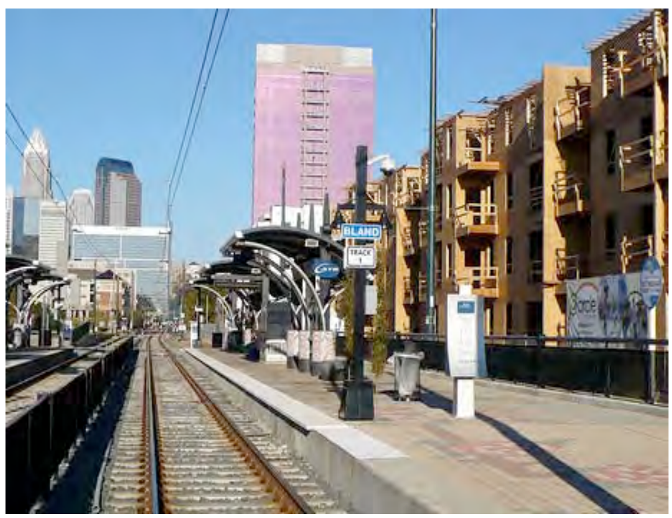
Rails to Real Estate

Development Patterns along Three New Transit Lines



CTOD CENTER FOR TRANSIT-ORIENTED DEVELOPMENT

March 2011

About This Study

Rails to Real Estate was prepared by the Center for Transit-Oriented Development (CTOD). The CTOD is the only national nonprofit effort dedicated to providing best practices, research and tools to support market-based development in pedestrian-friendly communities near public transportation. We are a partnership of two national nonprofit organizations – Reconnecting America and the Center for Neighborhood Technology – and a research and consulting firm, Strategic Economics. Together, we work at the intersection of transportation planning, regional planning, climate change and sustainability, affordability, economic development, real estate and investment. Our goal is to help create neighborhoods where young and old, rich and poor, can live comfortably and prosper, with affordable and healthy lifestyle choices and ample and easy access to opportunity for all.

Report Authors

This report was prepared by Nadine Fogarty and Mason Austin, staff of Strategic Economics and CTOD. Additional support and assistance was provided by Eli Popuch, Dena Belzer, Jeff Wood, Abigail Thorne-Lyman, Allison Nemirow and Melissa Higbee.

Acknowledgements

The Center for Transit-Oriented Development would like to thank the Federal Transit Administration. The authors are also grateful to several persons who assisted with data collection and participated in interviews, including: Bill Sirois, Denver Regional Transit District; Catherine Cox-Blair, Reconnecting America; Caryn Wenzara, City of Denver; Frank Cannon, Continuum Partners, LLC; Gideon Berger, Urban Land Institute/Rose Center; Karen Good, City of Denver; Kent Main, City of Charlotte; Loretta Daniel, City of Aurora; Mark Fabel, McGough; Mark Garner, City of Minneapolis; Michael Lander, Lander Group; Norm Bjornnes, Oaks Properties LLC; Paul Mogush, City of Minneapolis; Peter Q. Zeiler, City of Charlotte/Charlotte Area Transit System; Ryan Mulligan, Denver Regional Transit District; Scott McFadden, Prospect LLC; Steve Gordon, City of Denver; Steve Harris, Harris Development Group; Steve Wellington, Wellington Management; Tina Votaw, City of Charlotte/Charlotte Area Transit System; Todd Wheeler, Cushman & Wakefield.

Cover photo by Jeff Wood (Bland Station, Charlotte Blue Line)

Notice

This report was funded through a cooperative agreement between Reconnecting America and the Federal Transit Administration (FTA), U.S. Department of Transportation. The views and policies expressed herein do not necessarily represent the views or policies of the Federal Transit Administration. The United States government assumes no liability for the contents or use of this report.

