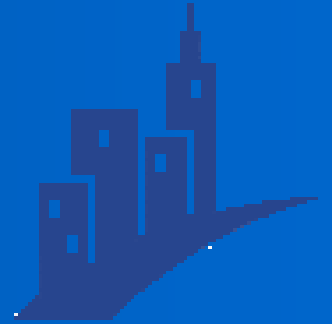


The Brookings Institution

Metropolitan Policy Program



Financing Smart Growth

**The Need for New-Old Approaches to
Project & Transportation Financing**

What is Required for Smart Growth Financing?

- Commitment to long-term place strategy & management
- Make the right thing easy: make high density legal
- Do NOT ask smart growth to solve every social problem known to humankind
- Possibly a ‘catalytic development firm’ to assemble land/transit provision/parking
- Patient equity...like 100 years ago

Increased Costs for Smart Growth

- **Construction Costs**
- **Urban Character**
- **Land Costs**
- **Zoning**



Increased Risk of Smart Growth

- **Investors Familiar w/ Drivable Sub-urban Development**
- **Higher Sales Prices/Lease Rates Required**
- **Need for Critical Mass**
- **Size of Delivered Product**
- **Entitlement Risk**
- **NIMBY Opposition**

Sources of Patient Equity

- **Land and Existing Buildings (owned or under control)**
- **Seed and Investment Capital**
- **Professional & Development Fees**
- **Infrastructure, especially parking decks and off-site improvements**
- **Tax Abatement**
- **No Need for Government Subsidies, except for affordable housing (Though take them if offered)**

