Gap Analysis for Transit-Oriented Development Financing

December 2012

Prepared for:
Metropolitan Area Planning Council
Transit Oriented Development Finance Advisory Committee
Metro Boston Sustainable Communities Consortium

Prepared by:
GLC Development Resources LLC

TABLE OF CONTENTS

1. INTRODUCTION

1-A Project Overview & Objectives

The Metropolitan Area Planning Council (MAPC) on behalf of the TOD Finance Advisory Committee and supported by the Metro Boston Consortium for Sustainable Communities (MBCSC), engaged GLC Development Resources LLC (GLC) as a consultant to perform a Gap Analysis in Transit Oriented Development (TOD) Project Financing in the Metro Boston area.

GLC investigated the sources of funding gaps and the types of capital (both public and private) that may be available to help fill those funding gaps, and reviewed best practices in similar metropolitan jurisdictions. The purpose of the analysis is to inform development and implementation of potential TOD funding instruments in Metro Boston.

The work was directed by the TOD Finance Advisory Committee of the Metro Boston Sustainable Communities Consortium. The Advisory Committee is comprised of members from: Metropolitan Area Planning Commission (MAPC), Conservation Law Foundation Ventures (CLFV), Local Initiatives Support Corporation (LISC), Massachusetts Housing Investment Corporation (MHIC), Massachusetts Association of Community Development Corporations (MACDC), Dukakis Center (Northeastern University), The Boston Foundation, The Hyams Foundation, The Barr Foundation, and the City of Somerville.

The study focuses on creating new development through new construction or adaptive re-use. The methodology adopted by the Advisory Committee was to look in depth at a selected group of nine (9) completed TOD projects (Information from two additional projects was later added to the study as in the course of selecting projects we were able to obtain some additional information that proved useful), and through analysis of those projects understand the nature and causes of the funding gaps. Since for the most part the projects were completed or nearing construction, the funding gap was by definition 'solved', but the nature of the gap challenges and the ways the gaps were closed serves to illustrate the funding issues. The analysis is broad, focusing on funding issues but recognizing the roles that policy, geography, real estate markets, and politics may play in affecting already-challenging market conditions.

For purposes of this analysis, the Advisory Committee defined TOD to mean higher density new or adaptive re-use development within walking distance (½ mile radius) of fixed route transit stations or express bus stops, and generally with a mix of uses. Most of these mixed-use projects are primarily residential and retail.

Project Objectives

- Develop an understanding of the Metro Boston TOD financing system (housing, commercial/industrial, neighborhood scale retail, and related infrastructure) at each stage of the development process. This analysis should consider not only short-term but also permanent financing, the availability of private investment, and any backlog in the availability of public resources. This analysis should include not only the overall funding picture in the region, but also more specific details regarding illustrative projects.

- Develop an objective analysis of the gaps in the TOD finance system, as well as policy and programmatic barriers that may relate directly to funding TOD projects.

- Identify and understand applicable best practices in establishing TOD funding instruments to inform the structure/development of fund(s) that will assist in filling existing gaps. (Note: LISC and CLFV are in varying stages of development on two potential approaches to filling the gap: a loan fund (LISC Equitable Transit Investment Pool or **ETIP**) and a private equity fund (CLFV Equity Fund or **EF**). These efforts were to be viewed by the consultant as illustrative rather than definitive in terms of filling the gap.)

1-B Organization of Study

The report is organized into four sections:

Analysis Approach, Sample Projects Data and Comparisons reviews the process and approach for undertaking the study, determining sample projects, provides data from these projects and provides a comparison of the sources and uses of funding for these projects.

TOD Financing System Overview discusses how different types of TOD projects are financed and provides an overview of the funding sources for TOD projects

Analysis /Findings / Issues provides the analysis of funding gaps and other issues that impact development for the different types of TOD projects sampled and recommends potential strategies to improve the funding and delivery of TOD projects.

Best Practices reviews funding programs used in other jurisdictions that have helped to advance TOD projects.

1-C Executive Summary

The study analyzes the issues that hinder the successful development of TOD projects in the metropolitan Boston area. Its particular focus is on determination of gaps in the funding of these TOD projects. The study methodology was to:

1. develop an understanding of the Metro Boston TOD financing system;
2. look in depth at a selected group of eleven TOD projects; and
3. through analysis of those projects, understand the funding gaps as well as other issues that may be limiting TOD projects.

There are major differences among these projects in market strength, scale and location, that affects the analysis of the gaps and other issues hampering development feasibility. To best understand the issues and gaps, projects were organized into four types with similar characteristics and methods of financing:

- Neighborhood Small-scale Mixed-use Development (Weak market)
- Neighborhood Large-scale Mixed-use Development (Weak market)
- Suburban Development (Strong market)
- Regional Large-scale Mixed-use Development (Potentially strong market)

Information was collected on the projects, and financing Sources and Uses for the projects were compared. (see tables in Section 2-C.), allowing analysis of both cost and financing issues. Because of the small sample size and the fact that the projects studied were funded or in the process of being funded, most of the developers had already solved their funding gap. However, this often meant the use of an extraordinary or one-time source, or use of a source that is no longer available. These 'weak links' in the financing system are the gaps that need to be addressed.

Findings / Issues:
There were a number of important issues and gaps identified across a number of project types:

- Predevelopment funding. Many of the TOD projects, particularly those in urban neighborhoods with primarily affordable housing and relying on public funding, have very long development time frames. Their developers need to secure sites, obtain entitlements and assemble a complex array of financing sources. Private sellers are generally unwilling to tie up their property for several years while the developer secures funding and approvals. Developers often have to purchase sites before all of their financing is in place and carry extensive predevelopment expense. This is significant risk burdening these developers. When TOD projects are developed on government-controlled sites, part of this predevelopment risk can be addressed.

- Funding retail. Financing ground floor retail as part of urban mixed-income projects can be challenging. It is often difficult to use the same funding sources for residential and retail components. This is particularly true for projects that have major affordable housing components. Additionally, retail rents in weak markets may not support construction costs.

- Funding market-rate housing. The market-rate component of Neighborhood Large-scale projects are economically marginal at conception but have the potential to be self supporting over the long run as rents rise, particularly because of the positive impact of the TOD site and the character of development. A component of patient financing is needed to make these projects financially viable.

- Infrastructure. Sites adjacent to transit often have very significant infrastructure issues, often left over from an industrial past. Often these costs cannot be absorbed by the project economics. The size of the gap varies enormously but is being addressed significantly by current state funding programs.

- Parking. Even though projects are transit-oriented, some parking is still needed, especially to lease the retail components of mixed-use developments. For urban projects, developing at greater density often means that parking must be accommodated in structures or underground, which are expensive solutions, and which cannot be fully supported by parking revenue.

Recommendations
There are a number of possible ways of addressing the financing gaps. Recommendations have been made to address some of the key problems:

1. Structured Acquisition and Predevelopment Fund. Provide a structured fund that can reduce the cost and risk of holding property while putting together financing and approvals for TOD projects. This strategy has worked well in other communities. Layering risk has leveraged larger funds, provided less expensive loans and reduced the exposure of primarily non-profit developers.

2. Financing for Retail Components. One of the key differences between TOD projects and mixed-income residential projects near transit stations is the retail component. There is a need for a financing source in neighborhoods where retail is not a well-established and economically strong use. Some combination of the following could help solve the problem:

    - Establish a loan fund for retail in TOD projects. It might function similarly to Boston's provision of a HUD Section 108 loan to 225 Centre Street for its retail component.

    - Act as Master Lessee or provide rent guarantees as security to allow lenders to finance the retail component.

- Finance tenant improvement (TI) costs.

3. Financing Sources to Fill the Gap on Mixed-finance and Workforce Housing Development Projects. A gap of $19-75,000/unit has been identified (exclusive of the retail component) for the mixed-finance projects studied. A reliable, predictable source, at scale, is needed to advance these projects. This scope is large and it probably requires a government program to address it. But soft debt or equity programs from non-profit funders may be able to help. Programs such as the Priority Development Fund have often acted as this source in the past:

    - Provide a patient, low-cost debt or equity fund to fill the gap for large-scale projects. This fund needs to be partially subordinate to at least a minimal market return on equity in order to leverage equity in these projects. This source can be underwritten by the projected premium on current market-rate residential and retail rents that could be achieved over time.

    - Consider targeting a portion of these funding programs towards workforce housing in urban neighborhoods. DHCD has instituted a new program to address this issue but it is quite limited in scale and in per unit support. PDF as noted above was very helpful. A similar program aimed at workforce housing could fill the gap.

4. Organize and Simplify the Array of Affordable Housing and TOD Funding Sources. In order to relieve the complexity and inefficiency of the multitude of sources required to fund affordable housing and TOD, the Commonwealth should organize and coordinate the delivery of these sources as they have with infrastructure through the MassWorks program.

5. Infrastructure Fund for TOD. State funding of infrastructure has improved with the introduction of MassWorks as a 'one-stop' funding source. Support for this effort and its focus on TOD projects should continue. To supplement MassWorks, the state might investigate creation of a program for residential projects similar to I-Cubed that is not reliant on job creation and net tax generation.

6. Parking Structure Fund. Structured, ventilated parking for large-scale TOD projects in dense urban areas is expensive and often cannot be fully supported by parking revenue and needs additional funding sources. Financing sources to pay for garages that need to be built early, before construction of the bulk of the project—particularly for Large-scale Regional projects--are also needed. MassWorks and State TOD Infrastructure and Housing Support funds have been used to pay for this but these funds are limited and additional sources are needed. I-Cubed has also been used for this purpose on very large projects but is less effective on projects that are primarily residential. Provision of a new financing source to pay for parking structures should be considered.

2. Analysis Approach, Sample Projects & Comparisons

2-A Determine Project Sample and Categorization of TOD Projects

As a first step in selecting the nine projects to be studied in greater depth, the consultant and Advisory Committee reviewed a "long list" of TOD Projects. This list includes over 200 projects, and represents the full inventory of TOD projects within the MAPC study area[1].

The process of winnowing such a large list to nine representative projects was itself instructive. (Information from two additional projects was later added to the study as in the course of selecting projects we were able to obtain some additional information that proved useful). The initial study approach looked at differences based on project location within the region: Urban Core, Gateway, and Suburban projects. However, as different projects were considered, the consultant and Advisory Committee realized that in addition to location, equally critical distinctions had to do with project scale (size) and whether the project was in a strong market or not. (A 'strong market' is one in which rents are sufficient to support new development through conventional financing mechanisms; a "weak market" is one where rents alone are insufficient to support development and subsidies are required).

The table on the following page provides a list of all possible combinations of these three variables, as well as preservation projects[2] (which are not new production). Through the review of all eight possible new production types, the Advisory Committee eliminated some project types from further study. Neighborhood scale projects, both large and small, that are located in strong markets do not currently have funding gaps. Another group of these project types, suburban and regional projects in not strong markets are theoretical only; no projects of this type were identified in the inventory. Scale was an important factor because of differences in financing programs for different scale projects. The four project types of interest and the subject of this study are:

- Neighborhood Small-Scale Mixed-use Development (Weak market)
- Neighborhood Large-scale Mixed-use Development (Weak market)

[1] The 'long list' is available in electronic (Excel) format but is not included in hard copy format in this report.

[2] "Preservation" projects are those where the goal is to restructure the financing of "expiring use" affordable housing to retain its affordability.

- Suburban Development (Strong market)
- Regional Large-scale Mixed-use Development (Potentially strong market)

Data was collected via a developer's One-Stop Affordable Housing Finance Application with the State's Department of Housing and Community Development where available and via conversations and communication with the sponsors and developers. Information presented here represents only project information that sponsors were willing to share. Private developers developing primarily market-rate projects and not using State housing funds do not file One-Stop applications. There was significant difficulty in obtaining a similar level of data from those developers due to a great reluctance to release proprietary information.

Project Type	Strong Market	Weak Market	Examples	Characteristics		
				Development	**TOD Station Typology**	**Sponsor**
Neighborhood Small-Scale Mixed-use	X	☆	**157 Washington** **270 Centre**	Predominantly low & moderate-inc. (LMI) Residential w/ some ground floor retail	• Neighborhood Subway	CDCs
Neighborhood Large-Scale Mixed-use	X	☆	**The Carruth** **225 Centre** **The Hayes** **Atlas Lofts** **Wash'gt'n Mills**	Mixed-income Residential with significant ground floor retail	• Neighborhood Subway	Private mixed-income/affordable housing developers; larger CDCs
Suburban	☆	X	**30 Haven** **W. Concord**	Market-rate Residential with small % of LMI and small residential center	• Town & Village • Trolley Suburb • Suburban Transformat'l	Wide range of private developers
Regional Large-Scale Mixed-use	☆	X	**Wonderland** **Quincy Ctr** **Riverside** **Assembly Sq**	Mix of office, residential, hotel, retail, institutions	• Transformat'l Subway • Urban Gateway	Private, larger, well capitalized
Preservation	X	X				

Common Characteristics of Project Types Studied

Using the table on the preceding page helped to better define the different types of TOD projects Market strength, scale and location, were the key factors in categorizing projects to better structure the analysis. Those and other factors illustrate the common characteristics of each project type:

Neighborhood Small-Scale Mixed-use Development (Weak market)

- Located in urban neighborhoods
- Market rents are too low to support conventional financing
- Affordable housing is typically the major component.
- There is often a small retail component.
- Small-scale, 25-35 units.
- Surface parking is usually sufficient.
- 3-5 stories, less than 70'; stick-built construction.
- Subsidies and other governmental and non-profit sources are necessary for financial feasibility.
- The small scale is conducive to using 9% Low Income Housing Tax Credits (LIHTC) awards to serve as a major part of their financing.
- Projects tend to be developed by neighborhood-based Community Development Corporations (CDCs).

Projects studied include: ***157 Washington Street, 270 Centre Street***

Neighborhood Large-scale Mixed-use Development (Weak market)

- Located in urban neighborhoods
- Market rents are too low to support conventional financing.
- Mixed-income housing is typically the major component.
- There is usually a small to medium-size retail component.
- Larger-scale, 50 units+; greater density.
- Likely to require structured parking, at least in part.
- Usually requires more expensive steel frame or concrete construction.
- Subsidies and other governmental and non-profit sources are necessary for financial feasibility.
- Larger scale exceeds size of 9% LIHTC awards. Most often use 4% LIHTCs and add other sources.
- Projects tend to be developed by larger Community Development Corporations or private developers specializing in these types of projects sometimes in partnership with CDCs.

Projects studied include: ***The Carruth, 225 Centre Street, Atlas Lofts, The Hayes, Washington Mills***

Suburban Development (Strong market)

- Located in communities outside of the urban core and inner city neighborhoods
- Market rents are strong enough to support conventional financing.
- Residential is typically the major component.
- There is usually a small to medium-size retail component.
- Medium to larger-scale; moderate density.
- Generally surface parking is sufficient.
- Typically 3-5 stories, stick-built.
- Subsidies and other governmental sources are necessary for financial feasibility only if there are excessive infrastructure costs.
- These projects tend to be developed by private developers.

Projects studied include: ***30 Haven Street (Reading) and West Concord***

Regional Large-scale Mixed-use Development (Potentially-strong market)

- Prominent location that can appeal to regional market:
  - transit station
  - high visibility
  - good highway access
  - potential to create strong urban environment
- Current market rents may be too low to support conventional financing.
- Site has potential to develop at a larger scale and unlock potential site advantages to transform their setting to create a more attractive environment, and obtain higher rents and sales prices sufficient to support conventional financing.
- Large-scale, 200 units+; greater density.
- Mixed-use: Residential, office, retail, etc.
- Requires structured parking.
- Requires more expensive steel frame or concrete construction.
- Subsidies and other governmental sources are necessary to assist with unusually high infrastructure costs, and, sometimes, site assembly/creation.
- These projects tend to be developed by large, financially strong, private developers.

