

Realizing the Potential: One Year Later

Housing Opportunities near Transit in a Changing Market

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ABOUT THIS REPORT

Realizing the Potential One Year Later: Housing Opportunities Near Transit in a Changing Market was written by Reconnecting America's Center for Transit-Oriented Development. The Center for TOD is the only national nonprofit effort dedicated to providing best practices, research and tools to support market-based transit-oriented development. We partner with both the public and private market sectors to strategize about ways to encourage the development of high-performing TOD projects around transit stations and to build transit systems that maximize the development potential. The Center for TOD is a partnership of the national nonprofit Reconnecting America, the Center for Neighborhood Technology, and Strategic Economics, an urban economics firm in Berkeley, CA.

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Notice

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TABLE OF CONTENTS

INTRODUCTION	5
I. SUMMARY OF FINDINGS	7
Summary of Findings.....	8
Findings and Recommendations for Tools and Policies	14
II. OVERVIEW OF YEAR-TO-YEAR CHANGES	21
Transportation	21
The Housing Market.....	22
National Affordable Housing: Changes to the Low Income Housing Tax Credit.....	25
National Implications for Affordable Housing Near Transit.....	27
III. BOSTON’S FAIRMOUNT/INDIGO LINE COMMUTER RAIL CORRIDOR	29
Changes in Transportation.....	31
Changes in Market and Development Activity	31
Changes to Affordable Housing Projects and Policies	32
Changes to the Political and Regulatory Environment	40
IV. CHARLOTTE’S SOUTH CORRIDOR	41
Changes in Transportation.....	41
Changes in Market and Development Activity	43
Changes to Affordable Housing Projects and Policies	51
Changes to the Political and Regulatory Environment	52
V. DENVER’S WEST CORRIDOR	55
Changes in Transportation.....	55
Changes in Market and Development Activity	57
Changes to Affordable Housing Projects and Policies	61
Changes to the Political and Regulatory Environment	68
VI. TWIN CITIES’ HIAWATHA CORRIDOR	71
Changes in Transportation.....	71
Changes in Market and Development Activity	73
Changes to Affordable Housing Projects and Policies	78
Changes to the Political and Regulatory Environment	82
VII. PORTLAND’S STREETCAR CORRIDOR	83
Changes in Transportation.....	83
Changes in Market and Development Activity	85
Changes to Affordable Housing Projects and Policies	89
Changes to the Political and Regulatory Environment	94

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INTRODUCTION

A year ago, the Center for Transit-Oriented Development published a report that looked at different mechanisms that regions use to promote mixed-income housing near transit. This report, called *Realizing the Potential: Expanding Housing Opportunities near Transit*, evaluated five case study transit corridors through analysis of recent development projects and extensive interviews and focus groups with housing and transportation experts in each region. These corridors are:

- 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 this past 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. Clearly the housing market has experienced the most notable changes; as of the completion of this analysis in April 2008, problems in the market were becoming exacerbated by rising foreclosure rates and the national credit crisis. Among other changes, new transit lines have opened, stations have been improved, and cities and regions are rapidly gaining an understanding of the effect transit will have on planning for affordable housing and new transportation networks. Several improved policies related to local transit and affordable housing finance are in place, communities have pushed planning efforts forward, and, in one case, new leadership at the state level has profoundly impacted programs related to TOD.

This report looks at how changes to the housing market, transportation, and policy over the last year are continuing to influence opportunities for housing in the five transit corridors. A "one year later" study is particularly insightful given that most of these transit projects are either recently built or undergoing construction, and therefore are experiencing constant changes in ridership trends and private investment. This report is designed to supplement *Realizing the Potential* with a longitudinal evaluation of the corridors, in order to:

- Help measure the effectiveness of local investments and policies in promoting housing near transit;
- Track dynamic changes in the housing market, transit investments, and policy/planning; and
- Take advantage of new available regional and national information on housing prices, affordability, and new development.

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.

Editor's Note

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

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I. SUMMARY OF FINDINGS

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 strength 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 gallon¹ 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. 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. Regions with newly added fixed-guideway transit systems – particularly those which added rail-based passenger service for the first time ever – have continued to report model-shattering ridership counts, observe an unprecedented interest in development, and acknowledge the surging demand for housing types other than the single-family home. 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.

¹ As of Spring 2008.

Questions Researched in this Study

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. These regions have not experienced the same continued employment growth as Portland and Charlotte, and therefore the apartment markets have not seen a similar resurgence.

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, while less widespread near transit and in infill areas. Boston is the only exception to this: the Indigo Line in particular experienced higher rates of foreclosure than the regional average.

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. 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.

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.

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.

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 Northeast 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. This is consistent with the experience in the South Corridor, where over \$1.8 billion in new private development is planned, proposed, or under construction. Developers reported that land prices had tripled or even quadrupled along the South Corridor between the time funding for the line was secured and the time the line opened at the end of 2007, and similar trends could be expected in the Northeast Corridor. This level of speculation and interest has, and will continue to affect the City's ability to provide lower income housing near its rail system. The following section discusses this in further detail.

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 farther from the transit 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.

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

This section summarizes the findings and recommendations related to the tools and policies that support the creation of new mixed-income housing opportunities near transit. While many of the same tools described in *Realizing the Potential* are discussed below, this section is designed to be complementary to the recommendations offered in Chapter 10 of that report. Thus, these findings and recommendations are provided in light of several new factors: changes to the housing market or demographics, which have influenced the effectiveness of certain tools; and new information or experiences in the case study regions that reinforce the need for particular new tools such as land acquisition assistance.

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 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 more dynamic 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 nearly every case study region have stressed the need for better land acquisition tools in order to address a variety of challenges in 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 assemble parcels. In the **Denver** region, the involvement of public agencies in land acquisition for private development is under close political scrutiny, thus 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 pace of speculation along the South Corridor, as well as planned future rail lines, has driven land prices out of reach of affordable housing developers.

² Note: In June, 2008, the Center for Transit-Oriented Development together with the Local Initiatives Support Corporation and a range of national foundations, have initiated a research project evaluating the 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 have been 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.

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II. OVERVIEW OF YEAR-TO-YEAR CHANGES

A number of changes at the national level since late 2006 have influenced opportunities for housing near transit in each of the five case study regions. Notably, changes in transportation infrastructure and funding and changes in the housing market received significant press at both the national and regional levels. This chapter provides an overview of these changes, and the following chapters discuss the trends that have occurred specifically in Boston, Charlotte, Denver, Minneapolis, and Portland, Oregon.

TRANSPORTATION

The year 2007 saw the continuation of rising gas prices and increasing congestion in major metropolitan areas. In many regions, these trends have generated renewed interest in taking transit. Newspapers have run countless stories about commuters who switched from driving to bus or rail commutes due to the price of gas, and transit ridership numbers increased nationally by about two percent in the last year. The American Public Transportation Association reported that transit reached a new peak ridership level in 2007 of 10.3 billion trips. Figures 2-1 and 2-2 show ridership estimates for the five case study regions and the United States in 2006 and 2007.

Figure 2-1: 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%

Figure 2-2: Ridership Numbers for All Transit, All Quarters 2006 and 2007

All Transit	Total 2006	Total 2007	% Change
Boston	382,451,600	371,387,500	-3%
Charlotte	18,742,200	20,346,100	9%
Denver	11,277,800	18,744,700	66%
Minneapolis	73,755,800	76,966,800	4%
Portland	33,069,600	34,700,400	5%
National	10,046,406,000	10,253,621,000	2%

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

Americans are not only taking transit more; they are also supporting new transportation investments at the ballot box. The Center for Transportation Excellence reports that between 2000 and 2005, voters approved 70 percent of local and state transportation-related measures. In 2007, over two-thirds of local

and statewide ballot measures were decided in favor of transit. One of the most hotly contested of these was decided in Charlotte over whether to repeal their local dedicated sales tax for transit. These measures generally provide an additional sales tax or a bond measure for finance of future transportation infrastructure, including new transit construction.

The momentum towards expanding transit options continues to increase, and local funding options are gaining popularity. Transit system expansion will open up opportunities for regions to pursue complementary land use and policy planning efforts that further increase opportunities for a wider range of households to live near transit.

THE HOUSING MARKET

In 2006, signs emerged that the wide-reaching boom in the market for ownership housing was over. Many localities were experiencing stagnation in the market, with prices dropping slightly or remaining steady for the first time in five years, and the pace of sales had greatly slowed in most places. The extent of the national housing downturn started to become clear in late summer of 2007, when households across the United States faced foreclosure as their adjustable mortgage rates climbed upward to a point where they were forced to default on their monthly payments.

Figure 2-3: Annual Foreclosure Rankings and Rate Changes, 100 Largest Metro Regions, 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

Even regions with stable housing markets – where prices remained high and the market continued at a strong pace – were impacted when national lenders and development corporations entered a credit crisis and pared back their operations in the third and fourth quarters of 2007. Charlotte and Portland, as well as a number of other regions, enjoyed continued steady job and population growth, and had not experienced the volatile price appreciation over the last few years that created a “housing bubble” effect in other places. As a result these areas have not been as greatly impacted by the downturn in the market and the foreclosure issues as others. Nonetheless the national downturn and credit crisis has even had an impact on these “stable” regions. To date, this impact has taken several forms:

- *Lower cost areas, often at the edges of metropolitan areas, have suffered from high rates of foreclosure.* Low interest rates and unusual lending packages during the housing boom enabled many households to afford homeownership for the first time. To afford homes in their price range, many households moved to new subdivisions at the outer edge of the metropolitan areas

where prices were cheap, and applied for subprime mortgages, with very low down payments and adjustable interest rates. Unfortunately, the several-year fixed term on adjustable rate mortgages expired starting in 2006, and many of these same households found they could no longer afford their payments. Even regions with strong housing markets, such as Charlotte, have seen high vacancy rates in new subdivision communities, and a resulting increase in crime and drug problems. Residents' struggles with high housing payments, declining home values, and long commutes are exacerbated by the difficulty of providing social, public safety, and other services to these localities given their distance from existing service infrastructure.

- *Media reports suggest that lowered housing prices will enable more households to enter the homeownership market. However, middle-income households and potential first time homebuyers who were previously qualified to obtain financing are now having difficulty securing credit to buy a home.* Because financial institutions have greatly raised their lending standards for new mortgages, there has been a substantial contraction in credit availability and many once-qualified households are now unable to secure a loan.
- *New condominium and townhouse development has slowed or halted in nearly all regions.* Development of new ownership housing has slowed regardless of the strength and competitiveness of the local housing market. Even in Charlotte – where the median housing price continues to climb – proposed and under construction condominium projects have generally stalled or been converted to rental units. Many national housing developers such as KB Home, Pulte, Toll Brothers, and others, have pared back investments in every region, regardless of the state of the local housing market, to cut expenses. Because construction costs have remained high in spite of declines in the market, higher density condominiums are no longer financially feasible in most places even if there is unmet demand for them.
- *The apartment market has strengthened in some, but not all, regions.* Demand for rental housing has increased in many metropolitan areas as a result of the slowdown in the ownership market. In regions with vital and growing job centers, the market for rental housing is expected to continue to strengthen as new residents relocate to these regions and increase the demand for housing in general. In stable regions such as Charlotte and Portland, many new residents who would otherwise purchase a home are unable to sell their former home elsewhere, and are renting until the market improves. Other residents who might otherwise purchase a home are biding their time before entering the ownership market, thus driving additional demand for rental housing. This increase in demand is resulting in the construction of rental units that are primarily catering to the highest end of the market, offering apartment units with luxury amenities and premium rents.

Implications of Market Changes on Mixed-Income Housing Opportunities

The implications of the changing housing market vary by household income levels, and by region. Generally, higher income households have not been as greatly impacted by the downturn in the ownership housing market and improvements in the rental market. New rental housing development tends to serve the highest end of the market, and higher income households have an easier time securing credit towards purchasing a home.

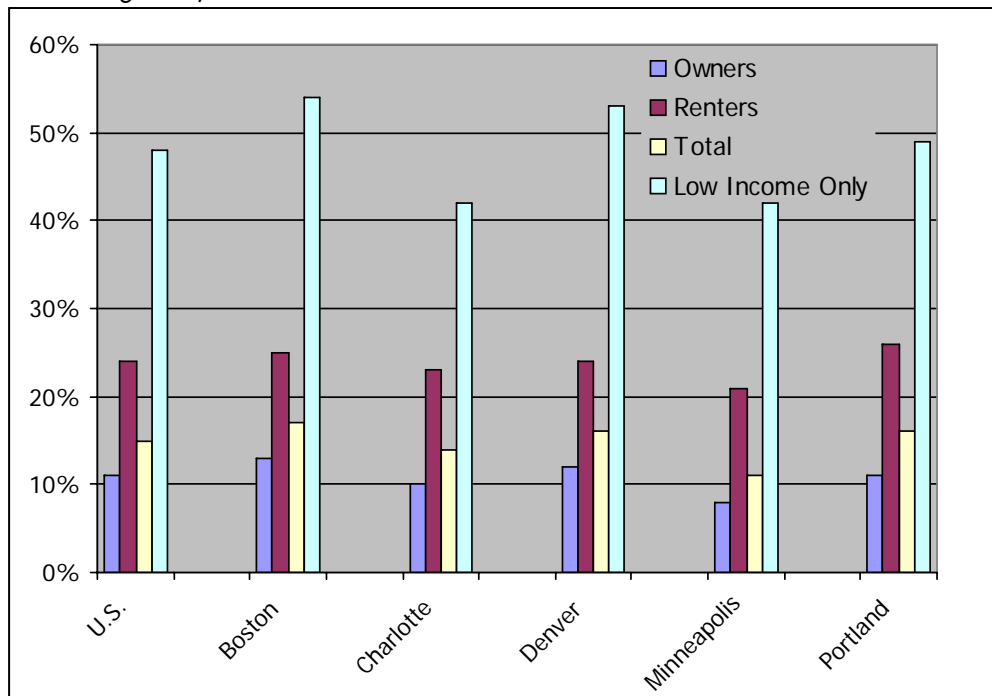
Figure 2-4: Median Housing Price and Income Needed to Purchase a Home, 2006 and 2007

	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 Center for Housing Policy’s annual report, *Paycheck to Paycheck*, shows the median income needed to purchase a home in major metropolitan areas throughout the United States. Their data – excerpted in Figure 2-4 – 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. Thus, while the cost of ownership housing has decreased in some regions, this decrease is inconsistent and regions experiencing rapid economic growth often continued to have increasing ownership housing costs throughout 2007. Moreover, the Center for Housing Policy observes that the decline in median home prices throughout the United States hardly improves the affordability of ownership housing. Workers employed in vital and rapidly growing occupations still struggle to afford the costs of housing in many regions, and almost half of low-income households have a severe housing cost burden (Figure 2-5).

Figure 2-5: Share of Households with a Housing Cost Burden, 2006 (Spending more than 30% on housing costs)



Source: Center for Housing Policy, 2006

The rental market has strengthened as a result of the downturn in the ownership market, thus increasing median rents. This in turn may create an additional burden on some renter households. Figure 2-6 shows increases in HUD Fair Market Rents in all five of the case study regions as well as nationally from 2006 to 2007.

Figure 2-6: Fair Market Rent and Income Needed to Rent a Home, 2006 and 2007

	Fair Market Rent		Income Needed to Rent 2 BR (nearest hundredth)	
	2006	2007	2006	2007
United States	\$821	\$848	\$32,800	\$33,900
Boston	\$1,324	\$1,366	\$53,000	\$54,600
Charlotte	\$680	\$707	\$27,200	\$28,300
Denver	\$889	\$909	\$35,600	\$36,400
Minneapolis-St. Paul	\$855	\$858	\$34,200	\$34,300
Portland, OR	\$723	\$737	\$29,000	\$29,500

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

NATIONAL AFFORDABLE HOUSING: CHANGES TO THE LOW INCOME HOUSING TAX CREDIT

The national slowdown in ownership housing development does not necessarily ensure greater opportunities for the development of projects serving lower income households. Private resources for affordable housing, such as funding from non-profit groups and foundations, have not fully recovered since the 2001 economic recession. Moreover, the housing market downturn has impacted the largest and most widely used resource for affordable housing finance, the Low Income Housing Tax Credit.

Recent Changes in the Low Income Housing Tax Credit Market³

Since its establishment as part of the Tax Reform Act of 1986, the Low Income Housing Tax Credit (LIHTC) program has become one of the largest resources for affordable housing finance in the nation. State housing agencies award tax credits to affordable housing developers for particular projects. The developers are then able to sell the tax credits to investors, who use the tax credit, as well as 99 percent of the project's depreciation over time, in order to reduce their federal tax liability. Investors most commonly included Fannie Mae, Freddie Mac, and local financial institutions that were subject to Community Reinvestment Act (CRA) regulations.

³ Sources: U.S. Department of the Treasury Community Affairs Department, "Low-Income Housing Tax Credits: Affordable Housing Investment Opportunities for Banks," *Community Developments Insights*, February 2008.

National Housing Trust, "NHT Learns States Are Turning to Flexibility in the Wake of Tax Credit Market Volatility." Email newsletter, March 25, 2008.

Kimura, Donna, "Tax Credit Equity: Volatile Investment Market Prompts Warning on Pricing," *Affordable Housing Finance*, March 2008. Available at www.housingfinance.com/ahf/articles/2008/mar/VOLATILE0308.htm.

Sigal, Abby Jo, Vice President and New York Director, Enterprise Community Partners, Inc. Phone interview. March 28, 2008.

Allen, Kate, Local Office Director, Portland, OR, Enterprise Community Partners, Inc. Phone interview. March 28, 2008.

The price at which developers can sell the tax credit to investors is established based on the demand for credits and the likely after-tax yield, which regularly exceed comparative investments in municipal bonds and treasury bills. In the first years of the LIHTC program, tax credit prices were as low as \$0.50 for each dollar of credit. As the program gained in popularity and more investors understood the benefits, the price for tax credits has escalated, reaching a peak of approximately \$1.03 for each dollar of credit last year.

The drop in the housing market and subsequent decline of the credit market led many financial institutions – particularly Fannie Mae and Freddie Mac, which have historically represented approximately one-fifth of the total market – to forego purchasing tax credits in the 2007-2008 because the institutions have less tax liability to offset, and limited resources to invest.⁴ 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. Prices for credits have dropped to as low as \$0.70 per dollar in some deals.

This drop in LIHTC prices will have various short- and long-term effects on affordable housing funding and the LIHTC program in general, including:

- ***Short Term:** A shortfall in financing for affordable housing development projects for which tax credits have already been awarded.* Developers who were awarded tax credits in 2007 are unable to sell them at the price they anticipated, meaning they will not cover as large a share of their affordable housing financing. Some projects experienced a sudden 20 percent funding gap from this drop in pricing, but nevertheless LIHTC regulations require them to begin construction within a certain specified time frame. For this reason LIHTC is generally the last source of funding acquired for a project, which now places developers in an even more challenging situation as they have likely already secured funding from other available sources, and may not be able to fill the gap. Several adjustments are being made to resolve this temporary crisis:
 - *“Extras” on projects are being cut.* Additional costs for projects, including green building amenities using environmentally friendly materials and more efficient energy systems, are often the first to be cut from projects to close the financing gap.
 - *State housing finance agencies are temporarily modifying requirements for LIHTC recipients.* States are relaxing a variety of requirements for tax credit projects.
 - *Regions are considering increasing other sources of funding for projects.*
 - *In the Boston area, the impact of this decline has been that affordable housing developers who have received tax credit allocations must apply for additional awards.* This has heightened competition for what were already highly competitive sources of project equity, as previous year recipients crowd the pool of current year applicants.
- ***Short to Mid Term:** Investors are able to be more selective about which projects they buy into, and the regions in which tax credits will be purchased.* A reduced demand for LIHTC enables investors to choose projects that will have a higher yield. A typical yield in past years would range from five to six percent; in order to entice LIHTC investors today, projects need to guarantee a seven to eight percent yield to investors. Additionally, financial investors with reduced investments will increasingly tend to only purchase tax credits in regions for which they have a CRA requirement. This means tax credits are spread unevenly; major finance hubs like Los Angeles and the northeast will continue to have stronger tax credit markets, while areas

⁴ *EDITOR'S NOTE:* Following the completion of this paper, the Federal Government took control of Fannie Mae and Freddie Mac in September 2008. This takeover occurred amid ongoing financial and accounting problems at these institutions and in response to worries that they lacked sufficient capital to withstand potential mortgage losses.

lacking a financial presence, such as the northwest, will have more difficulty enticing financial investors.

- *Long Term: Greater interest among non-financial investors.* In recent years, new, non-financial investors have realized the benefits of LIHTC as an investment mechanism. Corporations such as Home Depot and Standard Paints have considered investing in tax credits, but their involvement so far has been limited and highly conservative. With new favorable rates for investors, the market for LIHTC will draw a more diversified range of investors beyond financial institutions with a CRA obligation. In the long run, this diversification could be healthy for the tax credit market, and help protect the LIHTC program against future volatility in the financial industry.
- *Long Term: Reduced affordable housing dollars from the LIHTC Program.* Adjustments in pricing lead to an overall reduction in the amount of affordable housing dollars available for projects. Some tax credit syndicators believe that the market for LIHTC had reached unsustainable levels at its peak last year. Thus, current adjustments to the market could leave LIHTC prices permanently lower than in previous years. To enable affordable housing production at the same levels as past years, policymakers will need to create or expand other sources of funding for affordable housing. There is momentum toward creating new funding sources in several of the case study regions, discussed in later chapters.

NATIONAL IMPLICATIONS FOR AFFORDABLE HOUSING NEAR TRANSIT

National transportation and housing trends make it clear that affordable housing near transit is more important than ever. Increased transit ridership and continued regional and local support for transit demonstrate that households at all income levels increasingly understand the relationship between where they live and how much they spend on transportation. Unfortunately, reductions in the median home price have not enabled more households to afford the cost of homeownership, and many lower income homeowners are unable to afford their monthly payments. Changes in the housing market have led developers to continue building to the highest end of the market; luxury apartments are, in many regions, the main type of housing being built near transit. The foreclosure issue, and the creation of new, difficult to serve, high crime, high vacancy suburbs at the fringe of metropolitan areas, has highlighted the importance of ensuring that households in need have an opportunity to reduce transportation costs by locating near high quality public transit options.

The good news is that as the housing market has begun to wane, interest in transit-oriented development is stronger than ever. The following sections show that each of the five case study areas are gaining experience in planning and preparing for transit-oriented development, and are exploring new sets of tools for ensuring that the widest range of household types and incomes have access to transit. The recommendations provided in Chapter 10 of *Realizing the Potential*, and also in Chapter I of this report, illustrate that nationally, local transit and housing advocates are realizing the importance of coordinating their efforts in order to enhance affordable housing opportunities, increase transit ridership levels, and improve livability for all households.

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III. BOSTON'S FAIRMOUNT/INDIGO LINE COMMUTER RAIL CORRIDOR

Boston's Fairmount/Indigo line is a nine-mile commuter rail service that runs from South Station near downtown to Readville Station near the city's southwestern edge. Along the way, the line passes through several diverse, predominately lower-income neighborhoods, including Dorchester, Mattapan and Hyde Park. The Fairmount line included more stations and provided frequent service over much of its 100-year-plus history, but was trimmed to four stations in the late 1970s and now provides infrequent service with a minimal number of stops. Plans are moving ahead, however, for a \$100 million upgrade that would reinvigorate the corridor with four new "in-fill" stations over the next three years, as well as upgrades to existing stations that have become so disconnected from their surrounding communities that many residents are unaware they exist.⁵

The impetus for transit improvements has come both from community-based organizations active in affordable housing production and economic development along the corridor, as well as from transit officials who see a potential to triple ridership while contributing to community reinvestment.⁶ The envisioned improvements would increase the regularity and availability of service; transition the Fairmount line from a commuter rail to rapid transit service; and better integrate the line into the regional transit network, starting with official recognition on the MBTA transit map and transfer opportunities to other parts of the "T."



