TOD 2.0 and TOD 3.0.*

Appendix 1: Current (TOD 1.0) Implementation Steps

| Implementation Step | Actions | Components Financed | Primary Financing Source | Secondary Financing Sources | Key Finance Criteria | Criteria Influence | Impacts on TOD |
|--|--|--|-----------------------------|--|---|---|---|
| Transit Implementation Process | | | | | | | |
| A. Route Alignment | <ul style="list-style-type: none"> System plans (transit agency in coordination with FTA, State, MPO, and municipalities) MPO evaluates plans according to transport and land use funding policies | <ul style="list-style-type: none"> Systems planning Transit/ROW alternatives analysis Preliminary Engineering / Environmental Transit design | Federal grants | Region & Local match | Cost per rider | Cost per rider criteria leads to low-cost route selection in highway median or along freight corridor | Low-cost is economic indicator of low real estate potential |
| B. Station Location | <ul style="list-style-type: none"> Land acquired for station areas Station platforms developed | <ul style="list-style-type: none"> Platform location, elevation, & design Station area land acquisition | Federal grants | Region & Local match | Land & construction cost | Stations located above ground in low-cost areas away from existing development and markets | Initial TOD project must large enough to "create" new market and must overcome poor station configurations |
| C. Station Area | <ul style="list-style-type: none"> Station specific plans created Implementation of access components, landscaping, public spaces | <ul style="list-style-type: none"> Community Process TOD zoning Bus drop-off Commuter parking Pedestrian ways Bike facilities Open space/ Plaza | Federal grants | Region & Local match | Cost per rider | Focus on bus connections and commuter parking as low-cost ridership generators | Stations become commuter park & ride facilities with limited real estate potential |
| Real Estate Development Process | | | | | | | |
| A. Land Assemblage | <ul style="list-style-type: none"> Master Plan with land use phasing Private land acquisition "Joint development" agreements Housing or redevelopment agency land acquisition | <ul style="list-style-type: none"> Land procurement Development project planning & zoning | Banks | Private equity | Feasibility of real estate development | Land purchased where government is willing to rezone for density | Some stations have little or no development |
| B. Infrastructure Development | <ul style="list-style-type: none"> Municipal improvements (utilities, arterials, etc) Other improvements funded through privately funded Special Districts | <ul style="list-style-type: none"> Roadways Sidewalks Bike lanes Bus stops Parking Open space, Trails, Parks | Public Infrastructure Bonds | Region, Local, Developer, Transit | Level of earmarked revenue from general fund or property assessment districts | Quality of infrastructure determined by real estate tax potential of new development | Development must have high-end component because commercial property values are determined by profitability |
| C. Vertical Development | <ul style="list-style-type: none"> Environmental Impact Report Detailed market analysis Parking phasing Community benefits Detailed designs Project construction | <ul style="list-style-type: none"> Design Entitlements Sustainability infrastructure Affordable housing Local & Social equity goals Construction | Banks | Private equity, Foundation grants, State & local programs, LIHTC, NMTC | Net Operating Income (NOI) | Development occurs in profitable locations (high revenue, low cost) | Development may or may not occur because station area may not be as profitable as comparable sites |

5

The Private Sector Perspective

Prepared by David Wood

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Overview

THIS BRIEFING PAPER distills a series of private market perspectives on what it takes for developers and investors to successfully support the creation of sustainable TOD (understood here as socially equitable, environmentally sensitive TOD). The ideas presented here emerged from conversations with a variety of developers and investors on the potential for and barriers to triple-bottom-line TOD.

Developers find mixed-use TOD projects to be complicated; they can be harder to manage than other investments, both because they mix different real estate types, and because they often confront regulatory barriers and investor skepticism towards unfamiliar products. Triple-bottom line TOD – the creation of robust, mixed-income, often mixed-use, walkable communities that meet social, environmental and financial goals – encounters further obstacles, in particular the complications associated with blending multiple forms of public and private capital, and public, private, and non-profit partnerships.

Despite these complications, developers and investors see great potential in the TOD market, largely because of the confluence of demographic trends, consumer demand shifts, and public policy and regulatory support for denser, more productive, and more environmentally sensitive communities. At the same time, the private market points to partnerships with public and community groups, regulatory requirements and public subsidies, and mission-driven investors and developers as keys to ensuring that social equity is achieved in TOD.

Sustainable TOD from the Developer's Perspective: Wealth Creation, Public Goods, and Brain Damage

TOD AND ITS SIBLING, smart growth development, have been a part of the development vocabulary for a long time. In recent years, the argument for TOD seems to have gained currency. The growth in childless households, both for younger and older people; a growing demand from young families for walkable, mixed-use, urban neighborhoods; and an exacerbation of the problems that result from long auto commutes from home to work: these have all reinforced, for a subset of real estate developers and investors, the argument for private market investment in mixed-use, transit-oriented development.

Increasing concerns around climate change and energy independence, which include heightened concern with reducing vehicle miles traveled, similarly point to increasingly dense walkable transit-accessible urban forms. From the private market perspective, TOD is a means to capitalize on the highest use value of land, by taking advantage of transit, services, and other amenities that increase the value of buildings set in these communities. Support for these arguments comes in the form of research suggesting that walkable communities command premiums.

Yet despite the appeal of TOD and smart growth, in practice it remains relatively difficult. For instance, where mixed-use is involved, mixing uses means mixing real estate development and investment specializations. Retail developers have different capacities and relationships than residential developers; commercial and industrial specializations are similarly different. The best sites for TOD developments often present idiosyncratic challenges. For instance, TOD may involve redevelopment of older buildings around new transit stations. This may involve brownfield remediation or other forms of adaptive reuse that involve specialized knowledge and skills.

Urban infill projects may require levels of density that also increase development costs per unit. Parking, in particular, makes it difficult for projects to pencil out for financial returns – in order to achieve the density, walkability, and mix of uses that activate smart growth developments, developers and investors often need to support parking structures, above and below ground, that dramatically raise costs. Similar problems with other forms of infrastructure – say sidewalks, gutters, and so on – can make TOD, mixed-use TOD in particular, difficult to create.

Another difficulty comes from the coordination problems inherent in more complicated TOD projects. For areas where transit is expanding, careful coordination with public investment projects is necessary to ensure that private investment is capitalizing on the public goods associated with mass transit. And conventional regulatory structures, which discourage creative parking solutions and assume a high level of auto use, can add to the burden.

