Moving Toward TOD 3.0

Private Investment in TOD
Rail-Volution 2010

William Kohn Fleissig
TransACT
October 20, 2010
A really tough future awaits TOD developers.....
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REALLY......
Idealized Mixed-Use Zoning Ignores Real Estate Market Realities....
....with Increasing Affordability and Retail Requirements.....
Increasing Demand for Transit Service....
Spreads Limited Federal $$ Across More Systems....

Typical Transit Capital Funding Sources

Federal
Local
Region
State

$14.9 Billion FY 2011 New Starts Requests
….Allowing FTA to Rely on “Least Cost Per Passenger Mile” Criterion

Cost Effectiveness = \[ \Delta \text{Capital Cost} + \Delta \text{Operations} + \Delta \text{Maintenance} \]

Promotes simple systems along inexpensive right-of-way cheap land = poor markets

Must achieve “medium” rating to overcome FTA hurdle for consideration regardless of other attributes

Promotes attracting more riders in low-cost manner Park & Ride v. development

Source: Emerson, Donald; “Successfully Navigating the FTA New Starts Process”; PB Consulting, 2006
Market Cycles Impact Sales Tax Revenues
Causing Reduced Sales Tax Forecasts…
APE = Area of Potential Effect

Total program capital costs have decreased nearly $1 B
Causing Long Term Funding Gaps

FasTracks Cash Flows
2009 Base Case with $2.2bn Capital Shortfall
($ in millions)

Build Out

Full Operations

Pay Go funds added to Federal, Local, P3 and bonds to fund construction

"Pinch Years"

O&M Expenses

Debt & Capital Repayment

2009 Base Case
Extending Service Delivery By 10+ Years
Financing Assumptions

Given that:

- Increased demand for improved systems will grow;

- Likelihood that Federal transportation budgets for the coming 5+ years will remain limited;

- Building more transit capacity will be constrained by the ability to raise local funds to match Federal and State funds;

- Value capture mechanisms must be calibrated to market conditions and community priorities;

- Communities require **Transit Oriented Districts** to help coordinate infrastructure phasing – so that real-estate values can be “unlocked”.
Funding Competition for VC Revenue –

• FTA to incorporate some form of Value Capture to help offset transit capital construction costs;

  or

• Cities/Developers to use Value Capture (i.e. Special Districts) to help pay for up-front infrastructure improvements and other Livability costs;

  or

• Housing advocates for available $$ to offset affordable housing capital costs near transit stations.
On Going Transition from TOD 1.0 to 2.0

**TOD 1.0**

- A. Route Alignment
- B. Station Location
- C. Station Area

**TOD 2.0**

1. Route Alignment
2. Station Location
3. Station Area
4. Land Assemblage
5. Infrastructure
6. Vertical Development

**Real Estate**

- A. Land Assemblage
- B. Infrastructure
- C. Vertical Development

**Transit**

- A. Route Alignment
- B. Station Location
- C. Station Area
Capitalizing On The Price Premium

Will People Pay More To Live Near Transit Service?

Santa Clara County, CA: Commercial land within quarter mile of commuter rail stations increased 120% ($25/sq.ft.); for light rail, values increased 23% or $4/sq.ft.

Dallas: Residential properties increased 32% in value within a quarter mile of DART stations; for office buildings the increase was 24.7%.

Washington D.C.: Every 1,000 ft. reduction in distance to rail station raises value of commercial property $2.30/sq.ft., or $70,139 on average 30,000 sq.ft. building.

San Diego: Premiums of 46% were found for condominiums and premiums of 17% found for single-family housing near Coaster commuter rail stations. Premiums of 17% found for multi-family housing. For commercial properties 91% premiums.

Alameda & Contra Costa Counties, CA: Single family homes in Alameda and Contra Costa counties worth $3,200-$3,700 less for each mile away from BART station.

Source: CTOD and Strategic Economics
Suburban Development Attracts Equity Over Higher-Cost, Lower-Profit TOD

Developer decision model

Investor Willingness to Fund:
- Willing
- Unwilling

Return on investment

Market conditions:
- Weak Market
- Strong Market

Profit margins:
- Suburban developer profit
- TOD developer profit

Higher cost of TOD

Subsidy required to attract investment
TOD 3.0 Reframes TOD Implementation - Investment and Livability Benefits

- Downtown and Neighborhood Rejuvenation
- GHG/Metropolitan Sustainability & VMT Reduction
- Social Equity for Jobs and Housing
- Economic Growth with Environmental Quality