CONTENTS

I. EXECUTIVE SUMMARY

This report documents real estate development patterns along three recently constructed light rail transit lines in the United States. This topic is important for local planning practitioners, transit agencies, community members and other stakeholders in their efforts to plan for new transit investments and foster transit-oriented development (TOD). Setting realistic expectations about the scale, timing and location of private investment along new transit lines is especially critical where new development is expected to help pay for needed transit improvements, neighborhood amenities, or other community benefits.

The three transit lines examined in this report are the **Hiawatha Line** in the Minneapolis-St. Paul region, the **Southeast Corridor** in the Denver region, and the **Blue Line** in the Charlotte region. The report examines residential and commercial development that occurred within a half-mile of stations along the three lines. Development is evaluated in the context of land use and demographic characteristics of the station areas along the lines at the beginning of the period studied. In particular, the analysis considers development patterns with regard to:

- Proximity to downtowns and other major employment centers;
- The location and extent of vacant or "underutilized" property that might offer opportunities for development or redevelopment;
- Block patterns that influence "walkability";
- Transit connectivity; and
- Household incomes.

The research is also based on interviews with local planning and transit practitioners and developers about the nature of development activity along each line, and the roles of the public and private sectors in stimulating development. While the analysis considers quantitative information, most of the findings are qualitative in nature. The report considers the relationship between certain land use characteristics and development activity, but the relationships discussed are not meant to imply causality.

The three corridors are summarized below.

The **Hiawatha Line** opened in 2004, the first in a series of major transit investments planned for the Minneapolis - St. Paul region. The corridor connects a series of important regional destinations including downtown Minneapolis, the St. Paul-Minneapolis Airport, and the Mall of America. The neighborhoods along the Hiawatha Line offered a limited number of opportunity sites for new development compared to the other transit lines considered in this report. Nevertheless, the corridor saw a tremendous amount of new development, an estimated 6.7 million square feet since the line opened. Most development is focused in and around the downtown, and is associated with long-term efforts aimed at revitalizing the downtown riverfront and warehouse district. The majority of development along the line consists of new condominiums and apartments built in the downtown and elsewhere along the line. These residential uses benefit from proximity to the new transit line because it offers easy access to several key regional destinations. The value of this accessibility will increase over time as the existing network expands to encompass additional destinations in the region.

Studies of the Hiawatha line have found that the limited connectivity between the stations and the neighborhoods to the east has hindered ridership, and the limited access by these station areas has resulted in uneven patterns of property value impacts from the new light rail. The experience of the Hiawatha line has stimulated a more proactive approach by the public sector in planning for and implementing station area infrastructure investments along the Central Corridor, the region's second light rail line, which is currently under construction.

Denver's **Southeast Corridor** opened in 2006 and travels along Interstate 25 through the City's southeast suburbs, linking the existing light rail system to a major concentration of office employment. The corridor experienced a more dispersed development pattern than the other lines studied, with development occurring at many stations along the line. Most of the Southeast corridor is suburban in character, and does not possess a pedestrian-friendly street grid with small blocks, historic buildings, a mix of land uses, or other characteristics typically associated with "TOD-friendly" neighborhoods. The new transit line also runs along a major highway, which poses some challenges for TOD. Nevertheless, the corridor experienced approximately 7.8 million square feet of new development, much consisting of larger, often phased, projects on greenfield sites. While it is not clear that the transit itself has directly stimulated new development, it has reportedly had an impact on the design of projects near stations, and may have resulted in a greater mix of uses in the station areas. Properties near transit are also reported to be in high demand, experiencing faster absorption and higher occupancy rates.

Charlotte's **Blue Line** is the most recently constructed of the three corridors, having opened in 2007. Nevertheless, the corridor experienced the most new development of the three lines studied, estimated at nearly 10 million square feet. Like the Hiawatha Line, a high proportion of this development was in downtown Charlotte (commonly referred to as "Uptown"). Additional development occurred in the South End, a historic manufacturing area that has been transitioning to a mix of residential and commercial uses over time. The transit connection between the South End and Uptown has is generally believed to have had a direct positive impact on development, with the South End offering new condos and apartments for professionals with finance-related jobs in Uptown.