Similarly, bureaucratic coordination exacerbates transaction costs. The various time horizons of interested parties – public, private, non-governmental, and so on – can mean that the decisions necessary to support TOD development are uncoordinated, raising both costs and risk to success. The argument that TOD creates public benefits can run smack into community protests against density. Just as importantly, the speculative benefits of TOD can raise land prices around transit stations, long before the bureaucratic and other hurdles necessary for TOD development have made crucial land acquisition and predevelopment decisions possible.

So far, this paper has focused on “mainstream” TOD and in particular mixed-use TOD – residential development, on top of quality commercial and retail real estate – that supports the raised risks and costs associated with mixed-use transit-oriented development. Not surprisingly, the field defaults to higher end real estate consumers, who are willing to pay premium prices for the advantages associated with walkable TOD.

Sustainable TOD – environmentally sensitive, mixed-income communities – involves another order of complexity. Inclusionary zoning laws in some of the most important markets for TOD do create a baseline requirement for the provision of affordable housing. But a more dynamic vision of sustainable communities – with a fully realized mix of incomes, fully developed mix of public and private spaces, an elaborate set of services that support the needs of diverse households – often requires significant support from community groups. It also requires subsidies and financing from a wide variety of public and other sources, such as tax-increment financing, low-income housing tax credits, new market tax credits, predevelopment grants, and subsidized land costs.

Developers frequently refer to this as “brain damage” work. It requires diligence and patience; experience working with a variety of public agencies, community development corporations and other community groups; sophistication in aggregating public and private financing; and a willingness to take on idiosyncratic projects, whose value proposition is bound up in the creation of public goods, community goodwill, and opportunities for underserved communities. This goes well beyond a (stereotypical) TOD vision of upscale condominiums and apartments above energy efficient office space and hip bars, restaurants and boutiques.

Who takes on sustainable TOD? Developers and investors often see themselves as mission driven, often pioneers, committed to the goal of creating a sustainable society and built environment. Many may draw on and collaborate with non-profit development and investor communities. In every case, they recognize that they are creating long-term wealth, and public goods, through their investment and development work.

But they also see themselves as real estate professionals, bringing industry expertise, financial savvy, and entrepreneurial energy to the creation of projects that manage to deliver social and environmental benefits within the context of financially sound management. They see themselves as a check on unrealistic plans and goals. From the developers’ perspective, the private market role is to provide skills in entitlement, financing, planning, timing, and building, expertise that public agencies, community development corporations, and other stakeholders do not have. Enduring the brain damage is their competitive advantage. In theory, private market expertise makes these projects work financially, and so delivers triple-bottom-line returns at a scale otherwise impossible.

Partnerships That Make Sustainable TOD Work

TO SUMMARIZE the previous section: the key to making sustainable TOD investments in which the private market can participate is to coordinate a wide variety of stakeholders, financing vehicles, and other moving parts. These encompass both the standard complications of TOD – regulation, infrastructure needs, multi-disciplinary real estate specializations – and the special needs of mixed-income and sustainable features – additional subsidies, community outreach, and long-term vision.

Developers frame this in terms of partnerships. In order to create sustainable TOD, the private market must work in close coordination with others to ensure that the many moving parts come together to make a built environment worthy of the effort invested.

Two sets of stakeholders feature most prominently as partners: public agencies and community groups. Here are outlined some of the key topics to emerge as fundamental to successful partnerships with such organizations.

Public Agencies

PUBLIC AGENCIES determine the public investments, regulatory structures, and many of the financing vehicles that can support the development of sustainable TOD, not least through the creation of urban renewal zones, tax increment financing, and so on. Apart from financing, among the most common issues cited by developers and investors:

Land Use Regulations

Supportive land use regulations in state and local legislation, and from state and local governments, that allow for mixed-use development, that relax parking guidelines, that create upzoning potential and density bonuses for projects that deliver significant public goods, all play a vital part in creating sustainable TOD. Except in rare cases, the private market will not adopt a full-blown vision of sustainable TOD without this framework – the financial incentives to do otherwise are too strong.

Site Selection and Coordination

Transit stations and routes alone do not make for a good sustainable TOD opportunity. Those opportunities also depend on the proximity of potential jobs, real walkability in neighborhoods, and in many cases a pre-existing mix of uses, or a neighborhood close enough to that goal that new projects can achieve it. Though many sustainable TOD projects have to be at a large enough scale to interest developers and investors in taking on the work, few are, by themselves, large enough to create a sustainable community on their own.

Coordination in the creation of transit stations and routes is also vital. For developers and investors to take on a project in anticipation of new transit, they must be sure that the public agencies will deliver. Developing a partnership early in the planning stages may facilitate project design, and may also mitigate the risks associated with land aggregation.

Supporting Infrastructure Other Than Transit

Apart from the transit itself, parking remains the most common worry. Support through grants or other subsidies for structured parking, underground or otherwise, can allow for the development of more walkable communities. Similarly, publicly supported access to transit, and other infrastructure necessary for denser residential and mixed-use development, can make private investment feasible. Again, coordination on specific project sites early in the process, as difficult as that may be, may contribute to success in the long run.

Full Partnership

In some cases, sustainable TOD can be a full partnership between private developers and public agencies, with some level of government becoming an investment partner. This has the advantage of ensuring coordination between private and public needs, at least in theory. As co-investors, each party shares the upside incentive of returns on investment, and this should facilitate cooperation. Public investment early in the process signals willingness to commit to longer term goals, and should reduce risk as a result.

It should be noted that these are presented as ideals from developers and investors. In practice, regulations often mitigate against sustainable TOD, public subsidy is hard and getting harder to come by, and partnerships can be rife with conflict. There can be incapacity to coordinate the various and at times competing demands of public and private stakeholders. Finally, although such partnerships are often created to reduce political risk, they may also lead to criticism of cronyism from project opponents, and expose both the public and the private partners to a different form of risk.

Community Groups

MANY SUSTAINABLE TOD projects involve a wide variety of partnerships between developers and community groups, key relationships that focus attention and resources on delivering social and environmental benefits to projects. The partnerships are frequently investment partnerships, with both parties sharing costs, risks and rewards, in a wide variety of potential structures. Among the benefits that developers associate with such (again, here idealized) relationships are:

Access to Land and Deals

In some cases, community groups may have access to land, or the political capital to gain access to land, which they can bring to developers at low or at times even no cost. In these cases, the common problems associated with land acquisition and aggregation are addressed directly by the group in question. In return for this important early subsidy, community groups such as CDCs can gain leverage to specify the social and environmental benefits they would see built into sustainable TOD projects; developers can bring the real estate expertise to see these goals achieved.