Figure 3-1: Boston's Fairmount/Indigo Line with Proposed Stations

Source: Noah Berger, FTA.
<http://www.design.asu.edu/apa/proceedings/02/BERGER/Map1.gif>

⁵ Boston Redevelopment Authority. A recent BRA Transit Oriented Development Study in Uphams Corner revealed that many long time residents were unaware that there was even a station in their neighborhood.

⁶ KKO & Associates, L.L.C., *Draft Briefing for MBTA Commuter Rail Operations: Fairmount Upgrade Study*, July 12, 2002.

Figure 3-2: Summary of Major Changes in 2007-2008

<p>Transit Infrastructure and Policy</p>	<ul style="list-style-type: none"> - Latest transportation bond bill (2008) provides funding for construction of four new stations - The first two new stations are already moving through the design process - Upgrades completed at two existing stations
<p>Housing Market</p>	<ul style="list-style-type: none"> - Continuation of limited market-rate production in corridor neighborhoods - Substantial affordable housing production. - Foreclosure crisis in Mattapan and Dorchester neighborhoods - Shift from ownership to rental construction - Some neighborhoods saw price declines in 2007; others saw median sales prices increase
<p>Affordable Housing Challenges and Opportunities</p>	<ul style="list-style-type: none"> - Price drops have created new acquisition opportunities - Acquisition efforts also hindered by: reduced private loan availability, dwindling number of City properties along the corridor, increased need to acquire properties with high price tags, and continued high carrying costs with projects that require assembly of many funding sources - Easier to get neighborhood and rezoning support for homeownership projects, but rental projects more viable from market standpoint
<p>Political/Regulatory Environment</p>	<ul style="list-style-type: none"> - Patrick administration eliminated state TOD coordinator and TOD office. Replaced by Development Cabinet with less of a focus on smart growth - No new neighborhood planning efforts or rezonings by the City or Boston Redevelopment Authority - New Governor committed to overhauling Fairmount/Indigo line - Funds in TOD Infrastructure and Housing Support Program expected to be replenished, but timing is uncertain

CHANGES IN TRANSPORTATION

Although the Massachusetts Bay Transportation Authority (MBTA) has access to limited resources to improve transit services in its network, the agency is conducting a service improvement study to identify ways to better allocate its resources to deliver the kind of service improvements envisioned for the Fairmount/Indigo line.

Latest transportation bond bill provides funding for construction of four new stations.

As part of a 2006 legal settlement with the Conservation Law Foundation, former Governor Mitt Romney's administration committed more than \$100 million for new station construction. A state transportation bond bill to appropriate these funds was signed into law by the new governor, Deval Patrick, in April. The four new stations are required to be constructed by 2011.

The first two new stations are already moving through the design process.

Two of the four new stations planned for the corridor entered the design stage in 2007. The Four Corners station is about 85 percent complete in terms of station and site design. The design of a new station at Talbot Avenue is about 30 percent complete, with three community workshops successfully completed.

Upgrades completed at two existing stations.

The Massachusetts Bay Transportation Authority (MBTA) moved forward in 2007 with its multi-year revitalization plan for the Fairmount/Indigo line. Two station upgrades were completed at Uphams Corner and Morton Street. Station changes include "high-level" train platforms, so that riders can more easily board trains, as well as canopies, lighting, access ramps, electronic message boards, and pedestrian-friendly walkways. Together these improvements are helping transition the commuter rail service to a more urban, "rapid transit" level of service.

CHANGES IN MARKET AND DEVELOPMENT ACTIVITY

Regional housing summary: 2007 home price trends reflect mixed results.

While home values dipped in North Dorchester, South Dorchester and Downtown, the neighborhoods of Mattapan and Hyde Park saw increases in the median home sales prices.⁷ One possible cause for this increase is that affordable housing development has stimulated private investment in adjacent properties.⁸ It is also possible that the limited number of homes sold in Mattapan and Hyde Park in 2007 happened to have higher median sales prices, thus skewing trends upward. As a result of these varying and ambiguous trends, it is difficult to gauge whether homes in transit districts along the Fairmount corridor have generally held their value relative to the surrounding region.

⁷ Trulia.com data for 2007. www.trulia.com. Accessed: February 2008.

⁸ Interview with Gail Lattimore, executive director, Codman Square CDC, February 2008. Interview with Jeanne Dubois, executive director, Dorchester Bay EDC, February 2008.

The foreclosure crisis has impacted existing urbanized areas, rather than just the urban fringe.

The past year saw a high number of foreclosures in Boston's Dorchester and Mattapan neighborhoods, bucking a national trend in which foreclosures were more common in new communities on the suburban fringe. The Dorchester and Mattapan neighborhoods were hit as hard as any in the state, with approximately 300 foreclosures in just these two neighborhoods.⁹ Many foreclosures are the result of predatory home refinancing loans.¹⁰ While the City of Boston has begun to develop a response to the crisis through its Foreclosure Intervention Team (FIT), the problem persists. As a result, neighborhood home prices have suffered in many parts of the corridor.

The Corridor has experienced limited market-rate activity.

Market-rate housing production continued to be limited along the corridor in 2007. Only a handful of strictly market-rate projects have been proposed, permitted or constructed for the corridor since 2003. Construction on one such project – a duplex – was completed in 2007. No new projects were proposed in the past year.

The lack of new, market-rate construction reflects more than just the recent downturn in the regional and national housing market. A big factor is the continued poor quality of existing commuter rail service along the Indigo line. The Fairmount corridor does not yet appear on the T system map, and trains arrive infrequently, with half-hour headways during peak hours and no service at night or on weekends. There are also still only five stations on the line, including South Station in downtown. As a result, relatively few residents ride the Fairmount line, and transit proximity is not yet a recognized amenity.

Limited market-rate production also reflects the area's history of under-investment and poverty. Just as the Fairmount corridor does not show up on the "T" system map, the surrounding neighborhoods are not on the map of many prospective homebuyers or renters from other parts of the region.

CHANGES TO AFFORDABLE HOUSING PROJECTS AND POLICIES

Substantial numbers of affordable housing development have been constructed.

Great progress was made in 2007 to increase the supply of permanently affordable housing along the corridor. Presently there are about five times more affordable units than market-rate units in the development pipeline, as shown in Map B3 below. This surge in production stems from the continued presence of multiple, high-capacity community development corporations (CDCs) in the corridor, four of which (Dorchester Bay Economic Development Corporation, Codman Square Neighborhood Development Corporation, Mattapan CDC and Southwest Boston CDC) comprise the Fairmount/Indigo Line CDC Collaborative, an alliance that has mobilized its members to support transit improvements and ensure the construction of affordable, transit-oriented housing.

Approximately 400 units of affordable housing were built within walking distance of planned or existing stations over the course of the year. Many of these were the culmination of multi-year efforts. An even greater number of affordable units, representing 26 distinct projects, are in the pipeline. The Fairmount/Indigo Line CDC Collaborative is well on its way to achieving its goal of 1,300 affordable housing units for the corridor, sooner than expected.

⁹ Interview with Jeanne Dubois, executive director, Dorchester Bay EDC, February 2008.

¹⁰ Interview with Kennan Bigby, project manager, Trinity Financial, March 2008.

Map B1

Median Household Income & Recent|Proposed|Speculative Development Projects
Fairmount/Indigo Line
Boston, MA

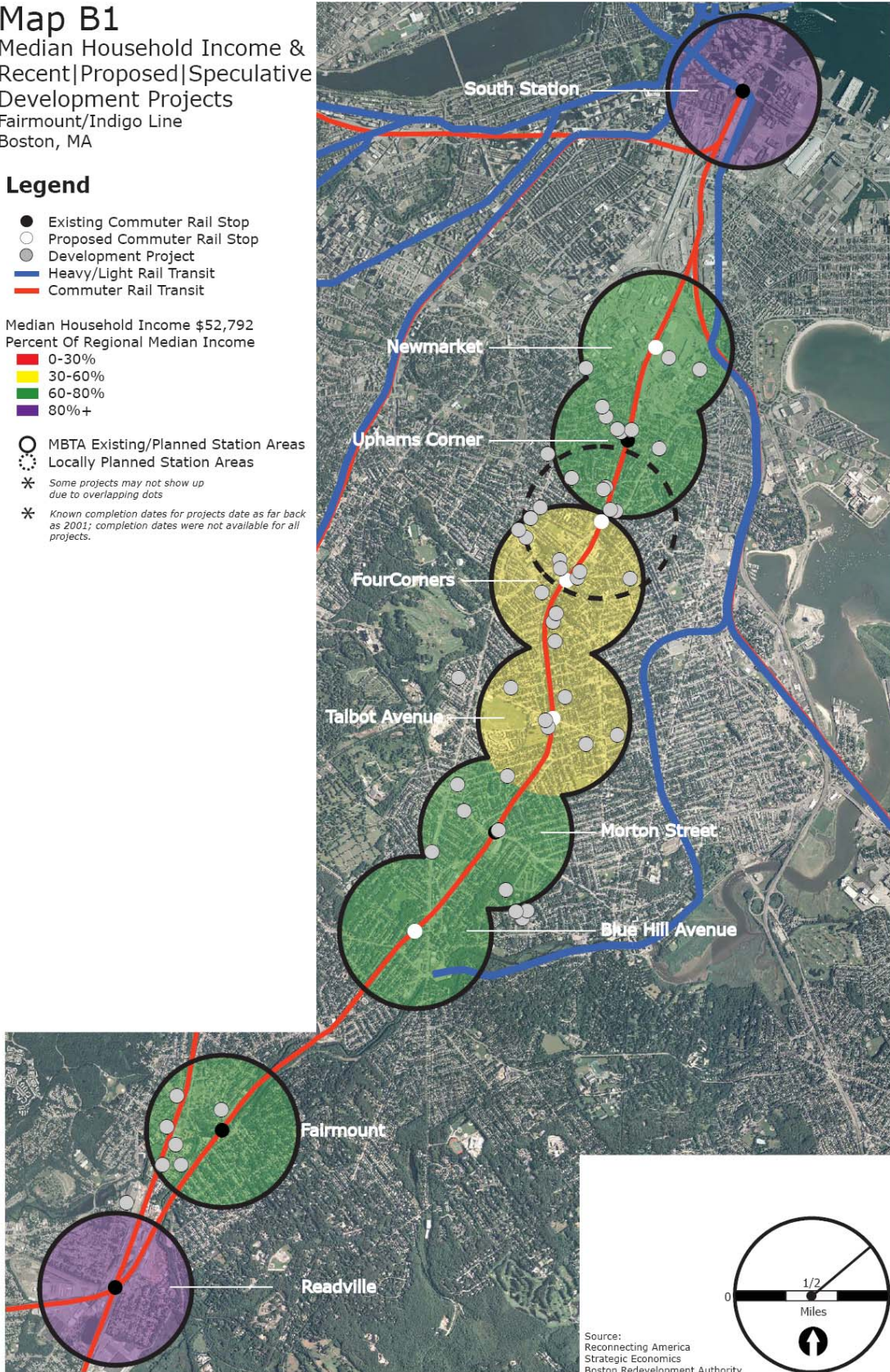
Legend

- Existing Commuter Rail Stop
- Proposed Commuter Rail Stop
- Development Project
- Heavy/Light Rail Transit
- Commuter Rail Transit

Median Household Income \$52,792
Percent Of Regional Median Income

- 0-30%
- 30-60%
- 60-80%
- 80%+

- MBTA Existing/Planned Station Areas
- Locally Planned Station Areas
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects date as far back as 2001; completion dates were not available for all projects.



Source:
Reconnecting America
Strategic Economics
Boston Redevelopment Authority

Map B2

Development Types
Recent|Proposed|Speculative
Fairmount/Indigo Line
Boston, MA

Legend

- Existing Commuter Rail Stop
- Proposed Commuter Rail Stop
- Heavy/Light Rail Transit
- Commuter Rail Transit

Recent Development

- Residential
- Mixed Use
- Commercial
- Civic
- Hotel
- Speculative

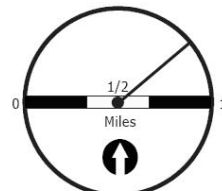
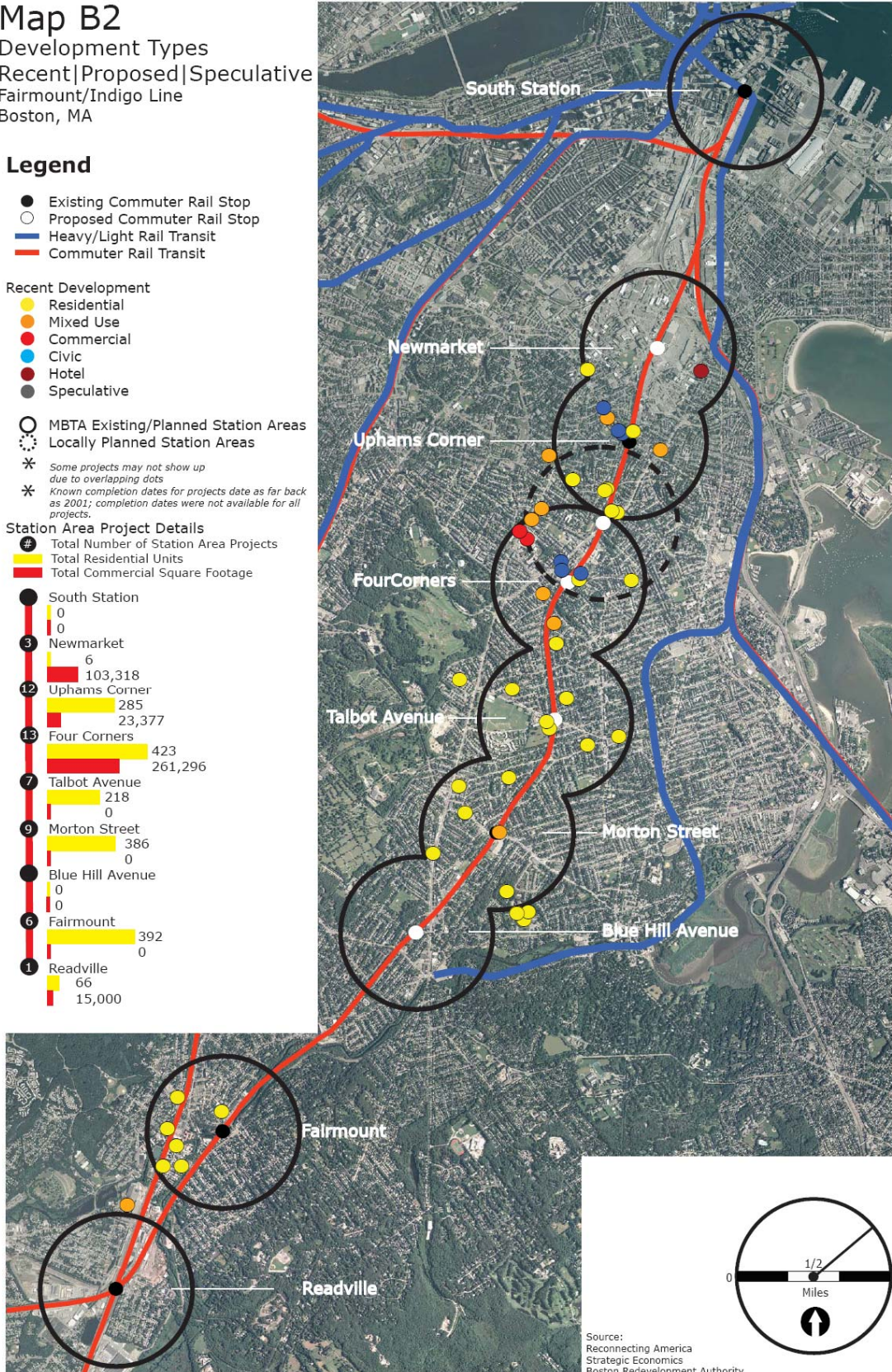
- MBTA Existing/Planned Station Areas
- Locally Planned Station Areas

* Some projects may not show up due to overlapping dots
* Known completion dates for projects date as far back as 2001; completion dates were not available for all projects.

Station Area Project Details

- # Total Number of Station Area Projects
- Total Residential Units
- Total Commercial Square Footage

Station	Total Number of Station Area Projects	Total Residential Units	Total Commercial Square Footage
South Station	0	0	0
Newmarket	3	6	103,318
Uphams Corner	12	285	23,377
Four Corners	13	423	261,296
Talbot Avenue	7	218	0
Morton Street	9	386	0
Blue Hill Avenue	0	0	0
Fairmount	6	392	0
Readville	1	66	15,000



Source:
Reconnecting America
Strategic Economics
Boston Redevelopment Authority

Map B3

Residential Development By Level of Affordability Recent|Proposed|Speculative Fairmount/Indigo Line Boston, MA

Legend

- Existing Commuter Rail Stop
 - Proposed Commuter Rail Stop
 - Heavy/Light Rail Transit
 - Commuter Rail Transit
- Recent Development
- Market Rate Residential
 - Market Rate Mixed Use Residential
 - Affordable Housing
 - Speculative/Unknown
 - Mixed Income Residential
 - Mixed Income Mixed Use
- MBTA Existing/Planned Station Areas
 - Locally Planned Station Areas
 - * Some projects may not show up due to overlapping dots
 - * Known completion dates for projects date as far back as 2001; completion dates were not available for all projects.

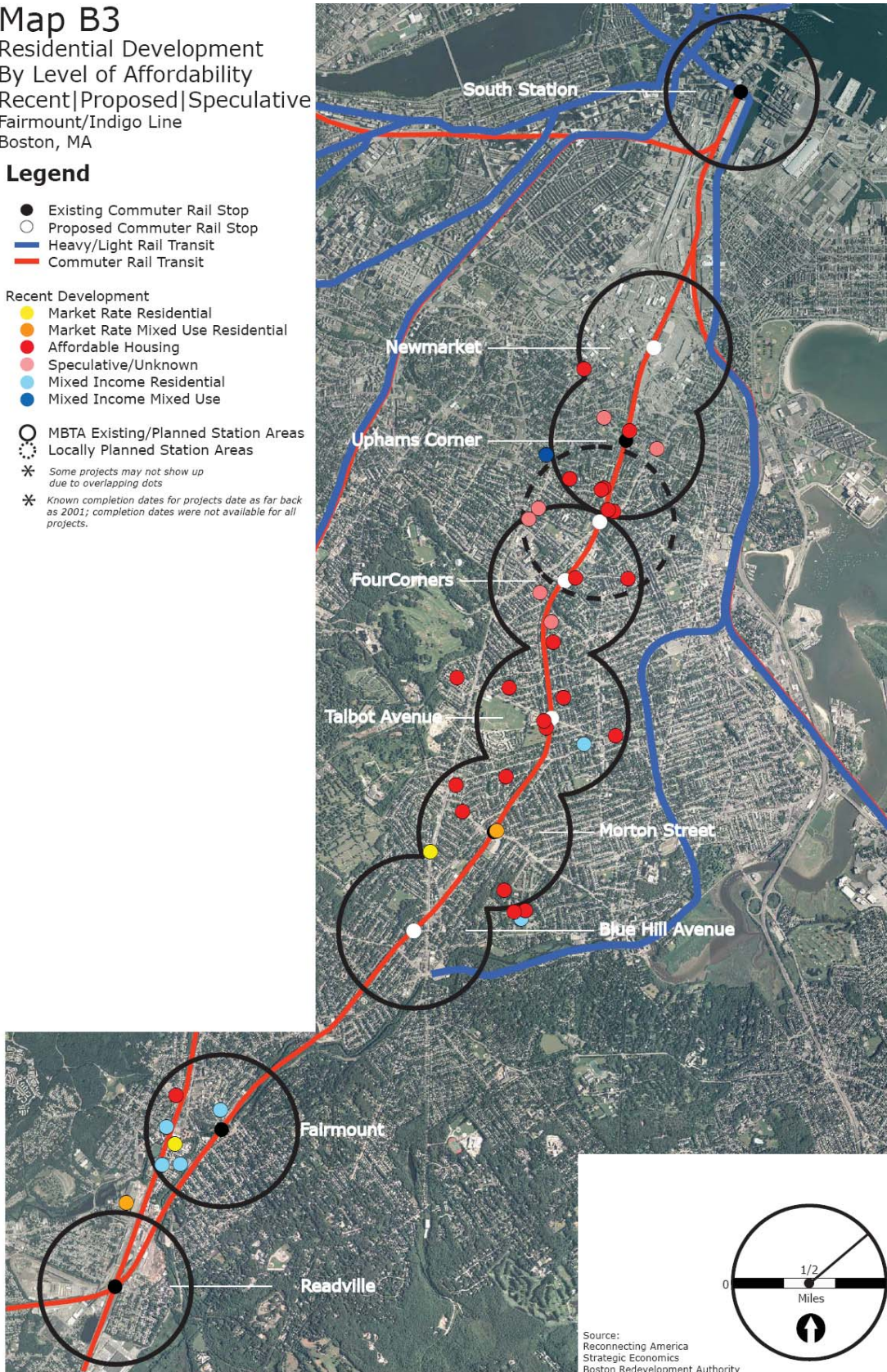


Figure 3-3: Station Area Development Changes, 2006-2007

District/Station Area	Projects in <i>Realizing the Potential</i> (cumulative)	Cumulative Completed, Under Construction, and Proposed Projects Known to Date*
South Station	N/A	N/A
<u>Newmarket Station</u> (proposed)	12 total projects: 2 residential (1 affordable) 1 mixed use residential (mixed-use) 1 retail 1 hotel 2 industrial 3 institutional 2 mixed-use office-retail	2 total projects: 1 residential (affordable) 1 hotel
<u>Dorchester</u> Uphams Corner Four Corners (proposed) Talbot Avenue (proposed)	22 total projects: 1 civic/institutional 4 mixed-use residential (market-rate) 15 residential (12 affordable, 3 market rate) 1 retail 1 mixed-use office-retail	22 total projects: 6 civic 7 mixed-use residential (6 affordable; 1 mixed income) 17 residential (16 affordable; 1 mixed-income) 2 retail
<u>Mattapan</u> Morton Hill Blue Hill Ave (proposed)	4 total projects: 1 mixed-use residential (market rate) 2 residential (market rate) 1 retail	9 total projects: 1 mixed-use residential (market) 7 residential (1 market; 5 affordable; 1 mixed-income)
<u>Hyde Park</u> Fairmont Readville	6 total projects: 3 residential (1 affordable, 2 market-rate) 3 mixed-use (all mixed-income)	7 total projects: 6 residential (1 market; 1 affordable; 4 mixed-income) 1 mixed-use residential (market)
<p>*Known completion dates for projects date as far back as 2001; completion dates were not available for all projects. Projects known as of <i>Realizing the Potential</i>, and projects known to date, are cumulative and do overlap. In some cases, projects tracked in <i>Realizing the Potential</i> were not built and are no longer proposed.</p> <p>Source: Boston Redevelopment Agency, 2007, Strategic Economics, 2008.</p>		

In the weak ownership market, affordable projects are competing with market rate projects.