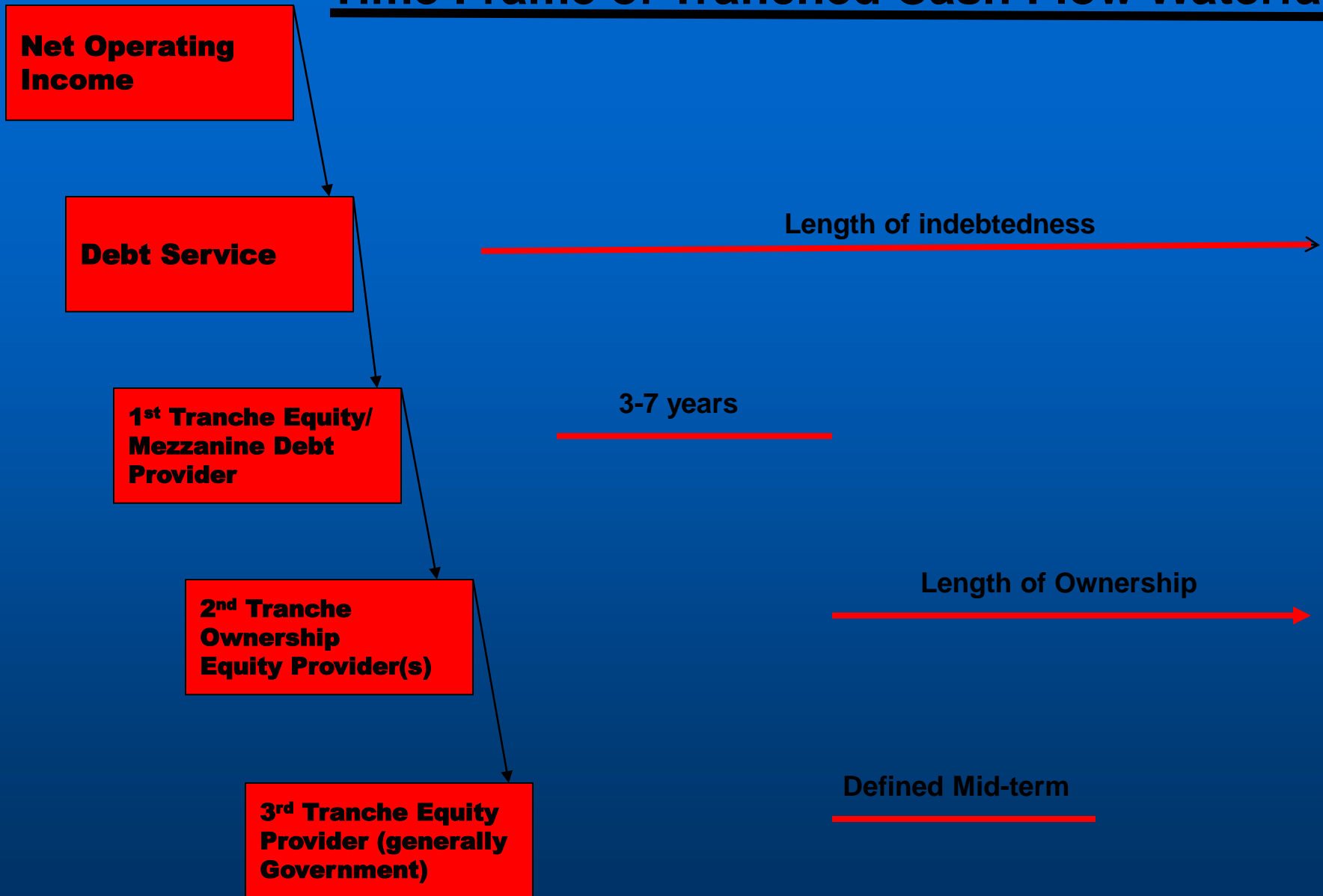
Providers of Patient Equity

- **Land/Building Owners**
- **Developer**
- **Pension Funds, Insurance Companies & Other Institutional Investors**
- **Real Estate Investment Trusts**
- **Individual Investors**
- **Non-Profits/Foundations (PRIs)**
- **Governments**

3 Time Tranches of Financing

- **1st Tranche (short-term)**—Acts like mezzanine debt with preferred return and no residual ownership of the development
- **2nd Tranche (mid and long-term)**—The patient equity in the deal with most or all of the ownership of the development
