

# How Transit-Oriented Development Can Help Get America to Work

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## INTRODUCTION

Faced with rising poverty rates, high unemployment, and a fragile economic recovery, more and more families are struggling to hold on to the American Dream—the fundamental belief that here, in the “land of opportunity,” anyone willing to work hard can get ahead, save for the future, and build a better life for themselves, their families and the next generation. Policymakers and the public alike are focused intently on what has always been the very linchpin of achieving that dream—jobs, jobs, jobs. Yet, in that pursuit, there is one critically important element that is often overlooked: the fact that today, simply getting from home to work and back again has become a growing challenge for many Americans.

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Over the past several decades, jobs in general have moved away from city centers and from mass transit. Today, some three quarters of all jobs are located outside the city center, and lower-skilled workers bear the heaviest commuting burden as their jobs have moved to outer urban rings that often lack access to public transportation.<sup>1</sup> Low-income workers increasingly must buy cars and gasoline they can ill afford or spend hours on circuitous commutes.

This places a heavy burden on American families at a significant economic cost to the nation: \$100 billion lost each year in time and fuel because of workers' lengthy and inconvenient commutes, according to the Center for Transit-Oriented Development.<sup>2</sup> For every dollar a family saves by moving to lower cost housing, 77 cents is consumed by the costs of commuting back to their jobs.<sup>3,4</sup> And the current high demand for housing in many urban rental markets means this pressure on working families will grow, not lessen.

We know how to build vibrant communities where residents can walk to shops, restaurants, groceries and community services; and where public transportation provides convenient connections to residents' places of work. All too often, though, these success stories are upper-income communities planned from the outset as attractive, livable environments designed around deluxe housing developments, or where historic urban centers were revitalized through gentrification. Transportation, along with retail and other high-quality amenities, is recognized as an essential component of an attractive high-end residential development.

We can work together to envision a new era of American life, in which families of all economic levels have convenient, safe, affordable access to transportation systems—and save \$1 trillion each decade in lost time and fuel. By pairing transportation investment decisions with plans to create affordable housing and essential services, such as schools and childcare, health care, healthy food stores, libraries and retail services, we can help communities grow in a balanced manner, with opportunities for low- and moderate-income families.

In short, it's not just about jobs, jobs, jobs. It's about **equitable transit-oriented development** to bring together jobs, transportation, housing and community services in ways that work equally well for lower- and upper-income families.

Policymakers, employers, community leaders and investors each have a role to play. Investing in integrated development initiatives can have positive returns both for communities and for investors. We at the Low Income Investment Fund (LIIF) and Morgan Stanley believe that both from the community development perspective, and from that of a financial institution, investing in communities could be benefited by an integrated analysis of how transportation, housing, jobs, and community services need to come together to serve all neighborhoods and workers.

This paper sets out the importance of investing in economic development strategies that focus from the earliest planning stages on equity and opportunity for low-income workers. We will outline some of the conditions that enable communities and investors to design thriving societies and help break down traditional silos of community development. Finally, we will discuss why integrating transit and community development is not just good social policy but also smart investing.

#### HOW TRANSIT-ORIENTED DEVELOPMENT PAYS

Planning community development with public transportation as a central consideration—transit-oriented development or TOD—can spur economic growth, sometimes dramatically. Commentators cite Arlington, Virginia, and the Ballston-Rosslyn transit corridor as a prime example of successful transit-oriented growth.

Forty years ago, the Ballston-Rosslyn transit corridor was a waning commercial area suffering from disinvestment and population decline. To revitalize the area, local government worked with the public transportation system to ensure the Metro Orange Line was integrated into investment plans for the county's commercial center. They devised a redevelopment initiative around five closely spaced metro stations, concentrating density and promoting mixed-use development.

The economic outcomes have been stunning. The Ballston-Rosslyn corridor has prospered, creating about 50,000 new jobs and more than doubling the population. Property values rose \$1 billion within a year of opening the Metro stations.<sup>5</sup> Commercial and office space tripled; dining, shopping, and recreation options proliferated; and most housing values near the Metro station stops have increased. This corridor now has more office space than downtown Miami and almost as

1 Center for Transit-Oriented Development, *CDFIs and Transit-Oriented Development*, October 2010.

2 Center for Transit-Oriented Development, *Transit-Oriented Development (TOD) and Employment*, May 2011.

3 Lipman, Barbara, *Something's Gotta Give: Working Families and the Cost of Housing*, Center for Housing Policy, April 2005.