Developing and selling ownership housing along the Fairmount corridor – whether affordable or market-rate – became more challenging in 2007. The affordable ownership product faced greater competition from reduced-price, market-rate properties in the Dorchester, Mattapan and Hyde Park neighborhoods. Local CDCs report that market rate homes can now be found in the neighborhoods for about \$300,000, while new affordable ownership product is offered at prices between \$230,000 and \$260,000. Because of the small price difference, some families opt for the slightly larger, market-rate homes that are not subject to the resale restrictions of income-targeted homes, even though they may be inferior in quality.

With an abundance of ownership product sitting on the market in these neighborhoods, potential funders like the City of Boston remained on the sidelines in 2007. This posed a difficulty for affordable housing developers since many report that it is easier to build neighborhood support (and therefore receive zoning approvals) for affordable ownership product than for affordable rentals. In response, one CDC has begun exploring the development of limited equity co-ops to lower the bar for affordable homeownership.

Limited Equity Co-op Model may be used for 157 Washington Street project.

In early 2006, Codman Square CDC began work on one of its “flagship” TODs – the redevelopment of a 40,000 square foot commercial building located one block from the proposed Four Corners station into 40 affordable rental units with 3,500 square feet of commercial space. Soon into the development process, however, Codman Square CDC began to face strong community resistance to new affordable rental housing. The building, a former factory, is surrounded by one- to two-story owner-occupied homes, and the community expressed a strong preference for ownership housing. And as Codman Square executive director Gail Lattimore explains: “In Boston, if the community doesn’t support you, you don’t get your zoning.”

The CDC responded by downscaling its proposal to 24 townhomes, but unfortunately, the proposal change came just as the condominium market began to decline. At this point, Codman Square began exploring the creation of a limited equity co-op. Limited equity co-ops allow for affordable homeownership, but at a much lower level of individual investment. At 157 Washington Street, households earning no more than 60 percent of Area Median Income (AMI) will be able to buy into the project by purchasing shares at a total cost of \$3,000-\$3,500. Households also pay “carrying charges,” essentially monthly rents, which cover operating expenses and mortgage debt service. Crucially, Codman Square CDC can use low-income housing tax credits to make up much of the remaining equity. While not yet fully funded, the co-op hopes to break ground in 2009 after securing tax credits this year.

Reduced land prices affordable housing land acquisition more feasible, but numerous challenges remain.

Local affordable housing developers report that prior to 2007, when the market was stronger, it was at times necessary to pay *more* than market price to acquire sites. The market now has become more of a “buyer’s market,” and local nonprofit developers are attempting to acquire as many sites as possible during the downturn.

However, it is not always possible to seize these acquisition opportunities. Affordable housing developers continue to face several challenges:

- *Limited low-cost, patient financing.* Low-interest acquisition financing for even short time periods of 18-24 months became much harder to find in 2007. Private capital has virtually dried

up. While local private and public entities expressed interest in helping fill this gap, these entities were not able to offer loans for a longer time-frame, also known as “patient capital,” at interest rates below six percent.

- *Acquisition increasingly involves purchasing existing properties with significant price tags.* The supply of City-owned vacant lots continues to dwindle. Local CDCs report that most of the adequately sized public sites have been developed. In the Codman Square CDC service area, for example, about 75 percent of the City’s vacant lots have been developed. The remaining lots tend to be small, scattered sites of approximately 3,500 square feet in size. Accordingly, local affordable housing developers have turned to existing structures, for which acquisition costs can often exceed \$1 million. This cost can at times be prohibitive, especially as acquisition financing becomes more expensive. *(See Sidebar: Missed Opportunity at Bell Furniture)*
- *Projects continue to require the assembly of multiple funding sources (not to mention multiple properties).* Assembling multiple funding sources takes time, and lengthens property holding costs. Local CDCs report that 4-5 year development timelines are common. This exacerbates the impact of high cost capital on total development costs.

Missed Opportunity at Bell Furniture Store

In 2007, Dorchester Bay EDC was interested in building 16 to 38 affordable rental units over an existing 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.

Dudley Village - A Notorious Neighborhood Bar Becomes a TOD Opportunity

Dudley Village is a 50-unit affordable rental housing development with just over 6,000 square feet of retail, located a quarter-mile from the Uphams Corner rail station. The development is a key piece of the Dorchester Bay Economic Development Corporation's (DBEDC) efforts to revitalize the Uphams Corner/Dudley Street corridor in Boston's Dorchester neighborhood. It is also illustrative of the kind of redevelopment effort that is increasingly necessary in order to add housing density to the Fairmount corridor's station areas.

Dudley Village now stands where the Fundonzinho Lounge, a neighborhood bar with a history of shootings, once plagued the Dudley Street neighborhood. In April 2003, DBEDC was able to buy the Lounge for \$1,025,000 million, with financing help from the Massachusetts Housing Investment Corporation and the Boston Community Loan Fund. DBEDC immediately closed the bar down and sold the liquor license. DBEDC then acquired four other sets of properties from the City of Boston to assemble enough land to build a cohesive, 50-unit development.

When *Realizing the Potential* was released in 2006, Dudley Village was about to break ground. As of 2008, it is half complete. In total, Dudley Village cost \$19 million to build.

Ten separate funding sources were needed to make Dudley Village possible. The Commonwealth's TOD Infrastructure and Housing Support Program played a crucial role, contributing \$2 million in subordinate debt financing, which will ultimately act as a forgivable loan. Low-income housing tax credits contributed \$8.5 million in project equity. Other key financing and equity came from the Massachusetts Housing Partnership, City of Boston HOME funds, the Affordable Housing Trust of the Massachusetts Housing Finance Agency, and the Housing Stabilization fund of the state Department of Housing and Community Development.

A Vision of Dudley Village at Build-Out



Source: Dorchester Bay EDC

Figure 3-4. Distribution of Funding for Dudley Village

Acquisition Financing	\$1,025,000	MHIC, Boston Community Loan Fund
Equity		
LIHTC	\$8,468,767	MHIC and MMA Financial
AHP	\$600,000	FHLB/Citizens Bank and Bank of America
Subordinated Debt		
DHCD HSF	\$1,500,000	HSF/DHCD Housing Stabilization Fund
HOME Funds	\$2,038,888	City of Boston
AHT	\$1,100,000	AHT/MHFA
TOD	\$1,980,266	Office of Commonwealth Development
Sponsor Loan	\$114,000	DBEDC
Interest earned on investment	\$50,000	
Permanent Debt		
Mass Hsg. Partnership	\$2,825,459	MHP/Citizens Bank
Energy Loan	\$86,053	NSTAR
Loan from DVS	\$177,000	DVS
TOTAL	\$19,965,433	

Source: Dorchester Bay EDC

CHANGES TO THE POLITICAL AND REGULATORY ENVIRONMENT

Funding for the State TOD Program is uncertain.

The State TOD Infrastructure and Housing Support Program can play a very significant role in making affordable TOD projects possible, as evidenced by DBEDC's Dudley Village. Unfortunately, the Commonwealth legislature has delayed replenishing the program's funds. A measure to provide another \$20 million for the TOD program was removed from the currently proposed transportation bill. This set aside will be saved for a future bond bill, but the timeline for introduction of a new bill is uncertain.

TOD Program/Coordinator eliminated under new Patrick Administration.

While Massachusetts' Governor Patrick has publicly pledged support for overhauling the Fairmount/Indigo line, his administration has replaced the TOD program set up under the previous administration with a new "Development Cabinet". Loss of the TOD Coordinator means there is no longer a single entity charged with coordinating TOD efforts, and the administration is no longer formally linking housing, economic development, and transportation as had been true under the Romney Administration.

Housing Bond Bill Passed

In 2008, the state legislature passed a significant new bond bill for affordable housing that will increase the size of the state affordable housing trust fund to \$40 million over several years.

IV. CHARLOTTE'S SOUTH CORRIDOR

Charlotte's 9.6-mile South Corridor runs along an historic rail right-of-way and South Boulevard, connecting "Uptown," the city's central business district, with areas to the south. Uptown functions as the region's major employment node, but it is also a highly desirable residential market. Housing demand from Uptown has extended down the South Corridor into the adjacent area known as "South End," which in its own right is becoming a popular new destination for urban living. While most new development to date along the South Corridor has been concentrated around the Uptown and South End Stations, station areas further down the line offer numerous underutilized industrial and commercial properties and thus major opportunities for new development.¹¹

Charlotte has benefited from highly coordinated interdepartmental planning efforts and a long-range vision for the land use mix on the corridor. Development has continued at a rapid pace throughout 2007, with an estimated total private development investment of \$1.8 billion in the pipeline.

CHANGES IN TRANSPORTATION

South Corridor's actual ridership numbers are significantly higher than initial estimates predicted.

The South Corridor opened at the end of November 2007, and thus far has been hailed as a major success. Ridership has far exceeded the initial forecasts, drawing nearly 12,500 riders on weekdays rather than the expected 9,100 riders. Saturday ridership has exceeded weekday ridership on a regular basis (averaging about 12,800 riders), in part due to numerous activities in the Uptown and Midtown districts. The Charlotte Area Transportation System (CATS) is working with event planners to promote ridership by, for example, offering transit passes with season tickets to Panther and Bobcat sporting events.¹² The line's success contributed to a seven percent increase in overall transit ridership in Charlotte in 2007; CATS reported achieving ridership highs of 79,000 riders a day on bus and rail.¹³

Some critics suggest that the line has been experiencing a "honeymoon period" resulting in higher ridership numbers, but CATS is fairly confident that the high ridership numbers will continue. Mid-day ridership on weekdays is higher than expected and I-485 (the station at the end of the line that serves mostly park-and-ride customers) is the biggest station for boardings, suggesting riders are actually using

¹¹ This chapter has been greatly informed by interviews with the following local experts:

Steve Allen, City of Charlotte (Interview March 3, 2008)

Nancy Crown, Bank of America Community Development Corporation (Interview February 26, 2008)

Pat Garrett, Charlotte Mecklenburg Housing Partnership (Interview February 27, 2008)

Tina Votaw, Transit Oriented Development Specialist, City of Charlotte (Interview February 20, 2008)

Tom Warshauer, Department of Economic Development, City of Charlotte (Interview February 21, 2008).

¹² Cimino, Karen, "High event ridership reshapes CATS plan," *Charlotte Observer*, January 2, 2008. Accessed online January 2, 2008: <http://www.charlotte.com>.

¹³ *EDITOR'S NOTE*: CATS ridership continues to increase; for Q2 2008, APTA reports that average weekday ridership was over 105,000 for bus and rail, and transit ridership system-wide was up nearly 32% over Q2 2007.

the service for day-to-day rather than novelty use. As of March 2008, ridership numbers remain higher than forecasted.¹⁴

Figure 4-1: Summary of Major Changes in 2007-2008

Transit Infrastructure and Policy	<ul style="list-style-type: none"> - Line opened in November 2007 - Voters overwhelmingly opposed transit Sales Tax Repeal - Ridership higher than estimated
Housing Market	<ul style="list-style-type: none"> - Most affordable region of its size in the U.S. - Housing market remains strong - Rapid development and land speculation along the South Corridor
Affordable Housing Challenges and Opportunities	<ul style="list-style-type: none"> - High land values and construction costs prohibit new affordable and mixed-income projects in South Corridor - Concern about too many city resources being invested in corridor - Housing Charlotte 2007 forum could create new local policies and tools by end of 2008
Regulatory Framework	<ul style="list-style-type: none"> - Station area rezoning and implementation plans are moving forward at New Bern, Scaleybark, Woodlawn - Pineville (I-485) has completed growth management plan - Plans address concerns about preserving existing residential neighborhoods, historic buildings - New competition for office development at South End stations - City has prioritized interdepartmental tracking of new corridor development

Transit sales tax recall ballot measure was defeated in November.

The community reinforced its support of transit in Charlotte in November, when voters overwhelmingly opposed the repeal of the half-cent sales tax that has been funding CATS service and providing local funding matches for the South Corridor for nearly 10 years. Voters opposed the repeal of the transit tax by a margin of 70 percent to 30 percent. The much-anticipated vote, which had delayed new transit planning in Charlotte for nearly a year, was considered by many to be a mandate that Charlotte should continue to enhance its transit options. Media reports suggested that the black community and new residents to Charlotte in particular voted favorably for the transit, and may have made the difference in this election.¹⁵

¹⁴ "CATS Ridership Tops 2M Trips for Month," *Charlotte Business Journal*, March 18, 2008. Accessed online March 20, 2008: <http://charlotte.bizjournals.com>.

¹⁵ Dyer, Leigh, "Blacks key in rail vote; Newcomers solid, too, for transit sales tax," *The News & Observer*, November 20, 2007. Accessed online November 20, 2007: <http://www.newsobserver.com>.

The impact of the ballot measure's defeat may extend beyond the Charlotte region. Many other regions throughout the country, and in the southeast in particular, were closely watching this election in anticipation of similar ballot measures, so the public's show of support for transit may help galvanize transit expansion in other regions.

FTA and City Council have approved the preliminary engineering study for the Northeast Corridor.

Since the November election and his appointment in December, new CATS CEO Keith Parker has resumed the agency's efforts to push forward with plans for expansion of bus and rail service in Charlotte during the first quarter of 2008.¹⁶ Completion of the Northeast Corridor – a planned extension of the South Corridor's Blue Line – is anticipated between 2013 and 2015.¹⁷ Following the November 2007 FTA approval of preliminary engineering for the Northeast Corridor, the Charlotte City Council approved a \$10 million effort to continue planning studies for the corridor.¹⁸ CATS had originally planned to study the corridor earlier, but planning efforts were delayed to wait for the results of the recall election in November. The success of ridership and development near the South Corridor has played a role in generating significant interest in the Northeast Corridor from the development community, and transportation planners hope that high ridership numbers on the South Corridor will help to increase ridership estimates for the Northeast Corridor.

CHANGES IN MARKET AND DEVELOPMENT ACTIVITY

Regional market summary: The regional housing market remains affordable and strong.

Charlotte is considered to be the most affordable region of its size, according to the U.S. Department of Commerce. However prices have escalated over the last several years, and rising land and construction costs are pushing new homes above the \$200,000 mark.

The ownership market has remained strong in Charlotte in spite of downturns in nearly every other major metropolitan region nationwide. While the pace of development slowed in 2007 (permits in the third quarter of 2007 were 22% lower than the third quarter of 2006), the median home price continued to increase even towards the end of 2007. Real estate experts report that any slowdown in Charlotte has been caused by impacts from other regions rather than a decline in local market interest. For example, new residents moving to Charlotte are unable to sell their homes elsewhere, and are thus unable to buy a home locally. Further, national builders have halted new development projects in Charlotte to compensate for losses in other regions. The general consensus of developers is that Charlotte remains a strong market for both ownership and rental housing.

The market for apartments, condominiums, and townhouses continues to be strong, particularly in areas that are closer to Charlotte's core.¹⁹ Developers continue to introduce infill and higher density projects

¹⁶ Harrison, Steve, "Chief: More express buses," *Charlotte Observer*, January 24, 2008. Accessed online February 8, 2008: <http://www.charlotte.com>.

¹⁷ "Light-Rail Northeast Corridor: CATS to ask for \$30 million," *Charlotte Observer*, January 14, 2008. Accessed online February 8, 2008: <http://www.topix.com>.

¹⁸ Hough, Bryn, "Funds approved for new rail line," *News 14*, February 8, 2008. Accessed online February 8, 2008.

¹⁹ Stably, Susan, "Analysts remain bullish on strength of rental markets," *Charlotte Business Journal*, November 2, 2007. Accessed online February 18, 2008: <http://charlotte.bizjournals.com>.

with particular emphasis on luxury rental units catering to young professionals looking for an urban environment, and ownership units catering to Baby Boomers who are downsizing within their existing neighborhoods.²⁰ As developer Steve Harris recently noted, developers are “bullish about urban, infill environments.... Anywhere...within a stone’s throw of uptown Charlotte is a wonderful site.”²¹

The South Corridor is 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 in the South End area (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.²²

The Corridor’s South End station areas are being developed at an increasingly rapid pace, absorbing the pent-up demand from the Uptown market. Developers note that South End continues to sell at about half the price point of comparable units in Uptown. However, rising land costs in the corridor are 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.²³

New development is continuing at a rapid pace, although some proposed projects have been converted from ownership to rental housing in the changing market.

Realizing the Potential reported that, as of December 2006, there was over \$1 billion in planned, proposed, and under construction development in the South Corridor, not including the Uptown Stations, which have their own market dynamic. Recent reports from the City of Charlotte indicate that the total level of current and potential investment has risen to \$1.8 billion in the last year. 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.

Much of this initial \$291 million investment has occurred at the line’s South End stations—Carson, Rensselaer, and East/West—and tends to be aligned with South Boulevard and the tracks.²⁴ Momentum is building south of East/West, but development has not yet extended significantly past the Scaleybark station. Maps C1, C2, and C3, and Figure 4-2 summarize development to date.

Bergman, Becky, “Apartment construction emerges as bright spot,” *Charlotte Business Journal*, February 22, 2008. Accessed online February 25, 2008: <http://charlotte.bizjournals.com>.

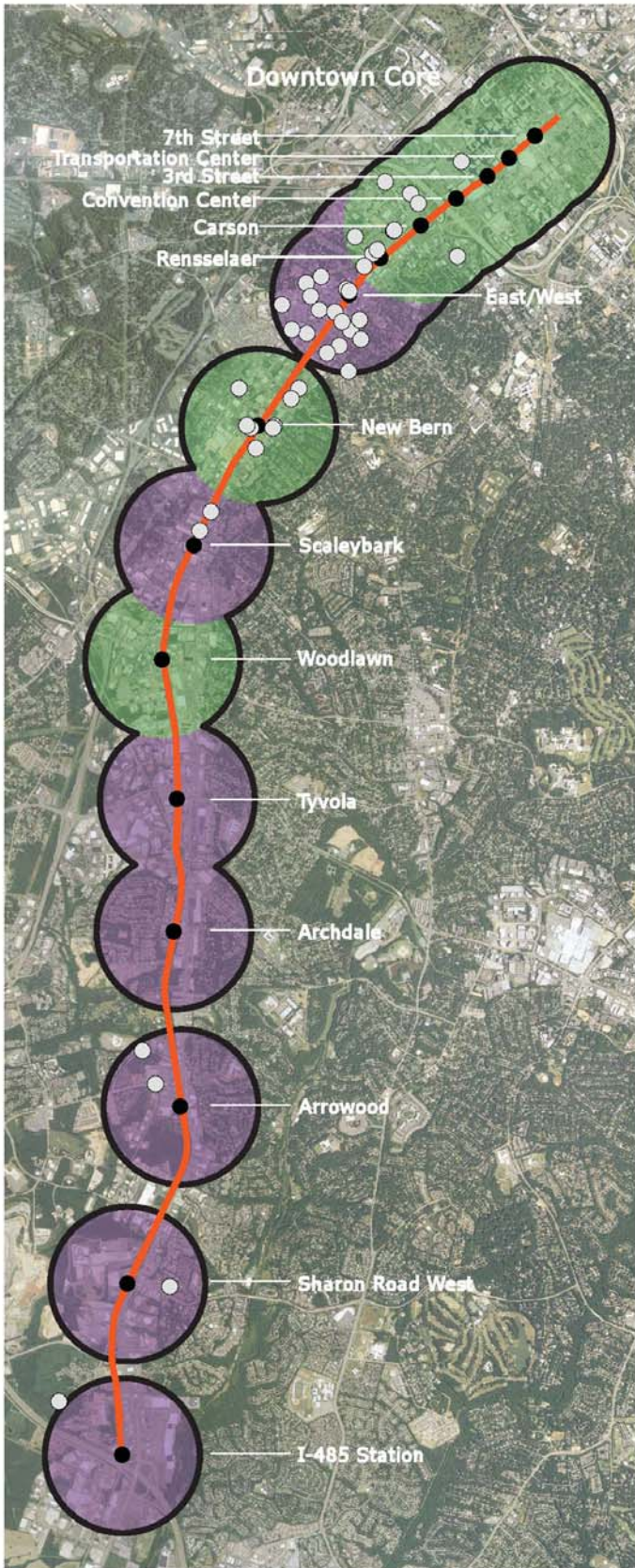
²⁰ “MGI to Develop 331-Unit Apartment Complex,” *Multi-Housing News*, April 3, 2007. Accessed online December 20, 2007: <http://www.multi-housingnews.com>.

²¹ London, Ashley, “Midrise development proposed for Morehead tract,” *Charlotte Business Journal*, September 14, 2007. Accessed online December 17, 2007: <http://charlotte.bizjournals.com>.

²² Harrison, Steve, “Changing Stations, Transit Vote CATS at a Crossroads: Developers Putting Business on the Line; Transit-tax Proponents Credit Long-Range Plan for Sparking Construction Boom Along South Corridor, but Critics say Light Rail isn’t Driving all the Growth,” *Charlotte Observer*, October 7, 2007. Accessed online January 17, 2008.

²³ Stabley, Susan, “Redefining the South End lines,” *Charlotte Business Journal*, November 23, 2007. Accessed online December 17, 2007: <http://charlotte.bizjournals.com>.

²⁴ Ibid.