Projects studied include: ***Wonderland Station and Riverside Station***

2-B Data From Project Samples: Project Financials ("Dashboards")

Summary pages, or "Dashboards", for each of the studied projects are presented on the following pages. These sheets represent basic data for each of the projects; including each project's basic pro forma; revenue information if applicable, and a summary of qualitative information as presented via interviews with project sponsors. These summaries represent only project information that was available from sponsors. Much of it came from project One-Stop applications. The level of available information varied. In particular for some of the private developers developing primarily market-rate projects and not using State housing funds there was significant difficulty in obtaining a similar level of data from those developers due to their strong aversion to release proprietary information. In some cases the information obtained was through an interview process Notes from those interviews (Wonderland Station, Riverside Station) are provided following the Dashboards.

Wonderland Station (Waterfront Square) Project Summary

Eurovest Development has entered into a 99 year lease for approximately 8.8 acres almost adjacent to the Wonderland Blue Line Station and across the street from a new park and Revere Beach. Eurovest prepared a master plan for the 8.8 acre and is planning to develop Waterfront Square, a $500 million project, consisting of 900 luxury apartments, 135-room boutique hotel, 165,000-square-foot office building, and a dining and a retail corridor. The project is expected to take eight years to complete.

The parcel previously had accommodated parking and bus operations. The Commonwealth has just completed a $53.5 million, 1500-car parking structure and intermodal center adjacent to the station to free up the land for development. They have also begun constructing a $20 million plaza and park covering the subway station and along with a pedestrian bridge providing a connection to Revere Beach from the station as well as Waterfront Square.

The 1st phase of the development will consist of 194 apartments in two buildings, projected to commence construction in 2013 (estimated project cost $40 million) with a 2nd phase of either office or hotel projected to commence construction in 2014.

The Commonwealth's project was crucial, not only to make developable land available but also to establish a high quality environment with a cleaned up waterfront and station and access to the station and beach.

Riverside Station Project Summary

Normandy Real Estate Partners has entered into an 87-year lease with the MBTA for approximately 9.4 acres of their 25-acre parcel for the Riverside Green Line Station. Normandy will also add a .7 acre parcel from their adjacent Indigo Hotel property. The T was to build a new intermodal station and a parking garage of approximately 1,000 spaces to replace their current 960 surface parking and free-up land for lease (and development). The T has not yet been able to obtain funding for the new station nor the replacement garage. Normandy is planning on building the garage in order to keep the project moving. This will add approximately $35-38,000,000 to their development costs. The garage will cost $35,000-38,000/space which is considerably more expensive than if it were done purely to private standards and private means ($22,000-25,000/space). The basic reasons include MBTA design standards and prevailing wage requirements

Normandy must make a number of additional major infrastructure improvements to allow development:

- Move a MWRA water line: $750,000-1,000,000.

- Roadway connection between garage and highway system: $5-6,000,000.
- Road improvements: $2,000,000
- Structured parking under office building and residential rather than surface parking.

Permitting process began in 2007 and is now almost complete. Somewhat difficult process in Newton. Wanted project to solve a number of existing traffic issues. Comprehensive Plan called for 1,000,000 SF on the site. Because of concern about schools and school costs and traffic they were reduced from 874,000 SF to 794,000 SF to 695,000 SF to current proposal of 588,000 SF.

MBTA lease payments were reduced per original proposal by SF reduction to a floor of 600,000 SF. Infrastructure requirements were not reduced and thus same dollars will be spread over less square footage.

They believe TOD has helped to reduce parking requirements:

	Typical	RS Ratio
Office	3.5-4.0/KSF	3.0-3.3 (maybe 2.75 depending on market response)
Apartments	1.5	1.3

Lenders have accepted higher rents than market:

	Typical	RS Projected
Office	$44-45/RSF	$48/RSF
Apartments	$2.25-2.30	$2.50-2.80

Phasing
Phase I & IA: MBTA garage, Intermodal Center, Transport'n Infrastructure Improvements
Phase II: Office, retail, residential and supporting parking

Economics
<u>Office</u>

- $400/SF
- Feasible project: 9-9.5% Return on cost; approaching 18% IRR
- If it were spec would need 9.5-10%, but if build-to-suit only a 9.0% needed
- Loans 65% LTV, 6.5-7.5% CAP depending on decent credit or not and 10-12 year lease term
- Needs rent in High $40s to 50/SF gross

<u>Residential</u>

- Feasible project: 6.5% Return on cost; 5.0-6.0% if core urban on trailing 12 months with cost control; approaching 8.5-9.5% IRR

<u>Retail</u>

- Feasible project: 8-9.0% Return on cost; but need an anchor;
- Exit CAP 7.25-7.5

Financing Vehicles

- State Infrastructure programs: MassWorks, PWED, CDAG, I-Cubed, MORE Jobs Grants
- Federal: SAFETEA-LU Reauthorization, TIGER III, 2012 Transportation/HUD Appropriations Act
- New Start/Small Starts
- MBTA: Opportunities to pursue additional revenues generated from Intermodal Center for low cost bonds, Tax
- TIF or DIF

Issues/Financing Assistance

Developer noted that the predevelopment costs for the project have been huge--$6,000,000—for permitting and preliminary design. However, because of the land lease they are not required to take the land down and carry that before they are ready to commence development. There a number of infrastructure requirements that go way beyond that of similar projects. These include construction of a replacement MBTA garage, new roadways to connect to the regional highway system , local road improvements, relocation of major MWRA water line. While major projects typically have some significant infrastructure and off-site roadway improvements, an additional $43-47,000,000 ($74-$81/SF) is very significant. It's adding on the order of 15% to TDC. In addition the parking solution they've adopted adds to cost.

When they made their original proposal prior to 2007 the markets were stronger but the financing costs and ratios were much higher. We do not have access to their financial pro formas. We must assume their project made financial sense. But we can well believe that the added infrastructure cost –particularly the MBTA replacement garage—and that their program is now only 2/3 of the original is straining their ability to finance the project and they are searching for public sources to reduce the burden and fill the gaps.

When asked what might be helpful they mentioned:

- Agency/service that helps connect developers with organizations and programs that can help identify sources that can help make a viable project.
- Bonding and/or grant programs or other low cost financing that can cover both excessive predevelopment costs and extraordinary infrastructure costs.
- Make more costs eligible for existing programs.
- Financing sources to front the cost of garages that need to be built first before new revenue-generating development.
- Backstop for I-cubed obligation.

2-C Project Sources & Uses Comparison

The tables on the following pages represent a comparison of both sources & uses for the studied projects. These pages offer a “quick glance” at comparing the TOD projects studied. Highlighted areas on the each of the tables represents sources or uses that are unusually high or low, and are therefore of note. Costs have not been adjusted to current dollars. If they had been adjusted the costs for older projects, such as The Carruth and Washington Mills which were completed five years ago, would likely be greater. Atlas Lofts and The Hayes are two years old and the differences with current dollars would likely be relatively small as there have not been large increases in construction costs over that time period.

Sources have been organized by category of funding to aid in analyzing gaps and issues.

Analysis is provided in Section 4.

3. TOD Financing System Overview

3-A TOD Financing System Overview & Funding Sources

Financing TOD projects is not fundamentally different from financing other real estate projects of similar size and type. Indeed, today a transit oriented location is often a plus in lender and investor consideration of a project. However, there are two facets of financing TOD projects which present the challenges. First is the mixed-use character of most TOD projects. Not all lenders and/or investors will consider a mix of uses, and prefer to focus on one use type. As a result, underwriting commercial (retail) revenue in a predominantly residential project can be challenging. Second, because of site development costs and parking requirements, and sometimes because of the project scale, TOD projects often have higher costs than comparable non-TOD projects.

Like most private real estate projects, TOD developments are funded using debt, equity and government sources. Developers need a permanent, or final, source of funds, and they also need a source of funds for the early, or predevelopment, stage of the project. What distinguishes the financing approach taken is not whether the projects are transit-oriented, but the type of project they are, e.g., primarily market; primarily affordable; or mixed-income.

One notable change over the last ten years has been a change in the nature of project debt, and a blurring of the distinction between construction and permanent financing. Today, on the whole, the construction funder becomes the permanent funder for at least some initial period of time, and initial loan terms are typically at least three and up to seven years.[3] Indeed, affordable and mixed-income projects using government issued or supported debt often have initial financing terms of thirty years. For this reason, we are using the term 'project' debt and 'permanent' debt somewhat interchangeably, as denoting the debt that comes into a project at the construction closing.

The term bridge financing can also be confusing. Projects of all types use 'bridge' financing to address timing of a committed source. Project sources that might typically be bridged include funds from a capital campaign; tax credit equity; or revenue from the sale of condominium units. Bridge loans can also be needed to address timing issues in the context of New Markets tax credit financing, when all sources need to be available at closing. There is nothing unique to TOD projects in this requirement.

[3] Market-oriented projects at one-time had two major stages of project financing—construction and permanent. A construction lender—often a bank—would fund the debt portion of the project starting at the time the land was acquired and almost simultaneously construction began based on a draw schedule. Equity was contributed as needed. When the construction was complete and the space was substantially leased up, a permanent lender would replace the construction lender. As noted, this system has more typically been supplanted.

Following is a summary of how each of the project types studied is typically financed, and the broad approaches that are now being used to address the unique TOD project issues:

Primarily market-oriented projects
Projects that include primarily market-rate units are typically funded by a combination of conventional debt (first mortgage) covering most of project costs and second mortgages, mezzanine debt and equity covering the balance. These projects may also incorporate historic tax credit equity and special infrastructure financing. But the core of the financing is debt and equity that is supported by projected cash flow.

Debt rates and leverage ratios (debt to equity) vary depending on the financing markets and the lending environment, but whether a project is TOD or not will have no bearing on the underwriting requirements (although it may make lenders more interested in projects). Similarly, equity returns will vary over time and whether an asset class is 'in favor' or not.

Predevelopment funds for these projects typically come from the developer. Private developers resist using investor equity in these earliest stages since this is considered 'expensive' money (e.g., requiring a high rate of return and thus dilution of the developers' ownership). For this reason, private developers have a very high premium on getting to closing quickly, and will be reluctant to fund land acquisition substantially in advance of full project closing. One challenge, therefore, for market-oriented TOD projects is how to maintain site control if the predevelopment period is extended, either because of permitting issues or the need to provide infrastructure improvements. The other related challenge is the amount and timing of infrastructure investment, especially for the regional large-scale projects which are typically being built near transit hubs.

Primarily affordable projects
Projects in which most units are income restricted are funded primarily through the use of Low Income Housing tax credits (9% LIHTCs), a small amount of debt, and an array of government programs, either as 'soft' debt or grants, specifically (and solely) for affordable housing. The absolute and per unit limitations of the tax credit and other government sources typically limit the size of the projects, and the need to segregate housing funds from non-housing uses often dictates that these developments separate their components into different entities, often through a condominium structure. This need to 'structure' a project to meet requirements of sources adds complexity and cost; as more and more sources are added the complexity and inefficiency increases. This is a problem shared by all affordable housing projects, and is not unique to TOD projects.

Debt is typically a small portion of the overall sources for these projects [<12%], and securing debt is not typically an issue once the affordable housing sources have been secured. One challenge for affordable TOD projects is the retail component, which also typically requires subsidy. Most recently, the New Markets tax credit program has supported the commercial component, which has filled a huge need since there have been few other programs available to fund non-residential uses. (In the past, there has been a patchwork including the US Department of Housing & Urban Development (HUD) Section 108 program and the use of Community Development Block Grant (CDBG) funds). The other challenge is the additional costs of the projects, requiring further layering of affordable housing sources. As sponsors add more and different kinds of sources, complexity increases, and costs increase, further eroding feasibility. The state's Priority Development Fund (PDF) program has been used to address some of the funding gap related to the TOD per unit costs.

The other challenge for these projects is the predevelopment time frames. While affordable housing sponsors expect once they are 'in the queue' for funding, that it will eventually be awarded, the time period from inception to award, and award to closing, has grown longer and longer due to constraints on State funding. This extended predevelopment time-frame is one of the biggest systemic challenge facing affordable housing projects. Developers cannot typically self-fund predevelopment or acquisition. There are several sources for these predevelopment funds for non-profit sponsors, mostly from quasi-governmental and non-profit sources, who end up sharing the risk of these extended predevelopment periods. The overall model for predevelopment funding assumes that the predevelopment funds will be repaid when the project financing closes, and recycled to fund the next project. When the project pipeline stalls, as happened during the financial crisis of 2008, the entire system freezes. The TOD projects based around transit expansion have an even greater challenge in this regard, as the time frames for major infrastructure planning, permitting and investment are far longer than even the extended affordable housing queue. There are no specialized funding sources that take this very long view.

Mixed-income projects

Mixed income projects (most Neighborhood Large-scale projects) by necessity use a mix of financing programs, and may have the worst of both worlds. They use the same sources to fund the affordable housing components as the primarily affordable projects, and, to the extent supportable, use debt and equity for the market rate components.

Mixed-income developers often use the 4% tax credit program; while the subsidy for the affordable units is not as deep; the program has greater availability, does not have the absolute per project limits of the 9% program, and brings favorable debt terms to the totality of the project. Developers then use the same array of programs typical of affordable housing projects to support the income restricted component, and face the same issues of multiple sources, spiraling complexity and extended predevelopment time frames. This includes the challenges funding the commercial components, which will typically be more sizable, and therefore require even greater financial support.

There are further unique issues faced by mixed-income projects. Mixed income projects have a benefit of the debt component available through the 4% program, and are potentially able to attract some conventional equity. However, as discussed further below, the market rate component often cannot be fully supported by debt and equity. Over time, there have been a variety of other sources used to support the market rate component (the PDF program being the most recent), but there is not steady or reliable source to finance this component beyond conventional debt and equity. The project analysis section details how each of the projects studied addressed this funding issue.

The other project financing issue facing mixed-income projects is funding the parking component. Because of the typical density of these projects, parking is in structures, making it costly. While parking ratios are lower than in non-TOD locations, the parking still cannot be supported by revenues, and this project component needs to be subsidized. Here again, there are no regular sources.

The mixed-income developer faces the same issues with extended predevelopment time frames as the affordable developer.

TOD financing issues and sources
The two financing issues common to many TOD projects are challenges financing the commercial (typically retail) components, and the costs of infrastructure, including parking.

- Retail Component Financing: including retail space is often an important feature in a TOD project, with goals of reducing automobile use and supporting sustainable communities. For many Neighborhood projects, market rents will not support the construction costs of the retail component. In the past several years, the New Markets Tax Credit program has become the preferred funding source to support non-residential use, through the leverage loan structure. This program supports equity investment of between 20% and 25% of the component costs of the retail. The HUD Section 108 Loan program has also been used to support commercial components.

- Infrastructure Financing: this is a problem common to almost all TOD projects. The infrastructure needs vary, ranging from utilities, roads and sidewalks to structured parking. Over the past five years, the Commonwealth has placed an emphasis on improving and enhancing the mechanisms to fund infrastructure, and establishing approaches that enable to the state to match the right program to a project's needs. TOD projects are identified as a priority category for receipt of funds. Project maximums vary by the project and the funding source.

