Realizing the Potential: One Year Later

Executive Summary

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CTOD CENTER FOR TRANSIT-ORIENTED DEVELOPMENT

One Year Later

In April 2007, the Center for Transit-Oriented Development published a report called *Realizing the Potential: Expanding Housing Opportunities near Transit*, which evaluated the mechanisms used to promote mixed-income housing near transit in five case study regions, including:

- Boston's Fairmount/Indigo Line Commuter Rail Corridor
- Charlotte's South Corridor
- Denver's West Corridor
- Twin Cities' Hiawatha Corridor
- Portland, Oregon's Streetcar Corridor.

In the year since CTOD released *Realizing the Potential*, there have been a number of changes in the phasing of transit infrastructure, the housing market, regional and local policies, and political leadership. This document summarizes the "one year later" study that the CTOD conducted to examine how the changes in the housing market, transportation, and policy over the last year have continued to influence opportunities for housing in the five transit corridors.

This report is current as of April 2008. Continued fluctuations that have occurred since then in the credit market, rising gasoline prices, and advancements in local and national policy have undoubtedly influenced the potential for mixed-income housing and demand for transit, but it is still too early to fully understand their impact on transit-oriented development.

About *Realizing the Potential*

Realizing the Potential demonstrated the growing need for households at all income levels to have access to high quality transit. Households in the United States are becoming older, smaller, and more diverse in terms of size, age, and ethnicity, creating a growing demand for a wide variety of housing types, and particularly the types of housing found near transit (e.g. smaller, more compact units). Simultaneously, the cost of transportation and the impacts of congestion continue to build. One in three American households now spend more than 30 percent of their income on housing, and one in seven spend more than 50 percent.

Location matters a great deal. While the average family spends roughly 19 percent of their household budget on transportation, households with good access to transit spend just nine percent. This savings can be critical for lower-income households that need to make every dollar count. Yet as the market for transit-oriented development heats up and these neighborhoods prove popular with renters and buyers, there is an increasing need and challenge to ensure that development includes housing for all income levels. Few specific tools exist to direct affordable housing to neighborhoods with transit service. Existing planning and zoning often limits the development potential of station areas. Moreover, there is generally limited land available and few ready-to-go development sites near transit. The result is that this kind of development is time-consuming and expensive to build, often forcing developers to build only to the highest end of the housing market.

National Changes Since 2006

In the last few years, there have been marked changes to many of the factors that influence opportunities to build transit-oriented housing at a variety of income levels. Between Fall 2006 and Spring 2008, the national housing market reversed direction, moving from a period of booming homeownership rates, rapid price appreciation, and low interest rates, to a period of limited credit availability, falling home values and sales rates, and growing rates of foreclosures. Simultaneously, in the strongest regions, the

rental market has gained momentum and developers have once again begun to pursue apartment projects after a several year hiatus.

The momentum for new transit investments has continued to grow even stronger, with gas prices exceeding $4.00 a gallon[1] in many parts of the country. Local ballot measures supporting transit have emerged in regions that are primarily auto-oriented, and voters have largely approved these measures to provide increased local funding sources for transit construction. In November 2007, citizens in Charlotte voted overwhelmingly against the repeal of the half-cent sales tax that funds the Charlotte Area Transportation System (CATS). Voters in the Minneapolis/St. Paul region approved an additional quarter-cent sales tax in April 2008, which will be directed towards transit operations costs and future expansions. At the same time, local and regional support for transit-oriented development and affordable housing has strengthened, resulting in advances in the availability of local tools and policies supporting this type of development. And, as Figure 1 shows, Denver, Minneapolis, Portland and many other regions – particularly those with newly added fixed-guideway transit systems – have continued to report model-shattering ridership counts. Ridership on Charlotte's South Corridor has far exceeded the initial forecasts, drawing nearly 12,500 riders on weekdays rather than the expected 9,100 riders. These regions learn new lessons every day about how to create land use policies and tools that offer transit-oriented living opportunities for all household types and income groups.

Figure 1: Ridership Numbers for Rail-Based Transit, Fourth Quarter 2006 and Fourth Quarter 2007

Local Rail Transit	**4Q06**	**4Q07**	**% Change**
Boston	68,178,600	64,648,700	-5.2%
Charlotte	-	517,200	–
Denver	3,356,800	4,886,700	45.5%
Minneapolis	2,324,600	2,575,100	10.7%
Portland	8,078,700	8,534,400	5.6%
National	960,994,000	999,504,000	4.0%

Source: American Public Transportation Association, 2008. www.apta.com

[1] As of Spring 2008.

