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Will Stimulus Funds Put Transit-Oriented Development Back on the Fast Track?

The Recession Has Thrown a Curve to TOD But Federal Dollars Could Help Developers and Cities Position Projects For the Next Cycle

Money from the American Recovery and Reinvestment Act is beginning to trickle into state and local coffers for transit projects around the nation. With more than \$50 billion earmarked for transportation and infrastructure, that's in turn stimulating the debate about transit-oriented development (TOD), viewed by many urban planners as a crucial component of sustainable cities along with clean-energy job creation and green buildings.

Transit-oriented developments are typically mixed-use projects involving high-density residential with some combination of retail, entertainment and/or office buildings clustered near light-rail or bus stations to cut traffic trips and curb vehicle emissions.

The stimulus bill includes \$10 billion for public transit and about \$30 billion for roads, bridges and other infrastructure -- all part of the largest increase in funding of the nation's transportation network since the creation of the national highway system in the 1950s. Additionally, President Obama in April announced a plan for a network of 100-mile to 600-mile intercity high-speed rail corridors, identifying \$8 billion in stimulus funds and \$1 billion a year for five years requested in the federal budget to jump-start the system. The Federal Railroad Administration will begin awarding the first round of grants this summer.

Beyond dollars for hard construction and infrastructure, public funding is available for design, engineering, environmental analysis, land acquisition, relocation, demolition, and site preparation, including brownfield reclamation. Public monies may also be available for open space, parking, community services, pedestrian walkways and other links between transit and buildings.

Additionally, in late March, U.S. Department of Housing and Urban Development Secretary Shaun Donovan said HUD and the Department of Transportation will work together on programs to lower transportation costs for American families, in part by promoting transit-oriented development.

"Careful data collection in the cities and suburbs has demonstrated that the cost savings associated with living near transit are significant," Donovan said in testimony before a congressional subcommittee.

A study by the Center for Transit Oriented Development and Center for Neighborhood Technology of four neighborhoods in Minneapolis-St Paul, MN, found that the average two-person household spent 40% of its income on housing and transportation, while a similar household in a centrally located neighborhood with access to mass transit spent only 34%, an average annual savings of \$3,000, Donovan said.

Even the most avid supporters of the transportation stimulus, however, acknowledge it's at best a down payment on the astronomical sums needed to repair, rebuild and expand the nation's infrastructure. Potentially more significant over the long term is congressional reauthorization of the nation's six-year, \$286 billion transportation spending bill, which is expected to emphasize integrated regional and local transportation planning over highway projects and redirect federal dollars toward light rail and other mass transit to help fight sprawl.

TOD makes sense over the long term because the macro economy favors urbanization, public transportation and less reliance on cars. But like other development, demand for transit-centered projects

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will remain soft for another couple of years due to the recession, said Marcus & Millichap Managing Director Hessam Nadji.

"The problem is, the prime areas for transit-oriented demand are those where development costs are incredibly high," Nadji said. "It's not plug and play -- it's more expensive and difficult development." Stimulus monies will help to some extent but are probably not enough by themselves to lead a market recovery, he said.

Richard K. Greene, senior consultant for The Williams Group Real Estate Advisors in New York, said the stimulus money will simply augment a shift toward TOD that has been gradually building momentum for many years. Seattle, for example, finally gets a light-rail system this summer after four decades of planning. Stamford, CT, has evolving into a corporate satellite of New York City over the last decade. That said, any funding that can germinate public and private TOD ventures during the recession is welcome.

"Government will use the stimulus money to help create new activity while the credit markets slowly recover," Greene said. "The nexus between green construction and TOD is a real opportunity for commercial developers to get seed money and offset costs. Funds from the DOT and the Department of Energy can make a big difference to a developer doing a \$50 million TOD project."

Below, CoStar takes a look at the status of efforts in three cities that by consensus of developers and urban planners are leading current efforts to build a TOD infrastructure.

Seattle

Growth controls and geographic barriers have led to concentrated high-density, mixed-use development in Seattle over the last few years, drawing new residents and creating a "24-hour city" environment in several downtown area neighborhoods.

In July, the 15.5-mile Sound Transit light-rail line will open between downtown Seattle and Seattle-Tacoma Airport. Anticipating the opening a year ago, developers, including Othello Partners, Opus Northwest and Eagle Rock Ventures, lined up to build multifamily housing and mixed-use projects along the route, particularly in the Rainier Valley district along Martin Luther King, Jr. Way. However, the sagging credit market has put a damper on tax credits and financing, and many developers have delayed or canceled their plans.

The city and federal government continue to invest in TOD infrastructure in hopes that falling interest rates will eventually spark interest in the area's lower-cost condos and apartments, said Gary Hunter of Colliers International, whose practice focuses on single users and multifamily and retail developers looking to purchase land in advance of the next up cycle.

"Most developers say if you have a development that makes sense, the city will approve it. They're fostering higher density development," Hunter said.

Denver

With its \$7 billion FasTracks program, the Mile High City is undergoing the largest expansion of any transit system in the nation, including a \$1 billion redevelopment of the city's historic downtown Union Station.

The city predicts that up to 50 TODs will be built over the next decade and has established a \$15 million fund to buy and expand affordable housing near existing and new rail lines and bus routes over the next decade.

Charlotte, NC

Williams Real Estate's Greene said Charlotte is a good example of a long-range plan centered around TOD. The city's light-rail system, LYNX, part of the Charlotte Area Transit System (CATS), has been in planning and development for 14 years. Charlotte Mayor Patrick McCrory credits TOD for the successful renewal of an urban corridor dating back to the 1920s and was able to persuade the area's fiscally conservative residents to fund public improvements and even accept a sales tax hike, Greene noted.

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The plan integrates rail and bus systems with road infrastructure and park and rides, sidewalks and biking lanes. Downtown property prices have soared and business expansion continues even during the downturn as the city extends the rail line connecting several city colleges and universities. Cherokee Southline is assembling a development at a 29-acre former industrial site and is planning a combination of commercial, residential, and retail uses adjacent to a new light-rail station -- the city's first redevelopment to fully leverage the benefits of TOD.