

Multifamily Trends - Winter 2005 (Urban Land Institute)

The Match Game: Bringing Together Affordable Housing and Transit Villages

By Marilee Utter

As housing prices continue to increase and transit systems grow, cities are realizing that combining transit-oriented development and affordable housing can make economic sense.

America's overriding desire for community, viewed through the lens of real estate, looks a lot like a longing for a romanticized notion of small-town America—or a European village. In this vision, people know their neighbors and feel safe; kids can ride their bikes to school; work, shopping, recreation, and dining are all nearby; and families really can get by with just one car.

People gush over such places and rush to live or vacation at them, bidding up prices in the process. Even when these communities make a special effort to include mixed-income housing, economic realities soon force working-class citizens to “drive until they qualify”—move farther away from the community to find a mortgage they can afford—eroding the small-town magic that attracted them in the first place. The problem is that there are still too few villages, and they are still too expensive in today's world.

In any setting, affordable housing projects are brutally difficult to pencil out. Often, the economics are balanced by building on cheaper land at the fringe. This may make sense for the developer, but it is exactly the worst place both for the community and for the resident, who sees the quality of life decline and must absorb higher commuting costs. Standard of living used to be based generally on the relationship of income to housing expense. However, sprawling land patterns have raised transportation expenses to nearly the same level as shelter costs, and in a surprisingly fast-growing list of cities, transportation expenses now meet or exceed housing expenses for the average family.

Transportation costs for consumers have increased steadily over the past century, from 10 percent of household income in 1935 to nearly 20 percent for the average American household today. The poorest one-fifth of Americans, however, are spending more: in 2001, households earning less than \$14,000 per year spent nearly 40 percent of their income on transportation. Today, the average car costs more than \$6,000 per year to own and operate, but even the least expensive car can cost \$3,000 per year in insurance, fuel, repairs, and other miscellaneous expenses.

This gradual increase in transportation costs is having a significant effect on families' long-term financial condition. Homes generally are appreciating assets over time, while autos are depreciating assets; investing more in autos and less in home equity impedes long-term wealth accumulation. For example, \$30,000 invested in owning, using, and maintaining a car over the course of a decade can be expected to result in less than \$3,000 in equity. The same \$30,000 invested in owning, living in, and maintaining a house yields an average of more than \$13,000 in equity. Owning a car gives the illusion of financial stability because of the access to jobs it affords, but with the high costs of transportation, it may actually be trapping lower-income families in poverty.

Accordingly, use of transit—bus and rail—has long been a means to cut transportation costs and to dedicate more income to housing and wealth building. Transit use typically costs \$800 to \$1,500 per worker per year versus the \$6,000 it costs to own and operate an auto. Not surprisingly, more than half of all transit users report household incomes of less than \$50,000.

While the economic benefits of transit use may be particularly significant to lower-income households, Americans of every demographic group are growing weary of the congestion, travel delays, and costs associated with dependence on the automobile. Cities are realizing that they do not have the room or the resources to provide all the roads demanded by growing populations. Citizens are increasingly vocal in expressing their frustration with traffic and congestion; they are clamoring to cut their travel time and their costs, and they are looking to rail transit.

The demand is overwhelming. Currently, there are 27 regions in the country served by fixed-guideway transit—light rail, commuter rail, trolley, or bus rapid transit—with 15 more areas planning such systems by 2025. The Federal Transit Administration is looking at \$60 billion in projects over the next 15 years. In the November 2004 elections, voters considered 31 transit/transportation initiatives in 12 states totaling more than \$50 billion and passed two-thirds of them.

The increased investment in transit is starting to pay off in ridership trends: between 1997 and 2001, transit use increased 20 percent, outpacing a 12 percent growth in driving.

Transit Villages: Linking Land Use and Transit

The somewhat unexpected jewel in the current situation is the powerful drive to link demand for mobility and transit to land use through creation of transit villages, also known as transit-oriented developments (TODs). These are comparatively compact, mixed-use villages built around transit stations and designed to put a variety of uses within an easy walk of the platform—within a quarter to half mile, depending on the market and site—and to incorporate a variety of travel modes, including bicycles, buses, trains, and shuttles, as well as autos. Parking is in structures or below grade, shared, reduced, and set back so the valuable land closest to the platform is available for development. High-quality design and materials are key because of the relative density of development. Frequently, in the spirit of place making, the area is built around a public plaza, public artwork, a water feature, or other amenity. To accommodate all the uses and to amortize the higher development expense, the project needs to be of a certain size—usually not less than five acres, depending on the parking requirements, required amenities, permitted density, and market.