Local Knowledge

Community groups may have intimate knowledge of local political, social, and community relationships that can make the difference in the successful move from project design to completion. As noted, sustainable TOD projects involve many idiosyncratic parts, and may run into an equally numerous set of challenges from local stakeholders. Partnership can reduce entitlement risk, facilitate contractor relationships, and generally bring local knowledge into both planning and implementation, and determining what the consumer market desires in a given community.

Community Engagement

Developers, like other stakeholders, insist on the fundamental importance of community engagement and outreach in achieving real sustainable TOD. External visions of social and environmental benefits are unlikely to be achieved if they do not incorporate local community desires and vision. Especially on large projects that may significantly alter a neighborhood's character, early local input and buy-in is seen as essential, both by the development community and by the mission-driven investors who support such projects. While this may lead to extended predevelopment efforts, it can also mitigate political risk and enhance relationships with public agencies. Early inclusion of community groups may increase the likelihood that the end result is sustainable.

As with the earlier section on public agencies, it should be reiterated that these are idealized accounts of the benefits of partnership. Developers and investors often complain of the lack of financial savvy of community groups, and the proliferation of unreasonable demands; likewise, community groups point to the chase for profit undermining a commitment to the public good, and question whether developers and investors truly care about the long-term wealth they are creating.

Supporting Sustainable TOD: Issues for Foundations Going Forward

IN CONVERSATIONS with developers and investors, a number of issues surface, both admonitions and requests (many of both!), that touch on potential roles for foundations developing a more vibrant private market for sustainable TOD going forward. Apart from directly investing in funds and projects designed to achieve such goals (unsurprisingly encouraged by all interviewees), here are several topics that have emerged from discussions:

Coordination of Funding Sources and Stakeholders

The variety of public support and non-governmental support for investment and capacity building related to sustainable TOD is very large, and crosses multiple disciplines, administrative regimes, and so on. Much of the brain damage comes from learning and juggling all the bits.

Foundations may want to consider using their grantmaking and convening power to streamline access to financial support from local, state, and federal governments for TOD, affordable housing, urban regeneration, and all the other program areas that come together in sustainable TOD. This may reduce the transaction costs associated with stitching projects together, and also bring some coherence in developing frameworks that support returns across the triple-bottom line.

Facilitation of Community Groups and Others in Creating a Pipeline of Sustainable Projects

Developers and other stakeholders point out the value in having community groups, and others focused on social environmental goals, involved from the very beginning of project conception. Signature triple-bottom-line

projects are often made possible through the community support, and land subsidy, that such groups can sometimes bring to the table. Foundations may want to use their grantmaking and capacity building power to identify community groups that can manage these projects, and help them create a pipeline of projects that can create sustainable TOD. Seed money for predevelopment planning, for instance, is seen as a way to build sustainability and community engagement into the process.

Among the most important issues noted here is the ability to bring low-cost land to the project from the beginning. A foundation-led land acquisition fund, or targeted support for community groups to identify opportunities for low cost land linked to social and environmental goals, is one potential path to multiplying the opportunities for sustainable TOD development.

The Question of Scale

Developers and investors favor large scale projects, which aggregate enough land and money to justify the investment of time and resources in planning and development necessary to make sustainable TOD work.

At the same time, developers acknowledge important work done to support sustainable TOD at a smaller scale – small building conversion and adaptive reuse, smaller scale affordable multi-family and mixed-use development . These may be undertaken by CDCs directly, without partnerships, or by smaller scale local developers. Foundations may look for ways , via PRIs, grants or other vehicles, to support this work. Public subsidies, along the lines of historic building tax credits, might also incorporate sustainable TOD at the small to medium-scale.

Projects in Neighborhood Context

Sustainable TOD is a goal for the built environment of neighborhoods, not necessarily for individual buildings or projects. While large-scale developments can themselves incorporate a mix of uses and incomes, TOD can be achieved through multiple projects that together create the vibrant equitable walkable community that is the goal.

With this in mind, developers may caution planners and others against mandating mixed-use and mixed-income development in each and every place or project. Retail streets can have residential offshoots, and multi-family housing projects do not have to have corner stores and day care centers in them, though they very well might. Affordable and workforce housing via one set of residences can make a mixed-income neighborhood. Careful planning for the neighborhood can allow for different types of projects to integrate into a realized community. Foundations may wish to support planning initiatives or convene stakeholder groups to create the local and regional means to support a diversity of project types that combine to create sustainable transit-oriented communities. They may also wish to more actively seek developer and investor input into the planning process, without compromising the goals of creating sustainable TOD.

Conclusion

DEVELOPERS AND INVESTORS view sustainable TOD as hard work. The hard work involves coordinating multiple stakeholders, and seeking positive social and environmental outcomes. Key public sector support, and community engagement, can help achieve those goals; indeed, partnerships among the various sectors are seen as fundamental to the possibility of achieving sustainable TOD.

Developers point to specific steps that might reduce the transaction costs of creating sustainable TOD, and ways to build in sustainability goals early in the planning process. Foundations in particular may be able to play a role through capacity building, convening, and investment that can support the private market in efforts to create sustainable communities, and that can help bring those efforts to more places, and at increasing scales.

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The Foundation Perspective

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Overview

This briefing paper was commissioned by Living Cities; Center for Transit Oriented Development; and Boston College Institute for Responsible Investment in January 2009. The purpose of the paper is to:

- *Explore how foundations currently are supporting TOD;*
- *Identify lessons they have learned from past and current investments; and*
- *Assess whether foundations are interested in the prospect of supporting a national/regional/local property acquisition fund to support TOD.*

The findings presented in this paper are based in large part on interviews conducted with national, regional and local foundations and national experts on TOD. (Please see Appendix A for a list of interviewees.) The interviews identified that:

- *Foundations are increasingly using grants, program related investments (PRIs), and other strategies, such as convenings and technical assistance, to support TOD;*
- *They are interested in continuing to provide support to TOD through traditional and non-traditional means;*
- *The TOD that foundations are interested in must be sustainable and/or promote equity in communities; and*
- *Foundations are interested, at least conceptually, in the development of a TOD land acquisition fund.*

The interviews also uncovered a number of real and perceived barriers to creating such a fund that would have to be dealt with before the fund would be a viable investment option for many foundations, including the profound impact that the economic crisis is having on foundation grants and investments. Although some of the hurdles identified will be challenging to overcome, many funders believe that they are not insurmountable and they look forward to the prospect of working with their private, public and nonprofit partners to move a TOD agenda forward in the United States.