Map C1

Median Household Income & Recent|Proposed|Speculative Development Projects South Corridor/Blue Line Charlotte, NC

Legend

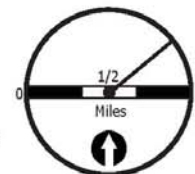
1999 Median Household Income \$52,792
Percent Of Regional Median Income

- 0-30%
- 30-60%
- 60-80%
- 80%+

- Light Rail Stop
- Development Projects
- Light Rail Transit

* Some projects may not show up due to overlapping dots
* Project recording began in 2004

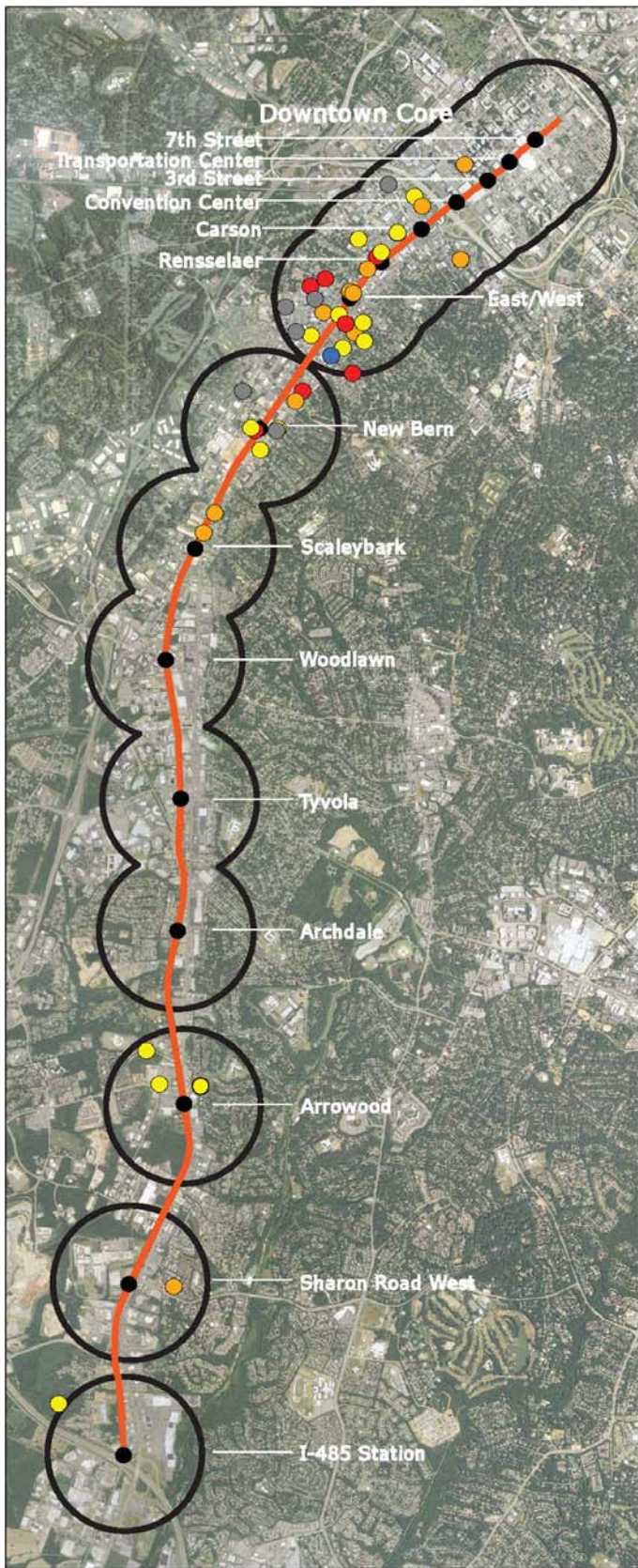
Sources:
Center for TOD
Strategic Economics
City of Charlotte
CATS



Map C2

Development Projects

Recent | Proposed | Speculative
 South Corridor/Blue Line
 Charlotte, NC



Legend

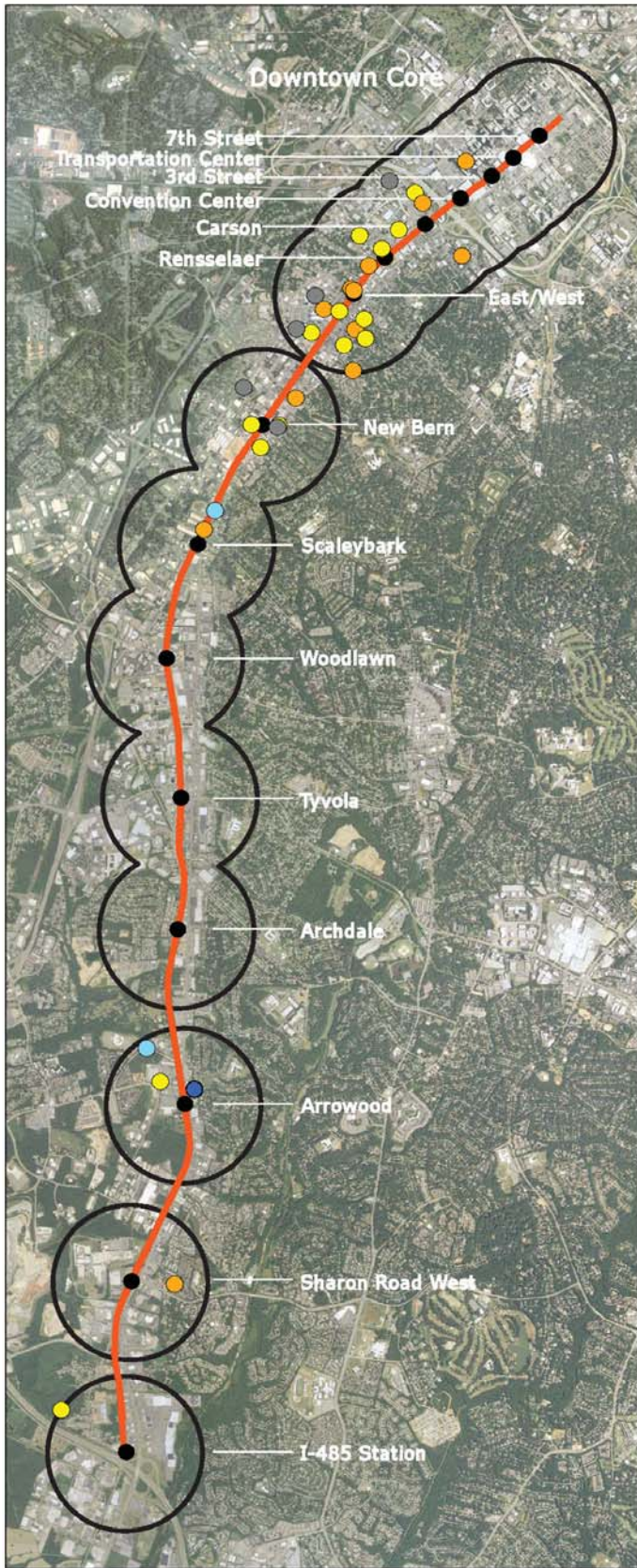
- Existing Light Rail Stop
- Light Rail Transit
- Recent Development
 - Residential
 - Mixed Use
 - Commercial
 - Civic
 - Speculative
- * Some projects may not show up due to overlapping dots
- * Project recording began in 2004

Station Area Project Details

Station	Total Number of Station Area Projects	Total Residential Units	Total Commercial Square Footage
Downtown 4 Stations	360	9,000	
Carson	494	36,000	
Rensselaer	176	70,000	
East/West	1,051	352,712	
New Bern	3,253	302,500	
Scaleybark	400	96,000	
Woodlawn	0	0	
Tyvola	0	0	
Archdale	0	0	
Arrowwood	2	1,639	0
Sharon Road West	1	300	10,000
I-485	1	1,300	0

Sources:
 Center for TOD
 Strategic Economics
 City of Charlotte
 CATS





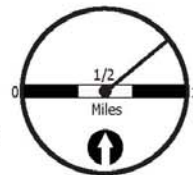
Map C3

Residential Development By Level of Affordability Recent|Proposed|Speculative South Corridor/Blue Line Charlotte, NC

Legend

- Existing Light Rail Stop
- Light Rail Transit
- Recent Development
 - Market Rate Residential
 - Market Rate Mixed Use Residential
 - Affordable Housing
 - Speculative/Unknown
 - Mixed Income Residential
 - Mixed Income Mixed Use
- * Some projects may not show up due to overlapping dots
- * Project recording began in 2004

Sources:
Center for TOD
Strategic Economics
City of Charlotte
CATS



Joint Development at the Scaleybark Station

In 2006, the City initiated a joint development project at the Scaleybark Station with the goal of establishing a flagship, mixed-use, mixed-income village that could encourage similar projects at stations further out on the South Corridor. Using money from the South Corridor Land Acquisition Fund and several other sources, the City purchased 17 acres of land for \$9.2 million, and issued a request for proposals to developers in January 2007. Among other criteria for the project, the City included:

1. A \$6 million purchase price for the 17-acre parcel;
2. A component of affordable housing, preferably at 30% of the AMI;
3. Inclusion of 315 commuter parking spaces at the station; and
4. A public park component.

The City received three bids in response to the RFP, all of which required additional public subsidy beyond the reduction in the land price. Nonetheless, in April the City selected Scaleybark Partners – which included Citiventure Associates, a Denver-based development company with TOD experience in Colorado, as well as the Charlotte Mecklenburg Housing Partnership – as the winning team. Following failed preliminary negotiations, the team backed out of the deal in April, citing financing problems. After some reworking, Scaleybark Partners submitted a revised project and team, which required no additional subsidy from the City. The project includes 80 affordable housing units, which will be built by the Charlotte Mecklenburg Housing Partnership, as well as 820 market rate housing units, 77,000 square feet of retail space, 0.71 acres of parkland, and a 120 room hotel.

The City and Scaleybark Partners continued negotiations through the fall, at which point they discovered that the site was challenged with poor soil conditions that would greatly increase the cost of construction. To mitigate this issue, the City and developer renegotiated the sale price of the parcel, and reached an agreement. The City closed on the land deal in March 2008.

In spite of the complexity of this deal and numerous setbacks and delays, developers state that the deal is proceeding at a similar pace to most infill deals. Indeed, the City's commitment to the concept of TOD likely made the entitlement process more efficient. The joint development project is moving forward simultaneously with the Scaleybark Transit Station Area Plan, which will provide more detailed regulatory and implementation guidelines for the station area than the City's general Transit Station Area Principles and the "Nodes, Corridors, and Wedges" plan that currently directs growth throughout the City.

Sources:

Interview with Pat Garrett, Charlotte Mecklenburg Housing Partnership, February 27, 2008.

Interview with Tina Votaw, City of Charlotte, February 20, 2008.

City of Charlotte: "Scaleybark Transit Station Area Plan."



Image from the Scaleybark Transit Station Area Plan Presentation, March 13, 2008

Source: City of Charlotte

One developer has proposed a project south of the Scaleybark Station.

Since 2006, stations further south on the line have experienced increased development interest, although only one market-rate developer has publicly proposed a project beyond the Scaleybark Station. The Harris Development group – long an advocate and supporter of TOD – has proposed a large-scale project offering condominium, townhouse, and apartment units at the Arrowood Station. Tracy Finch, a former TOD planner for the City who now works for Harris, observed that developers are drawn to stations further south on the line because they offer larger (formerly industrial) parcels. Arrowood offers more contiguous vacant land than any other station on the corridor, and also includes the line’s only new completed affordable housing projects. According to Ms. Finch, Harris Development’s target market is the 22- to 35-year-old professional looking for a lower cost alternative to Uptown or the South End.

Development proposals are already emerging for the North and Northeast Corridor station areas, which are not anticipated to begin service until 2013 at the earliest.

Uncertain timing and a lack of funding for the planned North Commuter Corridor and the Northeast Light Rail Corridor have not stopped developers and land speculators from investing in the proposed station areas. A number of developers are acquiring multiple parcels on the corridor, while others are submitting proposals for zoning changes and entitlements for transit-oriented development.

Proposals include two projects in University City, a 250-unit mixed-use project²⁵ and a 1,700-unit project called Griffith Lakes. The Griffith Lakes developer has proposed a first phase of more conventional development that would serve the “active adult” segment of the housing market and a second phase of TOD dependent on the timing of the transit.²⁶ While the proposal has met with hesitance from the community about the introduction of more rental housing, the developer has stated that without a rental component, a lower density option may be necessary.²⁷ E.C. Griffith Company has also proposed a high-density mixed-use project adjacent to a proposed North line station.

While there is general support for the concept of transit-oriented development in Charlotte, many community members are uneasy about the concept of approving higher density, mixed-use development under the guise of TOD when no rail transit will be available for years.

²⁵ Cimino, Karen, “Coalition worried about rail growth,” *Charlotte Observer*, February 3, 2008. Accessed online February 4, 2008: <http://www.charlotte.com>.

²⁶ Haag, Rich, “Griffith Lakes Gets Approval: Development Calls for 1,000 Homes and New Shopping Center,” *Charlotte Observer*, October 21, 2007. Accessed online December 19, 2008: <http://nl.newsbank.com>.

²⁷ Smith, Doug, “‘The Best of Both Worlds:’ University City Parcel Being Developed Around Lake to Combine Both Transit and Low-Density Development,” *Charlotte Observer*, April 4, 2007. Accessed online December 19, 2008: <http://nl.newsbank.com>.

Figure 4-2: Station Area Land Use and Development Changes, 2007

District/Station Area	TOD Land Use Planning Effort Changes since <i>Realizing the Potential</i>	Projects in <i>Realizing the Potential</i> (cumulative)	Cumulative Completed, Under Construction, and Proposed Projects Known to Date*
South End Carson Rensselaer East/West	Station Area Plan Completed 2005	<u>16 total projects:</u> 2 market-rate residential 4 market-rate mixed use residential 7 office/office with retail 3 retail	<u>30 total projects:</u> 10 market-rate residential 7 market-rate mixed use residential 6 office/office with retail 2 retail 4 unknown/speculative 1 civic
New Bern	Draft Station Area Plan	<u>2 total projects:</u> 1 market-rate residential 1 market-rate mixed use residential	<u>16 total projects:</u> 4 market-rate residential 5 market-rate mixed-use residential 1 market-rate mixed-use mixed-income residential 2 office/office with retail 2 retail 2 unknown/speculative
Scaleybark	Draft Station Area Plan Joint Development Project nearing sale to private developer		
Woodlawn Tyvola Archdale		0 total projects	0 total projects
Arrowood		0 total projects	<u>2 total projects:</u> 1 mixed-income residential 1 market-rate residential
Sharon Road West		0 total projects	0 total projects
I-485 Station	Station Area Plan for Charlotte portion in preliminary stages Town of Pineville growth plan in process, development moratorium in place until complete	0 total projects	<u>1 project:</u> 1 mixed-use residential
<p>*Housing units and projects include all speculative projects, including those tentatively announced by developers, rezoning applications, etc. Projects date back to 2004, when recording first began. Projects known as of <i>Realizing the Potential</i>, and projects known to date, are cumulative and do overlap. In some cases, projects tracked in <i>Realizing the Potential</i> were not built and are no longer proposed.</p> <p>Source: Tina Votaw, <i>TOD Planner, City of Charlotte, 2008</i>; <i>Strategic Economics, 2008</i>.</p>			

CHANGES TO AFFORDABLE HOUSING PROJECTS AND POLICIES

Although one mixed-income housing project has been completed at the Arrowood Station and another is planned as part of the Scaleybark Partners project, there is limited potential for future affordable housing development due to the escalation in land prices.

The Charlotte Mecklenburg Housing Partnership completed the Corridor's first mixed-income housing project, South Oak Crossing, at the end of 2007. This project offers 100 affordable and 92 market-rate, two- and three- bedroom rental units near the Arrowood Station.

The Housing Partnership is planning an additional 80 affordable housing units as part of the joint development project at Scaleybark Station, but the combination of rising land prices and high construction costs are making affordable housing projects nearly impossible to pencil on the corridor. David Howard, Housing Partnership spokesperson, noted that the most recent appraisal on South Oak Crossing showed a tripling in value since the Partnership first purchased the land.²⁸

Figure 4-3: South Oak Crossing, Arrowood Station



Source: Charlotte Mecklenburg Housing Partnership

The issue of rising land prices is clearly not limited to the South Corridor alone, and rising local concern about this issue has led the City to begin preliminary research into land acquisition strategies as a follow up to the *Housing Charlotte 2007* forum, which is discussed in the next section.

Affordable housing leadership and planners have made headway in considering the creation of new local affordable housing policies and programs.

In February 2007, the City Council sponsored a forum to discuss the City's affordable housing needs, outline housing development strategies that exist today, and brainstorm potential strategies to further alleviate these needs. In addition to highlighting the City's commitment to creating affordable housing opportunities, *Housing Charlotte 2007* prompted the creation of an implementation committee to evaluate five potential "Solution Areas:"

- Acquisition Strategy
- Dedicated Funding Source for the Housing Trust Fund (rather than annual or semiannual bond)
- Education, Outreach, and Advocacy
- Incentive-based Inclusionary Housing Policies
- Rental Housing Subsidy

²⁸ "South Oak Crossing: Housing price has light rail in mind," *Charlotte Observer*, June 20, 2007. Accessed online February 10, 2008: <http://www.topix.net>.

The implementation committee has met monthly since June 2007, holding mini-forums every few months to review its progress. The intention of the implementation committee is to offer the City Council a draft affordable housing strategy by fall 2008.²⁹

There is concern that too many public resources have been concentrated in the South Corridor neighborhoods, making future public funds for affordable housing unlikely.

The City has been subject to some criticism that – following the investment of millions of public dollars and staff time into transit infrastructure, land use policies, and joint development – the South Corridor area has received more than its fair share of City resources. The City is eager to take a broader view of its transit and development opportunities, acknowledging that some areas are also well served by bus and new investment could assist these areas as well.³⁰ As a single jurisdiction governing the implementation of a new transit system as well as a broad variety of other, more typical local government issues, the City Council has an obligation to balance its involvement in the transit corridor with planning and investment decisions in other wards. As a result, the City will not necessarily focus on concentrating affordable or mixed-income housing at the South Corridor stations, instead preferring to look at development opportunities in other, less heavily subsidized wards.

CHANGES TO THE POLITICAL AND REGULATORY ENVIRONMENT

The City is nearing completion on station area plans at three stations.

While the City has had plans in place at the South End station since 2005, and the length of the corridor is further guided by a general vision of what each station will look like moving forward, the City is near completion on more specific plans that will provide detailed zoning codes, proposed street and infrastructure improvements, and designated areas for preservation. The Scaleybark and Woodlawn station plans have been drafted and, as of spring 2008, are undergoing a community review process. The I-485 station area plan kicked off in May 2007, and is several months behind the other two plans. In moving forward with station area planning, the greatest issue of community concern has been the preservation of existing single-family neighborhoods and historic properties. The planners have been careful to ensure that single-family neighborhoods in the station areas are designated for preservation, and the major areas of change are primarily existing industrial and commercial corridors.

Pineville, the town at the end of the line (on the south side of the I-485 station), has imposed a moratorium on development.

Concerned the Blue Line could catalyze new growth pressures, Pineville – a town on the south side of I-485 with land in the station area – imposed a moratorium on new development until it could establish a plan for future growth. Planners issued a draft growth proposal in February 2008.³¹

²⁹ For more information, access www.housingcharlotte2007.org. Source: City of Charlotte.

³⁰ Interview with Tom Warshauer and Peter Zeiler, City of Charlotte Department of Economic Development, February 21, 2008.

³¹ Valle, Kirsten, "Reviews mixed on growth proposal," *Charlotte Observer*, February 3, 2008. Accessed online February 10, 2008: <http://www.charlotte.com>.

The City of Charlotte updated its General Development Policies related to environment and infrastructure in 2007.

As part of a multi-year effort to update its General Development Policies, the City of Charlotte advanced the environmental and infrastructure components of these policies during 2007. Though they will not have a direct impact on the concept of transit-oriented development, the environmental and infrastructure components consistently emphasize the importance of sustainability and support Charlotte's efforts to date.

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V. DENVER'S WEST CORRIDOR

Denver's large-scale transit expansion includes the West Corridor,³² a 12-mile, 12-station line that will connect a number of important regional education and employment destinations with downtown Denver and suburban residential neighborhoods in the Cities of Golden and Lakewood in Jefferson County. The West Corridor's diversity of station contexts creates a variety of opportunities for mixed-income TOD, but there are barriers that will need to be overcome, such as distressed public housing projects, high land costs, and recent negative press about the involvement of public entities in private development. The corridor is already largely built out with residential and commercial uses, reducing the number of large-scale redevelopment sites. Future redevelopment opportunities will depend on the availability of land, older, underutilized properties, and commercial greyfield sites.

CHANGES IN TRANSPORTATION

The Denver Regional Transportation District (RTD) continues to make rapid advances in its transportation infrastructure and system planning within and beyond the West Corridor. The agency has recently added a new fleet of trains, hosted a variety of events with local governments to discuss potential for transit-oriented development and public-private partnerships, and increased fares in order to offset declining sales tax revenue.

The FTA awarded the West Corridor an initial installment of \$40 million in funding.

The FTA's New Starts program awarded RTD an installment of \$40 million in the 2007-2008 fiscal year for the West Corridor construction, while recognizing the transit agency for its "capacity to plan, design, and complete technically complex major projects."³³ This initial funding is expected to be part of a larger, multi-year FTA funding package for the West Corridor, estimated at \$290 million.

³² This chapter has been greatly informed by interviews with the following local experts:

Gideon Berger, Transit Oriented Development Associate, Regional Transportation District, FasTracks Team (February 6, 2008)

Catherine Cox-Blair, Principal Planner, City of Denver (February 15, 2008)

Karen Good, Senior City Planner, City of Denver (March 11, 2008)

Karen Lado, Director, Enterprise Foundation Denver (February 6, 2008)

Bill Lunsford, Executive Director, Lakewood Housing Authority (February 7, 2008)

Jim Mercado, Owner, Jim Mercado and Associates (February 21, 2008)

Aaron Miripol, Urban Land Conservancy (February 12, 2008)

Lisa Mullins, Principal, MGL Partners (February 28, 2008)

Chris Parr, Development Director, Denver Housing Authority (February 14, 2008)

Chris Smith, Acting Director, Denver Division of Housing and Neighborhood Development (February 22, 2008)

Roger Wadnel, Director of Community Planning, City of Lakewood (February 14, 2008)

³³ Leib, Jeffrey, "West Light Rail Line Wins Funds," *The Denver Post*. February 6, 2007. Accessed online December 12, 2007: www.denverpost.com.

Figure 5-1: Summary of Major Changes in 2007-2008

<p>Transit Infrastructure and Policy</p>	<ul style="list-style-type: none"> - West Corridor has begun construction - RTD and local governments discussing station alignments and service plans - FTA awarded West Corridor a first installment of \$40 million in funding - Challenges to RTD's eminent domain authority could jeopardize future transit planning
<p>Housing Market</p>	<ul style="list-style-type: none"> - Single family market has cooled off slightly - Condominium and luxury housing markets are staying stable - Apartment market is booming - Housing near transit and downtown is faring better than housing in the rest of the region - Some speculative activity in West Corridor, but not yet a severe issue
<p>Affordable Housing Challenges and Opportunities</p>	<ul style="list-style-type: none"> - Significant affordable housing activity - Community members concerned about potential to concentrate affordable housing in already lower income areas - Lakewood Housing Authority aggressively acquiring land in station areas - Land banking fund moving forward - City of Denver considering changes to inclusionary ordinance
<p>Regulatory Framework</p>	<ul style="list-style-type: none"> - RTD Joint Development strategy facing serious legal challenges - State of Colorado may create new Housing Investment Fund in 2008 - Lakewood has rezoned station areas to support TOD - Denver is advancing station area plans

The West Line is under construction as of April 2008.

The Denver RTD is moving forward with construction plans for the West Corridor, and construction is currently underway; service is scheduled to begin in 2013. This project will cost an estimated \$634 million in total.

RTD and local governments continue to discuss station adjustments and service plans in order to reduce the escalating costs of the project and meet local station area planning goals.

Throughout 2007, RTD made a number of adjustments to aspects of the West Corridor, including changes to station alignments, bridge designs, and planned service frequencies. As the anticipated cost of building Denver's rail system has increased, RTD has adjusted its plans for most of the corridors with an eye on reducing construction costs. For example, RTD has plans to limit the frequency of service to 15-minute headways on the last segment of the corridor, west of the Federal Center station. This would save RTD significant costs by limiting the number of trains and allowing the construction of a single passing track, but Jefferson County opposes the anticipated reduction in service.

In the meantime, the City of Denver has been negotiating a potential relocation of the Federal-Decatur station for safety reasons and to help spur development along Decatur Street. City officials feel the current location of this station is in a "gulch" that would impede station area access.

Challenges to RTD's eminent domain authority could impact future transit planning.

RTD's land acquisition efforts near certain West Corridor stations have generated concern from some community members that the agency is overstepping its bounds by proposing development of commercial or residential projects on its surplus property or in combination with structured parking. Moreover, in the down housing market, property owners are finding that RTD's appraisals of their properties are much lower than their anticipated value, generating increasing concerns about forced sales in a weak market.³⁴

In reaction to the public concern, in early 2008 the State of Colorado legislature introduced House Bill 1278, which would limit RTD to purchasing land for public transit purposes only. RTD officials spoke out in opposition to this bill on the grounds that it would hinder the agency from buying property even for critical park-and-ride needs. As of April 2008, the bill had been stalled in the legislature. Nonetheless, the issue is expected to resurface until it is resolved.

