ADVANCING EQUITABLE TRANSIT-ORIENTED DEVELOPMENT

# Steps to Avoid Stalled Equitable TOD Projects

## EXECUTIVE SUMMARY

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# I Introduction

Regions across the U.S. have been working to create more sustainable urban development, with building near public transit playing a critical role. Transit-oriented development (TOD) can contribute to creating a healthy regional economy, promising to reduce commutes, produce vibrant mixed-use places, and provide housing with easier access to jobs and services.

To optimize housing and transportation affordability, proponents advocate developing affordable housing and locating mid-skill jobs and critical services like childcare and health facilities near transit stops. Living Cities and others consider this more inclusive form of TOD to be "equitable TOD."[1]

Recently, promoting sustainable urban growth has become a national policy imperative. Smart Growth lobbies, programs such as the Federal Joint Partnership for Sustainable Communities, and new state policies, including California's SB375, aim to link planning for land use, economic development, housing, and transportation in support of the sustainability agenda.

However, equitable TOD projects have ambitious goals, are complex to execute, and face many more obstacles than traditional urban development. These challenges include increasing land values in proximity to transit that threaten project feasibility, financing that requires a complex mix of funding sources, long timelines, and project scales larger than their traditional development counterparts. Stakeholders, including Living Cities, have observed that equitable TOD projects frequently stall or are aborted before they start construction.

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1 In a March, 2013 report Living Cities defined as equitable TOD as that which: "prioritizes social equity as a key component of TOD implementation. It aims to ensure that all people along a transit corridor, including those who are low income, have the opportunity to reap the benefits of easy access to employment opportunities offering living wages, health clinics, fresh food markets, human services, schools and childcare centers. By developing or preserving affordable housing and encouraging locating jobs near transit, equitable TOD can minimize the burden of housing and transportation costs for low income residents and generate healthier residents, vibrant neighborhoods and strong regional economies."
Melinda Pollack and Brian Prater in "*Filling the Financing Gap for Equitable Transit-Oriented Development*," published by Living Cities, March 2013.

## PURPOSE OF THIS RESEARCH

Living Cities asked us to help determine how equitable TOD stakeholders can avoid or overcome the complications that emerge during the predevelopment phase. With experience as developers, planners, researchers, and TOD advisers, we brought a real estate and policy perspective to the following questions:

- **Why are equitable TOD projects so frequently stalling?**
- **When is the optimal time to incorporate market/development criteria into the transit alignment/station and site acquisition decisions?**
- **Is there an optimal predevelopment process that would help projects move toward development smoothly?**

The paper which accompanies this executive summary describes the many factors that currently make equitable TOD so difficult to complete, and then proposes concrete techniques to address these challenges.

Our analysis is based on more than a dozen case studies, including both station area developments and individual projects. The cases and the full paper are available online at www.LivingCities.org.

II

# Findings:
# Common Causes of TOD Stall and Failure

To understand the obstacles encountered by many equitable TOD projects, and how stakeholders can avoid or overcome these obstacles, we researched more than a dozen projects and districts around the country. We investigated both the development processes for individual equitable TOD projects and the evolution of entire TOD districts where projects have been completed. Based on this research, we have identified several themes and pinpointed critical predevelopment process steps and success factors. Here, we offer seven key lessons from our research.[2]

## Key Lessons

LESSON 1:

### Equitable TOD costs are high and financial returns are low compared to "standard" development

Advocates of equitable TOD aspire to high standards of development. As a result, the latest generation of plans, policies, and entitlement processes for urban, walkable, and mixed-use TOD have burdened projects with extra costs compared to competing real estate investments.[3] In addition, equitable TOD projects are financially hampered by reduced revenues due to their affordability, added risk and complexity due to the number of funding sources that are typically combined, and extra costs from the provision of services and design amenities.

LESSON 2:

