ULI Product Council Outlook on Transit-Oriented Development

By Ron Nyren
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Experts discuss ways to fund transit-oriented developments (TODs), provide affordable housing near public transit options, minimize the amount of parking space near TODs, prepare for the potential widespread adoption of autonomous cars, and otherwise encourage the creation of TODs.

What are some of the most promising approaches to funding TODs?
Douglas Firstenberg: We've done several public/private partnerships with municipalities to help fund major infrastructure investments, and each one of those has been unique; they don't follow a cookie-cutter pattern. In urban infill TOD projects, where the transit is already there, some municipalities have been creative using outdated and underused assets like parking lots to spur development and enhance their tax base. Another tool is to access bond financing to take advantage of the low-cost capital available for the public component of projects. Also, institutional investors have become more accepting of mixed-use projects over the last decade, which means now you can finance a mixed-use project with single-source financing more easily. Being able to finance everything at once is a huge advantage for a developer.

Christopher Leinberger: The answer to funding surface transportation infrastructure is a combination of municipalities raising sales taxes or other local taxes and developers contributing funds as well, adding in any marginal federal funds available. Throughout the country, in this antitax time, over 70 percent of bond measures proposed to fund rail transit projects have passed over the last ten years. And developers are beginning to see that major transportation infrastructure investments increase their land value. There are examples, such as here in D.C., where land values in a downtown-adjacent place went up from five bucks a square foot to $825 bucks a square foot [$54 to $8,877 per sq m] in just 15 years.

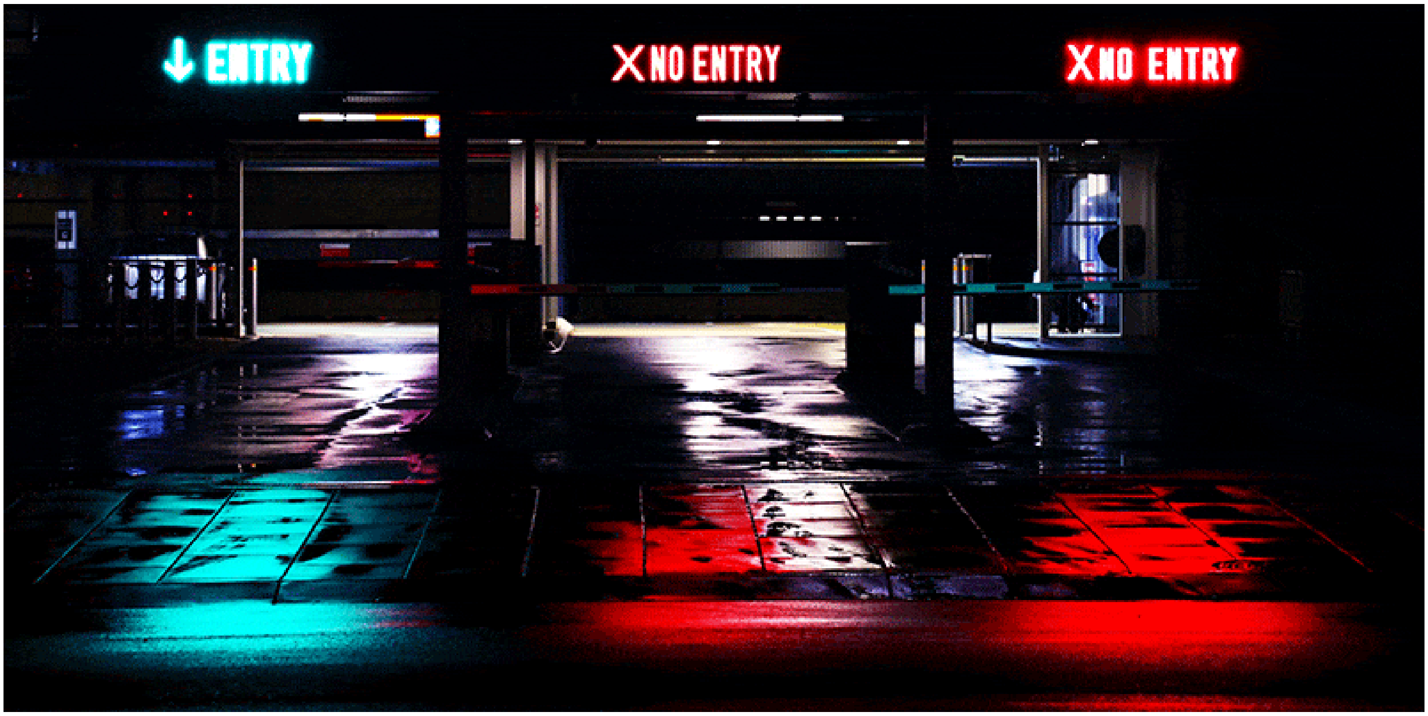
David Leinberger: We're beginning to see more risk sharing on the part of government entities. We went from none whatsoever: a government entity has some land, it negotiates a ground lease, but it has no responsibility for any financing whatsoever. The next step up from there is a collaboration with the developer in which certain public assets, streets, parking structures, and so forth are funded by a public entity that has access to tax-exempt debt and credit to issue institutional-grade bonds, which makes it easier for the developer to focus on raising the funding for the commercial side. That has been increasingly common. In a third scenario, the government entity is willing to take some risk on the commercial side—say, by taking an equity interest in a building that a public agency leases. In a fourth scenario, the public sector also advances a subsidy to induce a development partner to come into the deal.