CHANGES IN MARKET AND DEVELOPMENT ACTIVITY

Regional market summary: Denver has experienced only limited fallout from the national housing downturn.

During the recent housing boom, Denver did not experience the same run-up in home prices as other regions, or the same overbuilding. As a result, the impact of the national drop in housing prices and the credit crisis has been somewhat limited in Denver; the region has experienced a downward adjustment in the market but not the substantial decline seen in other areas. Between June 2006 and June 2007, the

³⁴ Source: Flynn, Kevin, "RTD's offers prompt anger: Prices for properties along light-rail line reflect poor market," *Rocky Mountain News*, May 19, 2008. Accessed online at: <http://www.rockymountainnews.com/news/2008/may/19/rtds-offers-prompt-anger/>

median sales price for all homes in Denver dipped 1.2 percent, and the number of sales dropped 13 percent from the prior annual period.³⁵

The condo and the high-end residential markets in general are showing “amazing” resilience.³⁶

Compared with the general housing market, condos performed relatively well in 2006-2007. The resale condo market experienced a slight price increase (1%) between 2006 and 2007, and a smaller dip in sales volume (-3.8%) than resale single-family homes.

During 2007, higher priced homes experienced a slight drop in prices, but sales and starts increased. Lower priced homes have experienced the greatest drop in the median sales price and the pace of sales. This was consistent with national trends, because higher income households have more capital to begin with, and therefore appear less risky to creditors. Not surprisingly, foreclosure rates have also been lower for the higher end ownership housing market.

The rental housing market is gaining strength, with 5,000 new apartments planned or under construction throughout Denver.

The *Denver Business Journal* reports the multifamily rental market was “red hot” in late 2007. A significant factor, according to Joe Hornstein, senior advisor at Pinnacle Real Estate Advisors, is the region’s huge investment in light rail. Says Hornstein: “Investors are keenly aware of the mixed-use developments along light-rail lines and both new and existing apartment properties will garner higher prices in those corridors.”³⁷

The large number of condominium conversions over the last several years has reduced the overall stock of rental properties, feeding recent growth in the rental market.³⁸ The apartment vacancy rate in the third quarter of 2007 was 6.2 percent – the lowest rate since 2001. The average monthly rent in the Denver metro region experienced a moderate, two-percent jump between the second quarters of 2006 and 2007, from \$848 to \$865. The market is expected to experience a major shift in 2008, with 5,000 new rental units planned or underway, and the majority expected for delivery in mid-2008.

Areas with convenient access to existing or future light-rail stations continue to experience strong demand.

The types of housing units commonly found near transit are faring relatively well in an uncertain market, with uneasy stability in the condominium market and a strong rental market. Moreover, media reports suggest that smaller households in particular are showing a strong preference for condos located near Downtown Denver or light-rail routes, especially when shopping, entertainment and work options are within convenient reach. Recent media articles have highlighted the notable increase in single, female

³⁵ Source: DQNews, November 2007.

³⁶ Proctor, Cathy, “Q&A: Housing market likely to get worse, expert predicts,” *Denver Business Journal*, November 19, 2007. “Upscale home sales rise above deflated market,” *Denver Business Journal*, October 26, 2007.

³⁷ “Lending fallout can benefit the multifamily market,” *Denver Business Journal*, October 26, 2007.

³⁸ *Denver Business Journal*, October 26, 2007.

homebuyers in Denver over recent years, and report that this demographic group is expected to increase steadily, driving future demand.³⁹

RTD is moving forward on its first joint development project in the West Corridor, at the Federal Center Station.

RTD's transit-oriented development staff issued a request for proposals to jointly develop a park-and-ride lot at the Federal Center station with structured parking, a bus facility on the ground floor, and commercial uses. RTD received four responses, and selected Aardex, LLC, a developer based in Golden, CO, with whom they began negotiating in January 2008. As of May 2008 RTD was advancing negotiations, and anticipated approval of key deal points by the RTD Board of Directors by mid-June.

This joint development project will help RTD to leverage private dollars towards improved transit infrastructure, particularly an upgraded parking garage and a covered bus terminal. Additionally RTD expects on-site commercial development to enhance the experience of West Corridor riders, and possibly to generate increased ridership.

Some station areas on the West Line have experienced land speculation, but development activity is slow relative to other transit corridors in Denver.

While the pace of land speculation and development has been slower along the West Corridor than in other areas in Denver, such as along the Southeast Corridor, studies by the Urban Land Conservancy have shown that land prices near the planned station areas are higher than similar areas without planned rail service. In addition, private buyers are holding parcels near the Auraria West, Sheridan, and Wadsworth stations. The Lakewood Housing Authority has observed that the asking price for parcels near the stations have escalated from \$6 per square foot a year ago, to \$10 per square foot at the end of 2007. Officials note that speculation has slowed down over the last several months as the market has taken a downturn. Nonetheless, land prices are still out of range for affordable housing.

Where land speculation has occurred, it has not necessarily translated to new development projects. In fact, City officials note that one of the biggest challenges they have faced near the stations is catalyzing new, high quality transit-oriented development. There has been some development activity near the Federal/Decatur station in Denver, but there are limited examples of good development further west on the line.

Several stations on the corridor are surrounded by industrial land that has not yet been rezoned to be transit-supportive. Local officials believe that the delay in rezoning these areas may have held off some speculation and enabled public agencies to purchase land at a lower cost. As the following section discusses, the Lakewood Housing Authority has been very active in acquiring parcels near the stations for future affordable housing.

³⁹ Martin, Christie, "Even in housing slump, single female buyer numbers increase," *Denver Business Journal*, October 26, 2007.

Figure 4-2: Station Area Development Changes, 2006-2007

District/Station Area	Projects in <i>Realizing the Potential</i> (cumulative)	Cumulative Completed, Under Construction, and Proposed Projects Known to Date*
Federal/Decatur (City of Denver)	<u>5 total projects:</u> 2 residential (market rate) 1 mixed-use residential (market rate) 1 office 1 retail	0 total projects
Knox Perry (City of Denver)	<u>3 total projects:</u> 2 mixed-use residential (market-rate) 1 institutional	<u>2 total projects:</u> 2 mixed-use residential (market-rate)
Sheridan (City of Denver) Lamar Wadsworth (City of Lakewood)	<u>9 total projects:</u> 2 residential (market rate) 1 mixed-use residential (market rate) 1 retail 1 hotel 2 mixed-use industrial 2 institutional	<u>9 total projects:</u> 5 residential (4 affordable; 1 market) 4 retail
Garrison (City of Lakewood)	0 total projects	0 total projects
Oak (City of Lakewood)	<u>1 total project:</u> 1 residential (market rate)	0 total projects
Federal Center (City of Lakewood)	0 total projects	<u>4 total projects:</u> 1 medical 1 mixed-use commercial 2 retail
Red Rock (City of Lakewood)	0 total projects	0 total projects
JeffCo/Federal Center (City of Golden & Jefferson County)	0 total projects	0 total projects
<p>*Known completion dates for projects date as far back as 2003; completion dates were not available for all projects. Projects known as of <i>Realizing the Potential</i>, and projects known to date, are cumulative and do overlap. In some cases, projects tracked in <i>Realizing the Potential</i> were not built and are no longer proposed.</p> <p>Sources: RTD and the Cities of Denver, Lakewood, and Golden, 2007; Strategic Economics, 2008.</p>		

CHANGES TO AFFORDABLE HOUSING PROJECTS AND POLICIES

Local governments and community development groups have made significant progress in promoting the development of mixed-income housing near the planned West Corridor stations. However, there is some concern among community members that developing affordable housing along the West Corridor will further concentrate lower income households in communities that already have a lower than average income for the Denver Region. As *Realizing the Potential* reported, the median income along the West Corridor was \$35,764 in 1999, far lower than the regional median of \$51,088.

The number of transit station areas qualifying for a tax credit “basis boost” is decreasing as new development attracts new, higher income households.

Top-scoring Low Income Housing Tax Credit (LIHTC) projects in Denver receive a greater per-unit subsidy if they are located in a “Qualified Census Tract” (QCT), which HUD defines as those areas in which 50 percent or more of households earn approximately 60 percent of AMI.⁴⁰ The additional subsidy is delivered through a 30 percent “basis boost,” i.e. a greater base cost on which the nine-percent or four-percent tax credit is applied. This can make a big difference in the feasibility and gap financing for any given mixed-income or affordable project.

As of 2000, very few FasTrack station areas fell within QCTs. However, the number of qualifying station areas along the West Corridor is decreasing 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 pencil. MGL Partners had completed the initial phase of 63 units⁴¹ and was about to start the second phase when, in 2007, the Census Tract experienced a drop in households earning less than 60 percent AMI to 49.6 percent. 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.

The Denver Housing Authority has initiated community outreach efforts to create a vision for redevelopment of the Sun Valley public housing project.

In 2006, *Realizing the Potential* observed that the 33-acre, 333-unit Sun Valley public housing project was a major deterrent to private investment near the Federal/Decatur station. The Denver Housing Authority (DHA) is still in the preliminary stages of redeveloping the housing project, but it made progress in 2007. Together with the City of Denver, the Annie E. Casey Foundation’s Making Connections program, and Making Connections-Denver, DHA ran an extensive community planning process for the project, which was integrated with the City’s larger planning process for the Decatur station area. From the extensive community input from residents and local organizations, a framework emerged that included guidelines such as a 1-1 affordable unit replacement and tripling the site density in order to include additional market-rate units. The Authority is interested in using HOPE VI funds for completion of this project, following the federal program’s reauthorization in 2007. Denver Housing Authority officials state that the greatest challenge to redeveloping the Sun Valley site is that it is largely surrounded by industrial and publicly owned land; thus, any new project on the site must be able to catalyze a greater local community presence.

⁴⁰ In metropolitan areas where more than 20 percent of census tracts qualify, census tracts are ranked according to their number of very low-income households and the top 20 percent are designated as QCTs.

⁴¹ This was the only development project completed in the corridor in 2007.

The Lakewood Housing Authority has aggressively acquired land near Lakewood's four stations.

Four of the planned stations in the City of Lakewood (Lamar, Wadsworth, Garrison, and Oak) have a very different character than the rest of the West Corridor. Lakewood's station areas are more residential in nature, and local residents are more working-class. As a result, these station areas have been largely overlooked by developers and land speculators, and this is working to the advantage of the Lakewood Housing Authority.

The Housing Authority has rapidly moved forward with land acquisition efforts in the station areas. By the end of 2007, the Housing Authority had purchased a total of 15 acres in the corridor. The Authority envisions that new development on these sites would match the density of surrounding residential areas, but would offer a slightly higher-quality development, thus introducing a new housing product and new demographic groups to the area. New units will include a mix of income-restricted units and market-rate units. Currently, the market rents are relatively similar to affordable rents in this area, but the Authority hopes that, over time, market rents will exceed the affordable rents.

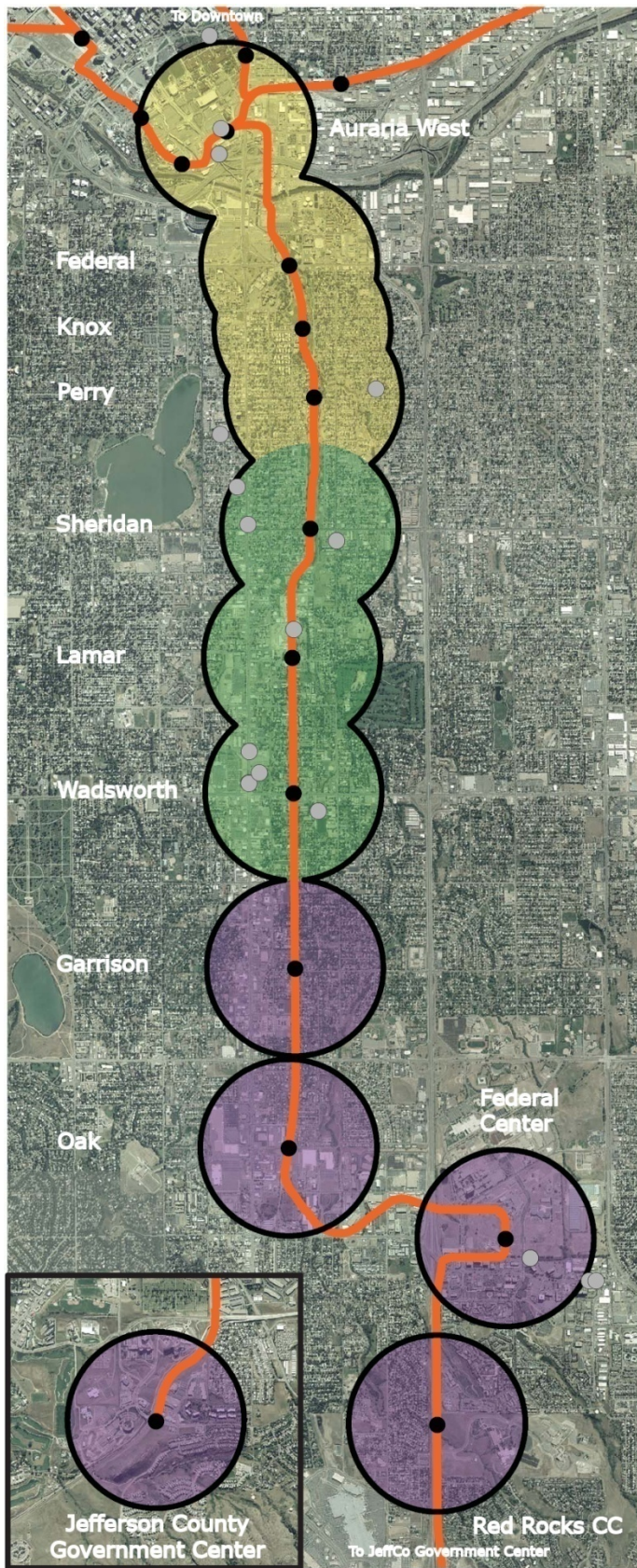
The Lakewood Housing Authority has been more successful than a typical housing authority in moving quickly on land acquisition and development. The Authority believes that this is because they are relatively small, new, and thus have a much smaller stock of affordable units requiring significant management than a typical authority. Moreover, they have paid close attention to speculative activity elsewhere in Denver - particularly the established Southeast Corridor - and have been able to capitalize on current opportunities to acquire land at a lower cost, prior to the construction of the transit. Nonetheless, the Housing Authority has been affected by land speculation in the West Corridor: in spring 2007 the Housing Authority purchased a property for 69% more than what the seller had paid for it eight days earlier.

City of Denver is looking for ways to make its inclusionary housing ordinance more adaptable to varying market conditions.

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 dynamic and geographically flexible, so that the requirements can be applied in neighborhoods with a great inclusionary need without stifling private development in areas that are experiencing little or no reinvestment. To modify its ordinance, the City has established five unique place types or categories that reflect different priorities and inclusionary policies. These place types have been mapped throughout the City.

Inclusionary requirements may be applied in different ways in each of these place types; variations include the "trigger point" at which project is subject to the ordinance (e.g., a 1-unit project versus a 10-unit project), and the required level of affordability (e.g., 80 percent of AMI may be too high of a requirement in some areas, but is presently suitable for the downtown). Additionally, the ordinance may be waived altogether in neighborhoods where market-rate housing is affordable. The ordinance will be re-evaluated on a regular basis to ensure that it is responsive to changes in the market. City officials expect that the revised ordinance will be completed by summer of 2008.⁴²

⁴² Chris Smith, Acting Director, Denver Division of Housing and Neighborhood Development.



Map D1

Median Household Income & Recent|Proposed|Speculative Development Projects

West Corridor Denver, CO

Legend

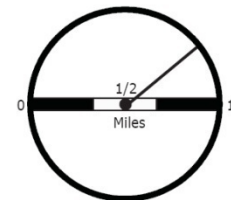
1999 Median Household Income \$52,792
Percent Of Regional Median Income

- 0-30%
- 30-60%
- 60-80%
- 80%+

- Light Rail Stop
- Development Projects
- Light Rail Transit

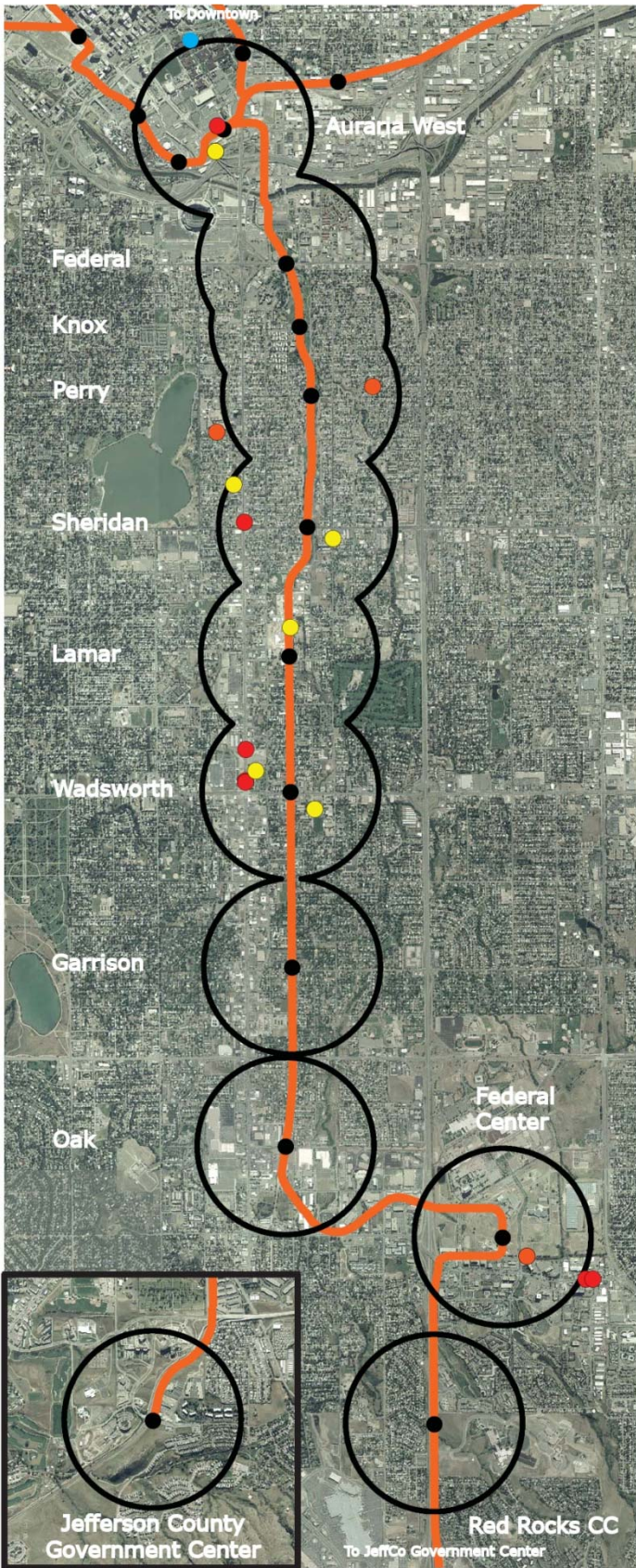
* Some projects may not show up due to overlapping dots

* Known completion dates for projects date as far back as 2005; completion dates were not available for all projects.



Sources:
Center for TOD
Strategic Economics
City of Lakewood
City of Golden
City of Denver
Regional Transit District (RTD)





Map D2

Development Types

Recent | Proposed | Speculative

West Corridor

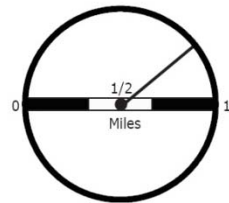
Denver, CO

Legend

- Existing Commuter Rail Stop
- Light Rail Transit
- Recent Development**
- Residential
- Mixed Use
- Commercial
- Civic
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects date as far back as 2005; completion dates were not available for all projects.

Station Area Project Details

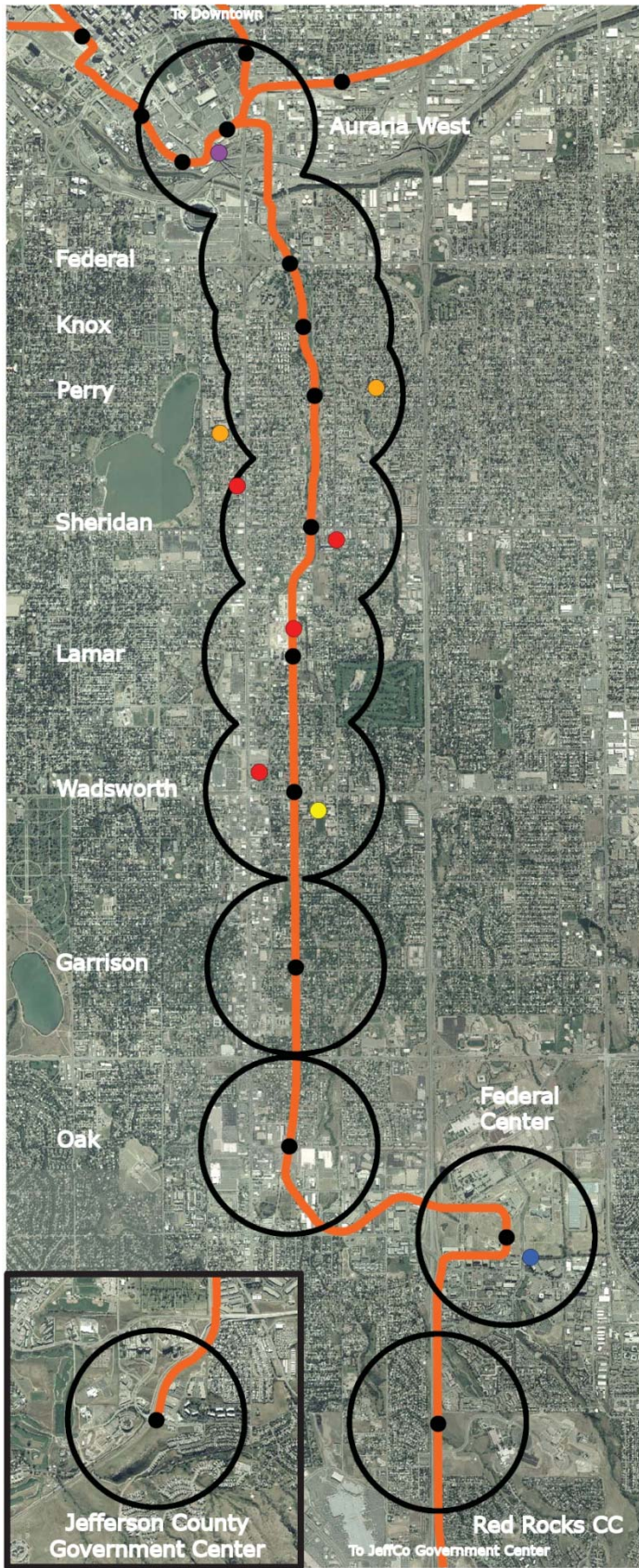
#	Total Number of Station Area Projects	Total Residential Units	Total Commercial Square Footage
4	Auraria West	1,230	197,000
0	Federal	0	0
0	Knox	0	0
2	Perry	5	16,000
3	Sheridan	183	55,000
1	Lamar	150	0
5	Wadsworth	5	359,186
0	Garrison	0	0
0	Oak	0	0
4	Federal Center	1,400	2,075,000
0	Red Rocks CC	0	0
0	Jefferson County	0	0



Sources:
 Center for TOD
 Strategic Economics
 City of Lakewood
 City of Golden
 City of Denver
 Regional Transit District (RTD)



Realizing the Potential: One Year Later
 Housing Opportunities Near Transit in a Changing Market



Map D3

Residential Development by Level of Affordability Recent|Proposed|Speculative West Corridor Denver, CO

Legend

- Existing Commuter Rail Stop
- Light Rail Transit
- Recent Development
 - Market Rate Residential
 - Market Rate Mixed Use Residential
 - Affordable Housing
 - Affordable Mixed Use
 - Mixed Income Residential
 - Mixed Income Mixed Use
 - Student Housing
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects date as far back as 2005; completion dates were not available for all projects.