- Following is a compilation of funding sources utilized for the projects studied, as well as other funding sources potentially available for TOD projects. Descriptions of the government sources are provided in Appendix B:

A. Infrastructure

State Sources

1. MassWorks Infrastructure Program District Improvement Financing (DIF)
2. Infrastructure Investment Incentive Program (I-Cubed)
3. Urban Center Housing Tax Increment Financing (UCH-TIF)
4. Transit Oriented Development Infrastructure and Housing Support Program - TOD Bond Program
5. MassDevelopment Brownfields Redevelopment Fund

B. Debt

State Sources

1. MassHousing – Mixed Income Financing Program

Private Sources

2. First mortgage
3. Mezzanine Debt

C. Tax Credits

State Sources

1. State Historic Tax Credits
2. Housing Development Incentive Program (HDIP) MA Department of Housing & Community Development (DHCD)

Federal Sources

3. Low Income Housing Tax Credits (LIHTC)
4. Federal Historic Tax Credits
5. New Markets Tax Credits

D. Equity

Private Sources

1. Private Equity
2. Deferred Developer Fees as Equity

E. Soft Debt / Grants / Incentives

State Sources

1. Commercial Area Transit Node Housing Program (CATNHP), MA DHCD
2. MA Priority Development Fund (PDF)
3. MA Affordable Housing Trust Fund (AHT)
4. State HOME Funds
5. Facilities Consolidation Fund (FCF) , MA DHCD
6. Housing Innovations Fund (HIF), MA DHCD

7. Economic Development Fund (EDF), MA DHCD
8. Housing and Smart Growth Incentives (Chapter 40R)
9. Smart Growth School Cost Reimbursement (Chapter 40S)

<u>Federal Sources</u>

10. Federal Home Loan Affordable Housing Program (FHLA)

<u>Municipal (or Municipality-controlled) Sources</u>

11. City HOME Funds
12. Neighborhood Housing Trust, City of Boston DND
13. Neighborhood Stabilization Funds, City of Boston DND
14. Industrial Development Corporation Funds Boston Redevelopment Authority (BRA)
15. Community Development Block Grant (CDBG)
16. HUD Section 108 Loans

F. Bridge Loans

<u>State Sources</u>

1. MassHousing Bridge Loans

<u>Private Sources</u>

2. Bank Bridge Loans

G. Acquisition and Predevelopment Loans

1. City of Boston Department of Neighborhood Development (DND)
2. Non-profit and quasi-government lenders
3. Banks

4. Analysis / Findings / Issues

4-A Analysis

We've compared projects using the sources and uses comparison tables provided in Section 2-C to provide the following analysis for each type of project. This will help to provide an understanding of the financing gaps and issues in developing these projects.

Neighborhood Small-scale Mixed-Use Development (Weak market)

Projects in neighborhoods where market rents are too low to support conventional debt as the primary source for financing have a distinct set of issues which are similar to those experienced by sponsors developing affordable housing in general. These issues have little to do with whether they are TOD projects or not. In market-rate projects debt represents typically 60-85% of the development costs with equity and mezzanine debt providing the balance. In affordable development, LIHTCs (9% credits) are the primary source which, in the projects we reviewed, covers almost 50% of the required sources. The array of government affordable housing programs that are used relatively consistently represents another 40% and the balance of about 12-13% needs to be raised through an array of grants and other, less predictable, government and non-profit programs in order to achieve financial feasibility.

The issues for these developers include:

- Putting together many sources in order to provide sufficient capital (typically 8-12 sources per project).

- Long predevelopment periods waiting in the queue to be awarded the tax credits and to find, gain approval and coordinate all of these sources.

There was no specific gap in the financing for the projects we reviewed—they all found the financing needed to fund their projects. In this category, we know from experience, if the sponsor can put the property under agreement for a reasonable price (per unit cost that meets standards), obtain permits and has staying power, they will eventually get their tax credit award and find the other sources needed. We have seen projects fail to proceed because of some combination of the following:

- they have not been able to buy the land at a reasonable price
- they have been unable to obtain permits
- their per unit development cost is too great
- the sponsor didn't have sufficient financial staying power.

What are the factors that make it difficult to structure feasible projects? Through analysis of project financing and developer interviews, we note a number of issues:

1. <u>Uses/Project Costs.</u> Development costs were approximately $50-110,000/unit higher than suburban market rate developments. Examining components of that cost provide insights:

    - Construction costs were $15-50,000/unit higher. Possible factors include:

        - Government funded projects are usually subject to prevailing wage requirements. We find from experience that this adds typically 15-20% on projects.

        - 157 Washington was in part a rehab of an existing building and this may have contributed to its cost.

        - Requirements for three and four bed room units (which are not required of market-rate projects) add square footage and cost which is not offset by revenue on a per SF basis.

    - Soft costs were about $30-35,000/unit higher because of:

        - higher legal fees (roughly 3 times that of a market-rate project) due to the complexity of putting so many sources together and coordinating closings;

        - Sometimes higher architectural fees, and

        - Inclusion of operating reserves in the proforma, which are not required by a conventional lender.

    - Financing costs were roughly $5-15,000/unit higher primarily due to: extended periods to carry acquisition and predevelopment financing. Often properties need to be taken down early in the project because sellers are unwilling to hold the properties off the market while the developer waits in the queue for financing. The long wait can lead to significant financing costs that a non-subsidized development doesn't have.

    - Land Acquisition was not a consistent factor. It was relatively high for 157 Washington at almost $51/SF and relatively low for Center Wise Lamartine at approximately $18/SF.

2. Project Financing.

   - The queue to obtain LIHTC awards can be very long. Sponsors are having to apply over 2, 3 and 4 rounds. Just the application and preparation costs the sponsor a significant sum.

   - 43-48% of needed financing is covered by LIHTC. A combination of conventional debt, deferred developer fees and a few other key sources, representing another 36-40%. Obtaining the last few sources for the remaining 16-17% of the required sources (roughly $1,600,000-2,200,000) can be difficult, time consuming and sometimes difficult to coordinate.

   - TOD projects typically include a retail element as part of the project. Existing retail rents in neighborhoods where small projects are located are typically in the range of $12/SF ±. New retail at a station might command slightly higher rents, but insufficient to carry its share of development costs and it is difficult to get lenders to underwrite higher rents.

   - The size of LIHTC awards limit the size of these projects to 30-50 units or so. To undertake larger projects, developers are using other financing mechanisms (see Neighborhood Large-scale below) and the projects are no longer strictly affordable units.

3. Acquisition and Predevelopment Loan. It has taken many of these developer 2-3 years or more to line up all of the sources and wait in queue for tax credits. Sellers are reluctant to wait that long with their property off the market. They might wait a year for a normal due diligence and permitting process but not two or three years to close on site acquisition. Therefore, many of the projects in these neighborhoods had to acquire the property up front, undertake extensive predevelopment activities and borrow funds to do so which added interest carry and risk. The ability to obtain acquisition and predevelopment financing, which does not require significant repayment until the project loan closing is very important for these projects.

4. Permitting. While permitting can be an issue, as was the case with 157 Washington Street, it tends to be less of an issue in those neighborhoods than with suburban projects.

Neighborhood Large-scale Mixed-Use Development (Weak market)

These projects have similar issues to Neighborhood Small-scale projects in that they must finance projects in neighborhoods where market rents are too low to carry conventional financing and thus require subsidies and financing programs. These projects are significantly larger, have a component of market-rate units as well as often a more significant retail component, and tend to use 4% LIHTC and find other sources. Most of the issues have little to do with whether they are TOD projects or not, and relate more to issues of financing affordable and mixed-income housing in markets not strong enough to support development. But there are a few key issues that relate more to their being TOD projects:

- Financing of the larger retail component
- Greater infrastructure issues and costs
- Greater density resulting in more expensive building types and parking solutions

There was a great diversity in Neighborhood Large-scale projects and it is important to outline the individual financing structures for the projects studied:

<u>225 Centre Street:</u>
There are three condominium components to the development: affordable housing, market-rate housing, retail. The affordable condominium units and the market-rate condominium units are scattered throughout the building. The affordable condominium uses 4% LIHTC and regularly available affordable housing programs. Both the affordable condominium and the market-rate condominium jointly use debt from a MassHousing loan at tax-exempt rates. The retail condominium is financed with New Markets Tax Credits (NMTC) and a HUD Section 108 loan from the City of Boston. Private equity and deferred developer fees also provided some of the funding. LIHTC, debt on the residential units, NMTC, regularly available affordable housing programs and equity covered about 76% of the cost. The balance required specialized sources that are either no longer available or rarely used. Priority Development Fund dollars were key to making the mixed-income housing feasible. It acted like mezzanine debt but carries no interest and will be repaid in future years as the project has greater cash flow over time. It was not possible to finance the retail with MassHousing debt, as was used for the housing components, and still use NMTCs, nor was it possible to find a lender that would finance the retail element at that location. The City of Boston was willing to provide a HUD Section 108 loan personally guaranteed by the developer on an interest only basis for 7 years (as required for NMTCs). In addition, structured parking was funded using a $2 million TOD Parking grant. Infrastructure improvements to the larger Jackson Square project (of which 225 Centre is one element) of about $3 million were funded by a Massachusetts Opportunity Relocation & Expansion Program (MORE) grant of which about $1 million was attributable to the 225 Centre project. That cost to the

project was rolled into the land acquisition/master planning charges from Jackson Square Partners.

The Carruth:
There are three condominium components to the development: affordable housing, for-sale market-rate housing, and retail. The affordable condominium and retail element used a combination of 4% LIHTC, MassHousing debt and regularly available affordable housing programs much as a small-scale project would. The incremental costs of adding the for-sale element were financed on an interim basis by a MassHousing Bridge Loan and private equity to be repaid out of proceeds from the sale of units.

Atlas Lofts:
The project was financed very similarly to a primarily market rate project. It used debt and historic tax credits to cover 76% of the cost and equity and deferred fees to cover another 13%. Neighborhood stabilization (NSP) funds of $1,120,000 representing 7% of the cost filled the gap.

The Hayes
The project was financed with 9% LIHTC, historic tax credits, and regularly available affordable housing programs covering almost 89% of the cost. The gap of just over $2 million was filled with State TOD ($1,000,000), DHCD CBH ($507,370), Federal Home Loan Affordable Housing Program grants (FHLA) ($400,000) and miscellaneous small grants.

Washington Mills:
Historic Tax Credits and debt supported by cash flow covered 63% and equity and deferred fees and payments represented another 30%. The gap of 7% ($2,950,000) was provided by a special appropriation from the Commonwealth.

In these developments, LIHTCs (9% or 4%), other tax credit programs and debt were the primary sources which covered about 48-76% of the cost, and the balance needed to be raised through an array of subsidies and other governmental and non-profit sources. As with the Neighborhood Small-scale projects, piecing together so many sources (typically 8-12 sources per project.) and, for projects using 9% LIHTC, waiting for tax credit awards and to find, gain approval and coordinate all of these sources, were significant problems.

Again, there was no specific gap in the financing of the projects we reviewed—they all found the financing needed to fund their projects. But it took considerable time to put the last elements of the financing in place, and many of these were “one-off” kinds of funding that are not typically available or only available for a short period, such as Neighborhood Stabilization and special appropriations and Priority Development Funds. These projects faced a gap which was filled by these specialized or unique sources. Those sources may not be available for the next project.

What factors make it difficult to structure feasible projects and what would the gaps have been if these unique sources couldn't have been found? Through analysis of project financing and developer interviews, we note a number of issues. Many of these issues were the same or similar to Neighborhood Small-scale projects, and are repeated below if they are issues for these projects also:

1. Uses/Project Costs. Development costs (other than for Washington Mills) were approximately $55-255,000/unit higher than market rate developments. Components of that cost include:

    - Construction costs were $25,000 and $90,000 per unit higher for two of the projects. However, two of the three adaptive reuse projects were not more expensive on a construction cost per unit basis. Possible factors include:

        - Government funded projects are usually subject to prevailing wage requirements. We find from experience that this adds typically 15-20% on projects.

        - For The Carruth, the $190,000 differential in per unit construction cost may be partially explained by an ability to determine the appropriate portions of the construction cost attributable to the rental housing component versus the for-sale units, as well as significant site costs, underground replacement parking and steel construction (see next bullet).

        - Larger-scale projects are often denser and while that may help to spread acquisition and soft costs over a larger base, it generally requires a different and more expensive construction type—Steel-frame rather than less expensive, stick-built.

        - These projects often require a greater ratio of parking for retail and market-rate units, than strictly affordable projects, which may need to be accommodated in a very expensive structured or even an underground facility. While it's counterintuitive that TOD sites would need more parking, retail tenants won't accept that their customers won't require close to their normal parking ratios.

    - Soft costs were about $30-35,000/unit higher because of

  - Higher legal fees (roughly 3 times that of a market-rate project) due to the complexity of putting so many sources together and coordinating closings;

  - Sometimes higher architectural fees, and

  - Inclusion of operating reserves in the proforma not required by a conventional lender.

- 225 Centre, The Carruth and Atlas Lofts had financing costs that are somewhat higher. Again this may in part be due to extended periods to hold predevelopment financing. Though acquisition financing does not appear to be an issue for these three projects.

- In the case of Atlas Lofts land acquisition and master planning was high relative to market projects. This is due in part to the master developer allocating acquisition and predevelopment carry and planning costs incurred over several years.

2. <u>Project Financing.</u>

- The queue to obtain 9% LIHTC awards can be very long. Sponsors are having to apply over 2, 3 and 4 rounds. Most of these projects used 4% LIHTC instead.

- While 76-93% of needed financing is covered by a combination of LIHTC, debt, deferred developer fees and a few other key sources, obtaining the last few sources representing 7-24% of needed funding can be a challenge, time consuming and sometimes difficult to coordinate.

- TOD projects typically include a retail element as part of the project. If that element is more than incidental space it may be very difficult to finance. We note that 225 Centre Street, currently under construction, had to obtain a HUD Section 108 loan from the City of Boston to finance the retail component, as MassHousing was not able to incorporate it as part of their residential loan and the developer could not find a private lender.

- In mixed-income projects, even market rate units, which appear to be able to command higher rents, are not always able to obtain significantly increased loan amounts, as lenders have not been willing to underwrite a premium over comparable rents in the neighborhood. They're limited by the property's appraisal. And the appraiser needs market comps on which to base his appraisal.

Market rents may be higher than the affordable units in some of the projects analyzed, but they were still insufficient to carry their share of development costs and need a patient source of funding to cover the gap until rents rise sufficiently. (Priority Development Fund served this purpose at 225 Centre Street). For strictly affordable projects, 9% LIHTC and subsidies can cover those units' costs.

This issue is simply illustrated by analyzing 225 Centre Street. As illustrated in the thumbnail below, there are few subsidies for the market rate component. The 'net' cost after deducting the cost of the retail and taking a credit for the PDF funds is roughly $400,000/unit. The average rent per unit included in the financing package is $2,000/month ($2.28/NSF). The annual net operating income generated by the unit is $16,000, which is a 4% return on cost—insufficient to cover market returns on debt and equity.

	(000s)	Notes
Total Units	68	
Cost / Market-rate unit	**$377,557**	
Market rent/unit	$2,033	$2.28/ NSF
Annual rent	$24,396	
Annual operating	($8,378)	
NOI / market-rate unit	$16,017	
NOI/Cost	**4.24%**	

One factor contributing to this issue is that underwriters are fairly conservative about achievable rents, since there is no comparable high quality rental stock in the sub-market. From our own knowledge of this sub-market, we would expect that average rents would be at least $2.50/ NSF and might even approach $2.75. Since this incremental revenue drops to the bottom line, this changes the financial performance substantially, and would allow greater leverage. The leveraged returns would get close to a financially acceptable level for equity. A program which is tied to providing additional financing at costs lower than market rate equity returns might be an avenue for funders to consider in supporting mixed-income TOD. A source like PDF has worked well on the 225 Centre project in closing most of that gap.

3. Acquisition and Predevelopment Loan. It has taken many of these developer 2-3 years or more to line up all of the sources, wait in queue for tax credits and work through a sometimes extensive permitting period. Having to purchase the property early wasn't so much an issue for these projects compared to Neighborhood Small-scale projects. Still having patient government-owned sites is valuable. These projects might also benefit from greater availability of predevelopment funding for these somewhat larger projects.

4. Permitting. While permitting can be an issue, as was the case with The Carruth where the neighborhood demanded a greater parking ratio than the market needed, it tends to be less of an issue in these neighborhoods than with Suburban projects.

Suburban Development (Strong market)

Projects in suburban communities, where rents are high enough to support conventional financing, have a different and somewhat distinct set of issues. Conventional debt is the primary source for project financing. For these primarily market-rate projects (typically providing 10-15% affordable units as required by municipalities) debt represents 75-85% of the development costs with equity and mezzanine debt providing the balance. A greater degree of affordability is provided by 40B projects (25% affordable units) and by local CDCs and Housing Authorities. None of the sampled projects included 40B or CDC projects in suburban areas.[4]

While there was no specific gap in the financing for the projects we reviewed—they all found or expect to find the financing needed to fund their projects—we were able to identify issues that might keep projects from proceeding.