Questions Researched in *One Year Later*

Recent changes in transportation, the housing market, affordable housing tools, and the regulatory environment raise a series of new questions about the experiences of the five case study corridors evaluated in *Realizing the Potential.* These questions are:

1. How have the case study regions experienced the effects of changes to the housing market?

2. Have the regional housing market changes helped to address the need for more housing serving lower-income households?

3. How have recent real estate market fluctuations played out near the transit corridors relative to the rest of their respective regions?

4. Have recent market, transit, and policy changes created new challenges or opportunities for mixed-income housing near transit specifically?

5. What are the implications of recent market changes to local and national tools that support mixed-income housing near transit?

SUMMARY OF FINDINGS

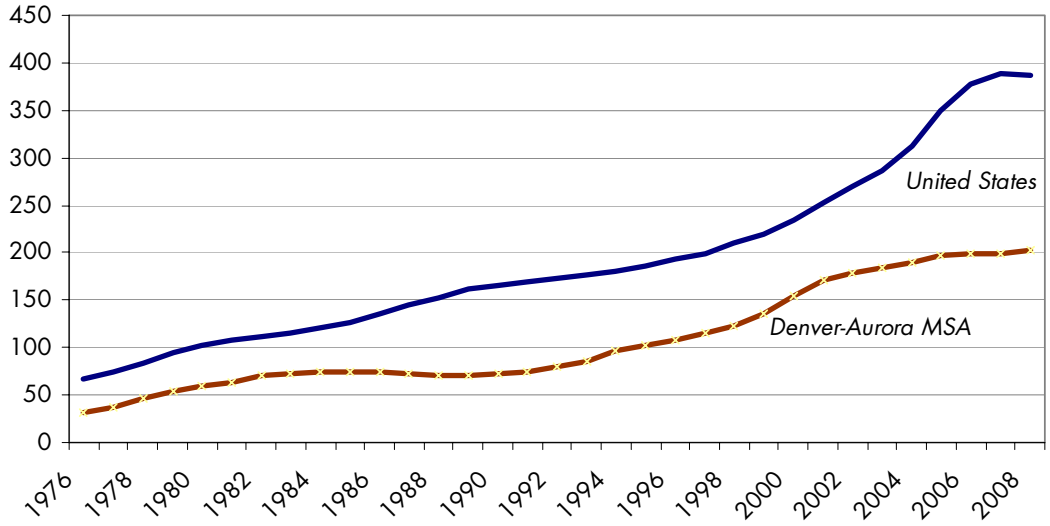
1. How have the case study regions experienced the effects of changes to the housing market?

Changes to the real estate market have played out differently in each of the five case study regions.

Charlotte and Portland – two rapidly growing regions – have not experienced the housing market decline as strongly as other regions. In fact, Charlotte is the only region besides New York that actually experienced housing price appreciation between the first quarter of 2007 and the first quarter of 2008. The pace of condominium development certainly slowed in Charlotte and Portland, but many entitled condominium projects have been converted to luxury apartments.

Boston, Denver, and Minneapolis, in contrast, are slower growth regions and have more greatly experienced the impact of the housing market downturn. However, these three regions experienced a more tempered increase in sales prices during the pre-2006 housing boom (versus volatile price increases elsewhere), and thus the slowdown in the ownership housing market and the decline in sales prices have been relatively modest. Figure 2 shows how Denver's housing prices, for example, did not experience the same rapid price increases during the bubble and have thus been somewhat cushioned during the national decline. These regions have also not experienced the same continued employment growth as Portland and Charlotte, and therefore the apartment markets have not seen a similar resurgence.

Figure 2: Housing Price Index, Denver MSA and the United States, 1976-1Q 2008



Source: Office of Federal Housing Enterprise Oversight

Figure 3 shows that all five regions have experienced growing foreclosure rates, though to varying degrees. Rates of increase in foreclosures among the case study regions grew from a low of 24 percent (Portland) to a high of nearly 200 percent (Boston). Denver and Charlotte's overall foreclosure rates were higher than the national average between 2006 and 2007, while Boston, Minneapolis, and Portland's foreclosure rates stayed below the national average. Foreclosures were largely concentrated at the fringe of these regions and predominantly in single-family housing areas, where low interest rates and risky lending packages during the housing boom enabled many households to afford homeownership for the first time. Foreclosures have been less widespread near transit and in infill areas, with the exception of Boston, where the Indigo Line in particular experienced higher rates of foreclosure than the regional average.

