When the Train Comes:
Exploring the Use of Property and Land Acquisition Funds to
Ensure Affordability in Future Transit Station Areas

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Living in walkable, transit-accessible neighborhoods has many economic, health and social advantages. Yet, as demand for housing in this type of neighborhood increases, low-income people already living in or who would like to live in these areas can be “priced out” of these desirable locations. Planners, policy makers and advocacy organizations recognize this situation and have identified a standard set of tools that can be used to help produce and protect affordable housing near transit. Nevertheless, these are not always sufficient for the policy, financial and bureaucratic hurdles that must be overcome to develop affordable housing near transit. Over the past decade, a growing number of partnerships made up of non-profit organizations, private foundations, and public agencies have turned to Transit – Oriented Development (TOD) land acquisition funds to preemptively preserve affordability in future transit station areas. This thesis examines the role of land acquisition within the array of tools for preserving affordability near transit through three case studies: Denver FastTracks, Atlanta BeltLine, and the Boston Fairmount Corridor. Through these case studies and researching this practice, I shed light on the vital role that land acquisition can play in the effort to ensure affordability near new transit investment.
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Glossary of Acronyms

AMI – Area Median Income

BAHAB – BeltLine Affordable Housing Advisory Board

BAHTF – BeltLine Affordable Housing Trust Fund

CDBG – Community Development Block Grant

CDC – Community Development Corporation

CDFI – Community Development Financing Institution

CLF – Conservation Law Foundation

CTOD – Center for Transit-Oriented Development

ECP – Enterprise Community Partners

EPA – Environmental Protection Agency

FTA – Federal Transit Administration

GAO – U.S. Government Accountability Office

HUD – U.S. Department of Housing and Urban Development

LIHTC – Low Income Housing Tax Credit

LAURA – Land Use Restriction Agreement

MBTA – Massachusetts Bay Transportation Authority

PRI – Program-Related Investment

RFP – Request for Proposals

TIF – Tax Increment Financing

TAD – Tax Allocation District

TOD – Transit-Oriented Development

ULI – Urban Land Institute

ULC – Urban Land Conservancy
Chapter 1: Introduction

Living near frequent and reliable transit service can make a world of difference for families and individuals. For low-income households that cannot afford a car, transit can be a gateway to opportunities throughout the city or regional network served by the transit system. For those that can afford a car, living near transit presents choices: the choice to avoid peak-hour traffic and save time, to avoid paying for and searching for parking, to evade major financial impact from rapidly increasing gasoline prices. This thesis is about strategies to ensure that people of all incomes have the option to live near transit.

Transportation’s Impact on Housing Affordability

In 2006, a landmark report by the Center for Housing Policy provided evidence of what many knew already: transportation is equally as significant as housing costs in household expenses for most working families. The report, A Heavy Load: The Combined Housing and Transportation Burdens of Working Families, presented the results of two studies focused on the combined costs of housing and transportation in 28 metropolitan areas at the neighborhood level. One of the many significant findings was that on average, working families spent 28% of their income on housing and 29% on transportation. Even more telling was the finding that affordable housing often came at the price of increased transportation costs (Lipman, iii). The report and the studies that informed it depict the difficult situation that working families face when affordable housing is located far from job centers and transportation options. As families are priced out to these areas,

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1 According to the American Public Transit Association, public transit saves 11.5 million gallons of gasoline per day.
2 Defined in this study as households with income between $20,000 and $50,000.
3 An earlier study by the Center for Housing Policy, Something’s Gotta Give, found that for every dollar a working family saves on housing, it spends $.77 more on transportation.
transportation costs do not only eat into their family budgets, but also into family time, mental and physical health, and much more.

Beyond the surprising figures, the findings call attention to the transformative effect that housing near affordable transit and/or job centers could have for working families. In *Rethinking Affordability: The Inherent Value of TOD*, the Center for Neighborhood Technology (CNT) estimates the average annual cost of auto ownership to be $10,000 a year⁴ (Bernstein and Makarewicz, 1). Living within walking or bicycling distance to all or most destinations, or having the option of affordable public transit means that working families can spend money otherwise spent on one or two vehicles on expenses such as food and education – or savings. Studies by the Economic Policy Institute and the Public Policy Institute of California determined that the spread of annual transportation expenditures for low-income households in California depends greatly on whether the household was predominantly a transit or vehicle user (Bernstein et al., 6). And, the authors of *Realizing the Potential: Expanding Housing Opportunities Near Transit* estimate the monthly savings realized by eliminating the need for one family car to be $300—a sum significant enough to make a difference in qualifying for a mortgage (Reconnecting, 6).

Citing examples such as these, a number of policy advocacy organizations claim that housing affordability should be redefined to take into account both, housing cost and the transportation costs associated with its location, in order to truly reflect the amount of income that living in a specific place requires. In 2005, the Centers for Transit Oriented Development and Neighborhood Technology developed a tool to illustrate the tradeoffs made in housing and transportation costs in a number of cities throughout the country at a

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⁴ This figure is based on prices in 2005, including lower gasoline prices than today.
neighborhood level and to reflect the “true” housing costs of each neighborhood. The tool has many applications, including providing information to prospective homebuyers, advocates and policymakers. A central point of this tool and the movement to re-define affordability is that transportation can and should be used as an ally in reaching goals of affordable housing and equitable access to opportunities. It is this very concept that provides the foundation for this thesis. Affordable housing is not affordable unless living and everything that comes with it – work, school, groceries, services – can be done without offsetting the affordability of the structure and its location. What’s more, ensuring that areas with transportation options remain within reach of working families is a vital element of equitable regional development.

Transit Oriented Development

Recognition of the many benefits of transit accessibility for individuals and neighborhoods has resulted in much research and advocacy to promote development that capitalizes on and maximizes the benefits of transit-accessible locations. This type of development is often referred to as transit oriented development or TOD. According to Dittmar and Ohland in the definitive text on TOD, The New Transit Town, it is defined through a set of functional characteristics—density, mix of uses, transit service, and street connectivity—as well as through useful benchmarks such as efficient use of the location, mix of choices available, the capturing and leveraging of the value added by transit, and placemaking (38). Because TOD places emphasis on clustering walkable, mixed-use development in transit station areas⁵, living in a TOD has even more benefits since the goods and services

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⁵ Practitioners often delineate transit station areas as the circumferential zone that is ½ to 1 mile of a transit facility.
accessible through transit are augmented by the amenities immediately available, including infrastructure that facilitates walking and cycling.

However, a growing number of TOD advocates point out that this type of development is successful only if an additional criterion is added to the list: a mix of incomes. The Center for Transit Oriented Development\(^6\), for example, makes the case that not only should TOD benefit a diverse group of people, but that diversity in the residents of TOD can also yield benefits for the transit system and overall region. Stable and robust transit ridership, a regional labor pool that is mobile, and diversified real estate investment are all benefits that come with a mixed-income communities around transit stations. In *Preserving and Promoting Diverse Transit-Oriented Neighborhoods*, Belzer et al argue that since workers living in transit zones are less likely to drive to work and minorities and low-income workers take transit at higher rates, low-income and minority households guarantee strong numbers of low-cost riders\(^7\). Moreover, the report points out that real affordability is key to attracting and sustaining an available labor pool and that traffic congestion is associated with tardiness and absenteeism in the workplace as well as high turnovers. Last, the authors point out that neighborhoods with a diverse housing typology are less vulnerable to swings in the housing market since they do not provide for or depend on a homogenous (and less flexible) market (23-26).

Yet, as the case for mixed income TOD has gains momentum, the increase in demand for this type of housing is one step ahead. Shifts in demographic patterns and preferences, as well as recent dramatic increases in gasoline and the cost of driving, have all combined to

\(^6\) The Center for Transit Oriented Development is an initiative of three organizations: the Center for Neighborhood Technology, Reconnecting America, and Strategic Economics.

\(^7\) Low-cost riders do not drive to the station and, thus, do not require a parking space in the station area.
intensify the demand for housing near transit. Because of limited supply of land and existing transit-accessible housing stock, policies that discourage density, and other complexities of transit-oriented development, a shortage of housing may price these neighborhoods out of reach of low-income families.

This thesis explores the workings and effectiveness of different strategies used to preserve and produce affordable housing near transit with a focus on the emerging strategy of forming TOD acquisition funds. I survey different strategies that have been implemented and proposed throughout the country and then delve deeper into the increasingly-used practice of creating pools of funds that can compete with for-profit developers and get ahead of the market to acquire land for affordable housing in neighborhoods expecting new transit stations. Ultimately, the goal of this thesis is to shed light on this new tool by presenting and comparing three very distinct cases in which the funds are at different stages of development: Denver Fastracks, Atlanta BeltLine, and the Boston Fairmount Corridor. Through interviews with key players and stakeholders involved in land and property acquisition around these imminent transit stations, the strategy's unique properties, benefits, limitations are distilled. In addition, lessons shared by interviewees are presented to contribute to the growing body of knowledge on best practices in TOD land acquisition funds. The following section describes the method of organization in which this research is presented.
Chapter Preview

Chapter 2: Increasing Demand for Transit-Accessible Housing

In this chapter I present the various trends feeding the growing popularity and demand for transit-accessible housing. I also discuss the steep property price increases resulting from this sudden upshot in demand, and the consequences that have been documented and/or predicted for low-income families. Through a literature review, I also discuss neighborhood change, gentrification and displacement.

Chapter 3: Strategies to Preserve Affordability Around Transit

In the first part of this chapter I introduce the four main strategies used or proposed to preserve affordability around transit: protect existing low-income residents, increase demand capacity from low-income households, preserve the existing affordable housing stock, and produce additional affordable housing. I devote the second part of this chapter to TOD acquisition funds. I discuss the origins of this financial innovation; describe the typical structure, and provide strengths, weaknesses and best practices.

Chapter 4: Case Studies in TOD Acquisition Funds: Denver Fastracks, Atlanta BeltLine, and Boston’s Fairmount Corridor

This chapter presents the three cases through which land and property acquisition is explored: Denver Fastracks, Atlanta BeltLine, and Boston’s Fairmount Corridor.

Chapter 5: A Comparative Discussion of the Three TOD Acquisition Cases

This chapter discusses six key points that arose as takeaways from my research. I support each of these points by revisiting specifics from each case.
• First, TOD acquisition funds are only one component of the suite of tools and programs necessary to ensure a mix of incomes have access to TOD.

• Second, acquisition funds' biggest contribution is flexibility of timing in the development process.

• Third, where possible, seizing the opportunity to redevelop and protect existing affordable units may be easier and more effective than building new ones.

• Fourth, published reports and studies of current and projected housing affordability needs are key to securing buy-in from funders and local government for acquisition funds.

• Fifth, support from local government elected officials is key to garner local and national financial support.

• Sixth, simplifying fund structure so that there are fewer lenders and/or borrowers is essential for manageability.
Chapter 2: Implications of the High Demand for Transit-Accessible Housing

People want to live closer to work or transit...If energy prices stay high, shorter commuting distances and reduced errand time in the car will be more prized by renters and homeowners looking to alleviate gas pump shock as well as frustrating, gas-guzzling bumper-to-bumper delays...They want proximity to 24-hour centers and convenience to work, restaurants, cultural institutions and recreational areas...Lifestyles are changing.


Demand for Transit-Accessible Housing is on the Rise

In 2005, the Urban Land Institute's (ULI) annual survey of investors, developers, lenders and brokers advised that transit adjacency\(^8\) was the top criterion for a winning investment in real estate. A recent report by the U.S. Environmental Protection Agency (EPA), which followed trends in residential building permits in the 50 largest metro regions in the nation from 1990 to 2008, puts the ULI forecast into context: the year 2006 represented the highest annual share of new residential development in central cities from 1990-2006 (4). Three years later, in the 2008 edition of the ULI publication, the Best Bets segment once again lauds mixed use, transit-oriented development; “condominiums, apartments, and retail near light-rail or subway/train stops [have] become increasingly attractive—almost a can't miss” (15). Even in what we now know as the darkest hour of the real estate crisis, the year 2008, figures from the EPA study showed continued growth in the share of residential building permits for central cities and inner suburbs (1, 10).

The persistence of this demand in the face of the current housing market slump seems to be the official sign of a shift in preference for walkable, transit-oriented neighborhoods. Once

\(^{8}\) Defined in the report as within \(\frac{1}{2}\) mile of transit.
an obscure idea from oddball planners, walkable and accessible development has become a mainstream idea with real market value. For example, an article in the New York Times published earlier this year titled, *Street Corners vs. Cul de Sacs,* notes that although a comprehensive study on accessibility and prices during the current housing crisis has not been completed, all signs point to transit-accessible homes in walkable neighborhoods as more likely to hold—and sometimes increase—their value in comparison with similar suburban properties during the recent drop in housing prices. This same article cites a smaller study that explored the relationship between home value and Walk Score (a web-based tool that scores homes based on their bird’s flight distance to a number of amenities such as transit, grocery stores, libraries, etc.)\(^9\) The study found that properties with an above-average Walk Score commanded a premium over comparable properties. TODs designed according to best practices tend to score exceptionally in Walk Score.

Leinberger (2008) uses a market study comparing housing sales in the Washington DC Metro area to determine walkable vs. “drivable, suburban” places during the peak year of housing strength, 2005, and the initial year of housing weakening, 2006. The study found that although both prices remained flat from one year to the next in both settings, the sales pace of the suburban areas fell precipitously whereas the walkable areas’ sales pace declined minimally. Because we are still in the process of the housing downturn, it is too early to make conclusions. However, Leinberger cautiously points out that, “The fringe drivable sub-urban housing appears to be most severely affected by the market downturn in the Washington region, but only time will tell for certain.” (100).

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\(^{9}\) See [www.WalkScore.com](http://www.WalkScore.com)
A recent literature review by the Government Accountability Office (GAO) on studies of the relationship between the presence of transit stations and property values corroborated the growing preference for housing near transit. The review concluded that the presence of, or even plans for, a transit station and the type of transit-supportive, mixed-use development found in these areas generally increase nearby land and housing values (12). From this exhaustive review, the GAO determined that "residents place a premium on land and housing the closer each is to a transit station" (12-13). The review by the GAO and that described earlier confirms what real-estate investors have noticed over the years from first-hand experience: increasingly, people want to live near transit and they are willing to pay for it.