Nick Saponara: L.A. Metro has launched a number of policies and programs in recent years that [are intended] to foster what we like to call transit-oriented communities throughout Los Angeles County. Our TOD planning grant program provides resources to cities throughout the region to develop and adopt transit-supportive land use plans around our growing transportation system. To date, more than $20 million has been invested in 75 station area plans. We're also providing seed funding to cities to perform feasibility studies for establishing tax increment financing districts, which can finance infrastructure improvements as well as affordable housing.

What strategies are available for making TODs more affordable for low- and middle-income households?
Cynthia Harvey: The big thing we are seeing is a reduction of parking. Structured parking can range anywhere from $20,000 a stall to $65,000 a stall, which can quickly escalate a project's cost and subsequent affordability. The more progressive jurisdictions are pushing for shared, unbundled, and managed parking within these districts. It allows the developer to provide less parking in general. The idea is that technology will direct you to where parking is available so that the built spaces are truly optimized and not overbuilt.

Leinberger: One method is inclusionary zoning. Montgomery County, Maryland, has what's considered to be the best inclusionary zoning code. The county has about 25,000 permanently affordable housing units as a result of this policy. One of the lessons we've learned is to make sure the affordable housing is spread over as broad an area as possible. Don't just apply inclusionary zoning for walkable urban development, because then you're penalizing it, and the result will be more sprawl.

Saponara: Through L.A. Metro's joint development program, we partner with private developers to develop land that we own around our transit stations. The program has goals for creation of affordable housing. Our policy allows us to discount what otherwise would be a requirement for developers to pay us market-rate ground rent for our sites, helping to fund equitable TODs. L.A. Metro has also pledged to invest $9 million in the Metro Affordable Transit-Connected Housing [MATCH] program, an affordable housing loan program that is expected to leverage up to $75 million in contributions from foundations, community development finance institutions, and traditional banks to preserve and develop affordable housing near transit.



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What are some innovative approaches to handling parking in TODs?
Saponara: The city of Los Angeles just adopted a transit-oriented communities ordinance, which provides incentives for reducing the amount of required parking in a development, depending on the proximity and nature of transit services near that site. L.A. Metro is also pursuing creative strategies for shared parking, where peak parking demand is staggered between different uses. For example, transit patrons and residents can use the same spaces at different times.

Leinberger: Parking ratios keep falling due to market pressures. A typical suburban parking ratio for a commercial income property is four to eight parking spaces per 1,000 square feet [93 sq m] of office space or retail, and each parking space is on average 350 square feet [33 sq m]. So you have to build far more parking than occupied space in a suburban location. In walkable urban spaces, the four parking spaces per 1,000 is plummeting to less than one. In some highly developed walkable urban places, transit-oriented developers are building less parking, and the parking they are building is easier to convert to another use in the future.

Firstenberg: Most jurisdictions are now slowly getting rid of outdated parking minimums. In particular, office buildings have a lot of parking vacancies. People aren't driving every day. Younger people are getting to work in different ways. But most of the projects we deliver that are more than two years old have excess parking. We're pushing hard to bring our parking counts down to our expected long-term demand, which we expect will go lower. We also have to work with our investment partners to get them comfortable that we're not providing too few parking spaces—there typically isn't a way to add parking in the future. And typically, we still have to work with jurisdictions to convince them that they shouldn't penalize us because we're not providing an outdated minimum. They'll generally agree, but the planners are often hamstrung by their regulations. It takes a long time to rewrite a zoning code.

