New Financial Tools to Support Equitable TOD:

Capital Absorption Near Transit

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TOD Finance Paper Summary

- Enterprise Community Partners (ECP) and the Low Income Investment Fund (LIIF), through their national TOD partnership, were asked to author a paper on TOD finance using capital absorption framework as a lens.

- Objective: To review the equitable TOD finance system, identify gaps, and suggest innovative financial tools and potential federal, state and local policy solutions.

- National focus and relevance with regional case studies: Atlanta, Bay Area, Denver, and Twin Cities.

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The Geographies: Atlanta, Bay Area, Denver, Twin Cities

Acquisition and Site Control

- TOD funds, primarily used for acquisition, are successful in Bay Area and Denver but extremely difficult to replicate or expand.
- Where the half mile radius of station areas reaches into single family or low density neighborhoods, strategies for including neighborhood stabilization are necessary.
- Site assembly for comprehensive TOD is a challenge across markets. Loan products that explicitly support site assembly are needed.
- Competitive rates and terms are available for preservation near transit but tend to leave owners with a loan to value gap.
- Transit agency joint development can be an important complement or substitute for land acquisition financing tools.
- Land-banking or other options to hold land at no cost will continue to be needed in moderate and weak markets.

Predevelopment

- All markets noted the need for increased predevelopment lending.
- Predevelopment lines that understand the need for risk sharing or forgiveness are needed to entice developers to focus on the hardest TOD locations.
- Alternative: enterprise level lines of credit that can be utilized for predevelopment and/or small site acquisition.
- In smaller new construction, philanthropy and CDFIs need to utilize predevelopment period to encourage planning for integrated TOD projects that take a "healthy communities" approach.
- In larger new construction, with mixed use, mixed income goals, same applies, with bigger obstacles to success.

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Infrastructure and Master Development – Smaller Scale

- Typically two acres or less, community development oriented master developer, may have little experience with master development role, site assembly, clean up, subdivision, infrastructure, etc.

- Challenges include lack of experience accessing and utilizing market sources for infrastructure and market rate housing and commercial.

- No standard resources for low cost infrastructure, leaving developers either unable to work in key locations or forced to piece together grant resources.

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Infrastructure and Master Development – Larger Scale

- Few precedents beyond community benefits agreements for requiring equitable development in return for infrastructure financing in large scale areas.
- Opportunity to innovate with hard to obtain financing for infrastructure in return for a community benefit or equitable development future commitment.
- In most large scale development areas, TIF (or similar constructs) are a major driver of infrastructure and ultimate development feasibility, but is rarely linked to community benefit in development.
- To be relevant, CDFIs must explore new ways to fund infrastructure (including parking).

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Mezzanine Debt and Equity

- Clarity of Definition: What do we mean by mezzanine debt and equity?
- Current market of equity providers likely at ~12%. How much philanthropic enhancement is needed to test a product in a key market?
- Would equity providers focused at the smaller site level consider sites to be less risky and therefore consider lower returns?
- Should we think of mezzanine debt as a tool to finance deals that will stabilize, do not have long term affordability or use restrictions, and can be transitioned to traditional market debt?
- Weaker markets have different definition - they need equity that is low to no cost and could stay in deals for many years.

Permanent Financing

- Improving reliability of the 4% LIHTC and HUD financing programs were consistently cited as the primary challenge to escalating production and preservation of housing.

