The Economics of Land Use

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Why Aren't They Building My TOD?

What Developers Need

Darin Smith

Economic & Planning Systems, Inc

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Economic & Planning Systems, Inc.
2501 Ninth Street, Suite 200, Berkeley, CA 94710
510.841-9190 • 510.841-9208 fax

Why Aren’t They Building My TOD?

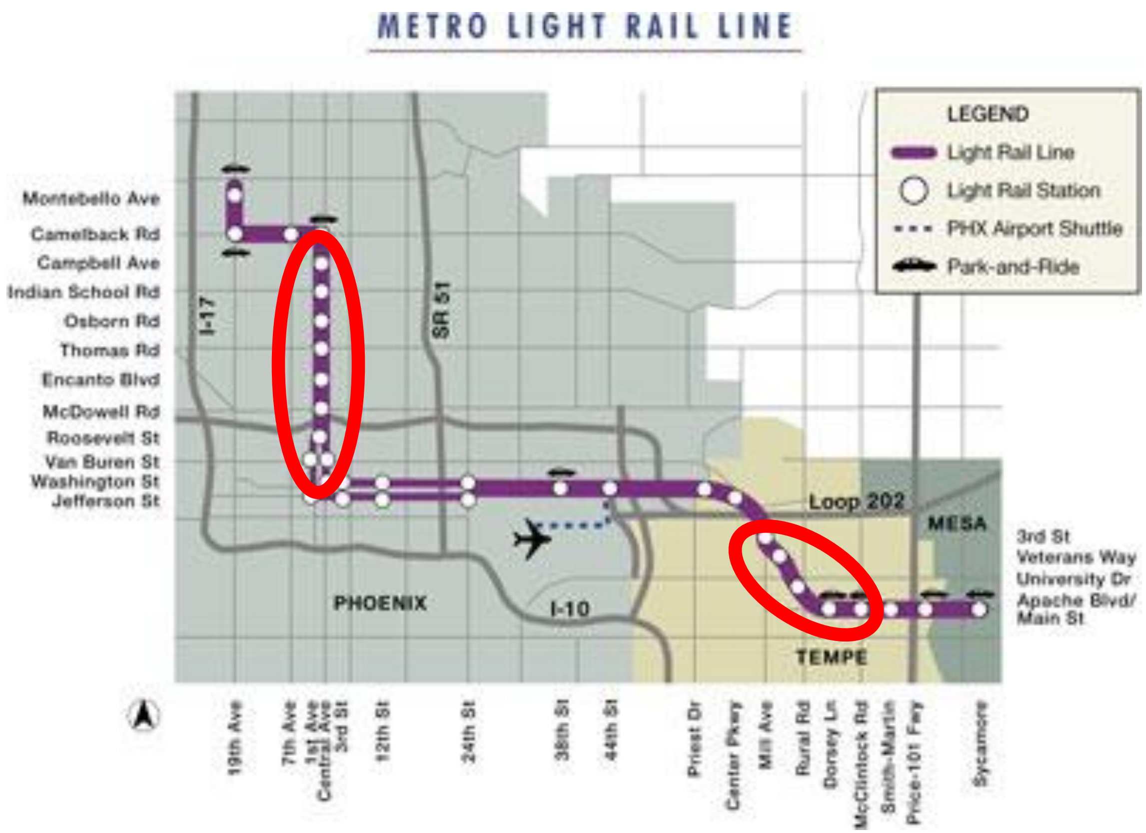
- Transit has been shown to add value to real estate
- National demographics suggest growing demand
- So, what’s wrong with my TOD Plan?
- Developers need:
    1. **A plan that is market-supportable**
    2. **A manageable first phase**
    3. **An appropriate return on investment**

1. A Market-Supportable Plan

- If Nothing Similar Already Exists, Think Again
  - TOD yields premiums and focuses growth, but transit alone doesn't create market
- Traditional TOD Markets: Know WHY They'll Come
  - **Residential:** Newly Forming and Re-forming Households, but need more than transit as draw to local area
  - **Office:** Employers of transit riders, potential TOD residents
  - **Institutional:** Employees and patrons served by transit
  - **Retail/Service:** Don't count on transit riders
  - **Hotel:** Is transit system visitor-friendly and is auto network unfriendly?

1. A Market-Supportable Plan: Valley Metro Rail Example

- TOD action near:
  - University
  - Office districts
  - Upscale housing
  - Urban amenities