Foundation Engagement in TOD

FOR MANY YEARS, foundations have supported efforts that have helped shape TOD, particularly through support of affordable housing, community development, and transportation reform. Funders primarily have relied on direct grantmaking and program related investments (PRIs) to support these efforts. Today, a handful of foundations are looking more closely at TOD as an integrative strategy to achieve their programmatic goals. Now, in addition to grantmaking and/or PRI strategies, some funders are supplementing their grantmaking and investment strategies with a variety of other methods to support TOD, such as providing technical assistance, convening community members, supporting advocacy and policy work, participating in funder collaboratives, and so on.

Grantmaking

Grantmaking related to TOD takes many forms. A small number of funders support land or property acquisition through their grantmaking portfolios, for example, with grants to support the Acquisition Fund in New York, a \$230 million, public-private partnership led by the New York City Department of Housing Preservation and Development that assists nonprofit and small, for-profit affordable housing developers by providing the needed capital for property acquisition and predevelopment costs. For most funders, however, the high cost of purchasing land compared to their

relatively limited grantmaking budgets precludes them from making grants for land purchases. Thus, foundations are typically making grants where they think they can have the greatest impact and ensure that their programmatic goals, especially related to equity and sustainability, are achieved. With this in mind, the majority of funders have determined that making grants for TOD is best done in the pre-development phase. Types of pre-development grants made by foundations are listed in Table 1.

Table 1. Types of TOD Grants Made by Foundations in Pre-development Phase of TOD

| Community Planning | Technical Assistance and Skills Building | Other |
|---|--|--|
| Convening stakeholders including, for example, community members, business leaders, planning officials, nonprofit organizations, etc. | TOD basic education and skills-building training | Environmental assessment and remediation especially for brownfield and infill development |
| Community visioning | Tool kits and other skills-building resources | Analysis of impact on businesses, especially minority-owned businesses, and relocation costs |
| Community asset mapping | Communications and marketing to promote a TOD agenda | General TOD advocacy and education |
| Planning at the neighborhood, municipal, or regional levels | Advocacy training | |
| Zoning studies and advocacy efforts to change zoning requirements | | |

Grants in the pre-development stage are often made to community development corporations or other types of nonprofit organizations — for example, nonprofits that work in the areas of affordable housing, planning, economic development, community organizing, and the environment.

Foundations are inclined to invest in the pre-development stages of TOD for a number of reasons. On a macro level, they recognize that the TOD movement is nascent and that to build the movement, they have to invest in the early stages of a project to help make the case for TOD and lay the foundation and education for significant investments from the private and public sectors. Further, they are aware that seed capital for the initial steps in a TOD project is often the hardest to raise because private investors and public entities tend to want to invest in projects once there is some momentum and community backing for a project. Foundations also see the importance of getting communities engaged in TOD-related efforts early in the process, before critical planning and zoning decisions are made. As Roger Williams, senior fellow of neighborhood development at the Annie E. Casey Foundation, said, “Left to their own devices, public agencies won’t always look out for low to moderate income communities.” Finally foundations are aware that because the capital available to them is relatively limited, as compared to the resources that private investors and government agencies have available, the resources they might have access to for later stage development investments are dwarfed in comparison and thus their influence in the later stages is more limited.

For some funders, however, the limits that a relatively small grantmaking budget may have on their efforts are being overcome through the use of PRIs.

Program Related Investments

A program related investment (PRI) is a tool foundations can use to leverage their philanthropic dollars. Unlike grants, foundations get a return on their investment, through either repayment or return on equity. PRIs give

charitable organizations or commercial ventures access to needed capital, typically at below-market rates. In return, the funder is often able to recycle PRI payments for subsequent charitable investments.¹ PRIs require foundations to develop in-house expertise on how to make PRIs, or, particularly in the case of smaller foundations, PRIs may be managed with help from outside consultants. PRIs typically come in the support of a short-term low-interest loan. Some PRIs are structured so that a portion of the capital plus interest is paid in regular installments over a set period of time, while others are set up with interest only payment schedules with a balloon payment at the end, or, some combination of both. PRIs can be either secured or unsecured.

Transit-oriented development funders interviewed for this briefing paper have used PRIs in a number of ways, depending on their overall programmatic priorities. It should be noted that for the most part, funders have not made significant PRIs for TOD-specific investments, although there is considerable interest in moving in that direction. PRIs in this arena primarily have been used to support TOD-related property acquisition efforts, including paying for upfront support for a land acquisition fund, or, supporting a city-wide land acquisition fund for affordable housing.

One example of how a funder has made a TOD-specific PRI is in Denver, Colorado, where the Rose Community Foundation has committed \$500,000 toward a \$15 million property acquisition fund that will be used as a credit facility for the Urban Land Conservancy and its nonprofit development partners. The purpose of the fund is to support the acquisition of properties near current or future light rail stations and major bus corridors for future development of affordable housing, and/or or mixed income or mixed use projects that include affordable housing. The Urban Land Conservancy will work with its development partners to define a redevelopment plan for each site during the holding period.

Other Roles for Foundations and TOD

Foundations play a number of roles in an effort to advance transit-oriented developments, particularly at the local or regional level. Increasingly, they are viewing themselves not just as transactional distributors of money, but also as partners in a movement to improve the communities in which they work. As Arlene Rodriguez, program officer at the San Francisco Foundation, put it, “We must challenge our partners and ourselves to go beyond what seems is a normal role for foundations to play in partnership, and we must be really creative about it.”

What this has meant for some funders is that they are trying to use all of the tools available to them to help advance TOD projects that are both equitable and sustainable. In addition to grantmaking and PRI making, they are becoming active players in TOD efforts, and are not expecting the other actors in the communities to do all of the hands-on work. For example the Minneapolis-based McKnight Foundation helped to convene a funders collaborative, The Central Corridor Funders Collaborative (CCFC), that is serving as a forum to involve and learn with many other funders, nonprofits, public and private agencies, business groups, and community members about TOD. CCFC seeks to “unlock the transformative potential of the new LRT line” and ensure the adjacent neighborhoods and people who live and work there share in the benefits of this public investment. The new transit line that runs from downtown Minneapolis to Saint Paul provides opportunity to many different stakeholders, including lower income communities and communities of color. McKnight has been one of only a couple of funders engaged in this area of work and does not come in assuming that they have the answers to the challenging issues raised in developing a new transit line. Rather, they are helping to convene – and are participating in – a community-wide network to create a learning agenda that looks at a variety of issues including gentrification, land value, protecting the assets of minority-owned businesses, and more. They are one of 12 foundations (some local and national) contributing to a \$5 million catalyst fund that will be used for a variety of grants related to the new transit line.

