Financing Strategies to Encourage Transit-Oriented Development

Rail~Volution 2009

October 31, 2009

HR&A Analyze. Advise. Act.

Six considerations for successful funding of transit-oriented development.

1. Transit alone cannot create market demand.
2. Public-private partnerships require an empowered public partner.
3. Public sector must have flexible goals to respond to shifts in market and timing.
4. Anchor tenants and thoughtful phasing are critical to long-term project success.
5. Public sector must utilize available tools and often make significant investments to incentivize risky private investment.
6. Parking is a persistent constraint for TOD and must be addressed creatively.

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Challenges & risks inherent in TOD for private developers.

1. Land assembly around transit stations
2. Infrastructure upgrades to accommodate density
3. Structured parking to accommodate density and replace surface parking
4. Limited private market of mixed-use expertise and financing
5. Regulatory risks with local municipalities

Public sector actions need to target the developer's pro forma.

Program Create more development potential and higher value

Sources Provide capital funding and infrastructure financing

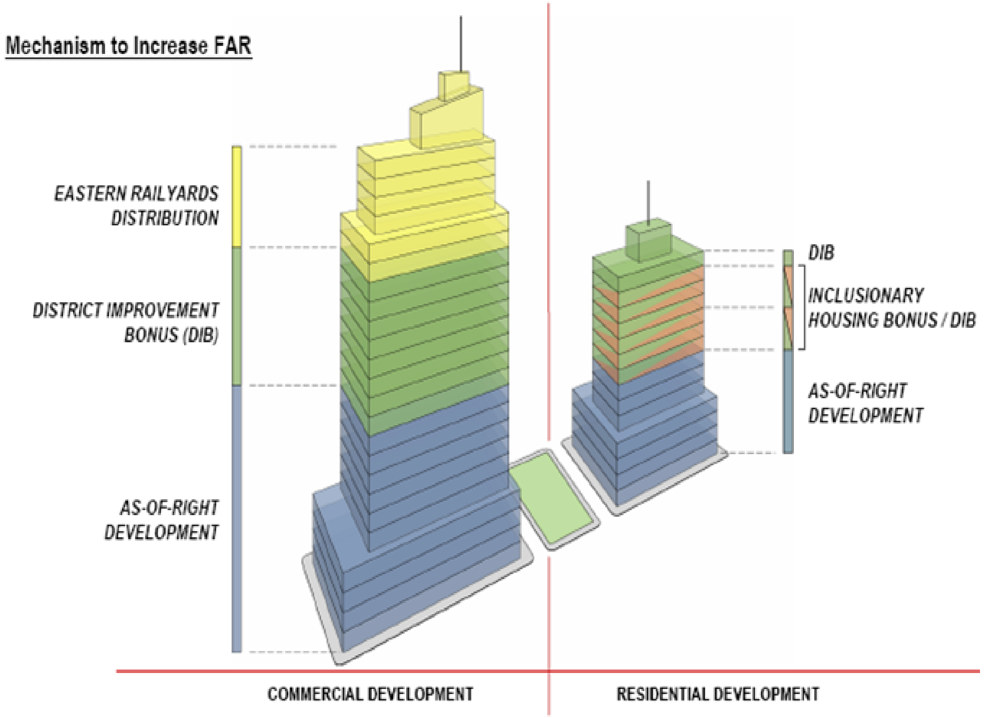
Expenses Reduce upfront and ongoing costs, and tax burden

Cash Flow Mitigate pre-development risk by streamlining approvals

HUDSON YARDS DISTRICT, NEW YORK, NY:

Aggressive zoning and incentives for a New Midtown

Implementation Entity:
Hudson Yards Development Corp.



2005 Rezoning. Changed use from industrial to commercial, including some residential. Up-zoned from a 2 FAR to 10 FAR, with bonus up to 33 FAR.

District Improvement Bonus. Development rights sold to finance extension of the 7 subway line.

Transferrable Development Rights. The MTA's Eastern Rail Yards parcel was up-zoned to 19 FAR with only 11 FAR allowable on site to create TDR's to enhance large-scale development opportunities and revenue for the MTA.

Tax Abatements. PILOTs allow up to 40% abatement for 20 years.