Sources:
 Center for TOD
 Strategic Economics
 City of Lakewood
 City of Golden
 City of Denver
 Regional Transit District (RTD)



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.

“The Jody” moves forward with a unique phasing strategy.

In January 2008, the New West Side Economic Development Corporation (NEWSED), together with the City and County of Denver, the State Division of Housing, Enterprise Community Partners, and the Urban Land Conservancy, purchased a 62-unit apartment complex near the Sheridan station, at 5375 W. 10th Avenue known as the “Jody.” The acquisition, which cost \$3 million, was completed with the goal of converting the project to permanently affordable, transit-oriented housing. Funding complications have led NEWSED to create an unusual phasing strategy for the improvement and redevelopment of the apartment complex.

NEWSED had found it difficult to make the redevelopment of the site feasible prior to the construction of the West Line, and therefore decided to delay the complete redevelopment of the site to a higher density use until the line is built. Thus, when the project team approached the Colorado Housing Finance Agency for tax credits, they were turned down because CHFA believed the project should be immediately rebuilt as higher density housing rather than maintained in its current state until the market could bear the additional densities.

To close the financing gap for acquisition of the land, the City and county contributed funds from the HOME program. This solution came with a number of restrictions, including that the project cannot apply for additional HOME funds for the redevelopment process, and the existing units had to remain affordable and available for a minimum of seven years. In total, it took a full six months for NEWSED to secure funds from four different sources and close the deal.

View of the Jody in 2007



Source: Urban Land Conservancy

NEWSED will refurbish the current units and lease them with income restrictions for a seven-year period, covering the requirements of the HOME funds. Following this period, NEWSED intends to redevelop the site as higher density, mixed-income housing. NEWSED will own and operate the units, and the Urban Land Conservancy will own the land, thus ensuring the long-term affordability of the project.

The unusual circumstances surrounding this development demonstrate the commitment of organizations such as NEWSED and the Urban Land Conservancy to the concept of securing affordable housing near transit. The organizations’ experience also demonstrates the need for more “patient” capital, or flexible sources of funding that offer modified regulations such as a longer loan repayment period, no conflict with other funding sources, no minimum preservation period, and assistance with interim management costs.

CHANGES TO THE POLITICAL AND REGULATORY ENVIRONMENT

RTD Joint Development efforts are facing serious legal challenges.

Since *Realizing the Potential* was released, RTD has been faced with new legal hurdles to developing housing on land acquired by eminent domain. In the aftermath of the *Kelo* decision, the state legislature passed a law forbidding public agencies from developing condemned land for “economic development.” Furthermore, RTD appears to be restricted to explicit “transit uses” and ancillary commercial (small retail) designed for transit patrons. Now, as RTD has begun informing property owners of its intent to acquire land for the West Corridor, property owners are fighting back on the grounds that RTD intends to develop condemned properties for non-transit uses, such as housing and office space. Property owners who would be forced to sell their properties near the Wadsworth station are among those who have filed notice with RTD of their intent to sue.

Property owners’ protests have also led to Colorado legislators introducing House Bill 1278, which would further limit RTD’s power to acquire land. At the same time, however, a coalition of smart growth advocates is seeking a law allowing broader development power. Specifically, advocates are seeking a more explicit recognition of housing as an allowable “transit-related use” at transit stations. While the results of the legislative process are yet to be determined, many opponents perceive broadening RTD’s development powers to be an encroachment on private property rights, and several state legislators have signaled their opposition.

The City of Lakewood has rezoned four of its station areas to be supportive of TOD.

In 2007, the City of Lakewood finalized TOD-supportive land use designations at four stations (Sheridan, Wadsworth, Oak, and Federal Center). The City remapped the station areas as transit mixed use districts, or “TMU.” The TMU district has eight subcategories, with various minimum density requirements reaching up to 35 units per acre at the Station Core (TMU-SC zoning). Minimum height requirements range from one to three stories. Maximum heights range from six stories at the Oak Street Station, to eight stories at Sheridan and Wadsworth Stations, to 12 stories in parts of the Federal Center station area. All zones in the district have a parking maximum of two spaces per unit, and a minimum of one space per unit. Further, the City of Lakewood adopted an Official Development Plan for the recently annexed, 700-acre Federal Center.

The City of Denver is close to completing station area plans for Sheridan and Federal/Decatur.

The City of Denver is working on a station area plan for its portion of the Sheridan station that will complement Lakewood’s land use vision. In addition, the City is developing a station area plan for the Federal/Decatur station that includes visioning efforts for the redevelopment of the Sun Valley public housing project. Denver took initial steps on these plans by holding a series of public visioning workshops in 2007, and anticipated that a draft plan for the Federal/Decatur Station will be available for citizen and commission review by April 2008. The City is also initiating efforts to amend its zoning code for the Knox and Perry stations by 2008 as part of a larger, citywide zoning code revision that will occur over the next two years.⁴³

⁴³ Interview with Catherine Cox-Blair, Senior Planner, City of Denver, 2/15/08.

State of Colorado voters may consider a new Housing Investment Fund in a 2009 or future ballot measure.

The Colorado Housing Investment Fund Coalition has been pursuing legislation that would create a real estate transfer tax in order to finance a state-level affordable housing investment fund. The Coalition submitted two possible ballot measures to the Legislative Council, which are presently under consideration. One measure would adopt a four-cent transfer tax on all real estate property, while the other would adopt a four-cent tax for residential properties, and a one-cent tax for commercial and vacant properties. The Coalition anticipates that the selected ballot measure will be available for petition in May 2008.⁴⁴

⁴⁴ www.coloradohousingtrustfund.org. EDITOR'S NOTE: The Coalition's 2008 petition drive to secure a measure on the November 2008 ballot was halted in July when it became clear that a sufficient number of signatures would not be secured by the August deadline.

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VI. TWIN CITIES' HIAWATHA CORRIDOR

The Hiawatha Light Rail Line⁴⁵ is the first in a series of planned rapid transit projects in the Minneapolis-St. Paul region over the next 25 years that include additional light rail corridors, the North Star commuter rail, and rapid bus projects. Completed in 2004, the Hiawatha Line includes 17 stations and covers 12 miles with light rail vehicles using overhead electric wires. The Line runs on its own right-of-way down a major urban corridor (Hiawatha Avenue/State Highway 55), with fairly short headways during peak hours. Ridership in 2006 already exceeded projected 2025 projections by 7,000 daily riders, or almost 30 percent. The Hiawatha line cost \$715 million to construct, of which the federal share was \$334 million.

The line connects multiple destinations, running from downtown Minneapolis, past the Metrodome, then through a series of residential neighborhoods to the Veteran's Administration Medical Center, the Minneapolis-St. Paul International Airport, and retail and office centers in the City of Bloomington, including the Mall of America.

CHANGES IN TRANSPORTATION

In 2008, Hennepin County passed a new quarter-cent sales tax to help pay for operating costs on the Hiawatha line and possibly for future transit planning and expansion efforts.

In April 2008, voters in Hennepin, Dakota, and Washington Counties approved an additional quarter-cent sales tax to be directed towards future transit improvements. Of the estimated \$100 million expected to come from the measure annually, the Metropolitan Council / Metro Transit will receive a one-time allocation of \$31 million in funds in 2009 in order to cover operating costs for existing transit, including the Hiawatha Line. A portion of the funds will cover a gap in Metro Transit's operating budget, which has been covered by a \$10 million federal grant since the Hiawatha line opened. Most of the funds will be used to plan and expand rail and bus systems. In response to the approved sales tax measure, the Hennepin County Board of Commissioners has passed an amendment to reduce a planned 2009 property tax levy that would have provided support for operating costs of Hiawatha and Northstar lines.⁴⁶

⁴⁵ This chapter was greatly informed by the following local experts:

Mark Garner, Senior Project Coordinator, City of Minneapolis (February 22 and March 7, 2008)

Chip Halbach, Executive Director, Minnesota Housing Partnership (February 11, 2008)

Brian Miller, Executive Director, Seward Redesign (February, 2008)

John Slade, Congregational Organizer, MICA Ramsey, MICA Northeast (May 28, 2008).

⁴⁶ "Momentum for Buses and Trains," *Pioneer Press*, April 2, 2008. Accessed online April 7, 2008: <http://www.twincities.com>.

Figure 6-1: Summary of Major Changes in Hiawatha Corridor and Minneapolis, 2007-2008

<p>Transit Infrastructure and Policy</p>	<ul style="list-style-type: none"> - Hennepin county passed quarter cent transit sales tax in 2008 - I-35 Bridge collapsed in August 2007, highlighting need for infrastructure improvements Central Corridor Line plans have advanced - Parts of the Northstar Line are under construction - Legislature overrode Pawlenty veto to allow transportation sales tax votes in each of the major counties in the Twin Cities region
<p>Housing Market</p>	<ul style="list-style-type: none"> - Overall, the ownership market in the region has dropped substantially, while the rental market is gaining strength - The market for ownership housing in certain neighborhoods continues to perform well, including the Longfellow and Downtown neighborhoods on the Hiawatha line - Downtown’s residential market has remained steady, with development shifting to rental units - Other non-downtown station areas have experienced a declining ownership market
<p>Affordable Housing Challenges and Opportunities</p>	<ul style="list-style-type: none"> - Large opportunity sites are becoming scarce on corridor, making mixed-income development more challenging - The Minnesota Housing Financing Authority has implemented program to help nonprofits acquire land, though mostly in suburbs where land is cheap - State housing resources have been somewhat redirected to assist developers struggling with the foreclosure issue
<p>Regulatory Framework</p>	<ul style="list-style-type: none"> - The City of Minneapolis in process of approving a new parks fee - The lack of a joint development policy for the Met Council’s excess land has been, and will continue to be a significant hurdle to implementing transit-oriented development

Recent struggles over transportation funding were fundamentally changed after the August 2007 collapse of the I-35 Bridge, ultimately leading to the full financing of the Central Corridor.

The Minnesota State Legislature and Governor Tim Pawlenty had sharply disagreed on levels of transportation funding over the last few years. The Governor vetoes omnibus transportation bills in 2005 and May 2007, citing opposition to gas tax increases and excess spending. After the I-35 Bridge collapsed in August 2007, the political calculus shifted, and the Governor's 2008 veto was narrowly overridden, increasing the gas tax and adjusting a number of taxes and fees to provide funding for transportation infrastructure improvements including the \$70 million in State funds that were needed to push the Central Corridor forward. The 2008 budget also waives all sales tax on materials associated with the construction of the Central Corridor, which provides an estimated \$8 million in additional savings⁴⁷

Construction of the Northstar Line is advancing.

In December 2007, the Federal Transit Administration allocated a total of \$157 million in New Starts funds to the Metropolitan Council, half of which will go to construction of the Northstar line, a commuter rail line that will run 40 miles northwest, connecting Downtown Minneapolis to Big Lake. Construction on key stations has already begun, and Phase I of the line is expected to be up and running by late 2009. Construction has also begun on a four block segment of track that will link the Hiawatha line to the Northstar line in Downtown Minneapolis.

CHANGES IN MARKET AND DEVELOPMENT ACTIVITY

Regional market summary: The ownership housing market is lagging, while the rental market is gaining strength.

The Minneapolis region has experienced a fairly significant drop in the ownership housing market since 2006. The Minneapolis Area Association of Realtors reported a 16 percent drop in home sales over the last year.⁴⁸ Median home prices dropped 6.2 percent between December 2006 and December 2007, although Longfellow and Downtown (two neighborhoods served by the Hiawatha line) and several other neighborhoods actually experienced price increases during this time period.⁴⁹ In general, the price drops have enabled more households to qualify for homeownership. In January 2008, the regional median family income exceeded the necessary income to qualify for a median priced home by 41 percent, up from 31 percent in 2006 and 34 percent in 2007.

As in many regions across the country that are experiencing a lag in the ownership housing market, the rental market in Minneapolis has gained considerable strength over the last year, with rising rents and declining apartment vacancy rates. Pinnacle and American Management Systems reported in January 2008 that vacancies dropped five percent at their 5,000 plus market-rate apartments. GVA Marquette Advisors similarly reported rising rents and dwindling vacancies region-wide. In August 2007, the

⁴⁷ Orrick, Dave, "With Minnesota Legislature's budget deal, funding set for Central Corridor rail line," *Pioneer Press*, May 19, 2008. Accessed online May 20, 2008: <http://www.twincities.com>.

⁴⁸ "Would-be buyers are now renting," *Star Tribune*, February 5, 2007.

⁴⁹ Source: Aaron Dickinson, "AaronSOLD Blog." Accessed online April 10, 2008: www.aaronsold.com/blog/2008/01/minneapolis-in-a-housing-crisis/.

apartment vacancy rate for the Twin City area was 3.9 percent, according to GVA's research. Rental rates are about three percent higher than in 2001, which is when the rental market last peaked.⁵⁰

The strengthening rental market has also piqued developer interest in new apartment building construction, with new rental units planned throughout the region. Certain types of new apartment construction are currently more viable than others; luxury apartments and high-density, transit-oriented housing are experiencing a major surge.⁵¹

Corridor housing activity: while the Downtown continues to perform well, other station areas have lagged.

Projects in the downtown area continue to move forward, although many planned condominium units are making the conversion to rental.⁵² While condominium development is still feasible in certain neighborhoods, only units with a price point below \$350,000 appear to be selling. For example, in 2007 Olin Crossings condos were built near the Veteran's Administration Medical Center, and have performed relatively well because over the last several years the area has experienced enough development to become a cohesive, attractive district. At the non-Downtown stations on the Hiawatha line, developers are having less success with condominium projects. Developers once pursuing condominium projects at, for example, the 38th Street and 46th Street stations, have found that the market will no longer support ownership housing. These developers are currently considering shifting their projects from ownership to rental.

⁵⁰ Black, Sam, "Nebraska firm plans high-end apartments in Bloomington," *Minneapolis, St. Paul Business Journal*, September 17, 2007.

⁵¹ Feyder, Susan, "Hiawatha Flats II is underway," *Star Tribune*, May 12, 1008. Accessed online May 20, 2008: <http://www.startribune.com>.

Jacobson, Don, "Hot Property: Hiawatha Flats," *Star Tribune*, February 5, 2007. Accessed online December 20, 2007: <http://nl.newsbank.com>.

⁵² Ross, Jenna, "Switch to rentals saves mixed-use projects," *Star Tribune*, April 13, 2008. Accessed online May 20, 2008: <http://www.startribune.com>.

The Longfellow Station development is expected to generate significant changes at the 38th Street Station.

In 2006, Dale Joel, a developer with St. Paul-based Capital Growth Real Estate, proposed to redevelop a block adjacent to the 38th Street Station. The formerly industrial site was occupied by Purina foods until several years ago, and tall industrial buildings including grain elevators currently spot the landscape.

The City of Minneapolis had just approved a master plan for the 38th Street Station area with a focus on TOD, but in response to Joel's proposal, the City worked with the Longfellow Community Council to create the Purina Mill Task Force. The Task Force was charged with ensuring community input in the plan, amending the City's station area plan to better reflect TOD principles, working with the developer to flesh out the redevelopment proposal, and drafting a community benefits agreement.

By March 2008, the Longfellow Community Council became the first community group in the region to sign a legal community benefits agreement (CBA) with a developer. In exchange for public support of the project, the CBA requires of the developer:

- o Higher levels of affordability (at least 30% but not more than 60% affordable to low and moderate income households for 30 years);
- o Preservation of 10 percent of commercial space for local businesses;
- o Green building certification for a portion of the project; and
- o A variety of transit-supportive implementation mechanisms, including pedestrian friendly design, sale of transit passes, bike lockers, and parking spaces for a car sharing program.



Pending its success, the developer and community hope that this project could be extended to include a full, four-block stretch of industrial area aligning Hiawatha Avenue with up to 2,000 housing units and several hundred thousand square feet of commercial space. This initial phase originally proposed approximately 300 condominium and apartment units, and 50,000 square feet of commercial space. However, changes in the market forced Joel to modify his plans to include only rental housing, and to reduce the total number of units and commercial square feet. The current plans allow for 197 housing units in two 99-unit, mid-rise buildings. Of these, 40 will be restricted to households earning less than 50 percent AMI, and 80 will be restricted to households earning up to 80 percent AMI, with the remaining units market rate. The project has received significant local government support, as shown in Figure 6-2. At the same time, however, the government support has created a complex financial structure whose many moving parts continue to pose challenges; for example, when Joel and the City modified the development plan, they had to ensure that all of the funding agencies would approve of the change.

Figure 6-2: Summary of Public Funding to Date, Longwood Station

City of Minneapolis	
Housing Trust Fund	\$2,700,000
Tax Increment Financing (Anticipated)	TBD
	\$600,000
Metro Council	
Livable Communities Program	\$934,523
Tax Base Revitalization Account	\$295,200
Congestion Management / Air Quality	\$980,000
State Resources	
Minnesota HFA	\$2,000,000
State Department of Employment/Econ. Devt.	\$265,000
Federal Resources	
Anticipated 4% LIHTC	\$5,700,000
Total Public Funds To Date	\$7,774,723
With Tax Credit	\$13,474,723
Estimated Total Construction Cost	\$35,700,000

Sources:

"Longfellow Community Crafts a Vision for 38th and Hiawatha Development," *Common Ground*, Fall 2006.

Brandt, Steve, "Minneapolis neighborhood makes a deal and history," *Star Tribune*, March 4, 2008. Accessed online April 13, 2008: <http://www.startribune.com>.

Ascierto, Jerry, "Revamping Around Transit: Developer seeks to transform Minneapolis neighborhood," *Affordable Housing Finance*, October 2007, pp. 82-83.

McClure, Jane, "Slimmed-down Hiawatha TOD project advances," *Minnesota Real Estate Journal*, March 2008, pp. 20-24.

"Recommendation from CDC Review Panel on Longfellow Station LCA Agreements," memorandum to Community Development Committee from Community Development Staff, October 8, 2007.

Longfellow Station Redevelopment Plan, Development Finance Division, City of Minneapolis, July 6, 2007.

UrbanWorks Architecture www.urban-works.com

Figure 6-3: Station Area Development Changes

District/Station Area	Projects in Realizing the Potential (cumulative)	Cumulative Completed, Under Construction, and Proposed Projects Known to Date*
<u>Downtown</u> Warehouse District Nicollet Mall Government Plaza Downtown East/Metrodome	<u>66 total projects:</u> 8 civic 3 hotel 8 mixed-use residential (1 mixed-income, 1 affordable, 6 market rate) 37 residential (32 market rate, 5 affordable) 3 office 2 retail	<u>73 total projects:</u> 4 civic 3 hotel 15 mixed-use residential (1 mixed-income; 14 market-rate) 45 residential (2 mixed-income; 3 affordable) 1 office 4 parking 1 retail
<u>Cedar/Riverside</u> Franklin Ave Lake Street	<u>23 total projects:</u> 3 civic 7 mixed-use residential (2 mixed income, 3 affordable, 2 market rate) 8 residential (2 mixed-income, 2 affordable, 4 market rate) 2 office 3 retail	<u>22 total projects:</u> 2 civic 6 mixed-use residential (2 mixed-income; 2 affordable; 2 market-rate) 11 residential (5 mixed-income; 1 affordable; 6 market-rate) 1 office 1 retail 1 unknown/speculative*
38th Street 46th Street	<u>10 total projects:</u> 4 mixed-use residential (1 mixed-income, 1 affordable, 2 market-rate) 3 residential (market-rate) 1 office 2 retail	<u>13 total projects:</u> 5 mixed-use residential (2 mixed-income; 3 market-rate) 6 residential (1 mixed-income; 5 market-rate) 1 office/retail 1 retail
50th Street VA Medical Center	<u>5 total projects:</u> 4 residential (market rate) 1 mixed-use residential (market rate)	<u>4 total projects:</u> 4 residential (2 affordable; 2 market)
<u>Airport</u> Fort Snelling Lindbergh Terminal Humphrey Terminal	0 total projects	0 total projects
<u>Bloomington</u> Bloomington 28th Mall of America	<u>1 total project:</u> 1 mixed use commercial	<u>3 total projects:</u> 2 hotel 1 mixed-use residential (market-rate)
<p>*Known completion dates for projects data as far back as 2003; completion dates were not available for all projects. Projects known as of Realizing the Potential, and projects known to date, are cumulative and do overlap. In some cases, projects tracked in Realizing the Potential were not build and are no longer proposed.</p> <p>Source: City of Minneapolis and City of Bloomington, 2007; Strategic Economics, 2008.</p>		

CHANGES TO AFFORDABLE HOUSING PROJECTS AND POLICIES

The majority of development in the downtown area continues to be market-rate.

Realizing the Potential observed that the majority of development occurring along the Hiawatha line was market-rate housing, and that most of this was being built in the downtown. Market-rate housing continues to dominate the downtown for several reasons:

- 1) Local CDCs do not have the financial capacity to acquire sites in areas with high land prices, like the downtown;
- 2) Available affordable housing tools require or assume that land prices are low, and therefore do not provide adequate funds for projects in areas with high land costs;
- 3) There are very limited City-owned parcels in the Downtown; and
- 4) The City has very limited resources to acquire land, and prefers to prioritize sites at more challenging, low priced stations where they can help to pioneer and catalyze new types of development.