Like the McKnight Foundation, other TOD funders are working hard to encourage other foundations to support TOD. Some place-based funders have taken on the responsibility for educating their peers within their local community to support TOD, and some see their role as serving as a conduit between local and national funders. As one community foundation representative noted, “Our in-depth knowledge on the ground helps us reach up to national funders in order for national grants to be effective and substantial.” National funders are also seeking to bring awareness of successful TOD projects to other funders and are encouraging them to support TOD that fits within their funding priority areas.

Funders increasingly are taking advantage of the perception that foundations are “neutral conveners” and are

¹ PRI Makers Network, www.primakers.net

orchestrating meetings with a variety of stakeholders at the community level who have a vested interest in TOD. Funders are also hiring planning consultants, providing technical assistance, and engaging in local, state and federal advocacy efforts. Finally, funders mentioned that they are providing informal support to local leaders, such as staff and members of community development corporations and local mayors to encourage them to learn more about TOD and get involved in advancing a TOD agenda in their communities.

Table 2. Foundation Activities Related to TOD That Are Neither Grantmaking Nor PRI Activities

| Convening and Community Engagement | Other |
|---|--|
| Funder collaborative development and participation | Raising funds from other foundations |
| Community collaborative development and participation | Hiring planning and other consultants |
| Convening community members/leaders from nonprofits, government, private investors, funders | Engaging in TOD advocacy and policy work at the local, state, federal levels |
| Lending credibility to TOD projects by being visible supporters | Supporting local nonprofit and government leaders to learn about and get engaged in TOD work |
| | Providing direct education and technical assistance to nonprofits, government entities and funders |

Foundations and TOD: Learning from Experience

OVER THE YEARS, the appetite for transit-oriented development seems to have grown among funders, which mirrors the national desire among cities to want to increase investments in public transportation, mixed use developments, and affordable housing. Foundations recognize that equitable and sustainable TOD helps build strong communities by giving people, especially low to moderate income residents, access to jobs, healthcare, and an array of other public and private services and amenities, while reducing carbon footprint. As Don Chen, program officer at the Ford Foundation, says, TOD investments, when done well, can lead to important structural change:

“Cities all over the country are building new transit systems, and those who aren’t, want to. Ridership is at record levels, so we’re going to see more activity around transit and thus a lot more development, including more dense development, along those corridors. We’re also seeing that property along reliable corridors is becoming much more attractive to people of lower and higher incomes and the result of that could be a displacement of very low income housing as leases expire for subsidized housing along existing corridors. And that’s a serious, serious problem. The third issue is that once you build, things are set for the next generation. So we’re really trying to build-in some affordability along transit corridors now. That’s one of the biggest regional development challenges that we have. Our ultimate goal is to link people to opportunities so that they have access to regional job markets and to link them to a network of services that may not exist in their communities.”

Facilitating an Integrated Approach to Strengthening Communities Within and Among Foundations

Other funders commented on the benefit that TOD can bring to foundations that have comprehensive, multi-disciplinary approaches to community development. Because TOD incorporates so many different interests common to grantmakers, such as affordable housing, economic development, workforce development, equity and inclusiveness, environment, public policy, and more, TOD as a grantmaking strategy can help align the interests of a foundation and help achieve multiple programmatic goals simultaneously. As Vanitha Venugopal, senior program officer at the Surdna Foundation, says, “In philanthropy we always talk about integrating our work and busting silos between sectors. TOD is a natural in terms of multi-benefit multi-sector impacts because by its nature it’s integrated.” Venugopal also makes the point that TOD offers opportunities for a variety of grantmaking strategies for foundations with different approaches to grantmaking. For example, foundations that support organizing, or visioning/planning, or advocacy, or tools development, or implementation of projects, can all find a place for their strategies within a TOD project. “There is an arc of opportunity to collaborate and stagger investments to have a significant impact in transit corridors and around station areas,” according to Venugopal.

Not All TOD Looks the Same: Focus on Equitable and Sustainable TOD

Having said that, funders emphasized that not all TOD is a worthy investment for grantmakers. Some transit-oriented developments, they noted, do not value equity or sustainability. Which is why, these funders add, the nonprofit sector – including funders – needs to be present early in the process to ensure that equity and sustainability are priorities that are integrated into every step of the process, from visioning, to site selection, to designing pedestrian walks and open space access.

Invest Over the Long-Term

Finally, funders noted that TOD projects are very long-term and that funding TOD requires a willingness to engage in the project for many years. The outcomes are very long-term and the process from inception to completion spans many years. After a multi-year intensive investment of time and money, one place-based funder who is deeply involved in their community-level TOD efforts recognized that the foundation would need to continue to provide financial and staff resources for many more years for their initial investments to be maximized. They noted that in hindsight, they would have liked to have educated their board earlier in the process about the level of investment required and solidified a longer-term commitment from their board.

Seeding a TOD Land Acquisition Fund

THE GROWING INTEREST in TOD has engendered a conversation among TOD advocates and funders about the possibility of developing a national, regional, and/or local property acquisition fund. Funders who were interviewed for this briefing paper were asked to provide preliminary reactions to the question of whether their foundations might be interested in supporting a fund with the following characteristics:

- *Could be used to purchase land for TOD near existing or planned public transportation stations;*
- *Would support both market rate and affordable housing projects, depending on specific local contexts and need, and/or mixed use developments;*
- *Would be available to purchase land as well as existing buildings with housing that is currently affordable, but vulnerable to gentrification in the future;*
- *Support could come from private and/or public entities; and*
- *Could be used to support local, regional and/or national efforts.*

Strong Conceptual Support for a TOD Property Acquisition Fund

The funders who were interviewed generally expressed strong support for the idea of such a fund. They stressed that there are compelling contextual reasons to capitalize a property acquisition fund in the next few years. First, because of to the economic downturn and the falling price of real estate, land is cheaper than it has been in many years. Second, the federal stimulus plan may provide an opportunity to shore up TOD efforts. A land acquisition fund with foundation backing would make public investments in TOD, stemming from the stimulus package, more competitive than other similar projects without such backing.

On a related note, as a result of the economic downturn, PRIs for TOD and other related investments are gaining interest because a two percent return on investment is “actually looking pretty good these days”, as one national expert on community development land banking noted. (It is likely that a significant portion of the funding from foundations for such a fund would be made through PRIs, although some funders may use grants to support an acquisition fund, or a combination of PRIs and grants; for example, the MacArthur Foundation recently pledged over \$8 million in grants and up to \$60 million in PRIs to help with the foreclosure crisis in Chicago.) Further, this national expert noted that in this economic environment, private funders are concerned that in order to reach the minimum pay-out of five percent of their assets that is required by law, recouping their losses may take generations. PRIs, however, count toward the five percent pay-out minimum and unlike grants, the vast majority of PRIs will be returned to funders over the term of the investment, plus it will come back with interest, albeit at a relatively low rate.

