Transit and Value Capture

Nadine Fogarty

Rail-Volution

November 2, 2007
Value Capture:

Capturing growth in *property values* generated by transit to pay for transit or related improvements.

$$
\text{\$\$} \leftrightarrow \text{\$\$}
$$
Transit and Property Values: in Theory

Value Created By Transit

New Transit Announced

Funding Secured

Construction Begins

Transit Service!

Potential for Additional Value Over Time
But, the Evidence is Uneven

WHY?

Many factors influence the impact of transit on property values:

- Transit Type
- Transit Connectivity
- Frequency of Transit Service
- Real Estate Market Conditions
- Land Uses in the Station Area
- Ease of Access to the Station (Pedestrian Connectivity, Parking)
- Disincentives to Driving (Congestion, High Gas Prices)
Most of the Opportunities for Capturing Value are Related to New Development

New development can be designed to take advantage of the benefits of transit

It can capitalize on:

- Demand for TOD
- Transit-oriented land uses
- Public incentives
- Reduced parking ratios
- Previously unavailable land
Example: Two Imaginary Station Areas

- Station 1: 10% Vacant
- Station 2: 50% Vacant

- Existing land use - 15 units/acre
- New development - 50 units/acre
Change in Property Values Before and After Transit

Property Value per SF Land

- Existing Development
- Opportunity Sites (New Development)

Before Transit
- $100
- $200

After Transit
- $350
Property Value Increase (Value Created)

Increase in Property Value (Millions)

Station 1 | Station 2
---|---
New Development | $300
Existing | $100

Value Capture
Tax Increment Generated (Value Captured)

- **Station 1**:
  - NPV of Tax Increment (Millions): $0
  - Value Captured: $0

- **Station 2**: (Orange bar)
  - NPV of Tax Increment (Millions): $250
  - Value Captured: $100

**Legend**:
- Orange: New Development
- Green: Existing
Implications of Relying on New Development for Value Capture

• It requires vacant or underutilized land!

• Potential for value capture strategies is impacted by same things as the real estate market, e.g., development costs, demographics, employment growth

• TOD is not always the highest and best use

• Transit may compete with other community benefits for this value
Value Capture Strategies

Value Goes in Here

Value Capture
Three Main Types of Strategies:

- Assessment Districts
- Joint Development
- Tax Increment Districts
Assessment Districts

Assessment of property owners to pay for transit improvements

• Makes sense in theory, but not used widely for transit

• Challenge is making sure assessment is aligned with transit benefits

• Best for capturing increase in existing property values

• Easier to implement with streetcars!
Joint Development

Coordination between the public and private sectors to develop sites near transit (usually publicly-owned land)

• Not typically a major source of income for transit agencies

• Sites are often difficult to develop; projects often require subsidies

• Doesn’t take advantage of value created within a district

• Real estate development is risky and timing is key
Tax Increment Financing

A tool to capture future property tax gains to pay for public infrastructure

• A powerful tool, but limitations on where and how it can be used

• Shifts $$ from cities, schools, other public services

• The current TIF “backlash”
Need for a Framework

• The best value capture strategies are very closely aligned with property owner benefits

• Appropriate strategies will vary according to:
  • Transit type
  • Geography / jurisdictions
  • Development potential
  • Other?