Harvey: The innovation comes in convincing tenants and residents that they really don't need parking. And that comes back to convenience, which is accounted for by giving all employees and residents transit passes, providing bike share and locker facilities, and, in some cases, we are seeing these districts partner with car-sharing groups. One jurisdiction passed out vouchers for free Uber rides to the main shopping areas in town during the holidays.

Leininger: There is more focus on thinking about shared-use parking strategies. The development that has occurred in Dallas and Fort Worth, particularly in the last eight years, has been much more massive in scale and mixed-use in character than in the past. In a 2 million-square-foot office [185,800 sq m] complex with integrated retail and residential, there is a lot space per 1,000 square feet [93 sq m] or even less. Now those buildings are being replaced, and the parking ratios are going up to three or even as much as six units per 1,000. That's because in contemporary offices, the square footage per employee has gone from well over 200 square feet [19 sq m] to under 100 [9 sq m], and so more and more people are getting put into the same square footage. Even if 10 to 30 percent of workers take alternative transit, you still end up with a lot more cars per building.

How might the widespread use of autonomous cars affect TODs?
Leininger: If, ultimately, we're going to have autonomous vehicles and fewer people are going to be driving, a lot of parking structures are going to have to be reused, and so they should be planned for reuse from the outset. More developers are thinking about designing these structures so that if autonomous vehicles come to pass, they can convert parking structures to house commercial uses.

Harvey: That's the million-dollar question. Some argue it could make roads more congested and fewer people will take transit. Others think it will virtually eliminate parking and there will be fewer cars. More than likely, it will simply provide another option. And as always, it will come down to cost and what people can afford. My hope is that the technology will allow us to make full use of parking reductions and dedicate street parking back to pedestrians and cyclists and the public realm.

Firstenberg: I'm a bit skeptical that autonomous cars are going to reduce traffic congestion, and they won't likely reduce parking demand either. They might even increase congestion, because some people who were taking mass transit might find this an easier way to go to work. So I don't see them creating a substantial difference for these urban projects. I don't think they're going to substantially drop the price of ride sharing. But I could be wrong; and if they do [drop the ride-sharing price], then there's the possibility that people will rely on them more often.

What other factors or innovations are shaping the future of TODs?
Leinberger: Currently, 80 percent of federal transportation funding goes to road transportation and 20 percent goes to "alternative transportation," which includes transit, buses, bicycles, and walking. The federal government is not going to change that ratio anytime soon. If we could shift those federal gas tax dollars to the lowest level of government, that would be a much more effective use of money. Let the cities and the counties figure out how they should spend those transportation dollars. At the local level, taxpayers are willing to fund TODs, and local policy makers have a far better understanding than federal or state policy makers of what to build and what to maintain.

Saponara: We've been focused on alternatives to bridge the first-mile/last-mile gap between where folks are and where they wish to go with respect to our transportation network. This is particularly challenging in Los Angeles County, a region that is so sprawling you're never going to build a rail or even a bus network that's going to get everyone from point A to point B. Investing in amenities such as bike lanes and improved sidewalks to our transit stations is important. In addition, one key program that we've launched in downtown Los Angeles and more recently in Pasadena is a bike-share program. We're also planning for and accommodating in our stations ride-sharing companies such as Uber and Lyft. L.A. Metro is even looking at launching its own user-friendly, public ride-sharing service, which would rely on vans or small vehicles to perform multiple pickups.

Harvey: I think we could be doing a better job of station design for the end user. Especially when the station involves multiple modes of transportation, we need to focus on the experience. We also need to embrace the different transit options people now have and allow for switching easily between them as well as anticipating future integration of other modes.

Firstenberg: If municipalities really want mixed-use TODs, they need to have more flexibility in their codes, but also allow for a predictable outcome. Because in the development business, we're managing risk. One of the things that's hardest to manage is entitlements, and the timeline for entitlements. Also permitting. Getting to the point where developers can have enough flexibility and predictability, I think, is the real challenge over the next five to ten years.

Thanks to our member contributors:

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