THE HIGH LINE, NEW YORK, NY

Rezoning to create value around a new public amenity

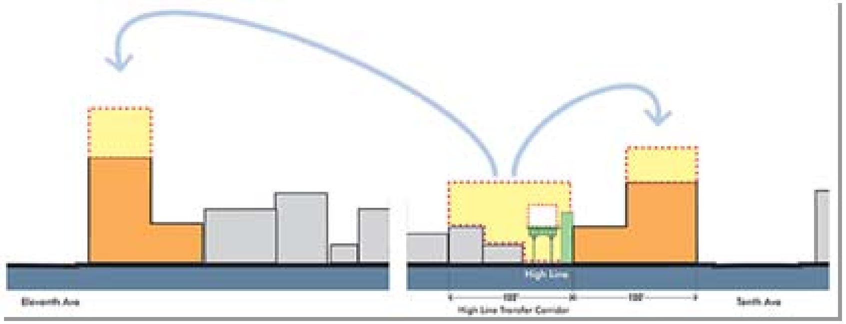
West Chelsea/High Line 2005 Rezoning. Parcels acquired and sites selected to facilitate the High Line's reuse as an open space. Changed use from industrial to commercial and residential.

Creation of neighborhood amenity. To encourage preservation of light, air and views around the High Line, the rezoning also allowed development rights to be transferred from High Line properties.

Value Creation. City and non-profit $100 million investment to preserve the High Line plus rezoning leverages $2 billion in new development to date.

Implementation Partners:

City of New York, Friends of the High Line



ANACOSTIA WATERFRONT, WASHINGTON, DC:

Revitalization creates a mixed-use transit-oriented neighborhood

Implementation Entity:

Anacostia Waterfront Corporation

Revitalization of Near Southeast through Creation of a Mixed-Use, TOD District. This section of the waterfront located near Navy Yard Station was transformed through:

•Rezoning to mixed-use

•Strategic relocation of the U.S. DOT headquarters

•Siting of the Nationals Ballpark

Investments in infrastructure catalyzed District's growth.

•Relocation of U.S. DOT HQ through a GSA lease with a private developer created $100 million in TIF financing - reinvested in infrastructure by the District of Columbia.

•Nationals Ballpark project included area infrastructure: roads, Navy Yard Metro station enhancements, and public plazas.

•Since 2001: 4.8 million square feet of office, 1,500 residential units, 88,000 square feet of retail and 200 hotel units have been completed in the district.

RAHWAY, NJ:

Station and parking improvements support a suburban transit village

Implementation Partners:
City of Rahway, NJ Transit

Catalyzing development.

•Downtown revitalization anchored by $6 million Performing Arts Center.

•Hotel and several residential developments, including Riverwalk at Rahway and Carriage City, have been completed.

•A mixed-use Town Center is proposed.

Renovation of Station. NJ Transit and the City of Rahway invested $16 million in the rehabilitation of the Rahway station, completed in 1999. A public plaza in front of the station opened 2 years later.

Public Investment in infrastructure. Rahway was designated a Transit Village in 2002. NJTransit contributed $2 million to the construction of a $11 million, 524-space structured parking garage that opened in 2005. This freed up a surface lot for new, denser redevelopment.

What are the financing mechanisms to encourage TOD?

Traditional	Cutting Edge
Zoning	Federal Stimulus – Recovery Bonds
Tax Increment Financing	Livable Communities Grants
Tax Abatements	Aggressive Tax Credits
Funding for Infrastructure and Pre-Development	Expansive Tax Increment Financing

CUTTING EDGE FINANCIAL INCENTIVES:

Federal Recovery Zone Bonds

Recovery Zone Economic Development Bonds (RZEDBs). Taxable government bonds that allow state and local governments to obtain lower borrowing costs through a new direct federal payment subsidy (45% of the interest paid).

Recovery Zone Facility Bonds (RZFBs). Tax-exempt bonds for private businesses in recovery zones to finance a range of capital projects.

Eligibility. Any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures of general distress; economically distressed by reason of a military closure or realignment; designated as an empowerment zone or renewal community

Bonds may only be issued through Dec 31, 2010.

CUTTING EDGE FINANCIAL INCENTIVES:

Proposed Federal Livable Communities Grants

Livable Communities Act

Federal Government

Proposed Federal initiative. In this proposed legislation, TODs are re-branded as "Livable Communities". It proposes $3.75B in sustainability challenge grants for implementation of long term plans that include public transportation, affordable housing, complete streets, transit-oriented development, and brownfield redevelopment investments. The proposed legislation would also provide $400M in competitive planning grants. It would establish the Office of Sustainable Housing and Communities and the Interagency Council on Sustainable Communities

CUTTING EDGE FINANCIAL INCENTIVES:
NJ Urban Transit Hub Tax Credits

Targeting ½-mile radius. Originally introduced in 2006, the NJ Stimulus Act of 2009 enhanced this program for redevelopment near transit stations in nine NJ Cities.