The sharp increase in demand for accessible, walkable and transit-oriented neighborhoods is remarkable when viewed in the context of the history of development in the United States in the past century. Much has been written about the widespread flight of upper and middle-class white families from city centers after World War II and their relocation to suburban developments\(^\text{10}\). The suburbs offered an idyllic family setting with tidy front lawns, back yards full of toys, and homogenous family-filled neighborhoods in contrast to crowded and polluted cities. Although this is a critical chapter in the history of development, it is beyond the scope of this thesis to recount much further. What is important to note is that starting in the 1970's, cities have seen a slow movement back to the urban core, which Fishman refers to as "reurbanism" in his seminal article, *The Fifth Migration*. He points out an underlying source of this movement is that although the suburbs are able to replicate many of the conveniences of the city, they are not able to replicate the "staging of power" or "urban experience" made possible by its infrastructure,

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\(^\text{10}\) See for example, Robert Beauregard, Kenneth Jackson, Dolores Hayden, and0 Peter Rowe.
density and diversity. In this influential article, Fishman asserts that the starting points of the process of reurbanization were actually immigrant enclaves that remained throughout the exodus, who thrived and invested in the stability of these neighborhoods.

This Fifth Migration back to the central cities, which Fishman named in reference to Mumford's Fourth Migration to the suburbs, is one that “rests on such varied bases as baby boomers returning to the cities; their 20-something children rejecting the suburbs in favor of livelier inner city districts; the "natural increase" of unslumming households who choose to stay put; and of course the millions who seek to migrate to the United States.” (363).

Leinberger adds astounding figures to these demographics stating that each year between 2007 and 2011, 800,000 people will turn 65. And, in the next decade or so-- the years between 2012 and 2020--1.5 million will turn 65 each year. As medical advances have extended the average lifespan, seniors are not always able to drive into their late years. The sudden loss of independence for individuals who are usually times accustomed to getting everywhere they need in an automobile can be devastating, especially for those living in auto-oriented suburban neighborhoods. The opportunities for independence that pedestrian-friendly streets and transit-accessible neighborhoods offer can make a significant difference in the quality of life for seniors. A report by the American Association of Retired People (AARP) found that 71% of senior households would like to live within walking distance from transit (hips, 12). And, according to the American Public Transit Association, more than four in five seniors believe that public transportation is a better alternative to driving alone, especially at night (10). Today, a number of households are choosing to sell their suburban homes upon retirement and seek more walkable and accessible neighborhoods in which they can preserve their independence with age.
One of the motivators for suburbanization was a safe and predictable place for raising children. As Leinberger concludes, the type of household for which this is useful and attractive is no longer the typical American household. Instead, we are seeing a steady increase in childless households, both seniors and young people who prefer smaller families and start them later (89). These young twenty-somethings rebuff suburban settings out of boredom. Cities offer nightlife, variety, and most important: choices (90).

As small households and singles choose to live in cities and inner suburbs, they are also re-discovering transit and its benefits. The Brooking Institution's *State of Metropolitan America 2010* reports that in the past decade transit significantly increased its share of commuters for the first time in 40 years. A striking note to this figure is that the increase in transit commuting was driven by Whites and Asians and by commuting in cities—a pattern likely enabled by in-migration (147-152). Also telling is that single-person auto-commuting saw a statistically significant drop in the first year of the recession (146). This implies that Americans are sensitive to the cost of driving versus transit, and since gasoline prices are bound to keep increasing, it can be expected that transit ridership will too. This same report points out that even metropolitan areas with small but growing transit networks experienced significant growth in ridership—this is no longer a trend isolated to the big Metros of NYC, Washington and Chicago (150).

In 2004, the Center for Transit Oriented Development (CTOD) went beyond documenting the growing preference for walkable, transit-accessible neighborhoods among certain demographics and analyzed how this increase and shift in demand will affect the future of urban areas. CTOD's national demand estimate uses household demand projections that
capture demographic trends in the 27 U.S. regions that have transit systems to make an informed approximation of the potential demand for housing in transit zones\textsuperscript{11} through the year 2025. They did this by taking into account demographic preferences for transit-oriented housing to weigh the projected population's demographics. They then produced a rough estimate of the different types of households expected to live in these regions in 2025 that are likely to prefer living near transit (\textit{Hidden in Plain Sight}). The resulting market assessment indicates that by 2025, at least one-quarter of all new households are likely to seek housing in transit zones. This predicted demand adds up to 15 million households—a staggering figure when compared to the 6 million currently within this half-mile buffer of a transit station. The comparison is chilling when the rate at which we have previously added real estate to the built environment is only 2 percent per year. Even if all of the new stock we added for the next fifteen years was a) residential units and b) near transit, it would not be enough. It is important to note that 40% of this demand will be from low and very low-income households\textsuperscript{(7)}. Although some of these transit zones are located in inner suburbs, they fit within my framework of areas poised to experience an increase in demand and pricing pressures. As the EPA analysis presented earlier showed, the in-migration has targeted both, inner cities and inner suburbs.

\textbf{Lack of Supply and Surging Demand Threaten Equitable Access}

If urban flight is in reversal, what will this mean for inner cities? Where will all of these returning households live? And, what will happen when the households that chose to stay put and the new immigrants for whom cities have been a landing pad must compete with the boomers and twenty-somethings that have greater economic power? Fishman uses the

\textsuperscript{11} Defined as the area within half-mile of fixed guideway transit stops.
various populations and movements defined as sources of reurbanism to stress that, in order to make this a sustainable regeneration for urban areas, planners must institute policies that capitalize on and accommodate all of these different demographics (363). Leinberger, on the other hand, stresses the need for zoning and other land-use policies that allow for higher density, easier financing, and buy-in from developers (100-101). It will take all of this and more. This section presents some of the factors aside from constrained supply that tend to increase the pricing of walkable TOD.

The clearest sign of the pent-up demand for TOD living is the mark-up in prices for housing in walkable, transit-accessible neighborhoods. Leinberger estimates that housing prices in walkable urban places are three times as expensive as the equivalent in a non-accessible area. He goes on to predict that “Because the pent-up demand for walkable urbanism will probably not be fully met over the next ten to twenty years, these price premiums will probably just increase” (99).

The basic concept of supply and demand dictates that those willing to pay the most for an undersupplied good will be the ones whose demand is actually met if the supply is limited. In this case, supply is limited by a finite amount of land, zoning codes that undermine the potential for density, and the speed with which projects can be financed and developed. Because the supply is limited and only those able to pay the resulting exorbitant prices, the transit-accessible housing units will go first to the household that is willing and able to pay the most for a unit, and then to the household willing to pay the second-highest amount for the next unit, and so on, until this specific type of housing units run out. In this case, these are units that are within walking or bicycling distance of transit stations—places where
auto ownership is optional. The number of people who would have preferred this type of unit over other, less accessible units, but could not compete with others of the same preference, make for an imminent crisis in equitable access. Individuals living in transit-accessible areas have an edge over those living in more distant locations to which those priced-out must resort.

A number of studies report that most of the TOD being built today caters to the high-end market (Ford Foundation, 3; CTOD, *Preserving and Promoting*, 38). In part, this is due to the high potential profit that can be made in these desirable neighborhoods. The significant additional cost of developing around transit, however, also presents an obstacle to securing these sites or including affordable units in TOD. Affordable housing developers interviewed confirmed additional challenges involved in building affordable units in the prized transit station areas. The challenges to all developers involve a number of extra processes, complications, higher risk all of which add up to higher cost (Leinberger, 170; *Back to the Future*). And, affordable housing developers face even more hurdles because of the factors considered in subsidy financing programs’ allocation of funds as well as the lengthy nature of these processes.

As one might expect, because land in proximity of transit stations is limited and enjoys benefits from a large public infrastructure, it can command a higher selling price. Real estate developers often refer to this as the “transit premium”, or the premium that transit adds to the sum of money that this land could warrant if it was not near transit (*Capturing the Value of Transit*, 13). My interview research found that landowners hold onto vacant property without use while waiting for a buyer to offer the highest value that the seller
thinks it can garner. And, the GAO found in its investigation of TOD and affordability that land prices often shot up as soon as a transit station was announced (32).

Transit-oriented development is also more time-consuming. In areas where transit is new or where transit stations are planned but not yet in operation, zoning codes may not have been changed to maximize the benefit of transit. Because land is more expensive, and because these areas lend themselves to walkability, TODs work best with substantial density. Aaron Miripol from the Urban Land Conservancy (ULC) in Denver related that before the ULC developed near the new or impending FasTracks stations, they often spent time in discussions with the planning department to secure variances or ensure that the new zoning effort would permit higher densities and a mix of retail and housing uses. *Mixed-Income Housing Near Transit: Increasing Affordability with Location Efficiency* notes that mixed-income and mixed-use development projects require much more complex financing structures and legal arrangements, thus contributing to the time and resources required (11; *Back to the Future*, 4-5). Engaging with neighborhoods and communities to assuage fears of what higher-density developments might mean can also add to the process. A non-profit developer interviewed related having to piece together small lots to allow for a development that could cover the high costs of TOD as something that also added to the time that it took to develop; this results in a higher cost than if the land was purchased as one large parcel. A briefing for the Ford Foundation on equitable transit-oriented development concurred with these findings, noting that the extensive amount of time that is required for TOD adds to the already considerable costs of the land to make affordability near impossible (8).
Other additional costs involved in TOD include brownfield remediation and coordination with transit agencies to ensure compatible design. In some areas, new transit routes use existing right of way for rail that was previously in use. This sometimes means that key locations for housing development are also brownfield sites that must be cleaned up to strict standards. Coordinating with transit agencies is especially important for transit-adjacent developments. Transit-adjacent developments might be across the street or even share a site with a transit station. Ensuring easy and attractive entrances, as well as connecting these to street-level retail is key for successful development and ensuring that the transit system benefits from resident ridership. Nevertheless, timing and coordination can complicate coordination because of changes in design and rarely coinciding development timelines.

Besides the number of challenges described, affordable housing developers face additional obstacles in developing near transit. In interviews, such developers relate that piecing together the many different financing sources for affordable housing, such as Low-Income Housing Tax Credits (LIHTC), HOME, CDBG, linkage fee funds, and others take a considerable amount of time. This is incompatible with the quick turn-around that owners of transit-adjacent land demand and can get from other buyers. This results in losing out to for-profit developers that have quick access to large sums of money. Subsidy sources are also not compatible with the high proportion of the cost going to land purchasing in affordable TOD development. For example, LIHTC funding does not count land value as part of development costs considered when awarding the tax credits.

Low-income households—a majority of the population living in transit-accessible areas—are disproportionately affected by the increasing cost of living in these locations. As part of
the *Hidden in Plain Sight* study, CTOD conducted a comprehensive demographic analysis of transit neighborhoods in the United States. Like the demand projection analysis, this was done for all of the cities and regions that currently have transit or for which transit is in the works through FTA's New Starts program. The analysis found very clear crosscutting patterns throughout the nation. Essentially, they found that transit-accessible areas throughout the country tended to house a more racially diverse mix of households, lower-income households, and more renters.

According to *Preserving and Promoting Diverse Transit Oriented Neighborhoods*, almost 59 percent of the population living near transit is made up of minorities and immigrants. The report hypothesized that these households tend to be more transit-dependent and that immigrants are more amenable to transit because of being accustomed to using it in their countries of origin. It was also found that a higher proportion of households making less than $10,000 per year lived near transit than in the rest of the region for all of the regions studied (20). And, out of the 6 million households living near transit, 1.8 million—almost 30 percent—had an annual income of under $20,000 (*Preserving and Promoting*, 30). In areas with mature transit systems, the proportion of households living near transit started rising after an income of $100,000 per year and got even higher after $200,000. The data from *Hidden* also showed that neighborhoods with more mature transit systems housed fewer low-income households than in areas near smaller transit systems, but still more than within the same region (20). This perhaps reflects an ongoing processes of gentrification where wealthier households were drawn to these areas earlier, when the transportation systems were younger. It may also just indicate that these more mature networks provide more connectivity and are therefore more attractive.
The average home ownership rate across all transit zones in all metro regions was only 31 percent, compared to 66 percent for the metro regions overall when the study was conducted in 2006. Areas around larger, more established transit systems were also found to have higher home ownership than smaller systems; however, these still had more renters than the overall region (20). Once again, this may be a sign of the progression of gentrification, where rental properties have converted to ownership units.

An alarming study by the Center for Community Innovation (CCI) found that these characteristics shared by transit areas also make them particularly susceptible to gentrification. The study focused on Bay Area neighborhoods that gentrified between 1990 and 2000. CCI looked back and identified key qualities shared by these neighborhoods in the 1990's to find characteristics that might make neighborhoods susceptible to gentrification. The qualities they came up with consisted of a high percentage of workers using transit, availability of public space, income diversity, higher density, high percentage of renters, and high percentage of those renters paying more than 35% for housing. Interestingly, this study also found that areas where more families resided, where the percentage of dwelling units had more than three cars per unit, and with higher percentage of non-Hispanic white residents were much less likely to gentrify.

The alignment of transit-accessible neighborhoods' characteristics and those of gentrification-prone communities can be paired down to two underpinning elements, the increase in desirability of qualities found in neighborhoods near transit, and the impermanence of residential tenures associated with the demographic characteristics. As

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12 Researchers for this work define gentrification as a process of neighborhood change that encompasses economic change in the form of increases in both real estate investment and household income, as well as demographic change in the form of increases in educational attainment.
discussed earlier, transit-accessible, denser and more walkable areas, all of which are on
the list of characteristics of areas that went on to gentrify, are in demand more and more.
Also, a few of these characteristics, such as high percentage of renters and unmarried
households make for higher residential turnover—a primary conduit for gentrification
(Fishman, Chapple).

The high demand for TOD, its undersupply, and its vulnerability to gentrification makes
ensuring that housing near transit remains affordable a critical and time-sensitive issue.
My research and interviews revealed a common pattern in transit neighborhoods
experiencing an influx of wealthier residents: landlords are converting rental units into
condominiums, developers are only building to meet the demand of higher-income buyers,
rental subsidies cannot fill the entire gap for the growing market-rate rental, and low-
income residents from transit-accessible neighborhoods are being pushed out to
neighborhoods with low-quality housing stock and higher transportation costs.

