



**MTI**

Norman Y. Mineta  
International Institute for  
Surface Transportation Policy Studies  
Created by Congress in 1991

***Public Land with  
Private Partnerships for  
Transit Based Development***

Mineta Transportation Institute  
San José State University  
San Jose, CA 95192-0219

**IISTPS Report 97-1**

***Public Land with  
Private Partnerships for  
Transit Based Development***

**May 1997**  
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Dr. Scott Lefaver, AICP

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## **EXECUTIVE SUMMARY**

### **PROJECT OVERVIEW**

The Norman Y. Mineta International Institute for Surface Transportation Policy Studies (IISTPS) has received funding through the federal Research and Special Programs Administration (RSPA) and the California Department of Transportation (Caltrans) to conduct policy related activities in the areas of research, education, and information sharing to benefit the U.S. surface transportation industry. The project which is the subject of this report was jointly sponsored by Caltrans and RSPA under the original title of “Zoning and Financing of Transportation Interchange Point Densification (Analysis of Opportunities and Barriers in Project Development).” The publication title of this report was changed for simplicity.

As communities become more urban, local governments are encouraging higher density developments adjacent to transportation corridors. Public policies that lead to transportation oriented developments encourage higher transit ridership, less auto use, and more efficient land use. However, the private sector is often reluctant to build higher density projects for a variety of reasons. To pioneer these efforts and begin the implementation of these policies, transportation agencies are using their surplus land as the basis for transportation oriented developments. Many agencies have formed partnerships with private developers to construct these higher density projects. Some have been successful, but others have faced great difficulty.

### **THE PROJECT**

This document will examine several transportation-oriented developments. It will also recommend methods by which public transportation agencies can successfully implement high-density, mixed-use developments adjacent to transportation corridors.

#### **Definition of Transportation Oriented Developments**

For the purposes of this study, transportation oriented developments will be defined as higher density, residential or mixed-use developments built along transportation corridors. Transportation corridors include all intensely used surface transportation passageways, i.e. rail and major bus lines as well as freeways. These developments are constructed through partnerships between

public agencies and private developers. In this partnership the public agency contributes land or capital or both and may assist in the financing. The private developer may be a for-profit or a non-profit entity. Their role in the partnership is to finance, build, rent or sell, and maintain the project over time. Each of the partners, private and public, expects to receive a return on its investment. For the public agency it may be a lease amount for the land or simply the implementation of public policy. For the private developer it is usually the developer's fee and the net profits from managing the project.

This research project will review only transportation oriented developments that are constructed by a public/private partnership.

### **The Case Studies**

Ten transportation oriented projects located in eight different cities were used as case studies. The cities include: Washington, D.C.; Atlanta, Georgia; Portland, Oregon; and San Diego, California. Several of the projects are located in the San Francisco Bay area: Redwood City, Hayward, and El Cerrito. In the course of studying these projects it was noted that all experienced difficulties with developing and completing the projects on time and within budget. At this point in time it is unknown if some will do well financially.

The case studies focus on the relationship between the public partner and the private entity. Employees of the public agencies and the private developers were extensively interviewed. In most cases the principal of the development company was directly interviewed. They were specifically asked about what difficulties they encountered, which aspects of the public/private relationship should be changed, and which retained. The main concern of the developers was that, because the public entities are not driven by issues of budgets, payroll, and cash flow, they often ignored the realities of business finances. They also found that the public agencies were inflexible, could not change when circumstances altered, and were generally unprepared to work in a business environment.

Two case studies in this report are different from the others. Plaza Del Sol in San Francisco had no public land and is not immediately adjacent to the BART transit station. The Redevelopment Agency loaned money to the project to purchase the land needed. Atlanta Financial Center in Atlanta, Georgia was a private development on private land that invited the public entity, MARTA, to build its station. In this case it was private land and public participation. Despite these differences, each case study provides additional insight into the public/private dimension of financing and joint development.

Some very interesting projects were not studied. For example, the research team attempted to study a project in San Jose, California. However, neither the local transit district nor the developers would supply information about the project, nor would they give interviews. The financial advisor to the developer, an attorney, told team members that they would have to sign a “non-competitive disclosure form” in order to do research on the project. This form was to ensure that any information about the project would not be sold to or used by competitors. The project team was fortunate that no other developer or public agency felt the same.

Other projects in Boston, Portland, and Los Angeles were considered and are worthy of being studied. However, because of time constraints, they are not included in this study.

## **TEAM MEMBERS**

The project was fortunate in having an excellent team whose members contributed a variety of backgrounds and interests. The Department of Urban and Regional Planning Department at San José State University supplied a number of intelligent, hardworking graduate students: James Worthley, Monique Mayeaux, and Phil Nameny. Joe Sordi, graduate student and planner with San Mateo County, did the San Francisco case study. Maureen Riorden, city planner for the City of Redwood City and a graduate, did the Sequoia Station study. John Hugunin, transportation planner in Portland and a graduate student, did the case study on Gresham Central. IISTPS Research Associates Steve Mattoon, Michael Bernick, and Dr. Larry Frank, RLA, AICP, all assisted with major portions of the project. George Gray, IISTPS Research Associate, gave us assistance in San Diego. IISTPS Research Associate John Vargo did the editing and production layout. Dr. Scott Lefaver, IISTPS Research Associate and faculty member at San José State University, was the team leader. A list of contributors and their part in the studies is located after the List of Figures in this report.

## **THE CASE STUDY DEVELOPERS**

The team thanks the developers and their staff for assisting in the gathering and reviewing of information and accuracy of the case studies. All were cooperative and willing participants. Without their help the team could not



have produced this document. The developers included Richard Juarez of MAAC, Mercado Apartments, San Diego, California; John Heaphy, CMS Development, La Mesa Village Plaza, San Diego, California; Todd Regonini and Mark Kroll, Saris Regis, Atherton Place, Hayward, California; David Irmer, Sequoia Station, Redwood City, California; Bill Condo, Ballston Partnership, Ballston Center, Ballston, Virginia; Charlie Oewell, Pacific Valley Housing, and Jeff Loustau, John Stewart Company, Del Norte Place, El Cerrito, California; Robert L. Nelson, Executive Vice President, Noble Properties, Atlanta Financial, Atlanta, Georgia; Douglas Tollett, American Resurgens Management Company, Resurgens Plaza, Atlanta, Georgia; and Stan Christiansen and Frank Piacentini, Gresham Development Company, Gresham Station, Gresham, Oregon.

## **PROJECT TASKS**

The following section outlines the tasks given to the team by Caltrans and the U.S. DOT. Team members were then given specific items to accomplish, including an extensive review of the literature on public/private partnerships. Ten specific cases were studied.

### ***Task 1:*** Literature Review.

Search the literature for projects and circumstances that are similar to, or exactly like, those described in the definition of transit oriented development. The scope includes the following general topic areas:

- a) Public/Private development along transportation corridors
- b) Public-sponsored development along transportation corridors
- c) Public/Private development partnerships in general
- d) Privately developed transportation oriented developments

### ***Task 2:*** Identify and Develop Case Studies

Using the literature review and interviews, case studies were selected for close review. These case studies included a national sampling and considered historical cases. The discussion of each case includes:

- a) Description of the project
- b) Description of the partners
- c) Roles of each partner
- d) Description of the purpose of the partnership

- e) Review of the partnership arrangements
- f) Outcomes of the partnership
- g) Lessons learned

**Task 3: Project Development: Problems and Barriers**

Using the literature review, case studies and interviews, a general review of problems and barriers to development of transit oriented projects will be discussed. Categories for discussion include:

- a) Land use issues
- b) Types of partnerships
- c) Expectations and goals of each partner
- d) The agreement
- e) Financial arrangements
- f) Perceptions of each partner
- g) Legal restraints

**Task 4: Private Sector Roles**

The responsibilities of the private sector when involved with a public/private partnership are:

- a) Site analysis
- b) Analysis of the market
- c) Product planning and design: types of product to be built
- d) Plan preparation and government process
- e) Environmental analysis
- f) Legal aspects
- g) Construction operations
- h) Marketing the product
- i) Managing the product

**Task 5: Partnership Agreements**

Review kinds of agreement reached in the past with other public/private partnerships. Examine what worked and what did not. Provide examples and

recommendations for public/private partnership development agreements. Specify various scenarios for different types of development.

## **CONCLUSIONS**

After study and discussion, the team drew several conclusions. Flexibility on the part of the public agency, together with a better understanding of the constraints imposed by financial markets, is the most important lesson for public agencies. Public agencies that imposed public policy criteria too strictly and still wanted to “make a profit” from the project had the worst record. Those public agencies that brought the land to a developable state including general plan changes and rezoning, and that sponsored public outreach, had fewer problems. Under those circumstances the developer was able to quickly begin construction. With quicker construction, market projections are more likely to be reached.

The team also learned that this type of project is financially difficult to fund and to maintain. None of the projects reviewed, with the exception of the Atlanta Financial Center, would have succeeded without financial subsidies from the public. This implies that there is no natural market for these projects and that without assistance, financial or operational, from the public agencies, private/public partnerships for transit oriented development projects cannot succeed.

## **RECOMMENDATIONS**

While each study in this report uncovered separate problems with varying solutions, they had some issues in common and it became apparent that there are some general principles that will help to further smoother relationships between agencies and developers and lay the foundations of successful partnerships.

### **Private developers should:**

Receive a good return on investment

Create a positive reputation

Positively identify the project

Avoid litigation

### **Public agencies should:**

Increase density and mixed use

Create a successful partnership

Establish pedestrian and transit links

Obtain financially successful results

Add to the existing neighborhood

Provide for long term future growth

For more specific advice to agencies and developers involved in public/private partnerships see the Decision Check Lists at the end of the Successful Partnerships section.



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## **PLAZA DEL SOL**

### **San Francisco, California**

#### **INTRODUCTION**

Plaza del Sol is a residential development containing 59 apartments located in the Mission District of San Francisco. The apartments, which are a mixture of two, three, and four bedroom units, are rented only to very low and low income families. The project provides convenient access to the 16th Street and Mission BART station located one block west.