1. Uses/Project Costs

    - Acquisition costs and site assembly can be issues at transit stations. Site assembly is difficult and landowners, particularly those owning the last

[4] However we understand that there are greater difficulties funding primarily affordable projects, including TOD projects, in these communities. Many of these suburban municipalities have run out of funds to provide some of the sources that larger municipalities like Boston and Cambridge provide. The transformation of Watertown Community Housing into Metro West Collaborative Development serving a much broader geographic area and many municipalities in combination with CDCs in these communities is in part a response to this funding issue in any one individual community.

land parcels to be added to a land assembly, have high expectations of their property's value.

- Infrastructure issues. TOD sites are often old industrial/commercial sites with infrastructure issues. The permitting process also often leads to additional infrastructure requirements for off-site improvements such as new roads and amenities.

2. Project Financing.

   - Underwriting retail and apartment rents. The developers we spoke with all believed that ultimately their projects would achieve higher rents than market comparables due to the mixed-use character and proximity to transit. But developers had concerns that lenders would not been willing to underwrite a premium over comparable rents in the vicinity. If there are greater land costs for TOD sites but anticipated rents are not accepted by lenders/appraisers, developers must look to equity to fill the gap.

3. Permitting. In these suburban communities permitting tends to be a very significant issue, particularly these issues:

   - Density. Communities are concerned about character and traffic impacts on nearby neighborhoods.

   - Parking. Even though TOD sites shouldn't need as much parking as conventional projects, communities have concerns that if typical parking ratios aren't adhered to, parking will spill into their neighborhoods.

   - School costs. Most suburban communities are fearful that tax revenues from the development won't cover the added fiscal burden of additional school children generated by the development.

   - Character. Higher density, mixed use projects differ in character from nearby suburban communities with neighborhoods of single family homes and separate retail districts.

Regional Large-scale Mixed-use Development (Potentially strong market)

Some of the projects we looked at in locations with modest market rents and sales prices, based their economic feasibility on their ability to obtain higher rents and sales prices that can then support conventional financing. The approach these projects take is to develop at a larger scale and unlock potential site advantages that transform the project's setting to create a more attractive environment.

While the private developers at Wonderland Station in Revere, Riverside Station in Newton, and Quincy Center were not willing to share their full financial information with us to incorporate into the dashboards and analysis in this report, we were able to learn enough about their projects to develop some understanding of their structure and potential issues and financing gaps. We interviewed the Wonderland Station and Riverside Station developers. The discussion of Quincy Center is based on our broad understanding of the project from our experience with their I-Cubed review.

In order to develop a project that can command the higher rents and sales prices necessary for financial feasibility, one needs an environment that will cause potential residents to prefer the redeveloped site over the competition from properties in other attractive communities in the regional market. Image, school quality, convenience (transit, access, shopping), and quality of life are all key to enticing residents and shoppers. While it is difficult for any one project to make major change in school quality, the other factors mentioned can be addressed by the developers. However these projects need to be large enough to transform the environment—and perceptions. It is a real challenge, and expensive to provide the infrastructure and environment needed and to convince lenders, investors and communities of the proponent's vision. Underwriting can be challenging. Dealing with issues of phasing may also be challenging. These projects need large equity contributions and staying power to make them work.

With the Wonderland and Quincy projects, major Commonwealth assistance has been necessary. The Commonwealth constructed a parking structure to free up land for development and improve the environment and is constructing a plaza to access the beach for the Wonderland Station project. In Quincy Center, I-Cubed is the funding mechanism being used to pay for major infrastructure improvements including a landscaped plaza to help change the environment and its perception in the market.

With the Riverside Station project, a large scale development is necessary to create a new environment around this large station and yard and help absorb major infrastructure costs. The developer and the Commonwealth are still working on mechanisms to fund some of these improvements.

Not all locations are susceptible to this approach, but these developers are confident that they've established a successful plan and it will work in their location:

- Wonderland has the underlying benefit of excellent transit and road access and proximity to Revere Beach but the site suffers from the present unattractive environment: a sea of parking, separation from the beach by a roadway, and other image issues.

- Quincy Center doesn't have the kind of exciting mixed-use environment typical of attractive city centers but it does have excellent transit, convenient road access, a few potentially attractive older buildings to provide some character and two corporate headquarters to provide a base for the project. The developer is working on creating the exciting mixed-use environment.

- Riverside Station is in an upscale community but in a challenging physical environment.

While we did not have access to the financial proformas of any of the sample projects in this category, our understanding is that:

- Conventional debt is the primary source for financing of the individual project elements.

- However, special infrastructure financing, sometimes using tax-exempt bond debt, may be needed to get these projects to the stage where they can finance the individual projects conventionally.

While there was insufficient information to identify a specific gap in the financing for the projects we reviewed, we were able to identify issues that might keep projects from proceeding:

1. <u>Uses/Project Costs</u>

    - Acquisition costs can be an issue.

        - Wonderland had the assistance of the Commonwealth to build a parking structure which freed up parking lots for development that could be sold to the developer at reasonable prices.

        - Quincy Center had to assemble a very large number of properties on the open market.

        - Riverside Station development was to lease land from the MBTA after the MBTA freed up land by constructing a parking structure. The MBTA has not yet been able to obtain funding for the new station nor the replacement garage. The developer is planning on building the garage in order to keep the project moving. This will add approximately $35-38,000,000 to their development costs. The garage will cost $35,000-38,000/space which is considerably more expensive than if it were done purely to private standards and with private means ($22,000-25,000/space). The basic reasons for the difference include MBTA design standards and prevailing wage requirements.

- Infrastructure issues. In order to transform the character and perception of these regional TOD sites, extensive infrastructure improvements are needed. In addition, the permitting process also often leads to further infrastructure requirements for off-site improvements such as new roads and amenities.

    - Quincy Center has requirements on the order of $100,000,000 for which they are seeking I-Cubed financing in three phases.

    - Riverside Station has major infrastructure requirements of about $10,000,000 for moving a MWRA water line, new roadway connections to the regional highway system and road improvements. While major projects typically have some significant infrastructure and off-site roadway improvements, an additional $43-47,000,000 ($74-$81/SF) for Riverside Station's infrastructure requirements, off-site improvements and constructing replacement parking is very significant. It's adding on the order of 15% to Total Development Cost (TDC).

- Predevelopment and permitting costs. Large-scale, complex, projects usually take years for site assembly, permitting, pre-leasing and financing. Considerable funds—usually all equity--are invested in the project during this period and these are invested at great risk. The Riverside Station developer indicated that they have spent $6,000,000 for permitting and preliminary design to-date.

- Larger-scale projects are often denser and while that may help to spread acquisition and soft costs over a larger base, it generally requires a different and more expensive construction type—steel-frame, or sometimes a concrete structure--rather than less expensive, stick-built construction.

- Also these projects often require significant parking despite the location next to a transit station (imposed by retail tenants and municipality) and this may need to be accommodated in a very expensive structured or underground facility rather than on surface. Structure parking can cost 5-8 times the cost of a surface space, and underground parking can cost 10-15 times that of a surface space.

2. <u>Project Financing</u>

   - Infrastructure financing. This is a key element for these projects and represents a potentially significant gap. The Commonwealth has numerous programs and there are some Federal programs. These include:

     - State Infrastructure programs: MassWorks, Public Works Economic Development (PWED), CDAG, I-Cubed, MORE Grants
     - Federal: Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) Reauthorization, Transportation Investment Generating Economic Recovery grants (TIGER III), 2012 Transportation/HUD Appropriations Act
     - Tax Increment Financing or District Improvement Financing

   - Underwriting retail and apartment rents.

     - These projects need to command higher rents, for feasibility and lenders have accepted somewhat higher rents because of their transit oriented location and the transformative nature of the project but these increases may not be as great as the developer is expecting and as a result they may not be able to obtain as large a mortgage as the developer might get on an another project with clear comparables available.

     - Riverside Station believes it will be getting credit for a 10% increase in office rents and a 10-20% increase in apartment rents over the market from their lenders. Riverside Station is in Newton near Route 128 and can already expect strong rents. Still the developer expects to have a larger equity component than might otherwise be the case. Wonderland and Quincy need much higher rents than exist in the local market to achieve feasibility. The developer is not far enough along to be certain that can be achieved.

3. <u>Permitting.</u> In some of these communities, particularly the suburban ones, permitting tends to be a very significant issue, in others, particularly the urban ones, it has been less important.

   - Not only has it been difficult to obtain approvals but the result of the approvals is significant increase in cost for infrastructure and reduction in density which reduces the building area on which to spread the cost of land, infrastructure and other fixed costs.

- Reduction in density also runs counter to the objectives of TOD. If density is not provided at good TOD locations it may well be located in alternative but less appropriate locations in order to satisfy market demand.

For the Riverside Station project, permitting has taken 5 years at considerable expense. The community concerns have included:

- Density. There were concern about school costs and potential traffic impacts on nearby neighborhoods, resulting in a reduction in density to less than 60% of what had been called for in the City's Comprehensive Plan.

- Traffic and Access. City wanted the project to solve a number of existing traffic issues; requiring provision of new roads to connect the site to the regional system at a cost of $5-6,000,000 rather than relying on the robust existing street network.

Other Observations from Analysis of the Dashboards and Comparison Sheets

<u>Workforce Housing</u>

The Advisory Committee asked us to look at the financing gap for workforce housing in the suburbs. The suburban projects we analyzed didn't provide a workforce housing component. The land costs, construction cost and other requirements, as well as the cost implicit in the need for the projects to cross subsidize a 10-20% affordable component were too great to allow a feasible project at workforce rents. That would require low land cost, low construction cost (stick-built, open shop, no site premiums, surface parking), and no internally subsidized "affordable" units.

We analyzed a conceptual project making those assumptions and determined that it would be conceivable to provide housing affordable by someone earning 100% of AMI ($68,550 for one person, $1,712.50 monthly rent at 30% of income). Further, we found that the market is producing housing for those rents or lower in the Boston suburbs. If a project carries greater land acquisition cost, significant site premiums and infrastructure expenditures and at a greater density that won't allow for the use of inexpensive construction and parking solutions (such as is often the case in denser urban neighborhoods), some subsidies might be required.

4-B Funding Gap and Difficulties in Achieving Project Feasibility

As noted in the analysis above, there was no specific gap in the financing for the projects we reviewed. They all found the financing needed to fund their projects or are in the process of doing so. This may have been a flaw in the structure of the study as we reviewed a very small sample and only reviewed projects that proceeded into development, or in the case of Suburban and Regional Large-scale projects, are in process. Still the question must be asked as to what factors make it difficult to structure feasible projects. And specifically, in the case of Neighborhood Large-scale projects, we were able to identify financing "gaps" that were difficult to fill and might not be able to be filled on a consistent basis in the future. These are clearly areas that might benefit by new programs or approaches.

The gaps and feasibility issues were not always unique to TOD projects. Many of the issues for financing Neighborhood projects are true for any affordable development projects. It is difficult for this study to provide recommendations that will address issues endemic to the affordable housing finance structure throughout the Commonwealth. These issues are present and paramount whether they are TOD projects or not. But we have noted them and put forth concepts where possible. It should be noted that all of these projects are being developed in a high cost region of the country which places a burden on all development projects.

For **Neighborhood Small-scale projects** we found that for the sample projects the sponsor was eventually able to get their tax credit award and find the other sources needed. While not in our sample, we have seen projects fail to proceed to completion because the developer:

- has not been able to buy the land at a reasonable price, or
- has not been able to obtain permits, or
- can't produce the project for a reasonable per unit development cost, or
- hasn't sufficient financial staying power:

We identified the following issue that might be addressed to improve the productivity of TOD projects from this category:

- Projects are taking a long time from inception mostly because of the queue for 9% LIHTC awards. The only way to improve the system is increase the size of the pool.
- Predevelopment and acquisition funding is available but the length of time to put the financing in place makes holding costs high and potentially puts these non-profit developers at risk. A source that could be even more patient than current sources would be beneficial.

- Lenders are unable to fully underwrite retail revenue. The retail components in Neighborhood projects do not generate sufficient revenue to cover development costs yet often require more parking than residential components despite locations at a transit station, adding further to development costs. A source of funding that could bridge the gap would be useful. We estimate the size of that gap as $40-60/SF of retail.

- The last 10% of a project's financing array is difficult and time-consuming to put in place. This amounts to approximately $1,000,000-1,900,000 per project. An alternative source of financing could be helpful.

Neighborhood Large-scale projects are having to find more unique sources to close the gaps. They have all done so, but those sources, such as the Neighborhood Stabilization funds that closed the gap for Atlas Lofts, or the PDF that closed the gap for 225 Centre are not consistently available.

- The last 7-24% of a project's financing array is difficult and time-consuming to put in place. Some of the sources used for the projects in the sample are no longer available. These sources amounted to approximately $1,100,000-12,500,000 per project. An alternative source of financing is necessary.

- Lenders are unwilling to finance retail in Neighborhood TOD locations without significant preleasing, which is extremely difficult to achieve in these locations. The developers are not able to finance it with equity alone. A $4,650,000 HUD Section 108 loan from Boston was used for the 225 Centre project. But it is difficult for cities to do this consistently. Providing a source of financing or a guarantee for the retail element could be very helpful.

- One of the issues for large scale TOD projects is that the market rate component of those projects in Neighborhood Large-scale projects are actually a financial drain on the pro forma. This is because project costs are relatively high (comparable to any other high-rise residential project), but the rents that can be underwritten are limited by the rents in the surrounding neighborhood.

- Significant infrastructure costs can be an issue for these projects but state programs are available to cover these costs.

- The cost of providing parking is sometimes an issue and there are limited resources to cover that cost.

Suburban projects that were studied did not present specific financing gaps. Site assembly, the permitting process, equity requirements and infrastructure issues were the most difficult for developers to solve:

- There are limited sites, particularly large sites near transit stations, in suburban communities, and often site assembly is required. Obtaining critical parcels may be difficult, time consuming and expensive.

- The permitting process may impose a number of costs or restrictions on revenue potential through:

  - greater infrastructure burdens,

  - reduce densities, and

  - imposition of subsidy requirements (affordable housing, "affordable" retail} that must be internally absorbed by the project.

- Premium rents at TOD locations may be one way of offsetting some of the costs imposed through site assembly and permitting. However, developers believe that lenders may not be fully underwriting the rent premiums of TOD projects. Our sample size was too small to confirm this. But the availability of additional capital—debt or equity—backed by these premiums, could be helpful in advancing projects.

Regional Large-scale Mixed-Use Development projects' financing gaps relate to being able to transform the character and perception of its environment in a major way before being able to finance individual projects within its larger program on a conventional basis.

- Even more important than with the Suburban projects above, obtaining project financing that recognizes rent premiums above current market are critical to the success of the project. Presently these projects rely on preleasing of office and retail to demonstrate their ability to obtain higher rents. That doesn't help residential projects and smaller-scale retail components. These rely on equity to fill the gap. The availability of additional capital—debt or equity—backed by these premiums, could be helpful in advancing projects.

- Infrastructure funding and financing programs are key to the site and area transformation. The State has a number of such programs: I-Cubed is being used successfully by projects such as Assembly on the Mystic and Quincy Center to provide financing for major infrastructure improvements. However I-Cubed is only effective for projects where the major focus is economic development as the tests for approval are net new tax revenue and net new jobs. Projects with a strong residential focus will not likely be able to use it. MassWorks is proving an effective tool in addressing infrastructure issues. TIF and DIF could be helpful in addressing these issues.

- As with Suburban projects, permitting can be a major issue, imposing infrastructure costs and reducing densities.

