It is difficult to design a space that will not attract people. What is remarkable is how often this has been achieved.

--William H. Whyte
Loss of Village...

• Then

• Now
We shape our buildings, and thereafter, our buildings shape us.

--Winston Churchill
The TOD Development Opportunity

- District orientation
- New destinations/places
- Compact development
- Pedestrian/bike priority
- Potential mix of uses
- Transit service
- Usually higher rents/land value
TOD: An organizing principle to do what we should be doing anyway--creating *great* people places
Images by Urban Advantage
KEY POINT:

The TOD value premium comes more from creating the *place* than from the transit itself

(except in very mature transit markets)
Every transit village is unique, and reflects its market...
Urban Downtown

Grand Central Station, NYC

The Embarcadero, San Francisco
Urban Neighborhood

Mockingbird Station, Dallas, TX
Suburban Town Center

Market Commons, Arlington, VA
Streetcar Suburb

The Crossings, Mountain View, CA
Neighborhood Transit Zone

Pittsburgh, PA
Commuter Town Center

Plano, TX
Key Transit Elements

- Transit connects anchor destinations
- Vehicle is attractive, clean, safe
- Headways are 15 minutes max
- Stations are in good environments
- Price is right
Key Framework Elements

- Strong ped/bike connections for 1-3 miles
- Stations located near “complete” and gridded streets
- Sidewalks are wide, well lighted, landscaped
- Small parks and open spaces throughout
Key Design Elements

• Buildings face and come up to the street
• Height is managed; density is irrelevant
• Building materials are authentic and attractive
• Art and color are used to add interest
Key Development Elements

• TODs provide many people many near by activities
• Variety of housing choices offered
• Parking is often shared, always minimized
• Existing buildings are valued, interesting and often a great start
Getting the right development isn’t as easy as it looks....
Infill Depends on Private Sector Developers

- Public sector does visions, plans, regulations
- Private sector finances and actually constructs buildings
What we Know about Developers

• Specialize in different types of real estate

• Risk takers

• Self-motivated

• Healthy egos

• Rich (?)
Developers are only Middlemen

- Developers are idea people/project managers
- They figure out what the market wants, and deliver it to them
- Small developers use money from family and friends
- Most development money comes from institutional investors
- The project *must* show profit
Development Economics

Project Profit = Project Value – Project Cost

Project Value: Sale Price OR
Lease Income x “Risk Multiple”
(Lease Income/Capitalization Rate)

Project Cost: Hard costs (construction) +
Soft costs (design, financing, OH) +
Land cost
Development Economics

Project Yield = Project Profit / Cash Investment
(10-20+%) 

Keys to high-yield development:
--Maximize profit
--OPM
Development Implications

- Developers make more money in high income markets
- Developers look for cheap land (greenfields)
- Developers prefer national tenants
- Developers like to do the same thing over again
Gap between Demand and Supply

- 30+% of housing demand for denser, walkable, mixed-use communities
- <2% of new housing starts in this category
Developers See Projects in 3 Phases:

1. Predevelopment
2. Development
3. Stabilization
Predevelopment Stage: Developer Cash/Equity

- Match site and use
  - (market studies, traffic studies, brokers)
- Get control of land
  - (lawyers, brokers)
- Get commitment from user/spec
  - (lawyers, brokers, designers)
- Get entitlements/zoning
  - (designers, engineers, lobbyists, attorneys, PR)
- Due diligence/buy ground
  - (attorneys, engineers)
- Secure financing
  - (financial analysts, attorneys, loan fees)
Development Stage: Debt Financing

- Design Project
  - (architects, engineers)
- Obtain Site Review approval from City
  - (architects, engineers, lobbyists)
- Construct Project
  - (contractors, architects, engineers)
- Market project
  - (advertising, PR, philanthropy)
- Lease project
  - (brokers, attorneys)
Stabilization Stage: Payback

• Manage the project
  – (property managers, attorneys, operating expenses)
• Repay debt
• Sell project
  – (attorneys, brokers)
• Realize profit!!
Single Tenant, Single Use, Private Building

- Single family residence
- Single user industrial
- Single user office
- Lowest complexity
- 9 months-2 years
Multi-Tenant, Single Use, Private