Preconditions for Support of a TOD Property Acquisition Fund

There were three themes that surfaced from funders about the conditions that would have to be in place in order for them to consider supporting a TOD property acquisition fund. (Not all funders discussed all themes, but most funders discussed at least two of them.)

- *First, the fund would have to have the ability to be segmented by markets. Most TOD funders (but certainly not all), including many national funders, have geographic funding priorities, and they would only be likely to invest in a fund that would be targeted to their specific funding areas.*
- *Second, the fund would have to ensure that communities were engaged in developing the TOD site. A number of funders stated that TOD efforts that do not actively include the communities most impacted by the transit lines or stations are not successful at ensuring that low and moderate income residents benefit from the TOD.*
- *Finally, for some foundations, the fund would have to private and public sector dollars, not just foundation investments. As stated previously, even with PRIs, foundation investments cannot come close to the scale that private and public sector investments can. Foundations see themselves as catalysts to stimulate investments from other sectors, and without the guarantee of leveraging support of larger public and private investors their investments wouldn't have the desired impact.*

Barriers to Realizing the Dream of a TOD Property Acquisition Fund

Even if the preconditions identified above were met, funders identified a number of additional barriers that would have to be overcome in order for the fund to be successful. Timing was one of the main concerns. Although the market is ripe for purchasing land, the situation that most foundations find themselves in with regards to their assets is rotten. A new study by the Chronicle of Philanthropy of 57 medium and large foundations across the country indicates that their assets fell by a median rate of 29 percent in 2008. The Council on Foundations projects that foundations lost over \$200 billion in assets in 2008. Many foundations are gearing up for further declines in 2009. In this environment, many funders are struggling to fund the grantees they have been supporting for years and have put an indefinite moratorium on funding new efforts. As one funder put it, "Philanthropy is closing more doors rather than opening them," so this may not be a good time to approach foundations with new funding opportunities.

A second area of concern that a number of interviewees discussed is the relatively small pool of foundations who would be interested in capitalizing such a fund and supporting its ongoing operations. Even in that pool, many foundations may be bound up by internal silos and staff who do not see the bigger vision of how such a fund could support the institution's work across program areas. One funder put it this way: "I don't know how much of an appetite there is for it. There is a siloed specialization that exists in foundations, with affordable housing advocates on one side, transportation advocates on the other side, and they're not cross-trained."

On a related note, it was observed that supporting such a fund would require a significant degree of internal expertise within foundations because there are many complexities inherent in evaluating investments in complex land deals. To address this concern, the fund would need to have staff that would help foundations maneuver the complexities, sell the idea to their senior leadership, and generally provide technical assistance to funders to help them wade into these waters. As Christa Velasquez, director of social investments at the Annie E. Casey, said, "It's so important to provide quality capacity building and technical assistance to organizations and communities around land acquisition and TOD issues."

Another area of concern relates to the perceived risk-averse nature of some PRI makers. TOD investments are not simple and they do not lend themselves to immediate returns on investment. One PRI maker who was interviewed bluntly stated that overcoming the fact that they are risk averse is something that is a fact of life to just deal with. Another interviewee noted that evaluating risk could be particularly difficult with a national fund because, generally speaking, the terms investors will give are better on a market-by-market basis, and investors get more risk-averse on a national basis. Compounding this challenge is the fact that foundations often have very specific geographic funding areas, sometimes even focused at a neighborhood level, so the effort would either have to include setting up multiple local or regional funds, or, a national fund would have to be set up that would allow for local and regional sub-funds, or "side-cars," that would be supported by the infrastructure of the national fund.

Structurally, there are challenges for PRI makers to invest in TOD. One challenge that was raised is the long-term timeframe required for investing in a land-acquisition fund, especially if the funds might not be used quickly or might be used quickly to purchase land that provides no investment income over a long period of time. Many PRI makers have a three-to-five-year investment window; after that time, they expect their capital to be repaid so that they can reinvest their funds in new projects. TOD projects can take many years from inception to completion. So either PRI makers would have to re-think their shorter-term timeframes, or, the fund would have to find creative ways of circulating money to sustain investors with shorter investment windows. A related concern that was identified was that servicing the debt on TOD investments, even at a relatively low rate of three to five percent, can be challenging with TOD projects if the land is held over time without a return. Yet, with ingenuity and a commitment to making the impossible possible, this barrier too has been addressed by professional managers of land acquisition funds (of which there are many, although none that are focused on TOD).

Finally, the idea of supporting a TOD property acquisition fund through PRIs is made more difficult for foundations because the IRS has imposed a number of restrictions on affordable housing PRIs that can be high hurdles to jump when it comes to supporting mixed income projects. Some mixed income housing projects are not fully “charitable” in the legal sense of the term. The basic safe harbor rules for an affordable housing PRI states that for each project, the organization must establish that:

- 1) *At least 75 percent of the units are occupied by residents that qualify as low-income (80 percent of AMI); and,*
- 2) *Either at least 20 percent of the units are occupied by residents that also meet the very low-income limit (50 percent of AMI) for the area or 40 percent of the units are occupied by residents that also do not exceed 120 percent of the area’s very-low income limit. Up to 25 percent of the units may be provided at market rates to persons who have incomes in excess of the low-income limit.²*

These guidelines are the safe harbor guidelines. There are other guidelines provided by the IRS about how to determine charity that are somewhat less stringent. Clearly, with legal counsel, experienced PRI makers have explored the boundaries laid out by the IRS. However, some PRI makers, particularly those who are more risk-averse, might be resistant to experimenting with more liberal interpretations of the regulations.

Despite these various barriers, the appetite for a national property acquisition fund to support TOD is strong within the funder community. As Christa Velasquez of the Annie E. Casey Foundation said, “It’s an interesting idea for both selfish and field building reasons. I get many requests for capital to acquire land that I am unable to support. It would be great to be able to refer those requests to one source that has capital to lend.” On a local level, there can be no doubt that funders also see the importance of having access to capital to purchase land around TOD to ensure that their priorities of creating equitable and sustainable communities are realized.