4-C Recommendations: Potential Financing Support, Capital Market and Public Policy Strategies

Devising funding or other programs based upon the following strategies could help accelerate projects and increase the amount of TOD. It should be noted that the current financing system for funding mixed-finance projects, in particular, is enormously complex and inefficient. Adding another source of financing should be structured to reduce this complexity and inefficiency, not add to it:

1. Structured Acquisition and Predevelopment Fund. Provide a structured fund that can reduce the cost and risk of holding property while putting together financing and approvals for TOD projects. Existing acquisition and predevelopment lending sources have done a good job at providing funding to smaller non-profit developers, but the cost of these loans add up over the number of years that they must be held. Interest payments and repayment of these loans place great stress on these entities. As described in the Best Practices section below, creation of structured funds has worked well in other communities. Layering risk has leveraged larger funds, provided less expensive loans and reduced the exposure of the non-profit developers.

2. Financing for Retail Components. There is a real need for a financing source in neighborhoods where retail is not a well-established and economically strong use. This is particularly true for the Neighborhood Large-scale projects. It is difficult to wrap this use into a loan covering the housing component unless it is a very small, almost incidental, component. With the potential loss of the New Markets Tax Credits program, funding for this use may become even more critical. One of the key differences between TOD projects and mixed-income residential projects near transit stations is the retail component.

    - There would be great benefit in establishing a loan fund for retail in TOD projects. It could function similarly to Boston's provision of a HUD Section 108 loan to 225 Centre Street for its retail component.

    - If a developer could pre-lease retail space, lending institutions might provide a loan, but pre-leasing is almost impossible for these projects. Provision of rent guarantees might allow lenders to finance the retail component. There will be issues as to how long the guarantee would need to be in effect.

    - Many retail tenants in these projects need significant dollars to build out their space and funds are usually set aside in the development pro forma for tenant improvements (TI). A fund to provide TI dollars would be helpful and might be something that could be done to partially close the gap, but on a smaller scale than the options above.

3. Financing Sources to Fill the Gap on Mixed-finance and Workforce Housing Development Projects. For the mixed-finance projects studied, we've identified a gap of:

   - $1.1-12.5 million; 7%-24% of the project costs; $19-121,000/unit.

   If we remove the retail element from this equation, we'd be looking at a gap of:

   - $1.1-7.9 million; 7-17% of project costs; $19-75,000/unit

   A reliable, predictable source, at scale, is needed to advance these projects. This scope is large and it probably requires a government program to address this. But soft debt or equity programs from non-profit funders may be able to help. Programs such as the Priority Development Fund (PDF) have acted as this source in the past.

   - Provide a patient, low-cost debt or equity fund to fill the gap for Large-scale projects. This fund needs to be partially subordinate to a minimal market return on equity in order to leverage equity in these projects. This source can be underwritten by the projected premium on current market-rate residential and retail rents that could be achieved over time. In essence the PDF loans were doing that; they would be paid back as the market-rate units were able to reach a higher rent level and produced greater cash flow over time. But if a more targeted fund was more appropriate and feasible, we would recommend providing equity financing or additional subordinate debt to bridge the underwriting gap between the rents that lenders will underwrite and those that might otherwise be reasonable, for the retail component, and the market rate housing component. Typically lenders have believed that the risk of obtaining rents (or sales prices) greater than current market is the role of equity. This proposed equity or soft debt might be particularly helpful with Neighborhood Large-scale and Regional Large-scale Mixed-use Development projects.

   - The market-rate component of Neighborhood Large-scale projects discussed above is for the most part priced at workforce housing rents and the programs recommended above would address that need. Another option would be to target these funding programs recommended towards workforce housing in urban neighborhoods. These communities often need a mix of housing but it's difficult to make these projects work at the rents that can be charged to the moderate income tenant with the cost of land and construction in these denser communities. DHCD has instituted a new program to address this issue but it is quite limited in scale and in per unit support. PDF as noted above was very helpful. A similar program aimed at workforce housing could fill the gap.

4. Organize and Simplify Array of Affordable Housing and TOD Funding Sources. The complexity and inefficiency of the multitude of sources required to fund affordable housing and TOD might be relieved to a significant degree by the state organizing the delivery of these sources as they have with infrastructure through the MassWorks program.

5. Infrastructure Fund for TOD. State funding of infrastructure is improved with the introduction of MassWorks as a 'one-stop' funding source. We recommend continued support for this effort and its focus on TOD projects. I-Cubed requires job creation and net new tax generation. This makes it less useful for projects with major residential components. A similar program without the job creation and net tax generation could advance provision of infrastructure for the Regional Large-scale Mixed-use Development projects.

6. Parking Structure Fund. Though it is counterintuitive, TOD projects in dense urban areas often need structured parking, sometimes within the mixed use building. Retail tenants demand it and if density is being promoted there is insufficient land for surface parking on most sites. Structured, ventilated parking is expensive and usually cannot be fully supported by parking revenue and needs additional funding sources. Financing sources to pay for garages that need to be built early, before construction of the bulk of the project—particularly for Large-scale Regional projects--are also needed. MassWorks and State TOD Infrastructure and Housing Support funds have been used to pay for this but these funds are limited and additional sources are needed. I-Cubed has also been used for this purpose on very large projects but is less effective on projects that are primarily residential. Provision of a new financing source to pay for parking structures should be considered.

5. BEST PRACTICES

5-A Memo on Best Practices

Our review of best practices focuses on TOD-oriented financing and funding programs that are being used to address some of the issues identified in this report. We were not able to identify specific development projects that could serve as models because each project is so different.

The Center for Transit-Oriented Development (CTOD) in 2010 noted that nationally there are 15 affordable housing loan or direct acquisition funds, as well as one TOD property acquisition fund, that were currently operating or under development. Six of these funds are directed to transit locations in whole or part:

- Metro Transit-Oriented Development Program (1998) in Portland, Oregon,
- Hiawatha LRT Land Assembly Fund (2005) and Capital Acquisition Revolving Loan Fund (2006), both in Minneapolis,
- Denver TOD Fund (2010),
- Seattle Housing Levy Acquisition and Opportunity Loan program (2010) and
- Bay Area TOD Revolving Loan Fund, currently under development for the San Francisco Bay region.

These funds range from grant funds (Hiawatha) to direct acquisition funds (Portland Metro) to revolving loan funds (Capital Minneapolis, Seattle, and Bay Area)[8].

In addition to these programs, we identified programs through an internet search, inventories of programs[5],[6], review of recent studies[7],[8] and discussions with Dena Belzer of Strategic Economics (member of the Center for Transit Oriented Development). Information

[5] "2010 Inventory of TOD Programs: A National Review of State, Regional and Local Programs that Fund Transit-Oriented Development Plans and Projects", Reconnecting America, 01/2010 - (Appendix D1).
[6] Municipal Research and Services Center of Washington: Links to papers on the financing of Transit-Oriented Development.
[7] "CDFIs and Transit-Oriented Development" prepared by the Center for Transit-Oriented Development for the Low Income Investment Fund, October 2010. Available from the Federal Reserve Bank of San Francisco at: http://www.frbsf.org /publications/community/wpapers/2010/cdfi_transit_oriented_design.html (Excepted in part in Appendix D2).
[8] Draft of "Infrastructure Financing Options for Transit-Oriented Development", prepared by Strategic Economics for the US Environmental Protection Agency.

on the program structure, performance and prospects was obtained through review of on-line websites and studies. No independent research was conducted.

The programs identified can be grouped into six categories based on the funding issues addressed:

- Acquisition and Predevelopment Financing
- Rental Housing Gap Financing
- Infrastructure and Parking Financing
- Commercial Development Financing
- Tax Exemptions/Operating Subsidies
- Municipal Development Incentives

Many of the programs in the various inventories and studies are small in terms of total funds available and funds available per project and thus have limited impact. Most of the programs reviewed below are of larger, more sufficient scale to make a real difference for projects and their communities. Short descriptions of the funds are taken from the "Reconnecting America 2010 Inventory of TOD Programs"[1] supplemented by information gathered from program websites or other reviews as noted.

1. Acquisition and Predevelopment Financing

a. New York City Acquisition Fund. NYC DHPD and foundations, The NYC Acquisition Fund (AF) provides local and not-for-profit developers with bridge financing to acquire private property for the construction and preservation of affordable housing. The $200 million NYC Acquisition Fund will provide local and not-for-profit developers with a financial mechanism to acquire private property for the construction and preservation of affordable housing. Up to 30,000 rental, homeownership, and supportive housing units will be created or preserved through the ALF over the next ten years.

   The fund guarantee pool consists of $8 million in Battery Park City Authority revenues and $32 million from various foundations, including Ford Foundation, Robin Hood Foundation, Heron Foundation, MacArthur Foundation, Rockefeller Foundation, Starr Foundation, New York Community Trust, Gimbel Foundation, Open Society Institute, among others.

   Senior lender debt of up to $190 million is available from major banks and financial institutions such as JPMorganChase, Bank of America, Citibank, Deutsche Bank, Fannie Mae, Wachovia, HSBC, North Fork, Mizuho, Merrill Lynch, Signature, and M&T.

Loans are made for up to 3 year terms and the interest rate is approximately prime minus 40-60 basis points. For-profit developers can receive loans of up to 95% loan-to-value ratio and nonprofit developers can receive loans of up to 130% loan-to-value ratio. There are also cash equity and minimum recourse requirement[9]

b. <u>Mile High Transit Oriented Development Fund</u>, Urban Land Conservancy, Enterprise Community Partners, City and County of Denver, and other investors. Acquires properties in current and future transit corridors, with the goal of creating and preserving up to 1,200 affordable housing. The Fund is capitalized at $15 million, with an eventual goal of $25 million in total loan capital. The Fund will purchase and hold sites for up to five years along transit corridors.

c. <u>Bay Area Transit Oriented Affordable Housing Fund (TOAH)</u>, Great Communities Collaborative, Metropolitan Transportation Commission, Low Income Investment Fund et al., (http://bayareatod.com). The fund will issue loans for property acquisition for affordable and mixed-income housing sites located near transit. The sites will all fall within a priority growth areas designated in the regional land use strategy. The fund was launched in March, 2011 with $50M in total loan capital. A description of the organization of the fund is provided in Appendix D3. It is excerpted from a draft of "Infrastructure Financing Options for Transit-Oriented Development", prepared by Strategic Economics for the US Environmental Protection Agency.

d. <u>Capital Acquisition Revolving Fund (CARF)</u>, Minneapolis CPEDD. Funds can be used to assemble or aid in assembly of larger sites for development. Eligible costs are acquisition, relocation, demolition, property holding management costs, gap financing for private acquisition and assembly. Funding to acquire property or provide loans for private sector property acquisition and site assembly for sites located on commercial and transit corridors and at commercial nodes for mixed commercial and residential use. At least 20% of the housing units must be affordable at <50% area median income (AMI). Funded with $1 million in Community Development Block Grant (CDBG) money, other funding comes from Neighborhood Revitalization Program funds.

---

[9] NYC Department of Housing Preservation and Development website

e. <u>Land Acquisition for Affordable New Development (LAAND) Program</u>, Minnesota Housing, Metropolitan Council, Family Housing Fund. Loan financing to acquire land for affordable housing projects in places that are close to job growth areas or significant numbers of lower wage jobs, allow for density that is consistent with achieving affordability, minimize vehicle miles traveled, are proximate to public transit and implements existing community.

f. <u>Seattle Housing Levy Acquisition and Opportunity Loan Program</u>. Provides short-term loans to help make strategic purchases of buildings or land for long-term affordable housing units. The program prioritizes "projects that produce or preserve low-income housing located in a high-capacity transit station area or a high-frequency transit service area." Acquisition and Opportunity Loan program funded at $6.5M through a 2009 voter approved seven-year tax on property values, called the Seattle Housing Levy. Another program within the Housing Levy, the Rental Preservation and Production Program, also prioritizes the preservation of affordable housing in high-capacity transit areas.

More detailed descriptions and analysis of the New York City Acquisition Fund, Mile High Transit Oriented Development Fund (also known as Denver TOD Fund), and the Bay Area Transit Oriented Affordable Housing Fund (TOAH)are provided in Appendix D2.
Much effort by municipalities, foundations, lenders and other funders in trying to expand the pool of funds available for site acquisition, and sometimes predevelopment, has been focused on the development of Structured Funds, which are often called "acquisition funds". Structured Funds have become important and effective tools for site acquisition and other development purposes for advancing TOD projects.

The following description of structured funds is excerpted from Strategic Economics' draft report "Infrastructure Financing Options for Transit-Oriented Development"[4],as referenced above:

"In recent years, there has been increasing interest among planners and community developers in using structured funds as a property acquisition tool to support affordable housing development and specifically to assist in the production of affordable housing near transit. While structured funds can be used as a form of acquisition fund, there are many other types of acquisition funds, and structured funds can be used for purposes other property acquisition. The term "structured fund" refers to a kind of loan fund that pools money from different investors with varying risk/return profiles.

Recently, this financing approach has gained popularity with community development financial institutions (CDFIs) and other community development intermediaries because structured funds lend themselves to blending capital from a *variety of investors with different needs and expectations. By blending these funds, which have typically come from a variety of sources including the public, philanthropic, and private sectors, fund managers can use money from investors willing to take higher risks and lower returns to leverage investments from investors who require higher returns, but want less risk. Thus these community development oriented structured funds have been able to access larger pools of capital than might otherwise be possible while simultaneously lending money at below market interest rates.*

Each fund is its own legal entity and is organized or "structured" around a credit agreement that defines what level of risk each investor will take on, and how money will be dispersed to investors as loans are repaid. The pooled funds are organized into a capital stack where the layers within the stack represent differing levels of risk and return expectations. Multiple investors can be situated within each layer in the stack.

There are four main benefits to structured funds. One is the ability to create a relatively large scale fund by leveraging multiple investors. Second is the ability to provide subsidized interest rates by blending different return expectations from different investors. Third is the timing for loan underwriting. Once the fund is formed, loans can be underwritten relatively quickly and as needed, similar to a bank loan and unlike public sector or philanthropic grants that are generally disbursed on fixed cycles. And, fourth, there is clear coordination among investors so that borrowers can go to one source to obtain financing, rather than having to piece together funding from multiple sources.

On the other hand, there are also major challenges associated with structured funds. First, these funds rely heavily on the first, or "top loss" investor who is willing to absorb the greatest risk and take the lowest return (if any). This source of "credit enhancement" typically comes from a public sector investor who is willing to put their money in the fund as a grant, not a loan, or as a loan but with no interest charged. Without a significant contribution by this first investor, the fund will not work. Second, the credit agreement at the core of each fund is always complex, including considerable negotiations with all parties involved, and thus has significant start up costs. These transaction costs must be taken into consideration as part of the process of evaluating whether a structured fund is appropriate in any given situation. Third, although structured funds are set up to accommodate multiple investors, too many investors can be problematic. Trying to negotiate the fund structure among too many parties with differing goals and priorities can potentially make for an overly complex credit agreement and create inefficiencies in fund operations. Fourth, the funds need to meet a specific demand. Structured funds are a very particular kind of loan tool, and this mechanism may not be best suited for the needs of potential borrowers, depending on the market and the availability of other *funds. And, fifth, the funds need to be designed with some flexibility. The fund structure must allow for some refinement in underwriting criteria and loan products over time, and this is difficult to build into a structure that must also provide certainty for investors.*

Structured Funds for Property Acquisition

Property acquisition structured funds differ from other kinds of property acquisition funds in several ways. First, because structured funds have a specific end date, the loans are relatively short term in nature and are not appropriate for buying and holding property for indefinite periods. Second, capitalization for the structured funds comes from investors who have clearly defined risk and return expectations. Most other acquisition funds with a public purpose or social mission are tied to public entities or non-profits such as land trusts or land banks, where the capital sources come from donors, public funds, or other sources expecting only a minimal return, if any. And, to the extent that there is a return expectation, this return accrues to the lending entity's balance sheet. Since the structured funds are "off balance sheet" the risk and returns are only tied to the fund's performance and not any other financial resources.