The Plaza del Sol project cost \$13.1 million to construct and was developed by the Mission Housing Development Corporation primarily with the financial assistance of the San Francisco Redevelopment Agency, State Low Income Housing Tax Credit Program, and the State Rental Housing Construction Program. The Mission Housing Development Corporation acquired the 37,900 square foot site with an acquisition loan from the Redevelopment Agency in 1991.

This project is not on public land and is not directly adjacent to a transit facility. It is important to our case studies because it showed that transit based development can be implemented in close proximity to a transit station and can accomplish the same public policy objectives of pedestrian access to transit and to other facilities. In this partnership the Redevelopment Agency played an important role by lending needed money and it expects a return on its investment. Without the agency and its concern for affordable housing and pedestrian access to amenities, the project would probably not have been built.

Construction of the project began in December 1992 and was completed in December 1994. The project has been leased to full capacity since the initial leasing period in January 1995.

#### **PROJECT CONCEPT**

The Plaza Del Sol project was initiated by the Mission Housing Development Corporation (MHDC), which specializes in the construction and rehabilitation of affordable rental housing for residents of the Mission District of San Francisco. MHDC has been heavily involved in the development of housing and mixed-use projects within the Mission District since it was established in 1971. The MHDC is a non-profit, community-based organization which

creates and preserves affordable housing for low and moderate income persons and families. The MHDC was created to address the need for affordable housing in the Mission District and has launched a multitude of collaborative efforts with individuals, agencies, and organizations interested in securing safe and affordable living conditions for the Mission District. As of August 1996 MHDC had 268 housing units under development and was providing technical assistance on an additional eighty-eight units.<sup>1</sup> MHDC's technical assistance consists of helping owners rehabilitate buildings by preparing loan packages, assisting with construction scheduling, and selecting qualified contractors. MHDC has a housing management subsidiary called Caritas Management Corporation. The MHDC shares an office with numerous agencies which provide educational assistance, counseling services, and child care services to residents of the Mission District. The Plaza Del Sol project idea and site selection were the result of a group effort by these interested community groups.

### **Initial Involvement**

At the beginning of the project, the San Francisco Redevelopment Agency (SFRA) was approached to provide financial assistance for site acquisition as it had done in the past for MHDC projects. The SFRA worked closely with the Mayor's Office of Housing (MOH) to gain political support for the project. Initial land acquisition money consisted of a temporary loan provided by the SFRA which was refinanced to provide permanent financing. The MOH and the SFRA have been partners in various projects, often teaming up to provide the funding and political support for projects in needy areas. The Mission District has historically been a focal point for the SFRA which distributes assistance throughout the city. The City's role was to implement housing policies which address the need for very low and low income housing, particularly in the working-class Latino Mission District. The SFRA is required by State Law to use 20% of the tax increment they receive from several redevelopment districts within the city on affordable housing. Plaza Del Sol is one effort of many to provide low income housing in the Mission District.

## **BACKGROUND**

### **Mission District History**

The Mission district derived its name from Mission Dolores, founded by the Catholic Church in 1776. Although still a semi rural community during the Gold Rush years, the district grew rapidly in the late 1800s when it was linked

to downtown San Francisco by the city's first streetcar line. Much of the distinctive Victorian architecture in the Mission survived the 1906 San Francisco earthquake, but substantial portions of the north section of the district suffered damage that led to demolition of entire city blocks. As the large Victorian homes in the area were subdivided to accommodate increasing residents after the earthquake, the Mission became a working class neighborhood populated by Irish, German, Scandinavian and Italian immigrants and their descendants. After World War II, many Mission residents joined the movement out to the suburbs of San Francisco and were replaced by immigrants from Latin American countries, turning the area into a predominantly Latino community by the 1950s. In the 1960s, the Mission suffered from real estate disinvestment as suburban growth continued. This led to the physical and social deterioration of the area. Today, the Mission District is a thriving business district which offers all retail and general commercial services within walking distance of Plaza Del Sol.

### **Area Demographics and Issues**

The Mission District already provides a substantial number of affordable homes for those who live in San Francisco. It is also a large provider of housing for minorities. Approximately 52% of Mission District residents are Latino, 29% are Caucasian, just over 13% are Asian American, and about 5% are African American.<sup>2</sup> Mission District residents are predominantly low income with the median income reaching only 54% of the citywide median and one out of five Mission residents earns below the poverty line.<sup>3</sup> Homebase, an organization that tracks homelessness in the Bay Area, estimates that over 2,000 homeless persons are "based" in the Mission District. Although rents are generally lower in the Mission than in the rest of San Francisco, the MOH reports that average market rents in the Mission District are 61% beyond the reasonable attainment of very low income residents and 17% beyond that of low income residents.<sup>4</sup> The fact that only 19% of median income wage earners can afford to buy a home in San Francisco makes it the least affordable city for home-buying in the nation. Due to lower incomes, the buying power for the average person in the Mission District is much lower than that of the rest of San Francisco. Even so the median home sales price is \$270,000, just \$15,000 less than the city in general.<sup>5</sup> This makes home ownership impossible for most residents of the Mission.

### **Transit Options and Agencies**

Like much of San Francisco, the Mission District has a considerable number of alternative transit routes. The Bay Area Rapid Transit (BART) rail system



has a station one block away from the project, at 16th and Mission Streets. The BART line continues north from the 16th Street station with stops at the San Francisco Civic Center, Powell Street, Montgomery Street, and the Embarcadero Center before entering the “transbay tube” and running to the East Bay. To the south, the BART line runs to the Glen Park station and Balboa Park Station on its way toward Daly City. San Francisco MUNI bus lines run up and down Valencia Street, connecting the Mission District with other San Francisco neighborhoods. While quietly supportive of the Plaza Del Sol project, neither BART nor MUNI took an active role as a partner in the development project.

### **Project Site Selection**

The beginning of the Plaza Del Sol project resulted from the search for an office building to house social service agencies in the Mission District under one roof.<sup>6</sup> In the late 1980s, the local Operating Engineers Union made plans to sell their office building and a large adjacent parking lot and to move to a different location in San Francisco. The social service agencies, including MHDC, moved into the office building now named Centro Del Pueblo. However, they found that the adjacent parking lot exceeded their needs and thought that the site might be used for affordable rental housing if it were designed to provide parking in a underground garage. The site was considered an ideal in-fill property because it was a relatively large, under-utilized group of parcels in a neighborhood with little vacant land. The project site had been used as a parking lot by the Operating Engineers Union and had once held buildings, but these were demolished after the 1906 San Francisco earthquake.

## **PHYSICAL FEATURES**

### **Location**

The Plaza Del Sol affordable housing project is located on Valencia Street between 15th and 16th Streets in the Mission District of San Francisco. Initial planning for this project began in 1989 with site acquisition occurring in late 1991. Construction began at the end of December in 1992 and was completed by the end of December 1994.<sup>7</sup> The site is one block west of the 16th Street Mission BART station. Another BART station is located on Mission Street at 24th Street.

### **Site Improvements, Layout, and Use**

The development provides 59 dwelling units of various sizes for very low and low income families. Since large apartment units for families are hard to find

in San Francisco, Plaza Del Sol is comprised of two, three, and four bedroom apartments. Plaza Del Sol sits on a 0.87 acre parcel and has a site density of 67.8 dwelling units per acre. There is also an on-site day-care center of 26,200 sq. ft. accommodating forty-five school age children with tutoring rooms for school age children who live in the housing project. Student tutoring is provided by the adjacent Centro Del Pueblo educational services social program housed in an adjacent building.

The project consists of four separate buildings, A, B, C, and D (see site plan). An underground parking garage lies beneath Buildings A and B which are three stories each. Buildings C and D are four stories and are each 44 feet in height. The unit breakdown within the housing development consists of five four-bedroom units, 29 three-bedroom units, and 25 two-bedroom units.

The site fronts along 16th Street and is landlocked on the other sides by an adjacent development which includes two and three story apartments and town homes. Land uses on the project site include residential rental apartments (primary use), child day-care (secondary use), and subterranean parking. There is no commercial component to the project.

Interrupting the project's street frontage along 16th Street is the Intersection for the Arts Theater, which has been on its existing site for many years. Buildings A, C, and D of the Plaza Del Sol project wrap around the theater with Building B set further back to the rear of the parcel. Adjacent land uses along the same side of the street include the Centro Del Pueblo office building immediately south and the Apollo Hotel, a four story hotel which is immediately north. Across the street lies the Hotel Sunrise, a plumbing and electrical supplies warehouse, and an auto glass repair warehouse. Both the Apollo Hotel and Hotel Sunrise are projects which have been rehabilitated with MHDC assistance to add to the number of affordable housing units in the Mission District.

### **Project Unit Size and Economics**

The number of project units, number of bedrooms, and current monthly rental rate (August 1996) are illustrated in Table 1-1.

**Table 1-1 Plaza Del Sol Number and Type of Units  
by Monthly Rent Payment (1996)**

<b>Income Level</b>	<b>Number of Bedrooms</b>	<b>Number of Units</b>	<b>Monthly Rent</b>
Very Low Income	2	16	\$417.00
	3	19	\$453.00
	4	3	\$526.00
Low Income	2	8	\$685.00
	3	10	\$782.00
	4	2	\$870.00
Market Rate*	2	1	No Rent
Total Units	2	25	
(59 units)	3	29	
	4	5	

\* Resident Manager

## THE PARTNERS AND PARTICIPANTS

### Project Development Team

The project team for Plaza Del Sol consisted of MHDC, the architect, Hood Miller Associates, and the project contractor, Nibbi Brothers. Consultants involved in the project included: Alan Martinez (architectural consultant); Martin M. Ron Associates (Surveyor); Harding Lawson Associates (soils engineers); KCA Engineers (civil engineer); Simmons Structural Engineering; Hawk Engineers (mechanical engineer); Paoletti Associates (acoustical engineer); Antonia Bava and Daniel R. Osborne (landscape architects).

The specific role of the MHDC was to provide much needed family housing in the Mission District. While the Mission has numerous housing projects, few cater to the larger family. From a design perspective, the relatively large size of the site enabled them to design and construct “a secure urban village.” A primary goal of MHDC was to establish safe and affordable housing for families with more than two children. The MHDC has been a proponent of affordable housing in the Mission District and their interest in the Mission District is clear. They are a non-profit developer and only attempt to make enough profit per project to cover their in-house costs and general business expenses.