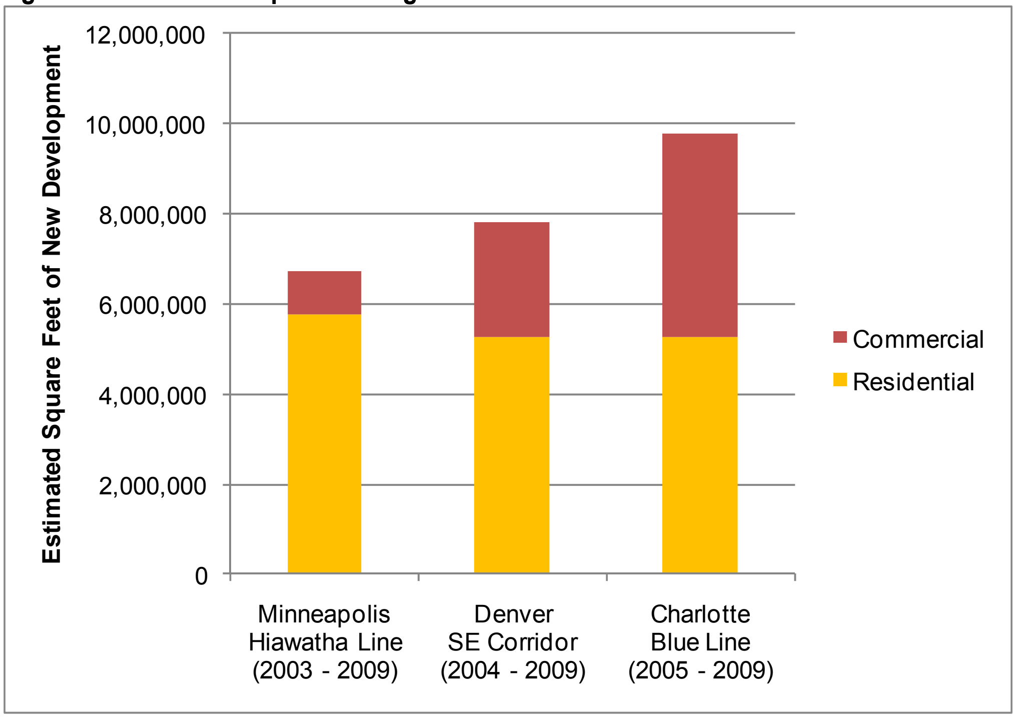
Despite a significant amount of development opportunity along other parts of the line, however, only a limited amount of development has occurred beyond the South End. The pattern of development suggests that proximity to Uptown, along with a pedestrian-friendly street grid and the historic charm of a former industrial district, are important factors influencing the location of new development. Areas further along the line will require a significant investment in pedestrian infrastructure and other neighborhood amenities to encourage the transformation of the station areas to meet their potential as mixed-use, pedestrian-friendly neighborhoods. The City of Charlotte has been very proactive in its efforts to promote TOD, and voter-approved bonds for station area infrastructure such as streets, streetscape and sidewalks have proved to be very important in encouraging transit-supportive development.

Summary of Key Findings

All three transit lines experienced a tremendous amount of new development. Each of the three corridors experienced between 6 and 10 million square feet of new development since the year before the new transit lines opened (see chart). Charlotte's Blue Line had the most development, with approximately 9.8 million square feet of new space between 2005 and 2009. The majority of development in all three corridors was housing, a reflection of national market conditions in the early-mid 2000's, which strongly favored residential development. However both the Denver and Charlotte regions experienced a significant amount of commercial development as well.

The private sector sees value in locations near transit, and this is reflected in the design and marketing of projects. Developers have made major changes to the design of projects to take advantage of the new light rail connection, and in some cases the concept of TOD may also have helped to attract capital for projects. Projects near transit are viewed as having the potential to achieve faster absorption rates, higher occupancy rates, and in some cases higher sales prices or rents. Many projects have been directly marketed as being near the light rail.