Not only is the market not building for low-income families, the existing units that these
families can afford are being lost due to the potential profit that they present to landlords
that convert these rental or decide not to renew Section 8 contracts. A report jointly
published by the American Association of Retired People, the National Housing Trust, and
Reconnecting America found that 75% of Section 8 units located within ½ mile of transit
station are set to expire in 2012. The increasing value of these properties means that the
owners of these units have little incentive to renew contracts. If policy solutions and
funding are not promptly directed toward this issue, most of these units could be lost when
landlords opt out of renewal with the program. The GAO also points out that if rents near
transit stations increase above what subsidy programs consider market rents, individual-
based subsidies, such as vouchers from HUD’s housing choice voucher program, will not be enough to cover the rent gap (14). Last, the foreclosure crisis presents a setback to the percentage of housing that is owned and controlled by current community members. For example, Gail Latimore from Codman Square CDC in Boston noted that most of the foreclosures in Boston are situated in the neighborhood of Dorchester, many in the areas where new Fairmount stations will be built.

**Neighborhood Change Around Transit**

Up to this point, this chapter has presented evidence of an increase in demand for transit-accessible housing due to a shift in preferences and the confluence of circumstances that lead to high risk of economic displacement in neighborhoods near transit. While it can be argued that market forces should be left to allocate housing and goods to the users that are willing to pay the most, the resulting stratification would leave low-income households in areas furthest from transit, walkable spaces and key destinations. As discussed in the introduction to this thesis, this would trap already economically-vulnerable households in a situation where they will be overburdened by extremely high monthly housing + transportation costs while also pricing them out of a neighborhood type and walkable lifestyle that many prefer. The following excerpt from the Greater Boston Transportation Justice Coalition’s Platform expresses the frustration felt by current low-income residents of neighborhoods identified as sites for new transit stations:

> Who will benefit from improvements in public transit? From new bicycle and pedestrian facilities? Unless we demand that sustainable transportation investments be linked to investments in neighborhood affordability, our biggest transit victories may become environmental justice disasters. If we succeed in securing massive new investment in transit infrastructure, without doing something to control the price of housing that surrounds those improvements, one result might be more gentrification and displacement of existing residents. There may be better air quality and fewer cars in the city, but environmental justice cannot be achieved
The current surge in transit investment due to an increase in popularity as well as recent stimulus funds makes displacement due to public improvements a critical issue for planners. As professionals concerned with the efficient allocation of land and the regulation of its use, the maximization of infrastructure and public investment, and fostering economically and socially just urban areas, what can we do to ensure that low-income households continue to have access to housing near public transit investment? More important, what are the tools and policies within our bounds that can be employed in this effort? And, how can this be reconciled with concurrent reinvestment and revitalization efforts that might ultimately usher in gentrification?

A widely cited study on gentrification in New York City in the 1990's by Lance Freeman and Frank Braconi supports the argument for the need to attract more economically well-off residents to disinvested areas while downplaying the displacement that this could set off. *Gentrification and Displacement* lauds the potential benefits of gentrification, or the influx of wealthier residents to disinvested neighborhoods that are home to mostly lower-income households, saying that it could be beneficial "if it brings new housing investment and stimulates additional retail and cultural services. Furthermore, the infusion of

13 Newman and Wyly's study of gentrification in New York City also found similar concerns (45).
residents with more political influence may help the community to procure better public services. The employment prospects or low-income residents could also be enhanced if gentrification contributes to local job creation or if informal job information networks are enriched by an influx of working residents." (39). Some of these are legitimate goals for neighborhoods that have long struggled to receive improvements or businesses.

However, some community activists argue that the benefits that may come from grocery access, banks, and improvements are not enough to outweigh the costs of economic displacement (Preserving and Promoting, 40). As I have discussed earlier in this chapter, economic displacement happens in low-income neighborhoods where the supply of housing is not enough to accommodate the influx of higher-income people that have suddenly found it a desirable place to live. Economic displacement is costly in many ways. For one, it can tear apart long-standing, tight-knit communities. The process of re-locating and adjusting to a different neighborhood can be economically and psychologically destabilizing. And, once relocated, displaced families and individuals will likely find themselves in neighborhoods that are less accessible to transit and other amenities (Atlanta Neighborhood Development Partnership).

In an article challenging Frank and Braconi’s findings of minimal displacement due to gentrification, Newman and Wyly argue that one of the reasons that research has indicated this is because displacement is difficult to account for and identify. This article, The Right to Stay Put, points out that determining the right scope and scale that should be measured, as well as following up on residents that move out can be tricky and has most likely resulted in underestimation of displacement. For example, when individuals or even
households' rents get so high that they cannot afford to keep paying, they might double up with another family member. This mechanism of coping with the rapid increase in rents goes undetected in displacement studies, “in other words, the single most logical strategy that can be used by a victim of displacement (doubling-up with relatives or friends) immediately renders the family invisible from official estimates of displacement.” (30-31). And, although obvious, it is important to keep in mind that because these individuals have been displaced, they will no longer be able to be found where the research is happening (27).

A significant finding by the Frank and Braconi study was that the probability of a poor or less-educated household moving becomes lower as the rate of rent inflation in the neighborhoods increases (48). They conclude that evictions, the perceived conduits of displacement, do not happen anymore than other areas of the city. Instead, they suggest that the demographic change toward wealthier households in the neighborhood happens through “normal household succession”, such as marriage or death. It through these events that change takes place, “when rental units become vacant in gentrifying neighbourhoods, they are more likely to be leased by middle-income households. Only indirectly, by gradually shrinking the pool of low-rent housing, does the reurbanisation of the middle class appear to harm the interests of the poor.” (4) The authors also suggest that this succession is even slowed by the previous finding that lower-income residents tend to stay longer (48).

So why would residents stay longer? Frank and Braconi hypothesize that it is because the reinvestment in neighborhoods brings desirable features and amenities. This is probably true, as low-income enjoy comforts and amenities as much as anyone else. But, what’s even
more important than this finding is Frank and Braconi's acknowledgement that this was made possible due to rent regulation. Not only do these protect people from being evicted unduly, but they also regulate the rent so that it is possible to dodge the wild market fluctuations in the safety of a rent-regulated unit. The study found that rents for unregulated apartments in gentrifying neighborhoods increased by an average of 43.2%, while rent stabilized ones increased by only 11.4% (50-51).

Many economists cringe at the idea of rent control and its resulting misallocation of units to those that don't offer the most money that a unit can garner. But, as Keating (1998) points out, leaving the market alone might be just as inefficient as these regulations in situations where the housing market is "overheated" (59). When demand in housing markets increases rapidly, production cannot possibly keep up and affordable housing is simply not available. Keating refers to this as an "irrational housing market" and notes these occurrences as the most important reason for rents to be regulated (57). The author goes on to praise the stabilizing effect of such regulations "Binding rent controls contribute to misallocation. But they also prevent social problems due to the exploitation by some landlords; they moderate the transfer of income from tenants to landlords; they increase security of tenure and peace of mind, and thereby change the meaning a tenant attaches to his or her home. They increase the value that can be derived from the rental stock." (Keating, 57-59).

Keating's argument sheds light on an important detail that planners must consider as they confront the issue of economic displacement around transit. For reasons outlined earlier in this chapter, the housing market in transit-accessible neighborhoods cannot effectively
accommodate demand, which will only keep increasing. Until the recent bust of the housing bubble, the housing market in these areas would have been considered by Keating as overheated—a call for intervention to ensure a supply of affordable housing to meet the demand. And, even in this economic climate, the demand for transit-accessible neighborhoods has stayed strong despite the overall picture of little lending or buying. When the economic situation recovers, the cost of housing near transit will continue to increase rapidly and get further out of reach for low-income households\(^\text{14}\). Without intervention, involuntary displacement as well as the natural succession described by Frank and Braconi will edge low-income households to areas where their only means of transportation and access will come at an unbearable price. In turn, neighborhoods that were once models of diversity might end up housing only those that can afford its pricey units.

The following chapter of this thesis discusses the various tools that have been used to intervene, regulate and ensure affordability in rapidly changing neighborhoods.

\(^{14}\) Today, it is out of reach for many due to the high rates of unemployment and the severe decrease on lending.
Chapter 3: Strategies for Affordability Around Transit

The previous chapter discussed a variety of pressures and challenges that threaten housing options for low and moderate-income households in neighborhoods near transit. In the first part of this chapter, I offer an overview of strategies most commonly used and promoted as best practices for protecting and producing affordable housing in transit-oriented development. My intent is not to provide a comprehensive list and explicate the workings of each. A great number of guides to advocacy and citizen engagement tools already exist and perform a formidable job of describing them and providing examples of their successful implementation (Integrating Social Equity and Smart Growth: An Overview of Tools, Preserving Austin's Multifamily Rental Housing: A Toolkit, The Mixed-Income Housing TOD Action Guide, The Great Communities Collaborative Toolkit). Instead, I focus on the concepts behind these strategies, their strengths and weaknesses based on their impact on affordable housing stock and depth of affordability that they are able to effect.

In the second part of this chapter I introduce land and property acquisition funds for affordable housing. I then talk about the emerging practice of adapting these specifically for transit-oriented development (TOD) and how they can make up for some of the limitations of the strategies discussed in the first part of this chapter.

Recap of Challenges for Affordable TOD

In order to present current strategies for affordable TOD in the context of their targets, I want to re-cap the main challenges to affordable TOD that I have identified so far:
1. Building near transit is often more capital intensive because of policy, construction and financing complexities and the premium placed on transit-accessibility.

2. Developers and landlords can get higher prices for housing near transit; as rational beings, they will act to maximize their profits.

3. Current residents have difficulties in keeping up with increasing housing prices, especially renters in unprotected units and homeowners with fixed incomes.

Overview of Traditional Strategies and Their Limitations

For the purpose of discussing the tools that are regularly prescribed for the production and preservation of mixed income and affordable housing in rapidly escalating markets, I have divided them into four main strategies and discuss them in this broader context. These categories are protecting existing low-income residents, increasing demand capacity from low-income households, preserving the existing affordable housing stock, and producing additional affordable housing. Although a number of the tools available fit in several of these categories, I find them useful for the purpose of this discussion, as they outline the general strategies that advocates propose for maintaining affordability.

1. Protection for existing low-income residents

A menu of protective measures exists to assist residents to stay in neighborhoods experiencing high demand from households with greater economic power. Some of the ways in which these pressures manifest are evictions to attract higher rents, condo conversions, and steep hikes in rents. In response, cities such as San Francisco have enacted policies to limit the number of condominium conversions that can occur in a year, whether in a specific area or citywide. Others, like the City of Somerville in Massachusetts, give current tenants
purchasing priority if the unit goes on the market, a practice called the right of first refusal. Or, as in the City of New York, rent increases are limited to a reasonable rate through a system of rent stabilization. Measures such as these, however, seldom result in sustainable affordability.

Although involuntary evictions play a role in catalyzing demographic changes in gentrifying neighborhoods, a more significant share results from regular housing turnover due to marriage, death, family growth, etc. (Freeman and Braconi). If households that have been protected by these policies while housing prices climb find themselves with the need for a different type of unit, chances of them being able to afford to stay in the neighborhood are slim. In addition, once these units are given up due to natural succession, their affordability is forever lost if they are unregulated. Right of first refusal policies' have limited effect, as they are meaningless if residents cannot afford to buy the property at market prices.

2. Increase the purchasing power of low-income households

A second strategy proposed to protect low-income households in areas of high market demand is to provide aid or support that enables them to keep up with higher rents. Often-used tools under this category include rental vouchers, down payment assistance programs, auxiliary units, and others.

Tenant-based section 8 vouchers are provided for qualifying individuals or households to contribute toward rent on a market-rate unit of their choice. These supplement up to 30% of the household's income to reach market rents. Vouchers are particularly limited in places with tight housing markets because they may not be enough to cover the large gap
between market rate rents and 30% of the household’s income. In addition, in tight housing markets prospective tenants may find themselves at a disadvantage when competing with other households that can pay in-full with cash for their rent (Pendall, 2006). Schwartz points out that seniors and large families, also conditions found near transit, are also at a disadvantage with the voucher system (176). Down payment assistance programs can be capital intensive, cannot provide enough of a subsidy for very low-income families, and is limited to persons that qualify for a mortgage. Last, policies that allow persons to build additional “in-law” or auxiliary units can facilitate an additional source of income for residents that rent these out. Although they have the additional benefit of providing additional low-cost housing, the same issue of missing very-low-income households presents itself again. The auxiliary-unit tool also requires significant up-front investment for construction as well as the right type of density of single-family houses.

3. Preserve the existing affordable housing stock

The third main strategy prescribed is to preserve existing affordable housing stock. Common ways of pursuing this is through renewing contracts for place-based subsidy programs and enacting rent control or stabilization policies that preserve non-subsidized affordable housing. Through various project-based programs, HUD provides rent subsidies on a contract basis to property owners of projects to which eligible tenants apply. Owners of subsidized properties in tight housing markets lack an incentive to renew their contracts, as they are able to make a larger profit by exiting the system and renting to the market (Schwartz). Many cities maintain a database of Section 8 projects and their expiration dates so that they can work with or incentivize a local non-profit developer to purchase the expiring project, redevelop and preserve affordability (West). Nevertheless, current funding
sources make it difficult to piece together enough funds to pay for the development (Latimore). In contrast to household-linked rent control, unit-linked rent control provides affordable housing current and future tenants living in the unit. However, because the subsidy is not tied to an individual, it is difficult to ensure that the units go to the households in need (Skaburskis and Teitz).

4. Produce additional affordable housing

Producing new affordable housing units is an effective way of ensuring affordability. Obviously, this strategy directly addresses the lack of supply for this particular form of housing. But also, adding to the housing stock also has the effect of creating slack in the demand for housing, which alleviates the pressure on the neighborhood or area. Housing production programs can be sub-divided into three types: subsidies for developers to build affordable housing, linkages that require developers to contribute to pooled funds or through actual units toward the affordable housing need, and regulations that result in greater production of units.