Hood Miller Associates is a well respected residential design firm that has worked for both profit and non-profit housing developers and has had project experience with MHDC in the past.

When choosing a builder, MHDC generally selects from a small group of contractors (five or fewer) who specialize in low cost housing and construction projects that involve public subsidies.<sup>8</sup> The Nibbi Brothers were the general contractor for this project and have done substantial work for MHDC in the past. There are only a few contractors that have the capacity and interest to do low cost housing projects and have established relationships with the non-profit developer and with staff from the SFRA and MOH, who regularly provide project funding. The Nibbi Brothers have done numerous public works projects for the City of San Francisco as well as recent upgrade work to Candlestick Park.

### **Governmental Agencies**

The governmental agencies participating in the project included the SFRA, MOH, and the City Planning Department. The roles of the SFRA and MOH consisted primarily of financial and political support for the project. Details of the involvement of these two agencies with regard to the project will be discussed later in this report.

The City Planning Department guided the project through the City Planning Commission review and approval process, assuring consistency with the City General Plan and Zoning Ordinance. Their analysis included consistency with City housing policies and justification for several exceptions to the zoning code. These issues will be addressed later in this report in the discussion of agreements made between MHDC and the City of San Francisco.

### **Financial Partners**

The project was financed with temporary construction loans, and much of the funding was converted to permanent loan status. Financing for this project came from various sources: the State Tax Credit Program, the State Rental Housing Construction Program (RHCP), SFRA, and a combination loan from Wells Fargo Bank and First Nationwide Bank.

The largest source of project funding was the State Tax Credit Program. The Federal Tax Reform Act of 1986 created an innovative program called "Tax Credit of Low Income Rental Housing." The intent of the program was to provide an incentive on the part of private investors and corporate entities to seek a tax credit that would increase the supply of affordable housing nationally. The tax credit financing may be used to construct new housing, support "substantial rehabilitation" projects, and for the acquisition of existing properties with moderate rehabilitation needs. It can, therefore, cover a modest one-unit rental property or a new development with hundreds of units. The limited partner contribution was applied for through the State Tax Credit

Allocation Committee. The amount of funding for this project totaled approximately \$5 million for project construction and was converted to a permanent loan after construction.

The State RHCP program is sponsored by the State Department of Housing and Community Development and is intended to finance new rental housing in California. The RHCP program provided \$4.3 million for construction roll-over financing for the Plaza Del Sol project.

The SFRA was the third largest financier, contributing \$1.6 million in site acquisition funds and an additional \$771,000 in construction financing, for a total of approximately \$2.4 million. Both temporary loans were converted to permanent loan status.

Wells Fargo Bank provided a temporary construction loan of \$750,000 for the project. However, Wells Fargo does not provide permanent financing, and most of this loan was paid for with a permanent loan of \$690,000 from First Nationwide Bank.

## **NEGOTIATIONS**

### **City Government Review**

#### **Design Phase**

MHDC and the project development team first met with the City Planning staff in October of 1990 to discuss the project, presenting a scheme of 62 apartment units and 100 parking spaces. At the meeting the Assistant Planning Director indicated that the project was “approvable” as designed, and encouraged the design staff to continue with their proposed development scheme. A second review meeting with the City staff took place in January 1991 to discuss technical code issues and to outline the tight schedule for approval needed by MHDC if they were to meet State financing and tax credit committee limitations. The proponents met again with the City staff in May 1991, at which time the staff suggested that the smallest of the proposed four buildings on the site (containing just three housing units) be removed from the plans to allow for more open space. At another design meeting in June 1991, the Planning Director supported the removal of this building, but the Planning Director was present for only the last 10 minutes of the meeting and did not comment on the project as a whole.

After the June meeting the Planning Director sent a letter to MHDC that called for a substantial redesign of the project. The City staff evidently felt in the course of the previous meetings they had not committed to a specific

design. This was a misunderstanding because both MHDC and the project architect felt that the city had pledged support for the project as designed.

In his letter the Planning Director said that while the City staff was “supportive of family housing at this location,” the project was “too intensive for the site.” He felt that with 50% of all units in the complex consisting of three or more bedrooms, there would be a substantial number of children living on the site, at least 100 and perhaps as many as 200. His comments addressed plan deficiencies including narrowness of hallways and courtyards that would limit light and reverberate noise. He also felt that the confined corridors and back stairwells would invite children’s playing in areas not intended for the purpose. The proposed design would result in community spaces which would be difficult to service and expensive to maintain. He initially recommended a substantial redesign with attention paid to noise, privacy, security, light, air, and unit exposure to open space. He concluded his letter by saying that “the whole concept may need to be rethought.”

These comments were not well received by MHDC staff and architect Hood Miller Associates since much thought and preparation had gone into the project design before the City review. Changes were made to the project design throughout the process including reducing the size of the basement and generally responding to the “light, space and air” comments of the Planning Department but the number of dwelling units remained roughly the same. Further, a consultant was called in to address design issues relating to “children’s use of space.” This specialist provided some recommendations for minor design changes but mostly provided rationale as to why the project’s design would work. This analysis was ultimately accepted by the Planning Department staff.

#### General Plan and Zoning Review

Once the basic design concept was agreed upon, the project was formally submitted to the Planning Department and underwent Planning Commission review. The City General Plan identifies the project site for mixed use development. The site falls within the Valencia Street Neighborhood Commercial District and is designated on City Zoning Maps as “NCD.” The zoning classification provides for general retail sales and services on the first floor, and residential units on the upper floors. Residential development is limited to one unit per 600 square feet of site area with a parking space required for each residential unit. This would have resulted in 63 dwelling units and the same number of parking spaces for residential use alone. In addition, it was necessary for the project to provide parking for the Centro Del Pueblo Office Building because the housing development eliminated the

previous parking lot for the office building. Ultimately, this project was processed with a Conditional Use Permit and as a Planned Unit Development to account for the various exceptions granted from the underlying zoning standards.

#### Minor Subdivision

Relatively early in the process (early 1992), an application for a minor subdivision was processed so that the Centro Del Pueblo Associates could sell just the site intended for housing development (the former parking lot) to MHDC. This subdivision was mapped and recorded before MHDC proceeded with other permits from the City so that financing for the project could be arranged without waiting for the other permits to be approved.

#### Conditional Use Permit

According to the San Francisco Planning Department regulations, a conditional use permit is required for the new development of sites greater than 10,000 square feet in size. Under the provisions of the City Code, the Planning Commission can authorize a conditional use permit after finding that the proposed use will provide a development that is necessary or desirable for, and compatible with, the neighborhood and community.

#### Planned Unit Development Permit

The Planned Unit Development (PUD) permit enabled the project to move forward without having to pursue variances. Because it is an infill site, it was difficult to design a project that met the strict zoning standards for the NCD district and still carry out the design objectives of the project. The following exceptions were sought by MHDC for development of the project.

- **Rear Yard Living Area.** The San Francisco Planning Code for an NCD District requires that the rear yard be 25% of the lot depth with a minimum 15 foot depth. Building B was placed within the site's rear yard in order to better distribute open space on the site. Requiring the rear yard to take up a full 25% of the site (9,494 sq. ft.), would preclude the type of design on this parcel which could take advantage of the maximum density available and still stay within building height limits. Therefore, an exception to the 25% rule was granted.
- **Parking Spaces.** The Planning Code requires that one parking space be provided for each of the 59 units. According to code, one parking stall for each 500 sq. ft. of the Centro Del Pueblo office building was required as well. Additional parking, one stall for each 25 children, was also required for the day care facility. The office and day care

uses together created a demand for an additional 55 parking stalls, totaling a demand of 114 stalls overall (including residential demand of 59 stalls). The architect's design proposed 60 parking stalls for the residential units (exceeding the requirement by one stall), and another 36 stalls for the office use and day care center. A parking study prepared by the project engineer showed that the number of parking spaces proposed (96 stalls) would meet the overall demand of the project based on a shared parking analysis and the flexible work hours of some personnel working in Centro Del Pueblo offices. An off street parking exception for 18 stalls was therefore granted.

- **Parking Stall Size.** Construction of an underground parking garage often creates difficulties with meeting the minimum dimensions of parking spaces due to the structural support columns in the garage, required aisle widths, and space taken by ventilation equipment, elevators, and stairwells. The Bureau of Engineering and Public Works requires standard spaces to be a minimum of 160 sq. ft. and 127.5 sq. ft. for compact spaces. The architect requested an exception to the space dimensions for 32 of the required parking spaces which fell slightly short of the minimum size due to physical constraints. This exception was granted as well.
- **Unit Exposure.** Each dwelling unit is required to face on-site open space area. However, the site layout required an exception to this requirement for three of the units. Due to site layout constraints, this exception was granted as well.

#### Environmental Review

The project was granted a Negative Declaration which involved written analysis of potential environmental impacts of the project by the Department of City Planning's Office of Environmental Review. The primary environmental issue was the contaminated soils in an area that had once held underground storage tanks. Mitigation measures were incorporated as conditions of approval for the project. These measures included excavations of all contaminants on the site, aerating the contaminated material or removal from the site by a licensed hauler, monitoring of groundwater and removal of excessive contaminants as needed. The mitigation measures were incorporated as conditions of approval for the project.

Another site contamination issue surfaced during construction when it was discovered that four to five feet of ash existed on the site, left over from the buildings destroyed in the 1906 Earthquake. This material tested positive for



low level lead contamination and required a substantial project delay to conduct remediation which increased the project budget by approximately \$1 million. This issue will be discussed again later in this report along with other unforeseen expenses that occurred with the project.

#### Conditions of Approval

The project conditions of approval included the requirements for the submittal of specific design review and landscaping plans to address design, street trees, and landscaping issues prior to issuance of building permits. These issues were to be dealt with by the developer and the City staff but required no subsequent public hearing as long as they proceeded in substantial conformance with the drawings presented to the Planning Commission. The City also included detailed findings and conditions requiring the project to provide housing affordable to persons or families earning no higher than 80% of the median income for the San Francisco Standard Metropolitan Statistical Area. This restriction was, however, intended to be subordinate to the affordability limitations of the State RHCP and State Tax Credit programs which are more restrictive.

