

BEST PRACTICES FOR TRANSIT ORIENTED DEVELOPMENT: WHAT WORKS, WHAT DOESN'T

By

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Introduction

The popularity of TOD (transit oriented development) is increasing as developers and municipalities seek to create walkable and livable spaces around public transportation. While many such projects are successful, some experience lackluster sales of residential units or high turnover of tenants in retail or office space, despite their proximity to transit and other amenities. This paper seeks to answer the question “What makes a TOD successful?”.

This paper analyzes the role of existing real estate supply and the factors which drive demand. It addresses the relationship between the intensity of available transit, as well as the influence of trends in demographics, income levels, local and regional economics, and job growth. It also considers the impact of the site and its surroundings on the potential success of a project.

Successful projects, both transit oriented and conventional, are consistently attuned to the realities of the market. These projects become new places to live, work, and play while capitalizing on the nuances of important trends in increasingly complicated settings. Successful TODs focus on building the “highest and best use” for a site, whether that be residential, office, or retail, or a mixture of all three, and the process for determining those uses is outlined below.

Site Analysis

A site analysis is a typical first step in determining a use for a parcel of land. There are two types of qualities that all sites maintain, and they are covered below.

Physical Qualities

The presence of existing structures, rugged terrain, or substantial utility easements are just some examples of challenges that might be found on a given site, and even these basic examples give rise to many questions: Should the existing building be renovated or demolished? Are there environmental concerns about the site? Will the terrain require extensive engineering to make it buildable, thereby making the project financially infeasible? Can the utility easements be negotiated? Can the utilities be buried or otherwise rerouted? The physical qualities of the site can have an enormous impact on the potential success of a project.

Locational Qualities

Neighboring land uses can be both a blessing and a curse for a project, and whether they constitute the former or the latter can be reduced to the issue of compatibility. For example, an apartment building marketed towards young professionals is likely to be much more compatible with a neighborhood hosting an active bar scene than a senior living facility; the proposed project must be able to fit into its surroundings.

Another locational quality to consider is traffic—will enough people pass the site to generate an adequate amount of attention? Almost all retailers need a specific threshold of traffic (either pedestrian or automobile) to meet their projected income levels. In regards to TODs, the timing and intensity of foot traffic will heavily influence the type of retailers that might be attracted to occupy a given project. For example, a retailer who requires a steady flow of traffic all day is unlikely to be interested in locating next to a heavy rail commuter station which only has substantial traffic during the morning and evening rush hours.

Demand Analysis

Successful real estate projects capitalize on change, and TODs are no different. Trends in demographics, employment, and other real estate projects can provide important target markets that may be underserved.

Demographic Change

Demographic trends in individuals and households can signal important changes that are occurring in a given market. A decline in the median age of a population may indicate a growing need for apartments (as the population becomes younger), an increase in household size may indicate demand for larger residential products, and increases in household purchasing power may indicate growing demand for retail space. At this juncture, it is important to understand *who* uses *what kind* of real estate. This will be discussed in the following section in more detail, but for now it suffices to say that demographic trends are a powerful indicator of current real estate demand.

Employment Change

The arrival of a new employer in the market area or sustained growth in a local industry may provide an opportunity for new housing (for new employees), retail (which provides goods to new residents), and office space (as businesses expand). If such expansion is occurring, it is critical to ask questions like “What kind of people are moving to the area?” and “How much money do they make?”. The answers will indicate which types of real estate products to create for these new residents, and some of these real estate products will be better suited for TOD than others.

Change in Construction Level Activity

One way to determine the level of construction activity is to evaluate the number of building permits being issued. Construction activity is an indicator of current and historical demand for real estate. Gaged against historical values and forecasted economic conditions, one can determine the general amount of demand being met as well as the potential to capture the demand from an underserved portion of the market. It is very important, however, to consider the lag time that occurs between market equilibrium (when supply fully serves demand) and the subsequent period of overbuilding. Ideally, any real estate development, including a TOD, will be conceived and completed during a period of growth in a market area. However, unexpected circumstances, such as construction delays due to weather or legal disputes can delay the completion of a project, allowing a competitor to finish his construction first, and thereby obtain a better foothold in selling or leasing units. It is necessary to determine the number, scale, and schedule of competing projects in the local area in order to determine the risk of arriving to market too late to capitalize on a period of growth.

Growth Trends as a Determinant of Product Type

Different types of trends drive demand for different types of real estate products. Some of these trends spill over and affect many different types of land uses, while a few are more discrete and only impact a single real estate product.

Residential

Residential real estate can include products that are either “for sale” (single family detached homes, townhouses, condominiums) or “for rent” (apartments). Factors such as age, income level, household size, education, and commute time all mesh together to influence the type of housing product that users prefer. Residential real estate can be adjusted in size or layout to focus on a specific demographic group. If a market area has a large portion of existing residents of retirement age who tend to stay in the area, townhomes with minimal maintenance and main floor bedrooms may be an attractive product for these retirees who want a smaller home in the same community they have lived in for many years.

