

Community Development Committee

Meeting Date: June 3, 2013

Subject: Results of Interviews with Developers and Business Owners about TOD

District(s), Member(s): All

Policy/Legal Reference: N/A

Staff Prepared: Allison Bell, Manager of Corridors of Opportunity, 651-602-1363

Division/Department: Community Development / Corridors of Opportunity

Proposed Action

No action. Information item.

Background

As part of Corridors of Opportunity, the Metropolitan Council provided a sub-grant to the Humphrey School of Public Affairs at the University of Minnesota to conduct research on developers and business owners' perspectives on transit-oriented development.

The research asserts that the success of transitways hinges on location decisions made by many private-sector actors: a transitway can only achieve its full potential if businesses and housing developments locate in areas accessible to it. This research intends to create a set of policy recommendations that will effectively promote affordable housing development and living wage job creation near transit corridors in the Twin Cities metropolitan region. Specific research objectives include:

- Explore "leveraging points" for private sector decision makers to embrace transit-oriented development;
- Identify partnership opportunities and engage in bridge building between the public and private sectors for job creation and affordable housing development near transitways; and
- Design incentive, regulatory, and private/public partnership programs that will effectively influence development and employer location choices.

The research centers on a series of interviews with developers and business leaders in the Twin Cities region. These conversations took multiple forms, ranging from group discussions and online surveys in the initial, scoping phases, to in-depth, open-ended interviews with 24 developers, 16 employers and three commercial real estate brokers based in the Twin Cities metropolitan region.

Dr. Fan will present findings and policy recommendations at the June 3rd Community Development Committee meeting. The Executive Summary of the draft final report is attached. The full draft final report can be provided upon request, and the final version will be posted on www.corridorsofopportunity.org as soon as it is finalized.

Research on How to Achieve System-Level, Transit Oriented Jobs-Housing Balance

*Research conducted for the Metropolitan Council as part of the Corridors of
Opportunity Initiative—Draft Final Report*

Yingling Fan and Andrew Guthrie
Humphrey School of Public Affairs
University of Minnesota

May, 2013



Acknowledgements

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Executive Summary

Transitways in the Twin Cities metropolitan area continue to expand; by 2030, a network of 14 transitways is planned. To promote sustainable regional growth, transitways need to connect both riders and job opportunities. As such, the success of transitways hinges on location decisions made by many private-sector actors: a transitway can only achieve its full potential if businesses and housing developments locate in areas accessible to it. This research intends to create a set of policy recommendations that will effectively promote affordable housing development and living wage job creation near transit corridors in the Twin Cities metropolitan region. Specific research objectives include:

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Interview Protocol

Developers were recruited for interviews using random sampling within four partially overlapping sampling frames: central city residential developers, central city commercial developers, suburban residential developers, and suburban commercial developers. Interviews were with principals, with the exception of the three largest firms included, where project managers were interviewed.

Employers recruited for interviews included start-ups, established firms, and major employers in the Twin Cities, as well as major commercial real estate brokers. These employers were recruited using convenience sampling. All participating employers, except the commercial real estate brokers, can be characterized as one of the five competitive clusters identified as key to the Twin Cities regional economy: Book Publishing and Printing, Finance and Insurance, Lessors of Nonfinancial Intangible Assets, Management of Companies and Enterprises, and Medical Device Manufacturing. Interviewees included CEO’s, human resources directors and corporate real estate directors; commercial brokerage interviews included one senior partner, one vice president and one director of transaction management.

Though the researchers used different questionnaires for different types of developers and employers, all versions revolved around four basic themes:

- I. What the interviewee sees as crucial location factors.
- II. How transportation and transit access fit into that set of factors.

- III. What makes transportation and transit access important (to whatever degree they are).
- IV. What actions the public sector could take to make transit-accessible sites more attractive for private-sector development and job creation.

Developer Interview Findings

Twin Cities developers view transportation access as highly important in selecting sites and view transit access as attractive. Over a third of the developers interviewed specifically consider transit access to be an important location factor. Word frequency analysis shows high levels of importance for relationships with local governments. Regarding transportation terms, “parking” dominates; “rail” and “transit” show high levels of interest as well. Most interviewed focus on redevelopment in the central cities and inner suburbs. Location decisions for commercial development are strongly driven by major tenants.

Developers will sacrifice transit access, if a transit-oriented site is more expensive or causes more complexity. Multifamily residential developers, redevelopment specialists and large corporate office tenants already show strong interest in transit-accessible sites. Topic node coding analysis shows that developers most often mention transit-oriented development together with future, proposed transitways. Zoning for single uses, low maximum densities and high minimum parking ratios are a significant source of problems for TOD. Coding analyses for walkability and mixed-use/New Urbanist design show strong consciousness of a young market niche, and needs for high densities of walkable neighborhood destinations and transit access.