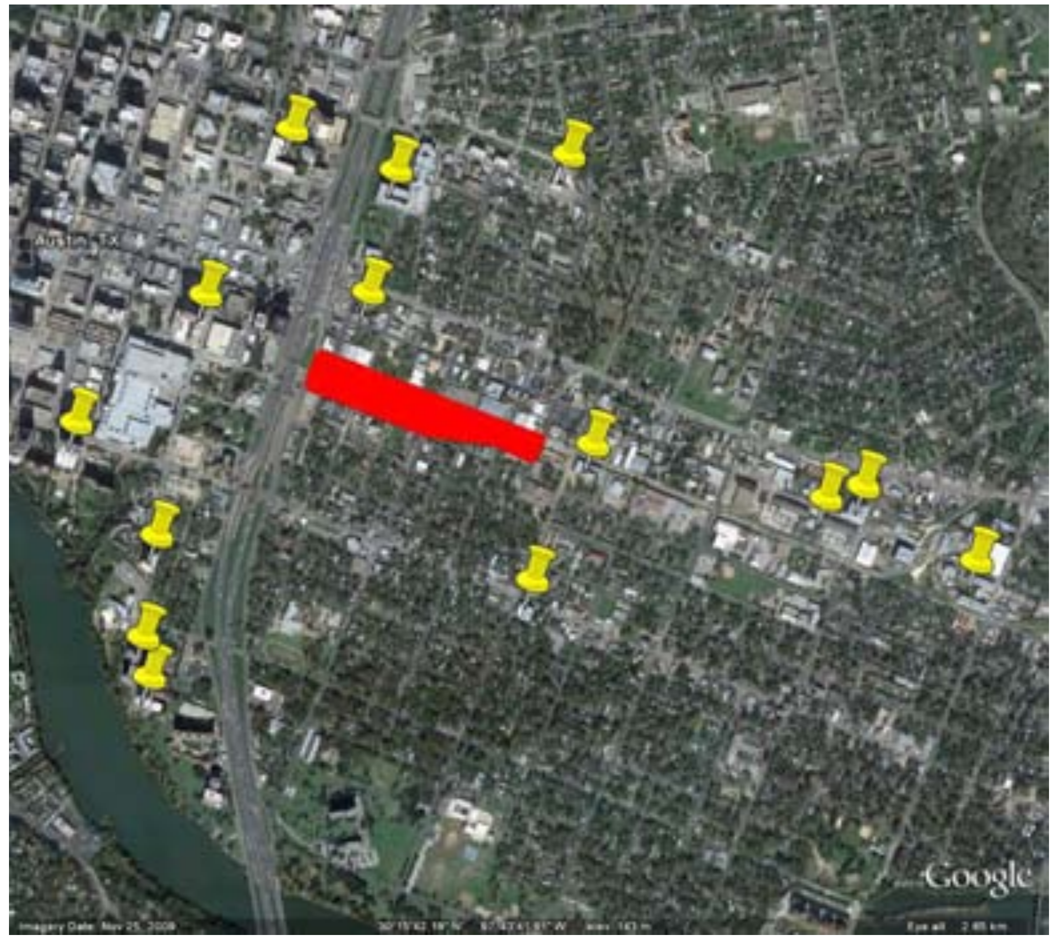
- Little TOD action:
  - Airport industrial
  - Lower-rent areas

- Transit was added incentive for development, not primary cause

1. A Market-Supportable Plan

- Community must also support plan
  - design, use, fiscal impacts, etc.

- Saltillo District, Austin
  - Stakeholders wanted lower-density project with major community benefits
  - Urban infill happened all around, but not at Cap Metro site



1. A Market-Supportable Plan (cont’d)

- What planning process can do
  - Clear-headed market and feasibility analysis
    - No wishful thinking
    - Don’t apply general trends to specific sites
  - Constructive community engagement/education
    - Don’t let community overload the project with benefits

2. A Manageable First Phase

- Each major component of project should pencil by itself
  - No “loss leader” buildings
  - Can have cross-subsidies within buildings, such as retail/community space or inclusionary housing

- Minimize overbuilding of infrastructure (including parking) to serve future phases that may be delayed or scrapped

- Address unique TOD issues:
  - Replacement parking?
  - Construction/operations conflicts?
  - Other transit infrastructure contributions?

2. A Manageable First Phase

- Mueller (Austin)
  - Started with regional retail and a funded hospital
  - Leveraged tax increment to fund future phases
  - Succeeding despite entering market just before housing bust

2. A Manageable First Phase

- Fruitvale Transit Village Phase 1 (Oakland)
  - Development led by non-profit, many underfunded tenants
  - Expected "Phase 2" to happen quickly, but it didn't
  - Needed to restructure financing and joint development terms

2. A Manageable First Phase

- What the planning process can do
  - Create bite-size components that sum to desired whole
  - Allow market to dictate phasing
  - Delay non-revenue components as long as possible
  - Plan for ultimate buildout but allow interim development (e.g., phased intensification)

3. An Appropriate Return on Investment

- Development is Risky Business
  - Financial Projections must account for dynamic conditions
    - Market values
    - Development costs
    - Lending environment
  - Projected returns must be compared to various risks and opportunity costs
- Equity may be minimized through public participation
  - State/Fed/Regional grants/loans
  - Local investment of tax increment, land value, etc.
  - Fee waivers or deferrals

3. An Appropriate Return on Investment

- BART Joint Development Examples
  - State funding for infrastructure/replacement parking
  - City funding for affordable housing
  - BART subordination of ground lease for affordable housing
  - BART participation in project proceeds
    - Land sales or ground leases
    - Transit Benefit Fees
    - Surplus revenues above priority return for developer

3. An Appropriate Return on Investment

- Seaholm Power Plant (Austin)
  - TIF for infrastructure and assistance with public parking
  - Phased takedown
  - Subordinate City land proceeds to developer priority return
  - City participation in project proceeds

3. An Appropriate Return on Investment

- What the planning process can do
  - Ensure value of allowed development overcomes basic financial thresholds (residual land values)
  - Establish plan that works <u>without</u> contingent funding
  - Allow higher density/alternative plans if outside funding can be secured
  - Keep things loose until developer is on board and funding is more certain

Summary: Do’s and Don’ts

- Do:
  - Test vision for reflection of market trends and community acceptance
  - Identify and “commit” external funding sources within the control of planning jurisdiction (TIF, land write-downs, etc.) or reliably expected from others (e.g., 4% tax credits)
  - Be creative and keep your sense of humor
- Don’t:
  - Over-prescribe design/density/phasing, etc.
  - Overload project with infrastructure or community benefits
  - Expect a financing miracle or for development to be easy