Just as structured funds are not the only kind of property acquisition fund, property acquisition is not necessarily the only function for a structured fund. However, mission driven structured funds lend themselves to property acquisition activities particularly well if the funding is being used to "bridge" longer term financing, and/or if the loan can be paid back within the fund's term. In addition, real estate is a well understood asset and can be used to secure the structured fund loan. Because there are many parties in a structured fund, including the investors, fund manager, loan underwriters, and borrowers, it is important that all parties clearly understand the potential risks and rewards associated with the loans being made. All of the successful mission driven structured funds that have been established to date have focused only on real estate related lending.

In theory, a structured fund could be established to underwrite small business loans or other kinds of activities that might be related to transit-oriented development (TOD) implementation. However, because the risk profiles of these other kinds of activities are different from real estate lending, different investment sources and different underwriting criteria would be required. Because structured funds operate best with a relatively narrow and clearly defined risk profile, no single fund would make loans to a wide range of activities with widely varied risk profiles. Communities seeking tools to support activities other than property acquisition should either consider creating a separate structured fund for those other activities, or look to other kinds of funds.

Structured funds emerged as a promising acquisition financing strategy based on the experience of the pioneering New York City Acquisition Fund, designed to assist local *affordable housing developers with funds for land acquisition in a very competitive market. New York City and Enterprise Community Partners, along with several foundations and banks, developed a structured fund that provided bridge loans for affordable housing developers who needed to purchase property in advance of having full project financing. The New York City Acquisition Fund was able to leverage $265 million through a complex structure including a mix of public, philanthropic, and private resources. Since 2006 when the New York fund first closed, many other mission driven acquisition funds have been created, but only two: the Mile High Transit Oriented Opportunity Fund (City of Denver) and the Transit Oriented Affordable Housing (TOAH) fund, serving the San Francisco Bay Area, were created specifically to support affordable housing and community facilities near fixed guideway transit. The other funds are also primarily focused on affordable housing production but not necessarily in locations near fixed guideway transit stops."*

2. Rental Housing Gap Financing

a. <u>TOD Housing Program, Proposition 1C,</u> California DHCD. Provides low-interest loans for gap financing for rental housing developments of 50 units or more; mortgage assistance for homeownership; and grants for the construction of infrastructure and mixed-income housing projects close to transit. Housing projects must be within 1/2 mile walk of public transit and at least 15% of units must be affordable. The program includes $1.35B in general obligation bonds and was part of a 3-year, $2.85M bond measure called Proposition 1C, the Housing and Emergency Shelter Trust Fund Act of 2006. In the first year $548 million worth of projects applied for $145 million of funding.

b. <u>Great Streets Neighborhood Business District program</u>: Real Estate Development Gap Financing - Gap financing resources for real estate development and development acquisition for transformative commercial development projects located on designated commercial corridors, nodes, and LRT station area. The size of the loans are relatively small.

c. <u>Denver Metro Mayors Caucus TOD Fund</u>, Colorado HFA. Seven cities that are part of the regional Mayors Caucus pooled their Private Activity Bond authority to finance the construction or rehabilitation of multifamily rental projects near existing or planned transit. Money cannot be used to purchase or hold land. Projects must meet criteria related to size, affordability and transit accessibility gain access to lower debt financing costs and to Low Income Housing Tax Credits. The fund has $65 million.

d. <u>Charlotte Housing Trust Fund (HTF)</u>. Charlotte, North Carolina's City Council established a Housing Trust Fund in 2001 with an initial $10 million to provide financing for affordable housing. Voters later approved an additional $35 million for the HTF. The trust fund provides public financing to private developers in exchange for affordable units, using a competitive bid process. The funding can be either a loan or grant and can be used either for land acquisition or for construction.

Charlotte has been using its affordable Housing Trust Fund at the same time as it has been building and expanding its transit system. One HTF-supported transit station project is South Oak Crossing. Developed by the Charlotte Mecklenburg Housing Partnership and completed at the end of 2007, this was the first mixed-income housing project in the South Corridor, Charlotte's recently opened light rail system. The complex is on a 10-acre site within walking distance of the Arrowood Station, and includes 100 affordable and 92 market-rate two- and three-bedroom rental units. The $18 million project used $4.3 million from the HTF in addition to low-income housing tax credits, bonds and other funding[10]

e. <u>Beltline Affordable Housing Trust Fund</u>, Atlanta Development Authority. Grants available for private developers and Community Housing Development Organizations to create and preserve affordable housing within the Atlanta BeltLine Tax Allocation District (a future 22-mile transit loop). Program funded with $8.3 million of general funds from the City as well as a set aside of beltline tax increment revenues. Projects receive up to $2.5 million per multifamily development or $750,000 per single family development.

California's Proposition 1C program can be used to meet a number of different needs including filling overall financing gaps and infrastructure financing. A bond authorization has provided funding. The temporary nature has cast uncertainty in the development community of future availability and made it difficult to factor it in to the way they fund affordable housing. It has also received almost 4 times the applications for available funds in the first round. "If this funding were made more permanent it would make it easier for developers to change the way they plan, design, and build projects so that they are more transit oriented"[11].

Charlotte's program provides awards of the scale that can fill the gap identified. They can finance up to 51% of the unit cost at 0% financing for 20 years and look for a return in the long run.

---

[10]Housing Trust Funds and Other Acquisition Funds, Maintaining Diversity in America's Transit Rich Neighborhoods; Tools for Equitable Neighborhood Change, Dukakis Center for Urban and Regional Policy website, October 2010

[11] Evaluation of California's Prop 1C TOD Housing Program, Reconnecting America, Half-Mile Circle website, April 28, 2011 | Jeff Wood, Abby Thorne Lyman

3. Infrastructure and Parking Financing

a. <u>TOD Housing Program</u>, California DHCD. Infrastructure funding. See in 2, above.

b. <u>TOD Implementation Program</u>, METRO Portland. Uses a combination of local and federal transportation funds (STP & CMAQ) to enhance the economic feasibility of higher density mixed-use projects served by transit. The program creates public-private partnerships and provides grants to private developers to support cost premiums associated with TOD (i.e. structured parking). Applicants considered on a rolling basis. Program funded at $5M for two years. Awards vary but are typically ~ $300,000 per grant.

The Metro Portland program is small and thus only has limited impact. The California program can be used to meet a number of different needs including filling overall financing gaps (see 2, above). A bond authorization has provided funding. The temporary nature has cast uncertainty in the development community of future availability and made it difficult to factor it in to the way they fund affordable housing. It has also received almost 4 times the applications for available funds in the first round.

4. Commercial Development Financing

a. <u>Urban Transit Hub Tax Credit</u>, NJ EDA. Tax credit to developers, landowners or tenants to encourage investment around heavy rail stations in nine urban municipalities. Capital investment must be at least $50M in a single business facility that employs at least 250 people onsite. Created in 2008. Residential development has just been added as of 25 October 2012.

This program has been used effectively to help revitalize urban areas around rail stations. The focus has been business facilities and employment. The program is very large and is capped at $1.75 billion. Residential development has just been added and that has been capped at $250,000,000 of that $1.75 billion. Commercial development can get tax credits at 100% of development cost and residential is limited to 35%. The value of these credits can have an enormous impact on the economics of TOD for qualifying projects. The program has been controversial because of its scale and impact on tax receipts and the effective cost of producing jobs--$167,000/job on average. Just as Historic Tax Credits have been effective, this program has real potential to close the funding gap for TOD.

A more detailed description of the program from the State of New Jersey's website, is provided in Appendix D4a. Articles from the Wall Street Journal and New Jersey Futures are also provided in Appendix D4b and D4c.

5. Tax Exemptions/Operating Subsidies

a. Vertical Housing Program, OR DHCS. Encourages mixed-use commercial / residential developments through a partial property tax exemption in areas designated by communities. Provides up to 80% exemption on property tax over 10 years. Additional property tax exemption on the land may be given if some or all of the residential housing is for low-income persons (80 percent of area median income or below). Although transit-proximity is not required, the program often supports TOD projects.

b. TOD Property Tax Abatement Program, Portland Development Commission, OR. Reduces operating costs of TOD projects by offering a ten-year maximum property tax exemption, for projects on vacant or underutilized sites along transit corridors whose design and features encourage building occupants to use public transit.

These programs could have an impact on development by reducing operating costs which increases cash flow and thus the potential amount debt that can be placed on a project.

6. Municipal Development Incentives

a. TOD Housing Incentive Program, City/County Association of Governments of San Mateo County CA. Provides grants to cities and the county to create housing within 1/3 mile of transit stations. Under the program, a jurisdiction receives funding based on the number of bedrooms in the housing units. Eligible projects receive up to $2,000 per bedroom. Projects must have a density of at least 40 units per acre. The Association of Governments allocates up to 10 percent of the county's State Transportation Improvement Program funds to the TOD Incentive Program.

Suburban communities are resistant to density, as noted, in the analysis in Section 3. Programs that can provide an incentive to encourage density have the potential to be effective in helping achieve the development of denser TOD housing. Massachusetts's 40 R and 40 S programs also address this issue. Massachusetts suburban communities express great concern about the fiscal impacts of additional school children—in some communities additional tax revenues from development do not offset the increased school and other municipal costs. Communities also express concern about character with increased density. The question remains as to what is the amount of incentive necessary to achieve municipal and community support. Since October 1999, the San Mateo City C/CAG has allocated only $5.2 million to the TOD Incentive Program, supporting the development of 3,689 bedrooms in 15 projects or about 30 units/annum. That doesn't seem like a lot in a fast growing Bay-area county.

Summary

Structured funds are proving successful in providing needed acquisition funds on terms that are more workable for developers. We have not noted use of these funds to fill the gap for mixed-income housing at TOD locations but believe that this could be an effective use of these funds as the layering of risk and return might allow the funds to be structured as low cost, mezzanine financing that might be patient enough to fill the gap. We have not identified funding programs for retail specifically, but this also might benefit from the Structured Fund approach. New Jersey's Urban Transit Hub Tax Credit Program could be used for retail financing. It's provision of a sizeable equity component might make the rest of the project able to obtain debt financing. However it won't work for small projects as it has a $50 million minimum. It also might be used to fill the mixed-income housing gap. The program must be put in place by state or federal government as only they can issue the tax credits against their tax assessments.

APPENDICES

Appendix A: TOD Findings Presentation from August 2012, Revised September 2012

The attached PowerPoint summarizes the consultant analysis and was presented at the August 14, 2012 MAPC TOD Finance Advisory Committee Committee meeting.

Appendix B: Description of Governmental Funding Sources

The following is a compilation of funding sources utilized for the projects studied, as well as other funding sources potentially available for TOD projects:

Low Income Housing Tax Credit Equity

Low Income Housing Tax Credits (LIHTC)	The Low Income Housing Tax Credit (LIHTC) was created by Congress under Section 252 of the Tax Reform Act of 1986 to promote the construction and rehabilitation of housing for low income persons. The tax credit provides a means by which developers may raise capital for the construction or acquisition and substantial rehabilitation of housing for low income persons. Under the federal income tax code, investors in low income rental housing are permitted to take a credit against taxes owed the federal government. In Massachusetts, the Department of Housing and Community Development (DHCD) is the allocating agency for tax credits. DHCD is responsible for preparing the annual allocation plan and making it available for review by interested members of the public before final publication. Because it depends on investor capital rather than just direct government subsidies, the LIHTC has imposed market discipline that results in long term stability for the projects. Investors assume significant risks and assert strict business discipline in selecting projects and overseeing their development and long-term operations. Developers of affordable rental housing developments apply to DHCD for tax credits. If they are awarded the credit, the developers (either for-profit or nonprofit) seek investors to help pay for the development of the housing. Intermediaries (known as syndicators) act as a bridge between investors and projects and often pool investors' money into equity funds. In exchange for providing development funds, the investors receive a stream of tax credits. Projects can qualify for two types of credits: a 9% credit, or a 4% credit.* Tax credits can be claimed by the investors for 10 years. For example, based on an investor willing to pay $.75/tax credit dollar, a project eligible for $500,000 in annual credits, would receive $3,750,000 ($500,000 in credit x 10 years x $.75) in equity. Both for-profit and nonprofit developers can qualify for the credit. At least 20% of the units must be reserved for persons with incomes at/or below 50% of the area median income adjusted for family size; or at least 40% of the units must be made affordable for persons with incomes at/or below 60% of the area median income adjusted for family size. In addition, the project must be retained as low-income housing for at least 30 years.

Other Tax Credit Equity

New Markets Tax Credits (NMTC)	The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit totals 39 % of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period. Residential projects are excluded; however, commercial components of residential projects are eligible.
Federal Historic Tax Credits	The Federal Historic Preservation Tax Credit Program provides federal income-tax incentives for the rehabilitation of historic income-producing properties. The Massachusetts Historical Commission administers it for Massachusetts properties. Under the provisions of the Tax Reform Act of 1986, a 20% tax credit is available for the substantial rehabilitation of commercial, agricultural, industrial, or rental residential buildings that are certified as historic. The credit may be subtracted directly from federal income taxes owed by the owner.
State Historic Tax Credits	Under the program a certified rehabilitation project on an income-producing property is eligible to receive up to 20% of the cost of certified rehabilitation expenditures in state tax credits. Owners must apply for and be awarded credits. The Massachusetts Historical Commission administers the program. There are three application rounds annually.

Debt

<table>
<tr>
<td>MassHousing – Mixed Income Financing Program</td>
<td>MassHousing provides tax-exempt and/or taxable financing for the acquisition, rehabilitation and/or construction of multifamily rental housing.

For Developers of new, market-driven rental housing and
Owners of market-rate developments who wish to refinance with MassHousing

<u>Affordability Requirement:</u>

For Tax-Exempt financing, at least

20% of units must be rent-restricted and occupied by households with incomes of 50% or less of area median income, or
40% of units must be rent-restricted and occupied by households with incomes of 60% or less of area median income

For Taxable financing, at least

20% of units must be rent-restricted and occupied by households with incomes of 80% or less of area median income

<u>Other Information</u>

The remaining units may be rented at market rates
Construction and permanent loans are available for terms of up to 40 year

</td>
</tr>
<tr>
<td>MassHousing Bridge Loans</td>
<td>Bridge loans enable developers to access the majority of tax credit equity during construction, when it's needed to pay for construction and soft development costs. MassHousing's interest rates are typically lower than investors' required rates of return on equity, helping developers to maximize the amount of capital made available through syndication of the credit.

For Project developers who syndicate Low Income Housing Tax Credits and other tax benefits. Loan terms are

1-2 years for construction period bridge loans
3-7 years for construction period and lease-up bridge loans

</td>
</tr>
</table>

Regularly Available Affordable Housing Related Sources

Housing and Smart Growth Incentives (Chapter 40R), Commonwealth of Massachusetts	Provides direct funding to cities that create zoning districts for compact housing near transit (or in existing commercial districts) and an additional per-unit bonus for building permits issued in transit zones. Initial award is calculated based on the difference between number of housing units allowed under current zoning and number of units allowed under more compact rezone. There is also a 20% set- aside requirement for affordable housing for all buildings containing more than 12 units.
City HOME & Neighborhood Housing Trust (City of Boston Department of Neighborhood Development)	Projects may be homeownership, rental, cooperative or other forms of permanent or transitional housing. They may be new construction, rehabilitation of abandoned or occupied rental property, or conversion of non-residential property. To be eligible for consideration, projects must meet the following requirements: The project must meet a “but for” test – that is, without (but for) linkage funding, the project would not be feasible; Trust funds will assist only “affordable units.” In this case “affordable units” is defined as low and moderate-income units serving households below 80% of median income for the Boston area; Homeowner units must be affordable for a minimum of 50 years (30 years, with a 20-year renewal option); rental units must be affordable in perpetuity; The developer must have site control, and the proposed project must be financially feasible and meet the requirements of the state sanitary and building codes; The units shall be managed in compliance with the Boston Jobs Ordinance, the City of Boston Fair Housing Commission guidelines, and other applicable fair housing and equal opportunity requirements. Competitive Criteria: In evaluating applications for funding, the NHT reviews the following project elements: Number and percentage of affordable units, including the number available to low-income households (below 50% of median income) and special needs populations; Amount of NHT funds requested per affordable unit; Developer’s capacity and track record; Readiness to proceed; Additional affordability beyond the minimum requirement; The extent to which the project will provide employment, financial, or managerial participation by minority- or women-owned business enterprises.