From a developer standpoint, TODs are mixed-use projects with a transit anchor. Accordingly, they are complex and thus far have been primarily a boutique type of development requiring specialized expertise and design, significant upfront capital, and a longer hold period to realize gains. Because they are usually a new development type for communities and are intentionally denser than surrounding areas, they generally require rezoning, substantial community

involvement, and a longer period for the public process to unfold. It is not unusual for the development period to run three to seven years, depending on the project.

Given the capital requirements, TODs are almost inevitably public/ private ventures, often involving joint development agreements between the developer and the local jurisdiction and/or the transit agency. TOD developers thus far have tended to be national firms with deep pockets, or a consortium of smaller local firms taking pieces of a larger master development, such as CityCenter Englewood in Colorado, where the city purchased the land, acted as master developer, and sold or leased parcels to various specialty developers pursuant to a TOD master plan. The Federal Transit Administration estimates that among 3,300 transit stations around the country, there are only slightly more than 100 such transit-oriented projects.

Nonetheless, the demand for these villages is immense. Transit agencies like them because transit ridership consistently increases by a factor of three to five among area residents if they are a convenient walk from the platform. Also, the sale or lease of parking lot air rights can yield sizable revenues to the agencies.

Cities crave the new development associated with TODs. Many a faceless suburb has enhanced its identity by capitalizing on the place-making attributes provided by a transit village to create a new town center. Their defined boundaries and additional density create the opportunity to introduce needed new product types—like housing for seniors, upscale urban lofts, or workforce housing—that otherwise would not be acceptable in established single-family communities. The economic benefits are also attractive because transit villages become top-quality locations. Across various markets and projects, property values within a short walk of a transit platform are dependably 10 to 20 percent higher than similar projects a mile from a station. And the cost of a transit investment can be expected to generate three to four times that amount in private investment and spin-off economic development in the area.

Consumers are drawn to TODs for an authentic yet affordable community experience. Carefully designed and rich in amenities, these villages offer reasonably priced alternatives to a move back into the city core. And the shifts unfolding in America today show strong demographic support for TOD and indicate that the country is seeing just the tip of the iceberg in terms of prospective demand. Demand for transit and connectivity is high among the fastest-growing parts of society, such as seniors, who are gradually becoming more transit dependent as they lose their ability to drive; young adults, who favor the hipper urban experience, but do not necessarily want to live downtown; empty nesters; immigrants; and members of the creative class, like entrepreneurs, artists, and thinkers.

TOD and Affordable Housing

TOD and affordable housing are particularly compatible development types that reinforce each other in many ways.

Land availability. The high price of land in convenient urban locations, including around transit stations, often makes development there prohibitively expensive. Transit authorities increasingly are willing to make development rights available on their parking lots, and cities will sometimes stretch to use eminent domain to secure land for the double benefit they see in TOD/affordable housing projects. Moreover, consumer acceptance of transit villages as different places with different rules frees up the city to use air rights in ways that may not be acceptable anywhere else in the community, and thereby virtually creates new land for these developments.

Users. Transit and affordable housing share many of the same users, and combining the two makes each more successful—transit ridership rises, and greater use of transit helps more people to reach the workplace, earn a salary, and qualify for housing.

Parking. TOD is often burdened with structured parking not only to meet its own needs, but also to replace surface park-and-ride spaces. In many markets, access to transit has reduced demand for parking 20 to 30 percent, which helps to offset the additional expense. Similarly, affordable housing developers seek parking reductions on the premise that their tenants own and use fewer cars. Both TOD and affordable housing developers usually seek a parking requirement reduction to one or one-and-a-half spaces per unit. With transit and affordable housing in the same project, one space per unit should be granted.

Zoning. Both affordable housing and TOD raise the issues of density, mix of uses, mix of incomes, traffic management, and need for high-quality design. Long public processes are the norm. Combining both into a single conversation with the community offers a greater rationale for approval and saves precious time and money.

Affordability. Because TOD land values are generally higher than those for surrounding areas, questions of gentrification and the feasibility of affordable housing are frequently raised. However, the land price premium in most cases is based primarily on the density bonus associated with TOD—often 25 to 50 percent greater than the surrounding area—and to a somewhat lesser extent on the amenity value of the transit. The exact contributions vary with the market, the transit systems involved, and the project; in general, the broader and more established the transit system, the greater its contribution to land value. Land values can rise and unit prices can remain affordable because of the density associated with a TOD.

Mixed use can also benefit housing affordability because it expedites absorption, which reduces financing expenses and other soft costs. It also allows the project to include some high-profit elements, such as restaurants or luxury condominiums, to help subsidize the amenities and affordable housing elements. There are limits on this effect, generally falling into the category of “excessive project amenities.” It is not uncommon for communities to get so enamored with the possibilities of a transit village that they load it up with more demands than the market and the project can bear.