- **3rd Tranche (mid-term)**—Patient equity that is generally provided by government in exchange for indirect returns (financial and social) and mid-term direct returns from the development

Time Frame of Tranched Cash Flow Waterfall



Paying for Rail Transit? Value Capture & Local Taxes



Rock Creek Railway, DC, 1903



Salt Lake City-1920s



West End & Atlanta Street Car-1920s



Pacific Electric in San Gabriel Valley-1918

Common Strategy: Privately developed land profits subsidized transit

NEW TRANSIT INCREASES PROPERTY VALUES PORTLAND, OR

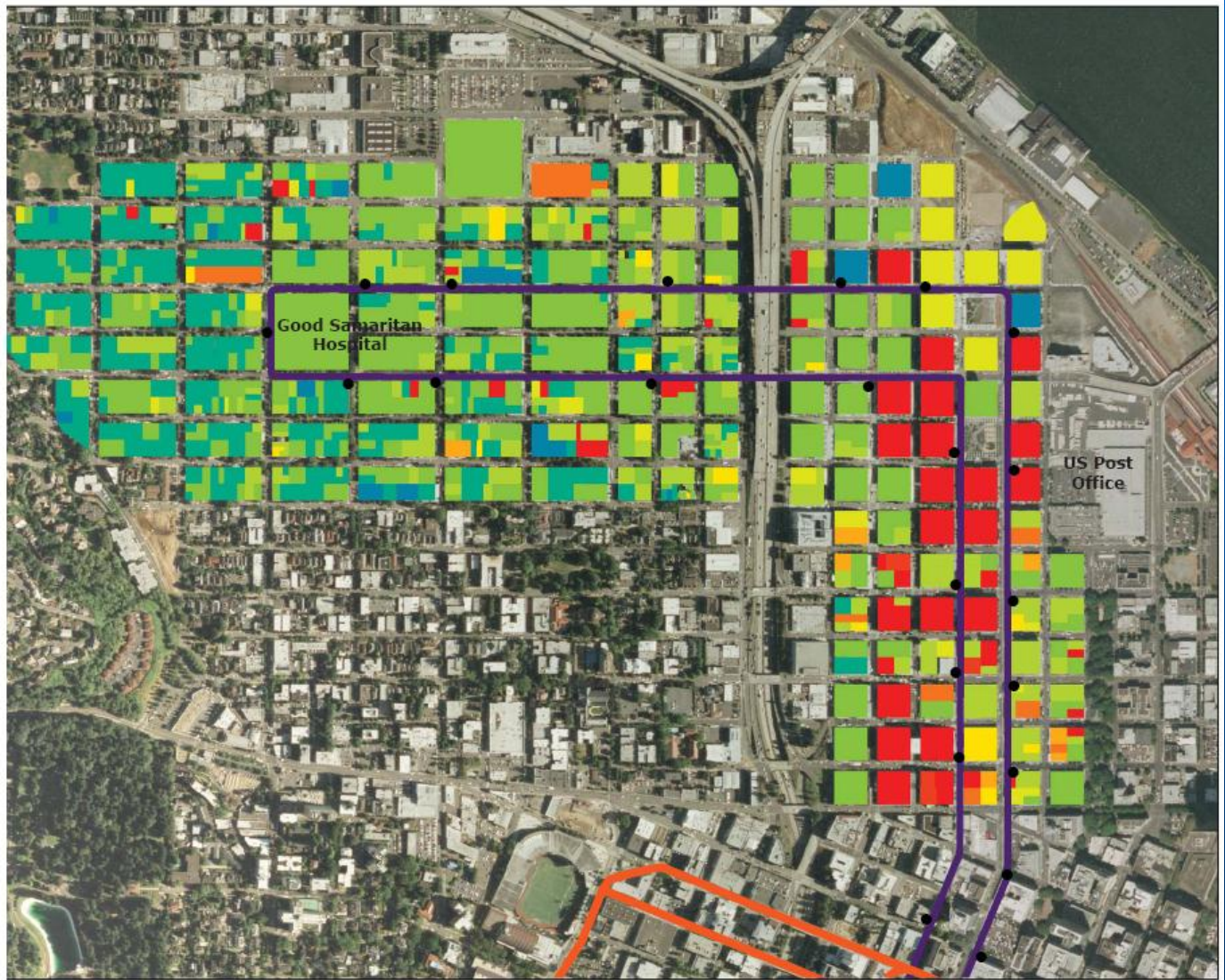
Portland Streetcar Property Value Change 1997-2003