TOD 3.0
1. Route Alignment
2. Station Location
3. Station Area
4. Land Assemblage
5. Infrastructure
6. Vertical Development
7. Livability Benefits

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Achieving Regional Goals

Aggregating 120 Priority Development Areas

- Housing Affordability
- Jobs/Education Access
- Neighborhood Vitality/Identity
- VMT/SOV Trip Reduction
- Mobility/Access Improvements
- GHG Reductions
- Energy Use Reductions
- Water Conservation
- Waste Conservation
“Livability Benefits” Become Key Criteria for Corridor/Station Planning

Corridor is designed to maximize:

- Mobility
- Equity
- Environment
- Public space
- Economic development
- Education
- Services
- Infrastructure
“Ideal TOD” Stifles Development by Reducing Revenues

Developer decision model

- Suburban developer profit
- TOD developer profit
- TOD developer profit with "Ideal TOD" zoning

Lower revenue degrades profit

Investor Willingness to Fund:
- Willing
- Unwilling

0% 10% 20% 25%

Weak Market Strong Market

Return on investment
Value Capture Can Help Fill The Gap

Hypothetical Transit Financing

- Value Capture
- Local
- Region
- State
- Federal

Historical funding vs. TOD focused transit

Value of funding:
- $0.0 B
- $0.2 B
- $0.4 B
- $0.6 B
- $0.8 B
- $1.0 B
- $1.2 B

Declining local match
# Twenty-five Potential TOD Value Capture Mechanisms

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Seattle Streetcar Infrastructure
Primarily Funded by Property Value Capture

Seattle Streetcar Infrastructure Financing Sources ($52M)

- Property Assessment District
- City Property Sales
- Government
  - No FTA
  - New/Small
  - Starts

Source: http://www.seattlestreetcar.org/  Accessed 2/08/09
Portland Streetcar Infrastructure Primarily Funded by Property-Related Value Capture

Portland Streetcar Infrastructure Financing Sources ($103M)

- Agency land sale
- Improvement District
- TIF
- Parking district bonds
- Government
- Other

Source: City of Portland; “Portland Streetcar: Development-Oriented Transit”; "2008
Dallas TOD Tax Increment Zone To Fund $182M in Corridor-wide Livability Benefits

Source: Office of Economic Development; “Dallas TOD TIF Plan;” City of Dallas; 2008
Scale of Value Capture May Only Covers Some Lower Cost Benefits

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<th>Component</th>
<th>Cost (&quot;07 $MM)</th>
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<td>• Light Rail (2 track/vehicles/ROW)</td>
<td>$30-45 / Mile</td>
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<td>• Trolley (track/vehicles/stations)</td>
<td>$25-35 / Mile</td>
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<tr>
<td>• Commuter Rail (4-6 double deck car trains/no ROW)</td>
<td>$18-23 / Mile</td>
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<tr>
<td>• Bus Rapid Transit (4 vehicles/6 stations/shared ROW/single street)</td>
<td>$14-20 / Mile</td>
</tr>
<tr>
<td>• Shuttle Service to Station (6-8 shuttles with 10-15 minute headways)</td>
<td>$1.5-2.0 / Fleet</td>
</tr>
<tr>
<td>• Light Rail Station Platforms</td>
<td>$2.5-5.0 / Station</td>
</tr>
<tr>
<td>• Parking @ $1,500-2,000/space</td>
<td>$1.5-2.0 / At Grade</td>
</tr>
<tr>
<td>(1000 cars @ $15-20,000/space, no land)</td>
<td>$15.0-20.0 / Garage</td>
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Reframe Assumptions

Re-formulate: the BIG IDEA – Sustainable Corridor

Re-examine: getting people to and from the stations

Re-measure: extend beyond the half mile

Re-draw: plan for Transit Districts to allocate lower, mid and higher density

Re-finance: expand the funding base beyond the station area

Re-generate: new jobs near transit -- interim uses in old strip malls, warehouses, business parks
Transportation Re-Authorization

The Transportation Bill should provide

tax credits,
credit enhancements, and/or
loan guarantees

to enable jurisdictions to more effectively fund transit infrastructure and help achieve TOD 3.0 Livability objectives.
Create a Livable Communities Jump Start Program

• Amend S. 1619/HR 4690, *The Livable Communities Act*, introduced by Senator Dodd,

• Create a **Livable Community Jump Start Program** managed by the Department of Housing and Urban Development to provide bridge loans or credit enhancements on local district-related financing used to construct critical local infrastructure and affordable housing in new and existing livable communities.

• **Livable Community Credit Enhancements** help local finance districts produce critical infrastructure sooner in the development cycle and to expand permanently affordable housing.