Affordable housing developers tend to specialize in affordable housing to achieve economies of scale from all-affordable projects and in-house compliance and management capabilities. Rehabilitation of dilapidated properties as affordable housing can generate broad neighborhood support, whereas new construction of affordable housing can come up against significant opposition. Limited subsidies lead to the concept of “affordable by design”, which scales projects to be financially feasible and affordable without subsidy. The housing-plus-transportation cost savings possible with good transit access are key to the success of affordable-by-design. Topic coding shows the importance of financing options, as well as the problems of inflexible development regulations and NIMBY-ist opposition.

Employer Interview Findings

Employers report that transit access is an attractive site feature when other, more crucial location factors are satisfied. Word frequency analysis indicates that employee recruiting and retention figure prominently in site selection decisions. “Transit” and “transportation” also figure prominently in word frequency analysis. Bus transit is mentioned more frequently than rail transit; employers focus more on current service than proposed future options.

Regarding transit access, the importance of recruiting new talent creates a need to be a desirable employer for highly-skilled young professionals. Members of the millennial generation are likely to desire—or demand—urban living and transit access. This generational divide puts established, suburban employers in the difficult situation of balancing current employees’ automotive commutes against more transit-oriented new talent.

Topic coding analysis reinforces the importance of employee recruiting and retention to desires for transit access. The site selection process itself is mentioned equally often, showing that employers mainly consider transit when selecting a new location anyway. Preferences of current employees and industry-specific site requirements represent two potential detriments to the selection of transit-accessible sites. Coding analysis for “transit problems” shows employers mention desire for transit access during most mentions of problems with finding transit-accessible sites. Transit access is a widely desired amenity which employers often feel prevented from pursuing by other factors.

Employer interviews show strong interest in transit improvements to enhance regional competitiveness. Employers view the Twin Cities as competing with other metropolitan areas in the U.S. and globally to attract and retain talented professionals. This dynamic is particularly important for Millennial professionals who desire vibrant, urban surroundings and transit options, and who are in the most mobile phases of their lives and careers.

Policy Recommendations

- *Make transit-oriented location decision less of a compromise.*

Reduce costs, emphasize benefits High costs of transit-accessible sites can stop interested developers and employers from selecting them. Subsidy programs including TOD promotion grants or station area tax abatement may be able to offset a major obstacle to TOD and station area economic development. Costs of automobile-dominated locations may be less well known by developers and employers. A site-plus-transportation cost index (like housing-plus-transportation indices) could help developers and employers take account of costs including parking, employee productivity impacts and health insurance costs of a sedentary workforce.

Streamline regulatory process Current development regulations in the Twin Cities (such as single-use zoning, low density limits and high parking minimums) often limit developers and employers from developing and locating near transit. A TOD zone, in which a developer can build a true TOD project *by right* would help level the playing field between transit-oriented and automobile-dominated areas. Such a zone would lead to higher densities, increasing the number of residential units and amount of business space per project. Reducing minimum parking ratios where transit options exist would reduce the costs of TOD projects and increase densities of residents and destinations in station areas. Allowing flexibility in the design of TOD projects will ease TOD in real estate markets differing from prime, urban core areas.

Recognize ties to specific areas Regional transit improvements will bring quality transit into the comfort zones of many more developers and employers. Station area economic development efforts should suit plans for employment-focused TOD’s to the types of employers already present in the area where feasible. Developers with experience in specific transit corridors and employers located near stations are ideal targets for special outreach efforts in terms of promoting TOD and transit-accessible job creation.

- *Take advantage of natural alliances*

Multifamily residential developers, redevelopment specialists, large corporate offices, small, innovative employers, and employers of low-wage workers already show interest in transit-accessible locations. These firms are natural allies in promoting transit-oriented jobs-housing balance.

Multifamily developers and redevelopers The developers already building transit-friendly projects in the Twin Cities metropolitan area tend to be small, innovative firms focusing on multifamily residential development and/or redevelopment of sites in the central cities and inner suburbs. It is important for TOD promotion efforts to actively reach out to these developers. Developers who have built projects with TOD characteristics near transitway corridors should be included in TOD promotion efforts surrounding those corridors. TOD-friendly zoning reforms should consider the needs of small projects as well as large ones.

Large corporate offices Given the ability large companies have to act as anchors of economic development, direct engagement with major employers is crucial. Downtown companies establishing suburban back offices and out of town companies establishing new Twin Cities offices are especially good candidates for outreach due to their relative freedom of site selection.

Connect interested employers and developers Small employers can be prevented from selecting transit-accessible locations due to available space. Connecting small, innovative employers interested in transit access with developers that have TOD experience may allow faster development of transit-oriented business space.

Engage with relevant low-wage employers Attracting entry level jobs to transit station areas will be crucial to achieving transit's full social equity benefits. Station area economic development planning should include relevant employers of low-wage workers. Such employers may fit well in otherwise park-and-ride oriented suburban station areas.

Tailor economic development plans to local economies Employers report strong ties to the general areas of their current locations. Tailoring economic development plans for specific areas to the needs of local industries could help make it easier for relevant employers to select transit-accessible sites.