### Upstream planning decisions are not aligned with downstream real estate goals

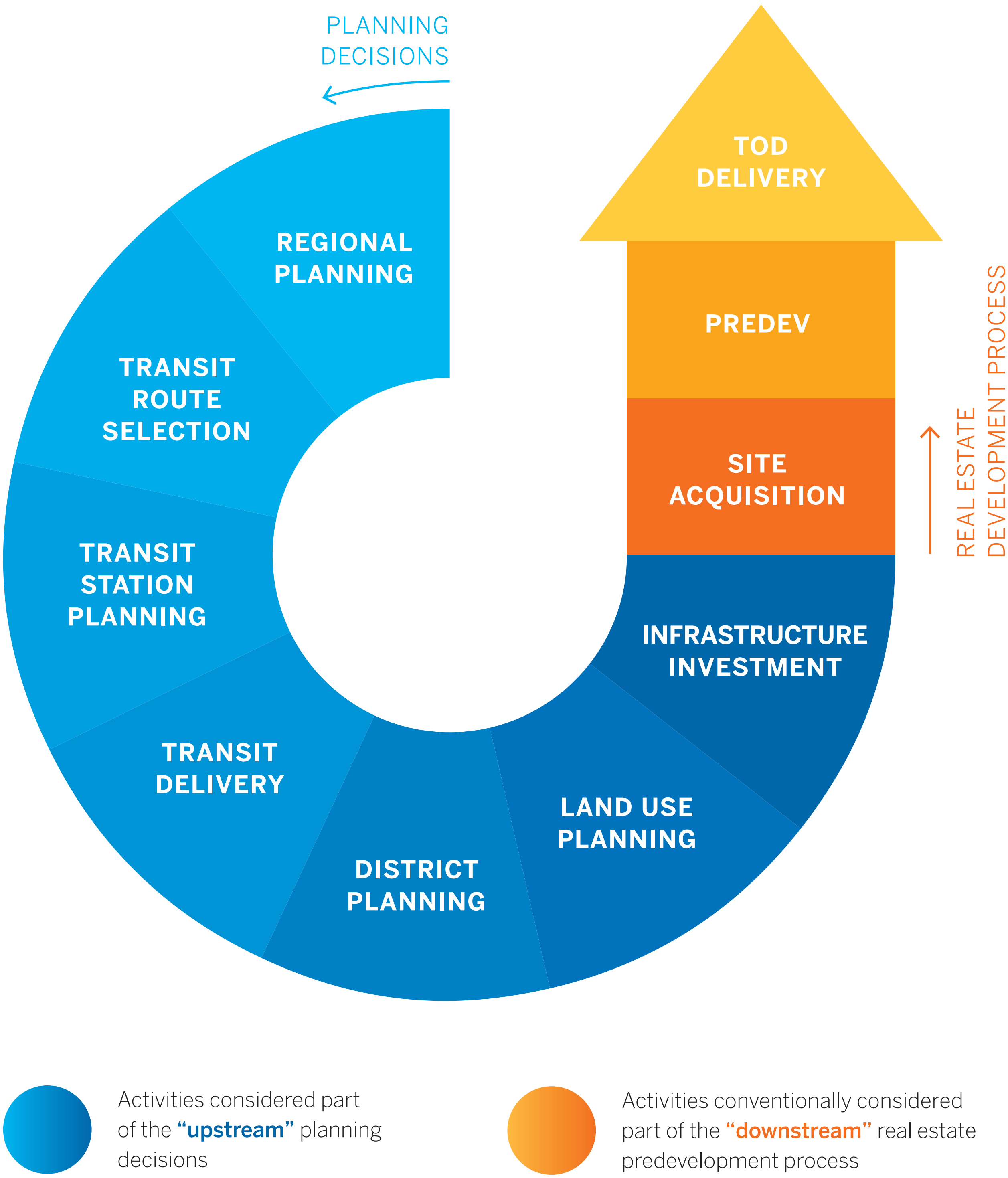
Transit and land use planners generally determine station locations and infrastructure plans using decision criteria that do not take into consideration the site conditions needed to foster private development. TOD projects are heavily impacted by upstream decisions made by stakeholders who may have acted decades earlier.

3 See Appendix A for our research approach and methodology. Transit district case studies and project case studies are available online at: www.LivingCities.org

4 Fleissig, William and Ian Carlton; "*The Investment/Finance Perspective*" in "*Fostering Equitable and Sustainable Transit-Oriented Development*"; Living Cities; February 2009

**FIGURE 1**

**Hypothetical representation of the major steps that impact equitable TOD**



### LESSON 3:
## Conventional feasibility studies routinely miscalculate TOD viability

Our case studies revealed that major investments in sites, and initial investments in building projects, were based on evaluations that overlooked numerous potential pitfalls characteristic of TOD projects in particular.

### LESSON 4:
## Infrastructure investment is critical to TOD

The infrastructure necessary for successful TOD includes the basic utility and transportation infrastructure required to support vertical development, as well as all the major place-making elements in a station area (plazas, parks, bike and pedestrian connections, etc.), and the social infrastructure (daycare facilities, schools, performing arts venues) to make a community a desirable location.

### LESSON 5:
## The key role of market-rate development is often overlooked

Achieving the goals of equitable TOD often depends on the success of market-rate housing development. For example, tax increment financing (TIF) generated by new market-rate development commonly funds both affordable housing subsidies and infrastructure. Likewise, assessment district funds are generated predominantly by market-rate developments, and district expenditure items often provide substantial benefits to affordable projects.

### LESSON 6:
## Early planning for TOD inflates land costs long before construction begins

The announcement of a new transit investment can lead to land speculation. This rise in value may be justifiable based on market dynamics, but in other instances, land speculation is based on expectations that far exceed what markets can practically support.

### LESSON 7:
## Gap funding is often necessary to solve common TOD roadblocks

Many of our conversations with TOD project stakeholders included a discussion of the numerous funding sources that projects had to rely upon to fill the funding gaps that arose during their predevelopment processes. The speed and creativity with which additional gap funds were identified saved many projects.