Federal resources allocate funds and sources of financing to state and local governments which can be used to subsidize the construction of affordable housing. Programs such as HOME, Community Development Block Grant (CDBG), Low-Income Housing Tax Credits (LIHTC) and Tax-exempt bonds are some of the most-used. Although these provide valuable funds, they each often provide small portions that must then be cobbled together in a time-consuming process to fund a complete financing package (Schwartz, 177-204). To complicate things further, some are applicable to land acquisition, whereas others are limited to development costs. A common grievance from affordable housing developers is
that these have complex application processes and strict eligibility criteria that are not streamlined for working with each other (Feloney, Gunter, Latimore, Miripol). In markets with high competition for available parcels, sellers need not—and will not—wait for affordable housing developers to piece together the various sources needed when they can sell the land quickly to a for-profit developer. Additionally, in order to reach deeper affordability, developers must spend even longer amounts of time and resources piecing even more of these funds together or different cycles of the same funds, such as LIHTC (Schwartz). Projects making use of these funds are obliged to provide affordability to a targeted income bracket—usually 50-80% AMI—but this affordability requirement expires after a number of years. Affordability length is then tied to the amount of subsidies provided, with higher subsidies requiring a longer length of affordability. In times like the present, when the economy is in a poor state, LIHTC are not in high demand and thus command lower value to subsidize projects (Feloney, Latimore, Miripol).

Linkages require developers of market-rate projects to contribute financially or by devoting actual units toward the affordable housing need. They can be mandatory, incentive-based or negotiated. Common forms of linkages are mandatory contributions toward funds mandated for large developments in certain areas, density bonuses for the inclusion of a percentage of affordable units in the development (incentive), or negotiated on a case-by-case basis. The primary limitation of these tools is that they are market-linked; they depend on the demand for market-rate units, commercial or office development in order to generate affordable housing. Like LIHTC, when the market is down and not much development is happening, linkage pools may dry up, so units built in exchange for density bonuses will not be realized since the demand for developing—and thereby additional density—is not present (Alterman, 45). The irony is that linkage pool dollars would be
stretched much further in times such as this. Mandatory or incentive policies must also
strike a balance between leveraging benefits from potential profits of development and
ensuring that the requirements do not go as far as jeopardizing the interest of the developer
(Ohland, *Value Capture*). Last, linkage pools and required units through incentives rarely
reach deep affordability. Alterman points out that linkage pools are not limited to being
used for affordable housing, and when they are, they are seldom directed to housing for
very low-income families. Additional units built through incentives are likely to be targeted
for households along the 80% range since the subsidy must come from the additional units,
and it can only be so great before it becomes a disincentive for developers.

Last, zoning can aid in the production of significantly more units or by tying the production
of affordable units to the volume of market-rate development. Up-zoning, or zoning for
more density, can help offset increased value of land parcels (Utter, 4). And, as I mentioned
earlier, the additional supply of housing also helps by alleviating the tightness of the
market. Inclusionary zoning requires that developments of over a certain number of units
in an area price a percentage of these to be affordable for low or moderate-income families
(Scwhartz 192-198). A significant limitation to both of these tools is resistance by the
public. Neighborhood residents are often threatened by up-zoning proposals, as the concept
of density is accompanied by many misconceptions of the transformative effects that it can
have, visually or in the character of the neighborhood (Campoli and MacLean). Aside from
also being linked to the market and being ineffective when demand is down, inclusionary
zoning is outlawed in many states and considered a "taking" (Alexander, Pendall).
**TOD Acquisition Funds**

Despite the wide range of tools that affordable housing developers and social justice advocates rely on, they come short of providing the quick turn-around and longer holding periods that give for-profit developers an edge in securing transit-accessible property. In hot markets, quick access to large amounts of capital allows developers to lock-in financing right away, making them more attractive to the seller. Piecing together all of the subsidies that make it possible to produce affordable housing puts developers at a disadvantage since this is a lengthy process. In times when it is expected that land will rapidly escalate in prices enough that they will compensate for holding costs—such as before and after a new transit station opens—patient capital\(^{15}\) allows developers to buy at a low cost and hold the property to develop or sell when a large profit can be made. Once again, the financing sources available for affordable housing hamstring developers, as they do not provide flexible lending. Frustrated by this paralysis and watching opportunities slip away, or in recognition that the current policies and tools are not enough, cities and advocates are looking outside the box for ways to compensate for the standard kit's limitations (CTOD, *The Case for Mixed-Income TOD in the Denver Region, San Francisco Bay Area Property Acquisition Fund for Equitable TOD*). One emerging tool from this recourse to innovation is TOD acquisition funds.

TOD acquisition funds are pools of money that is low-interest, quickly accessible and patient. As their name implies, their use is directed to the building or preserving affordable housing within a short distance of transit. Because these financing innovations are so new, not much literature exists on the topic. However, what is available traces this specific type of funding.

\(^{15}\) Patient capital is the term given to funds that do not need to be re-paid or replenished for an extended amount of time.
of public-private partnership to the New York City Acquisition Fund, which rose from a market in which extremely high demand and subsequent speculation drove property prices out of reach for non-profit developers. (Enterprise, *Innovation in Capital Markets*).

**Adapting Acquisition Funds to the Conditions in Future Station Areas**

In the early 2000, New York City properties could only be purchased at exorbitant prices and affordable housing was in dire need. The vast amounts of money required for affordable housing developers to acquire property far exceeded the standard loan amount; this meant that they had to spend valuable time and money piecing together several sources for a financing package. Moreover, a number of community development financing institutions (CDFI) in the area had reached lending capacity from financing property in earlier years of similarly high prices. In response to these conditions and their detrimental effect on New York City's low-income population, Enterprise Community Partners, a national CDFI, contributed to and formed a sizeable pool of money by leveraging investment of city funds and program-related investments\(^{16}\) (PRIs). The funds add up to $233 million, with approximately $40 million acting as a guarantee pool\(^{17}\). As a result of the favorable terms of the investments in the fund and the grants that make it up, the New York City Acquisition fund can make large, long-term loans at low interest rates. The funds are also eligible to cover predevelopment costs, a significant hurdle for non-profit builders (Enterprise, *Innovation in Capital Markets*).

TOD acquisition funds adapt this model to cater to the unique circumstances that the introduction of significant transit investment presents. They differ from traditional  

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\(^{16}\) PRIS are long-term, low-interest loans made by philanthropic foundations (see Pease and Associates).

\(^{17}\) Guarantee pools in acquisition funds are not lent out to borrowers, instead they serve as a reserve to tap into if one of the borrowers goes into default.
affordable housing acquisition funds in two important ways. First, they can only be used for property within a short distance of transit stations, usually ½ mile. Targeting the funds to a geographic area serves the purpose of drawing non-profit developers’ interest to transit-accessible areas and ensures that the funds with such favorable lending terms will go to the areas where such capital is most critical. Second, in areas where new transit investment is underway but not yet in operation, they provide an extended holding period to compete with early market investment in anticipation of the station’s opening (CTOD, The Case for Mixed-Income TOD in the Denver Region). Numerous studies have found that property prices and risk of speculation begins gradual increase with mere discussion of a new transit investment (GAO, Immergluck). The long-term loans that a TOD acquisition fund provides allows the borrower to purchase land in the beginning stage of transit station planning and hold the property until demand for housing is higher when the new station is open or about to open. The transit station timelines in the cases discussed in the following chapter range anywhere from stations currently in construction in Denver and Boston to 20 years out in Atlanta. During this holding period, the lending entity or a partner in the fund may also collaborate with the borrower to prepare a predevelopment or redevelopment plan, a necessary but hard-to-fund initial part of real estate projects (CTOD, The Case for Mixed-Income TOD in the Denver Region; Enterprise, Innovation in Capital Markets).

Only a handful of TOD acquisition funds have ever been formed, with the first one documented in Dallas, TX (CTOD, The Case for Mixed-Income TOD in the Denver Region). However, the best-known case and model to which other regions looking to start a fund look to is the Denver TOD Acquisition Fund (see chapter 4).
**Fund Structure**

Acquisition funds are public private partnerships, with the most common investors being local governments and philanthropic foundations. Investment terms are agreed upon individually to determine payment structure, interest rate, and level of risk. Payment structure is usually on a delayed schedule with either interest only payments or a balloon repayment at the end of the investment term, including interest. These characteristics are essential for the provision of patient capital. Interest rates are also typically low, anywhere from zero to three percent. Investors in each fund each take on a different position or level of risk. The structuring of investors according to risk level is sometimes referred to as a "waterfall risk structure". Risk tolerant investors take what is known as the "top loss" and they are liable for the first loss resulting from defaults up to an agreed monetary limit. More risk-averse investors occupy what is known as first-position of loss, which means that they are not liable for losses until the investors in riskier positions have lost up to the limit agreed upon.

Public agencies typically step in to take last position, as the social mission of the fund is closely aligned with their interests. Foundations tend to have a slightly more secure position, bearing some risk for their program-related investments. Philanthropic organizations are ideal investment partners for TOD funds since their program-related investment funds typically use a "double bottom line" approach, where they equally prioritize financial and social returns. Because mixed-income TOD incorporates so many of foundations' goals and program areas—environment, equity, affordable housing, etc.—they
find these investments to be an ideal place for their PRIs\textsuperscript{18}. Last, larger funds can make the least risky positions attractive enough for banks or CDFIs (Seidman; Enterprise, *Innovation in Capital Markets*).

Another common feature of acquisition funds is that they are set up as revolving loan funds. Revolving loan funds recycle or revolve payments from borrowers to make additional loans. Because the revolving loan structure might directly conflict with the goal of having patient capital, acquisition funds do not revolve on an ongoing basis, but instead every five or more years—a period equivalent to the longest possible holding period. Alternately, repaid funds are held as security until investments are repaid (Seidman; Enterprise, *Innovation in Capital Markets*; CTOD, San Francisco Bay Area Property Acquisition Fund for Equitable TOD).

A briefing paper for the Ford Foundation on TOD investment notes that, especially in the West, there is a negative perception of public authorities and funds participating in real estate investment. Some of this may be attributed to the troubled history of eminent domain and its abuse, which disproportionately impacted low-income and communities of color (Broussard). Although there may be risk of public backlash for government agencies’ participation in the fund, it is important to note that a public agency’s investment in an acquisition fund is completely distinct from exercising eminent domain. First, owners sell the property completely at their own will. Second, the public entity is merely making a *contribution* to a pool of funds that is necessary—as the first loss investor—in order for the socially beneficial fund to be able to function. Third, local, state, nor federal powers are

\textsuperscript{18} A 1974 review of the Ford Foundation PRI’s first five years found that even after accounting for loan losses, administrative costs, and the opportunity cost inherent in providing money at a below-market rate of interest, $1 million invested in a PRI is the equivalent of $5 million in grant expenditures. (www.communitywealth.org)
being used to push the transaction forward. Instead, a public agency's contribution and/or investment in a fund qualifies as a public-private partnership that engages in negotiated purchases (see Rutherford Platt for the distinction).

Best Practices

Innovation in Capital Markets by Enterprise Community Partners, a key player in most of the existing acquisition funds throughout the nation, lists a number of factors that should be assessed to ensure that the right conditions are present for an acquisition fund (29-30). These include:

1. **Support from city government** – The importance of City government involvement goes beyond their vital role as first-loss investors. Government officials can rally support, and zoning and permit cooperation can go a long way.

2. **Takeout financing** – Ensuring that sources exist to replace money from the funds when the holding period is over is critical.

3. **Foundation support** – As mentioned earlier, foundations are ideal for investing in these funds due to compatibility in missions and PRI’s fitting qualities.

4. **Bank investment** – The ability to have enough government and philanthropic partners to instill confidence and absorb most of the risk can leverage bank investments. This can allow the funds’ lending pool to be much larger.

5. **Ability to generate high loan volume** – Large loans that eliminate the pressure from having to piece many different sources is key.

6. **Established CDFI partners** – As a presenter from the Ford Foundation at the 2009 Railvolution Conference said, acquisition funds “are not for the faint of heart”
(Chen). Working with experienced CDFIs can simplify the process as much as possible.

7. Housing development or redevelopment capacity – In places where development or redevelopment opportunities do not exist, an acquisition fund may not make much difference.

In conclusion, TOD acquisition funds address many gaps and limitations outlined in the first part of this chapter. A primary gap that the TOD fund addresses is that it presents the opportunity to tailor a funding program to transit-accessibility. One of the key limitations of the other tools surveyed earlier is that the financing aid that they provide is not sufficient to compete for land that is much higher in price—due to demand and/or capacity for density. Having control of the project site while piecing together a financing package for development or redevelopment makes affordable housing developers’ applications more competitive while giving them more time to piece together a more favorable financing package. Generous holding periods are also necessary to piece together a financing package that reaches deep affordability. The case studies that follow will illustrate the importance of quickly accessible capital. CDCs interviewed for this thesis often told of missing out on strategically-located parcels because they could not provide quick, up-front capital. Last, a TOD fund that lends to a land-holding entity, as in the Denver model, can ensure permanent affordability (see chapter 4).

The most significant limit of acquisition funds is that they are extremely capital intensive. Even a fund of substantial size can induce only a small number of units. For example, the Denver TOD Fund has $15 million that can be revolved twice over its life period of 10 years, latest estimates of the number of units that can be produced using the funds is 1,000.
Chen's presentation, quoted earlier, also emphasizes the financial and legal complexity of the funds at every stage of their formation and implementation: "[they are] difficult to organize, very difficult to structure, more difficult to close, and even more difficult to administer." For this reason, acquisition funds are best used when all other tools have been exhausted. In a way, targeting a traditional acquisition fund to the sole use for TOD acquisition fund can be seen as the first layer in refining their scope of use to where it is absolutely necessary. A number of individuals and organizations currently involved in TOD acquisition funds stress that these funds should be used judiciously and only as a last resort (Chen; Miripol, *The Land Acquisition Fund*). Overly prescribing funds runs the risk of using scarce dollars for units that may have been constructed with the use of an incentive program or a combination of tools.

The following chapter will further develop the concept and use of a TOD acquisition fund by presenting three different cases of regions that are using or plan to use this tool to complement the existing supportive programs and policies.
Chapter 4: Case Studies in TOD Acquisition Funds
Denver FasTracks, Atlanta BeltLine, and Boston's Fairmount Corridor

This chapter presents three cases in which TOD Acquisition Funds are being planned or used to ensure mixed-income, transit-oriented development around new transit stations. Each of these cases is set in a different geographic region. The write-ups are intended to provide a brief description of the reason for the funds' creation, structure and implementation. The information provided is based on original and secondary research. The primary source of information is first-hand interviews that I conducted with key stakeholders involved in the development and operation of the funds. I supplement these with research from official documents, reports and web-based informative material. Although the cases are far from parallel, I attempt to structure the write-ups to facilitate comparison. For each, I introduce the transit investment project, discuss results from housing demand analyses and projections from previous studies, talk about political support for the fund, describe the funds' structure, and close with their present state.