State HOME Funds	The HOME program is a federal housing program. The Commonwealth's allocation of HOME funds is administered by the Department of Housing and Community Development (DHCD). Typically, DHCD administers HOME funds for the following types of eligible housing programs: 1. Rental housing production and rehabilitation 2. First-time homebuyer housing production 3. First-time homebuyer development assistance At least 15% of HOME funds must be awarded to nonprofit Community Housing Development Organizations (CHDOs), as defined by HUD. Approximately 60 nonprofit organizations in Massachusetts qualify as CHDOs with DHCD. Rental programs are targeted to households earning less than 60% of area income. Homebuyer programs are targeted to households with incomes below 80% of area median income. HOME funds are awarded competitively. The maximum award amount is $750,000 for rental and project-based homeownership projects. Purchaser-based proposals may receive a maximum award of $250,000. HOME awards typically are made as loans to eligible recipients.

MA Affordable Housing Trust Fund	The Massachusetts Affordable Housing Trust Fund (AHTF) provides resources to create or preserve affordable housing throughout the state for households whose incomes are not more than 110% of median income. Funds are available for rental, home ownership and mixed-use projects as well as housing for the disabled and homeless, but may be applied only to the affordable units. AHTF funds are used primarily to support private housing projects that provide for the acquisition, construction or preservation of affordable housing. MassHousing and the Department of Housing and Community Development (DHCD) jointly administer AHTF. In addition to the direct assistance provided, the AHTF has funds for other purposes: • A total of $2.5 million to fund pre-development activities, administered by the Community Economic Development Assistance Corporation • Up to $5 million annually to support public housing modernization, administered by DHCD Eligible applicants include governmental subdivisions, community development corporations, local housing authorities, community action agencies, community-based or neighborhood-based non-profit housing organizations, other non-profit organizations, for-profit entities, and private employers. To be eligible, applicants must be current on all existing mortgage obligations with the Commonwealth or any of its subdivisions. Borrowers receiving AHTF money must be single-purpose entities except for projects sponsored by public housing authorities, in which case the sponsoring authority may be the borrower. A wide range of financial assistance is available from the AHTF for projects that meet the funding criteria. **Funding preferences include projects/developments that** • Produce new affordable housing units • Provide new affordability • Create units affordable to households with a range of incomes, particularly units for households with incomes below 80% of area median income • Include affordable units for families • Include affordable units for the disabled and the homeless • Propose the longest term of affordability • Are sponsored by non-profit organizations • Use private funding sources and non-state funding sources to leverage the least amount of AHTF funds

Specialized/Targeted Sources

Neighborhood Stabilization Funds (City of Boston Department of Neighborhood Development)	DND will administer NSP funds provided by the federal Department of Housing and Urban Development (HUD) to support developers who acquire and redevelop foreclosed, abandoned, or vacant properties that might otherwise become sources of abandonment and blight within targeted neighborhoods in the City of Boston. NSP funds will support the redevelopment of foreclosed, abandoned, or vacant homes in targeted foreclosure areas, for resale to income eligible owner occupants, or with responsible investor-owners as affordable rental opportunities.
Transit Oriented Development Infrastructure and Housing Support Program - TOD Bond Program	The objective of TOD Bond Program is to increase the supply of compact, mixed-use, walkable development close to transit stations. To accomplish this objective, the program provides financing for pedestrian improvements, bicycle facilities, housing projects, and parking facilities within .25 (1/4) miles of a commuter rail station, subway station, bus station, bus rapid transit station, or ferry terminal. Eligible projects include pedestrian improvements, bicycle facilities, preliminary design for bike and pedestrian projects, housing projects (must be 25% affordable at 80% of median income), and parking facilities. Grants range from $50,000 for design to $500,000 for bike and pedestrian improvements to $2.0 million for housing and parking projects

Commercial Area Transit Node Housing Program (CATNHP), Massachusetts Department of Housing and Community Development	Financing assistance to rental housing projects near transit, including zero interest loans, 30-year deferred payment loans at zero interest for rental housing projects or homeownership projects that carry a 30-year deed restriction that limits the sale price of the home to a percentage of area median income. Projects must be located within a quarter-mile of existing or planned transit stations. Priority is given to projects within existing TIF areas. Commercial Area Transit Node Housing Program (CATNHP) provides a total authorization of $10 million over five years for rental and ownership housing in commercial areas within ¼ mile of transit, provided that not less than 51% of the units assisted benefit persons earning not more than 80% of the area median income. Projects receiving funding from Commercial Area Transit Node Program (CATNHP) are ineligible for the TOD Bond Program funding and vice versa.
Smart Growth School Cost Reimbursement (Chapter 40S), Commonwealth of Massachusetts	Works with Chapter 40R: Housing and Smart Growth incentives, to ensure that municipalities are able to accommodate an increase in public school enrollment that may accompany increased density around transit stops. Provides direct payments, in grant form.
MA Priority Development Fund (PDF)	The Priority Development Fund (PDF) was created in 2004 by MassHousing to provide funding to assist communities identify and implement strategies to increase the production of housing, both rental and homeownership. The goal of PDF Planning Assistance is to increase the supply of housing for a range of incomes in the Commonwealth by encouraging community-based planning that will lead directly to housing production. The PDF is administered by the Department of Housing and Community Development (DHCD) on behalf of MassHousing pursuant to a Memorandum of Agreement between the agencies. $22 million earmarked for the development of new affordable rental housing located near transit stations.

District Improvement Financing (DIF)	Economic tool that promotes redevelopment by channeling dollars into targeted redevelopment districts; a locally driven program and should be approved by the Economic Assistance Coordinating Council (EACC). DIF is available to all cities and towns in the Commonwealth of Massachusetts that have projects meeting DIF regulations and guidelines.
Tax Increment Financing (TIF)	The Urban Center Housing Tax Increment Financing (UCH-TIF) Program is a statutory program authorizing cities and towns to promote housing and commercial development, including affordable housing, in commercial centers through tax increment financing. The UCH-TIF Program provides real estate exemptions on all or part of the increased value (the "Increment") of improved real estate. Such development must be primarily residential. Tax increment financing may be combined with grants and loans from local, state and federal development programs. The Department of Housing & Community Development's (DHCD) Division of Community Services is responsible for the operation and administration of the UCH-TIF Program, including review and approval of all UCH-TIF applications. All Massachusetts municipalities having designated commercial centers and a need for multi-unit housing are eligible. In order to participate in the program a city or town must adopt a detailed urban center housing tax increment financing plan ("UCH-TIF Plan") for a designated commercial area with high business or commercial use (the "UCH-TIF Zone").
FCF/Facilities Consolidation Fund Loans (MA DHCD)	The Facilities Consolidation Loan Program was created by Chapter 52 of the Acts of 1993 which established a $50 million loan fund to provide deferred payment loans to non-profit developers for the creation and retention of community-based housing for the consumers of services of the Departments of Mental Health and Mental Retardation. FCF will provide permanent, deferred payment loans for a term of 30 years. Extensions of the loan term may be granted by DHCD for an unlimited number of successive periods, each period not to exceed ten years, upon DHCD's determination that there continues to be a need for the housing and funding for services. FCF funds may cover up to 50% of a project's Total Development Cost (TDC).

Housing Innovations Fund (HIF) (MA DHCD)	HIF provides funding for the creation and preservation of alternative forms of affordable housing. These forms include, but are not limited to, single room occupancy (SRO) units; limited equity cooperative housing; transitional housing for the homeless; battered women's shelters; mutual housing; employer assisted housing; and lease to purchase housing. HIF loans may used for the reasonable and necessary hard and soft costs to develop an eligible project, including costs of acquisition, construction, architecture/engineering, environmental testing and remediation, insurance, taxes, surveys and permits, development consultants, legal services, financing, relocation, title and recording, inspection services, marketing and rent-up, and developer overhead and fees. Not less than 50% of the occupants of HIF housing shall be persons whose income is less than 80% of the area median income as determined by HUD, and not less than 25% of the occupants may be persons whose income is less than 30% of the area median income. Loans are limited to not more than 50% of the total development costs, with a maximum HIF loan of $500,000. This limit does not apply to loans provided for the creation of battered women's shelters where HIF funds may be used for up to 80% of the financing of total development costs.
Community Development Block Grant (CDBG)	The Massachusetts Community Development Block Grant Program is a federally funded, competitive grant program designed to help small cities and towns meet a broad range of community development needs. Assistance is provided to qualifying cities and towns for housing, community, and economic development projects that assist low and moderate-income residents, or by revitalizing areas of slum or blight. Municipalities with a population of under 50,000 that do not receive CDBG funds directly from the federal Department of Housing and Urban Development (HUD) are eligible for CDBG funding. Communities may apply on behalf of a specific developer or property owner. Eligible CDBG projects include but are not limited to housing rehabilitation or development, micro-enterprise or other business assistance, infrastructure, community/public facilities, public social services, planning, removal of architectural barriers to allow access by persons with disabilities, and downtown or area revitalization.

Economic Development Fund (EDF) (MA DHCD)	The Economic Development Fund (EDF) finances projects and programs that create and/or retain jobs, improve the local and/or regional tax base, or otherwise enhance the quality of life in the community. EDF gives priority assistance for physical improvements in support of job creating/retention. Historically, EDF has funded a range of economic and community development projects. Of the 351 municipalities incorporated in Massachusetts, any of the 314 cities or towns not designated as "entitlement communities" by the US Dept. of Housing and Urban Development (HUD) may apply for and receive Massachusetts Economic Development Fund grants. Currently, 37 cities and towns are designated as entitlement communities and are not eligible for the EDF program.
Housing Development Incentive Program (HDIP) (MA DHCD)	The Housing Development Incentive Program (HDIP), established as M.G.L., Chapter 40V, provides Gateway Cities with a development tool to increase residential growth, expand diversity of housing stock, support economic development, and promote neighborhood stabilization in designated geographic target areas. The program provides two tax incentives to developers (Sponsors) to undertake substantial rehabilitation of properties for lease or sale as multi-unit market rate housing: • A local-option real estate tax exemption on all or part of the increased property value resulting from improvements (the increment); and • State tax credits for Qualified Substantial Rehabilitation Expenditures (QSREs) that are awarded through a rolling application process. Projects eligible must include a substantial rehabilitation of an existing property that will result in multi-unit housing development, containing a maximum of 50 market rate units and a minimum of 80% market rate units. A HD Project may be comprised of one or more buildings on one or more contiguous parcels of land, provided they are permitted and financed as a single undertaking.

Grants & Other

MassWorks Infrastructure Program	The MassWorks Infrastructure Program provides a one-stop shop for municipalities and other eligible public entities seeking public infrastructure funding to support economic development and job creation. The Program represents an administrative consolidation of six former grant programs: • Public Works Economic Development (PWED) • Community Development Action Grant (CDAG) • Growth Districts Initiative (GDI) Grant Program • Massachusetts Opportunity Relocation and Expansion Program (MORE) • Small Town Rural Assistance Program (STRAP) • Transit Oriented Development (TOD) Program The Program is administered by the Executive Office of Housing and Economic Development, in cooperation with the Department of Transportation and Executive Office for Administration & Finance
MassDevelopment Brownfields Redevelopment Fund	The Brownfields Redevelopment Fund was created in 1998 to encourage the reuse of brownfields in Economically Distressed Areas (EDAs) throughout Massachusetts. Brownfields are vacant, abandoned, or underutilized industrial or commercial properties where expansion, redevelopment, or improvement is complicated by real or perceived environmental contamination and liability. MassDevelopment administers the Brownfields Redevelopment Fund programs. • The Brownfields Site Assessment Program – The Site Assessment Program provides unsecured, interest free financing up to $100,000 for environmental assessment of brownfields. • The Brownfields Remediation Loan Program – The Remediation Loan Program provides flexible loans up to $500,000 for environmental clean-up of brownfields.

Appendix C: List of TOD Projects Considered (attached)

Appendix D: Best Practices: Projects

Appendix D1: Reconnecting America: 2010 Inventory of TOD Programs. A National Review of State, Regional and Local Programs That Fund Transit-Oriented Development Plans and Projects. (attached)

Appendix D2: CDFIs and Transit Oriented Development: Profile of Structured Funds of Equitable TOD Property Acquisition and Predevelopment

Descriptions and analyses of three funds excerpted from "CDFIs and Transit-Oriented Development" prepared by the Center for Transit-Oriented Development for the Low Income Investment Fund, October 2010[12] are provided:

- NYC Acquisition Fund
- Mile High (Denver) TOD Fund
- Bay Area Transit Oriented Affordable Housing Fund (TOAH)

[12] The full report is available from the Federal Reserve Bank of San Francisco at: http://www.frbsf.org /publications/community/wpapers/2010/cdfi_transit_oriented_design.html.

Appendix D3: Establishing the Need for a Structured Fund and its initial Organization: Bay Area TOAH as example (excerpted from a draft of "Infrastructure Financing Options for Transit-Oriented Development", prepared by Strategic Economics for the US Environmental Protection Agency.)

Establishing the Need for a Structured Fund

One of the most important preconditions for creating a structured fund is having a clear purpose or need that the fund will address. Both the potential investors and borrowers must agree that this need exists and ultimately, the fund's governance, loan products, underwriting criteria, and risk/return expectations will all be organized around this purpose or need. But, establishing this need requires commitment over a long time horizon. In fact, the Bay Area TOAH fund, which is the only multi-jurisdictional TOD related structured acquisition fund in the country, required a two year, four stage process extending from fund inception to fund closing. Although these four stages are described below as discrete activities, in fact, there is considerable overlap both in terms of timing and purpose among the four.

The first and most critical stage in the TOAH creation process was to build a multi-sector relationship among all of the key groups necessary to make the fund successful. These actors included major regional advocacy groups, community foundations, the affordable housing community, and the regional agencies whose programs the fund would support and who would ultimately provide the "first loss" money for the fund. The single most important actor was an entity called the Great Communities Collaborative (GCC) whose core membership was composed of the region's largest environmental, social justice, and affordable housing non-profit organizations, a national TOD intermediary, and two community foundations. Over the two year fund formation period, the GCC was the primary convener and facilitator of the process, bringing together all of the other actors on an "as needed" basis, and bringing all stakeholders along at each critical juncture. Without the GCC in this role, the fund would not have been created.

During the second stage of the process, the GCC engaged the Center for Transit Oriented Development to prepare a paper that at the time was characterized as a "business plan." However, it is important to note that this report, while addressing the critical issues related to the fund overall organization, was not a formal business plan in that it did not describe such details as the fund's overall size, interest rates, specific underwriting criteria, or even capital sources. These more detailed deal points were all addressed later in the process once a professional fund manager had been hired. What this report did do was establish a clear need for a real estate-based acquisition structured fund, articulate the fund's overarching mission and potential governance structure, and establish a preliminary target geography for loans. This document became, in essence, the fund prospectus. Being able to clearly articulate the fund's mission with respect to the region's need was critical for attracting all investors. Again, it is important to note that this final "needs" document included quantitative analysis, but also reflected multiple discussion with key stakeholders, including the advocacy groups and regional agencies whose goals and programs would be broadly supported by the fund (the mission); the regional agency that eventually contributed the top loss money; the community foundations that invested critical “second loss” capital (the investors); and end users (the borrowers). When this document was released, it represented a clear consensus across all parties.

The third phase in the process was to identify a source of top loss funding. Due to the regional nature of the fund, this source had to have a regional mission, unlike other funds, including Denver’s, which were established based on top loss support from an individual city, requiring that all funds be spent within that jurisdiction. Because regional funding sources are limited, the only likely candidate was the metropolitan planning organization (MPO), the Metropolitan Transportation Commission (MTC). In the final analysis, the fund’s need was tightly framed to align with MTC’s long term objectives. Although all MPOs are primarily focused on providing transportation investments to support future regional growth, MTC realized that it would never have sufficient funds to support future growth, if that growth continued to sprawl. Instead, MTC determined that investing in tools to help refocus growth into the region’s existing core would lead directly to a more cost effective strategy for fulfilling the transportation needs related the region’s future growth. And, given the relatively low rates of auto ownership and high rates of transit ridership, MTC also recognized that by supporting affordable housing construction near transit, they were supporting more consistent transit ridership and ultimately reducing demand for additional highway capacity.

