Market Aspects of TOD in Boston, the Region and the Nation
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By William Lawrence
Managing Director, Consulting Services

Article #1: The National Market Perspective

Transit Oriented Development (TOD) is *the place to be and the thing to build*. This is not to say that it is for everyone, but it is where much of the development action is and where many of the baby boomers in the suburbs who can sell their homes or the recently minted college grads want to end up.

The national market data suggest that there are three dominant market types that are unfolding—the "24/7 cities," the "Regional Cities," and more or less, everything else.

The 24/7 Cities are the place to be —about a dozen of them that have the scale and diversity to create an enlivened downtown, punctuated by good or soon to be good transit of all types. These cities (call them the "Buzzing Dozen") include New York, Boston, Washington, DC, Chicago, Denver, San Francisco, Los Angeles, Seattle, Portland, San Diego, Salt Lake, and Minneapolis). These cities are highly "walkable" with high density residential product served by retail and connected to employment by excellent transit service. They have received 50 percent of all private investment dollars in development projects in the country over the last three years. As an example in Boston's Kenmore Square, at the confluence of 4 transit lines, a medical center and Boston University, private developers have announced four mixed use projects that are really "TODs" in the last four months *and are funded* with over 2 million square feet of office and retail, 800 residential units and 2200 parking spaces. Citywide, Boston has residential projects of over 3,000 units started or about to be—this Kenmore example is not an aberration.

Then there are the smaller "regional centers" or second tier cities that have some diversity and the local economic development stakeholders have figured out a unique niche for specialization that distinguishes it competitively from other areas around the country. According to a recent article in the *Wall Street Journal*, these areas and their competitive advantage include Odgen, UT (outdoor sports gear), Kansas City (information technology), San Antonio (cyber-security), Indianapolis (life sciences), Nashville (health care), Albany (nanotechnology), and Asheville (beer brewing). There are other regional centers that are trying to make this happen, but aren't quite there. Other economic activity is happening in these locations. But these niches are defining development nodes that have growth and need transit accessibility to attract the employees that these cutting edge firms want to employ. The transit is probably bus or bus rapid transit, not fixed rail, but it serves the same purpose. These cities are fostering "corridor lifestyles" that relate to a linear system of services to nearby residents, served by bus.

The last type of city/town is everything else—that is most of America. It is not a happy picture. It is the shrinking city phenomenon--the closed car dealerships, the vacant store fronts and marginalized strip malls. But not in every case and not necessarily. What is happening from a development perspective (where it is happening) in these less robust places is a return to concentrations of development that might be called villages, the key component being *walkability,* but with little transit service. It is happening or trying to happen all over America as new city centers or as new suburban town centers.

Perhaps the most commercially successful in the Boston area is Legacy Place in Dedham, MA. A developer figured out the suburban area from Braintree to Chestnut Hill was underserved with an outdoor, walkable destination with all manner of new combinations of stores, like a super-sized Whole Foods, a multi-plex cinema with restaurant viewing, etc.—a “New Urbanism” example. It is surrounded by higher density residential development and served by one commuter rail stop about a quarter mile away and some bus service. But it is car dependent. It is not downtown Boston, but it is a happening place.

So Part 2 of the series (next month’s TRA News) will address in more detail what drives demand for TOD type development and Part 3 (the following month) will address components of a successful TOD.

Article #2: The Demographic Paradigm Shift—Teeing up TOD

About equal numbers of Baby Boomers and Millenias—150 *million* of us in the United States (a little less than half the total population)—are coming into a different life stage and considering changes in living circumstances. Many households in these two cohorts have several things in common—they have no children or no children living at home, and they we are gravitating to consider or want to live an urban life style. Urban life style is defined to mean apartment, condo or townhouse living with shopping nearby, a reasonable commute to work, access to transit, and the potential to walk to places for dining, recreation and entertainment.

The exhibit below captures the astonishing change in housing absorption since 2005:

- Total number of single family and multi-family units peaked in 2006 at nearly 1.5 million and dropped to 433,000 in 2010, *a drop of 71%.*
- Total new single family absorption peaking in 2005 at almost 1.3 million units; 5 years later in 2010, only 323,000 were absorbed, *a drop of 75%.*
- Total absorbed multi-family units have been surprisingly consistent--hovering around 200,000 over that period except for 2009 when it was around half that number.