Case One: Denver FasTracks

FasTracks is a major transit investment project in Denver. By 2020, the project will deliver 119 miles of rail and 57 new transit stations to the Region. In 2004, voters approved the sales tax measure through which it's funded. The measure's success is largely attributed to its promise of transportation alternatives that could contribute toward congestion alleviation and future transit-oriented development (The Case for Mixed-Income TOD in the Denver Region, 5). When completed, the FasTracks network will provide access to most major centers of employment (23).
Lack of Affordable and Accessible Housing in the Denver Metropolitan Area

When voters approved the ballot measure, Enterprise Community Partners (EPC), a non-profit organization that provides capital and technical assistance for affordable housing and community development, recognized it as a defining issue for the Region. As a proponent of the need to account for transportation costs in determining housing burden, EPC understood how critical it is to ensure that low-income households benefit from this project’s accessibility improvements (Pollack). The non-profit’s first effort to ensure that housing near the new FasTracks stations is affordable to a range of incomes was to partner with the Urban Land Conservancy (ULC) and commission a study. This study, The Case for Mixed-Income Transit-Oriented Development in the Denver Region, investigated the demand for affordable housing, detailed the potential access and financial benefits for low-income households, and made recommendations to address identified barriers for mixed-income TOD.

In the mid 1990’s Denver saw significant population growth due to the economic boom and experienced even more rapid growth during the subsequent tech boom. This rapid growth in high-earning jobs was accompanied by similar increase in low-wage service jobs. The Case used housing production and market data to show that the resulting surge in demand for housing was not met with sufficient supply that addressed the full range of needs, particularly home-ownership housing and very low-income rental units. A 2008 market study identified the current unmet demand for affordable housing units at the time to be 25,000 units in the Denver Metro Region. This shortage of supply resulted in housing prices that outpaced wage increases (The Case for Mixed-Income TOD in the Denver Region, 12).
Demand projections from the Center for Transit Oriented Development (CTOD) publication, *Hidden in Plain Sight*, were used by the EPC and ULC-commissioned study to frame the urgency of ensuring housing affordability near the proposed transit stations. CTOD’s figures showed that **45,000 households in the region lived within half-mile of an existing light-rail stop in 2000. Demand for this type of housing, the Center argued, will more than triple to 155,000 households over the next thirty years.** Demand analyses conclude that at least 40% of this demand will come from low-income households\(^{19}\). Also making up a significant portion of this projected demand will be singles and couples without children and annual incomes of up to $125,000.

*Making the Case* outlined a set of challenges to developing affordable housing near the new transit investment in Denver. Primarily, land incrementally increases in value from the time that the new station is announced. This makes securing nearby property a race in time. For profit developers are able to buy land quickly, as it is still reasonably priced. By the time that the station is open, however, the land will have greatly increased in price. In order to extend their profits even further, landowners break up lots into small parcels to perhaps retain a smaller parcel that is worth the same value as the larger one was previously worth. When large parcels are broken up they are difficult and more expensive for developers to assemble. Without a significantly sized lot to build on, developments cannot be large enough to spread the significant fixed cost of land to make the units affordable. Another challenge is that even when zoned for transit, Denver allows only for modest density. This means that non-profit developers cannot maximize the potential of this land through high density and spread the cost of land among a larger number of units

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\(^{19}\) defined as 80% AMI in 2006, which was $51,600.
to provide for a mix of incomes. And, since many new transit station areas are not zoned for transit, the process of acquiring variances to zoning codes makes development even more costly. Lengthy permitting and community engagement needed to get projects with substantial density or affordable housing approved also add to the cost. And, high parking minimums force developers to build parking that may not be needed by residents (*The Case for Mixed-Income TOD in the Denver Region*, 8).

A second round of challenges that affordable housing developers face is that they find it increasingly difficult to secure financing. Public subsidies for affordable housing, such as Community Block Development Grant (CDBG) and HOME allocations, have dwindled (*The Case for Mixed-Income TOD in the Denver Region*, 15). At any rate, the majority of these sources can only be used for development and not land acquisition (12).

A particularly alarming set of data presented by the study showed that the areas chosen for future FasTracks stations in Denver are home to a much higher percentage of low-income households than the region overall. The high cost and complexity of developing near transit, the finite number of available parcels and properties, and the dual demand from low-income and young professional households means that not all demand will be met. Because meeting the demand of wealthier households promises more profit, the demand unanswered will be that of low-income households. Furthermore, the higher prices that land and property near transit can command presents an incentive for owners of rental properties to revert to ownership or for owners under contract for project-based subsidies to opt out when renewal time comes around. This could potentially result in significant numbers of displaced low-income renter households (22).
The study concluded with making a bold set of recommendations to address the predicted housing and equity crisis. The primary recommendation was to create a TOD Affordable Housing Acquisition Fund to enable long-term affordability. A chief goal of this financing innovation was to provide the patient capital needed for early land and property acquisition near transit while prices were low in the early stages of the project (3).

Using Research and Political Will to Address Affordability

All of the people interviewed on the Denver FasTracks case point to *The Case for Mixed-Income Transit-Oriented Development in the Denver Region* as pivotal in drawing attention to the impending affordability crisis. The report also receives much credit for providing the ammunition necessary to drum up enough political will to implement supportive policies, especially financial investment from the City in the Denver TOD Acquisition Fund.

According to Dace West, Co-Director of the Denver Office of Strategic Partnerships, housing affordability for the very low-income is the foremost priority of then-and-now City Mayor, John Hickenlooper. West notes that the Mayoral office is particularly strong in Denver and was an active partner in rallying support for affordable TOD. So, when Enterprise Community Partners moved forward to create the Denver TOD Acquisition Fund, they counted on a good deal of support from elected officials and their constituents.

How the TOD Fund is Structured

Initial discussions to realize the Fund started between EPC and the ULC. The Urban Land Conservancy is a non-profit organization that uses real estate development as a tool to preserve community assets such as affordable housing, schools, and non-profit office space. Early on, the partners realized that a significant challenge would be to identify and bring
on-board a top-loss investor to take the riskiest position in the pool of funds\textsuperscript{20}. Their dedication and capacity, along with the social and political importance of the issue, leveraged financial support from two departments of the City of Denver.

Although a small number of City Council members expressed concern about investing municipal money in the fund, the City eventually made a $2.5 Million investment at 0\% interest rate for ten years. The two Departments invested are the Office of Strategic Partnerships (OSP) and the Office of Economic Development (OED). The $2 Million from OSP is intended for non-profit energy efficiency work benefiting low-income residents. West notes that because energy efficiency is very broadly defined, the City is able to make the investment with the restriction that a significant number of the units created or renovated will be affordable for extremely low-income households and have energy efficient components. The exact goal is for 15\% of units built to be affordable for households with 0-30\% AMI.

This bold move to support TOD and display of trust on part of the City of Denver was key to securing a substantial investment and an accompanying grant from the MacArthur Foundation. In fortuitous timing, the Foundation released a request for proposals as part of the MacArthur Window of Opportunity Initiative as the fund was being assembled. The program is designed to counter affordable housing losses through demolition, condo conversion, expiring government subsidies, and rising rents \textit{(Denver Links Affordable Housing with Transit)}. Eventually, Denver was selected for support from the Foundation in the form of a program-related investment (PRI) of $2 Million\textsuperscript{21}. According to Allison

\textsuperscript{20} See chapter 2 for an explanation of the risk associated with top-loss position.

\textsuperscript{21} See chapter 2 for definition of program-related investments.
Clark of the Foundation, the PRI is essentially a ten-year loan at the rate of 2% interest. This loan to Enterprise Community Partners is strictly for use on the TOD Acquisition Fund. In addition, the Foundation gave a $250,000 grant for the city to create an early-warning system to track expiring section 8 and 202 units. This system complemented the PRI since acquiring and preserving existing affordable properties is a priority for the fund. Ultimately, the Fund grew to a substantial $15 million from 8 partners:

- $2.5 million from The City of Denver at first-loss position.
- $1 million from Enterprise Community Partners at second-loss with interest.
- $2 million from the MacArthur Foundation at third-loss.
- $1.5 million from the Urban Land Conservancy.
- $4 million from the Rose Community Foundation.
- $1 million from Wells Fargo and US Bank through a community loan fund.
- $3 million from the Enterprise/Mile High Community Loan Fund.

The life of the fund is 10 years; it has a maximum holding period of five years and will revolve after the first five years\textsuperscript{22}. The longer-than-average holding period will allow ULC to acquire properties early before prices near a peak when the station opens, allow time for non-profit developers to align the necessary financing sources, and ensure that they are developed in timing with the station.

### Implementation of TOD Fund

The fund is expected to help create approximately 1,200 affordable housing units along key transit corridors over its two five-year cycles. The fund’s affordability standards are 60%.

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\textsuperscript{22} See previous chapter for an explanation of revolving funds.
AMI for rent units and 95% of AMI for sale units; 15% of the total units funded through the TOD acquisition fund must be in the 0-30% AMI range. Because the Fund is not set up for subsidy re-capture, it will not devote much of the funds for ownership units.\(^{23}\)

The fund protects affordable housing by acquiring existing federally assisted rental properties (i.e. expiring Section 8 units), unsubsidized affordable rental properties, and occasionally acquiring vacant or commercial properties in strategic locations. Miripol emphasizes that only in the case of parcels with exceptional potential would the fund be interested in purchasing vacant land because it would not generate revenue during the holding period. Acquiring property on which affordable units were already sited has the additional benefit of stabilization, as it ensures that current low-income residents can continue to live in their homes without the risk of having to move out due to condo conversions or the owner’s exit from the housing voucher program.

Initially, ULC purchases land with the approval of ECP. Enterprise acts as a loan officer for the fund, determining whether a transaction is worth making and whether the asking price corresponds with fair market rate. A request for proposal (RFP) is then issued to identify a developer that will be selected to build on the land and hold a 99-year deed-restricted lease dictating affordability. Because the fund is made up of patient capital, ULC is able to hold the land long enough for the chosen developer to piece together a favorable development-financing package, such as 4% or 9% Low-income Housing Tax Credits (LIHTC).

Additionally, acquired property must be located within ½ mile of an existing or future light

\(^{23}\) When a subsidized unit is sold, subsidy recapture ensures that the assistance amount or part of it will be returned to a fund that can provide assistance for another household.
rail station or ¼ mile of a high frequency bus corridor. The maximum amount per acquisition allowed by Fund bylaws is $3 million.

West and Miripol, primary players in the TOD Acquisition Fund, note that the strength of the partnership and partners has made a big difference in the effectiveness of the Fund. In order to piece together a fund such as this, it is critical to have partners that are committed, invested and have the necessary capacity. Miripol adds that that the fund would be more flexible and simple if it was made up of fewer partners with larger contributions.

Additional Policies

Stakeholders interviewed about the Denver TOD Acquisition fund were quick to note that the TOD Fund was no panacea in the effort to meet the demand for accessible, affordable housing in Denver. In fact, they stressed that there was no such thing. Aaron Miripol emphasized that to get to the current level of affordable units, it had taken a host of policies and tools,

“All of this has been built using LIHTC, taxes and bond financing, section 8...you name it. It has taken all of this to get here and it will take all of this, the TOD Fund and more to even make a dent in what we need to have.” (Miripol)

The following sub-section presents a limited list of local policies and programs that are being used in conjunction with the Denver TOD Acquisition Fund in an effort to meet the affordable housing need around new transit and throughout the Region. Although many of these have limitations, current advocacy efforts are underway to strengthen their reach.
Metro Mayors' Caucus TOD Fund

The Metro Mayors' Caucus TOD fund finances the acquisition, construction and rehabilitation of affordable housing units near transit. Funds come from the sale of tax-exempt Private Activity Bonds (PAB) pooled from a number of cities in the region to provide an incentive for affordable rental housing, defined as 30-50% AMI, in Denver area TOD projects. The incentive is made in the form of 4% tax credits. Because the market is currently at 50% AMI and the greatest need is for households between 0-30% AMI, the fund has not been used to a great extent (The Case for Mixed-Income TOD in the Denver Region, 33)

Inclusionary Zoning

Most cities in the State of Colorado do not have inclusionary zoning ordinances; Denver is among the few that do. Almost half of stations generated by FasTracks are located in jurisdictions that do not have an inclusionary zoning policy, such as Boulder. In addition, a previous ruling by the Colorado Supreme Court severely limits the depth of affordability and type of housing that this ordinance can spur. For example, Denver’s Inclusionary Zoning Ordinance can only generate for-sale units in the 80-95% AMI range. As previously discussed, this is not the income bracket with the greatest shortage. Another weakness is that these need only remain affordable for 15 years; after this period, they can be re-sold at market-rate (The Case for Mixed-Income TOD in the Denver Region, 26)

Low-income Housing Tax Credit Program (LIHTC)

Although Colorado’s LIHTC program is a significant source of equity funding for affordable housing in the state, it comes short of addressing the additional challenges that building
TOD presents. Land costs are not included in LIHTC eligible basis, which means that they do not generate tax credits that can support acquisition financing.

Re-zoning

The City of Denver is currently going through a major re-zoning effort. A significant goal of the re-zoning is to up-zone, or call for more density, around transit stations. Although the density levels achieved so far could be higher, stakeholders interviewed for this thesis acknowledge that it is a meaningful step in the right direction (Miripol). Ideally, re-zoning efforts are introduced before transit station construction begins to ensure that it is supported by dense development. Because the race for acquisition is happening ahead of the transit timeline, zoning is not yet in place and developers must seek variances and assurance that parcels will be up-zoned.

Early Warning System for Expiring Section 8 Units

When developed and implemented, the early warning system funded by the MacArthur grant will allow the City to identify any potential loss of affordable housing near transit due to Section 8 expiring units. With enough notice, this will allow the City to purchase these units and lease out to developers for renovation.

Case Two: Atlanta BeltLine

Publicized as the largest redevelopment project currently underway in the United States, the Atlanta BeltLine is a 25-year endeavor culminating in a ring of transit, mixed-use development, parks, and trails around the City’s urban core. The 22-mile project will connect 45 Atlanta neighborhoods and represents the City’s largest affordable housing
investment to date. It is estimated to cost $2.8 billion upon completion, a large part of which will be secured through the use of tax increment financing (TIF). The $1.7 billion expected from TIF will come from selling bonds that will be repaid using the increase in tax revenue from heightened development activity in the designated Tax Allocation District (TAD) as a result of the proposed new amenities.