- Apartment building
- Office building
- More tenants to secure—more complex
- 2-3 years
Multi-Tenant, Multi-Use, Private

- First floor retail with residential/office above
- Different types of leasing, different types of construction, atypical zoning
- 2-5 years
Multi-Tenant, Multi-Use, Public-Private Financing

- Office/residential over retail
- Public benefit such as affordable housing, historic preservation
- Public process, special requirements for “fair return” on public monies
- 3-7 years
Multi-Tenant, Multi-Use, Public-Private Financing, Public Landowner and/or Tenant

- Development such as residential/office over civic use such as transit, city facilities
- More public design, security, leasing complexities
- 3-10+ years
Development Today

- Gen Y demographics are good; infill demand continues. TOD early recovery market.

- Apartments strong. Big questions about timing and amount of future retail, office.

- Banks often require personal guarantees on construction loans (“recourse”) PLUS 30-40% cash equity
Why would a developer bother???
TOD Value Sources

- Opens new sites for development
- Higher rents/revenues—location/product amenity
- Higher density—more revenue
- Less/shared parking—reduced expense
- Easier entitlements
- Public investment/subsidy

(Strategic Economics 2008)
Will Development Work Here??

Acid Test:
- Common Vision
- Market Demand
- Land
- Leadership
Acid Test 1: Common Vision

• Consensus vision in place
• Business support?
• Community process at some level
• Zoning in place, if possible
Acid Test 2: Market

- Are rents high enough to pay for development costs associated with TOD?
- Can you get a tenant/user for this location?
- Overlooked submarket?
- Crisis of demand or crisis of supply?
Acid Test 3: Land

- Can you get control of enough land to build an economic project?
- Can you buy land at a price the rents can support? (Land vs. tenants paradox)
Acid Test 4: Leadership

• “Champions” that will bond, trust, and collaborate for the vision
• Champions change as project matures
• All three sectors essential
What About Public-Private Partnerships (P3s)?
Public-Private Partnership (P3) Development Defined

Definition:
Real estate developments where there is cooperation and investment by multiple sectors of enterprise:
- Public
- Private
- Not-for-profit
## Sector Comparison

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Private</th>
<th>NFP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Good place</td>
<td>Good project</td>
<td>Better place</td>
</tr>
<tr>
<td></td>
<td>Careful process</td>
<td>Profit</td>
<td>Influence</td>
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<tr>
<td></td>
<td>Get re-elected</td>
<td>Minimize risk</td>
<td>Recognition</td>
</tr>
<tr>
<td><strong>$ Sources</strong></td>
<td>Taxes</td>
<td>Family/Investors</td>
<td>Members/Sponsors</td>
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<tr>
<td><strong>Decision-makers</strong></td>
<td>Electeds/Voters</td>
<td>Developers/Investors</td>
<td>Board/Members</td>
</tr>
<tr>
<td><strong>Timeline</strong></td>
<td>Very slow</td>
<td>Fast</td>
<td>Slow</td>
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</tbody>
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## Sector Comparison

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<tbody>
<tr>
<td><strong>Risk tolerance</strong></td>
<td>Little</td>
<td>Lot</td>
<td>Some</td>
</tr>
<tr>
<td><strong>Real estate expertise</strong></td>
<td>Little</td>
<td>Lot</td>
<td>Some</td>
</tr>
<tr>
<td><strong>Political expertise</strong></td>
<td>Lot</td>
<td>Little</td>
<td>Lot</td>
</tr>
<tr>
<td><strong>Access to $</strong></td>
<td>Some</td>
<td>Some/Lot</td>
<td>Little</td>
</tr>
</tbody>
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Public-Private Roles

• Role of the Public Sector
  – Work with community to set long term vision
  – Identify priority development areas
  – Implement meaningful entitlements/incentives
  – Regulate design over use
  – Provide financial assistance for community/regional projects and infrastructure

• Role of the Private Sector
  – Bring capital and expertise to implement vision
  – Make reasonable profit in short term
Public-Private Roles

• Role of the Not For Profit Sector
  – Call the question
  – Convene the players
  – Initiate thoughtful planning
  – Educate the community
  – Insist on good design
  – Advocate for good projects
  – Support elected officials
P3 Developments Work When…

