Improving Public Transit Through Real Estate Development

Organization
TransLink, Metro Vancouver

Status
Real Estate Division established April 2008

Overview
The connections between real estate development and public transportation have been well understood for some time now. Many early streetcar systems in the United States were developed with the understanding that such improvements would increase the value of surrounding land parcels. Today, many transit agencies throughout the United States, Japan, and Europe are revisiting these relationships as a means of improving public transit systems. Many of the most successful transit agencies around the world have taken an entrepreneurial approach to public transportation, incorporating real estate development to generate revenue and provide benefits to system users.

In 2007, South Coast British Columbia Transportation Authority – or TransLink as it is more commonly known – established its Real Estate Division to help realize its long-term goals. The Real Estate Division is responsible for acquiring, managing, and disposing of TransLink's real estate assets. Estimates suggest that the division could generate $30 million each year for the next ten years. However, actual revenue could far surpass these estimates, generating as much as $100 million in revenue each year for TransLink. With this revenue, TransLink will seek to improve its public transit in Vancouver by improving access to transit facilities.

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Selected Resources
TransLink Real Estate Division
http://www.translink.ca/en/About-TransLink/Doing-Business-with-TransLink/Real-Estate.aspx

Community Context

Metro Vancouver – formerly the Greater Vancouver Regional District – is one of Canada's fastest growing urban regions with a population of approximately 2.1 million people. TransLink is the agency responsible for the planning, financing, and managing of transit services in Metro Vancouver's 1,800 square kilometres of service area. TransLink also shares responsibility for the Major Road Network and regional cycling network with partnering municipalities. In 2007, TransLink's transit system carried 294 million passengers, making it Canada's third largest system behind Toronto and Montreal.

Funding for its operations, improvements, and expansions are drawn from its share of provincial and municipal taxes (e.g. motor fuel tax, property tax) and transit fares. In January 2008, BC announced a $14 billion public transportation plan. Funding for the plan is expected to be contributed by TransLink and federal, provincial, and local governments. TransLink is expected to contribute $2.75 billion to cover capital costs.

To cover its portion of the transit plan, TransLink considered several options, including:

- Instituting road and bridge tolls;
- Increasing property taxes surrounding SkyTrain stations;
- Requesting a share of Provincial property transfer tax;
- Taxing container traffic through Vancouver area ports; and,
- Raising public transit fares, fuel taxes, parking taxes, or the BC Hydro Levy on homeowners
- Real estate development

TransLink holds a variety of real estate assets in the Metro Vancouver region, including transit centres, SeaBus terminals, fleet overhaul facilities, and air space parcels (i.e., unused density associated with its properties). Among these assets, the largest include: Oakridge Transit Centre in south Vancouver ($46 million); Coquitlam Centre park-and-ride in the City of Coquitlam ($14.5 million); and two properties in Vancouver's False Creek neighbourhood close to Downtown Vancouver ($34.5 million). The four parcels are currently valued at approximately $100 million.

Policy Context

Various transit agencies throughout the United States, Japan, and Europe are pursuing more entrepreneurial approaches for public transportation provision. One of these approaches is real estate development. Real estate can be a tool to generate revenue, finance rapid transit expansions, and improve public transportation networks and facilities. While the application is different in each case, such methods are commonly referred to as land value capture.

Land value capture is a means of funding transit services with the additional value generated by land parcels surrounding transit facilities. Land value capture techniques can be either indirect by imposing or increasing property taxes or direct with joint development methods. Joint development is a type of public-private partnership for the development of public transportation facilities. Studies acknowledge that land value capture methods, such as joint development, can be key tools for implementing Transit-Oriented Development (TOD) projects (Fogarty, 2008).

In November 2007, the Province of British Columbia passed the *Greater Vancouver Transportation Authority Amendment Act*. The passage of this legislation enabled TransLink to establish the Real Estate Division. In April 2008, TransLink established its Real Estate Division with a mandate to acquire, manage, and dispose of its real estate assets.

Previously, TransLink's mandate limited it to acquiring property that was immediately necessary for the project at hand. Under the new legislation, however, TransLink is able to acquire land parcels surrounding transit facilities and along the transit right of way. This new arrangement allows TransLink to pursue longer-term goals and partner with more innovative private sector developers.