Figure 3: Annual Foreclosure Rankings and Rate Changes, 2006-2007

Rate Rank	Metro Area	Foreclosure Filings	Properties with Filings	%Households (foreclosure rate)	% Change from 2006
–	U.S. Total	2,203,295	1,285,873	1.03	79
–	Top 100 Metro Areas Total	1,774,778	1,010,355	1.38	78
9	Denver, CO	49,519	26,632	2.64	28
34	Charlotte, NC	13,032	9,426	1.44	114
60	Minneapolis/St. Paul, MN	12,755	10,798	0.84	147
69	Boston, MA	11,165	5,106	0.68	199
73	Portland, OR	5,834	5,162	0.60	24

Source: RealtyTrac

2. Have the regional housing market changes helped to address the need for more housing serving lower-income households?

Declines in housing prices have not been substantial enough to meet the needs of many working families.

The Center for Housing Policy's most recent annual report, *Paycheck to Paycheck*, shows that declines in ownership housing prices between 2006 and 2007 did not create significantly more opportunities for working families to own a home. The Center's data – excerpted in Figure 4, below – shows that while ownership housing costs have decreased nationally, they have in fact increased in a number of case study regions over the last year. Housing prices are still high relative to incomes in nearly all regions, and this is particularly true among workers in the fastest growing occupations, which include customer service, food preparation, nursing, office clerks, and retail sales positions.

Additionally, reports in spring 2008 indicate that while reduced housing prices might have opened up new opportunities for some households, it is increasingly difficult for entry-level homebuyers to secure a mortgage, due to constraints on the availability of credit.

Even in regions where new housing development continues, developers are continuing to build only for the highest end of the market. The drop in housing prices has not been accompanied by a comparable decline in construction or labor costs, so new multifamily units are still as costly to build as ever.

Figure 4: Median Housing Price and Income Needed to Purchase a Home, 2006 and 2007

	Median Housing Price		Income Needed to Purchase Home (nearest hundredth)	
	2006	2007	2006	2007
United States	$248,000	$239,000	$85,000	$78,100
Boston	$355,000	$349,000	$121,600	$114,000
Charlotte	$175,000	$176,000	$59,900	$57,500
Denver	$228,000	$240,000	$78,100	$78,400
Minneapolis-St. Paul	$242,000	$233,000	$82,900	$76,100
Portland, OR	$270,000	$283,000	$92,500	$92,400

Source: Center for Housing Policy, Paycheck to Paycheck: Wages and the Cost of Housing in America. Available at www.nhc.org/chp/p2p.

The reduction in housing prices also impacts the ability of developers to build affordable and mixed-income projects using inclusionary zoning or other mechanisms where revenues from market-rate housing help cover costs associated with affordable housing.

With a narrowing revenue stream and escalating construction and materials costs, many developers are hindered in their ability to construct and operate mixed-income housing developments without a public subsidy. Cities are increasingly careful in the way that they structure their inclusionary zoning requirements, such that they apply in neighborhoods with a strong housing market and are more relaxed in neighborhoods where the housing market is weaker. In certain mixed-income rental projects, housing developers have structured financial arrangements wherein revenue from market-rate units can be used to cover the operating costs associated with units serving low- and very low-income households. However, this type of cross-subsidy is only workable in places with a strong apartment market, and is highly sensitive to fluctuations over time in the rental market, thus creating an unstable revenue stream.

3. How have real estate market fluctuations played out near the transit corridors relative to the rest of their respective regions?

The relative market performance of the case study corridors has been mixed.
Market performance in three of the corridors – the South Corridor in Charlotte, the Hiawatha Corridor in Minneapolis, and the Streetcar in Portland – has been characterized by the corridors' ability to absorb the pent-up market demand for more urban living in the downtown areas. These areas have experienced rapid development over the last several years. While the pace of development has slowed in recent months, the rapidly developing areas of these corridors appear to have at least held their value better than the regions as a whole. In the case of Portland, Pearl District condominiums have been selling at higher median prices than either single-family homes or condominiums in the rest of the region. Declines in the ownership market have been somewhat offset by increases in the rental market, and a few developers in these corridors have decided to convert their under-construction ownership projects to rental projects instead.

> **"[D]evelopment to date has re-calibrated the region's assumptions about how we will grow in the future."**
> **– *Robert Liberty, Metro Council Member***
>
> According to real estate services firm CB Richard Ellis, developers have built more condominium units in downtown Portland since 2001 than were built in the previous 30 years combined.

