Financing TOD in Down Market

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AvalonBay

- Real Estate Investment Trust (REIT)
- NYSE company – AVB; Market Cap of $23 Billion
- Real Estate Developer Owner of high quality apartment communities
- Northeast, Mid Atlantic, Pacific Northwest, Northern and Southern California
- High Barrier to entry markets, 272 communities, over 80,000 apartment homes

Primary Question

- How the private sector thinks when they consider an investment in TOD and then what can be done by the public sector to realize this investment
- Down Market…? Up Market….?

Urban & High Rise TOD Projects

Avalon Mission Bay San Francisco
3 phases, 823 units
Catellus Master Developer
Muni Light Rail, Cal Train Station
1999 through 2010

Avalon Ocean Ave, San Francisco
178 units
Muni Light Rail, near BART
2005 through 2011

Suburban TOD Projects

Avalon Dublin Station
812 units
at Dublin BART
2003 through present

Avalon Walnut Creek
418 units
at Pleasant Hill BART
2000 through present

Avalon Union City
439 units
At Union City BART
2004 through 2008

Development Objectives

- Is there a market for our product?
- Can we see our development being a long term partner with City, Community, Transit?
- How many partners, and who are they?
- Is this development financially feasible?

Development Structure

- Partnership structure
- Transaction structure
- Entitlement structure
- Financial structure
- Financial Returns and Objectives

Partnership Structure

- Transit Authority (Land Owner)
- City and/or County Authority (Land Owner)
- Political Leadership
- Community
- Private Developer
- Alignment of Interests
- Partnering and Communication

Transaction Structure

- Master Developer and Control
- Fee Simple
- Ground Lease
- Development and Other Agreements
- Flexibility in structure to allow development to adapt to changes (Market, Political, Economic, other).

Entitlement Structure

- Significance and impact to the financing structure
- What is approvable
- Flexibility of planning guidelines
- Areas we have been challenged (live work units, mixed used retail - flexibility to activate)
- All this effects costs and projected income

Financial Structure

- Simpler the better
- Developer needs basic return for company and investors
- Non TOD project, returns primarily derived as Return on Cost (NOI / Total Cost)
- TOD challenge - many other costs (Replacement parking, below grade and above grade infrastructure) and how to find sources to fund those improvements.

Source of Funds

- Private - Developer funds development of apartments, retail and basic infrastructure through private Debt and Equity sources.
- Public - Creative Public Sector Financing for Replacement Parking, Parks, Place-making infrastructure.
- Potential Public Sources:
  - Improvement Districts (PBID, CID)
  - Tax Increment Financing
  - Land Valuation and Contribution
  - State Bonds
  - Other Sources……..

Financial Returns

- Return on Cost (ROC) or Yield, targets vary for different markets
- Relative to Cap rates, Interest rates, other investment vehicles
- ROC is NOI / Total Cost - 6-8%
- IRR's 10-12%
- Land/Other Cost Residual Calculation

Development Risks

- Typical development has 5 primary risks: Entitlement, Design, Financing, Construction and Market risk.
- Add complexities and financial implications of TOD and multiple partners are two very significant other risks.

Overall Development goals

- Financial analysis is not just about returns
- Returns are adjusted and varies
- Overall Market and Submarket
- Complexity of transaction
- Scale of development
- Entitlement status and ability to make changes
- Public and Private partner and transaction structures
- Because development timeline could be up to 10+ years, plan could extend past a typical real estate cycle.
- Up or Down Market, Financing has to work for all partners
- Win – Win – Win!!!