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Capturing rising real estate values key to transit implementation

As money to build rail lines and transit-oriented development falls short, advocates search for new revenue sources.

PHILIP LANGDON

Since 2004, a number of regions, including Denver, Salt Lake City, Seattle, Los Angeles, Minneapolis-St. Paul, Portland, Oregon, and Charlotte, North Carolina, have been planning to expand their transit systems more rapidly than in decades past. The combination of a depressed economy and reduced government revenue, however, has become a major hindrance.

Despite the Obama administration's enthusiasm for rail and streetcar lines, federal agencies lack the funds to support more than a fraction of projects being envisioned.

How large is the shortfall? The Center for Transit-Oriented Development (CTOD) gathered information last year on 413 planned or proposed fixed-guideway transit projects that were seeking federal New Starts funds. CTOD found that at the current rate of New Starts grants ($1.6 billion a year), it would take 73 years for all those projects to receive the money they need.

The mismatch between demand and revenue is a chief reason why the advocates of transit and transit-oriented development (TOD) are increasingly turning to "value capture" mechanisms. Value capture enables transit projects to extract sizable revenues from properties whose value goes up because of proximity to transit.

Essentially, a public entity lays claim to part of the rise in property values along a transit line, and uses it to help finance transit or other public investments.

In the US, four main methods of value capture have gained favor. They are:

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A new house on a back lane in Vancouver, British Columbia. There have been 450 built, and as many as 60,000 allowed under the codes. See article on page 12.

PHOTO COURTESY OF SMALLWORKS STUDIOS

Social network assists downtown rebirth

Bristol Rising in Connecticut is one of the most comprehensive small city redevelopment plans in the US.

ROBERT STEUTEVILLE

This past August in Bristol, Connecticut, 15,000 people attended a "pop-up piazza" — a festival on the site of a planned downtown public space. Across the street, a new café and art gallery more recently opened, followed by a pool hall. An alehouse is planned.

This spurt of energy and excitement is unusual in a Connecticut city with a once-thriving downtown now marred by vacant buildings and too many parking lots. Bristol was the victim of a devastating 1955 flood, even more damaging urban renewal, and a changing economy. But residents are gung-ho about revitalizing the core of this suburban city, population 61,000 — the home of ESPN. In October, city council approved a revitalization plan to build as many as 3,500 new housing units downtown along with substantial retail and office development.

The development, on scattered underutilized sites around the 400-acre city center, could bring an estimated 2,200 construction jobs, 2,400 permanent jobs, $103 million in annual income, and $17 million in annual city revenues.

The Bristol Rising plan focuses on eight districts and 30 sites with significant development potential. Bolstered by market studies, developer Renaissance Downtowns is starting with rental units and focusing primarily on mixed-use loft construction to attract the up-and-coming "millennial" generation and downsizing Baby Boomers.

Renaissance Downtowns of Plainview, New York, cuts deals with small

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Value capture

FROM PAGE 1

SPECIAL ASSESSMENT DISTRICTS

A notable example is the special assessment district that provided crucial financial support for the South Lake Union Streetcar in Seattle. Since opening in December 2007, the 1.3-mile line has connected the redeveloping South Lake Union district to the adjacent downtown—helping Paul Allen's Vulcan Real Estate, the major investor in South Lake Union, turn a drab warehouse area into a hotbed of mixed-use development.