4 Note: In its report *The State of the Nation's Housing 2010*, the Joint Center for Housing Studies of Harvard University found that on average, low-income households with children that spent less than 30 percent of monthly outlays for housing devoted 4.4 times as much to transportation as those with high housing outlays. Households with affordable housing dedicated over 37 percent of their total outlays to housing and transportation combined.

5 Samuelson, Michael, "Reducing Cars and Increasing Development: How the Creation of a Viable Transit-Oriented Development Corridor in Arlington, Virginia Has Sparked Growth," *Cities in the 21st Century*, Spring 2009.

much as Denver.<sup>6</sup> And since 50% of residents now take transit to work and 73% of transit riders can walk to metro stations,<sup>7</sup> the economic boom has generated only a modest increase in traffic pollution and the area's carbon footprint.<sup>8</sup> Density also brings fiscal benefits: less than 10% of Arlington County land generates one-third of County revenues, giving Arlington the lowest property tax rates in Northern Virginia.<sup>9</sup>

#### WHAT TOD TAKES: CROSS-SECTOR COLLABORATION

If transit-oriented development is such a win-win proposition, why isn't it happening in more areas where there are robust public transportation systems, high population density, and significant investments in real estate and public infrastructure? One reason we don't see more Arlingtons is that developing and implementing a TOD strategy requires coordination among many players across government, nonprofit and private sectors. While coordination seems obvious, in practice it can be tremendously difficult among disparate stakeholders accustomed to—and best at—planning and executing their own mandates rather than integrating their efforts with those of other agencies and firms. This can be especially challenging when trying to create affordable and accessible communities for families of all economic levels.

For-profit housing developers hone their expertise in the rapid, efficient construction of attractive, profitable housing in neighborhoods most conducive to earning high rental or sale prices. Retailers, including grocery stores, have sophisticated models to evaluate new locations. Transit agencies, meanwhile, focus on long-term capital plans for building and maintaining transit stations.

Each of these sectors has its own sources of funding, constituencies, planning processes and business models. Acting independently and rationally, each may well make different decisions about where and how to invest their time, energy and capital. Pulling these players together to create an integrated plan requires leadership and tenacity, and often calls for specialized capital structures to incentivize the coordination and co-location of these different developments.

#### THE BAY AREA EXAMPLE

The San Francisco Bay Area offers a case in point, where a deliberate, long-term, coordinated process of multiple stakeholders has brought about an integrated strategy and

specialized loan fund to create affordable housing and strong communities around transit lines. Though it is known as a pinnacle of wealth creation and innovation in the U.S., the Bay Area also suffers the strains of acute economic disparity and dislocation. While high-tech enclaves and popular bedroom communities thrive, other neighborhoods suffer from high crime and unemployment, with workers unable to find safe affordable housing close to transportation or job opportunities. The dot-com crash exacerbated the distress in many low-income neighborhoods that had been left behind by the boom. While the Bay Area has one of the country's more developed public transportation systems, some neighborhoods surrounding those highly efficient public transit corridors are blighted urban areas.

The Tenderloin neighborhood of San Francisco offers one stark example. Located next to the historic, affluent neighborhood of Nob Hill, the Tenderloin is one of the poorest areas of San Francisco, with high crime rates, homelessness, and vacant storefronts. Though served by the Powell Street station of the Bay Area Rapid Transit (BART) system, the neighborhood has experienced none of the economic boom that took place around the Arlington-Rosslyn Metro corridor.

Recognizing the growing need for affordable housing near transit in the Bay Area of California in 2006, representatives from community nonprofits, advocacy organizations and philanthropic funders came together to form the "Great Communities Collaborative" (GCC). Its vision was "ensuring that the San Francisco Bay Area is made up of healthy, thriving neighborhoods that are affordable to all and linked to regional opportunities by a premier transit network."<sup>10</sup> This group reached out to government, community development financial institutions (CDFIs) and private sector investors to help achieve its goal.

