Mobilizing Private Finance for TOD and LVC
The Cases of Transbay Transit Center and Manhattan's Far West Side

March 2020
HR&A’s services span across four primary **practice areas**

**Infrastructure**
- Resiliency
- Public-Private Partnerships
- Transportation
- Land Value Capture

**Real Estate**
- Large-Scale Master Plan Support
- Innovation Districts
- TOD
- Eds & Meds

**Urban Technology**
- Broadband Infrastructure
- Smart Cities

**Inclusive Cities**
- Capacity Building
- Organizational Realignment
- Equity & Public Policy
- Participatory Democracy
We are passionate about enhancing the vitality of urban life

HR&A professionals come from a variety of backgrounds; we are former city officials, executive directors, planners, lawyers, architects, and economists.
From Brooklyn to London, Medellin to Hong Kong, we have guided hundreds of clients in **transforming neighborhoods** and **strengthening communities**.
HR&A is an economic development and real estate consulting firm working at the intersection of the public and private sector. Our work transforms communities and revitalizes urban environments in the United States and abroad.
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Introduction

Case Studies

Lessons Learned
In a transit-oriented development project, the public sector derives various benefits

**PUBLIC SECTOR BENEFITS**

- Capture land value increases
- Create more vibrant station areas
- Boost farebox revenues
- Advance policy goals
The private sector also benefits from the value created by the public sector in a TOD project.

**PRIVATE SECTOR BENEFITS**

- Desirable Locations
- Built-in-Foot Traffic
- Higher Value Land Uses
TOD projects typically have to address both capital and operating funding shortfalls.

**CAPITAL COSTS**

Development Costs
- Land Acquisition Costs
- Construction Costs
- Rolling Stock

**ANNUAL OPERATIONS**

Operating Expenses
- Operations and Maintenance
- Grounds and Janitorial
- Insurance
- Security Services
- Utilities and Service Contracts

Source: HR&A Advisors, Inc.
Introduction

Case Studies

Manhattan’s Far West Side
Transbay Transit Center

Lessons Learned
Manhattan’s Far West Side

**Location** New York, NY

**Total Project Cost** $3.5B

**Project Completion** 2017*

A significant public investment in infrastructure and public amenities unlocked development potential for a new neighborhood over existing rail yards in Manhattan’s far west side. The central barriers to the area’s revitalization included a lack of transit infrastructure and outmoded zoning.

**ROLE**
The team forecasted the likely market demand for new offices, housing, hotels, and retail because of strategic public investment in transit, open space, and other amenities and projected public revenues generated by the new development to back bonds issued to finance the required infrastructure investment.

**APPLICABILITY**
The Far West Side strategy presents a lesson on how unique funding mechanisms can catalyze dense development that in turn supports the cost of new transit infrastructure.

* Completion of the 7 Train Extension, commercial development is ongoing
Real estate and land value capture revenues can support public-private models of funding urban infrastructure.
The public sector plays a critical role in creating value through the real estate development process.
The City’s development framework was designed to maximize the value of development, a portion of which would be captured by the public sector to fund transit expansion and other amenities.
The public sector invested $3.5B for infrastructure and site amenities, a large portion of which will be paid back through a combination of LVC and fiscal tools.

**Sources of Funds**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Contributions</td>
<td>$35M</td>
</tr>
<tr>
<td>2018 Bond Offering</td>
<td>$500 M</td>
</tr>
<tr>
<td>2012 Bond Offering</td>
<td>$1,000 M</td>
</tr>
<tr>
<td>2007 Bond Offering</td>
<td>$2,000 M</td>
</tr>
</tbody>
</table>

**Uses of Funds**

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTA’s TDRs</td>
<td>$200 M</td>
</tr>
<tr>
<td>Land Acquisition Public Amenities</td>
<td>$1,200 M</td>
</tr>
<tr>
<td>Subway Extension</td>
<td>$2,100 M</td>
</tr>
</tbody>
</table>