#### Permit Review Priority

The City Planning Commission has a policy which establishes “preferential permit processing” for affordable housing projects. The Director of the Mayor's Office of Housing formally requested that the Planning Department grant this project “Priority A” status. The justification for this priority was that: 1) the project developer is a non-profit agency; 2) the project will be subsidized with public funds; and 3) the project would be 100% affordable to low income households or individuals. Although this status was granted, the typical permit applications still needed to be made and reviewed by the Planning Department.

## **FINAL AGREEMENTS AND CONTRACTS**

### **San Francisco Redevelopment Agency Agreement**

MHDC was required by the SFRA to enter into an agreement stipulating that all project funds be utilized either to acquire the site or for the construction of low and moderate income housing. The SFRA is required by California Community Redevelopment Law to distribute 20% of all the monies from its tax increment to a low and moderate income housing fund.

When funding becomes available for housing projects, the SFRA issues a Notice of Funding Availability (NOFA). In the case of Plaza Del Sol, an

initial \$1.64 million was provided by the SFRA to be used for land acquisition and to leverage financing from other available sources, specifically State funded programs. This was the only portion of the project the SFRA planned to fund. However, hazardous materials were discovered on the site during construction. A costly clean up and construction delay ensued which nearly halted project construction. The SFRA provided an additional \$770,737 of construction financing to carry the project through this delay.

### **Rental Housing Construction Program (RHCP) Regulatory Agreement**

The 38 very low income units (see Table 1-1) are those held to the restrictions of the State RHCP. This is a program sponsored by the State Department of Housing and Community Development. Very low income unit rent prices cannot exceed 30% of 50% of the median income for the City of San Francisco. Further, family income cannot exceed 50% of the median for San Francisco. MHDC entered into a Regulatory Agreement with the State RHCP to address housing rent restrictions. The agreement also addressed the number of units and overall square footage of development in the project. The State is liable for construction injuries, assignability of the loan without written consent of the state, interest rates and loan payment terms, compliance with local and State laws and regulations, and the State's right to inspection of the project with regard to hazardous materials clean up liability. The State RHCP contributed approximately \$4.3 million for project construction. Assistance for these 38 units came from other funding sources as well.

### **State Tax Credit Program Agreements and Funding Adjustments**

The 20 low income housing units are those held to the restrictions of the State Tax Credit Program. The units supported by this funding are the subsidized low income units which have long term rent and occupancy restrictions that equal or exceed those required by the State Tax Credit Program. Allowable rents cannot exceed 30% of a wage that is 60% of the area median income, less a reasonable utility allowance. The maximum allowable income for a household occupying a unit is also 60% of the area median income. The California Equity Fund, which is the State Tax Credit Program limited partner for the project, contributed approximately \$5 million for project construction in four installments.

State and federal law requires that all projects awarded low income housing tax credits in 1990 or later enter into a Regulatory Agreement with the Tax Credit Allocation Committee. The agreement outlines the conditions under which tax credits are awarded and must be recorded in the county where the project is located. The terms of this agreement between MHDC and the State are very similar to the RHCP agreement in terms of disclosures and liability.

The difficulty in striking an agreement with the State for tax credit funding is that the project must be slated for a specific target date so that credits can be utilized for that tax year. Therefore, after the application process with the State has begun, project construction must adhere to the time commitments stated in the funding application. Further, funding is not granted all at once but is released to the housing developer when milestones have been reached. There are, therefore, specific deadlines for construction progress that are often difficult to meet. In the case of Plaza Del Sol, once tax credit financing was obtained, MHDC had to adhere to a project schedule that would result in completed construction by the end of December 1992. While financing from the State RHCP and Wells Fargo was “approved” at the time, funding was not yet available from these sources. The schedule for the State Tax Credit Program, therefore, could not be met. The State Tax Credit Program funding for the project had to be returned to the TCAC and MHDC had to reapply in the following tax year. Tax credit financing was re-awarded to the project for a subsequent tax year which aligned with the timing of other construction financing, putting the project on a construction schedule that would lead to completion by the end of December 1994. As a result, MHDC lost their initial application fees paid to the TCAC which are non-refundable.

#### **Wells Fargo Bank and First Nationwide Bank Commitment of Funds Agreement**

Wells Fargo Bank provided a construction loan of \$750,000 for the project. As a matter of policy, Wells Fargo Bank provides construction loans, but not permanent loans, for affordable housing. First Nationwide Bank provided a permanent loan of \$690,000, which resulted from a refinancing of the construction loan made by Wells Fargo Bank.

In their respective commitment letters, each financial institution included information on project type and size, identification of the borrower, the purpose of the loan, the principal amount, the loan terms and the interest rate, loan security (secured by title to the property), lease and rental schedule, subordination agreements to state loans, appraisal, property survey, additional legal disclosures, and statements exempting each from liability.

## **RESULTS**

### **Physical Changes**

The project resulted in a notable change in the appearance of the urban block along Valencia Street between 15th and 16th Streets. However, the project has not had a profound effect on the neighborhood because of the many other

problems that exist in this part of the Mission District. The project is gated and no one can enter the development other than residents and their guests. For security reasons, the residents are separated from the street life along Valencia. Just down the street (at Valencia and 16th Street), the Valencia Gardens housing project (constructed in the 1970s) continues to decline. The Valencia Gardens are in disrepair and the immediate neighborhood is considered unsafe by many Plaza Del Sol residents. One cab driver stated that he would not stop at Valencia Gardens since a driver was killed about two years ago. Drug dealers loiter along the street frontage of this struggling housing project and some individual living units have been condemned due to fire. This project has a negative effect on the neighborhood because its inhabitants and visitors, many of whom are unemployed or working poor, create a hostile atmosphere in the neighborhood. The Valencia Gardens project attracts unwanted visitors, is not policed well, and is not physically secure.

### **Effect on Business**

The Plaza Del Sol project has had a positive effect on the neighborhood retail businesses in the area. The grocery store at 16th Street and Valencia has increased business as it is frequented by residents of the housing project. However, most properties across the street are light industrial, and therefore have not been affected.

## **ANALYSIS**

### **Project Success**

The Plaza Del Sol project was a success from the point of view of providing affordable family housing to those in need. Because it provides affordable housing in the Mission District, the response to the project was very favorable. The application process was begun far in advance of occupancy and all 59 units were reserved the day the project opened.

The concerns of the Planning Department, while well founded in the case of other projects, have never been an issue at Plaza Del Sol. There is adequate outdoor play area, open space, and “light and air” for residents. The day-care and child play area within the project is very important because the site is gated preventing outsiders from entering without proper credentials. Children can play within the development unattended but in safety.

### **Financing Issues**

The State Tax Credit Program differs vastly from the State RHCP program

complexity. While the State RHCP procedure involves typical loan or grant applications, the Tax Credit program involves numerous players in the transaction including professional tax consultants and syndicators. A limited partner used in the Tax Credit Program is the corporate investor. The limited partner for Plaza Del Sol was the California Equity Fund, which is a local spin-off of a national organization called Local Initiatives Support Corporation (LISC). This organization syndicates low income housing projects and the dispersal of tax credits. California Equity Fund, as the limited partner, is responsible for selling the tax credits to corporate entities. Such tax credits provide a dollar for dollar reduction in tax liability to the corporation for a specified number of years. The use of tax credits for a specific development project is determined by the California Tax Credit Allocation Committee (TCAC), which uses a formula to determine the percentage of a project that can be funded. This percentage is determined through the use of tables that account for housing construction costs in various parts of the State.

### **City Permit Review Process**

The project experienced some difficulty during the City design and permitting process due to some apparent miscommunication between City Planning staff and the project development team, specifically the project architect. The City Planning Director decided, after numerous meetings between MHDC, their architect and lower ranking City staff personnel, that the density should be reduced. MHDC did not agree because construction of affordable housing relies on efficiency in the planning and design phases, and financial resources for the construction of a new project are always limited. Also, in an urban area such as the Mission District, where there is a need for safe, affordable housing, there is pressure to build at a high-density. In suburban areas of the Bay Area, non-profit housing developers (for example, Mid-Peninsula Housing Coalition) seek to construct projects at a density of about 20 units to the acre. The Plaza Del Sol project is constructed at a density of 67.8 per acre, far exceeding the density of suburban projects.

The comments of the Planning Director late in the design process were a surprise to the MHDC because in numerous meetings with the City staff, the City seemed to support the project design. MHDC and the project architect learned that it is best to get the support of the planning director himself and not to rely on the opinion of the planning staff during the design phase of the project.

Hood Miller Associates is a well-respected residential design firm. However, it can often be a challenge for an architect to implement specific design objectives and still meet the objectives (and often the personal opinions) of a

local agency planning staff. One member of the project design team mentioned that initial conflicts during the design phase of the project were related to some differences of style and opinion between the architect and City staff on past projects.

### **Project Cost Overruns**

As the Cost Reconciliation Schedule indicates, the project went over budget by approximately \$1.25 million. Of this total, approximately \$918,000 of the budget overrun could be attributed to unforeseen soil remediation costs for lead contamination. The Project Manager for MHDC, Philip Dochow, indicated that the biggest lesson he learned was in managing the consultants on the project, specifically the soils engineer who conducted tests. The tests were later invalidated which resulted in the biggest problem with the project budget.

### **SUMMARY**

The Plaza Del Sol housing project was initiated by MHDC with the initial political support of local community groups and the MOH. The initial financial player in the project was the San Francisco Redevelopment Agency. The Mission District is a focal point of important City policies which relate to the construction of new affordable housing units for persons of very low and low incomes. The Mission District has a history of providing housing for working class persons and families of a variety of ethnic backgrounds, primarily Hispanic families. The selection of the Plaza Del Sol site was a team effort of several community organizations which were looking for additional office space to house community services. The discovery of the project site was a result of good luck and timing. The project provides 59 units of very low and low income housing, primarily for families with children. The project design has resulted in a successful and secure urban village atmosphere. The developer made use of an oddly shaped parcel and was granted some exceptions to the City's Zoning Ordinance after some challenging negotiations with the City of San Francisco. The Mayor's Office of Housing provided political support for the project and was instrumental in getting the project approved in a relatively short time.