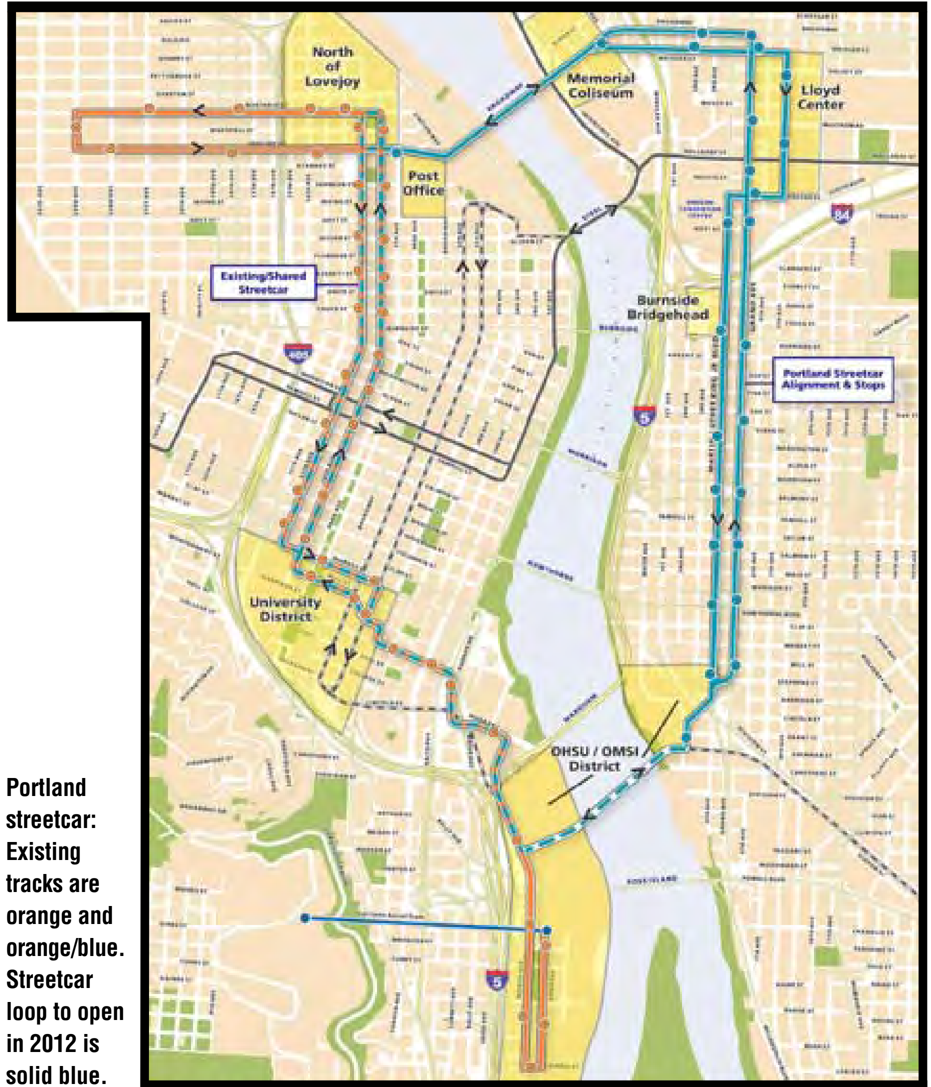
Office, housing, and restaurant development has thrived — just as Vulcan sensed it would once streetcars provided quick, convenient access. Vulcan has built 7,500 housing units and more than 2 million square feet of commercial, biotech, and mixed-use projects, including the headquarters of Amazon.

More than 2,400 riders a day use the streetcars, which usually operate at 15-minute intervals. In 2011, nearby medical institutions underwrote an additional streetcar, reducing headways to 10 minutes during peak commuting hours.

"Streetcars are [the transit mode] where people have been most successful at value capture," says Nadine Fogarty, principal in Strategic Economics of Berkeley, California, which has studied South Lake Union and other transit-served urban developments. "Streetcars are basically a walk accelerator; they expand the size of a retail or office district," bringing additional customers, tenants, and residents to properties along their routes.

Owners who expect to benefit are often willing to vote to establish assessment districts, which levy a special tax on properties within the district. Approval comes easiest when properties subject to the tax are owned by just a few parties. That was the case in South Lake Union, where Vulcan had bought 60 acres, aiming to remake the area. In some states, a district can be established only with the approval of a supermajority, such as two-thirds of the property owners. The names of these districts vary — from "local improvement district" in Washington State to "transit benefit district" in Washington, DC.

Less commonly, such districts have been established along portions of light-rail or heavy-rail lines. These lines tend



Portland streetcar: Existing tracks are orange and orange/blue. Streetcar loop to open in 2012 is solid blue.

Inspiration from Portland

Installation of streetcars, and the use of special assessment districts to support them, have been inspired by the phenomenal success of the Portland Streetcar and redevelopment of the Pearl District north of downtown Portland, Oregon.

A local improvement district, as the special assessment district is called in Portland, was approved in the 1990s by property owners along what is now a 3.9-mile route. The special tax raised $9.6 million of the $57 million needed to build the line. Other sources, predominantly local, included $28.5 million in bonds backed by revenues from city-owned parking garages.

The investment has paid off handsomely. The consulting firm Strategic Economics reports that along 10th and 11th Avenues, retail has increased dramatically since the streetcar began running in 2001. Prior to the start of streetcar route construction in 1997, buildings on the blocks adjacent to the route filled an average of only 34 percent of their allowable floor area ratio (FAR). Between 1997 and 2004, new development became nearly three times as dense, averaging 90 percent of the maximum FAR.

Ridership reached 12,000 per weekday by 2010, and a 3.3-mile loop connecting to areas east of the Willamette River is to open this year. By 2008, $3.5 billion of new development had been built adjacent to the streetcar service. Since 1995, the Pearl Business Association has grown from eight members to around 450, according to Strategic Economics. Ninety percent of the stores are said to be locally owned.

to cross municipal borders and cover long distances, with large differences in volume of development from one stations but less development around others. Those factors make it harder to win property owners' approval for special assessment district on light- or heavy-rail lines.