Ryan Gravel, a graduate of the Georgia Institute of Technology's School of City and Regional Planning, conceived the massive redevelopment project. Frustrated by the lack of transportation alternatives, Gravel and two colleagues summarized the thesis and sent the proposal to a dozen influential Atlantans a year after it was completed. By May 2004, then-Mayor Shirley Franklin had formalized the BeltLine Steering Committee, a body tasked with determining the feasibility of the project (Gunter).

Lack of Affordable and Accessible Housing in the Atlanta Metropolitan Area

In 2004, the Atlanta Neighborhood Development Partnership published Making the Case for Mixed Income and Mixed Use Communities, a report to summarize the different factors contributing to the Atlanta housing affordability problem. This report confirmed what countless households in the metro area already knew from their daily experiences: affordable housing was increasingly scarce, and what little of it existed was located in areas that entailed long-commutes to job centers. Cumulatively, Atlanta's workforce faced a shortfall of 185,000 affordable housing units24.

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24 Affordable is defined in Making the Case as costing no more than 30% of a household's income. The Department of Housing and Urban Development defines households paying more than 30% of their annual income on housing as "housing burdened".
The report effectively brought together findings from various studies of the metro area to shed light on two key mismatches burdening Atlanta residents. First, the housing stock in production and on the market did not match the affordability needs of most Atlantans. Second, most affordable housing was far from job centers and a significant percentage of the workforce was commuting long distances to wealthy areas of the region. As low-income households made the move to outer counties, they were making big tradeoffs in transportation affordability. Based on data gathered when gasoline prices were only $1.50 per gallon\textsuperscript{25}, an update report to Making the Case concluded that for a working family making between $20,000 and $35,000 a year, the average annual cost of transportation when housed near the urban core was $5,446 as opposed to $7,897 in outer suburbs. Needless to say, the validation of the housing crisis in Atlanta provided by this report and related efforts underscored the need for transportation choices and accessible housing that the BeltLine promised to marshal.

**Making Housing Affordability a Key Component of the BeltLine**

In an interview, Bruce Gunter, former Chair of the BeltLine Affordable Housing Advisory Board, credited then-mayor Shirley Franklin with the significant affordable housing component in the BeltLine project. According to Gunter, anecdotal evidence and housing price trends indicated that economic displacement was very real around the areas where the BeltLine was being considered, Franklin was keenly aware. Affordable housing’s significant role in the plan is due in great part to her commitment and support. Substantial political buy-in made it possible for 15% of TAD bonds to be dedicated to an affordable housing trust fund. In total, the BeltLine Affordable Housing Trust Fund

\textsuperscript{25} At the time this thesis was written, gasoline prices in Atlanta doubled this figure at approximately $3 per gallon.
(BAHTF) is expected to total at $240 million over 25 years and to generate approximately 5,600 affordable housing units. Although this is significantly less than the affordable housing deficit of 185,000 units estimated by studies cited earlier, James Alexander, Senior Project Manager for BeltLine proposes that zoning for smaller and multifamily units in the TAD will contribute to making housing affordable in the BeltLine without necessitating subsidy dollars. The Fund has two restrictions on projects to which it can be applied: Funds must be spent within the boundaries of the TAD and they must be spent on the construction of tangible capital projects.

**BeltLine Affordable Housing Trust Fund**

Shortly after the passing of the TAD, the BeltLine created the BeltLine Affordable Housing Advisory Board (BAHAB) to make policy and implementation recommendations on the use of the BAHTF. Over the period of eighteen months, the board held a series of community conversations to identify community priorities and concerns with respect to housing and then issued policy recommendations to address these. In these conversations, residents expressed concerns about economic displacement. They stressed the need for tax relief as their property increased in value and insisted that affordable housing be distributed throughout the entire BeltLine.

The BAHAB's work was informed and supported by *The BeltLine and Rising Home Prices*, a study on the effect that discussions about the project had on property prices—before the TAD had even been approved. Dr. Dan Immergluck, author of the study, found clear evidence that mere discussions of the project had rapidly driven up land value, especially around low-income and underdeveloped neighborhoods. His data showed that in 2004
properties in the southern and less wealthy part of the BeltLine of the project area sold for 29-31 percent higher than similar properties in non-BeltLine areas.

A home located within one-eighth of a mile of the TAD experienced an increase of approximately 68 percent in value between 2001 and 2006 compared to only 32 percent for a home located a mile from the TAD (Immergluck, 7).

Data analysis went beyond confirming rapid price increases and provided evidence of a demographic shift.

[Our research] indicates that the share of owner-occupied homebuyers who were upper-income increased by more than 10 percentage points in most neighborhoods close to the BeltLine TAD and, in some of these tracts, the increases exceeded 25 percentage points (Immergluck, 17).

Immergluck's research is particularly powerful not only because it substantiates the urgent need of a concerted affordable housing effort along the BeltLine, but on a grander scale as a contribution to research on economic displacement linked to public investment.

The board focused on setting policies flexible enough to work with changing demand and practical enough to be implemented effectively (Gunter). These call for regular re-evaluation of needs and balance of uses for the Fund to ensure equitable investment. Demographic and income targets were also made to coincide with those of programs that would likely be used to supplement the subsidies, such as the Low-income Housing Tax Credit (LIHTC) program. Ultimately, the advisory and regulatory bodies decided on three main programs: Homebuyer assistance, mixed-income housing subsidies, and a property and land acquisition fund.
Land and Property Acquisition for Affordable Housing

The pot of funds set aside for acquisition from the first bond issuance total $1,235,446, approximately 14% of the first bond issuance in October 2008. As the project progresses and the tax increment grows, the Fund should garner larger sums from future issuances. James Alexander from BeltLine shared that a reason behind the small percentage dedicated to acquisition was partly influenced by the Board’s concerns that it would not result in near-term impact. Previous instances of acquisition for affordable housing in Atlanta have failed to deliver, leaving empty and blighted lots. This has fueled reluctance among city residents and leaders for acquisition as a strategy. A big risk, he said, was that especially with the current market conditions or other complications, which would result in the land sitting empty and underutilized for years on end.

To date, the funds have not been allocated. Alexander said that BeltLine staff is currently trying to figure out the best way to use the funds. Two main possibilities being entertained are leasing the land to developers in 99-year terms for a nominal amount or granting the land with development restrictions. The process would involve BeltLine Inc. developing a master plan for the parcels and then issuing an RFP to identify the developer. One of the reasons why these funds have not yet been used is that BeltLine wants to see where the market drives developers to purchase properties and land for affordable housing. This will indicate any gaps along the project area that would be most appropriate to purchase property to ensure even distribution of affordable housing opportunities.
Additional Policies

A number of policies recommended by the BAHAB were not implemented because they would require difficult City and State-wide policy changes. Mandatory inclusionary zoning, for example, is considered a taking under Georgia state law. Nevertheless, affordable housing advocates count with a number of programs for mixed-income TOD around the BeltLine:

Community Benefits:

- City Council established “Community Benefits” in the legislation that created the BeltLine Tax Allocation District. The concept ensures that in exchange for accepting TAD development dollars, developers around the BeltLine will provide benefits back to the neighborhood. Key benefits include jobs and job training.

Expiring Affordability and Renovation Opportunities Database:

- BeltLine has established a database made public to developers, which identifies opportunities for preservation. When developers receive subsidies to rehabilitate these projects, they commit to providing affordability for 30 years or more.

Georgia Low-income Housing Tax Credit Program:

- Because BeltLine is making an effort to build and protect affordable units before transit is in place, projects are not able to take advantage of the points available for transit-accessibility. Nevertheless, projects in this area are competitive and can sometimes garner additional funding through LIHTC.
Case Three: Boston's Fairmount Corridor

Boston’s Fairmount line is a commuter rail line running from Readville, a suburban neighborhood in the southernmost part of Boston, MA to South Station, Boston’s Downtown area. Oddly, the line has only five stations throughout its course. The three stations in between the end stops serve the densely populated and large neighborhoods of Mattapan, Dorchester, Hyde Park and Roxbury. Aside from being some of Boston’s densest neighborhoods, these areas are characterized for having less than 50% auto ownership rate and lower-than-average incomes for the City. Approximately 65 percent of the residents in the Fairmount service area are people of color, and the longest stretch without station access is made up of over 90 percent residents of color (Boston’s Newest Smart Growth Corridor, 2). In sum, the line travels through some of the neighborhoods that could most use frequent and affordable transit access.

In as soon as two years, residents of these areas will have direct access via rail to South Bay Station in Downtown, a major transfer hub for the MBTA’s bus and rail transit network. In partnership with the communities along the Fairmount Corridor, the Conservation Law Foundation (CLF) sued the Commonwealth of Massachusetts and won for enforcement of mitigation measures for the Big Dig, a massive public infrastructure project in Boston. As part of this effort, the MBTA will add will add four, possibly five, stops along the Fairmount corridor that will provide access to the underserved neighborhoods.
Ensuring Affordability for Low-Income Residents

Several Community Development Corporations (CDC) serving the neighborhoods along the line joined to form a collaborative, the Fairmount/Indigo Line Collaborative. Community advocates have developed a new vision for the Indigo Line, the name the name given to this line by the Massachusetts Bay Transit Authority (MBTA), which operates Boston's regional trains. The vision consists of regular subway fares instead of commuter rail fares, weekend and evening service, more stations, clean technology, and most important, displacement protection (http://www.clf.org). In early 2010, ground broke for construction of the first of the additional stops, Four Corners Stations.

As part of the 2007 report, Realizing the Potential: Expanding Housing Opportunities Near Transit, CTOD conducted a housing and real estate analysis of the future station areas. The study focuses on the vulnerability of housing affordability in neighborhoods along the corridor due to the impending increase in demand. A significant factor that contributes to the tenuousness of affordability along the line is the low rate of homeownership. Only 32% of residents in the area own their homes, compared to 59% in the overall Metro Region (Boston's Newest Smart Growth Corridor, 44).

Another factor likely to place pressure on current residents once the stations are in operation is the quality of service that they are slated to provide. The Fairmount Commuter Rail line runs on 30-minute headways during peak rush hours and every hour during off-peak. It does not run in the evenings or weekends. This type of service is mostly useful for commuters on a nine-to-five schedule, and jobs with this schedule usually correspond with college-educated populations and middle class individuals. Low-income
residents in the Fairmount Corridor are more likely to hold jobs in the service or industrial sector, these often require late-night and weekend shifts. Thus, the existing service best serves persons in jobs with higher earnings and provides great incentive for them to live near the future stations. On the other hand, the service is not likely to suffice in providing residents access to more job opportunities to boost their economic power and keep up with the increase in rents.

Residents and community leaders are concerned about how the growing demand for housing near transit will affect their communities once construction for the transit stations is completed. For generations, these families have lived here and fought to win the improvements that are now being implemented. With little economic power, many of these residents could be displaced and miss out on the benefits that increased access, albeit limited, will bring to the neighborhood. When articulating their concerns, all of the interviewees for this case study referred to Davis Square as an example of how transit investment can effect displacement. Davis Square is a popular neighborhood in Somerville that was once a working-class neighborhood with a commercial node of low-cost retail. In 1986, the Davis Square station was added to the MBTA's Red Line. Between 1990 and 2000, the median income increased by 60% in the station area (Somerville Equitable TOD Strategy, 8). Today, it is a popular neighborhood for young, college-educated families and professionals. Retail has also changed; although a small number of the original shops remain, cafes, restaurants and gift shops occupy a large portion of the commercial spaces.

The CDCs that make up the Fairmount Collaborative recognize the importance of protecting affordability as they strive to create mixed-income TOD. In 2005 they released a
vision statement in the form of a conceptual plan, *Boston’s Newest Smart Growth Corridor*. Although the City does not officially endorse it, it is intended to guide development to transform the station areas into mixed-income neighborhoods with greater access to economic opportunity. In order to ensure progress toward this vision, they have embarked on a mission to acquire as much of the property within ½ mile of the stations as they can.

**Acquisition Challenges**

The current housing market slump is an excellent opportunity to acquire property. Prices are low and those trying to sell often can't hold out for higher bidders. Nevertheless, CDCs are finding that they cannot compete with private money because of a lack of access to quick and patient capital. Gail Latimore relayed a story of recently losing out on an effort to secure a large plot of land in the Codman Square neighborhood. Because a rival bidder had access to quick capital, they were not able to secure rights to the property. She stressed that the loss was not due to the bid amount; instead, it was the timing and how quickly the rival bidder was able to bring forth the money.

Approximately 70% of the foreclosed units in Boston are within the service area of Fairmount Collaborative CDCs. Although these present a formidable opportunity to preserve affordability and provide stability for the people living in these homes, the increase in interest in the Four Corners neighborhood has made it difficult to secure these properties. Latimore said that out of 25 times that the CDC has approached brokers in pursuit of foreclosed units, it has only been successful in securing two of them, "[private developers] bring cash to the deals and we just can't compete with that." Over the past four years, Latimore estimates that they've lost out on approximately 200,000 sq. ft. due to lack
of quickly accessible capital. These losses are significant because the area is already considerably built out, presenting limited opportunities for acquisition. Moreover, the CDC is worried that the foreclosed properties in which they lost out to private developers will be “flipped” or sold out of affordability as soon as the market recuperates.

A significant impediment for CDCs to acquire property is the lengthy timelines involved in accessing subsidies. Sometimes, funds can take up to an entire year to release funds for property acquisition. Latimore explained that although there are small pots of funding available to acquire land, most of this money is not enough or sufficiently patient to allow for developing impactful projects that will advance the vision of mixed-income TOD.

Another problem that non-profit developers encounter is that many of the sources that they rely on depend on hot housing markets and a booming economy. In times such as today, when the economy is poor but acquisition opportunities are great, these sources are simply not viable. For example, a pool of linkage fees\(^\text{26}\) held by the Boston Redevelopment Agency (BRA) made many of the current affordable units possible. However, because Downtown development isn’t happening, the source has dried out (Feloney). The Low-income Housing Tax Credits (LIHTC) program is also less effective in the current economy. Tax credits are in high demand when the economy is booming and corporations are looking for ways to owe less on their taxes. But, because most corporations took a loss this year, not many are in need for tax credits.