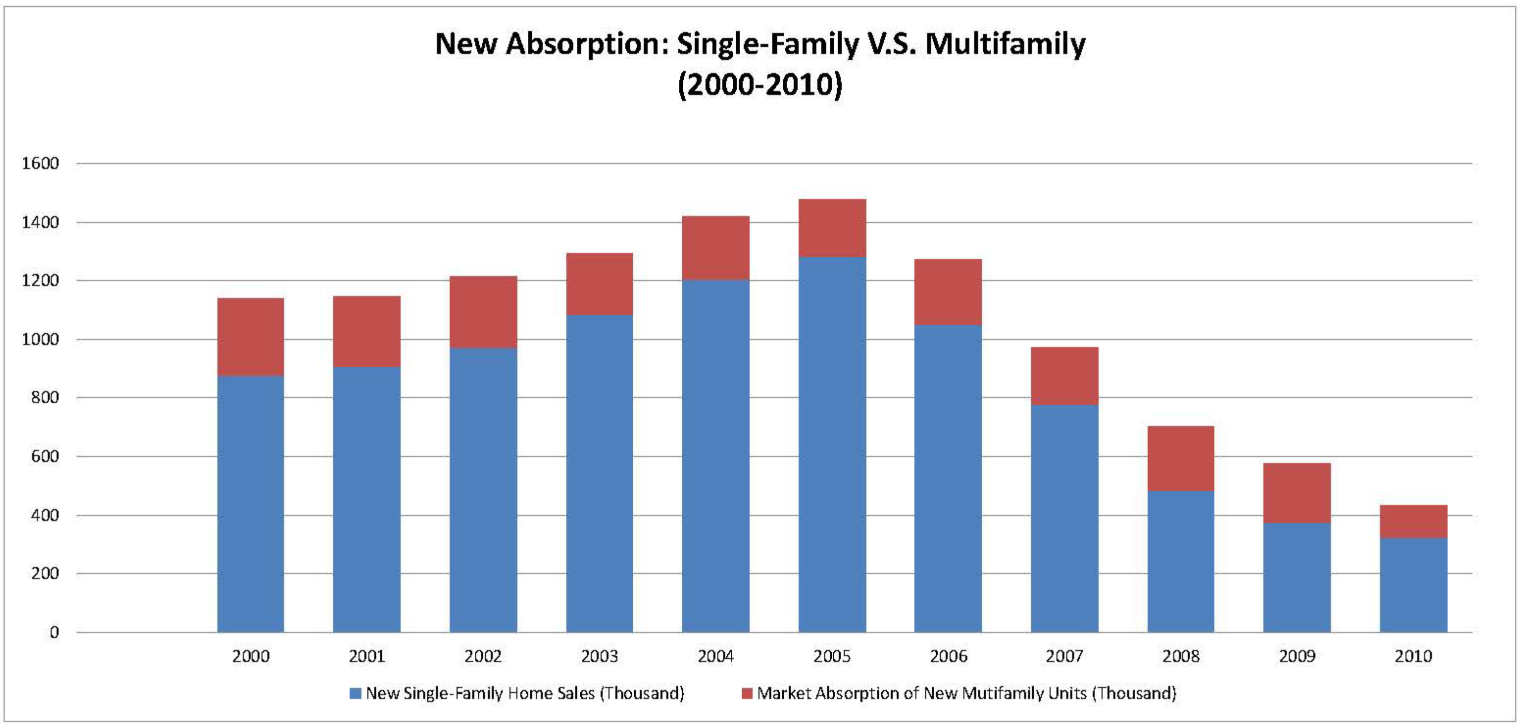
Some economists attribute the collapse of the housing supply chain to the financial crisis beset by the Great Recession. Indeed, significant drops in house valuations, failures of regional banks, reductions in bank lending capacities, increases in lending requirements, foreclosures on defaulted loans, and so on have inflicted significant blows to housing markets. Housing prices are still falling in many parts of the country. And many foreclosed properties, due to legal complications, have been delayed from coming back into the market, contributing to further price declines and unwanted additional supply for some time to come. The popular press has dwelled on these symptoms of crisis, rarely the underlying causes.