In contrast with experiences in Charlotte, Minneapolis, and Portland, the Indigo Line in Boston and the West Corridor in Denver have not experienced major development pressures, and therefore have experienced the same market decline as the regions. There are many reasons that the Denver and Boston regions have not experienced the same market-rate development trends as Charlotte, Minneapolis, and Portland, including:

The West and Indigo corridors traverse neighborhoods with lower than average household incomes. While the West and Indigo transit zones report lower median incomes than Denver and Boston, it is difficult to determine whether and to what extent this has been a factor in the slower pace of new development near transit. The Hiawatha Line also traverses areas with lower than average median incomes, and this has not been a particular deterrent to new development. However, the Hiawatha Light Rail introduced an unprecedented transit amenity to the Twin Cities housing market, whereas Denver and Boston both already offered rail-based transit options elsewhere. Additionally, the Hiawatha transit zones offered significant tracts of developable, formerly-industrial land immediately adjacent to downtown Minneapolis.

The introduction of transit has occurred in different contexts. Whereas the construction of the lines in Minneapolis and Charlotte introduced an entirely new transportation technology and development opportunity to these regions, the West and Indigo lines have not introduced the same sweeping changes to Denver and Boston. Denver's Southeast corridor and the LoDo district have absorbed most of the development momentum associated with the new transit lines. The West corridor may attract more interest from developers as it nears completion. Meanwhile, improvements to the Indigo line have not generated significant attention from private market developers, particularly given that an extensive system such as Boston offers many more opportunities for TOD elsewhere in the region.

Development on the South Corridor continues, outpacing even the strong Charlotte housing market.

The South Corridor is generally outperforming the region in terms of land values and development. From 2000 to 2007, land values near the northernmost stations that align South Boulevard increased 52 percent, compared with a 40 percent increase in the city as a whole. Many developers report that the value of their parcels has doubled or tripled in recent years. Indeed, rising land costs in the corridor may be reaching levels that prohibit parcel assemble for new development; one investor reported that two parcels purchased in 1999 and 2003 for a total of $545,000 were sold in 2007 for $1.03 million.*

The City of Charlotte reports that over $1.8 billion in private development is planned, proposed, or under construction in the South Corridor, up from $1 billion in December 2006. This includes:

- $291 million in under-construction projects, including 1,175 new housing units and 220,000 square feet of commercial property;
- $1.57 billion in planned/announced projects including 6,406 housing units and 408,000 square feet of commercial property;
- A total of $1.86 billion on 265 acres including 7,581 housing units and 628,000 square feet of commercial property.

Sources: City of Charlotte; Stabley, Susan, "Redefining the South End lines," *Charlotte Business Journal,* November 23, 2007. Accessed online December 17, 2007: http://charlotte.bizjournals.com.

One of the more deleterious effects of the success of transit-oriented development in the Charlotte, Denver and Minneapolis regions has been the rapid pace of land speculation near the case study corridors and around planned transit corridors in the systems.

Speculators and developers have already begun to acquire parcels near proposed stations on the Twin Cities' Northstar and Central Corridors, and Charlotte's North Commuter Corridor and Northeast Light Rail Corridor. Despite the fact that the Northeast Corridor is not planned for operation until 2013, several developers have already approached the City of Charlotte with proposed zoning changes to allow for higher density, "transit-oriented" residential uses. Proposals include two projects in University City, a 250-unit mixed-use project and a 1,700-unit project called Griffith Lakes. The early emergence of development proposals is consistent with Charlotte's experience in the South Corridor, where developers reported that land prices had tripled or even quadrupled between the time funding for the line was secured and the time the line opened at the end of 2007. This level of speculation and interest has impacted, and will continue to affect, the City's ability to provide lower income housing near its rail system.

Additionally, even though the transit line is still under construction, local city staff report that land costs in the West Corridor are higher than comparable areas without planned transit service. In addition, private buyers are holding parcels near several of the stations. This suggests that the corridor has experienced some of the secondary effects of the growing momentum for TOD that has been absorbed elsewhere, particularly in the LoDo district of Denver, and the Southeast Corridor.

Missed Opportunity in Boston

In 2007, Dorchester Bay EDC, one of the community development corporations that operates in the Indigo Corridor, was interested in building 16 to 38 affordable rental units over a furniture store within walking distance of the existing Uphams Corners rail station. DBEDC was able to offer $800,000 for the site, but was outbid by a mere $20,000 by a private sector investor. DBEDC indicates that it was willing to exceed that offer, but was not able to assemble additional financing quickly enough to win the bid. It is not clear now how the Bell Furniture site will be developed. Local CDCs report that often times private investors land bank their properties and eventually sell them at above-market values, or develop them as low quality projects that are not in sync with the community's transit-supportive vision for the corridor and do not include income-targeted affordable housing.

4. How else do recent market, transit, and policy changes affect challenges and opportunities for mixed-income housing near transit specifically?

Recent changes in the housing market are creating new challenges and opportunities to acquire land for affordable and mixed-income development.