Rationale and objectives

Numerous studies show that land parcels surrounding transit facilities gain value because they enjoy better connectivity with the region (Smith & Gihring, 2006). Some transit systems have realized as much as a 100% increase on commercial properties within 400 metres of transit facilities (Chisholm, 2002; Fogarty, 2008).

Greater access to public transportation facilities also provides benefits to residential and commercial properties. Residents are able to access their places of employment and amenities more easily and businesses have a larger labour- and customer-base to draw from.

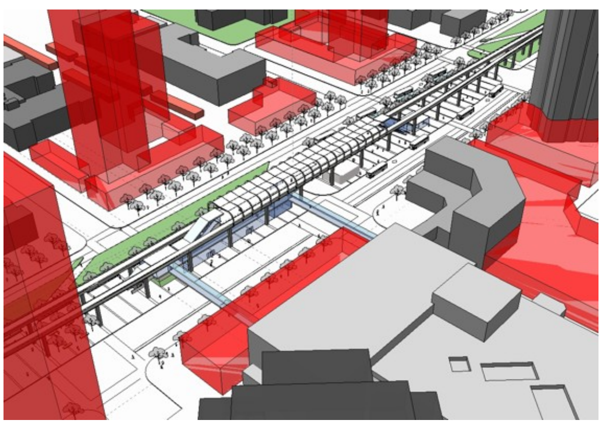
Although many North American cities – such as Chicago, Toronto, and Montreal – have produced examples of 'naturally' occurring development surrounding stations, others – such as, San Francisco, St. Louis, and Pittsburgh – demonstrate that rapid transit does not always guarantee TOD projects (Chisholm, 2002). Instead, TOD is best implemented with involvement from the public sector (Fogarty, 2008). Without a carefully planned development framework (i.e., properly designed, phased, funded and implemented with supporting zoning and policy where required), development can be ineffective, inefficient (from a transit perspective) and ultimately unsuccessful.

While many transportation agencies in the United States have established real estate departments, TransLink's Real Estate Division is the first of its kind in Canada. One of the first agencies in the United States was the Washington Metro Area Transportation Authority (WMATA), which established its real estate department in the 1970s. To date, WMATA has completed more than 38 joint development TOD projects. These projects have generated more than $2.5 billion in total revenue, or up to $60 million annually.

TransLink hopes to emulate WMATA's success with its new Real Estate Division and anticipates it playing an important role in improving public transit in Metro Vancouver. By expanding its scope into real estate development, TransLink will attempt to ensure that future investments and network expansions yield maximum benefits for transit and non-transit users. With the creation of the Real Estate Division, TransLink seeks to:

- Increase ridership capacity through densification in priority areas (thereby increasing fare revenues);
- Create opportunities for community and economic development;
- Maximize revenue from the lease and division of properties; and,
- Optimize land use and value.

Although it will not be directly involved in the building process, the Real Estate Division plans to facilitate development around, within, above, and below future and existing stations to realize these goals.



Development Around
Rendering of proposed development surrounding Metrotown SkyTrain Station in Burnaby

To achieve their goals, the Real Estate Division proposes facilitating TOD projects in the area surrounding existing and future transit facilities. The upzoning process necessary for implementing these projects will significantly increase the value of its real estate assets[1].

According to the Real Estate Department staff, the lease or sale of its real estate assets should generate revenue for TransLink to finance the construction of future transit facilities and network extensions. Additional revenue will be generated at the fare-box with increased ridership resulting from higher densities surround transit facilities.

Real estate development will also allow TransLink to generate a return on its infrastructure investments and continue to improve public transit in Metro Vancouver. The Real Estate Division will not rely solely either the sale or lease of the land. Instead, the approach will be determined for each project depending on the returns and objectives.

Development Within
Ethical Bean kiosk in the SkyTrain Commercial Drive Station

The creation of TransLink's Real Estate Division represents a shift away from the traditional role played by public transportation agencies. Previously, transportation agencies primarily acted as service providers. In this arrangement, higher levels of government financed major public transportation projects, leaving the agency to

[1] Upzoning is the process of changing the zoning in an area, usually to allow greater density or commercial use. The term can also be used to mean the opposite: changing the zoning in a broad area to limit growth and density.

manage property and land issues. Today, transportation agencies, along with local and regional governments, are expected to join federal and provincial governments to finance major transportation facilities.