The drop in new housing absorption by nearly three-quarters over 5 years is probably the best indicator of this paradigm shift. Even with historically low mortgage rates, developers can’t find buyers for new single family detached product in most parts of the country. On the other hand, demand for rental product has increased rents and occupancy rates of existing apartment buildings. *The Wall Street Journal* reported for the 4th quarter of 2011 that the average vacancy for apartments nationwide is around 6% and some markets—the 24/7 cities discussed in the first article in this series last month-- a little over 2%. A healthy vacancy factor is around 5%.

Going back to the chart, there are probably several reasons that new rental product has only stayed about the same over the last 5 years. The first is that the development industry has a herd mentality, and it wasn't obvious what was/is going on. The second is that the larger single-family developers—like Pulte and Toll Brothers--had to take care of their failing core businesses and only recently formed apartment divisions. And third, the lack of availability of zoned and vacant property for multi-family product and the length of the entitlement process for public approvals.

All of these factors tee-up projects that are higher density, located around transit facilities, and have other urban amenities in close proximity—in a few words—transit oriented development. *It's the place to be and the thing to build.*

A third article in this series to appear next month in this newsletter will address the key factors that make TOD a market hit.



Article #3: Components of a Successful TOD:
The Place to Be and the Thing to Build

Given the demographic trends noted in last month's *TRA News* article, many people are clamoring for more urban life styles. What is it that Transit Oriented Development has to offer that is attractive to this population of urbanites?

TOD has a platform of development:

- A transit station, be it bus or rail or better yet multi-modal
- A mix of uses with higher density residential closer to the station
- A scale that encourages pedestrian movement and interaction
- Connections to other transportation systems, both local and regional, to facilitate getting around
- Other systems relating to the built environment that make it sustainable and technologically current.

What are the qualities that this platform is designed to capture? We think that they relate to diversity, scale and synergy.

Diversity
Diversity includes shelter options, multiple cultures and ethnic groups, most income groups and employment choices:

- *Shelter Options*—Since this "urbanite" demographic is widely differentiated by race, class, income, sexual preference, education, and the like, every type of housing could have a niche, depending on the location and availability of other competing product in the market place. For example, a recent study of the downtown rental market in Albany identified over a dozen consumer market niches for different product types.
- *Cultural*—These urbanites want ethnic and cultural variety--what is perceived as the spice of life. They want it in dining experiences, alternative medical treatments, traditions and social interactions.
- *Economic*—While the general minimum household income for renters in this market is around $50,000, all income levels may find a place here, perhaps the more affluent having a second home as a seasonal escape.
- *Employment*—areas with an almost equal balance of jobs and households foster the mix of uses and demand for services on which the TOD demographic thrives.

Scale
In today's economy, it is difficult for developers to obtain financing for multi-use projects, particularly in less densely populated areas. So new, financable projects are generally comprised of one use (like an apartment or hotel) and of a smaller scale. So the element of scale needs to come from combining the attraction of the new use with surrounding uses—to get to that critical mass. Financially, these projects are most successful when they have enough attractions to become *a destination* for multiple users. This is not to say that each TOD project needs to be large. Having worked in mature, already densely built-up

areas around the country, we have found that a smaller, well-conceived infill parcel in the midst of other economic uses will capture a missing ingredient that can re-invigorate an entire neighborhood.

Synergy

Said differently, TOD doesn't really work standing alone. That is the reason it is difficult to do a successful TOD in a suburban environment, particularly with the newer transit systems being built—there just isn't enough crucial mass to carry it in the initial stages. There needs to be other uses that can be leveraged and tapped into that make the whole greater than the sum of its parts. It is this linking together of multiple uses in relatively close proximity that gives an area the neighborhood feel and the ability of users to get around on foot rather than on wheels. The criterion of "walkability" has bubbled to the top of neighborhood attributes in these areas around transit that make them particularly attractive and differentiated to the "urbanite" demographic.

In short, the optimal TOD for this new demographic creates a ***village environment*** situated around a transit station that is a highly integrated, walkable place of some diversity, scale, and synergy among uses.

A fourth article next month will address why it is so challenging to make TODs work financially and what to do about it.