Additional Opportunities for Foundations to Support a TOD Movement

DESPITE THE FACT that foundations are primarily in the business of providing grants – or PRIs – to support the causes they care about, foundations increasingly are using a broad array of tools available to them to advance their missions. Funders who were interviewed for this paper noted a number of gaps in the TOD field that they felt foundations could help address. These gaps include:

- *Bringing communities together in a region or nationally who are all working on TOD to help them learn from each other;*
- *Creating standardized resources and toolkits for communities working on TOD;*
- *Supporting field-building educational efforts around TOD by underwriting and participating in educational efforts with target audiences who can significantly impact a project’s success, including the media, engineers, and other professional associations such as planning associations, associations of elected officials, mayors, etc.;*
- *Supporting further education of funders by building a network of funders invested in TOD (either through partnering with existing funder networks or developing a new funder network); and*
- *Creating tools to help funders navigate the world of TOD and simplify PRI making for transit-oriented developments.*

² http://www.irs.gov/pub/irs-tege/rp_1996-32.pdf

Conclusion and Recommendations

THERE IS CONSIDERABLE evidence that interest in transit-oriented developments is on the rise in the United States and that they have enormous potential to improve communities when coupled with a commitment to sustainability and equity. Some in the foundation community have identified the value of TODs and have begun to explore how TOD investments can help them achieve their ambitious programmatic goals. Moving forward, there is significant potential for further foundation engagement around TOD. Specifically, there is interest in the foundation community in establishing a property acquisition fund for TODs and this idea should be explored in more depth. The barriers that were identified in this report should be tackled head-on and mechanisms should be built into the design of any such fund that will help address the barriers, whether they are real or perceived. Perhaps the biggest barrier is the concern that many funders expressed about starting something new at a time when foundations are pulling back. One way to address this concern is to create a fund while the market is down and to raise seed capital from the foundations and private and public funders who are already supportive of TOD. In this environment, a few significant and successful “pilot investments” could be made that could help build the case for future investors to support the fund, after the market returns. As the planning for the fund evolves, the merits of coupling a TOD fund with an existing land acquisition fund should be considered; a number of funders noted that there might be more support from the foundation community for a broader land-acquisition fund that would support affordable housing, mixed use developments, etc. and that would include TOD but would not be specifically designed for TOD. Finally, it would be wise to explore the ability and interest of existing funders and PRI makers who support TOD to allow other funders to co-invest with them in their efforts, since they have already developed the infrastructure and expertise around TOD. Efforts in this arena would be particularly valuable for smaller foundations who do not have the same capacity as larger foundations; however, they could also benefit larger foundations with their efforts if smaller foundations were interested in co-investments.

In many ways, the TOD community is in the early stages of creating a movement. Like all movements, money will not be the only driver of success. Education, mobilization of local communities, policy advancements, and more will be needed to support this work. Funders clearly are aware of their unique ability to help support the TOD movement through grants, PRIs and by taking a leadership role. In partnership with the growing community of TOD advocates, it seems likely that a small but growing segment of the foundation community will help the pave the way for more sustainable and equitable transit-oriented developments in the United States.

APPENDIX A: Interviews with Foundation Representatives and TOD Experts

Paul Brophy, Principal, Brophy & Reilly, LLC

Don Chen, Program Officer, Ford Foundation

Nancy Fishman, Executive Director, Grand Victoria Foundation

Heather Hood, Program Coordinator, The San Francisco Foundation

Pat Jenny, Program Director, New York Community Trust

Karen Lado, Regional Operating Officer, Western Region Enterprise Community Partners

Eric Muschler, Program Officer, The McKnight Foundation

Arlene Rodriguez, Program Officer, The San Francisco Foundation

Nick Turner, Managing Director, Rockefeller Foundation

Christa Velasquez, Director of Social Investments, Annie E. Casey Foundation

Vanitha Venugopal, Senior Program Officer, Surdna Foundation

Roger Williams, Senior Fellow of Neighborhood Development, Annie E. Casey Foundation

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Highlights of the Convening on Transit-Oriented Development

Prepared by Living Cities

Overview

LIVING CITIES, the Center for Transit-Oriented Development (CTOD), and the Boston College Institute for Responsible Investment convened a group of more than 50 developers, investors, foundations, government officials and not-for-profit organizations on February 24th and 25th (2009) to discuss the role each group can play in advancing transit-oriented development (TOD) that meets critical economic, environmental and social goals.

Central topics that were addressed at this convening include:

- *The gap between the results of current TOD processes and the kind of equitable, sustainable development around transit that would be “ideal”*
- *The interests and constraints of the multiple stakeholders involved in TOD*
- *The need to coordinate among these stakeholders and the roles that coordinating bodies could play*
- *Policy changes that would create a better environment for mixed-income, mixed-use TOD*
- *The advantages and limitations of deploying capital through land acquisition funds based on case studies in the Bay Area and the Twin Cities*
- *Other means to control or stimulate equitable development*

The discussion was rich. Key points are summarized below.

New transit creates opportunities to improve access to jobs, shorten commutes, lower transportation costs, reduce emissions and create walkable, mixed-use communities that are healthy, attractive places to live. But development can be transit-oriented without necessarily being equitable, failing to serve a broad set of residents with diverse incomes who would benefit from having more affordable mobility options and greater access to jobs, and who are most likely to use public transportation. Because of the high cost of new development, and the complexities of mixed-use and mixed-income projects in valuable, transit-rich locations, most TOD projects end up catering to the high-end of the market.

Regional Perspective

TRANSIT-ORIENTED DEVELOPMENT is not only about what happens in the half-mile radius around stations. Effective TOD requires a more comprehensive, regional perspective that may include different kinds of neighborhoods and commercial/industrial zones. Not all projects need to include the same mix of incomes and uses – the magic is in the overall access, mobility and density that the transit system creates. It is important to keep this regional framework in mind as properties are developed (or re-developed) one at a time.

“Sustainable TOD is complicated. ... [I]t’s tough, given the profusion of actors. Within the city, you have so many internal agencies and bureaucracies ... planning, public works, economic development; you have your elected officials, your community groups, the diversity of stakeholders that you work with; the nonprofits; service providers; the transit agency building the system; the urban renewal authorities; the CDCs. And even though, at the end of the day, they all have the same goal, they often work at cross-purposes, and really can often effect a very long, protracted, cumbersome process.”

Integration of Multiple Stakeholders

Realizing the benefits of transit requires intentional connections among actors involved in land-use planning, economic development, real estate development, transportation, housing policy and community engagement. These actors may sit in different departments and at different levels of government, as well as in the private and not-for-profit sectors. Right now, the connections are not happening, certainly not at the scale and depth required to create more successful TOD. This is a critical role for a coordinating entity to play. Community involvement is also critical.

Early Decisions Must Consider Community Benefit

From initiation to conclusion, new transit can take 10 to 12 years or more. Decisions made at the earliest stages of the process, such as the location of stations, often do not take into consideration community benefit factors that are critical “downstream,” such as economic development or the preservation of affordable housing. The transit authority wants to get the transit system built, usually through the path of least resistance and lowest cost. Policy changes and the involvement of all stakeholders earlier in the process would improve the ability of transit to catalyze positive change for communities and protect against some of the undesirable effects of disruption.