There is hope among affordable housing advocates that as housing prices drop and credit becomes more scarce, opportunities for land acquisition will open up to affordable housing developers. However, acquisition is also becoming more challenging as:

- Acquisition financing becomes less available during the credit crisis;
- Station areas become more built-out, thus leaving only a supply of smaller, more difficult to develop parcels; and
- Projects require the assembly of multiple properties and/or multiple funding sources, all of which drags out property holding costs.

Affordable ownership housing is facing greater competition from reduced-price, market-rate properties in Denver and Boston.

In areas with lower priced ownership housing, affordable housing developers are unable to compete with comparably priced market-rate units. This has created a challenge on the Indigo line in Boston, where affordable and mixed-income housing development represents the majority of new private reinvestment – and thus offers a significant opportunity for neighborhood revitalization.

The focus of many non-profit groups involved in securing mixed-income housing has shifted to alleviating foreclosure impacts.

Understandably, the focus of attention for many affordable housing advocates is now on alleviating the impacts of foreclosure, and developing programs for foreclosure assistance. This has caused a temporary shift of resources towards these issues, which could potentially reduce the overall investment of time and money in promoting mixed-income housing near transit.

5. What are the implications of recent changes to local and national tools that support mixed-income housing near transit?

A reduction in the pool of buyers for Low Income Housing Tax Credits has led to a price adjustment, which could potentially reduce the availability of funds from this program in the long term.

The drop in the housing market and subsequent decline of the credit market led many financial institutions – particularly Fannie Mae and Freddie Mac, who have historically comprised up to one-fifth of the total market – to forego purchasing tax credits in the 2007-2008 cycle because the institutions have less tax liability to offset, as well as more limited resources to invest. As a result, prices for tax credits have dropped substantially in a matter of months, leading to a significant decline in the availability of funds for affordable housing. While many of the effects of this drop will be short-term, it is possible that prices for tax credits will permanently stay well below their peak, leading to a long-term reduction in affordable housing funds from this program. On the other hand, some tax credit experts believe the adjustment may be healthy. Low prices have enticed a wider range of non-financial investors to consider the benefits of the LIHTC program, which could diversify the market in the long term, and insulate the program from similar credit market fluctuations in the future.

One newly-emerging tool is the land acquisition fund, which is particularly useful to promote development near transit and in other infill areas.

Rising land prices, rampant speculation, and challenges to tools such as eminent domain have demonstrated the need for mechanisms that are specifically focused on financing to assist with land acquisition. Many existing affordable housing tools – including the Low Income Housing Tax Credit – do not fund the purchase of land, which is one of the greatest costs associated with affordable housing development, and particularly with transit-oriented development. Acquisition of land for TOD and affordable housing can also present unique financing challenges, because few developers can afford the 'holding costs,' or additional costs associated with retaining land for long periods prior to development. In the case of development near new transit systems – where land prices may start to increase many years before transit construction – there are great potential benefits to affordable housing groups in acquiring and holding land until the transit opens. However, this holding cost is very difficult to absorb, particularly since many affordable housing funding tools require that development be built within a brief period of time following the allocation of funds.

The slowing pace of development has enabled cities to "catch up" and define land use policies and regulations that will better prepare them for the next rapid growth spurt.

In the bullish housing market, many parts of the United States experienced new housing development at unprecedented levels. Many local governments were unprepared for this level of growth, and were unable to establish standards for development that could adequately provide the full range of infrastructure and community services needed for new residents. As a result, for some communities the market slowdown is a welcome relief, as it has provided them an opportunity to ensure their land use, affordable housing, infrastructure, environmental, and other plans and policies will result in a desirable balance of uses, housing for all income levels, and community infrastructure and services. In particular, Denver, Minneapolis, and Charlotte, which have relatively young rail transit systems, are putting their new experiences to use in preparing for future transit-oriented development. For example:

- *Tracking projects:* Acknowledging the importance of tracking recent development projects on the South Corridor, the City of Charlotte recently implemented new measures to ensure that the key departments – including planning, building, economic development, Charlotte Area Transportation System, and public works – are involved in creating a centralized system for tracking new projects.

- *Adequately preparing for infill development:* Typically, impact fees have been a mechanism used to finance infrastructure improvements in rapidly growing greenfield areas. However, the City of Minneapolis recently determined that the rapid conversion of large areas of formerly industrial land to residential development has spurred a need for a new infrastructure fee specifically associated with infill development. While these areas have been previously developed, and therefore offered improvements such as circulation and drainage, new residential uses have generated additional infrastructure needs that industrial uses had not previously triggered, such as parks and schools. Now that the pace of housing development has slowed, the City is establishing a parks impact fee to ensure that future infill growth provides the public infrastructure and pays for the services it requires.