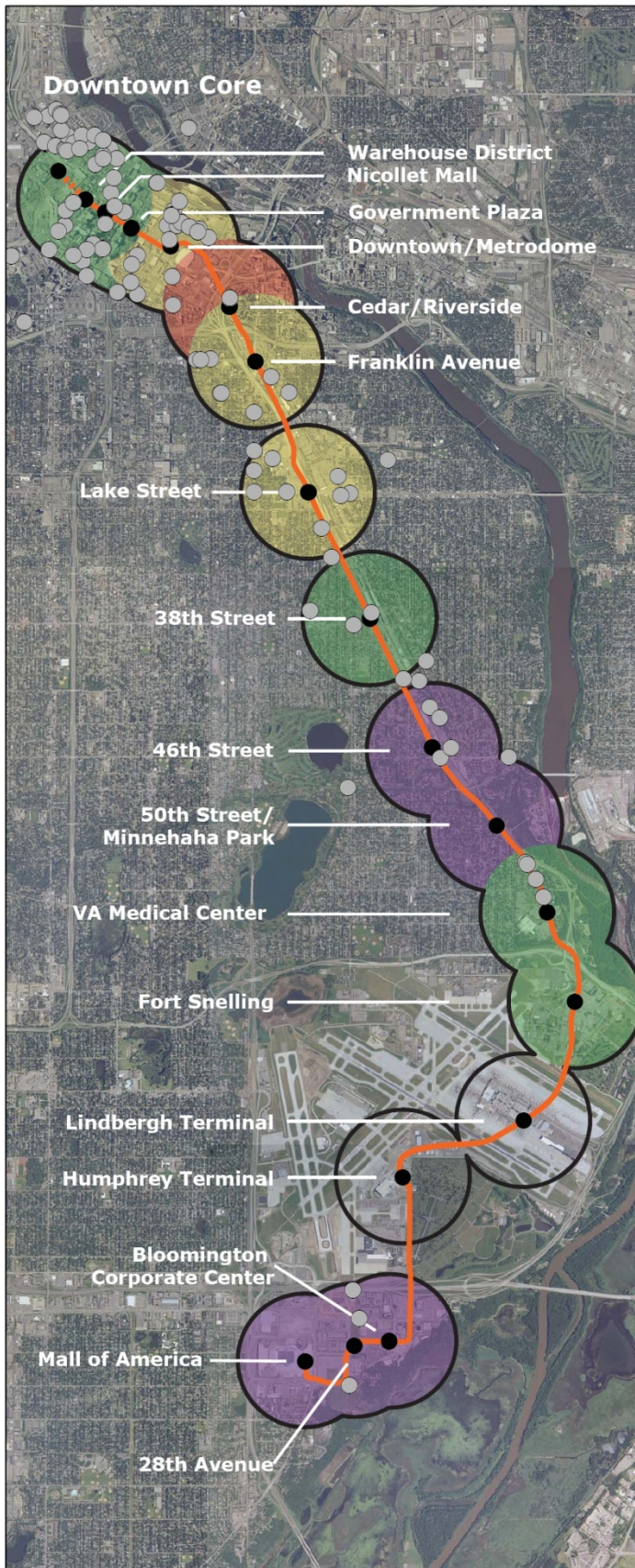
In neighborhoods south of the Downtown, medium size sites have been developed, leaving larger yet more challenging sites for future development.

Many of the larger sites surrounding the Hiawatha Line's more southern stops pose significant challenges for development. These sites are often industrial in nature and would require significant cleanup efforts prior to reuse in a residential or mixed-use project. Moreover, many of these large parcels are unusually configured due to diagonal rail crossings that create oblong sites. As a result, the majority of new development in the neighborhoods has occurred on parcels smaller than one acre.

Whereas in many localities the presence of many small, fractured vacant parcels is a challenge in itself, the Hiawatha neighborhoods face a different set of challenges. Moderate sized parcels have been developed or are planned for development, but these smaller parcels cannot create the critical mass of development needed to create a transit oriented neighborhood, particularly when larger, difficult to develop sites are immediately adjacent to the station. The few proposals that are on larger sites require substantial public subsidy for cleanup and reconfiguration efforts, leaving limited funding sources for affordable housing.

The national drop in tax credit prices and the foreclosure crisis are reducing the resources available for building projects.

The national decline in tax credit prices and the foreclosure crisis have led to an overall drop in the amount of public funds available for affordable housing development. Since building affordable housing requires assembling multiple funding sources, and sources are increasingly scarce, local CDCs and affordable housing developers have found it increasingly challenging to secure comprehensive funding packages for development. This difficulty lengthens the time needed to close deals, putting affordable housing developers at a disadvantage relative to more nimble, market-rate developers with access to more steady capital. In response to this challenge, the Minneapolis Housing Finance Agency has redirected some of its focus to target foreclosure issues; recently, for example, the HFA granted the City of Minneapolis \$11 million to create a revolving fund that will target areas with high foreclosure rates.



Map M1

Median Household Income & Recent|Proposed|Speculative Development Projects

Hiawatha Line Minneapolis, MN

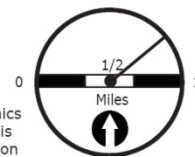
Legend

1999 Median Household Income \$54,304
Percent Of Regional Median Income

- 0-30%
- 30-60%
- 60-80%
- 80%+

- Light Rail Stop
- Development Projects
- Light Rail Transit
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects data as far back as 2003; completion dates were not available for all projects

Sources:
Center for TOD
Strategic Economics
City of Minneapolis
City of Bloomington



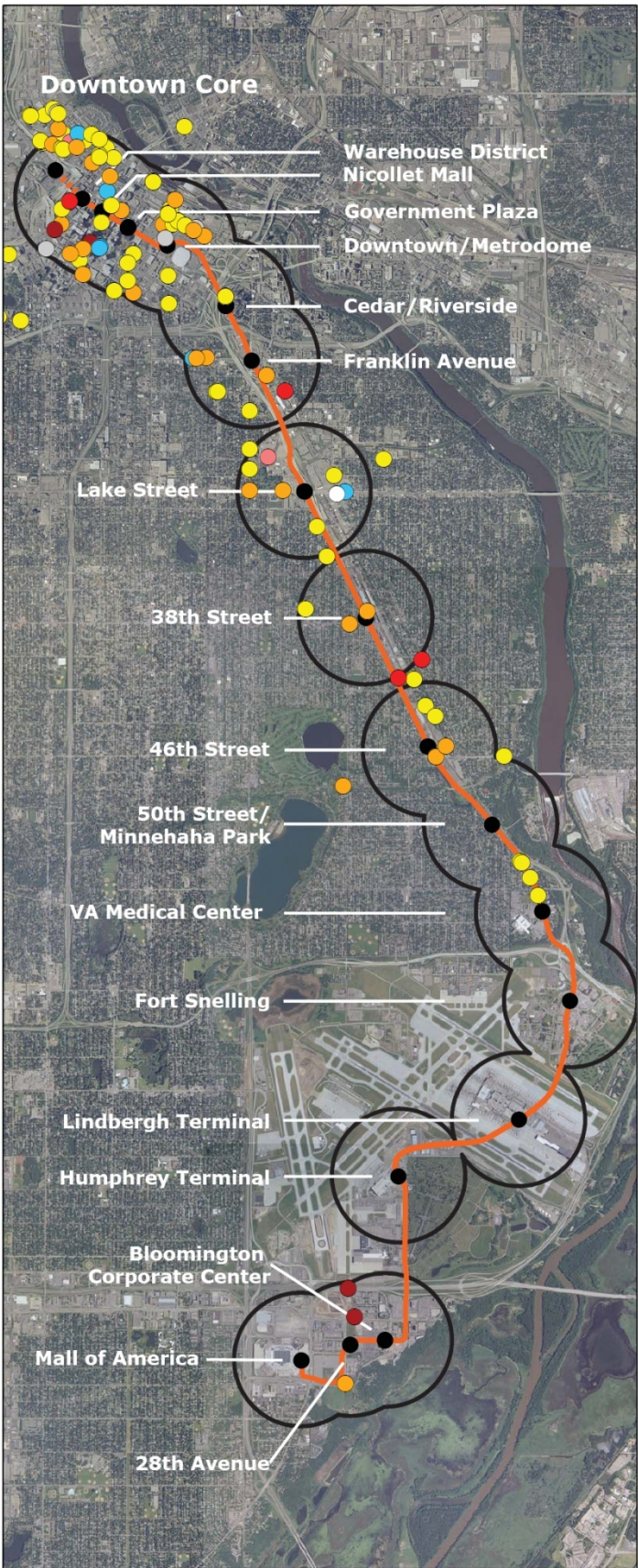
Map M2

Development Types

Recent | Proposed | Speculative

Hiawatha Line

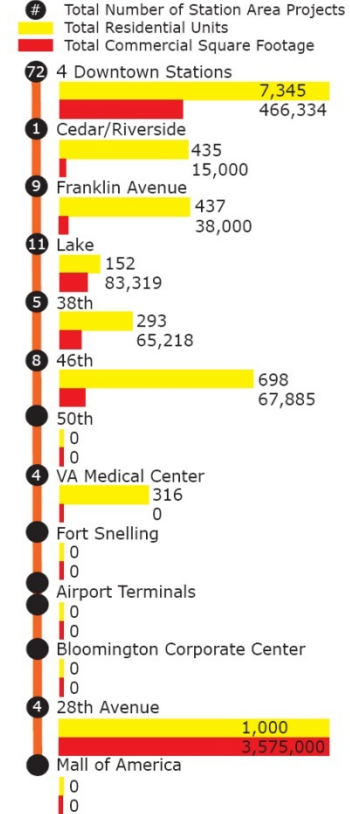
Minneapolis, MN



Legend

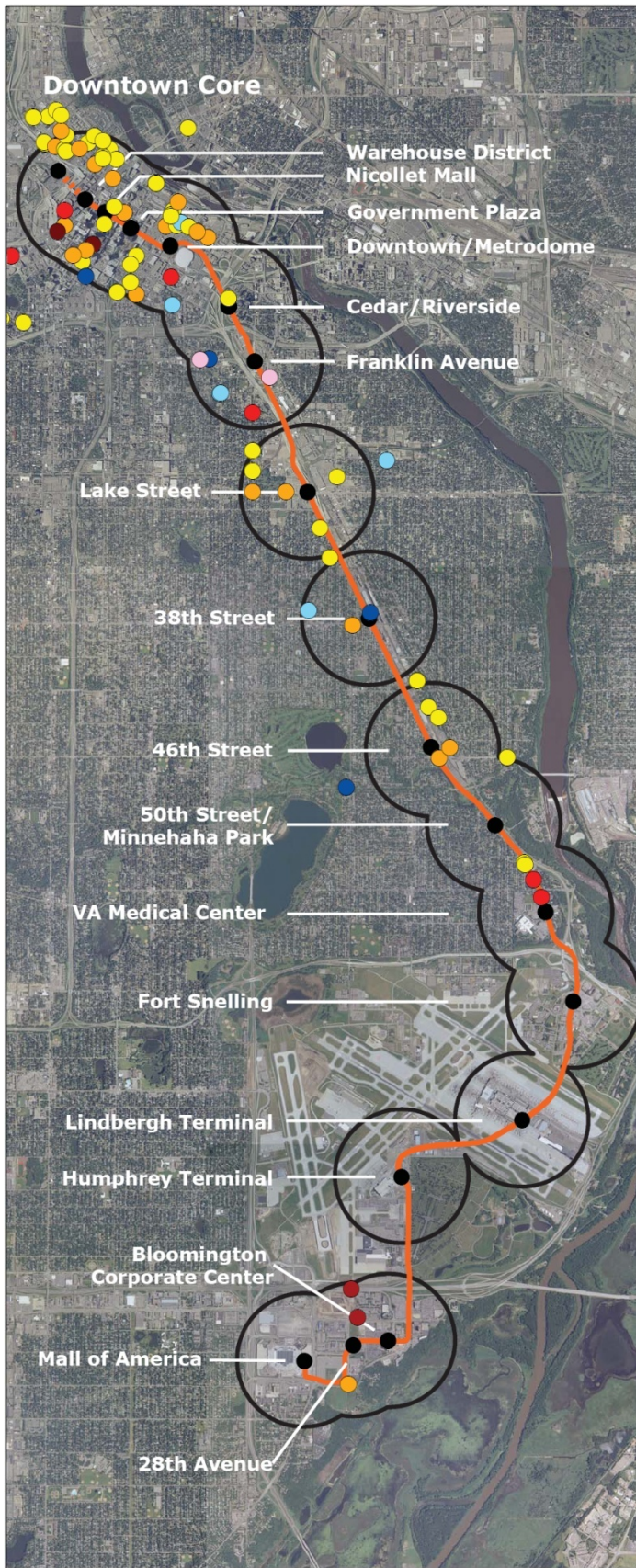
- Existing Light Rail Stop
- Light Rail Transit
- Recent Development**
- Residential
- Mixed Use
- Commercial
- Office
- Hotel
- Civic
- Parking
- Unknown
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects data as far back as 2003; completion dates were not available for all projects

Station Area Project Details



Sources:
 Center for TOD
 Strategic Economics
 City of Minneapolis
 City of Bloomington





Map M3

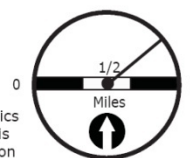
Residential Development By Level of Affordability Recent|Proposed|Speculative

Hiawatha Line Minneapolis, MN

Legend

- Existing Light Rail Stop
- Light Rail Transit
- Recent Development
- Market Rate Residential
- Market Rate Mixed Use Residential
- Affordable Housing
- Affordable Mixed Use
- Mixed Income Residential
- Mixed Income Mixed Use
- Student Housing
- Hotel Room
- * Some projects may not show up due to overlapping dots
- * Known completion dates for projects data as far back as 2003; completion dates were not available for all projects

Sources:
Center for TOD
Strategic Economics
City of Minneapolis
City of Bloomington



CHANGES TO THE POLITICAL AND REGULATORY ENVIRONMENT

The City of Minneapolis is in the process of approving a parks impact fee of \$2,000 per unit for new housing development.

Now that the pace of housing development has slowed, the City is working to ensure that future growth provides the public infrastructure and services it requires. In February 2008, the City Council voted to establish a parks ordinance that would require new, market-rate housing development to pay for its parks. Interestingly, while parks ordinances are typically aimed at suburban subdivisions in greenfield areas, the Council's concern is instead with the rapid conversion of industrial land along the Hiawatha corridor. Because this land has not previously been used for housing, it does not have any of the necessary residential-serving infrastructures, such as parkland. The proposed fee is well below the \$10,725 average for a typical city in the metro region.⁵³

One of the further challenges facing the City of Minneapolis is that the majority of public parks are large scale in nature, rather than the "pocket parks" that might be more appropriate or feasible for transit-oriented neighborhoods. The introduction of this fee may trigger a greater interest in generating smaller, pedestrian-oriented parks, thus transforming Minneapolis's urban landscape.

The lack of a joint development policy for Met Council's excess land has been, and may continue to be, a significant obstacle to promoting TOD.

The Met Council does not have the option of pursuing joint development projects on excess land at station areas. Instead, the Council is required to auction parcels off, and can only sell at prices above the appraised value of the land. As a result of this limitation, the Met Council and cities have limited control over whether uses adjacent to the station will be transit-oriented or mixed-income in nature.

As of March 2008, the Met Council was in the process of auctioning four sites near station areas: two at Lake Street Station, one at 38th Street station, and one at 46th Street station. Following the sale of these parcels, the Met Council will have little to no land remaining in its ownership in the Hiawatha Corridor, though the auction policy and lack of a joint development policy will remain a barrier to transit-oriented development as the Twin Cities' transit system expands.

To date, the highest bids for these station areas have fortunately proposed transit-oriented development projects, although there is no affordable housing stipulation for the parcels. Considering the Met Council's current auction policies, a private party would be unlikely to submit a winning bid that was primarily affordable housing. One possible strategy to secure some of this land for affordable housing would be to secure funds from a public agency or non-profit in order to subsidize a bid in the auction process.

⁵³ Brandt, Steve, "New money to fund new parks moves a step closer," *Star Tribune*, February 1, 2008. Accessed online February 4, 2008: <http://www.startribune.com>.

VII. PORTLAND'S STREETCAR CORRIDOR

Portland's Pearl District and South Waterfront area have undergone a remarkable transition over the last decade.⁵⁴ Beginning in the late 1990's, developers have rapidly constructed new mixed-use neighborhoods that include mixed-income housing, shopping, employment, and public open space uses. The Portland Streetcar was one of a series of implementation efforts that helped to spur this renaissance of these areas. The 4-miles double tracked, 42-stop streetcar, which began service in 2001, was financed with a mix of public local funds and private investment. State policies that forbid the use of inclusionary zoning and create urban growth boundaries also helped set the stage for the Pearl District's and South Waterfront's redevelopment. Portland's efforts have been hailed as a success throughout the United States, and numerous cities have expressed an interest over the past several years in using the streetcar to help stimulate reinvestment in and near their own downtowns.

CHANGES IN TRANSPORTATION

Portland has expanded its streetcar connections and is advancing a funding strategy for a third phase of service.

In August 2007, Portland extended streetcar service throughout the South Waterfront, providing riders with a full set of district connections on the west side of the Willamette River. Additionally, the City has moved forward with plans to extend the streetcar across the river to create what is known as the Eastside extension. The total cost of this 6.7 mile extension is estimated to be \$147 million. The City Council has committed \$27 million arguing that the investment will be easily returned if the Eastside extension stimulates even a fraction of the new development and private investment that has occurred near the existing streetcar. TriMet submitted an application to the FTA Small Starts program for \$75 million in September 2007 to pay for half of the construction cost. While the Small Starts program has never been used for a rail-based service, TriMet was encouraged to apply. Additional local money for the project is intended to come from three existing urban renewal districts, which would generate tax increment if the streetcar helps stimulate new development.⁵⁵

⁵⁴ This chapter has been greatly informed by interviews with the following local experts:

Jillian Detweiler, Land Development Planner, TriMet (Interview March 14, 2008)

Councilor Robert Liberty, Metro (Interview March 28, 2008)

Kate Allen, Director, Enterprise Foundation Portland Office (Interview March 28, 2008)

⁵⁵ Mayer, James, "Streetcar extension gets green light," *The Oregonian*, September 7, 2007. Accessed online December 12, 2007: <http://www.oregonlive.com>.

Figure 7-1: Summary of Major Changes in 2007-2008

<p>Transit Infrastructure and Policy</p>	<ul style="list-style-type: none"> - Streetcar extended to South Waterfront - Efforts to extend streetcar to east side: Council committed money, and Small Starts Application submitted
<p>Housing Market</p>	<ul style="list-style-type: none"> - Condos have cooled, but continuing to sell at slower pace - 3% gain in homeownership rates - Apartment market heating up - several projects in Pearl converted to rentals - Pearl continues to have the highest median home price in Portland - As many as 15 projects coming online in Pearl
<p>Affordable Housing Challenges and Opportunities</p>	<ul style="list-style-type: none"> - New Housing Trust Fund proposed to be \$10 million- with emphasis on affordable housing near transit - PDC carefully tracking mix of housing in urban renewal areas near streetcar/downtown - Oversupply in highest income units, undersupply in moderate income units
<p>Regulatory Framework</p>	<ul style="list-style-type: none"> - Success in River District (Pearl) URA is leading to reconsideration of URA boundaries and timeline - Changes to OHSU Liability could affect timing of development in South Waterfront

CHANGES IN MARKET AND DEVELOPMENT ACTIVITY

Regional market summary: the ownership market is fairly stable, and the rental market is gaining strength.

While the ownership market in Portland has cooled, the city has been largely insulated from the national downturn in the housing market, both because the region experienced less volatile price increases during the housing boom, and because employment has continued to grow steadily. In fact, the median home price only began to drop in the first quarter of 2008, and though sales have slowed relative to 2006, units are continuing to sell faster than in other areas. Throughout December 2007, asking prices were more than 10 percent higher than the same month last year, and the region experienced a rise in the average sales price for a home between November 2006 and November 2007, to \$334,000. However the number of home listings decreased by 25 percent between 2006 and 2007, and homes were spending more days on the market. Real estate experts noted that the pace of sales is comparable to years prior to the housing market boom, suggesting a return to normal levels rather than a devastating drop in the market.

Sales of Portland condominiums started to slow as early as 2006, and from May to August 2007, the average price of a condominium dipped 7.5 percent to \$333,000.⁵⁶ Mid-priced condominium units appear to be selling, albeit at a slower pace. However, the luxury condominium market has been more affected by the housing downturn than the mid-priced market.

Simultaneously, the rental market has been experiencing a major resurgence, with demand for apartments greatly increasing. Reports show that the rate of homeownership in Portland increased by about three percentage points during the housing boom, or about 21,000 households, meaning that the demand for rental units also dropped by about 21,000 households. Now that households are again reluctant to enter the ownership market, there is a boost in the demand for rental housing. Apartment vacancy rates decreased from 4.9 percent to 4.4 percent between 2006 and 2008, while rents increased by an average of 5.7 percent to \$781. Many apartments now have waiting lists.⁵⁷ Additionally, LoopNet reported that the average sales price for an apartment building increased 39 percent between 2006 and 2007, to over \$103,000 per unit.⁵⁸ Newer apartment buildings are selling at record prices; in May 2007, a California-based real estate group purchased a Trammell Crow building at 10th and Hoyt for about \$300,000 per unit, and in December 2006, the City Heights complex in downtown Portland sold for over \$250,000 per unit.⁵⁹

This market shift is causing many developments to be marketed as apartments rather than condominiums.

The slowdown in sales of condominiums last year prompted four condominium developers to turn their new projects into luxury apartment buildings, including the Ladd Tower in the South Park Blocks, which

⁵⁶ Culverwell, Wendy, "All boxed in: Condo market softens," *Portland Business Journal*, September 3, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

⁵⁷ Culverwell, Wendy, "Apartment demand rises as condo interest slackens," *Portland Business Journal*, January 25, 2008. Accessed online February 7, 2008: <http://portland.bizjournals.com>.

⁵⁸ Culverwell, Wendy, "The return of the renters: Upended housing market spurs Portland's apartment market," *Portland Business Journal*, December 14, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

⁵⁹ Culverwell, Wendy, "California real estate firm sets an apartment record," *Portland Business Journal*, May 25, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

converted to rental in May 2007, and The Wyatt, a 15-story, 245-unit project adjacent to the Bridgeport Brewery.⁶⁰

The readiness of developers in the Pearl District and other streetcar neighborhoods to convert condominiums to apartments is startling. Condominium developers and apartment developers tend to be two unique groups seeking very different investment outcomes; the former generally secure short-term construction financing and anticipate a short-term investment return, while the latter seek a longer-term investment. Moreover, there may be differences in the design of rental and ownership units, adding to the cost and timing of construction if a project is converted. As a result of these factors, condominium developers are generally unlikely to be interested in a longer term hold on their property, and usually need to pursue a new financing structure for their project if it is converted to apartments.

Since the housing market in Portland has not dramatically plummeted as it has in other regions, what is the motivation for the conversion from condominium to apartment units? Oversupply in the market may be one factor. A significant stock of new condominium units entered the market in 2007, and additional projects will be completed in 2008. One news story noted that about 15 housing or mixed-use projects will be completed and put on the market in the next year, and there are an estimated 3,500 units in the pipeline. Moreover, if trends in the rental market continue and developers succeed in achieving rents of \$1,000 to \$3,000 a month per unit, there may be a profit to be gained with an apartment building where a developer would otherwise experience a loss in the condominium market.

In spite of recent losses, home sales in the streetcar neighborhoods have dramatically outperformed the region.

The Pearl District neighborhood commands the highest median sales price in the entire region. This is particularly notable given that the condominium units in the Pearl District tend to be smaller than many homes in single-family neighborhoods. Median home prices in the Pearl have hovered around \$400,000 compared with a typical regional median home price that is more in the \$300,000 range.⁶¹

The “price premium” in the Pearl District reflects the strong demand for living in an area with many desirable urban amenities, but also that much of the completed housing inventory in the area serves the luxury end of the market. There is a shortage of a more workforce multifamily ownership type of housing. Some developers have recognized this issue and are looking at building a smaller unit type in the downtown area to serve a broader market need. However, developers in a down ownership market will occasionally shift to a luxury rental product, meaning market rate development in the Pearl District and surrounding areas are likely to continue to cater to the highest end of the rental market rather than drop their sales prices.

Development in the South Waterfront has continued at a rapid pace throughout 2007, though there is some concern that challenges at OHSU could slow transformation of the area.