Brain Damage

Developers trying to create equitable TOD complain of the “brain damage” and extraordinary time and cost involved in working through the public-private partnerships that are necessary to generate and sustain support for density while aggregating the multiple financing sources that can make projects work.

Federal Policy

Federal policy places a huge role in what infrastructure gets funded and what communities do. At present, federal policy emphasizes the most cost-effective sites for transit lines and stations rather than choosing locations and routes that maximize opportunities for creating or accessing existing affordable housing or optimizing economic development potential. There is a new openness in the administration to considering issues of livability. Certain changes to the federal New Starts regulations, such as regulations about how to incorporate economic development considerations, are now under consideration. Changing the funding criteria would be tremendously helpful. Adding other incentives, such as tax credits or loan guarantees, or removing bond restrictions for projects that meet certain criteria would also be useful.

Pilot Projects

Pilot projects can play an important role in moving to the next generation of TOD by helping communities envision what is possible, thereby building support, and by experimenting with the tools and solutions that can be applied elsewhere. The Great Communities Collaborative in the Bay Area and the Central Corridor Funders Collaborative in the Twin Cities are leading examples of this. Local communities and foundations have participated in the development of a vision, and are exploring mechanisms to rezone and bring more capital to these efforts.

National Coordinating Entity

Practitioners working in places around the country need assistance to build systems and to use tools that have been proven in other contexts. They would benefit from being part of a network and having access to technical assistance. A national coordinating entity could provide these functions, especially if it had grant money available to support the building of local capacity. A national entity could also advocate for policy change and assemble a repertoire of best practices. Perhaps it could give awards to recognize notable TOD achievements.

Regional Coordinating Entity

Regional coordinating entities would convene multiple sectors (local government, funders, developers, anchor institutions, employers) to help them understand their roles, build a shared vision of regional TOD, and advocate for an equitable regional planning framework.

Using existing entities for some of these functions should be possible. CTOD, LISC, Enterprise and community foundations each have some of the needed skills.

Multiple Approaches

Making equitable TOD feasible will require a combination of strategies. On the financial side, approaches probably will include tax credits, assistance with land acquisition or financing costs, guarantees, and other local financing strategies such as tax increment financing (TIF) and special assessment districts. No less important is the policy side: zoning, concentration of municipal infrastructure development and investment, density bonuses, quick permitting and other incentives to developers to do “the right thing.”

Land Acquisition Funds for TOD Could Be Used in Four Ways:

- *Buy and hold strategic parcels before the real estate market heats up to control development later and ensure it meets community development goals*
- *Do catalytic projects to help “jumpstart” markets and help transition auto-oriented places into compact, walkable, transit-oriented places*
- *Ensure that existing affordable housing is preserved and new affordable housing is created – along with other important amenities – in valuable transit-rich locations.*
- *Target small projects where preservation/development of affordable housing units is possible.*

Barriers to TOD Financing Include:

- *The amount of capital required to make a meaningful land acquisition strategy possible, especially in markets like the Bay Area, is daunting.*
- *Holding costs for land acquired early in the development cycle can be prohibitive.*
- *Land costs tend to rise once transit stops have been identified, well before there is a viable market for the dense projects that will be feasible once the transit is actually built.*
- *Having an identified capital pool may encourage land owners to hold out for high prices, making land assembly challenging.*
- *Many investors are reluctant to commit to financing land acquisition where the takeout is unknown.*

Capital for land acquisition is one tool to promote equitable TOD. Other tools, such as inclusionary zoning, should be used where possible to narrow the number of parcels that must be acquired to promote affordability.

As one developer put it: “We will do what is profitable and to the extent that your goals are embodied in tax law, in credit support, in land-use planning – local or national – that is what we do.”

Attracting Investors

Pension funds and insurance companies might have the deep pockets and longer-term perspective that is needed to fund TOD. Structuring investment pools that enable these investors to meet their investment objectives is key to getting their participation.

Mitigating Risk

In the current economic environment, mitigating risk can be as important as incentivizing action. Working creatively with local government to build certainty for investors (such as the opportunity to “put” land back to the government if transit is not built in a certain timeframe) may be part of the solution.

Guarantees

Having foundations and local anchor institutions guarantee loans rather than make direct investments may make transactions possible.

Communications And Messaging

Often, advocates for TOD use technical or “wonky” language that doesn’t resonate with the public, community groups and elected officials. In order to build broad support for TOD, communications strategies will need to be developed that focus on the benefits of TOD and do so in terms that are meaningful to the various target audiences.

Finding a charismatic spokesman (“the Van Jones of TOD”) and making TOD “heroic” among developers were pointed to as additional tactics for building more of a movement around TOD. TOD should only be “the label inside the jacket.” Key messages that need to be emphasized include:

- *Access to transit means access to jobs*
- *Transit means an opportunity to live in healthy communities*
- *TOD gets you out of your long commute*
- *TOD is not only for seniors and singles, but for families*
 - *TOD is part of rebuilding America for the 21st century*

Development of metrics and standards for TOD would help streamline discussions and eligibility criteria for funding. It would be useful to quantify benefits, such as reduction in vehicle-miles traveled (VMT). Perhaps it would work to have “levels” of TOD measured around parameters like affordability, sustainability, access, equity.

Places other than the Twin Cities and the Bay Area where new transit creates an opportunity for a new development framework include: Denver, Boston, South Coast Rail, New York/Long Island, North Philadelphia, Pittsburgh (and Pennsylvania statewide); Trenton and Newark, New Jersey; Dallas, and Detroit.

Next Steps

- *CTOD will develop a workplan for bringing TOD to scale in the next three to five years, addressing issues such as appropriate roles for a national coordinating entity and capacity development at the local, regional and national levels; communications strategy and needed research.*
- *T4America and other interested groups should develop recommendations for FTA on rule changes to the New Starts program and other federal programs that shape the environment for TOD.*
- *Transit and TOD proponents should find ways to better involve affordable housing developers in their advocacy efforts.*
- *Living Cities will participate with GCC and the Central Corridor and will help bring the lessons of these local experiences to funders interested in other places.*
- *A convening of developers/large investors, perhaps through the ULI, might examine ways to educate/encourage more TOD-friendly development and financing.*
- *Find ways to educate Metropolitan Planning Organizations (MPOs) about the critical role they can play in bringing regional perspectives and accountability to TOD, and in bringing local pressure to bear on state legislation that sets standards for MPOs.*

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