The phasing of land use regulations to support TOD – relative to the introduction of transit – can have some influence on the pace of speculation, changes in land prices, and new development.

Much of the additional value of TOD to developers is in the changing entitlements that allow higher densities, lowered parking ratios, and a mix of land uses. As a result, the timing of changing land use regulations can have some influence on the pace of speculation and development. However, delaying land use changes is not a very reliable mechanism for keeping speculators at bay; planned stations that are closer to thriving downtowns will likely experience new interest from developers regardless of whether land use regulations have been updated.

For example, in Denver's West Corridor, the City of Lakewood only recently implemented TOD-supportive land use regulations. Prior to this rezoning, which occurred in 2007, land prices remained fairly low as most of the land around the planned stations was zoned for industrial uses. The Lakewood Housing Authority was able to take advantage of industrial land prices to purchase a number of sites for affordable housing. The industrial zoning regulations were not the only factor involved in keeping prices low in Lakewood, but it may have made some difference in enabling the Housing Authority to act when it did.

FINDINGS AND RECOMMENDATIONS FOR TOOLS AND POLICIES

Policies Supporting Affordable Housing

Consider changes to the qualifying criteria for the Low Income Housing Tax Credit (LIHTC) basis boost, to promote affordable housing projects near transit.

Projects in Qualifying Census Tracts (QCTs) and Difficult to Develop Areas (DDAs) currently receive a 30 percent basis boost. However, many transit station areas do not qualify under either of these programs. Given the higher development costs and many benefits of locating affordable housing near transit, the program could be modified so that certain transit areas are also eligible for a basis boost. This could be done through changes to HUD's definition of QCT, or by creating a new category of eligible projects to prioritize station area development. This change would not only improve the feasibility of mixed-income TOD, but also broaden the regional distribution of affordable housing by lessening the incentive to concentrate affordable housing in the very lowest income communities.

Denver's experience with the West Corridor demonstrates some of the challenges of the current basis boost policy. As of 2000, only a handful of FasTracks station areas fell within QCTs. In the last several years the number of qualifying station areas along the West Corridor has declined as new development – and new, higher income households – move in. In one Census Tract near the Sheridan station, private developer MGL Partners had planned a 111-unit, rental, low-income project that relied in part on LIHTCs in order to be financially feasible. MGL Partners had completed the initial phase of 63 units and was about to start the second phase when, in 2007, the Census Tract experienced an increase in the share of higher income households, which caused it to lose its QCT status. Without the basis boost that accompanies the QCT, the second phase of the project was no longer financially feasible. As a result, MGL Partners is looking for development opportunities east of the West Corridor, where the QCT still applies.

Make inclusionary zoning policies flexible to varying housing market conditions from neighborhood to neighborhood. "One size does not fit all."

The City of Denver is in the process of reevaluating its inclusionary housing ordinance, which has been in place since 2003. In particular, the City is looking at ways to make the ordinance more geographically flexible, so that inclusionary requirements can be applied in neighborhoods with a surging housing market and development climate, but can be waived in areas that are experiencing little or no reinvestment or market pressure. To modify its ordinance, the City has applied to different neighborhoods five unique inclusionary policies based on the ability of local market conditions to support an inclusionary requirement. This concept has not yet been adopted but is still under consideration.

A New Tool Supporting Mixed-Income TOD: Land Acquisition Funds

Perhaps the greatest change in the last year among policies and tools supporting mixed-income TOD is the development of a new range of tools used specifically for land acquisition near transit. These land acquisition tools are still in their nascent stages. However, two of the case study regions in this report, Denver and Portland, were pioneers in the development of these tools during 2007 and 2008. Their particular experiences, and the lessons they have learned so far, are described in text boxes below.[2]

Land acquisition is different from joint development

Joint development, which usually involves a public entity owning the land and working with a private developer to build the project, is a common type of public-private partnership in implementing TOD. Often joint development is intended to be catalytic. In many cases the main intention of transit-oriented joint development is to pioneer a new type of development, generally with an emphasis on public benefits such as innovative design, green building, parks, schools, or other infrastructure improvements. As such, joint development projects can require a lot of subsidy even absent the inclusion of an affordable housing component. These projects absorb a great deal of market risk, and work best on larger parcels.

Given the challenges and requirements associated with joint development, it is important to consider other more flexible tools for building mixed-income housing near transit. For cities and public agencies without an ample supply of available, publicly owned land, or without the political support for subsidizing specific projects, land acquisition tools can be a more flexible and politically acceptable way of being involved in the development of transit-oriented uses and affordable housing. Public agencies can pool money into a land acquisition fund without being directly involved in developing any particular site or project.