But it does happen. In Fairfax County, Virginia, for example, property owners established the Dulles Rail Transit Improvement District, which is providing some of the money needed to extend Metro's Silver Line to Dulles Airport and beyond. A November 2008 CTOD report, "Capturing the Value of Transit," says the Dulles improvement district is intended to generate $400 million from commercial, industrial, and multifamily investment properties — about 15 percent of the Metro extension's cost. The assessment — much of it on properties in office- and retail-rich Tysons Corner — serves as the county's portion of the local match required for federal funding of the project.

The boundaries of the Dulles assessment district were drawn to include property owners who viewed transit as a worthwhile investment and to exclude owners who would have voted against the district. A section of adjoining Loudoun County was dropped from the district because of inadequate support there.

Another section of the Metro rail network where a special assessment district has been established is the District of Columbia near New York Avenue, where a small number of owners controlled most of the properties and were eager to develop them. They voted to establish a special assessment district that would provide $25 million — 28 percent of the cost of building an infill station on the existing Red Line.

JOINT DEVELOPMENT

Some of the largest transit operators in the nation — especially those in Los Angeles, Atlanta, and the nation's capital — have become adept at teaming up with private developers to erect buildings above stations or on property nearby that has been under transit agency ownership.

A Government Accountability Office (GAO) study in July 2010 found that many of these projects convert parking lots into a mix of structured parking and other development — mainly housing, offices, or retail. The revenue generated for a transit system each year by joint development "is generally small when compared with an agency's annual operating expenses," GAO concluded.

But there's certainly potential for bigger endeavors. "Atlanta's Lindbergh City Center will eventually encompass 47 acres of mixed-use development " near a MARTA station, GAO pointed out. A joint development agreement may include a cost-sharing agreement (usually to pay for infrastructure that integrates transit into the surrounding development) or a revenue-sharing agreement (which distributes the revenues from development among the partners) or a combination of the two.

One of the most impressive joint development projects in the nation — a nearly $500 million endeavor with complicated financial underpinnings — is being carried out in Denver, where public agencies, including the Regional Transportation District, the City and County of Denver, the Colorado Department of Transportation, and the Denver Regional Council of Governments, have teamed up with developers Continuum Partners and East West Partners.

The partner agencies, along with the developers, created a not-for-profit entity called the Denver Union Station Project

RENDERING BY SOM AND RED SQUARE

Bus facility beneath street and linear park at Denver Union Station.

Authority (DUSPA) to finance and construct a multimodal transportation hub at the city's historic Union Station. Using a combination of local, state, and federal funds, plus two federal loans, DUSPA is producing a hub that will be abutted by millions of square feet of mixed-use development.

The transportation and infrastructure program includes a three-track light-rail facility, a 22-bay underground bus facility, an eight-track commuter rail depot, and nearly 10 acres of new public space, all situated within the emerging Union Station Neighborhood. Light rail is open and operating, the bus facility is more than half completed, and construction has begun for commuter rail.

Private development is considered critical to the transportation hub's success. "On Union Station's original 19 acres there will be upwards of 1.5 million square feet of space," says Frank Cannon, president of the Union Station Neighborhood Company, an entity formed by Continuum and East West serve as the project's master developer.

Groundbreaking for the first 120,000 square feet of private development — a five-story mixed-use development adjoining the historic station — is to take place in March, with the second building to follow later this spring. On the remaining 20-plus acres of the development within the Union Station Neighborhood, most of it controlled by East West or Continuum, "there will be another 3 to 4 million square feet of development," Cannon says.

"It's a significant addition to Denver," says Cannon. "We're creating an entirely new transit district — a 12-block area — with nearly 10 acres of new public space."

TAX-INCREMENT FINANCE (TIF) DISTRICTS

• **Tax-increment Finance (TIF) districts**. In TIF districts that are organized to make transit-related projects feasible, the increase in property tax revenue from development and higher real estate values is most commonly used to pay for station infrastructure such as parking garages, roads, and pedestrian improvements. Though the rules vary from state to state, the

tax increment is frequently devoted to environmental cleanup and land assembly as well as infrastructure. "In some cases TIF can even be used to directly subsidize private development," CTOD says.

In the Denver project, both property and sales tax increment are being used to retire the federal loans that DUSPA obtained to build the transit infrastructure improvements. (No TIF revenues are being used to subsidize the private development by the Neighborhood Company.)

TIFs typically allow jurisdictions to borrow against the anticipated growth in tax revenue, but they usually do not impose new taxes or higher rates. However, in the Union Station project, the City, the Regional Transportation District, and the Neighborhood Company established additional special taxing districts to increase the amount of TIF revenue generated. "We created a series of Metropolitan Districts where we essentially tax ourselves," Cannon says of the master developer.