While the notion of building affordable, accessible, attractive neighborhoods near public transit seems uncontroversial, it turned out to require significant and protracted negotiation. Simply building a shared vision among the GCC stakeholders took three separate phases over two years. This process started in 2007 with the simple introduction of the idea that affordable housing should be located near transit, and a common understanding of why this issue had regional—not just local—significance.

6 Ibid.

7 Reconnecting America and the Center for Transit-Oriented Development, *TOD 101: Why Transit-Oriented Development And Why Now*, March 2007.

8 Ibid.

9 Ibid.

10 Great Communities Collaborative, <http://www.greatcommunities.org/about/>, accessed March 2012.

The broad policy case had to be made to many stakeholders in government and the private sector, in a variety of settings. Early on, for example, affordable housing developers and advocates for lower income communities argued that the paramount goal was to build as many affordable housing units as possible. They were concerned that, because land close to transit is more valuable than less accessible locations, developing housing convenient to transportation would lead to fewer affordable units. The GCC stakeholders eventually coalesced around the potential gains to low-income households from living near transit, including job accessibility, lower transportation costs and health benefits.

In 2009, the GCC produced a needs assessment that highlighted the limited number of potential development sites near transit relative to total development opportunities in the Bay Area. For the Bay Area to make equitable TOD a priority it would need a strong tool, such as a property acquisition fund, to direct affordable housing investments to transit-oriented locations. The needs assessment also explained the long-term planning and investment challenges — for example, coordination among the transit authority, local government, and property developers to undertake the large-scale land acquisitions around metro stations needed to develop mixed-use/mixed-income projects.

One critical breakthrough came from the GCC's dialogue with the Metropolitan Transportation Commission (MTC), the Bay Area regional transportation planning and funding agency, and the Association of Bay Area Governments as they sought to coordinate the community's affordable housing aims with government policy goals. In a pivotal move, the MTC decided in 2010 to contribute \$10 million in seed money to launch what would become a \$50 million "Transit-Oriented Affordable Housing (TOAH) Fund." This fund reflected the collective decision by philanthropic, government and community leaders that the best solution for the area's challenges was a structured loan fund enabling each participant to play to their comparative advantages. LIIF, acting as the fund manager, devised a detailed structure that drew diverse public, philanthropic and private sector investors into the fund — each of them able to find a role that matched their mission and investment criteria.

The MTC, for example, has a mandate to plan, finance and coordinate Bay Area transportation, in addition to updating the Regional Transportation Plan and making sure new

transportation projects are aligned with it. With that mandate in mind, the MTC played its part by committing \$10 million as seed funding that helped offset the risk requirements and attract investments by private investors and CDFIs.

MTC saw this investment in housing as part of its transportation mandate because facilitating development in transit-served locations is a less expensive way to provide mobility for lower income households than building roads to serve housing at the region's edges. Meanwhile, philanthropic partners like the Ford Foundation, Living Cities, the San Francisco Foundation, and Silicon Valley Community Foundation, reflecting their own mission to drive catalytic social change, used grants and program-related investments to maximize social rather than financial returns. CDFI partners, in turn, brought the benefit of their financial expertise in drawing on varied capital sources and in structuring deals that maximize economic and social effectiveness. As a private investor with a commitment to social improvement, Morgan Stanley was able to participate in the fund as a Class A lender, providing significant scale that enabled the fund to have a much broader reach. Citigroup also joined the TOAH Fund as a private investor.

Thus, the TOAH Fund's structure addressed the expectations and concerns of all parties, attracting significant capital and enabling all to succeed. With this structure, the TOAH Fund is able to provide large loans with patient terms and lower interest rates than would otherwise be possible. Because of its unique and tailored structure, the TOAH Fund was raised in record time.

Within a few months of its formation, LIIF originated the fund's first community loan — \$7.2 million for a project in the Tenderloin district. This loan will support an attractive, affordable 150-apartment development just two blocks from the BART station. The project includes the first full-service grocery store in the Tenderloin.<sup>11</sup> It will provide families and workers of all income levels with convenient access to fresh food, community services, housing and the ability to hop on public transportation to work. In addition, soon after the Tenderloin loan was funded, a second \$2.99 million loan was approved for a senior apartment project and dental clinic in Santa Clara County, close to express and local bus lines and rail service. A pipeline of additional projects are being underwritten and prepared as potential TOAH Fund loans.