This shift has forced many transit agencies, including TransLink, to reconsider financing arrangements. In addition to these changes in financing arrangements, TransLink identified the following five objectives guiding the creation of its Real Estate Division:

- Reduce greenhouse gas emissions and vehicular miles driven (i.e., by encouraging more compact TOD-friendly development);
- Build more transit projects sooner;
- Reflect changing traffic patterns to enhance inter-regional and regional transportation;
- Minimize the cost of public transportation and maintain affordability; and,
- Collaborate on land use and transportation planning amongst three levels of government and developers to encourage the concentration of employment, retail, and residential uses.

Actions and Results

TransLink's Real Estate Division is still in its infancy. Major rapid transit expansions and real estate development necessitate long-term planning and extensive consultation. As such, no major marketing projects involving the Real Estate Division have been completed to date.

Although no projects have been completed, there are already plans in place for several station redevelopments – some of which are already underway. The Real Estate Division is currently rationalizing some of its land holding to facilitate these redevelopments. These holding include major parcels, such as the 14-acre Oakridge Transit Centre.

TransLink's Real Estate Division is also acquiring additional parcels of land by either purchasing outright or by transferring them from different government agencies into its portfolio. TransLink is confident that transferring land – often facilities or rights-of-ways that serve TransLink – will ensure more control over future use of existing land assets.

The Real Estate Division is also in the process of a developing a strategic property acquisition program. With approximately $75 million allocated annually for acquisition, the division is purchasing land for future network expansions and associated developments.

TransLink is currently working closely with the municipalities to develop land around existing stations and increase the density. Some of the proposed and ongoing station redevelopments include the Metrotown SkyTrain Station in Burnaby, Newton Bus Exchange Station in Surrey, New Westminster SkyTrain Station in New Westminster and the Broadway/Commercial SkyTrain Station in Vancouver.

Development Above

The New Westminster station redevelopment will feature four residential towers and over 170,000 sq. ft. of retail space

The proposed $60 million New Westminster SkyTrain station redevelopment is incorporating numerous TOD features. Plaza 88 – as the development is known - is expected to cost $250 million and will feature four residential towers and over 170,000 sq. ft. of commercial space on the five-acre site. The New Westminster SkyTrain Station and transit hub will be completely integrated with the residential and commercial development.

Similarly, TransLink is working closely with the Province on the development of the new Evergreen SkyTrain line that will link Coquitlam Town Centre to the Millennium Line in Burnaby. Since the Province will be constructing the line, it will have a great say in project. However, TransLink is working with the Province to develop a process that will encourage density in the area surrounding proposed stations. One station will be located on a 12-acre Coquitlam park-and-ride lot owned by TransLink and will link the SkyTrain line to the West Coast Express commuter rail service. The City of Coquitlam has already agreed to allow higher density development on the site, accommodating between 800 and 1,200 residential units.

Rendering of proposed development at the current Coquitlam park-and-ride lot

Challenges

Any transit agency incorporating real estate development into its mandate faces a variety of challenges (Cervero, 2004). Not only are there fiscal challenges inherent to real estate, but also political and consumer demand barriers to implementing projects. Some of challenges associated with real estate development and barriers to TOD implementation include:

- **Market cycles:** Land valuation is volatile and determined according to a variety of condition. While unexpected increases in the real estate market can generate substantial revenue for transit agencies, the opposite situation is also possible. Sudden drops in real estate values can limit revenue or even result in a deficit. Similarly, market shifts can result in compromises to development design. Portland's Cascade Station on the Airport MAX light rail line was forced to scale back its original plans following a slowdown in the real estate market.

- **Consumer attitudes:** Improved access to public transportation facilities does not guarantee that land values will increase. Consumer demand, lifestyle preferences, and transit perceptions can present stumbling blocks to any project. A lack of consumer demand can stall or weaken a development and residents in adjacent neighbourhoods can prevent higher density developments – necessary for successful TODs – with 'not in my backyard' (NIMBY) attitudes. In order for transit agencies to generate revenue, local real estate markets must be active and receptive to innovative development practices.