- *Promote vibrant, walkable neighborhoods for their own sake*

Recognize demand for walkability can lead transit-friendliness Promoting pedestrian-oriented design wherever demand for it exists will promote transit-oriented development as well. Meeting the full demand for walkable development in vibrant neighborhoods will create a more transit-friendly region, whether transit-friendliness is a primary consideration of individual projects or not. High demand for walkable destinations shows the importance of considering pedestrian accessibility and land use mix in promoting walkability.

Allow flexibility in design Developments with all desirable pedestrian oriented features are not feasible in all markets. Permitting developments outside the auto-dominated norm with only some pedestrian-oriented features may increase the amount of walkable development in the region.

Regulatory reform Pedestrian-oriented development needs similar regulatory reforms to transit-oriented development, including zoning reforms to allow denser projects with wider varieties of uses by right in appropriate areas and relaxation of off-street parking standards where feasible.

- *Promote diverse affordable housing options*

Engage with affordable housing specialists The process of developing affordable housing has important differences from developing market rate housing apart from funding. Affordable housing

promotion efforts may have more success focusing on the provision and funding of affordable housing units at the level of station area neighborhoods rather than percentages of individual new developments. Including preservation and reuse in affordable housing strategies may offer cost savings along urban transitways, and avoid NIMBY opposition. Affordable housing strategies must consider family housing needs, both through new construction and rehabilitation.

Pursue affordable-by-design solutions The high demand for affordable housing, coupled with limited public funds available, point to affordable-by-design housing as important to a system-wide, transit-oriented affordable housing strategy. Affordable-by-design housing will require reform of the same automobile-oriented density and use restrictions, as well as off-street parking standards that hinder transit-oriented development. Implementing affordable housing policies that recognize transit's housing-plus-transportation cost benefits in determining what constitutes "affordable" for funding eligibility could significantly ease the development of transit-oriented affordable housing.

- *Accelerate expansion of transit-oriented development and the transit system*

The generational change underway in neighborhood preferences and attitudes to transit is an important opportunity to lay the groundwork for a more sustainable regional growth pattern in the Twin Cities.

Accelerate TOD and transit improvements throughout the region Developers tend to specialize in specific areas of the region, and most developers with experience in transit-friendly development work primarily in the central cities. Connecting developers with expertise in suburban transit corridor areas and developers with TOD experience may speed the broader adoption of sustainable development patterns. Pursuing TOD-friendly regulatory reform in neighborhoods beyond immediate station areas will be necessary to meet the full demand for transit access. The research findings also demonstrate the importance of continuing, and if possible accelerating the buildout of the regional transit system in order to take full advantage of the generational change underway.

Engage with employers The buildout of the regional transitway system offers an opportunity to promote transit-accessible location choices as a way for employers to prepare for the future without sacrificing their ability to retain current employees. Employer outreach should consider workforce age makeups, focusing on the importance of hiring young talent for growth or imminent needs to replace retirees. Outreach efforts should be timed to reach companies when they are looking for new offices or facilities; small growing companies deserve special focus. Outreach to large, suburban employers should explore opportunities for transit access alternatives including shuttles to nearby transitways. Interest in the regional competitiveness benefits of transit improvements offers an opportunity to promote the benefits of transit to employers who do not see direct benefits to their own workforces.

- *Promote diverse transit options as the regional system grows*

Achieving system-level transit-oriented jobs-housing balance will also require diverse TOD solutions and quality transit options complementary and in addition to regional transitways.

Remember the buses High-frequency bus routes, especially with transitway connections are likely to offer significant TOD opportunities, and should be considered for TOD-specific zoning and parking standards.

Strive to serve non-traditional commutes It is critical that the transit system serve the complex commute patterns of the Twin Cities region. Transitways providing rapid, regional mobility and cross-town bus service directly connecting popular residential areas with employment centers can improve the attractiveness of transit-oriented sites for housing and jobs by increasing the numbers of employees and employers connected.

Implement premium urban local transit Transit could be significantly more relevant to development if premium local services such as streetcars or arterial BRT were implemented in popular urban neighborhoods. Such services could offer attractive links with the regional transitway system, extending its reach and development impacts.

Certainty of construction needed Developers and employers show interest in proposed future transitways, but will not make location decisions based on them unless construction is certain. A strengthened, dedicated funding source for transit improvements could offer developers and employers the feeling of certainty they need to make transit-oriented location decisions.

Concluding Comments

The most positive finding of this research is that there is pent-up demand for transit access among Twin Cities developers and employers. Though significant obstacles exist to increased transit-oriented development and job creation, the specific policy recommendations derived from this study are neither new nor unknown. Indeed, they are widely accepted by the planning profession as tactics for encouraging transit-oriented development. The key is implementing those policies on a broad enough, regional scale to achieve the desired broad, regional impacts. That implementation will require a great deal of regional cooperation and political will, things this study does not make any easier to realize. It does, however, argue strongly for the need to try.