III

# **Recommendations:** Toward successful, equitable TOD

## Strategies for "Upstream" Process Improvements

RECOMMENDATION:

### Incorporate market assessments into all planning activities early

Real estate investors frequently blame their project's predevelopment difficulties on a transit agency's decade-old planning decision. For most TOD projects, transit agencies and many other upstream actors have, indeed, made decisions long before, without adequately considering the market realities "downstream."

We believe that by incorporating aspects of real estate development feasibility evaluations into their decision-making processes, these upstream actors can better align their decisions with the needs of equitable TOD sponsors to come. This type of informed early decision-making would certainly have helped prevent or alleviate many of the problems encountered by the case study projects we investigated.

RECOMMENDATION:

### Use a Transit Corridor Approach

The literature on TOD has long called for the incorporation of market perspectives in transit planning and TOD policies often require market perspectives to be a consideration in land use planning processes. However, our conversations with local and regional TOD policy experts indicated the track record of incorporating market perspectives was mixed.

RECOMMENDATION:

### Formulate a TOD Planning Checklist

Based on the evidence from our case study analyses, there is a growing demand for a comprehensive TOD-focused tool that can help inform decision-making for all stakeholders throughout the TOD 3.0 planning process. The tool, like a Swiss Army knife, could have tailored sections--with one tool for land use planners, and another for transit station designers—to address the distinct perspectives and roles of various TOD stakeholders.

# Strategies for “Downstream” Process Improvements

### RECOMMENDATION:
## Consider “market-readiness” during equitable TOD site selection

To accomplish successful TOD today, sponsors should focus their site selection choices on station areas and development sites where the goals of equitable TOD can most likely be achieved without becoming embattled during the predevelopment stage.

### RECOMMENDATION:
## Forumlate a Site Evaluation Checklist for potential equitable sites and projects

Any state-of-the-art, equitable TOD project faces myriad potential pitfalls during predevelopment. Current project assessment tools are primarily based on policy desires, land use plans, and zoning standards, but do not incorporate critical components of equitable TOD development – land assemblage, infrastructure costs, livability benefits, and unpredictable project scheduling.

To help expand the scope of factors considered during predevelopment, therefore, we propose developing a TOD Site Evaluation Checklist for stakeholders to use in evaluating the feasibility of a site or proposed equitable TOD project.

### RECOMMENDATION:
## Develop a TOD Investment Scorecard

A TOD Investment Scorecard based on the informed site evaluation process described above would allow investors to compare the feasibility of potential sites and proposed equitable TOD projects. A TOD feasibility score could then be used to help stakeholders assess site potential, and develop appropriate short- and long-term strategies to better position sites for future development.

## TABLE 1

**Example TOD Investment Scorecard could produce a site feasibility score.**

| TOD SITE | FINANCIAL FACTORS | READINESS FACTORS | OFFSITE FACTORS | ONSITE FACTORS | OTHER COMPLICATING FACTORS | TOD SCORE | EXPECTED OUTCOME |
|---|---|---|---|---|---|---|---|
| Site 1 | | | | | | 57 | Project will require assistance |
| Site 2 | | | | | | 39 | Site is inadequate |
| Site 3 | | | | | | 82 | TOD is likely to succeed |

Lighter colored boxes indicate that fewer potential hurdles were identified and darker boxes indicate that major obstacles were identified. Note: A lighter score for readiness factors indicates a greater number of positive indicators.

# I Conclusion

If more market-based thinking were part of every the upstream planning process, then project sponsors could consider a potential site knowing that a project's financial capacity could support its required livability benefits. Similarly, by the time developers and investors conducted feasibility evaluations of a site downstream—informed by the type of site evaluation checklist described above—equitable TOD would be a more viable proposition.

As long as current procedures persist, we contend that equitable TOD projects will remain so complicated to finance and develop that few projects envisioned in regional plans will be realized. When they are developed, they will continue to demand enormous public subsidies and precarious funding structures—and often fail to achieve the desired community benefits. Few savvy developers will choose to embark on equitable TOD, thus reducing the number of entities capable or willing to take on these financially risky and time-consuming efforts.

By rigorously matching specific equitable goals to each development site and station location, we can deliver more equitable community benefits to a broader mix of citizens. We believe the methods we describe will help decision makers and developers to consider equitable TOD factors at each planning and investment milestone in the TOD development process.

To read the paper or case studies which accompany this Executive Summary, visit **www.LivingCities.org**.

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## VIEWS AND OPINIONS

The views and opinions expressed in this paper are those of the authors and not necessarily the organizations that have sponsored this work or individuals who have participated in our research. Our vantage point as developers, investors, and consultants provides a unique interpretation of the world of equitable transit-oriented development that may not be shared by all stakeholders within the field. We consider this paper as one more piece of evidence in an ongoing conversation about equitable TOD and would appreciate any and all feedback that readers care to share with us.

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## ABOUT LIVING CITIES

Living Cities harnesses the collective power of 22 of the world's largest foundations and financial institutions to develop and scale new approaches for creating opportunities for low-income people and improving the cities where they live. Its investments, research, networks, and convenings catalyze fresh thinking and combine support for innovative, local approaches with real-time sharing of learning to accelerate adoption in more places.

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