- **Restrictive policies:** Existing zoning and development regulations and policies can hinder and limit the development of successful TOD projects. Provincial legislation may also expressly prevent a transit agency from entering into real estate development or may narrow the agency's mandate. Coordination and collaboration between the transit agency and different levels of government is required to avoid such policy challenges.

Best Practices

TransLink's Real Estate Division is the first of its kind in Canada. However, similar practices have been employed by many innovative transportation agencies in the United States since the 1970s. These agencies provide a wealth of information about using real estate development to increase ridership, generate revenue, and implement TOD projects. Transportation planning and financing literature outlines many best practices to help transit agencies successfully incorporate real estate development into their mandate.

- **Establish internal consensus and determine clear policies, goals, and definitions.** Internal consensus is necessary for successful land development projects. Legitimacy is a key concern for many transportation agencies. Not every board member views real estate development and land use policies as areas of concern for public transportation agencies. Key members must be on board with these in order to determine policies, goals, and definitions. WMATA's *Joint Development Policies and Guidelines* provides direction and clarity for the agency. Some of the areas of interest include:
    - Information regarding WMATA's joint development program;
    - Roles and responsibilities of WMATA's board of directors; and,
    - Joint development process.

- **Pursue private sector expertise.** Many transportation agencies lack expertise in real estate development. Joint developments may not generate the anticipated revenue and may, in turn, sour future development projects. Some transit agencies have alleviated these difficulties by either creating advisory boards with private sector expertise or including real estate expertise on their boards, such as the Santa Clara Valley, Transportation Authority and Cincinnati (Metro) Transit. On the other hand, some large transit agencies – such as TransLink, WMATA, San Francisco's Bay Area Rapid Transit (BART), Southern Pennsylvania Transportation Authority, and Miami Dade Transit Agency – have created in-house real estate departments using staff with previous experience in real estate development.

- **Tailor policies to the community.** Real estate markets perform differently in each neighbourhood, city, and province. Likewise, consumer preferences vary in each community. Transit agencies should tailor their real estate departments and proposed developments to reflect the local real estate market. TOD projects must reflect consumer demand if they are to be successful. Thus, community engagement is essential for successful implementation.

- **Establish partnerships with public and private sector stakeholders.** Implementing TOD projects through joint development requires multi-sector and multijurisdictional collaboration. Land use planning, public transportation, and real estate development involves various levels of government and private sector interests. Project funding and financing often involves various levels of government and the private sector. Development approvals often require municipal zoning amendments, while the very act of transit agency real estate development may require provincial enabling legislation. Given the multijurisdictional nature of TOD, transit agencies must collaborate with various levels of government and private sector stakeholders.

Resources

The real estate markets for each city, municipality, and region differ. For that reason, each transit agency's real estate program must be tailored to community context and would require different levels of funding.

Although real estate cycles fluctuate, TransLink expects its Real Estate Division to generate $20 - $30 million in revenue each year for the next ten years. This figure could rise as high as $100 million in annual revenues depending on market conditions and final project plans.

The Real Estate Division's current operating budget is $1.34 million. However, this figure is expected to increase as larger projects emerge in the next two to four years. In addition to the operating budget, the Real Estate Division has a strategic acquisition budget of approximately $75 million, which will vary from year to year. The Real Estate Division currently has seven employees: a vice president, two program managers, a negotiator, a property administrator, and two support staff.

Lessons Learned

Land use planning, public transportation, and real estate development intersect in various governmental jurisdictions and private sector interests. This compels TransLink to work closely with multiple stakeholders on all its projects. The key to the Real Estate Division's success, therefore, is being able to effectively communicate and partner with the public and private sectors.

Since land use planning is approved at the municipal level, local government support is integral to the success of the Real Estate Division. For this reason, the Real Estate Division is working on Municipal Framework Agreements (MFA) with each municipality where there are active projects. With the MFA in place, site-specific agreement will be developed for the individual projects. These agreements are a step towards working closer with municipalities to increase ridership by achieving higher densities around stations and better land use on the transportation network.

To ensure good communications with the private sector, TransLink's Real Estate and Planning Divisions meets regularly with representative from the Urban Land Institute (ULI), the Urban Development Institute (UDI), and the National Association of Industrial and Office Property Owners (NAIOP) – three major non-profit associations representing the real estate and development industries in the region. With these meetings, the Real Estate Division hopes to keep these organizations informed of their plans and to receive their support.

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