Public/private partnerships. Both TOD and affordable housing generally need public investment in the form of tax credits, enterprise funds, special districts, tax increment financing, tax forgiveness, public infrastructure, or other incentives and methods of contribution. The negotiations are often easier when the public sector sees the many associated benefits, including

an infusion of affordable housing, an activated public space, enhanced transportation access, and a new revenue source for the city.

Recent Projects

Despite the challenges, many combined affordable housing/TOD projects are being built across the country.

MacArthur Station, Oakland, California. A particularly unusual joint venture characterizes this ten-acre project still in the planning stages and located in the heart of this built-out city east of San Francisco Bay. After several fits and starts, Bay Area Rapid Transit (BART) issued a request for proposals for redevelopment of the site in late 2003. The selection came down to two teams, Shea Properties (sister company of Shea Homes) and its financial partner Aegis, or Bridge Housing Corporation (California's largest nonprofit developer of affordable and mixed-income housing) and its financial partner CalPERS. BART and the city of Oakland were torn in their decision, and finally asked the two teams if they could form a joint venture. The developers agreed to try, and after 30 days came back with a workable structure among Shea, Aegis, and Bridge. The project expects to make 20 percent of the housing—400 to 600 units—affordable to residents earning 50 to 80 percent of the area median income. These units likely will be built at densities of 100 to 125 units per acre on four stories of wood frame above parking and retail space. The other 80 percent of the residential units will be a combination of for-sale condominiums and market-rate apartments.

Hollywood/Western Metro Red Line Station, Los Angeles, California. McCormack Baron Salazar, a developer specializing in revitalizing urban neighborhoods, recently completed the final phase of development on one of the first southern California transit villages targeting low-income households. The project is located above the Red Line station in Hollywood where trains operate on four-minute headways during peak periods, and connect with seven different bus lines. The initial phase of the project, built on a 1.68-acre parcel owned by the Los Angeles County Metropolitan Transportation Authority, opened in 2000 and included 60 affordable housing units with one secure off-street parking spot per unit in a below-grade facility, plus shared guest parking. The recent phase added 60 more affordable housing units, 9,100 square feet of retail space, and a daycare center. The Hollywood Community Housing Corporation assisted with financing.

Parsons Place, East St. Louis, Illinois. McCormack Baron Salazar is also working on the second phase of a mixed-income project located in the East St. Louis Emerson Park neighborhood. Parsons Place is the first privately developed rental housing project in East St. Louis in 30 years. Before the project's creation, the Illinois Public Housing Authority had been the largest landlord in the area. In a partnership with Emerson Park Development Corp., a local community development corporation, McCormack Baron redeveloped 30 acres of abandoned land. The new neighborhood is anchored by a swimming pool, a large park and community center, the Jackie Joyner-Kersey Boys and Girls Club, and a MetroLink station to the south.

Phase I of the project includes 171 units of one-, two-, and three-bedroom apartments of which 75 percent were leased under the low-income housing tax credit program, and 25 percent are market rate. Phase II will include another 102 units allocated similarly. The development authority provided the first mortgage for the project and awarded the low-income housing tax credits, which were purchased by US Bancorp, an equity partner in the project. The city of East St. Louis provided \$2 million of tax increment financing, much of which was used for public improvements such as streets and lighting.

French Creek Center, Phoenixville, Pennsylvania. Particularly ambitious is the redevelopment of the 123-acre Phoenix Steel site in Phoenixville. A master plan for French Creek Center was put together in 1999 by Phoenix Property Group after the community rejected previous plans presented in the 1990s. Chester County 2020, a local nonprofit trust dedicated to addressing growth and sprawl in Chester County, brought in designer Klaus Philipsen of Baltimore, Maryland-based ArchPlan, Inc.—Philipsen Architects to help redesign the proposal to adhere more closely to the community vision. The resulting plans were well received and form the basis of the development today. Central to the project are a station for the proposed Schuylkill Valley Metro commuter rail, projected to open in 2008, 39 acres of parkland, connections to downtown, and a newly restored Phoenix Iron Works Foundry building.

Regardless of whether the commuter rail is constructed, the project is pedestrian friendly and transit oriented. Mixed use in character—anticipating 800,000 square feet of commercial development producing 5,000 jobs, more than 500 units of corporate apartments and townhouses, and 50,000 square feet of retail space—no part of the project will be more than a half mile from the proposed transit station.

When the affordable townhouses came on the market in March 2004 as the first phase of the project, hundreds of people camped out in near-freezing temperatures for an opportunity to purchase the units with prices starting at \$169,900.

Funding for this public/private venture has come from a wide variety of sources, including the Department of Community and Economic Development, which is helping with environmental remediation of the site; the Pennsylvania Department of Transportation's Growing Greener Fund, part of its Transportation Improvement Fund; and a \$2 million grant and a \$4 million low-interest loan from the U.S. Department of Housing and Urban Development's Brownfields Economic Development Initiative.