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\(^{26}\) Linkage is a fee usually exacted from new large-scale commercial real estate development, which goes to a pot of funds for affordable housing development.
As the timelines for station construction near and time for securing property runs out, Collaborative members are exploring alternative sources of funding. The obstacles that they've encountered so far define what they seek. They want access to patient, low interest and readily available capital to secure enough land for mixed-income TOD (Latimore). This has led them to determine that a fund like Denver’s TOD Acquisition Fund is what is needed to provide the flexibility they need to realize the Indigo line.

**Current Efforts to Form a TOD Acquisition Fund**

When asked about the advantage of the TOD fund, Mike Feloney said that the main thing it would do is to take the pressure off CDCs to coordinate a variety of funding sources with different requirements and timelines. Eliminating the time-absorbing coordination and processes needed to round up funds for land acquisition would allow them to act more quickly and compete with for-profit developers for property around the future stations, “Its incredibly difficult to meet requirements and secure commitments from so many State and Federal funding sources while trying to keep the seller interested” (Feloney). Patient capital will also allow them to secure the land and then have time to line up funding for development or redevelopment. Latimore also says that with funding that is patient enough, low-interest, deeper affordability—as in below 30% AMI—could be achieved because they would have more time to secure deeper subsidy.

For the past two years, the Collaborative has been working with national and local foundations to draw attention to the Corridor and leverage political and financial support. A number of Foundations have expressed interest in contributing to a fund in the form of PRIs. Most recently, they’ve begun working with the City of Boston. The conceptual plan
mentioned earlier was created at Mayor Menino's suggestion, according to Latimore, "He told us, this is all good but you need a document to get people to listen to you and see what you're seeing." Early in 2010, the Fairmount Line was chosen as a pilot for the new Sustainable Communities Federal Program. The City played a key role in drawing Federal attention by organizing tours of the corridor neighborhoods and highlighting the effort. As the Corridor receives attention for the Collaborative's efforts as well as its new designation as pilot, City agencies have expressed more interest in exploring new forms of collaboration and support. As this thesis is written, the Collaborative is in discussion with the City of Boston to explore the possibility of contributing to a TOD acquisition fund. City support is key, as public agencies are often the only ones in a position to assume the riskiest financial positions (San Francisco Bay Area Property Acquisition Fund for Equitable TOD, iv).

An unusual aspect of the conceptual TOD acquisition fund for the Fairmount Corridor is that the effort is driven by CDCs. In other similar funds, intermediary agencies act as lenders and/or sole-borrowers, such as ECP in Denver. As the possibility of the fund coming to fruition increases, the Collaborative must also confront the question of the scope of a TOD fund. In reality, a regional fund would be most effective to achieve regional equity. However, the CDCs maintain that although they are open to this idea, they have done most of the work to advance this vision, and at the same time, time is of essence for the Fairmount Corridor.

Additional Policies

The State of Massachusetts incorporates transit-accessibility as a criteria or priority into many of its affordability programs. At the same time, many of these define affordability at
80% AMI, leaving out a significant share of the population. Another constraint, Home Rule restrictions, limit local decisions and deny local governments authority over taxing and borrowing—important levers for a number of tools. In addition, as the stakeholders interviewed expressed, accessing the funds made available through these programs can be difficult and make them ineffective.

Chapter 40R

- This law provides monetary incentive for communities to create dense residential or mixed-use zoning districts near transit stations and in city and town centers. To be eligible, housing must be allowed in these areas and 20% of the units in each project must be affordable to low-income households at a minimum of 80% AMI. Upon state approval of a local overlay district, the community is eligible for a onetime payment of up to $600,000 from the Smart Growth Housing Trust Fund, and an additional $3,000 per unit.

Commercial Area Transit Node Housing Program (CATNHP)

- This funding program provides developers—non-profit and for-profit alike—with 0% interest and deferred payment loans for 30 years for first-time buyer downpayment assistance applicable for units near transit and within neighborhood commercial areas. All projects over 25 units must target a majority of these units (51%) at a minimum of 80% AMI.
This source is administered by the MBTA and provides multiyear funding to finance pedestrian improvements, bicycle facilities, housing projects, and parking facilities in mixed-use developments located within one-quarter mile of a transit station. All projects seeking financial support for housing development must make 25% of total units affordable to households making 80% AMI. Although the fund provides a crucial link between affordability and transit access, 80% AMI leaves many out of benefitting from this policy.
Chapter 5: Patterns and Takeaways from Case Study Research

The three cases that I have presented in which property and land acquisition is being used to ensure affordable housing in TOD are very distinct from one another. Their place in the stages of fund development vary, they are geared to work in housing markets with differing degrees of current demand intensity, and their financing and operating structures span a wide range. The dissimilarity among the cases presented is partly a function of the strategy's fledgling state—these represent some of the most developed examples of TOD-specific acquisition funds.

Yet, two fundamental parallels are shared among these and the handful of regions in early stages of forming TOD acquisition funds. One, efforts to implement them are driven by a shared cause to ensure households of all incomes have access to housing in locations made advantageous by public transit investment. Two, each of these examples are of local and regional stakeholders seeking innovative strategies to protect affordability in the face of expected or ongoing escalation of market pressures in transit station areas. These underlying commonalities provide a solid foundation for comparison and analysis in an effort to contribute toward similar future endeavors.

The research I conducted for each of these cases revealed definite patterns and takeaways that in all likelihood reach beyond Denver, Atlanta and Boston. First, TOD acquisition funds are only one component of the suite of tools and programs necessary to ensure a mix of incomes have access to TOD. Second, acquisition funds' biggest contribution is their time flexibility; they are well suited for the pivotal role that timing plays in advancing mixed-income TOD. Third, where possible, seizing the opportunity to redevelop and protect
existing affordable units may be easier and more effective than building new ones. Fourth, published reports and studies of current and projected housing affordability needs are key to securing buy-in for the Fund. Fifth, support from local government elected officials is vital to garnering local and national financial support. Sixth, simplifying fund structure so that there are fewer lenders and/or borrowers is essential for manageability.

1. TOD acquisition funds are only one component of an effective strategy

When interviewed, Aaron Miripol of the Urban Land Conservancy stressed the limits of the TOD Acquisition Fund in producing a substantial number of units. The $15 Million made available through the twice-cycling fund is expected to result in 1,200 deed-restricted affordable units over its 10-year span. The fund’s contribution will add the protected affordable units to the existing 45,000 already in transit zones throughout the region. The minuteness of the Fund’s targeted contribution in comparison to the 45,000 units made possible through other tools and programs illustrates the scale of the fund’s potential impact. Bruce Gunter made this same point when discussing the rationale behind BAHB’s recommendations to prioritize developer subsidies and downpayment assistance in allocating the first bond issuance’s yields. Using the TAD proceeds solely for acquisition would yield too small of an impact. Gunter explained that the acquisition of a 50-unit property could wipe out the Trust Fund’s entire share of the first issuance, $8.8 million. Of course, the workings of the fund are a bit more nuanced than this. As in the Denver model, the funds would be replenished and freed up for re-use once financing to redevelop the property was secured. Nevertheless, his example illustrates its limits when holding

\[\text{27 Defined in this thesis and in many other studies as the ½ mile buffer area around a transit station.}\]
property or to act on several properties at once. Because land and property acquisition is so
capital-intensive, even a sizeable fund will yield a small number of units.

Although not exhaustive by any stretch, in each case, I listed additional tools to present a
partial landscape of subsidy programs and regulations in use in the regions, along with
their corresponding limitations. The TOD affordable housing production and protection
strategies for all three of the regions have significant gaps. The need to fill these is what
prompted regional stakeholders to turn to TOD acquisition funds. The following examples
illustrate how the TOD funds contribute toward a comprehensive strategy for mixed income
TOD.

The Denver TOD Acquisition Fund reaches beyond existing tools by providing quick capital
and facilitating deeper affordability. At the time that the Denver Acquisition Fund was
formed, the TOD market was overheating. As Denver begins a 15-year period of vast
investment in their regional network, new stations are expected to draw intense housing
demand pressure to the predominantly low-income areas in which they are sited. As new
stations begin construction, the need in Denver is to act quickly, one step ahead of
FasTracks. Miripol’s comment on how the Fund’s position has changed with the economic
crisis gives a glimpse of the race in which the TOD Acquisition Fund partners found
themselves before the housing market collapse:

Back then, the push was, ‘the sooner we do this, the better chance we have to get
and hold some of the property that is being lost to the market.’ Today, it’s less
about what’s being lost to the market and more about being strategic and
identifying key properties rather than the dregs, which is all we could compete for
back then.

28 Today, it is likely temporarily subdued due to the national housing market and lending crisis. Although it
may not recover to previous levels, demand is likely to increase in the next decade.
The impediments to moving fast while having to secure, leverage and coordinate affordable housing subsidies were expounded on by CDC Directors along the Fairmount Corridor—where the TOD fund is still in conceptual stage. The basic problem is the need to juggle several time-sensitive processes to secure public funds while essentially stalling with the seller. In order to secure funding from one source, other sources must already be guaranteed and vice-versa. Gaining access to public funds can also take up to a year.

The Denver TOD fund responds to this problem. It is designed for swift action to acquire land and then act as a safe haven to allow the corresponding affordable housing project developer to piece together a solid development-financing package. The longer-than-usual holding period allows for developers to secure a desirable site while applying to programs such as LIHTC to finance development or redevelopment. Without it, CDCs in Denver would likely find themselves in the same situation as their Fairmount counterparts, who often lose bids to for-profit developers with access to quick cash. In this context, it's important to note that the acquisition fund acts as a mechanism to buffer against the drawbacks of public financing sources while allowing developers to leverage their support.

A second significant advantage of acquisition funds is their provision of low-interest, patient capital allows for more affordable units. This rare quality in a financing source provides flexibility that allows developers to target the 0-30% AMI range. The low interest takes some pressure off the budget by reducing cost; patient capital allows time for the developer to assemble a more favorable financing package.
Atlanta’s TOD Acquisition Fund has not yet been used. However, one of the reasons for this delayed deployment reveals an additional strength of the fund. In the initial discussions led by the BAHB to identify the community’s priorities, ensuring that affordable housing would be distributed along the BeltLine’s circumference was determined to be very important (www.BeltLine.org). Currently, wealthier households reside in neighborhoods north of the BeltLine and households with lower incomes live in the southern part. Most of the BAHTF will go to downpayment assistance and subsidies for both non-profit and for-profit developers to build affordable housing. Although BeltLine has discretion on which projects that will be awarded these subsidies, the Authority has no say on where these developers will propose to build affordable housing. BeltLine is waiting to identify gaps along the project where affordable housing is not being developed to target these areas for acquisition before deciding where to invest the limited acquisition funds available. Thus, the fund is also effective in targeting specific locations to balance out geographic distribution of affordable housing and ensure mixed-income TOD.

Fairmount Collaborative representatives shed light on a pivotal impediment of market-linked tools: they are rendered useless during economic slumps. At times such as this, acquisition funds can seize favorable market conditions and step up to fill the gap left by market-linked tools. Inclusionary zoning, linkage fees, and LIHTC skillfully leverage funds from market-rate development. Inclusionary zoning usually requires developments of over a certain number of units to price a portion of the units so that they are accessible to a targeted affordability level, such as 60% AMI. In effect, market-rate units subsidize the cost of the affordable units not covered by rents from its low-income occupants. Linkage fees are similar, except instead of requiring the construction of a unit, a contribution to an
affordable housing subsidy fund is mandated. However, when little or no development is happening, the funding stream for these affordable housing subsidies also comes to a halt. Since no market-rate units are in production to warrant affordable units in the same development or a contribution into a subsidy fund, affordable units depending on these sources are not realized. The poor economy has also affected the degree of assistance that LIHTC can provide. In years when many large corporations take losses due to market downturns, such as today, fewer find themselves in need to offset their taxes. In order to unload these credits and collect development capital, developers awarded tax credits must lower the asking price and receive a lower amount of this indirect government subsidy.

Although most stakeholders mentioned the weak market for LIHTC in interviews, Fairmount Collaborative members were most affected since they continue to depend on sources of subsidy replenished by linkage and in-lieu fees. Thus, when they are in a position in which they finally have time to go through the bureaucratic process for City funding, those programs are not able to provide aid. This situation is particularly frustrating since the cool-down of the market is a narrow window of opportunity. If the Fairmount Collaborative had access to a ready source of capital, as ULC does in Denver, they could make great progress in securing strategic parcels of land at reasonable cost. In sum, acquisition funds are a more constant source of financing and prove to be a particularly useful tactic during weak markets.

An additional observation of how TOD acquisition funds are effective in addressing the limits of standard tools is their specific TOD-designation. Land near transit is often priced at much higher value than similar property in a non-accessible location. Although with the cooperation of zoning for substantial density, the developer can distribute the high cost of
land among a greater number of units, the land purchase still requires larger sums of money. This cost can be a significant obstacle when applying for non-TOD-specific sources that are not designed for such high land cost to construction cost ratios. LIHTC, for example, does not allow for developers to include the cost of land in the basis eligible for calculating awarded tax credits. States like California attempt to make up for this by awarding more points to TODs in the application review process. The ability to count on favorable lending terms from a TOD Acquisition Fund can compensate for the transit premium that cannot leverage tax credits. In addition, in areas where the density allowed is not enough, the fund provides critical aid in offsetting land costs.

In conclusion, acquisition funds should be viewed as a sharp instrument in a wide-ranging toolbox for advancing mixed-income TOD. Their principal limitation is the large amount of capital that they require to yield a small number of units. Nevertheless, they present key advantages. They can be deployed to quickly secure strategic parcels for which there may be great market competition. The flexibility made possible through patient and low-interest capital also allows developers to provide deeper affordability. When affordable housing development is not distributed evenly, these funds can act to target affordable development in specific areas. And, in situations like the present, when markets are down but so are subsidies, they can step in to provide capital to seize the temporary opportunity.

Acquisition funds are best used to leverage and complement tools that are more prolific and less capital-intensive. To this effect, the BeltLine Housing Affordable Trust Fund’s conscious decision to establish requirements that streamlined with those of other development subsidies should be recognized as a best practice. The process of coordinating requirements from several financing sources repeatedly surfaced as a disabling factor for
affordable housing developers in my research; designing these funds to alleviate this burden should be an ongoing priority.

2. Acquisition funds are nimble and efficient in time-sensitive situations

The importance of timing was a recurring pattern in my research and interviews. Actors working for mixed-income TOD worked within a complex timeline that is contingent upon a number of factors beyond their control. TOD Acquisition Funds’ time-sensitive attributes of low-interest and patient capital that can be released quickly relieve the pressure of the numerous other elements that generate shifts in timelines, housing demand and much more.