Tax Credit for Jobs and Housing. Office, industrial and distribution facilities eligible for tax credit up to 100% of project cost. Transit Hub residential projects eligible for up to 20% of project costs. With 2009 stimulus, credits are now tradable.

Capital investment minimums. For single-tenant building, $50 M capital investment and 250 full-time employee are required as minimums. For multi-tenant building, the minimum is $17.5M with 250 full-time employees combined for 3 tenants.

CUTTING EDGE FINANCIAL INCENTIVES:

NJ Urban Transit Hub Tax Credits

Original 2006 UTHTC

Verizon Sale/Leaseback
Newark, NJ

Revised, 2009 UTHTC

Pennrose Mixed-Use Project
New Brunswick, NJ

300-Unit Housing Project
Trenton, NJ

Business Day B1

WEDNESDAY, MARCH 18, 2009

Powerful Incentives, but No Takers

New Jersey's Tax Credit Program Faces an Office Downturn

By ANTOINETTE MARTIN

It seems like an offer a big office tenant could not refuse: space in a new building on a major train line, available for essentially next to nothing, for up to 10 years. That is the equation for any tenant deciding to lease at least 200,000 square feet in a planned 25-story glass tower that would rise in Trenton.

Under the terms of an innovative Urban Transit Hub Tax Credit program that applies to properties within a half-mile of a rail center in nine New Jersey cities, the effective rent for tenants of the Trenton Vista Center would be "roughly zero," according to Joe Sarno of Cushman & Wakefield, the broker marketing the project.

The program, which began last year and has generated developers' proposals in Newark, Hoboken and New Brunswick in addition to Trenton, provides tax credits to developers of commercial space who make a capital investment of at least $75 million. The developers can pass on the credit to tenants of a certain size: those that occupy about a third of the building and employ 250 people there.

The break on taxes can be combined with other state incentive programs benefiting businesses

A rendering of the proposed Trenton Vista Center.

opment officials were locked in intense competition to attract the new offices of BlackRock, an investment management firm that had said it wanted to move to a site near a rail hub.

Currently based in Plainsboro, a suburb of Princeton, BlackRock was considering competing bids from developers for sites in Philadelphia and New Brunswick, according to Mr. Pozycki, who said

gy and environmental ratings, is the Princeton architecture firm RMJM Hillier.

At SJP's Waterfront Corporate Center in Hoboken, where two buildings with more than a million square feet are fully occupied, a third 18-story office building with 525,000 square feet of office space and ground-floor retailing is planned.

The Tucker Development Corporation has also made a proposal in Newark for Liberty Plaza, a 22-story office and retail tower next to the Broad Street train station. Strongly backed by city officials, it would become the first new commercial development in the downtown area in more than 15 years.

"We continue to see the Urban Transit Hub Tax Credit as an enormously potent tool, even during economic uncertainty," said Stefan Pryor, Newark's deputy mayor for economic development.

Newark has driven the effort, backed by a coalition of municipalities, to have the Legislature reduce the eligibility requirements for the tax credit program. "That is because we are in active negotiations with major industrial tenancies, which may be just shy of the threshold," Mr. Pryor said.

The Waterfront Corporate Center III, at right in a rendering, with 525,000 square feet, is proposed for Hoboken. For large tenants, the effective rental would be below $20 a square foot.

CUTTING EDGE FINANCIAL INCENTIVES:
NJ Economic Redevelopment Growth Grant

Utilizes state and/or local revenue sources.

State Taxes:	*Local Taxes:*
• Corporate Business	• Property
• Gross Receipts & Excise	• Payroll
• Net Profits	• Parking
• Sales	• Sales
• Hotel Occupancy	• Lease Payments

An expanded Tax Increment District program.

•Introduced as part of the NJ Stimulus Act of 2009 to replace underutilized Revenue Allocation District program

•ERGG provides incentive grants for development of up to 75% of incremental state and local revenues

•Provides gap financing for up to 20% of project cost.

Eligiblity. Designated urban and suburban growth areas identified in State Plan, and designated Centers and Transit Villages. Projects must demonstrate a financing gap.

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