TOD Financing
Challenges, Principles, and Tools

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Presentation Outline

- The Challenge
- Guiding Principles
- Strategies and Tactics for Success
- Practical Toolkit
The Challenge

TOD and Mixed-Use:
• Physical development challenges
• Market challenges
• Financing challenges

Combined...
• Projects frequently don’t "pencil"
• There’s usually a financing gap
Development Challenges

- Typically higher costs
- Tougher entitlements
- Longer development process
Market Challenges

• Markets move in cycles
• But not all at the same time...

Phase I - Recovery
  - Negative Rent Growth
  - Below Inflation Rental Growth
  - Rents Rapidly Toward New Construction Levels
  - High Rent Growth in Tight Market
  - Rent Growth Positive But Declining

Phase II - Expansion
  - Declining Vacancy
  - New Construction

Phase III – Hypersupply
  - Increasing Vacancy
  - New Construction

Phase IV – Recession
  - Increasing Vacancy
  - More Completions
  - Below Inflation & Negative Rent Growth

Long-Term Average Vacancy

Cost Feasible New Construction Rents

Supply/Demand Inflection Point

Legg Mason Wood Walker, Inc. and Leland Consulting Group
Market Challenges

• Often no ‘transit’ premium in rents
  - Yet costs are higher

• Design driven vs. Market and Financially Driven
The Financing Challenge

TOD and Mixed-Use

- Haven’t historically fit the mold
  - Finance
  - Regulations
  - Product

Gresham, OR

Riverside, NJ
Some Guiding Principles

• Understand the economics of development
• Respect the risk-return relationship
• Find partners (don’t do it alone)
• Don’t let the parts get separated!
• Be creative
Developer’s Perspective

- Developers make market decisions **not** transit decisions
  - A project should be viable on its own:
    - Visibility
    - Access
    - Location
    - Parking (yes, parking)
Strategies and Tactics

#1: Reduce developer risk
- Land assembly
- Accelerate entitlements
- Anchor project with public components
- Certainty in the process is money in the bank!

Concord, MA

Charlotte, NC
Strategies and Tactics

• Enhance financial feasibility
  - Gap financing, low-interest loans
  - Land write-down
  - Density bonuses
  - Reduce parking ratios

• Get costs off the developer’s balance sheet
  - Predevelopment planning
  - Build public realm elements
  - Build needed infrastructure
  - Build parking
TOD Financing Toolkit

- Local
- Regional
- State/Federal
Local Funding Sources

- Tax Increment Financing (city)
- Local Improvement District (property owners)
- Tax abatement (multifamily)
- Development Fees
- Sales taxes
- Parking
Regional Funding Sources

- Regional Smart Growth Initiatives
  - Metropolitan planning organizations
  - Often involves state money
  - Vary by region
**State/Federal Funding Sources**

- **Tax credit programs**
  - New Market Tax Credits (NMTC)
  - Historic Preservation Tax Credits
  - Low Income Housing Tax Credits

- **Community Development Block Grant (CBDG)**
  - Home Investment Partnership Program (HOME)
  - Low-income or affordable housing

- **Air quality programs**
Federal Funding Sources

- Federal Transportation Administration (FTA)
  - Increasingly flexible
  - e.g., Livable Communities Initiative

Denver, CO Light Rail
Tampa, FL Streetcar
Federal Funding Sources

- Brownfields Initiative (HUD/EPA)
- Green and energy grants (State/Federal)
Other Financing Sources

Specialized equity sources

• Pension Funds (e.g., state retirement systems, City View)

• Fannie Mae
  - Amer. Communities Fund
  - Housing Impact Fund
  - Comm. Dev. Financial Institutions (CDFI)
Bottom Line for Successful TOD

• Every project is unique
• Cultivate partnerships
• Understand the market
• Galvanize your leadership
• Insist on quality
  – Design, developers, partners
• Be creative
Building Livable Communities with Transit

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