With land acquisition tools, the right actor (who this actor is may vary) can develop projects in a dynamic and fast-moving way, can balance multiple projects at once, can secure funds from a variety of sources, and can target smaller as well as larger sites. This flexibility will help to bring mixed-income housing near transit to scale by enabling affordable housing projects to be better integrated into existing communities and onto smaller sites.

Public agency representatives in the case study regions have stressed the need for better land acquisition tools in order to address a variety of challenges to bringing mixed-income TOD to scale.

For example:

- In the **Twin Cities'** Hiawatha corridor, only smaller parcels remain to accommodate development. A land acquisition fund could assist developers with assembling parcels.
- In the **Denver** region, the involvement of public agencies in land acquisition for private development is under close political scrutiny, stressing the need for private developers to become involved in developing mixed-income communities.
- The demonstrated higher costs of developing land near rail stations in the **Portland** region has led to the creation of its new land acquisition tool to ensure that all households can afford to live near transit.
- And in **Charlotte**, the momentum behind TOD has pushed land prices out of reach of affordable housing developers.

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[2] Note: In June, 2008, the Center for Transit-Oriented Development, together with a number of national foundations, initiated a research project evaluating the potential need, role, and desired function of local and national land acquisition funds. This project will be completed in 2009.

Denver Enterprise and the Urban Land Conservancy are advancing plans for a land acquisition fund.

Denver Enterprise and the Urban Land Conservancy (ULC) are working together to create a land acquisition fund. The goal is to create a $15 million fund that would hold key parcels within a half-mile of certain rail stations for future affordable housing. In 2007, the two organizations established an agreement wherein the ULC would hold and manage property acquired through the fund, while Denver Enterprise would offer financing to cover the losses from holding land. The organizations have also completed the financial model, outlined the terms of the program, and hired staff.

Enterprise intends to structure its loan packages with more favorable terms than typical loans of this type, offering ULC a 100% Loan to Value (LTV) ratio rather than the 90% LTV required by many funds. Additionally, the loan will be offered to accommodate a five-year hold on property, which is a much longer term than other acquisition loan funds. The high risk associated with this structure will be mitigated by creating different pools of funding, including a "top loss" pool that is designed to cover the losses associated with a land banking strategy. ULC has already committed $1 million in grant funding to this "top loss" pool. Enterprise will provide the additional capital at a very low interest rate, in order to cover the holding costs for the land.

In order to maximize the impact of this $15 million program, Enterprise and ULC will be very selective about the places where the money is invested. They plan to target locations with the greatest development potential, and the greatest potential for entitlements to be awarded. At present, they are only considering sites within a half-mile radius of stations in Denver, although they may expand to include sites in Lakewood and Aurora as well. If the program is a success, they may consider looking within a quarter mile of major bus corridors as well, such as West Colfax, Broadway, or Federal. While Enterprise and ULC have not yet defined the terms for new development, they anticipate that the program will require some increment of permanently affordable housing.

Sources: Interview with Karen Lado, Denver Enterprise Foundation.

"Desarrollo November 2007," National Association for Latino Community Asset Builders, www.nalcab.org/newsletter.

Portland's New Regional Housing Choice Revolving Fund

Portland has successfully targeted higher density growth to infill areas, but in some cases has found that allowing higher density projects can drive up the cost of developable land, creating a challenge for affordable and workforce developments. Moreover, the widespread demand for a more urban lifestyle has made some of the neighborhoods near transit the most expensive places to live in the region, thus potentially limiting transit-oriented living for working families.

Responding to the critical need for middle- and lower- income households to have good access to transit and jobs, in 2007 the Metro Council (Portland's regional government) created a new revolving loan fund that will target affordable housing development in its 2040 Growth areas.

The structure of this fund is unique and is designed to leverage the greatest impact with a relatively small share of public investment. Rather than investing directly in capital projects, the Metro Council set aside $1 million to seed a larger fund by leveraging additional grants from foundations. The goal is to generate between $9 and $19 million in matching contributions from public, private, and charitable partners, possibly including the Alliance Memorial Trust, the Enterprise Foundation, the Meyer Memorial Trust, the Ford Foundation, and local banks.

Acknowledging that most affordable housing financing sources are governed by numerous restrictions and regulations, the fund has been designed to provide the greatest possible level of flexibility for its users. Funds can be used to acquire land, preserve existing subsidized housing units, prevent condominium conversion, assist with first time homebuyer programs, or support other projects that target affordability in the 2040 Growth areas.