**Total Project Budget**

$3.5 B

**Revenues for Bond Repayment**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring</td>
<td></td>
</tr>
<tr>
<td>Commercial &amp; Retail PILOTs</td>
<td>$52 M</td>
</tr>
<tr>
<td>Tax Equivalency Payments (TEPs)</td>
<td>$415 M</td>
</tr>
<tr>
<td>One-Time</td>
<td></td>
</tr>
<tr>
<td>District Improvement Bonuses (DIBs)</td>
<td>$437 M</td>
</tr>
<tr>
<td>Transfer Development Rights (TDR)</td>
<td>$295 M</td>
</tr>
<tr>
<td>PILOTs for Mortgage Recording Taxes (PILOTs MRTs)</td>
<td>$97 M</td>
</tr>
</tbody>
</table>

Total by 2018 $1,1300M
Public investment has created significant new amenities, including transit access, cultural facilities, and open space...
...and has catalyzed a large volume of new development, including the 18 million+ square foot Hudson Yards, transforming formerly underutilized land into a dense, mixed-use neighborhood
The public sector can use a variety of mechanisms to fund transit infrastructure

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ONE-TIME REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Land/Assets Disposition</td>
<td>Public sector sells land or asset to private developer/operator after the infrastructure investment at a profit.</td>
</tr>
<tr>
<td>Density Bonus and/or Rezoning</td>
<td>Additional density allowed in exchange for public amenities or payments. Can be used in conjunction with Land Readjustment (LR) where land owners contribute land to the government or other project initiators in return of smaller serviced plots with potential for higher density.</td>
</tr>
<tr>
<td>Impacts Fees</td>
<td>Fees collected from developers to fund infrastructure improvements related to real estate development.</td>
</tr>
<tr>
<td>Negotiated Exactions</td>
<td>Developer builds/funds specific improvements in exchange for zoning approval or other support.</td>
</tr>
<tr>
<td>Sale and/or Transfer of Development Rights (TDR)</td>
<td>Sale of unused air rights on public property, often to realize newly-created development potential. TDRs can be used to protect environmental resources and prevent development in areas susceptible to natural hazards that grant or sell rights to areas where development wants to be incentivized.</td>
</tr>
<tr>
<td><strong>RECURRING REVENUES</strong></td>
<td></td>
</tr>
<tr>
<td>Leases and Concessions</td>
<td>Long-term lease of land and/or space in public assets (stations, parks, etc.) to a private developer/operator.</td>
</tr>
<tr>
<td>Joint Development</td>
<td>A private developer funds, builds, and/or operates a publicly-owned facility.</td>
</tr>
<tr>
<td>Land Value Taxation</td>
<td>Property taxes based only on the assessed value of land to incentivize development. Can be effective in areas affected by disasters.</td>
</tr>
<tr>
<td>Special Assessment Districts (SAD)</td>
<td>Annual assessment, above property taxes, to fund specific costs for projects within a district.</td>
</tr>
<tr>
<td>Tax Increment Financing (TIF)</td>
<td>Incremental tax revenue pledged to support the cost of infrastructure projects and to finance risk reduction and disaster recovery.</td>
</tr>
</tbody>
</table>
Introduction

Case Studies

Manhattan’s Far West Side

Transbay Transit Center

Lessons Learned
Transbay Transit Center

Location **San Francisco, California**

Total Project Cost **$2.3B**

Phase I Completion **2017**

The Transbay Joint Powers Authority (TJPA) aims to extend the Caltrain commuter rail into downtown San Francisco and transform a preexisting rail and bus terminal into a world-class, regional transit hub.

HR&A developed a business plan and long-term operations framework for the TJPA, creating the appropriate public-private partnership structure to leverage the risks of operations and provide the best experience for visitors. HR&A also supported the solicitation and transaction management.
The TJPA demolished the preexisting structures in 2011, allowing new development on formerly state-owned parcels that produces economic activity and tax revenue.

6,400 Residential Units
Under Construction

$25 M Class A Office Space
Existing and Planned
The TJPA receives funds from property taxes levied on developments that opt-in to new zoning within the Community Facilities District.

**Phase 1 Financing Sources**

- **$2.3B**
  - Federal
  - Local & Regional
  - Tolls
  - TIFIA Loan
  - Bridge Loan
  - City-Issued Bonds
  - Land Sales

**Source**: HR&A Advisors, Inc.
The five-level, multi-modal station connects eleven transit stations under one roof and offers passengers, as well as nearby residents and workers, a variety of commercial options.