The project financing came primarily from State programs but was supplemented by two conventional lending institutions. All of the public money used to finance the project construction has been refinanced to provide permanent financing. The affected local transportation agencies (BART and MUNI) supported the project but played no major role in the project.

The effect of the project has been to reduce housing pressure on low income families in the Mission District. However, no substantial change has taken place in the neighborhood which is still adversely affected by the surrounding properties and a nearby decaying housing project built in the early 1970s.

### Plaza Del Sol, San Francisco, California

A three and four story residential project located in San Francisco's Mission District.  
Development consists of 2-4 bedroom units to provide for families.  
Location is one block from the 16th Street BART station.  
Agencies Involved: San Francisco Redevelopment Agency; Mayor's Office of Housing

### Special Features:

Housing exclusively for very low and low income families;  
26,200 sq. ft. child day care center with capacity for 45 children; tutoring rooms.  
Underground 96 stall parking garage for Plaza Del Sol and adjacent office building (Centro Del Pueblo)

Developer	Architect
Mission Housing Development Corp. 474 Valencia Street, Ste. 280 San Francisco, CA 94103 Philip Dochow, Project Manager	Hood Miller Associates 60 Federal Street San Francisco, CA 94107 <i>Principal-in-Charge:</i> Bobbie Sue Hood

Land Use Information		Development Schedule	
<i>Site Area</i>	0.87 acres 37,900 sq. ft.	Site Acquired	1991
<i>Total Dwelling Units</i>	59	Construction Begins	Dec. 1992
<i>Gross Density</i>	67.8 units/acre	Construction Ends	Dec. 1994
<i>Total Parking Spaces</i> (underground)	96	Occupancy Begins	Jan. 1995
<i>Number of Stories</i>	3 and 4		

Residential Unit Information		
<u>Unit Type</u>	<u>Number Built</u>	<u>Very Low to Low Income Rates</u>
two bedroom	25	\$417 to 685
three bedroom	29	\$453 to 782
four bedroom	5	\$526 to 870
Development Total	59 units	

Funding Sources	
Limited Partner (State Tax Credit Program)	\$4.96 million
State Rental Housing Construction Program	\$4.34 million
San Francisco Redevelopment Agency	\$2.41 million
First Nationwide	\$690,000
Mission Housing Development. Corp. Capital	<u>\$700,000</u>
Total	\$13.1 million



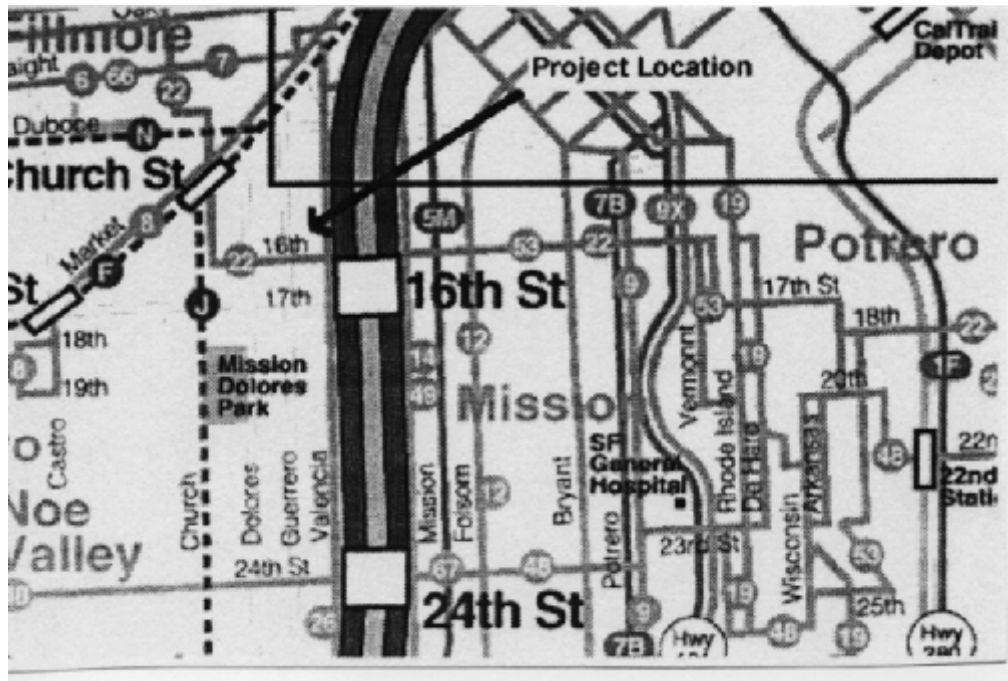
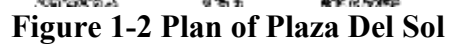


Figure 1-1 Location of Plaza Del Sol, San Francisco, CA





**Figure 1-3 View of Building A of Plaza Del Sol**



**Figure 1-4 View of Play Area and Building A of Plaza Del Sol**

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### Endnotes

<sup>1</sup> Mission Housing Development Corporation, "Executive Director's Report," 1996.

<sup>2</sup> *Ibid.*

<sup>3</sup> *Ibid.*

<sup>4</sup> *Ibid.*

<sup>5</sup> *Ibid.*

<sup>6</sup> Philip Dochow, Project Manager, Mission Housing Development Corporation, in conversation, June 1996.

<sup>7</sup> Mission Housing Development Corporation, Plaza Del Sol Project Files

<sup>8</sup> Op. Cit. Philip Dochow



## **DEL NORTE PLACE**

### **El Cerrito, California**

#### **INTRODUCTION**

Del Norte Place, in El Cerrito, California, is a mixed-use development, containing 135 apartments and 21,500 square feet of commercial space on 4.1 acres of land, located within the City of El Cerrito. The apartments are a mixture of market rate, senior and low income units, while the retail is composed mostly of restaurants and service establishments. Designed to add convenience to the residents of the project as well as to the commuters who use Bay Area Rapid Transit (BART), this development is located one block away from the El Cerrito Del Norte Station. BART connects El Cerrito and north Contra Costa County with the cities of Oakland and San Francisco, and Fremont in Alameda County.

The \$18.7 million Del Norte Place project was developed through an agreement between the City of El Cerrito Redevelopment Agency and IBEX Group. IBEX Group is a partnership whose main partners included The John Stewart Company, Sandy and Babcock Architects, and Mid State Construction. They formed a limited partnership, called Del Norte Place, to manage the construction of the project. The Redevelopment Agency provided the 4.1 acres of public land to the IBEX Group in a ground lease agreement. The lease runs for 65 years and will cost a dollar a year. The agency and IBEX signed a separate agreement that provided for the agency to receive 20% of the net cash flow of the project for 65 years with payment deferred for the first 5 years.

The project started construction in 1991. Apartment leasing began in July, 1992, and was fully leased in April, 1993 with occupancy rates exceeding 95%. Retail leasing began in 1992 and these spaces are currently 90% occupied.

#### **PROJECT CONCEPT**

##### **Project Initiation**

Del Norte Place came about largely due to the initial work of the El Cerrito Redevelopment Agency. El Cerrito is an older “inner ring” blue-collar suburb that saw its greatest period of growth during the years of World War II and directly afterward as workers filled the new industries in Richmond and the

refineries to the north. By the 1970s portions of the city had begun to deteriorate. In addition, it was during the late 1960s and early 1970s that BART was built into the city, opening in 1972. This also had an effect of disrupting some of the commercial areas of the city during the construction.

The El Cerrito Redevelopment Plan was adopted in 1977 in response to these increases in blight in areas of the city, most notably around the El Cerrito Del Norte station. El Cerrito was surrounded by other government jurisdictions. Much of the growth of the 1960s and 1970s in the East Bay eluded El Cerrito, and its population had declined since the 1960 census. In order to attract development, the agency had to make infill development attractive to developers. The Redevelopment Agency was created to bring to life the goals of the Redevelopment Plan, and it targeted various areas of the city for development. The location which was to become Del Norte Place was identified as “Target Area Number Nine.” Proposed development goals identified by the agency included residential, retail, and office uses. In addition, multi-family residential would be encouraged to take advantage of the proximity to BART.

Throughout the 1980s, the Redevelopment Agency had entertained many proposals by private developers to develop some of the target sites around Del Norte Station but all the private projects failed to attract financing. The Redevelopment Agency made the decision that they would have to get more involved with development around the station, especially to help with financing. Thus the agency issued an RFP (Request for Proposal) in 1988 for a mixed use development on Target Area Number Nine.

### **Party Involvement and Goals**

Eight developer/architect teams responded to the Redevelopment Agency’s RFP. All of their plans included multi-family residences but most only offered token retail space in the project. However, one developer submission stood out for its mixed use. This developer was known as the IBEX group, a partnership made up of The John Stewart Company, Sandy & Babcock Architects, and Mid State Construction. The actual partnership of this company was split equally among five members, Richard Moran, James Babcock, Roger Nelson, Peter Wilson, and The John Stewart Company. This group responded to the RFP with a project which most closely resembled what the Redevelopment Agency had in mind. The developers wanted a showcase project, and they wanted to work with the Redevelopment Agency to obtain financing. They submitted a proposal which was truly a mixed use and a mixed income project, details which were weak or lacking in the other proposals. The John Stewart Company, one of the partners in the IBEX group,

had not had much experience working on mixed use projects, as their forte was mainly in developing and managing low and moderate income housing projects. Yet, they saw this as an opportunity to create something special. Their insight won them the bid.

### **Public Policy Issues**

The Redevelopment Agency has a goal of attracting higher intensity, mixed use projects around BART stations. To this end, they have worked with the City Planning Department to have these desires reflected in the General Plan and Zoning for the areas. More recently, BART has considered proposals for development on some of their land at the station. Despite other attempts to encourage pedestrian oriented development, Del Norte Place is the only tangible result. The Redevelopment Agency has a reputation for increasing the retail tax base by providing incentives to large retailers such as Target, Home Depot, and Foods Co., to locate near the Del Norte Station. Many residents feel that the establishment of these large chains have come at the expense of losing the smaller, local businesses who could not compete. As a result, the Redevelopment Agency has come under fire for getting involved in decisions that many feel should be left solely to private enterprise.