As part of MTC’s agreement to contribute top loss money, the organization’s Board stipulated a timeframe in which the fund needed to be capitalized (progress needed to be made within 14 to 18 months) and an expected leverage ratio, i.e., for every dollar MTC invested in the fund, it wanted the fund manager to raise at least $2.50 to $3.00 in additional capital.

Once MTC had agreed to provide the top loss investment, the fund moved into its fourth and final stage, implementation. At this point, the GCC and MTC worked together to hire a fund manager. Once the manager was on board, it became the manager’s responsibility to write a detailed business plan, and ultimately, the credit agreement that created the fund’s actual structure. Only at this point in the process was it possible to determine, based on size of the initial top loss grant and the nature of the specific investors, the overall size of the fund, interest rates, specific loan products, detailed underwriting criteria, etc.

Appendix D4: Urban Hub Tax Credit Program

D4a: Urban Transit Hub Tax Credit Program.

Program description from New Jersey Economic Development Authority website:
Incentive Programs - Urban Transit Hub Tax Credit Program

Please note that as of October 25, 2012, EDA will be accepting applications for residential projects under the Urban Transit Hub Tax Credit Program through a competitive solicitation process. For more information on this solicitation, or to view this solicitation, please click here. Please note the information below still applies to the Urban Transit Hub Tax Credit Program in its entirety.

IF YOU ARE: A developer, owner, or tenant making a qualified capital investment within a designated Urban Transit Hub.

YOU CAN APPLY FOR: Tax credits equal up to 100% of the qualified capital investments made within an eight year period. Taxpayers may apply 10% of the total credit amount per year over a ten year period against their corporate business tax, insurance premiums tax or gross income tax liability. Tax credits may be sold under the tax credit certificate transfer program of not less than 75% of the transferred credit amount. Total credits approved under this program are capped at $1.75 billion, with $250 million allocated towards residential projects which may receive up to a 35% credit.

ELIGIBILITY: Developers, owners and tenants can qualify for the Urban Transit Hub Tax Credit Program if they meet the following eligibility criteria:

Developers or owners must make a minimum $50 million capital investment in a single business facility located in one of the nine designated Urban Transit Hubs. In addition, at least 250 employees must work full-time at that facility.

Tenants must occupy space in a qualified business facility that represents at least $17.5 million of the capital investment in the facility and employ at least 250 full-time employees in that facility. Up to three tenants may aggregate to meet the 250 employee requirement.

Projects retaining 250 full-time jobs are eligible for tax credits of up to 80% of the qualified capital investment, while projects creating 200 or more jobs are qualified for up to 100% of the qualified capital investment.

Mixed-use components are part of the "qualified residential project" definition.

Applicants must demonstrate at the time of application that the state's financial support of the proposed capital investment in a qualified business facility will yield a net positive benefit to both the state and the eligible municipality.

S corporations, limited liability corporations and partnerships are eligible; however, tax credits cannot be applied against an individual's New Jersey gross tax liability.

PROGRAM DETAILS: This powerful financial tool is designed to spur private capital investment, business development and employment by providing tax credits for businesses planning a large expansion or relocating to a designated transit hub located within one of nine New Jersey urban municipalities.

Urban Transit Hubs are located within ½ mile of New Jersey Transit, PATH, PATCO, or light rail stations in Camden (expanded to one mile), East Orange, Elizabeth, Hoboken, Jersey City, Newark, New Brunswick, Paterson, and Trenton.

Eligibility is expanded to locations within these municipalities that have active freight adjacent or connected to the proposed building, and utilized by the occupant.

Businesses may apply for the tax credits within five years of the program's January 13, 2008 effective date and satisfy the capital investment and employment conditions within eight years of that date.

Please note the tax credits may be reduced or forfeited if facility or employment levels are not maintained.

For a detailed summary of the EDA's economic impact model, please click here.

GREEN BUILDING PRACTICE REQUIREMENTS: For details on the background to these new program requirements, please click here. For the interim green building requirements for this program, please click here.

For any additional questions around these requirements, please contact your EDA Business Development representative.

COMPLEMENTARY PROGRAMS: Portions of designated Urban Transit Hubs, with the exception of Hoboken, offer additional incentives through the Urban Enterprise Zone Program to qualifying businesses. These include tax credits for certain new hires, sales tax exemptions for eligible purchases, energy sales tax exemption for eligible manufacturers, and provides for reduced retail sales tax rates on most purchases.

The Business Retention & Relocation Assistance Grant (BRRAG) may not be used in conjunction with the Urban Transit Hub Tax Credit Program, and there may be limitations on the use of the Business Employment Incentive Program (BEIP) at the project site.

FEES:

Application fee: $5,000

- Full amount of direct costs of any analysis by a third party retained by the EDA
- Commitment Fee: 0.5% due at EDA Board approval, not to exceed $300,000
- Closing Fee: 0.5% due at closing, not to exceed $300,000
- Annual Review Fee: $2,500
- Tax Credit Transfer Fee: $2,500

Division of Taxation Tax Clearance Certificate Application Processing Fee: $75 for standard processing; $200 for expedited processing (response within three business days)

Appendix D4b:

The Wall Street Journal
July 29, 2012

A Tax Break's Cost, Benefits Are Weighed
By Heather Haddon

A New Jersey tax credit gives companies an average of more than $167,000 for every job they create or save from leaving, a program that has become the state's fastest-growing business subsidy, according to a Wall Street Journal analysis. Considered one of the most generous tax-incentive programs in the nation, New Jersey's Urban Transit Hub Tax Credit has made awards of nearly $1 billion to 18 companies and developers since 2010, generating or retaining almost 6,000 jobs, according to the state Economic Development Authority, the program's administrator. The credits have gone to mostly large companies such as Prudential Financial, which received the program's largest subsidy ever, $210 million, to build a new headquarters five blocks from its current home in downtown Newark. That amounts to an average of $525,000 for each of the 400 new jobs the company has pledged to create.

Officials said the program is helping to remake struggling cities such as Newark and Camden. Gov. Chris Christie, a Republican, and Newark Mayor Cory Booker, a Democrat, are among its biggest boosters, heralding the jobs it has created and calling for its expansion.
The program's expense and execution have been questioned by lawmakers in both parties, academics from the left and right and big landlords.

Two lawsuits by property owners have accused the state of overestimating the economic benefit of the projects receiving tax breaks. Some Republicans have voted against the program, arguing taxes should be cut for all, not a select few.
The cost of $167,173 per job is hard to compare with programs in other states. But it is higher than what states tend to award to lure auto industry plants, according to research by Kenneth Thomas, an associate professor of political science at the University of Missouri-St. Louis.

Auto subsidies awarded between 2001 and 2011 averaged between $100,000 to $150,000 a job, Mr. Thomas said. The New Jersey incentives are large for subsidies going for office buildings and real-estate developments, especially for those moving from one place to another within the state, he said. "It's pretty unique in the fact you can relocate within the state and get so much in incentives," said Mr. Thomas, who studies business tax breaks and has criticized their use.

Some Democratic officials who control the Legislature are calling for more scrutiny of the tax-incentive program. "I don't think we've done a good in-depth study to see if that's the best investment of our money," said Sen. Majority Leader Loretta Weinberg, a Bergen County Democrat whose district doesn't benefit from the tax credit. Christie administration officials said the focus on job creation misses the point. Created in 2008 and signed into law by former Gov. Jon Corzine, a Democrat, the Urban Transit Tax Credit wasn't intended to create jobs, officials said, but to spark development. "It's apples and oranges," said Tim Lizura, the state Economic Development Authority's senior vice president of finance and development.

The program started small, with state officials estimating that only few businesses would qualify. But it has quickly expanded into the state's most important business subsidy. Since 2010, 18 residential, commercial and mixed-use projects have been awarded $977 million under the program. The recipients have pledged to invest $2.1 billion, create 2,910 jobs and retain 2,935 others deemed at risk of moving out of state. "That kind of level of investment hasn't been seen in half a century," Mr. Lizura said. He added: "It's absolutely a flagship program."

The tax credit is for projects of $50 million or more within a half a mile to one mile of train transportation centers in nine cities. Commercial projects must pledge to create or save 200 jobs—assertions that Mr. Lizura said are vetted carefully. The development's "ripple effect" of new employment and commerce must generate 10% more in new tax revenue than the amount of the subsidy, officials said. Residential projects don't have to have the same job creation component, but don't qualify for as generous awards. The calculations are based on federal formulas and are "very conservative," Mr. Lizura said. If all requirements are met, up to 100% of a company's investment can be returned. Up to 10% of the credit can be applied against a company's corporate taxes each year.

Mr. Christie and the state Legislature expanded the program in July 2011, and the Legislature added another $250 million to the program this year in a bill the governor is expected to sign. In a state noted for its suburban sprawl and traffic congestion, the subsidy has drawn praise from urban planning groups for promoting so-called smart growth and sparking development in troubled cities. "It's going to be a little while before we see the return on these investments, but the groundwork is being laid for more vibrancy around transit centers," said Robert Freudenberg, New Jersey director of the Regional Plan Association, an urban planning group in the New York City area.

Every state has some form of business tax break, a tool popularized by southern states in the 20th century to lure companies from the north. Now, more than $35 billion in business tax subsidies are issued annually nationwide, Mr. Thomas estimated. New Jersey has awarded $1.7 billion to businesses through five programs under the Christie administration.
The prospect of a $210 million tax credit helped convince Prudential to build a new office tower in downtown Newark, where the 137-year-old insurance company has been based

since 1975. No jobs were deemed at-risk, but Prudential pledged to create 400 new positions—100 moving from New York City and 300 emerging under normal growth patterns.

The subsidy has come under fire from another big player in downtown Newark: the Gateway Center, a 360-foot-tall tower where Prudential now leases 900,000 square feet. The center's landlords are suing the state, arguing that the new building will depress rents and threaten property values. Before awarding the subsidy, the suit said, the state should have considered the high cost of building in an old city, including roadway reconfigurations, utility changes and increased services. The suit said those costs could range from $50 million to $100 million and that Prudential's investment is worth—in terms of economic impact—far less than the state estimated. "The math here is really given to voodoo economics," said Paul Josephson, a Hill Wallack attorney representing Gateway.

Prudential spokesman Bob DeFillippo said the tower would help the city's economy by creating some of its first new office space in years. Adam Zipkin, Newark deputy mayor and director of the Department of Economic and Housing Development, agreed. "Newark has seen development that we haven't seen in a generation, and the Urban Transit Hub Tax Credit is a big reason why," he said.

In a similar case, real-estate company Hartz Mountain sued the state for giving Panasonic $102 million to relocate from its building in Secaucus to a new one in Newark. Secuacus-based Hartz Mountain argued the deal didn't assess the effect on the real estate market there. Hartz dropped the suit after lawmakers adopted a tax credit last year allowing similar tax breaks in the suburbs. The company said the suit would "have been costly and time-consuming to pursue." Mr. Lizura said he couldn't comment on pending litigation. He said the state "takes great pains to ensure New Jersey will benefit from the projects."

The average $167,173 per job through the transit credit doesn't include construction positions. If 9,310 construction jobs are included, the average is $64,475 per job. Economists generally don't include temporary construction jobs when evaluating tax credits. Other states have awarded larger subsidies. A 2006 package of $1.2 billion for a semiconductor plant in upstate New York, for example, was projected to cost $1 million for each of the 1,200 jobs. More common, said Mr. Thomas, is the $192 million subsidy package for a Ford plant in Kentucky in 2010. It came to $106,670 a job, he found. Christie spokesman Kevin Roberts said it isn't fair to compare the transit hub credit with exclusively employment-focused programs. "Jobs are often created as a benefit of these programs, but it is ancillary to the central purpose of the program which is spurring capital investment in these areas," he said

D4c: New Jersey Future website:

Urban Transit Hub Tax Credit at a Crossroads
June 28th, 2012 *by Chris Sturm*

Capitalizing on Existing Assets and Market Potential

The Urban Transit Hub Tax Credit faces an uncertain future as it nears its funding cap, raising important questions about the state's commitment to transit-oriented development. The program distinguishes itself among the state's economic incentive programs with its highly targeted, strategic focus primarily on weaker development markets with strong transit infrastructure – Newark, Jersey City, Hoboken, Elizabeth, Paterson, East Orange, New Brunswick, Camden, and Trenton – and the intent of the tax credit has been to attract investment that builds tax bases and sparks wider revitalization in these locations.

The tax credit also capitalizes on growing market demand among Millennials and other high-value knowledge workers—as well as the corporate employers recruiting them — for opportunities close to transit and with a range of amenities nearby. And it supports the draft State Strategic Plan call for aligning state incentives with the market opportunities afforded by transit-oriented development.

Next Step: Recalibrate, or Phase Out?

A four-year track record for the program provides a good opportunity to take stock of it, and to address some important questions raised during its initial implementation:

- For commercial projects, the credits are available for up to 100 percent of eligible investments. Would a less generous subsidy still be effective, but allow a wider dispersion of credits across more municipalities and more development initiatives?
- Nine cities is a relatively small concentration of opportunities. Would there be benefit in expanding program eligibility to transit hubs in other areas that show potential as employment centers but where the real estate market is still weak? Harrison, Orange, Rahway, and perhaps Bayonne are some municipalities that fit this profile and might be worth further evaluation. (New Jersey Future's upcoming report on assets around transit facilities will offer a systematic basis on which to evaluate where such incentives could be directed most strategically.)
- Within the nine designated cities, there may be areas where the market is driving development without subsidy, such as along the Jersey City waterfront and in Hoboken. Would it make sense to refine the availability of these credits not just by municipality but by specific transit hub, based on neighborhood-level measures of market viability?

- Should credits continue to be available for residential developments which help create vibrant, mixed-use, urban places that are active during more than just business hours?
- Some credits have been approved for a proposed move by a business already located in an urban transit hub. Is this the best allocation of these resources going forward?

There is some urgency to these questions. Now that most of the credits have been allocated, the future of the program itself is uncertain. Legislation to raise the program's funding cap by $250 million is expected to pass this week, although it is not clear whether it will get signed into law.

Meanwhile, the Economic Development Authority, which administers the program, awaits staff recommendations that are due this fall. Early comments indicate there is consideration of reconfiguring a variety of state economic development programs, including not only the Urban Transit Hub Tax Credit program, but also the Grow NJ Assistance Program and the Economic Redevelopment Growth Grant Program, which both offer incentives throughout broad smart-growth areas (including stronger-market and more auto-dependent suburban locations). It is not clear how the amount of funding for urban transit hub projects might be affected or whether those projects would have to compete for funds with projects in more robust suburban markets.

There is obviously a strong immediate need to create jobs in New Jersey in an effort to move our faltering economy forward. A fundamental question is whether and how the state's limited public investments can be directed strategically to boost our ability to compete nationally and internationally for jobs while also supporting other, longer-term development goals that include revitalizing our older communities and improving access to our public transportation network. This is the question that should drive the summer's discussions about our economic development programs.

Appendix E: Sample Developments: Developers Interviewed

225 Centre Street
Mitchell Properties

- Bart Mitchell
- Beverly Gallo
- David Traggorth

The Carruth
Trinity Financial

- Jim Keefe

Atlas Lofts
Mitchell Properties

- David Traggorth

The Hayes
POUA

- Bill Grogan

Washington Mills
GLC Development Resources

- Robert Chihade

157 Washington Street
Codman Square Neighborhood Development Corporation

- Mark Dinaburg

Centre Wise LaMartine
Jamaica Plain Neighborhood Development Corporation

- Andrew Winter

West Concord & 30 Haven
Oaktree Development

- Arthur Klipfel

Wonderland
Eurovest Development

- Joseph R. DiGangi

Riverside Station
Normandy Real Estate

- Justin Krebs