Legend

- Streetcar Stop
- Streetcar Line
- MAX Light Rail

Percent Change 97-03

- < 0
- 0 - 50
- 50 - 100
- 100 - 150
- 150 - 200
- 200 - 250
- 250 - 300
- 300 - 350
- 350 - 400
- 400+



**Original cost :
\$54M**

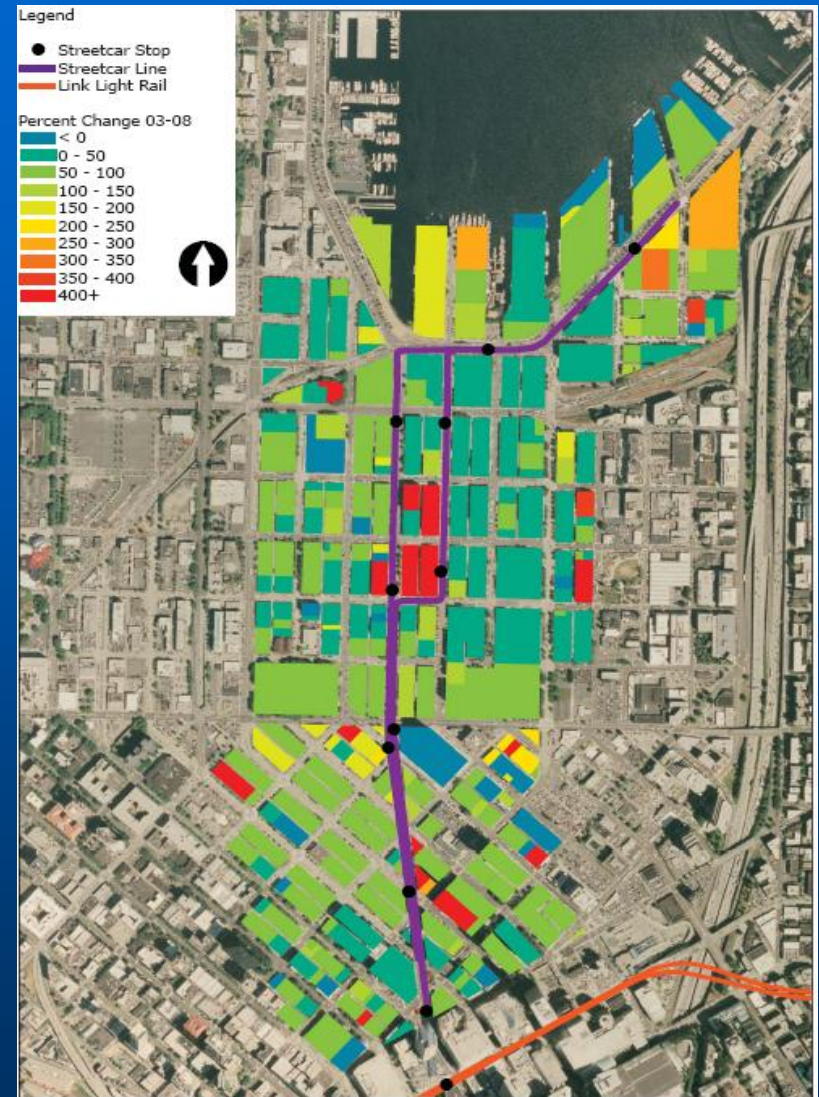
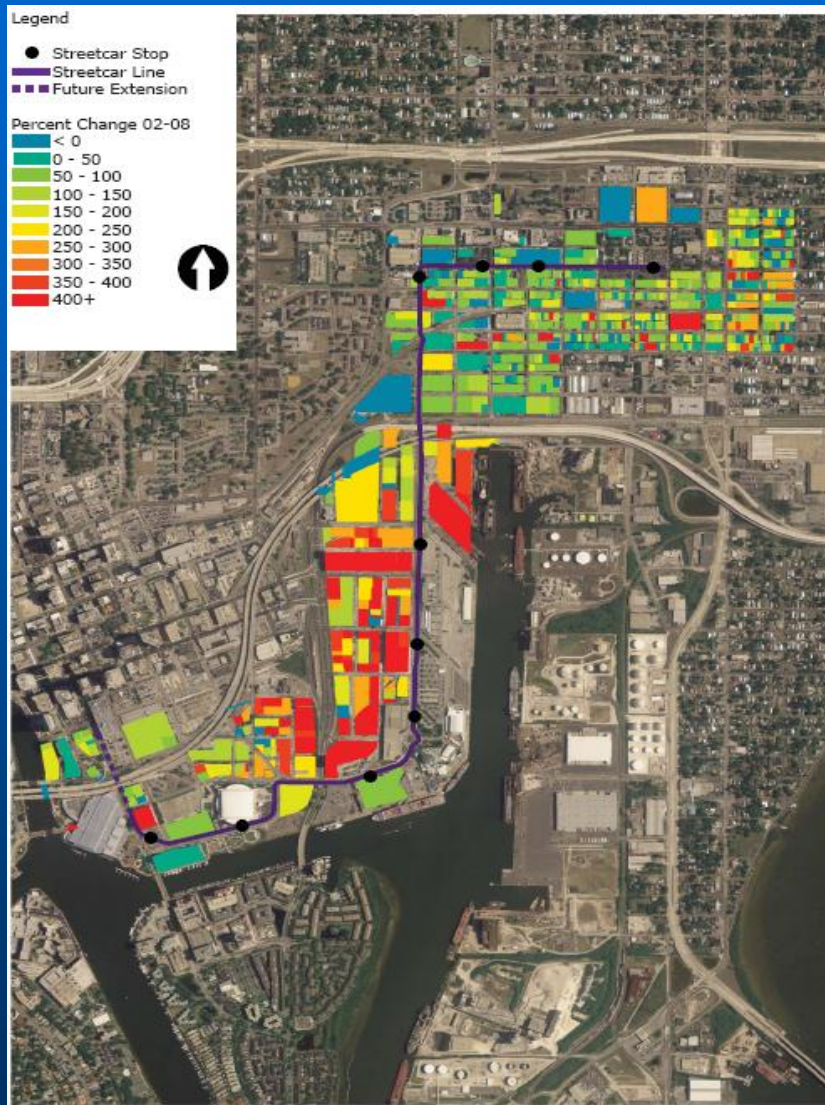
**Catalyzed
Investment:
\$3.8B**