## **BACKGROUND**

### **General Information and Demographics**

El Cerrito is a small inner-ring suburb of the East Bay Area, located a few miles north of Oakland and Berkeley and approximately 15 miles northeast of the financial district of San Francisco. It borders the city of Richmond to the North and West, the city of Albany to the South, the town of Kensington to the southeast, and Wildcat Canyon Park to the east. As of 1990, the population of El Cerrito was 22,869 residents, up slightly from the 1980 census of 22,731, but down considerably from the 1960 peak population of 25,437. Much of the development was due to the increase in manufacturing jobs during and directly after World War II. As a result of the earlier growth pattern, the housing stock tends to be smaller, older, and somewhat cheaper than the newer suburbs to the north, and its “blue collar” reputation also seems to place it socially below Albany and Berkeley to the south. The average age of El Cerrito inhabitants as of 1990 was 42 years and the average household size was 2.29 persons. Both of these factors indicate an older population with “empty nesters,” that is, parents whose children have grown and left home. The city has seen an increase in overall minority population, from 13.7% in 1970 to approximately 38% in 1990, with the largest growth



among Asian American and African Americans.

### **Transit Options**

BART is a major part of the transportation network of the city and has two stations within the city limits, at Del Norte and at El Cerrito Plaza on the southern edge of the city. BART provides service to areas throughout Alameda and Contra Costa County as well as providing service to the major job centers in San Francisco and Oakland. The Del Norte station on the northern edge of El Cerrito is attractive to commuters from out of town as there is easy access to adjacent San Pablo Avenue and Interstate 80. A large parking garage is provided for the commuter parking. Interstate 80 is the major north/south freeway access, connecting San Francisco with Vallejo and Sacramento to the north and east. However, this freeway is often clogged, which adds attractiveness to BART as an alternative mode of transportation. Interstate 580 runs to the west of El Cerrito and provides access across the Richmond-San Rafael bridge to Marin County.

Besides BART, the Del Norte station contains a bus pullout area providing easy access to several buses leaving the station. Alameda-Contra Costa Transit, (AC Transit) is the main provider of bus service to the BART station. AC Transit was developed when many of the private streetcar lines were converted to public buses. Service has been extended to Western Contra Costa County, where El Cerrito is located. AC Transit currently provides local service on about half a dozen lines from the Del Norte station to the neighborhoods of El Cerrito, Contra Costa County, and into Oakland and provides express bus service to San Francisco from some of the areas without easy access to BART. Golden Gate Transit provides express service from Del Norte to San Rafael, across the Richmond-San Rafael bridge. Commuter service is provided by other carriers from Del Norte station to Rodeo, Pinole, and Vallejo to the north along Interstate 80.

Amtrak runs to the west of El Cerrito and has a station in nearby Richmond (adjacent to the BART station) for longer train travel. Another commuter link is a bikeway along the BART tracks through the cities of El Cerrito and Albany.

### **El Cerrito's Commercial Uses**

El Cerrito does not have a typical downtown commercial district. Most of the commercial development is concentrated along San Pablo Avenue, which runs north and south along the entire length of El Cerrito. Much of this is older, "strip" development. A shopping center is next to the El Cerrito Plaza station, but with the closing of the Emporium Department Store and with many other

tenants leaving, the future of this mall could be in jeopardy. The situation is similar around Del Norte Station with many marginal commercial uses. The Redevelopment Agency has attracted some major new tenants to the area, including Target, Home Depot, and Foods Co.

### **Previous Uses of Project Site**

The Del Norte Place project had to be assembled from many different parcels. Target Area Nine of the Redevelopment plan consisted of 13 privately owned parcels. Three of these parcels were vacant, and two contained parking lots which captured the overflow BART parking. The remaining parcels contained shops, offices, residences, a popular restaurant called the Silver Dollar, and the Bay Bridge Motel, which was somewhat run-down and had a questionable reputation. The area had not seen much recent private investment, and therefore had few newer establishments or well maintained buildings.

In addition to the 13 privately owned parcels, three publicly owned pieces of land were needed for the project. One parcel was Kearney Street, a city right of way, which ran behind the existing buildings. This street mainly provided street parking for BART riders. The plan was to ask the city to abandon the roadway and have the Redevelopment Agency purchase the street parcel. The city also owned the old railroad right of way which contained a bike path. This path was also to be purchased but would have to be rerouted. The elevated BART tracks ran through the east side of the proposed project. Thus, BART would need to grant an easement to the Redevelopment Agency to allow access to the land underneath the tracks for parking and other uses for the project.

Based upon initial studies, the city recommended that a mitigated negative declaration be certified. This document labeled the project's location as one of the mitigating factors in reducing air pollution, expecting that a higher percentage of people would use BART. The city also spent time in the design review phase, considering items such as signs and the placement of shutters and balconies.

## **PHYSICAL FEATURES**

### **Location and Orientation**

The Del Norte Place development is located one block north of the El Cerrito Del Norte BART station on San Pablo Avenue, between Wall and Knott Streets. The building fronts on San Pablo Avenue with the BART tracks running along the rear or east side of the building. Interstate 80 lies one block

to the west. Its proximity to the BART station allows residents to take advantage of the BART train and the bus routes serving the Del Norte station, including transit to Oakland, Vallejo, Marin County, Rodeo, and Pinole. Bus routes also run on San Pablo Avenue and Cutting Boulevard nearby. The complex and its businesses can be accessed from both the front and the back, allowing easy access from the parking lots and pedestrian routes.

### **Project Size and Description**

Del Norte Place is a mixed use project consisting of four residential buildings containing 135 units, connected in the front by a retail arcade of 21,500 square feet. The total square footage of all buildings is 137,000 square feet, spread over a 4.1 acre lot which also contains parking and the raised BART tracks. The project has a residential density of 33 units per acre. The four story, residential buildings are Mediterranean style, in earth colors with balconies and flower boxes.

### **Residential**

The apartments consist of 78 two bedroom units and 57 one bedroom apartments. Twenty-seven of the units are reserved for very low income households. State guidelines define very low income households as those making 50% or less of the median income level for Contra Costa County. These guidelines set the rent at 30% of the very low income median level. These units are spread through the four buildings with 13 of the very low income units reserved for seniors. The senior apartments are all concentrated in the southernmost building, which contains 29 units. This building has the closest access to the BART station and houses the West Contra Costa Older Adults Clinic on the first level. Overall, 92 of the 135 units are set aside for market rate rentals, of which 63 of these are two bedroom. Rental rates are shown in Table 2-1:

**Table 2-1 Del Norte Current Rental Rates**

	<b>Market Rate Units</b>	<b>Affordable Units</b>	<b>Senior Units</b>
One Bedroom Apts.	\$650-\$785	\$485	\$680-\$740
Two Bedroom Apts.	\$850-\$1050	\$572	\$850-\$930

The residential buildings have common areas for laundry, exercise and meeting rooms, and a children's play area. Each building has a small central courtyard. The buildings are accessible via a card-key and pathways lead from the buildings to parking in the back or the commercial areas in front. The

senior apartments have emergency pull cords connected to the front desk and 24 hour emergency service.

### Residential Demographics

As a result of the special senior apartments, the overall percentage of older adults living in this complex is higher than for the surrounding town. In fact, most of the residents are singles or couples without children, either empty nesters or young adults. Initial studies showed that only 17% of the households had children. A survey conducted in 1995 showed that over 43% of respondents were over age 65, while over 20% were also between the ages of 17 and 24 years, possibly reflecting the popularity this complex has with U.C. Berkeley students. Households were generally small, averaging approximately 1.5 persons per household. Income and occupation also reflect the mix of students, low income, and seniors, with 41.9% of the survey making under \$15,000 per year. Nearly 33% list their occupation as “other,” which would be the probable response of students or retired persons (*Menotti and Cervero, 1995*).

The survey shows the importance of BART for the residents of this complex. Surveys by John Stewart and by independent sources have shown between 34% and 40% of households do not own a car, and one-third of all trips were being made by rail (*Menotti and Cervero, 1995*). Sixty to seventy per cent of the residents have responded that they use BART regularly (*Loustau, 1996*).

### Commercial

There is a total of 21,500 square feet of commercial space, located at the front end of the first floor, facing San Pablo Avenue. This space is divided into a dozen storefronts. Current tenants include three restaurants and a coffee bar, along with services such as an optometrist, dentist, stock broker, postal annex, dry cleaner, and florist shop. Some of the commercial footage is at the sidewalk line of San Pablo. Most of the commercial area is connected by a covered arcade which provides additional seating for the restaurants.

The commercial space is currently at approximately 90% capacity. The busiest time for the restaurants appears to be at lunch. At that time, the parking area fills up with cars and the overflow parking goes out onto the streets. For true success, it would appear that the service uses such as the dry cleaning need to draw customers from beyond the apartment complex itself.

### Parking

Residential parking is provided under the BART tracks. There are approximately 160 spaces for residents, a ratio of 1.18 spaces per unit. Some

of the residential parking is covered by roof shelters. However, due to agreements with BART regarding the easement, parking spaces under the BART tracks are not covered. The commercial parking area in the front of the building consists of approximately 60 spaces. Street parking is also available on San Pablo Avenue and adjacent side streets. The commercial lot does fill up during the lunch time rush, due to the number of restaurants in the complex. Parking is adequate, although there have been some complaints about the lack of parking during lunch, when people have to park out on the street. The lack of complaints about the residential parking may be due to the large number of residents who use BART or the bus for much of their transit needs and do not actually own a car.

### Special Features

Del Norte has many features which attract pedestrians. The buildings are relatively open to public access with only the interior courtyards to the buildings gated. People can enter the commercial area from San Pablo Avenue or from the residential parking and BART path at the back. The complex has successfully re-integrated the bicycle path that led along the old Atchison Topeka and Santa Fe (AT & SF) railroad tracks. This pathway, used by bicyclists, joggers, and walkers, runs near the rear of the complex. Special work had to be done to allow this path to run through the residential parking lot.