It is essential that the residential component of a TOD be matched to the realities of the area's demographic trends. For example, many municipalities in the Chicago region encourage the development of condos in lieu of apartments around their commuter rail stations in hopes that users will be attracted by the convenience of transit and will revitalize the existing downtown area as they live and shop downtown. However, in many cases, apartments are a much better match for the site, due to the differences between apartment and condo dwellers. First, apartment dwellers in a TOD are often young single professionals with high levels of disposable income, the kind of income that can regenerate a downtown area. They are also more transient in their lifestyle and not ready to settle down and purchase a place to live as of yet, making apartments more appealing than condos. Finally, these apartment residents are often willing to pay a premium for the convenience and prestige provided by the location and visibility of housing in a TOD. Meanwhile, condo buyers may not be willing to commit to the location, as they are typically older than apartment renters, and may want to reside a little further away from the hustle of a downtown/TOD area.

Retail & Entertainment

Just as many residential developers specialize in providing housing for a specific demographic group, so, too do retailers. They have almost always established certain requirements without which they will not move in to a new market area. These conditions include items such as household size, household income, and median age. Their business model is attuned to specific conditions which have been found to produce a profit for their company. Even among retailers vending similar products, requirements of the market may be markedly different. For example, Dunkin Donuts and Starbucks Coffee both sell similar products, but often choose to locate in dissimilar market areas.

A successful TOD will take advantage of the market area's conditions and work to draw retailers who seek out such places. All too often, in the early stages of public input for planning for a TOD, decisionmakers try to fit a square peg into a round hole by trying to attract a retailer who is simply not interested in the demographics of the area. Many communities, when revitalizing the area around a TOD, wish to bring in smaller grocers like Trader Joes or Whole Foods. These retailers have very specific parameters which they require to enter a market area, which are simply not met. The effort spent trying to attract them could be better utilized by utilizing the area's existing characteristics to attract a compatible retail who will generate tax dollars, visibility, and increase the viability of a TOD.

Office

Demand for office space is largely driven by increases in employment; as employers expand, they not only need more space to operate, but their growth, in turn, generates growth in other companies, spurring the need for even more space. The demand for office space at a given site is often determined by the surrounding environs of the property. Unless the TOD is located in a large central business district of a major city, locally serving space may be the best type of office use. This type of real estate product draws from a local market area, in lieu of a regional or national market. These tenants are often small in size, and provide services to the local community. Realtors, financial planners, lawyers, and accountants are common tenants in this case.

Supply Analysis

Careful consideration of the existing real estate stock in a market area will provide some telling clues in relation to the potential success of a TOD. A survey of rental, sales, and occupancy rates provide a look at the potential income that can be generated by a project; if comparable projects are doing poorly in these areas, a similar fate may befall the proposed project. Additionally, a consideration of the competitive sites and the condition of their improvements (i.e., the building, parking lot, landscaping, etc.) can provide a qualitative view of competing projects—Are the properties well-maintained? Do they offer similar access and visibility? Access and visibility are watch words for retailers everywhere, since these factors allow the retailer to capture “drive by” customers who make unplanned stops and subsequent purchases. If retail is a component of a TOD, visibility and access will be essential to securing tenants.

One of the great difficulties facing TODs is the relative lack of comparable projects. Unless the proposed project is located in a major city, it is often difficult to find a similar project in the same market area, especially if the project is mixed use. This can pose a problem, since lenders and investors who finance the project prefer not to be pioneers bearing the risk of an untested project. Decision makers may have to venture outside of their market area to find similar projects to their own in order to show the validity of their project's concept.

Matching Land Use Density with Transit Intensity

Just as different economic and demographic conditions are more compatible with certain real estate products, so, too are some real estate products more compatible with certain types of transit. High rise office space often works well when located at a major transit hub, while apartments often work well near suburban commuter rail stations. Furthermore, the resulting density of a TOD should be matched to the intensity of existing transit; generally, as transit intensity increases, so should density. To cite the example mentioned previously, a retailer who needs a steady stream of customers throughout the day will not thrive near a commuter rail stop which only initiates substantial usage for 4-6 hours a day. Any future plans by transit authorities to increase or decrease service should also be taken into consideration, since such changes may have an adverse effect on the project by altering traffic flows around the site.

Conclusion

The construction of TODs will likely continue to accelerate in the coming years. However, siting a project near transit is not an instant recipe for success. TODs are subject to market forces just like conventional real estate projects. Changes in economic, demographic, and construction trends exert pressure on all kinds of real estate. Therefore, a successful TOD must be organized and executed to capitalize on the changes in these trends; capturing the unmet demand caused by these shifts is what creates a viable project and a vibrant, new space for people to live, work, and play.