Figure 1-1: New Development along the Three New Transit Lines*



Source: CTOD, individual jurisdictions, Denver Regional Transit District. Chart includes all new development that was completed or under construction during the time period.
*** Note: Transit Line comparisons are for different periods and different lengths of time.**

Proximity to existing employment centers and downtowns appear to be important factors driving development along transit lines. Seventy-two percent of development along the Hiawatha Line was in downtown Minneapolis, and 64 percent of development along the Blue Line was in Uptown Charlotte. While the improved transit service provided by the light rail is an important amenity for these projects, the impetus for development was more strongly related to longer-term efforts to revitalize the center cities, as well as shifting market demand that favors central locations with urban amenities, shopping and entertainment. In the Denver region, meanwhile, development along the Southeast Corridor is closely tied to growth in employment along the line.

All three corridors offer significant areas of development opportunity that represent unmet potential for TOD. In the Minneapolis - St. Paul region, there are still opportunities for infill development on sites in Minneapolis, many in neighborhoods with a need for better streetscape, pedestrian connections and other "placemaking" investments. A major TOD project is also planned near the end of the line, however only a limited amount of development has occurred. In Charlotte, many of the station areas include a significant number of underutilized properties that might be redeveloped with more intensive uses, however to date most development has occurred at station areas in or near Uptown.

The pattern of recent development along the Southeast Corridor in the Denver region has been much more dispersed than along the other two corridors. Most of the development along this corridor has consisted of larger projects on major opportunity sites (which are less common near the stations along the other two corridors). Development has not focused as much on the northernmost end of the corridor, where despite closer proximity to the downtown, there are greater challenges associated with redevelopment of older industrial uses. As discussed above, this scattered pattern of development may be related to the decentralized nature of employment along the corridor: if it is true that development is more likely to occur near existing employment centers, this could be one of the reasons that development has extended further along the line.

Early station area planning efforts can help to set expectations and ease concerns about TOD; however, prioritizing station area planning efforts is often necessary. Cities in all three regions recognized that station area planning is an important way to prepare communities for TOD. Given limited resources and staff capacity, local jurisdictions often find it necessary to prioritize stations based on market strength, community needs or other factors. In both the Denver and the Twin Cities regions, local jurisdictions were more likely to initiate station area planning processes in existing neighborhoods with fragmented development sites. In station areas with major development opportunity sites, they were more likely to rely on developer-initiated station area planning processes. In these cases, the extent to which new development reflected TOD goals depended on the perceived value to the developer as well as the extent to which the local jurisdiction was proactive in promoting TOD.

Investments in neighborhood infrastructure and amenities are critical for unlocking the potential for TOD, especially in areas where land use patterns were previously automobile dependent. To date, most development near transit has occurred in or near downtowns or other major employment centers, and on large development sites that allow for "placemaking" and where it is easier to finance needed public improvements. There are many other locations near these new transit lines with considerable potential for infill development, including commercial corridors that currently are characterized by relatively low-value, low-density, auto-oriented development patterns. Development opportunities in these kinds of places frequently consist of fragmented infill sites with multiple property owners, and many are likely to require proactive investments on the part of the public sector to enable redevelopment. Strategic investments in pedestrian connections, streetscape, and other infrastructure can assist in their transformation to more transit-friendly places where more intensive development can occur.

Public sector "value capture" strategies should acknowledge the uneven nature of development patterns near transit and the need for strategic investments. The findings of this report have implications for strategies that attempt to harness property value increases near transit to help offset the costs of transit investments, or to help finance other needed improvements along transit corridors. This report finds that development patterns along transit corridors are uneven, in part because many station areas will require proactive efforts and investment to make development possible. In formulating value capture strategies, therefore, it will be important to recognize that targeted investments will in many cases be needed to stimulate redevelopment in infill locations. Where politically feasible, a corridor-level approach to value capture may be very useful, because this can allow value created in a strong market locations to assist with needed improvements and enable development elsewhere in the corridor.