## **THE PARTNERS AND PARTICIPANTS**

The two main partners who worked together in achieving the end result were the IBEX group and the El Cerrito Redevelopment Agency. The negotiations began with the drawing up of the Disposition and Development Agreement (DDA) in March of 1989. The negotiations took over a year and resulted in the execution of the DDA in September of 1990. This DDA provided the details regarding the roles of the Redevelopment Agency and the developer.

### **IBEX group**

The IBEX group formed the limited partnership, Del Norte Place, to construct the project. Their interpretation of the RFP had been closest to the desires of the Redevelopment Agency, offering residential and retail components along with provisions for mixed incomes and mixed ages. One of the partners, The John Stewart Company, had a long history of developing low and moderate income housing but had not worked on a project involving a retail component. They were hoping that this project could become a showcase example of transit oriented development, providing a positive image for future projects.

The IBEX group was also hoping that this project would be the first of several in the area, creating more demand for retail and residential space in Del Norte Place. In order to achieve this, they held many meetings and design reviews, secured financing which complied with the National Housing Act, and secured Low Income Housing Tax Credits from 30 individual investing partners (*ULI, 1995*).

### **The Redevelopment Agency**

The Redevelopment Agency, with the issuance of the RFP, was trying to eliminate blight around the BART station and to develop mixed use projects to foster its vision of a pedestrian pocket. Their role was to assemble and purchase the land, negotiate the relocation of tenants and reach agreements with BART, El Cerrito, and Pacific Gas and Electric (PG&E), regarding parcels under those groups' control. The agency became a land owner, leasing the property back to the Del Norte Place partnership. The hope was that the success of this initial project would spur private investment of a similar kind to the area, bringing new life to the north side of town. New businesses would bring more property and sales taxes to the city.

### **The City of El Cerrito, BART, and PG&E**

There were some other players in the success of this development. The City of El Cerrito owned the right of way for Kearney Street and the old AT & SF right of way, which contained the bike path. Many BART riders parked on Kearney Street, which runs parallel to San Pablo Avenue. With the BART parking garage nearly finished, the city agreed to abandon the Kearney Street right of way. The city also allowed the purchase of the bike path which would have to be integrated into the project. BART's role in the project was as the grantor of an easement to allow parking and underground utility lines to go in underneath the tracks. BART worked directly with the Redevelopment Agency on this agreement. Lastly PG&E was brought in, when it was realized that an electric substation on the property would be in the way of the development. PG&E negotiated with the Redevelopment Agency to move and relocate the substation to the rear of the parcel, out of the planned building area. The costs were to be paid for by the agency and the developer in accordance with the agreements in the DDA.

## **DETAILS OF THE NEGOTIATIONS**

The Disposition and Development Agreement (DDA) is a document often created between a developer and an agency to provide an outline for the construction of the project. Once IBEX had been selected as the developer,

they and the Redevelopment Agency worked for over a year to hammer out this agreement. The resulting DDA was issued in September, 1990, one month after the approval of the project by the Planning Commission. With some of the changes made to the project, the documents were not stamped “certified” until April, 1991, shortly before construction. The DDA provided the information for how the land was to be acquired, leased, and who was to pay for each of the steps in the improvement process. The DDA could not take effect until the project was approved by the City Council.

### **City Approval**

The first step, even prior to the issuance of the DDA, was to get the project approved by the City. Based upon the Initial Study, the City staff recommended that a mitigated negative declaration be certified. The Redevelopment Agency aided the developer in working with the city. El Cerrito provided some flexibility by allowing some exceptions to the current zoning requirements of the area. These exceptions included allowing buildings exceeding the height limitations under standard policy, the loosening of the setback requirements to allow the two end building facades to approach street side property lines, rather than the usual 5 foot setback, and waiving the approval of the Use Permit for the multi-family and elderly housing. This route was taken, rather than attempting a rezoning for a Planned Unit or Mixed Use Development.

### **Formulating the DDA**

Once the project was approved, the DDA had to allocate responsibility for the acquiring of the land and the relocation of existing tenants. The costs for clearance and construction were to be borne by the developer, who would be leasing the land from the agency on an “as is” basis. Altogether, the agency had to secure a total of 4.1 acres spread between the 13 privately owned parcels and the land owned by the two agencies, BART and the City of El Cerrito. It was soon evident that there would need to be flexibility on both the agency’s and the developer’s part to deal with unexpected circumstances described as follows.

#### **Silver Dollar Restaurant**

Most of the owners of the parcels in Target Area Number 9 willingly sold their properties. However, the Silver Dollar Restaurant posed a problem in that it was one of the area’s most popular restaurants. The agency realized that forcing this restaurant out of business would not be a popular move with residents, so the DDA had a special segment written to offer space to the restaurant in the new development. The project construction would be

scheduled to allow the restaurant to continue operations until its new facility was available. The owners of the restaurant agreed to be bought out and relocated. However, disagreement arose over the nature of the compensation because the restaurant was only leasing space. This resulted in a lawsuit being brought against the Redevelopment Agency, which has only recently been settled. The Silver Dollar was given additional compensation to cover business interruption expenses and additional rent required at the new location.

### Soil Composition

The original negotiation was that the properties be leased “as is,” with the developer bearing all expenses to improve the property. However, soil testing identified a problem with the high concentration of ground water, which makes construction difficult. A large portion of the area had to be excavated and the soils replaced to allow the construction of the building. Utility and sewer lines had to be moved during this excavation. These unexpected costs necessitated changes to the original agreements, resulting in the First Implementation Agreement and Agency Participation Agreement.

### Other Problems

As the project got underway, negotiations with the City of El Cerrito, BART, and PG&E stalled over different issues. Although the city of El Cerrito was willing to give up the land containing the bike path to the Redevelopment Agency, they expected that the bike path would continue to run through the property after the development was completed. The original plans did not contain the pathway, and the path had to be added into the development, increasing costs. The moving of the PG&E station posed a greater expense than originally anticipated, so negotiations were held to limit the developer’s expense. Lastly, BART held up the easement negotiations with the Redevelopment Agency, forcing an extension to the agreement in the DDA. BART finally allowed the provision for parking underneath the tracks.

### **Public Involvement**

This project went through numerous public hearings, from the design review board, through the planning commission and the City Council. Throughout the development process, public dissidence was fairly minimal. Some assurances had to be made in regards to the bike pathway, but otherwise there was not much objection. However, the relocation of the Silver Dollar Restaurant did stir public resentment to the Redevelopment Agency in general. This relocation, coupled with the agency’s help in locating the “big box” retailers, such as Target, on land previously occupied as a trailer park and bowling alley



had some residents worried that local opinions were not being considered in favor of national chains. Residents voiced concern that the large businesses would cause small local businesses to go under (*Frasleur, 1994*). Some of the more vocal citizens organized a petition to eliminate the agency and in a referendum election held in November, 1993, the move was narrowly defeated. The public's dissatisfaction with the Redevelopment Agency was mainly the result of the favorable deals the agency had signed with large retailers such as Target and Home Depot and with the displacement of residents. Del Norte Place was not a significant reason for residents' negative opinion since most of the businesses displaced had been marginal.

## **FINAL AGREEMENTS AND CONTRACTS**

There were four main agreements in this development, with three of them springing from the initial DDA. The other agreements were the Ground Lease, the First Implementation Agreement to the DDA, and the Agency Participation Agreement.

### **Details of the DDA**

#### Land Acquisition

The DDA made it clear that the acquisition of land and the relocation of the tenants was the responsibility of the Redevelopment Agency. The Agency would also need to finance these purchases. In anticipation, they began acquiring the properties and had fee title to six properties by the time the DDA had been written. The DDA stated the intent of the agency to acquire all remaining parcels, and to refinance those parcels already acquired. In accordance with the agreement, the agency issued tax exempt "qualified redevelopment bonds" for this purchase in the amount of \$3 million. According to city literature, the El Cerrito Redevelopment Agency was the first Redevelopment Agency to utilize this category of tax-exempt financing. The reason that more agencies do not take advantage of this type of financing is due to the limited definitions for the terms "redevelopment purposes" and "blighted areas." The \$3 million was secured from the California Development Limit Allocation Committee (CDLAC), with the intention that this amount would cover all acquisition costs as stated in the DDA, including the acquisition, settlement, relocation, compensation, fees, and other costs related to the land acquisition. If costs rose above \$3 million, the Agency and the Developer would be jointly and equally responsible, subject to some restrictions.

### Construction and Operation Costs

It was the responsibility of the Del Norte Place partnership to submit a financing plan, detailing any other joint ventures entered into to provide funds as well as the cash flow projection and a cost breakdown. The developer was responsible for the marketing plan for the retail component of the center. The DDA specifically called for leases to vendors of specialty foods such as coffee, fresh fish, and baked goods. If, ten months after completion, the developer presented reports showing the unfeasibility of these leasing requirements, they would be allowed to search for other tenants. This did become the case.

In order to construct this project, the developer and the agency secured nearly \$11 million in tax exempt, Mortgage Revenue Multi-family Housing Bonds, issued by Contra Costa County. These funds were refinanced in 1994 with a lower interest, variable rate tax exempt bond, indexed to the seven day Kenny Index (*ULI, 1995*). The loan was insured through the Federal Housing Administration (FHA) co-insurance program, section 221(d)(4), overseen by the Secretary of Housing and Urban Development (HUD). Del Norte Place had to comply with regulatory agreements adopted by HUD and the National Housing Act, which included the restriction that these bonds not be used for retail or commercial construction. Financing for the retail component, estimated at \$2,800,000, had to come from elsewhere. Both the DDA and the Ground Lease had a Housing Affordability section to address these issues. In order to cover the retail portion of the project, IBEX, as general partner in Del Norte Place, contributed \$3,200,000 of their own resources for equity. To further help pay for the housing, IBEX secured the low income housing tax credits from 30 individual investors for an additional \$1,800,000 in equity contributions (*ULI, 1995*).

### DDA Agreement of Agency Participation

The initial plan of the DDA was to allow the agency to receive 20% of the Net Cash Flow during each year from the operations, as specified in the Ground Lease. Due to the restrictions imposed by HUD, these terms were moved from the Ground Lease to an Agency Participation Agreement. The developer was required to operate the property for a period of five years from the date that 90% occupancy in the retail center was achieved before the property could be re-sold. After that point, any sale of the property would occur simultaneously with the sale of the agency's fee interest in the property and its leasehold interest in the BART right of way. The agency would receive 20% of the net sales proceeds and the developer would receive 80%. These participation percentages could change if the equity contributions by the developer or the

agency changed by more than 10% during construction.