A number of high-profile rental projects are under construction in the South Waterfront, including Trammell Crow’s Alexan, a 22-story apartment building. In spite of a slowdown in the market, real estate experts say that the South Waterfront is being developed at an unusually rapid pace. This area is taking

⁶⁰ Culverwell, Wendy, “Historical printing house turns luxury apartments,” *Portland Business Journal*, October 5, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

⁶¹ Frank, Ryan, “Builder bets on cozy condos,” *The Oregonian*, January 30, 2008. Accessed online January 30, 2008: <http://www.oregonlive.com>.

on a very different character from the Pearl District and Downtown, with taller buildings and more rental projects, and there is a concern that it will not generate the same “liveliness” as the other streetcar areas given its greater distance from downtown and the lack of civic and retail uses that have been built to date. Additionally, with more than 900 new apartment units being added to the streetcar areas simultaneously, there is some question of whether the rental market will sustain the current pace of growth.

Planners had anticipated that the South Waterfront would provide an area of expansion for the Oregon Health Sciences University (OHSU). However, OHSU’s growth in the area may slow, in part as a result of a recent Oregon court decision that eliminated a \$200,000 malpractice liability cap for public institutions and will increase OHSU’s insurance and overhead costs, limiting funding for expansion in the South Waterfront.⁶²

A strengthening office market could compromise future opportunities for housing development in the streetcar neighborhoods.

Land use regulations in the downtown area govern design requirements such as height and parking ratios but generally do not restrict the type of allowable uses. As a result, the surging office market in Portland may change portions of the Pearl District and the Downtown. The Class A office market is experiencing a resurgence after a long dormant period in the Downtown, adding roughly 1.3 million square feet in the last several years, or about a 14 percent increase. Office projects are breaking ground throughout the Pearl District, South Waterfront, and Downtown, serving the growing demand for large-scale (greater than 10,000 square feet) office suites.⁶³

⁶² Interview with Jillian Detweiler, Land Development Planner, TriMet. March 14, 2008.

Green, Ashbel S. “High court lifts limit on OHSU liability,” *The Oregonian*, December 29, 2007. Accessed online March 17, 2008: <http://www.oregonlive.com>.

⁶³ Culverwell, Wendy, “Building boom will ease downtown space crunch,” *Portland Business Journal*, November 2, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

Figure 7-2: Changes to Development Activity near the Portland Streetcar, 2006 and 2007

District/Station Area	Projects in <i>Realizing the Potential</i> (cumulative)	Cumulative Completed, Under Construction, and Proposed Projects Known to Date*	Total Residential Units	Total Commercial Square Footage
Pearl District	<u>46 total projects:</u> 1 civic 17 mixed-use residential (2 mixed-income; 1 affordable; 14 market rate) 12 residential (11 market-rate; 1 affordable) 2 hotels 9 office-retail 1 mixed-use industrial 1 office 1 parking 2 retail	<u>59 total projects:</u> 4 civic 22 mixed-use residential (3 mixed-income; 19 market-rate) 19 residential (3 affordable; 1 mixed-income; 15 market-rate) 1 hotel 8 office-retail 2 office 1 parking 2 retail	4,612 units	1,709,150 square feet
Downtown	<u>27 total projects:</u> 12 civic 6 mixed-use residential (2 affordable; 1 mixed-income, 3 market-rate) 4 residential (1 affordable; 3 market-rate) 3 office-retail 1 office 1 parking	<u>45 total projects:</u> 21 civic 10 mixed-use residential (2 affordable; 2 mixed-income; 6 market-rate) 5 residential (1 affordable; 1 mixed-income; 3 market-rate) 2 hotel 3 office-retail 2 office 1 parking 1 retail	2,731 units	1,441,500 square feet
South Waterfront	<u>6 total projects</u> 1 civic 4 mixed-use residential (market rate) 1 hotel	<u>12 total projects:</u> 1 civic 10 mixed-use residential (market-rate) 1 hotel	2,869 units	415,731 square feet
<p>*Projects built, planned or proposed since 1997, when the alignment was chosen. Projects known as of <i>Realizing the Potential</i>, and projects known to date, are cumulative and do overlap. In some cases, projects tracked in <i>Realizing the Potential</i> were not built and are no longer proposed.</p> <p>Source: Portland Streetcar Inc., City of Portland 2008; Strategic Economics, 2008.</p>				

“[D]evelopment to date has re-calibrated the region’s assumptions about how we will grow in the future.” – Robert Liberty, Metro Council Member

Since 2001, developers have built more central city condominium units than were built in the previous 30 years, according to real estate services firm CB Richard Ellis. This represents a major transformation and reflects the fact that more compact, higher density housing types no longer serve just a small fraction of the overall housing market. Contrary to popular belief, while empty nesters and young professionals have been a major driving force in the market for downtown condominiums, families with children have also driven demand for downtown living.

CHANGES TO AFFORDABLE HOUSING PROJECTS AND POLICIES

While more housing units have been built in the Pearl District, they do not meet the affordability goals of the Portland Development Commission.

In 1994, the Portland Development Commission (PDC) established a set of guidelines to govern the development of housing in the River District Urban Renewal Area, which encompasses the Pearl District. As part of its agreement to master develop much of the land in the River District, Hoyt Street Properties agreed that its housing development would provide a mix of units at all income levels. As inclusionary zoning is not allowed, PDC negotiated for a total number of units serving various income levels with the goal of having new housing development reflect the income distribution of households in Portland.⁶⁴

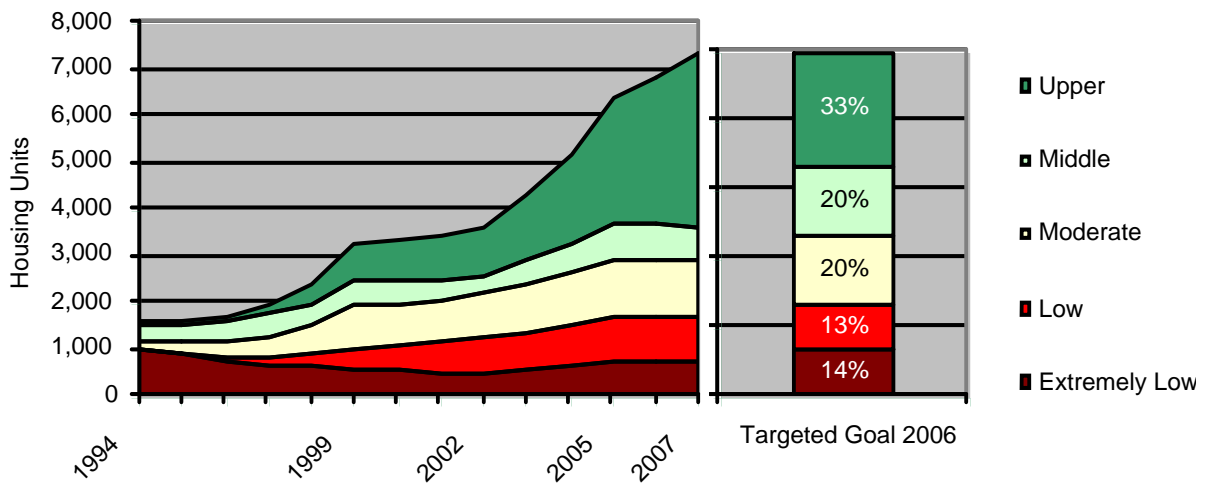
PDC has carefully tracked new housing development in the River District and published an annual report on its performance since the creation of the URA. While the most recent report only provides housing unit estimates through the 2005-2006 fiscal year (i.e., through June 30, 2006), it provides key information on the performance of the River District in meeting a very detailed mixed-income housing goal. Major findings include:

- There has been higher than expected production of housing units overall (7,408 units existing or under construction, with PDC goal of 6,594 units by 2020).
- The surplus of units are market-rate, and affordable only to households earning more than 120 percent of AMI. There is a surplus of 1,324 market-rate units beyond the PDC goals.
- Moderate income households in particular are underserved relative to the PDC goals (falling short by 759 units).
- Units serving low income households are nearly on track with the PDC goals (falling short by only 67 units).
- PDC considers Hoyt Street Properties compliant with their development agreement; Hoyt Street Properties will need to build approximately 200 additional units of affordable housing to remain in compliance.

Figure 7-3 shows the progress that the River District has made in meeting its mixed-income goals throughout the last ten years.

⁶⁴ Portland Development Commission, “River District Housing Implementation Strategy, 2006 Annual Report.”

Figure 7-3: Housing Supply in River District URA by Targeted Income Group



Source: Portland Development Commission, "River District Housing Implementation Strategy, 2006 Annual Report."

In addition to using developer agreements to pursue affordable housing, the PDC is pursuing a number of affordable housing projects in the River District.

In 2007, PDC began soliciting proposals for an affordable housing project that would provide "affordable, family-friendly development." Central City Concern, one early interested developer, is proposing a 175-unit, 17-story, green building that would serve households at 60 percent AMI. The initial cost of this building is estimated at \$60 million.⁶⁵

Green building is an increasingly valuable characteristic of affordable and mixed-income housing projects in Portland. However, tax credit issues may compromise the green elements of projects in the next year.

Many affordable housing projects in Portland are introducing green building elements, including using sustainably grown materials, and offering more efficient heating, cooling, and energy systems. This approach may increase the up-front cost of construction, but enables these buildings to maintain lower operating costs, thus saving money over time for households and the building owner.

The Pacific Northwest has been greatly affected by the national drop in tax credit pricing, and tax credit recipients in Portland have been left with up to a 20 percent financing gap as a result of this.⁶⁶ To close this gap, many affordable housing developers are considering eliminating non-essential elements, such as more efficient HVAC systems, from their projects. This may increase operating costs over time, but will enable the units to be built within the required time frame.

⁶⁵ Culverwell, Wendy, "Liquid green: Plan calls for self-reliant building," *Portland Business Journal*, November 30, 2007. Accessed online December 17, 2007: <http://portland.bizjournals.com>.

⁶⁶ Interview with Kate Allen, Director, Enterprise Foundation Portland Office, March 28, 2008.

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

Map P1
 Development Types
 Recent|Proposed|Speculative
 Portland Streetcar
 Portland, OR

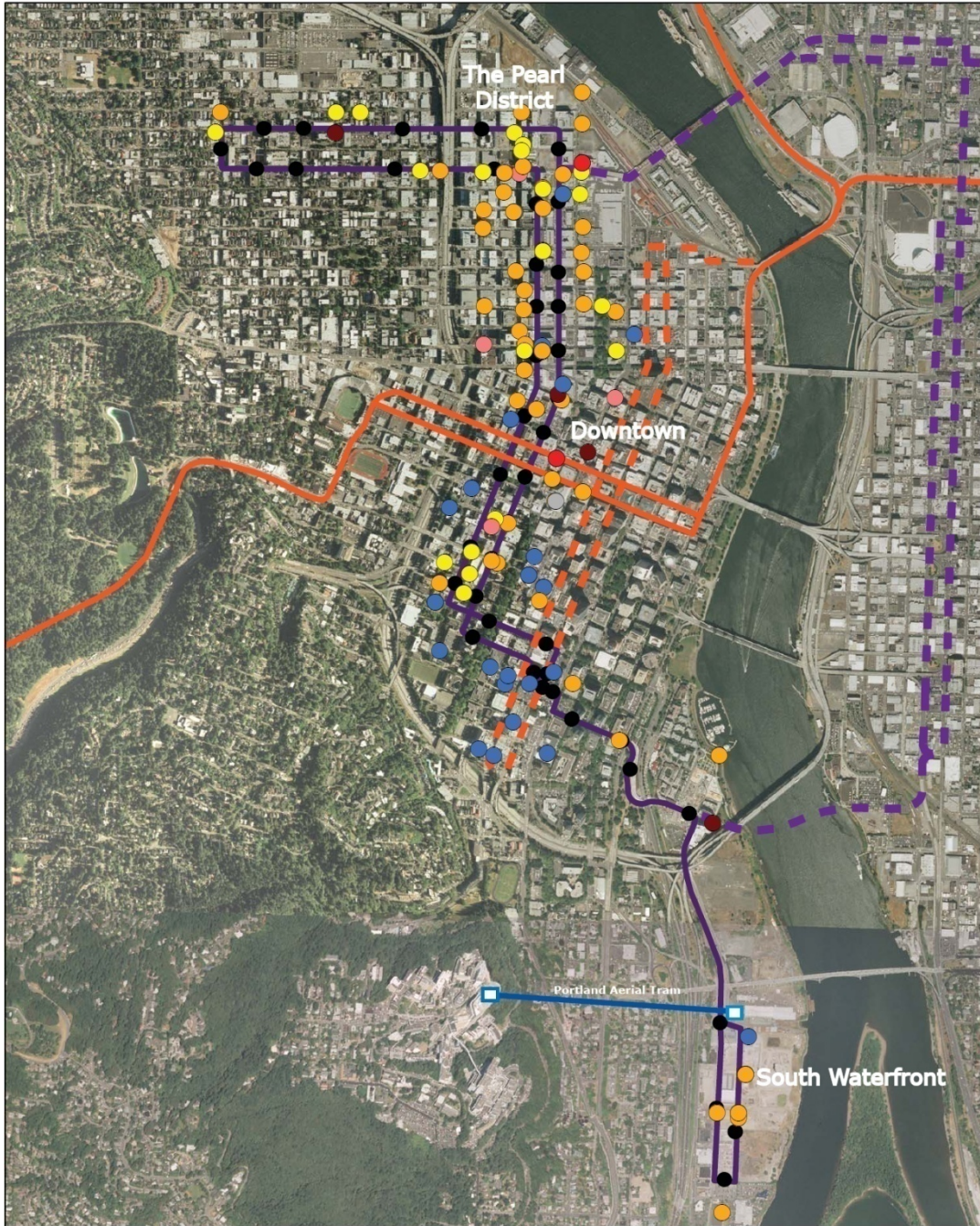
Legend

- Existing Streetcar Stop
- Existing Light Rail Transit
- - - Light Rail Mall Construction
- Streetcar Line
- - - Planned Streetcar Line
- Recent Development
- Residential
- Mixed-Use Residential
- Retail
- Office
- Hotel
- Civic
- Parking

- * Some projects may not show up due to overlapping dots
- * Project placement is approximate and within a block of actual location. This is due to address matching in GIS
- * Projects built, planned, or proposed since 1997, when the alignment was chosen



Source:
 Reconnecting America
 Strategic Economics
 City of Portland
 Tri-Met
 Portland Streetcar Inc.

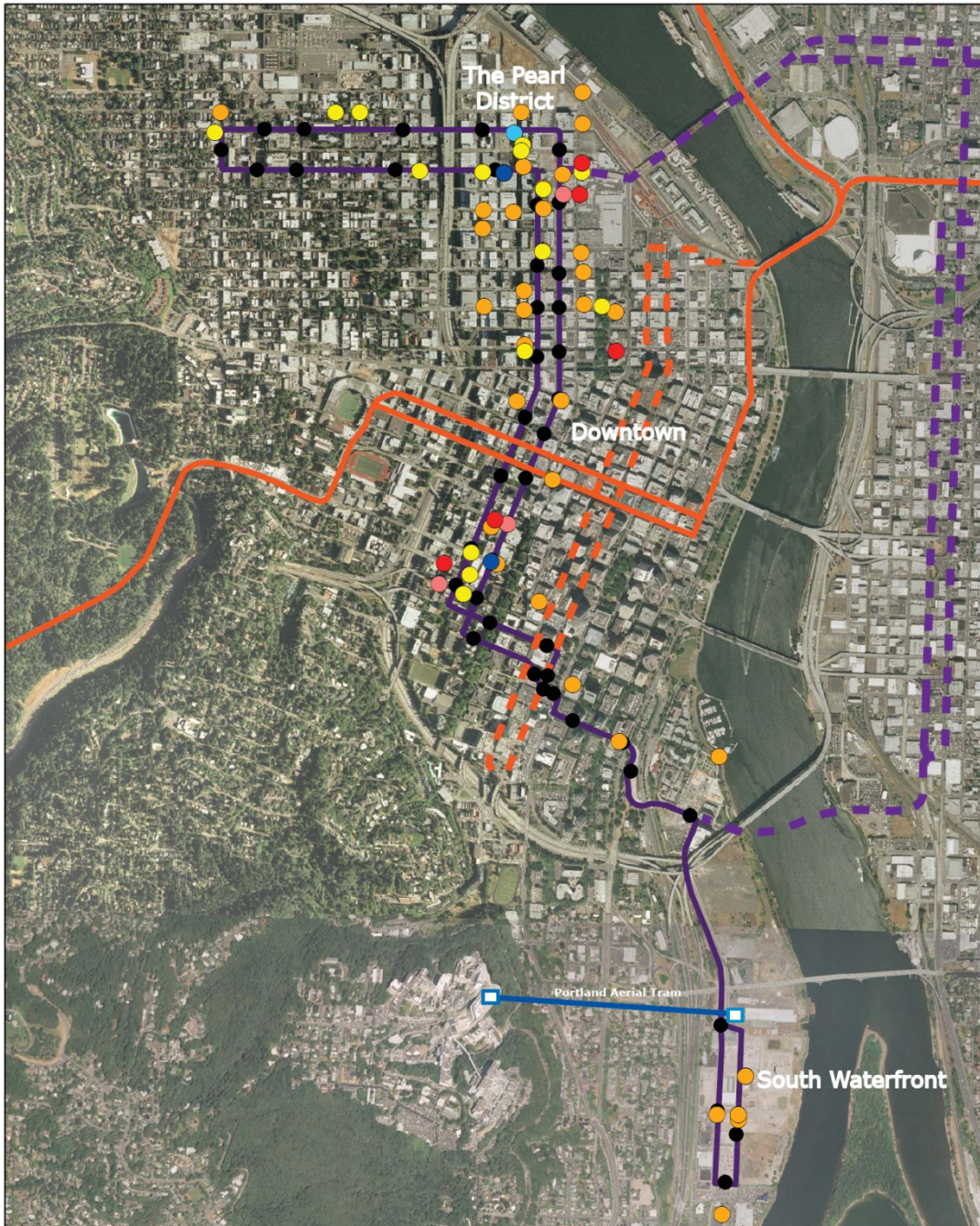


Map P2
 Residential Projects
 by Level of Affordability
 Recent|Proposed|Speculative
 Portland Streetcar
 Portland, OR

- Legend**
- Existing Streetcar Stop
 - Existing Light Rail Transit
 - Light Rail Mall Construction
 - Streetcar Line
 - Planned Streetcar Line
 - Recent Development
 - Market Rate Residential
 - Market Rate Mixed Use
 - Affordable Housing
 - Affordable Mixed Use
 - Mixed Income Residential
 - Mixed Income Mixed Use
- * Some projects may not show up due to overlapping dots
 * Project placement is approximate and within a block of actual location. This is due to address matching in GIS
 * Projects built, planned, or proposed since 1997, when the alignment was chosen



Source:
 Reconnecting America
 Strategic Economics
 City of Portland
 Tri-Met
 Portland Streetcar Inc.



Note: See Figure 7-2, above, for residential unit and commercial square foot information.

CHANGES TO THE POLITICAL AND REGULATORY ENVIRONMENT

The North Pearl District Plan has been approved.

The North Pearl District is located between the Broadway and Fremont Bridges, bounded by Lovejoy Street to the south and the Willamette River to the north. This area is one of the least developed areas served by the streetcar, and offers important opportunities for the City to guide new development and preserve and create community resources such as parks and schools. Planners have worked over the last year to create the North Pearl District Specific Plan in order to provide guidelines for future growth and ensure a wider variety of land uses. The plan zones the area for an intensive mix of uses with an emphasis on employment, prioritizes connections to a riverfront park, and establishes height restrictions that enhance river views to make such a park more appealing.

To stimulate development in this relatively industrial and underutilized area, the Portland Development Commission is working on a plan for redevelopment of the Centennial Mill, at 1100 N.W. Naito Parkway. This project will likely offer a mix of retail, office, and institutional uses.⁶⁷

The Portland City Council has proposed and approved changes to urban renewal area boundaries.

The streetcar travels through three Urban Renewal Areas: the South Park Blocks, the Downtown Waterfront, and the River District (which includes the Pearl District). Unprecedented success in the River District has led the Council to consider various options for redirecting revenue to schools and affordable housing projects outside the URA.

In March 2008, the City Council voted to add a “satellite” area to the River District in order to redirect funds towards a site owned by the school district, for creation of a community center that would be adjacent to a new elementary school.

An advisory panel to the City Council has also suggested sunsetting the South Park Blocks and Downtown Waterfront Urban Renewal Areas and shortening the period of time that the PDC would take to pay back bonds. This move would return millions of dollars of tax revenues to other districts including the City, County, and School District. In addition, sunsetting the existing renewal areas would enable the Council to consider establishing a new urban renewal district that could merge with the River District and focus specifically on continuing affordable housing and civic projects that might not otherwise be completed prior to the expiration of these two URAs.⁶⁸ In particular, the PDC has unmet goals in these districts to overhaul Union Station, and refurbish Section 8 low income housing downtown.

⁶⁷ Giegerich, Andy, “Down by the River” *Portland Business Journal*, March 21, 2008. Accessed online March 25, 2008: <http://portland.bizjournals.com>.

⁶⁸ Dworkin, Andy, “Portland urged to end renewal areas early,” *The Oregonian*, December 19, 2007. Accessed online December 20, 2007: <http://www.oregonlive.com>.

Dworkin, Andy and Jim Mayer, “Urban Renewal Group renews efforts for early end to some publicly funded Downtown development,” *The Oregonian*, January 15, 2008. Accessed online February 7, 2008: <http://www.oregonlive.com>.

FTA CA-26-1007			
4. Title and Subtitle Realizing the Potential: One Year Later Housing Opportunities Near Transit in a Changing Market		5. Report Date December 2008	
7. Author(s) Reconnecting America's Center for Transit-Oriented Development		6.	
9. Performing Organization Name and Address Reconnecting America and the Center for Transit-Oriented Development 436 14 th St., Suite 1005 Oakland, CA 94612		8. Performing Organization Report No.	
		10. Project/Task/Work Unit No.	
		11. Contract (C) or Grant (G) No. CA-26-1007	
12. Sponsoring Organization Name and Address Federal Transit Administration 1200 New Jersey Avenue SE Washington D.C. 20590		13. Type of Report and Period Covered January 2007 to April 2008	
		14. Sponsoring Agency Code Federal Transit Administration	
15. Supplementary Notes FTA Project Contract: Effie S. Stallsmith, Office of Planning and Environment, E45, FTA, 202-366-5653 or effie.stallsmith@dot.gov			
16. Abstract (Limit: 200 words) This report builds on <i>Realizing the Potential: Expanding Housing Opportunities Near Transit</i> , which was published by Reconnecting America and the Center for Transit-Oriented Development in 2007 as part of a collaborative agreement between the Federal Transit Administration and the Department of Housing and Urban Development. Since its publication, rising gas prices, a weak housing market, and advancement in the construction of numerous transit systems throughout the United States have impacted the ability of planners and developers to create mixed-income housing opportunities near transit. This longitudinal study looks at how changes between January 2007 and April 2008 have affected affordable housing finance tools, short- and long-term development trends around transit, and the way planners are preparing for future growth near transit. In particular it reexamines the five case study regions and transit corridors from <i>Realizing the Potential: Boston's Indigo Corridor, Charlotte's South Corridor, Denver's West Corridor, the Twin Cities' Hiawatha Corridor, and Portland's Streetcar District</i> .			
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