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11 Metropolitan Transportation Commission, *MTC Contribution Keys New Affordable Housing Fund*, March 2011.

## TOD AS SMART INVESTING

Finally, while equitable transit-oriented development projects may not maximize the return on capital for private investors, its long-term economic benefits should not be overlooked. Because government agencies are involved up front, planning processes may be expedited on county and city levels, reducing risk for developers and lenders. The early involvement of public agencies also may provide a higher level of confidence when underwriting against eventual take-out sources of funding from the government. Furthermore, equitable, desirable communities promote stability, which in turn leads to higher occupancy rates of long-term tenants. Affordable housing with convenient access to transportation supports higher employment rates and ultimately enhances the creditworthiness of a real estate investment. As community investors, financial institutions want stable positive returns, and strong communities are central to this stability.

Structured loan funds like the TOAH Fund can provide an elegant and powerful solution for communities. However, it may not necessarily be the right solution for every community. A structured fund like the TOAH Fund is but one means to achieve equitable transit-oriented development. Each community needs to carefully evaluate its own resources, players and pathways; there may be other capital structures that fit its needs better. For a structured fund to work effectively, it must be:

- Strongly managed and governed—e.g., managed by a capable fund manager, by a group with a mission focus.
- Well-aligned with community needs—e.g., tied to a sustainable regional development plan with diverse stakeholder support.
- Flexibly and securely structured—e.g., flexible to accommodate different and evolving development needs, supported by adequate sources of repayment.<sup>12</sup>

A growing number of equitable TOD initiatives are cropping up in metropolitan areas around the country, from San Francisco and the Bay Area, Portland and Seattle to Boston, Baltimore, Washington DC, Charlotte and Atlanta.<sup>13</sup> We believe that there will be continued need for collaborative action from all stakeholders—among organizations like ours, policymakers and opinion leaders—as we work together to integrate single-sector debates (e.g., housing vs. transit) into broader community development conversations.

Our nation can no longer afford silos in community development. If we want to reclaim the American Dream for families of all income levels, we must commit ourselves to the basics: working together to build, strengthen and support healthy mixed-income communities that combine affordable housing with access to public transportation, retail and community services.

We each have our own competency to contribute. Government players have the ability to set policies and to provide regulatory, zoning and other enabling conditions, especially for key infrastructure. Foundations and other mission-driven capital providers have innovative theories of change to catalyze innovation and improve social outcomes. Private sector players have business models, analytical skills and ready capital at scale to speed the pace of positive change. By working together in collaborative partnerships, we can drive not only effective communication between diverse stakeholders, but we can also drive for aligned goals and objectives in building strong communities.

When getting a job is already challenging enough, getting to and from work should not be the hardest part of an American worker's day. By mapping where people live, where jobs are located, and how residents can get from home to work to school and to community resources, we can collectively make life more manageable and rewarding for all American families. We can collectively restore the fundamental American Dream that hardworking families can build a bright future for themselves and the next generation.

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<sup>12</sup> Note: The conditions are adapted from key TOD criteria of Living Cities' Catalyst Fund, which provides flexible capital in the form of below-market rate loans and guarantees to advance Living Cities' programmatic priorities. The authors gratefully acknowledge Robin Hacke and John Moon of Living Cities for their input and support of this publication.

<sup>13</sup> Kniech, Robin and Melinda Pollack, *Making Affordable Housing at Transit a Reality: Best Practices in Transit Agency Joint Development*, 2010, & *Reconnecting America, Realizing the Potential for Sustainable and Equitable TOD: Recommendations to the Interagency Partnership on Sustainable Communities*, November 2009.

#### **ABOUT THE LOW INCOME INVESTMENT FUND**

The Low Income Investment Fund (LIIF) invests capital to support healthy families and communities. Since 1984, LIIF has served more than one million people by investing \$1 billion. Over its history, LIIF has provided financing and technical assistance to create and preserve affordable housing, child care centers, schools, transit-oriented developments and healthy food retail in distressed neighborhoods nationwide. LIIF's work has generated \$20 billion in family income and societal benefits. LIIF has offices in San Francisco, Los Angeles, New York City and Washington, DC. For further information about LIIF, visit [www.liifund.org](http://www.liifund.org).

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