Real Estate Value Capture as a Form of Transit Finance

Rail~Volution
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Ian Carlton
Director of Development Services
“Although we cannot yet say that value capture will be unfailingly successful in defraying the capital costs of development in all U.S. cities, it offers a major untapped source of transit revenue.”

Robert M. Patricelli
Former UMTA Administrator
My Message

1. Value capture & TOD require forethought and coordination

2. Value capture is...

3. Transit value capture is not just Joint Development

4. There are ways to achieve more effective value capture
TransACT forges partnerships that unlock the value of premium real estate near transit.

TransACT has the demonstrated ability to bring together the vision, political momentum, phasing plans and financial strategies necessary to promote all aspects of Transit Oriented Development.

www.TransACTsf.com
TransACT’s Experience Indicates that Transit Planners Determine TOD & Value Capture Success

Transit attractiveness

Competitive

Uncompetitive

Station area real estate market

Poor

Excellent

Fruitvale - Oakland

Rosslyn-Ballston - Washington, DC

Doraville - Atlanta

Mockingbird - Dallas
TransACT’s Experience Indicates that Real Estate Value Realization Requires Collaboration Amongst Players

- Plan for land use succession
  - How do landowners deliver enough housing to generate retail demand?

- Realize synergies
  - How do property owners share resources and leverage dense settings?

- Achieve scale
  - How do individual projects coordinate to produce a valued “place”?

- Manage interdependence
  - How do landowners overcome holdouts, dilapidated neighbors, etc?
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One Definition of Value Capture

Value capture refers to the process by which all or a portion of increments in land value attributed to "community interventions" - rather than landowner actions - are recouped by the public sector.
Value Capture Process

### Value Creation
- Building rights
- Basic infrastructure provision
  - Transport access
  - Water
  - Sanitation
- Additional infrastructure

### Value Capture
- Taxes
- Fees
- Self-assessment
- Development agreements

### Value Expenditure
- Nexus-based
- General funds
- Transactionless

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The Ideal

Value Creation
- Public investments generate land value

Value Capture
- Land value tax is assessed

Value Expenditure
- Component parts of land value are calculated
  - Public infrastructure providers receive pro rata share of tax revenues to fund infrastructure
Sewers

- Sewers increase livability of urban districts
- Sewers allow for greater lot coverage relative to septic systems
- Property owners pay fee according to sewer pipe diameter
- Funds are used to improve & maintain sewers
Hope VI

Value Creation
• Building rights expanded on publicly owned land

Value Capture
• Development agreement between public authority and private developer

Value Expenditure
• 100% affordable housing replacement
• Open space provision
• Community facility provision
Road Paving

**Value Creation**
- Paved road provides improved access

**Value Capture**
- Property owners pay property assessment per-linear foot of frontage

**Value Expenditure**
- Funds are used to maintain roadways
Shuttles

Value Creation
- Commuter shuttle enables:
  - Greater development rights
  - Lower cost of development (parking)
  - Improved access

Value Capture
- Property owners self assess to pay for shuttle

Value Expenditure
- 100% of shuttle cost covered by property assessment district
Working Definition of Transit Value Capture: Property-Based Funding

Property-based transit funding mechanisms influence the finances of landowners and developers to the benefit of agencies responsible for transit

- Not necessarily land-based value capture
- Not necessarily proportionate to benefit
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What Property-based Mechanisms Do (Should) We Use for Transit?

- Greater access to land
- Building rights increased & requirements reduced

• Captured value pays for:
  - Transit infrastructure
  - Transit access features
  - Livability components
### GAO Survey Identified Prevalence of Joint Development

<table>
<thead>
<tr>
<th>Value Capture Mechanism (VCM)</th>
<th>Percentage of U.S. transit agency respondents that have used VCM (U.S.)</th>
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## My Research Identified More Than Twenty-Five Potential Mechanisms

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<th>Land Value Capture</th>
<th>Other Value Capture</th>
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<tr>
<td>1. Land-only tax</td>
<td>1. <strong>Station connection fees</strong></td>
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<td>2. Highest and best use tax</td>
<td>2. Ad valorem realty tax</td>
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<td>• <em>Ground/Air leases</em></td>
<td>4. Vacant / Underutilized land tax</td>
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<td>• <em>Land development</em></td>
<td>5. Windfall value tax</td>
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<td>• <em>Development partnerships</em></td>
<td>6. Benefits assessment districts</td>
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<td>4. Vertical Development</td>
<td>7. Infrastructure assessment districts</td>
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<tr>
<td>5. Redevelopment agency RE partner</td>
<td>8. Parking assessment districts</td>
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### Developer Payments
1. Development fees
2. Negotiated exactions
3. Transport utility fees

### Reallocated Funding
1. Tax increment financing
   • Transit redevelopment districts

### PPP
1. Ownership dedication
2. Developer infrastructure provision
3. Route concessions to private developer

**Bold** = Regular use in CA
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My Research Set Out to Identify Optimal Value Capture Approaches

Infrastructure finance mechanisms

- Property-based mechanisms applicable to transit infrastructure
- Legal v. legally impaired mechanisms
- Risk and reward comparisons
- Develop prioritization criteria & Compare options
- Optimal property-based mechanism

Specificity of Analysis

- Global
- California
- Transit Agency
- Real Estate Department

Analysis Tools

- Literature review
- Classification
- 2x2 Matrix
- Analytical Hierarchy Process

My Research Set Out to Identify Optimal Value Capture Approaches
Risk-Reward Evaluation

Relative Risk

High

Low

Relative Value

High

Low

Joint Development-related

Other Mechanisms

1. Route Location Auction
2. Vertical Development
3. Developer Infrastructure Provision
4. Ownership Dedication
5. Redevelopment Agency RE Partner
6. Station Location Auction

- Route Concessions to Private Developer
- Development Partnerships
- Negotiated Exactions
- Transport Utility Fees
- Business Taxes / Fees
- Parking A. Districts
- Ground / Air Leases
- Station Connection Fees
- Tax Increment Financing
- Infrastructure A. Districts
- Benefits A. Districts

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Landowner Collaboration Is a Complementary Outcome of Districts

- Plan for land use succession
  - Landowners coordinate timing of their various developments

- Realize synergies
  - Landowners co-brand, coordinate upgrades, share parking revenue

- Achieve scale
  - Landowners share parking, adopt joint leasing strategies

- Manage interdependence
  - Landowners fund upgrades for free-riders, promote regulation
GAO Survey Identified Dearth of District Finance Efforts

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Why Is District-based Transit Finance Rare in the U.S.?

- To produce local match, locals identify revenue sources that are:
  - Front of mind
  - Legally enabled in their state
  - Fully tested
  - More politically feasible than VC
  - More effective than VC

- FTA heavily promotes joint development with little focus on district finance options

- Transit planning generally ignores or deprioritizes value capture potential
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The Most Successful Value Capture Program in U.S. Earns ~$9MM Annually

- WMATA earns value capture income primarily from joint development
  - Long-term ground leases
  - Station connection fees
  - Retail lease agreements

~0.7% of WMATA’s annual operating budget
Districts Can Produce More Revenue Than Joint Development

Portland Streetcar Financing Sources

- Transport agency land
- Commercial District
- TIF
- Parking district
- Other
- Government & Agency

Source: City of Portland; “Portland Streetcar: Development-Oriented Transit”; “2008
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Portland Value Capture Will Benefit from Recent TOD Evaluation
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Should FTA require 1% value capture?