SOURCE: RCLCO,

Reconnecting America

NEW TRANSIT INCREASES PROPERTY VALUES

TAMPA, FL AND SEATTLE, WA



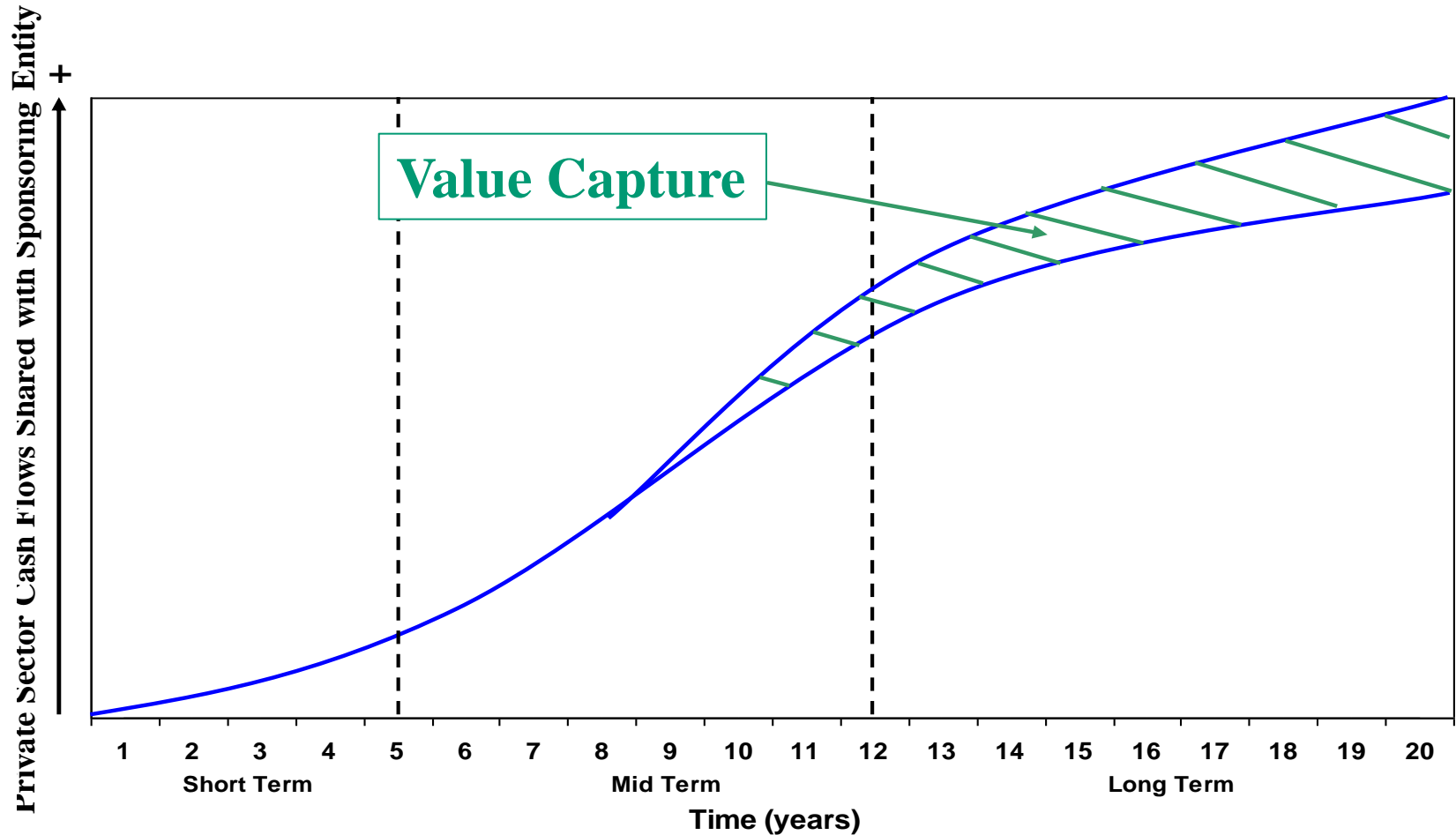
SOURCE: RCLCO, Reconnecting America

Once Again; Link Transportation with Land Profits: \$140 MM Streetcar*

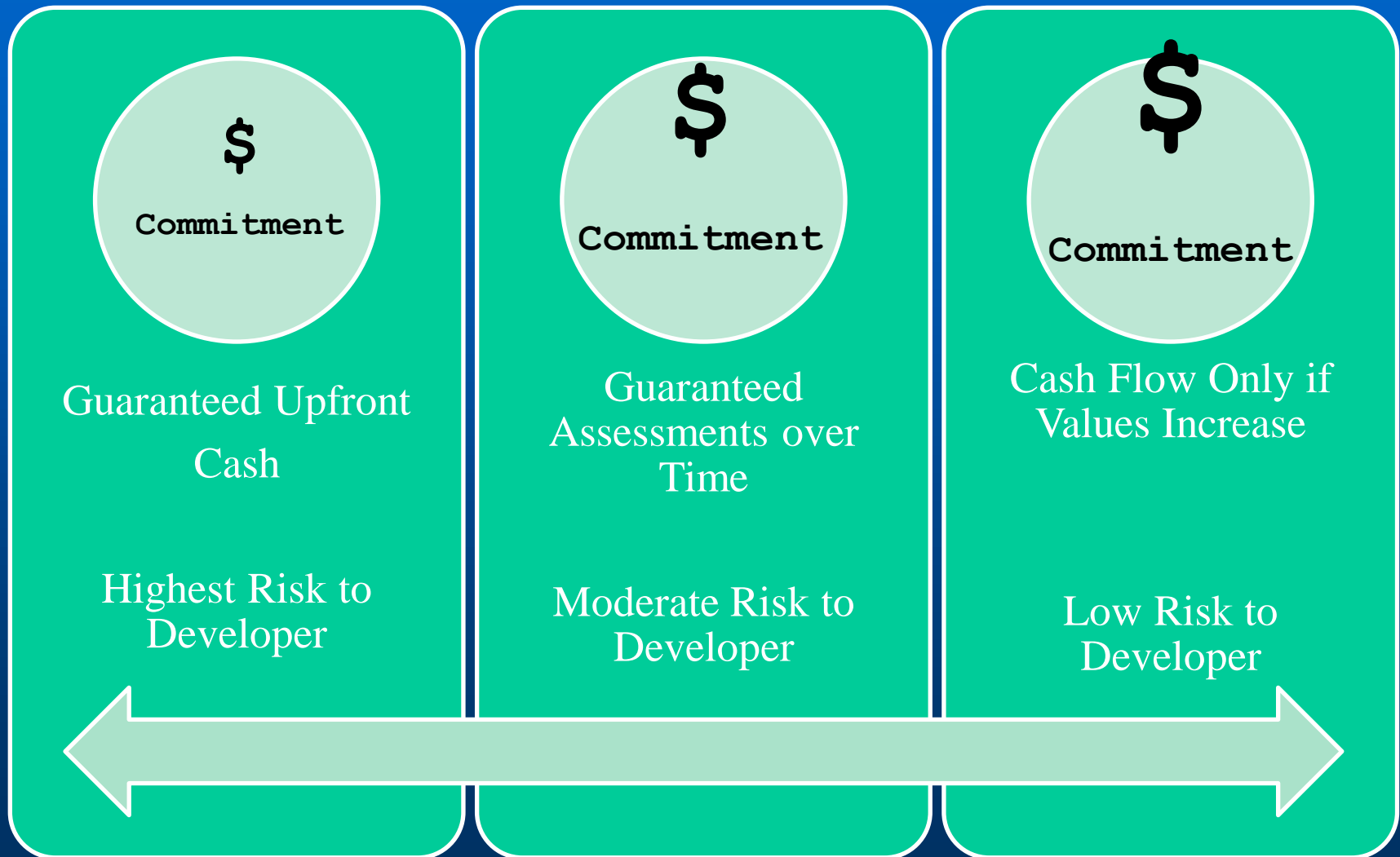
- Public tax-increment financing (109% of TIF)
- Private special assessment districts—upfront cash from private sector (14% of 2008 assessed value)
- Private special assessment districts—increased property taxes (increase of 49% falling to 31% over 20 years)
- Private shared ownership with sponsoring entity—limited partner ownership (17% of upside cash flows)

*Brookings Institution study for DC Surface Transit, Inc., 2009

Value Capture: Shared Equity Ownership with Sponsoring Entity



Spectrum of Value Capture Options



Jumpstarting Transit-Oriented Development Act

- Focus: TOD or Transit-ready—3700 existing
- Planning grants (50-80%)—market, financial, community input, zoning, etc. planning
- Credit Enhancement (75%)—either low cost loans or credit enhancement by public or private body for:
 - land acq, remediation, parks, etc.
 - Bike, Ped & Parking decks!!!
 - Utility extension/upgrade
- Repayment starting no later than year 5 from public AND private sources (value capture)
- Community support, 15% affordable housing & MXD

Baton Rouge/New Orleans TO DO List

- Where will the walkable urban/transit-ready/TOD places be? BR: Dtn, LSU + 3-4 more
- Wake up to the need for rail transit (NO→BR, streetcar or light rail)...get transit-ready
- Local sales tax ballot measure (70%/83%)
- Place management, like NO Downtown Development District
- Senator Landrieu & Vitter support needed
- Work with LOCUS: Responsible Real Estate Developers and Investors (affiliated Smart Growth America & working w/ULI D.C.)

Plan Your Smart Growth Future...

Economic Growth Will Follow

References:

- *The Option of Urbanism; Investing in a New American Dream*, Island Press, 2008
- *The Next Slum?*, The Atlantic Monthly, March, 2008 (www.theatlantic.com)
- *Here Comes the Neighborhood*, The Atlantic Monthly, June, 2010 (www.theatlantic.com)
- *The Next Real Estate Boom*, Washington Monthly, November, 2010 (<http://www.washingtonmonthly.com>)