Ampere Station, Newark, New Jersey. Ampere Station was an unused stop on the Newark-Bloomfield rail line, situated in one of New Jersey's most economically depressed neighborhoods. The old Ward Bakery had closed its doors in 1979 amid a host of financial and environmental difficulties. Finally, RPM Development Group, based in Montclair, New Jersey, specialists in urban revitalization projects, saw an opportunity for safe and inexpensive apartments and in 1994 purchased the property for \$100,000.

The city initially resisted the proposed transformation to affordable housing, instead favoring commercial occupancy. But the location and condition of the building frustrated any retail

attempts, and ultimately the site was approved for a mixed-use project combining 125 rental units with a community center, a daycare facility, and 16,000 square feet of commercial space.

The building, however, required massive, expensive structural improvements and environmental cleanup. To accomplish this, several financial sources were ultimately used, including the Balanced Housing Program of the New Jersey Department of Community Affairs (DCA), the DCA-affiliated New Jersey Housing and Mortgage Finance Agency, the Essex County Economic Development Department, Fleet Bank, and Thrift Institutions Community Investment Corporation of New Jersey. Even then, competition for tax credits is fierce in New Jersey, with only one of four eligible projects receiving approval. With community support, the tax credits were secured and the project built.

A visit to the building today reveals the thoughtful design and historic orientation of the project. The RPM team is also committed to environmentally conscious construction and has installed energy-efficient features throughout the building. Security efforts, enhanced because the project is in a high-crime area, is handled in an unobtrusive fashion.

The Opportunity

In the next 20 years, rail transit projects likely will take root in nearly every major U.S. city, spurring development of transit villages capable of holding nearly half of the country's projected population growth. Affordable housing belongs at most of these stations because of the many benefits it brings to both the transit user and to the homeowner. Construction of transit villages is unquestionably complex, as is building affordable housing. Merging the efforts brings many challenges, but in the end it yields even greater benefit. The opportunity to develop affordable housing at TODs is here and should not be overlooked.

Marilee Utter is president of Citiventure Associates LLC, a Denver-based firm that provides development advisory and investment services on mixed-use urban projects, with a specialty in transit-oriented development.

Recipe for Success

The most successful transit-oriented development land uses thus far have been the following:

- * high-employee-count office space (call centers, government offices, schools);
 - * multifamily residential units of almost any type (for-sale or rental, affordable, luxury, senior, student);
 - * recreation/entertainment space (cinemas, theaters, museums, arenas, ballparks, skating rinks);
 - * civic space (city halls, courthouses, libraries, convention centers, community centers);
- and
- * service retail space (food and beverage stores, video rental shops, cleaners, child-care businesses, athletic clubs, liquor stores, other uses that reduce the need for people to drive to do errands on the way home from work).

FEATURE BOX

Tools and Programs to Help Create Affordable Housing/TOD Developments

Recognizing the challenge of creating transit villages with mixed-income components, communities around the country are providing a variety of tools and incentive programs to encourage this type of development. Among them are the following:

- * Fannie Mae rolled out its Location Efficient Mortgage (LEM) program in 2000 to assist qualifying households in Chicago, Seattle, Los Angeles, and the San Francisco Bay area. The program allows people looking to buy homes in location-efficient communities—within a half mile of a transit station—to borrow more money because they are likely to spend less than average on transportation. This has the effect of lowering the minimum annual income needed to purchase a home by as much as \$5,000, and can increase credit availability by \$36,000 to \$48,000 for a first-time homebuyer with a household income of \$50,000.
- * The Housing Incentive Program (HIP) in the San Francisco Bay area, sponsored by the San Francisco Bay Metropolitan Transportation Commission, provides transportation dollars as an incentive to local governments that locate developments near transit, with an additional bonus provided for affordable housing units.
- * Also in California, the Transportation for Livable Communities (TLC) program funds transportation projects in local jurisdictions that are locating compact housing near transit.
- * Maryland's Live Near Your Work (LNYW) program offers \$3,000 toward closing costs for employees who buy a home within five miles of their workplace. One-third of the money comes from the state, one-third from the local government, and one-third from the employer. Demand for the program in Baltimore has been so strong that it surpassed the state's funding, which the city has decided to cover.
- * In Denver, the Metro Mayors Caucus has created a pool of tax-exempt private activity bonding authority to provide financing to transit-oriented, affordable multifamily rental housing.
- * Both Loyola University in Chicago and the University of Cincinnati make low-interest loans for home purchase or improvement available to employees living within a certain distance of campus.
- * First Community Housing in San Jose, California, a nonprofit developer of affordable housing, has secured an agreement with the city to build 10 percent fewer parking spaces at transit-proximate projects, and also buys Eco Passes for its tenants to encourage transit ridership.