Fund administrators will use the money as leverage to encourage cities to make their own contribution in support of affordable housing near transit or in infill areas. As a way to enable even fiscally constrained cities to be creative about how they support this effort, jurisdictions can offer other incentives in lieu of a monetary contribution, such as streamlining the permitting process for projects with affordable units, or changing land use regulations.

The fund is expected to help stimulate the creation of between 250 and 700 new affordable homes every two years. The Enterprise Foundation will be a critical partner with the Metro Council, and will work to help create partnerships, establish the structure of the fund, and provide expertise in the fields of affordable housing finance and community development.

Sources:
Interview with Kate Allen, Director, Enterprise Foundation Portland Office, March 28, 2008
Interview with Councilor Robert Liberty, Metro, March 28, 2008
"Regional Housing Choice Revolving Fund: Executive Summary," Press Release from Councilor Robert Liberty's Office, October 29, 2007
Interview with Abby Jo Sigal, Vice President, Enterprise Foundation, March 28, 2008

The exact structure and role of land acquisition funds is still in development. But some lessons can be learned from the recent experiences of Denver and Portland.

The need for better land acquisition tools is emphasized by the combined pressures of land speculation, increasing scarcity of larger developable sites, and a lack of affordable housing tools that allow for land acquisition or land holding. Fortunately, many regions have made great advances in creating tools to help with land acquisition. Portland and Denver are advancing plans for their land acquisition funds, and lessons from their creation and implementation can assist other regions in pursuing these types of tools as well:

- *Leverage funds for land acquisition by involving both the public and private sectors.* The case of Portland shows that deeper levels of funding can be achieved by involving partnerships between local and state governments, transit agencies, and CDCs or foundations. Initial grants or other non-revolving funds from some of these groups can help offset some of the risk in land purchasing activities, thus attracting funds from institutions with an expected return-on-investment.

- *Identify in advance who will be the active partners in the actual implementation of the program.* Public and private actors in a land acquisition program will both play important and complementary roles in the process. CDCs and other non-profit developers have the transactional experience to operate the program, and may have fewer political barriers than public agencies. However, these groups often get initially priced out of purchasing land in station areas, which makes private affordable housing development considerably more challenging. Thus, CDCs can become very powerful and effective actors in securing high-priced land if they are supported by a land acquisition program that specifically offsets challenges such as land holding costs, delayed funds from other affordable housing projects, and/or site cleanup. With a land acquisition fund, CDCs can time the purchase of their sites with the planning of the transit line, even if they do not plan to build on the sites until the transit line is complete. The partnership between the Denver Enterprise Foundation and the Urban Land Conservancy has brought the strengths of one partner together with the development and local experience of another. Denver Enterprise will be able to manage the financing parameters of the program, while the Urban Land Conservancy implements on-the-ground transactions.

The Role of Transportation in Supporting Mixed-Income, Transit-Oriented Communities

Jurisdictions should focus resources on a region's multi-modal transit system, not just a single rail line.

By definition land near transit is scarce and makes up only a small share of the total area in a community. Residents can grow weary of repeatedly directing public funds for affordable housing and other public needs to relatively small transit corridors, especially when a local government has already allocated significant funds towards the construction of the rail line. One staff member of the City of Charlotte noted, for example, that the South line only crosses through one ward, and the City Council has representatives from many other wards with equal or greater needs for public funds.

To alleviate the concentrated pressure for a handful of rail stations to accommodate all affordable housing needs, regions with smaller rail systems should consider the role that bus service can play in providing many of the same benefits to lower income households. This is particularly challenging given that the majority of good examples of transit-oriented development have been built near rail stations and not bus

lines. To ensure that bus transit can enable lower income residents to enjoy the same benefits of rail transit – including lower transportation costs and improved access to major regional employment, cultural, institutional, and entertainment centers – bus service has to offer a similar quality of access to these destinations. To leverage the benefits of bus for lower income households, housing tools and financing should be directed towards bus lines that offer high frequency, high quality service, rapid connections to major regional destinations, quality feeder service to rail stations, and internal circulation within areas of concentration such as a downtowns.

Full Report: *One Year Later: Housing Opportunities near Transit in a Changing Market*

This document has provided a summary of the major common findings and recommendations based on analysis of the five case study regions. The full report offers more detail on the national changes that are impacting development of housing near transit, and provides a full description of each case study region, including detailed information on the recently built, planned, and proposed projects surrounding each case study corridor.

Chapter I of this report provides a summary of major findings and recommendations, designed to supplement findings from *Realizing the Potential.* Chapter II summarizes national changes to transportation and the real estate market that have affected housing affordability and reinforced the need for understanding the relationship between housing and transit. Chapters III through VII provide greater detail on changes in each of the case study corridors.