• Community problem that needs solving
• Political will in place to solve it
• Profit opportunity/good market
• Experienced developers
• Land can be assembled
Typical Public-Private Developments

• Affordable/mixed income housing
• Historic preservation
• Economic development
• Downtown revitalization
• Transit-oriented developments (TOD)
Common Public Sector Tools

- Land buys downs
- Low interest financing
- Tax forgiveness
- Assessment Districts
- Tax Increment Financing (TIF)
Public Sector Tools: Assessment Districts

- City issues bonds for infrastructure
- Bonds paid back from property taxes on the property
- Developer pays taxes on property
- Developer gets lower interest rates, sells property
Political Considerations: Assessment Districts

– Depends on property owner vote:
  • Economics
  • Few owners

– Benefit district or standard fee?

– Requires common vision, cooperation

– Difficult with multiple jurisdictions

– Loss of control for local jurisdiction

– Many failed districts
Public Sector Tools: Tax Increment Financing (TIF)

• City issues bonds for eligible infrastructure (i.e., parking, utilities, streets)
• Bonds paid back from the increased taxes generated by the project
• After paid off, City keeps the taxes
• Developer gets certain costs paid by the City
Political Considerations:
Tax Increment Financing (TIF)

– Greenfield vs. inner city revitalization, big box development
– What is the right amount of $?
– Bond or reimbursement?
– When is future *too* mortgaged?
– Who loses out?
– California’s redevelopment agencies at risk. Next??

California’s redevelopment agencies at risk.
What Developers Seek

- Healthy market
- Land assembled
- Predictable process
- Public investment for the regional amenities
- Knowledgeable, sophisticated public partners
- Reasonable profit in 3-5 years
TOD Lessons Learned

• Prime locations are the first TOD targets
• Matching product and location is key
• A clear community vision/plan is essential
• Start EARLY—plan the development and the transit at the same time
Infill Lessons Learned

Often competing objectives among:

- Local Jurisdiction
- Transit Agency
- Developer
- Neighborhood
- School District
- State DOT
TOD Lessons Learned

- Parking drives the economics and design of the project
- Land assembly is often the deal-breaker
- A little density usually helps the numbers work
TOD Lessons Learned

• TOD’s are complex—harder to design, entitle, finance and build. 20% mixed-use cost premium is not unusual.

• TOD’s need market, infrastructure and zoning. *Transit alone is not enough.*
TOD Lessons Learned

• Use TOD to leverage existing assets, create critical mass and distinctive “places”

• Public entities now have to step forward to guide cohesive districts/places

• Mixed-use “places” usually require public investment—can’t afford placemaking and regional costs
TOD Lessons Learned

• TOD on the periphery is more transformational than in the city core

• But it usually takes longer to build critical mass
TOD Lessons Learned

• Suburban TOD’s biggest challenges:
  – Industrial context
  – Inadequate infrastructure (utilities, roads)
  – No local street grid
  – Citizen fear of density (traffic)
  – Suburban parking requirements
  – Low density: no market
Common Public Sector Mistakes

• Thinking TOD will happen on its own—especially in moderate income neighborhoods.

• Not setting a strong vision

• Not advocating for the project

• Making greenfield development cheaper/easier than TOD
TOD Lessons Learned

- Developers worry about market demand, but *fear* public process

- Smart communities establish zoning, process, incentives ahead of time
Common Public Sector Mistakes

- Not being prepared to invest in project infrastructure
- Requiring retail on every street
- Requiring all vertical mixed-use
- Confusing height and density
- Requiring too much parking
Common Public Sector Mistakes

- Worrying more about land use than land form
- Not setting priority development areas
- Changing the process
- Not hiring development expertise
- Investing in the wrong developer
What Cities Can Do

- Laser focus on priority areas
- Have a clear vision of what you want, and what you’ll do to get it
- Know the market
- Do the hard work with the community first
- Have zoning in place
- Have sophisticated development skills
- Have a predictable process
- Be willing to invest
What Developers Can Do

• Pick a good location
• Get the land
• Do it better, if smaller
• Phase it if possible
• Budget extra time
• Buy enough equity
• Respect the City plan
• Find a public sector champion
• Pay for a likeable, trustworthy representative
LET’S GO !!

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