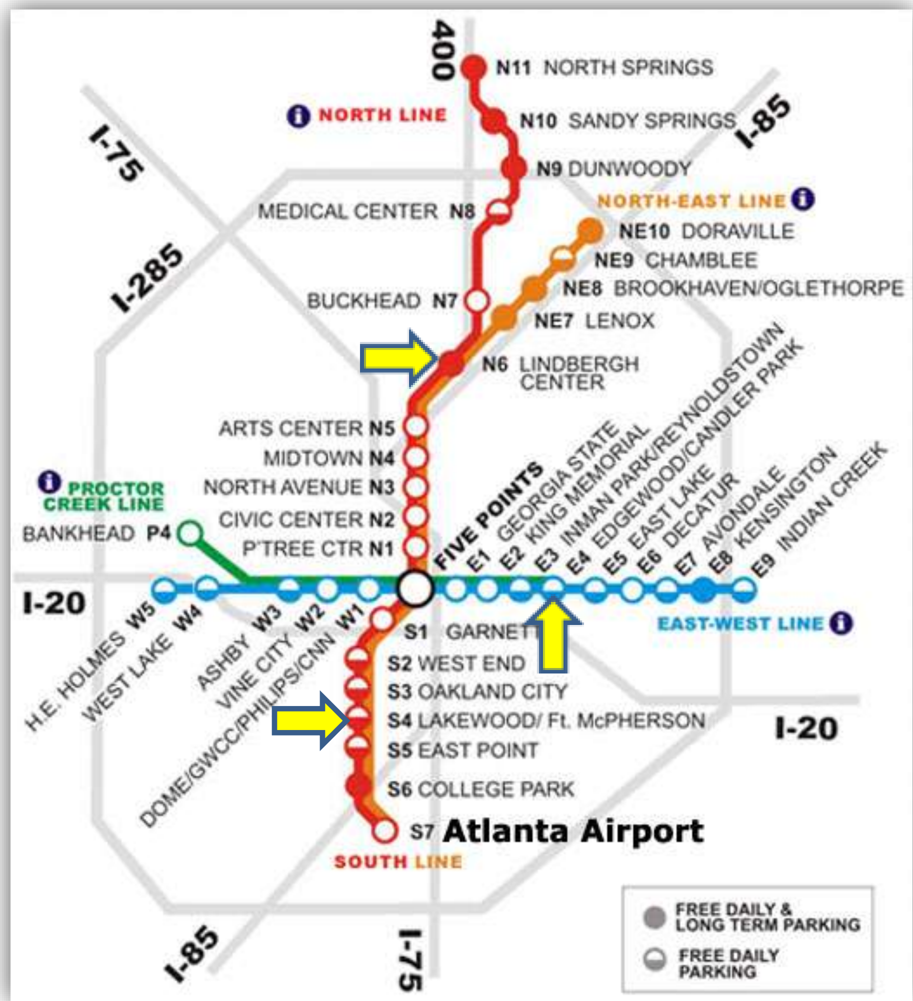
- Common ideas on how to fill secondary gaps given current financial constraints included bridges to TIF, Housing Trust Fund proceeds, and general obligation or revenue bonds. At present, none of these resources are focused on TOD.

- For community facility development, the costs, geographic limitations, and scarcity of NMTCs was primary challenge.

- Developers noted the need to not only add layers of subordinate debt, but also to identify means to lower the costs of operations.
  - Example: policies for real estate tax abatement for equitable TOD.

Atlanta

Lindbergh Center | Edgewood – Candler Park| Lakewood – Ft. McPherson



- MARTA joint development completed and planned
- High and low opportunity sites
- Multi-family preservation lost
- Philanthropic model
- Lost employment, neighborhood stabilization example

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San Francisco Bay Area

Ed Roberts Campus (Berkley) | **MacArthur Transit Village** (Oakland) | **Eddy & Taylor Family Housing** (SF)

- Loss of RDAs
- Strengthening market rents: possibility of mixed-income
- Pilot equity fund to lower investors' expected rate of return
- Increased demand for preservation
- State infrastructure bank
- Increased demand for mezzanine debt products

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Denver

Mile High Vista (Colfax and Irving) | **Wadsworth Station** | **Olde Town Arvada**

- Small scale master development challenges
- Unsubsidized preservation challenges
- Smaller city government anxious for financing solutions

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Twin Cities

Frogtown Square | Seward Commons | Midtown Exchange

- Renter TOD premium?
- Remediation funds
- Lack of mezzanine debt and equity
- Twin Cities Community Land Bank
- Special Service Districts
- Commercial/retail challenges
- Met Council grant money: credit enhance/leverage

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Key Concepts/Ideas for Action

1. Philanthropy, CRA lenders and CDFIs must stay committed and prepare to innovate: invest in mixed use, mixed income models, participate in financing resources that partially support market rate development to achieve cross subsidy, test equity other products that haven't been brought to community development

2. Philanthropy, CRA lenders and CDFIs must continue to support and test entity level (strong borrower) investments, lines of credit, etc with forgivable elements for risk taking

3. Philanthropy, CRA lenders and CDFIs must "double down" on the local, regional, state and federal policy changes that can yield significant returns, both through actual development and precedent, examples include better tying TIF to community development with bridge sources

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