- **PARK LEVEL**
- **BUS DECK LEVEL**
- **GROUND LEVEL**
- **LOWER CONCOURSE LEVEL**
- **TRAIN PLATFORM LEVEL**

**Key Features**

- **100,000 SQFT** Retail and commercial space
- **5.4 acre** Rooftop park
- **11** Transit systems in a single facility
- **$6M+** Operating Expenses per year
A variety of public-partnership ownership models were considered.
Operational partnership options were evaluated based on operational expertise across TJPA’s need.

<table>
<thead>
<tr>
<th>Responsibilities</th>
<th>2A (Park Manager-Led)</th>
<th>2B (Park Manager Support)</th>
<th>Base (Master Lessee-Led)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundraising</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
</tr>
<tr>
<td>Events &amp; Programming</td>
<td>Park Manager</td>
<td>Park Manager</td>
<td>Park Manager</td>
</tr>
<tr>
<td>Horticulture</td>
<td>Park Manager</td>
<td>Park Manager</td>
<td>Park Manager</td>
</tr>
<tr>
<td>Retail Concessions</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
</tr>
<tr>
<td>Janitorial</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
</tr>
<tr>
<td>Digital/Wayfinding</td>
<td>Park Manager</td>
<td>Park Manager</td>
<td>Park Manager</td>
</tr>
<tr>
<td>Building Systems</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
</tr>
<tr>
<td>(Mechanical, electrical, plumbing, etc.)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vertical Circulation</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
<td>Master Lessee</td>
</tr>
<tr>
<td>Security</td>
<td>Security Provider</td>
<td>Security Provider</td>
<td>Security Provider</td>
</tr>
</tbody>
</table>

**RECOMMENDED**
HR&A developed a complex public-private partnership structure to deliver one-time capital funding and share ongoing costs and responsibilities.

**Organizational Structure**

- **TJPA Authority**
  - Role: Owner, Supervisor

- **Lincoln Property Company**
  - Real Estate
    - Role: Property Manager

- **Biederman Redevelopment Ventures**
  - Placemaking Consultant
    - Role: Park Operations

- **Service Contractor**
  - Role: TBD

- **Security Team (TBD)**

- **PEARL**
  - Digital Media
    - Role: Digital Operations

- **Colliers International**
  - Real Estate
    - Role: Commercial leases

**Revenue Sources from Operations**

- Leasing of facility-wide retail space
- Development and operation of private and public events
- Sponsorship and advertising from promotional platforms
The Transit Hub opened its doors on August 12, 2018 for buses, commuters and visitors
Introduction

Case Studies

Manhattan’s Far West Side
Transbay Transit Center

Lessons Learned
Several mechanisms can be used to capture value from real estate development

**Value from Public Assets**
- Land / Asset Disposition
- Sale of Air Rights
- Joint Development
- Leases and Concessions
- Marketing and Sponsorship
- Events

**Land Value Capture**
- Impact Fees
- TIF and Land Value Taxation
- Special Assessment Districts

**Regulatory and Zoning**
- Density Bonus
- Negotiated Exactions
- Transfer of Development Rights
- Incentives and Subsidies

Source: HR&A Advisors, Inc.
Lessons Learned
On the application of TOD & LVC

**Governance**
- A centralized governing body that oversees all TOD and LVC permitting and administration is a best practice, especially for large-scale projects that involve multiple stakeholders.

**Regulatory**
- In order to attract private partners, the regulatory landscape must be transparent and navigable.
- Some LVC instruments require greater capabilities at the regulatory level (i.e. Density Bonus)

**Operational**
- City agencies often opt for operational partners (e.g. concessions) to manage transit hubs, due to the required expertise and risks associated with operations.
- LVC revenues from recurring instruments can partially cover operational gaps.

**Financial**
- LVC instrument types vary widely in terms of sustainability and ease of implementation. These factors will affect the ability to attract financial partners, as well as the ability to finance capital and operational costs.
The suitability of a value capture mechanism depends on a number of factors, which must be aligned with the specific needs of the project.

**Revenue Magnitude**
- Gross Potential Income
- Projected Financing Costs

**Revenue Stability**
- Sensitivity to market conditions
- Income flow predictability

**Supports Policy Objectives**
- Achievement of economic development objectives such as: provision of affordable housing, job creation, provision of public facilities

**Ease of Implementation**
- Appropriate regulatory framework
- Community support
- Private sector appetite
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March 2020

Photo: Baan, 2009