For 30 years, property owners will pay an extra 20 mills of property tax to retire debt on the infrastructure and another 10 mills to operate and maintain the public realm. Given the current tax level in Denver, "this is about a 45 percent increase in property taxes on ourselves," he says.

DEVELOPMENT IMPACT FEES

• **Development impact fees**. Several Florida jurisdictions, including Broward County, have experimented with impact fees to pay for transit. In 2005, Broward initiated a Transit Oriented Concurrency (TOD) system to help pay for transit improvements and operations. Within each of eight TOC districts, a five-year Transit Development Plan identifies needed transit improvements. The total cost is charged as a fee on all new development, the Center for Transit-Oriented Development reports. Costs are allocated to individual projects through a formula based on expected trip generation.

San Francisco introduced a Transit Impact Development Fee in 1981 to offset the increased costs of providing additional service to the downtown. The fee, which is based on buildings' square footage, was later extended to a broad range of commercial uses and applied citywide. Revenues average about $10 million a year.

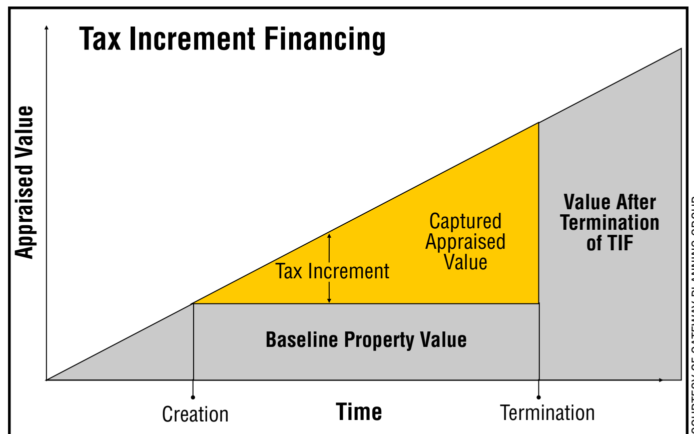
CTOD says that as a means of paying for transit improvements, impact fees are "only likely to be successful in an area with a strong real estate market and a significant amount of new development."

THE FUTURE

"I expected interest in value capture as it is traditionally defined — a mechanism that captures the value of rising property values — to wane with the weak real estate market," says Fogarty, "but that has definitely not been the case." Many transit or TOD projects envision using one or, more often, multiple value-capture methods.

• The City of Atlanta authorized a **tax allocation district** — similar to a TIF district — to pay for a majority of the costs of the proposed 22-mile Atlanta Beltline transit loop, which is to run on existing underused rail corridors. The funds it generates would pay for transit and other project components, including 1,300 acres of new parks and green space and 33 miles of trails.

• The Regional Plan Association in greater New York has been working with civic groups "to advance value capture as part of a comprehensive package for TOD" in Connecticut, says RPA's David Kooris. That could be especially helpful for preparing the way for mixed-use development along stations of a $1 billion commuter rail line that's planned to serve a corridor running from New Haven to Hartford to Springfield, Massachusetts. Benefits from government investment in transit "should not accrue solely to the private sector," Kooris says; they should support beneficial community development.



COURTESY OF GATEWAY PLANNING GROUP

TEXAS-SIZED DREAMS

Most ambitiously, the North Central Texas Council of Governments and the Regional Transportation Council have proposed an Innovative Finance Initiative that would make it possible to establish a Cotton Belt Corridor passenger rail line extending 62 miles across the Dallas-Fort Worth region.

The Cotton Belt proposal — a Phase 1 report was released in December — argues that "land development opportunities and associated property value increases created along the Cotton Belt Corridor can ... be harnessed to help finance, design, build, operate, and maintain new passenger rail service."

Figures exist that support that argument. A study by the University of North Texas attributed $4.26 billion of development between 1999 and 2007 to the presence of Dallas Area Rapid Transit. Numerous studies across the country have documented a "value premium" for properties near transit.

"Revenue streams identified for the Cotton Belt could generate a net present value estimated at $2.1 billion to $3.0 billion," according to the Phase 1 report. Forty percent of that sum could come from property value capture. The report says areas adjacent to the rail route could "attract and absorb 2.11 percent of the region's total population growth and 1.75 percent of its employment growth over the next 40 years."

"Traditional infrastructure funding sources are evaporating," says the report, in which Scott Polikov of Gateway Planning Group was involved. For continued prosperity, the Dallas-Fort Worth region requires improved transportation options, and the rail line is seen as serving that aim while also encouraging "quality growth" — particularly if intelligent planning and zoning, including form-based codes, are part of the program.

Polikov says the Cotton Belt — the proposal envisions the rail service being designed, built, and operated by a major private investor — would use TIF districts, joint development, and special assessment districts to generate needed revenues. If all goes as he hopes, the Cotton Belt would show America the way to a future that unites transit and sound placemaking principles. ◆