Because the cases discussed in this thesis were all based in areas where transit stations are planned but not yet in place, station timelines were an underlying determinant of the fund’s operations. ULC prioritizes acquisition along the West Corridor, the first of the FasTracks lines to be in operation. At the same time, they monitor land availability around other lines with later timelines to acquire property with exceptional potential. This land can be held for up to five years to allow for housing demand and developer interest to increase as the station timeline narrows.

My interviews with Executive Directors from two Fairmount Collaborative CDCs point to stark differences in demand for properties along different neighborhoods in the corridor. Gail Latimore, from Codman Square CDC, relates stories of intense competition for property and says that it is likely that the properties recently bought by outside investors will be converted to ownership as soon as the market recovers. The quick availability of
capital that a TOD Acquisition Fund can provide in the Fairmount Corridor will make it possible for CDCs to compete on even ground with for-profit developers. In contrast, the Director of Southwest Boston CDC reported that because the Fairmount Corridor station in their area will open later, competition for available property is not yet as intense as in Four Corners. What has kept this CDC out of deals for key parcels is the length of time needed to line up various funding sources that make affordability possible. The timing and coordinating is so difficult that a fund with a generous holding period will make it possible for the CDCs to take fuller advantage of the public funding sources available (Feloney).

Transit-appropriate zoning and the timeliness with which it is implemented is another timing factor that developers and fund stakeholders juggle. To maximize transit benefits, an area near a station should be zoned for mixed-use and medium-to-high density (Dunphy). The process of re-zoning can be costly, lengthy and contentious (Miripol). For these and many other reasons, cities cannot or do not always re-zone for new transit in time to guide development. Throughout the preparation of this thesis, the City of Denver was in the process of re-zoning. Aaron Miripol pointed out that because of this, part of the Fund's due diligence was to work with the planning department one-on-one to discuss the likely zoning designation and receive necessary variances to protect the investment. Ensuring that the area would be up-zoned enough for a development that could "pencil out" and contribute to the affordable unit numbers is most important. While the ULC holds the property, new zoning will be put into place to allow residential development of transit-supportive density after the holding period.
Numerous studies show that communities that have experienced loss of affordability due to gentrification wished that they had acted earlier (Levey et al.). TOD funds make it possible to act early and without waiting for market-linked tools to take into effect. At the same time, in hotter markets, they eliminate the crippling slow pace of accessing public funds.

3. Existing affordable housing units are low-hanging fruit

As I conducted research of tools and strategies for this thesis, preservation stood out as particularly effective in protecting affordability and being very compatible with the structure of acquisition funds. Preserving existing affordable units has the additional benefit neighborhood stabilization. In hot housing markets, owners of affordable units under contract are incentivized to opt out of remaining in the program (GAO, 15). When these properties are purchased by an acquisition fund, they can be deeded and sold for redevelopment with deed restrictions for affordability or their affordability contract can be renewed\(^{29}\). In either of these two scenarios, low-income residents that are already part of a community network are able to stay and enjoy protection from increasing property value.

Allison Clark from the MacArthur Foundation pointed out the many benefits of preservation. First, it comes with "green" benefits; strengthening and preserving an existing structure requires less material resources than new construction. And, many of these existing affordable units are already in central locations and near planned or existing transit. As mentioned earlier, AARP found that 75% of expiring affordability units in major metropolitan regions are situated within a half-mile of transit. The potential to preserve affordability for established low-income residents in accessible but gentrifying

\(^{29}\) Section 8 and 202 unit contracts are usually done on a 30 yr. basis.
neighborhoods make these formidable investments. These properties are also less capital intensive, as they can operate in existing condition and produce revenue. ULC aims to mostly acquire properties that are currently generating revenue at some level in order to replenish the fund and pay for the small amount of interest that the MacArthur PRI expects. Thus, during the holding period—which can be for up to five years—the property can generate money. In addition, a best practice for renovating project-based affordable units is incrementally through resident turnover. Rehabilitating units little by little when tenants move or pass is much more financially manageable and adds timing flexibility (Alexander).

4. Supporting reports and studies are indispensable in leveraging support

Efforts to ensure affordability around new transit station areas in each of the cases were given initial momentum by one or more relevant studies. These studies provide crucial information such as current data on affordable housing needs, projected demand, policy and financing barriers and recommended strategies for mixed-income TOD. They also provide ammunition for politicians and leaders to rally greater support.

_The Case for Mixed-Income Transit-Oriented Development in the Denver Region_ showed that the 0-30% AMI range is not reached through standard programs. It also uses data from previous studies that show great projected demand, especially from low-income families. Most important, the report identifies current barriers that stand in the way of affordable housing development in new and future station areas, which are accompanied by a set of recommendations. The principal recommendation in the study is forming a TOD-specific affordable housing acquisition fund. Interviewees from all three main partners of the Fund
stress the importance of this document in garnering local political support, as well as investments and contributions from local and national foundations.

Atlanta’s exacerbating housing and jobs mismatch and the resulting financial, social and time pressures it exerts on working families is intelligibly described by the Atlanta Neighborhood Development Partnership Inc. in *Making the Case for Mixed Income and Mixed Use Communities*. This publication provides current data and solid arguments for accessible and affordable housing that cater to different household types. Similar to Denver, they use demand projections to convey the urgency of addressing the situation.

When BeltLine was in the planning stage, this report was used to back the importance of walkable and accessible neighborhoods and to justify dedicating 15% of the TAD increment for affordable housing. A later study by Dan Immergluck from Georgia Tech. performed detailed analysis on the appreciating land value of BeltLine neighborhoods. By then, the BAHB had been formed and were able to use this data to guide their priorities and program design.

When Fairmount Collaborative members speak of the beginning stages of the project, they often refer to a conceptual plan completed in collaboration with a local design firm, Goody Clancy. When Collaborative leaders first approached Mayor Menino of Boston, he praised their vision but stressed the need to create a document that presented the problem and then proposed action. This report and its strong argument linking the proposed station to environmental justice principles garnered attention from PolicyLink, a national policy analysis organization. PolicyLink then worked with Collaborative members to create two reports; one analyzes statewide policies’ effectiveness in facilitating long-term affordability
and another makes policy recommendations for equitable TOD. All of these documents have added capacity and legitimacy to the Collaborative. Undoubtedly, their current designation as a pilot the National Sustainable Communities Program was supported by these documents.

An invaluable source in making most of these studies possible has been national organizations dedicated to providing technical assistance at the local level. These organizations count on expertise needed to conduct in-depth spatial and economic analysis. CTOD, for example, consistently conducts studies in a number of these locations to provide current data and projections. These were used to inform documents in Denver and the Fairmount Corridor. As regions determine that TOD funds are appropriate for their needs, national sources of data and analysis will play a crucial part in drawing interest and securing support.

5. Support from local elected officials and government leaders is key

Mayors Hickenlooper, Franklin and Menino, respectively of Denver, Atlanta and Boston were each great supporters of the projects described in this thesis. Hickenlooper's support and lobbying efforts contributed to the City Council's approval to contribute to the fund. This display of confidence in the innovative effort was crucial in securing the PRI from MacArthur.

When voted in, Mayor Franklin's agenda was primarily based on housing affordability. From the project's conceptual phase, Franklin made sure that affordability was an inextricable part of the plan. She is also credited with rallying support from City Council
members and other electeds to approve the dedication of a significant share of the TAD for affordable housing programs (Gunter).

Although Mayor Menino has positioned himself as a champion of affordable housing, the City's support for the Collaborative has been earned over time as they prove their capacity and commitment. As the City witnessed the Collaborative's strategic use of local government housing funds to secure property around the future stations, they have increased their support by inviting federal officials to recognize the potential. Now that the Fairmount project is recognized at a National level, the City and Collaborative are in discussion over a possible contribution toward a Fairmount TOD Fund.

Because they are not profit-driven, yet have access to substantial capital, public agencies are best suited to contribute to a TOD Fund in a first-loss position (San Francisco Bay Area Property Acquisition Fund for Equitable TOD, iv). Often, these agencies recognize that the benefits from affordable and accessible housing will contribute toward their mission. The San Francisco Bay Area's Metropolitan Transportation Commission, for example, just committed to a $10 Million investment at first-loss toward a TOD Acquisition Fund, with the stipulation that the funds are matched 3 to 1 within a year. An early sign of confidence and commitment from a significant contributor is essential for funds capitalized through investments and grants.

6. Fund financing and implementation partners should be kept to a minimum

When asked about advice that he could provide for other regions exploring TOD Acquisition Funds, Miripol's primary recommendation was to keep the partnership as simple as
possible. Although the Fund is made up of eight contributing partners, ULC is the only borrower. Even with simplicity at the borrower end, the ULC representative talks about the complexity of reaching policy and financial agreements with all eight partners, completing documentation, and reporting to each of these. If the fund lent to more than one borrower, the permutation of agreements and documents would likely hinder its flexibility and add to the cost of operation. It is important to note that City of Denver representatives explained that one of the reasons why they felt comfortable contributing to the fund was that ULC was a sole borrower with a solid system of ensuring permanent affordability.

In contrast to Denver, Atlanta's TOD fund has a single source but plans to identify borrowers through RFPs. Because these requests have not yet been issued, it's not known how well this system will work.

The Fairmount Collaborative has not yet determined how the fund will be structured, mainly because funders have not been secured. Currently, CDCs envision a pool of funds from which they can draw equal cumulative amounts. The Collaborative is also lobbying various sources of funding, including PRIs from foundations and the local government. If the requests work out and the fund has several investors as well as borrowers, a sole entity that can act as the administrator, such as Enterprise Community Partners does in Denver, will be an indispensable partner.

In conclusion, I propose that the differences among the cases presented may actually add strength to this thesis. At the moment, regions such as the San Francisco Bay Area, Charlotte, NC and others are strategizing to form TOD Acquisition Funds. It is my intent
that as the use of acquisition for mixed-income TOD gains hold, this thesis provides a glimpse to the distinct ways in which areas have approached the formation and implementation of their respective funds. Additionally, this section intended to present a preliminary set of best practices based on the limited number of existing funds.
Closing Remarks

My interest in this topic started when I attended a presentation by Steve Meacham, organizer at City Life/Vida Urbana in Jamaica Plain, at the 2009 Railvolution conference. Meacham’s presentation on TOD and equity concluded with a call for strategies to ensure that the people living in the neighborhoods along the Fairmount corridor, who have worked to advocate for the new stations, can afford to stay in the long-run and enjoy the benefits and convenience they have long needed. Meacham noted that past experience told community leaders that housing demand—and thus, prices—would increase as soon as the stations opened. This predicament is the irony to which Newman and Wyly refer in *The Right to Stay Put, Revisited*, "For decades, community residents of inner-city neighbourhoods built organisations and fought to revitalise their communities. Now that these communities are improving, they find it increasingly difficult to remain." (45). From this idea came the question that inspired this thesis—what happens when the value of a significant public investment, which yields marked economic advantages, can be captured by the private market to limit equitable access to this public good?

I followed this thread and found that the Fairmount Collaborative’s concern is not unique; communities throughout the country are grappling with this same situation. As I dug deeper, I realized that many of the tools promoted to stabilize neighborhoods and to produce and preserve affordable housing were constrained by a number of factors—timing, financing availability, policies, etc. For this reason, a small number of innovative regions are turning to TOD acquisition funds as an effective way to acquire valuable property earlier and at lower prices, while also diverting control to organizations that will uphold affordability restrictions in the long-term. This struck me as a radical and practical
solution; it is a way to avoid the many hurdles, yet reach the ultimate goal of housing affordability near transit.

Of course, as I became more familiar with this tool for producing and preserving affordable housing, its limitations became obvious. TOD acquisition funds are incredibly capital- and management-intensive even when effecting small-scale development or redevelopment. Their direct approach to affordability cannot be the next solution because these funds could never reach the necessary scale. Philanthropic foundation endowments are finite and have seen drastic reductions in the recent economic downturn. Cities, a key partner in these ventures, are equally cash-strapped and limited in the types and amounts of funds that they can contribute. Instead, as I've argued in this thesis, TOD acquisition funds stand out as "gap-fillers," providing swift acquisition, patient capital, and flexible timelines.

As more regions realize the importance of developing or expanding their regional transit networks, I predict that many will seek to develop TOD acquisition funds as a back-up for when markets are down or to act quickly on prime opportunities. My intent on writing about this topic, TOD acquisition funds, was to present information on this innovative financial. When I first began writing about it, there was no publication available to discuss its advantages, limits and previous examples. This has changed in the past few months as CTOD has published a feasibility study for a TOD acquisition fund in the San Francisco Bay Area. Currently, the San Francisco Bay Area is in the process of developing such fund. The Bay Area's regional transportation coordinating agency, the Metropolitan Transportation Commission, has committed to contributing $10 million toward a $40 million fund. MTC has pledged this amount with the condition that the investment is
matched with $30 million from other sources. Such action by a recognized regional agency is bound to lend legitimacy to these funds and continue to pave the way for the further development of these public-private partnerships. Yet, as other funds start up and take off, it will be important to remember the words of Aaron Miripol on the TOD acquisition fund, "The fund is no panacea, there is no panacea for getting affordable housing in these transit areas... It has taken all of this [affordable housing programs and tools] to get here and it will take all of this, the TOD Fund and more to even make a dent in what we need to have."
Appendix A: List of Interviewees

Alexander, James. Senior Project Manager, BeltLine Authority. Telephone Interview. 12 February 2010.

Clark, Allison. Program Officer, MacArthur Foundation. Telephone Interview. 18 February 2010.

Feloney, Mike. Executive Director, Southwest Boston CDC. Telephone Interview. 2 April 2010.

Gunter, Bruce. Former Chairman of Beltline Affordable Housing Board. Telephone Interview. 23 February 2010.

Latimore, Gail. Executive Director, Codman Square CDC. Telephone Interview. 5 May 2010.


Pease, Katherine. Author of *Convening on Transit Oriented Development: A Foundation Perspective*. Telephone Interview. 4 March 2010.

Pollack, Melinda. Senior Program Director, Enterprise Community Partnerships. Telephone Interview. 23 February 2010.


West, Dace. Co-Director, Denver Office of Strategic Partnerships. Telephone Interview. 5 March 2010.
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