### **Ground Lease**

The Ground Lease set up the leasing agreements between the Redevelopment Agency and Del Norte Place. The term of the lease was for 65 years, terminating on the date of the lease execution, at which point the agency could negotiate ownership of the improvements. Rent was set at \$1.00 per year. The initial lease also contained the participation rent agreements, but these were separated to conform with HUD guidelines which did not allow the lease to be based upon net revenues. The lease provides limitations on the use of property, the quality of operations, maintenance, transfers, subletting, housing affordability restrictions, and many other items referred to on the DDA. This Ground Lease was enacted and certified in April, 1991 when construction began.

### **First Implementation Agreement to the DDA**

This agreement was set up to address the increased costs incurred from the land acquisition and site improvement. The agreement requested that the agency apply to Contra Costa County for a Community Development Block Grant (CDBG) which would then be paid to the developer to help with the site improvements, such as the soil replacement and utilities relocation. The grant, in the form of a loan, would be repaid by the Redevelopment Agency. This agreement altered the responsibility for the moving of the PG&E substation, making Del Norte Place responsible for only the first \$70,000 of relocation costs. The definition of the property boundaries was changed to remove the parcel containing the moved substation, so that this piece of property was not actually part of the lease. The agency, as owner, granted an easement to PG&E for that parcel. The agreement eliminated the provision forcing the developer to pay rent on the BART easement. At the same time, the agreement allowed an extension for the negotiations of this easement between the Redevelopment Agency and BART. Lastly, the First Implementation Agreement laid the groundwork for the setup of the Agency Participation Agreement to detail the participation rent provisions.

### **Agency Participation Agreement**

This agreement was created to establish the participation rent procedures, separate from the Ground Lease, in accord with the requirements of HUD. Pursuant to the DDA, this agreement allowed the participation of the Redevelopment Agency in receiving 20% of the Net Cash Flow generated from the project. However, Del Norte Place could elect to defer any and all annual payments for the first 5 years after completion of the project. This

deferment would accrue interest at 7% annually. This provision, put in place when costs of the project increased, allowed the developer to recoup some of the initial investment.

### **Final Costs**

With all of the unexpected costs and delays, the project costs were \$18,786,300: the residential space cost \$138.25 per square foot and retail space \$131.07 per square foot. This was higher than the initial estimates of \$16 million at the beginning of the project. The flexibility of the Del Norte Place partnership and the Redevelopment Agency to realign agreements and secure financing allowed these additional costs to be absorbed.

### **Developer and Agency Policy Changes to Ensure Success**

The apartments began leasing in July of 1992 and full leasing (90% occupancy) was attained by April, 1993. The seniors' building was finished first. Although the John Stewart Group is pleased with the results, some modifications had to be made to ensure occupancy. Many of these decisions were financial in nature, as the project was opened at the depth of the California recession. The residential units had their target rents dropped by 15% to facilitate renting and meet cash flow targets. Various forms of advertising were tried, in order to find which were most effective for the market rate units.

As stated in the DDA, the Redevelopment Agency policy was to attract specialty vendors selling various items such as flowers and gourmet meats and cheeses. Businesses of this type in the Rockridge area of Oakland were expected to expand into Del Norte Place. Unfortunately the retail environment in El Cerrito did not support these types of businesses and those at Rockridge suffered customer losses due to the Oakland Hills fire of October, 1991. The agency allowed the John Stewart Group to find businesses that were more service oriented and convenient to commuters. These uses included dentist and optometrist offices, a dry cleaner, and packaging store. Once the vision for the commercial center was altered, leasing of the retail center proceeded quickly.

### **Overall Result**

The residential units have been able to maintain high occupancy rates since being leased. Especially popular have been the low income and senior units, which often have waiting lists. The John Stewart Company has kept an on-site residential and commercial building manager, which helps to keep residents and tenants satisfied. Visually, the project is an improvement over the previous buildings on the site, and there have been no reports of neighbor

dissatisfaction. Although the businesses are not experiencing a boom, they have been able to survive during tough economic times. Their future success may depend on the type of projects built in the vicinity. As of this writing, no other similar developments have been built. The lot across the street contains a vacant supermarket and restaurant and continues to be a security problem with the City. Although Del Norte Place appears to have achieved overall success, it will need to be augmented with other, similar projects in the area. Currently, there is a tentative project to bring in a movie theater and more apartments.

### **AMC Movie Theaters and Apartments**

This project has been slowly going through the review process since BART issued an RFP in 1992 for development of its 2.7 acre surface parking lot located in front of the Del Norte station, a block south of Del Norte Place. At the time, BART was looking at developing more housing in and around its stations. Since then, this project has grown and changed to include a movie theater on the BART parcel, with market rate apartments on the adjacent block, which is next to Del Norte Place.

Charles Oewell, the president of Pacific Valley Housing, is the developer in this project. Mr. Oewell has previous experience in developing housing near transit. He developed Bay Landing, a 282 unit rental complex at Pleasant Hill BART, and the Verandas, a 360 unit project with an adjacent shopping center, next to the Union City BART station. Oewell's development at Del Norte Place was originally projected to be 200 apartment units constructed on the BART lot, but it was shelved for financial reasons. When the project was resumed, the plans were revised to reflect the growing interest in developing a theater complex. The apartments were moved one block north onto land to be acquired by the Redevelopment Agency.

The project at Del Norte, as submitted for review in June, 1996, consists of a 70,000 square foot AMC movie complex with 20 screens, containing 4,500 seats. An additional 40,000 square feet of retail space would be provided. These facilities would be sited on a BART owned surface parking lot directly between the Del Norte Station and San Pablo Avenue. A lease would be worked out between BART and the developer, currently projected at 75 years. A parking garage, holding 1,000 cars, would be built below ground. The most innovative part of this complex is the agreement made by Oewell and BART to share both the theater garage and BART garage parking. Since the peak times for BART and the theater are at opposite times of the day, 312 of the spaces in the theater garage would be reserved for BART passengers during the day, while the BART garage would be made available to night and

weekend theater visitors. This multi-modal parking would help to keep the overall parking requirements down, fostering a more pedestrian friendly environment.

The apartments would be located on San Pablo Avenue, between the theater and the Del Norte Place project. There would be 208 apartments, 88 one-bedroom and 120 two-bedroom. All units would be market rate. A small commercial storefront would be located in one corner, containing 1500 square feet. This land would be acquired with the aid of the Redevelopment Agency and sold to Pacific Valley Housing at the market rate.

The project's Environmental Impact Report (EIR) has just been completed in early 1997. Mr. Oewell is hopeful that construction can start in the fall of 1997. Unlike Del Norte Place, this project is expected to have a problem getting approval from adjoining neighbors and tenants, who may object to the volume of nighttime activity. The public review of the EIR should occur soon.

## **ANALYSIS**

Del Norte Place has been considered a successful project from both the developer's and the agency's point of view, despite the fact that it ran over budget and had some problems with the initial leasing of the commercial area. The project has sustained acceptable occupancy rates, and rents have increased 3.5% per year, keeping up with inflation. The project is running slightly in the black. From the agency's perspective, the project is successful by beginning the fulfillment of a transit oriented village at Del Norte BART. Studies of the project show a large proportion of the residents (60 to 70%) use BART regularly and nearly 40% do not own a car. Although this may be due in part to the number of seniors and students who live there, it still provides a case that people will take advantage of transit if it is conveniently provided near housing. Del Norte Place has not yet succeeded in providing a visible spill-over effect to other parcels in the area. Although the John Stewart Company is happy with the results so far, they had hoped that more development would have occurred by now, increasing demand for their units (*Loustau, 1996*).

### **Factors in the Success of Project**

Since Del Norte Place, the John Stewart Company has not built any other Transit Oriented Developments. This does not mean they are not open to pursuing other projects in the future. They have studied similar developments in Portland, Oregon, so that they can engage in the next project with more knowledge. In an interview, Jeff Loustau of the John Stewart Company stated

that the company should have done more demographic research into the marketplace so that there would have been a better idea of what type of commercial usage would work best in the center and how to target the residential audience (*Loustau, 1996*).

One of the most important lessons to be gained from the study of the El Cerrito Del Norte BART station is the amount of time it takes to create a transit linked village. It takes more than one development to create the linkage between land use and the transit station. However, Del Norte Place is a step in the right direction. Its success can be attributed to the factors given below, which can be guidelines for future projects:

#### Developer and Agency Participation

Despite the initial problems with the Silver Dollar Restaurant, the soils consistency and the electric substation, both the agency and the developer were committed to making the project work. They believed in the project and realized that they needed each other. From this realization came a mutual respect which kept negotiations going. As a result, Del Norte Place is expected to be profitable and to fulfill the agency's desire to create a Transit Oriented Development.

#### Flexibility

Most private businesses and developers are accustomed to working through changes in order to survive. However, public agencies reporting to their constituents have more trouble changing midstream. Public agencies are required by law to adhere to a strict code of behavior and guidelines. This strict adherence can sometimes kill a development. In the Del Norte Place project, the Redevelopment Agency showed agility in being able to respond to changes in the project and to increased costs by amending the DDA. The city also allowed variances to their zoning guidelines because the benefits of the project outweighed the costs of allowing the violations in the zoning. Rarely does any project go through the entire development process without hitting some snags, and it is important to react to these positively, preserving the relationship between the private and public entities. The Del Norte Place Project was a business agreement between two parties and this required both parties to be able to negotiate their case and to compromise when necessary.

#### DDA Process

Although it is important to retain flexibility during the life of the project, a comprehensive document to provide guidelines for responsibility and behavior is also needed. In complex cases, where financing sources are many and a lease is involved based upon net cash flow, the DDA needs to think this

process through. In less complex deals, such as a simple land swap, the DDA can be less complex. A DDA should be as complete as it can be at the time it is drawn up. However, flexibility is required to make amendments as needed.

### Creative Financing

Without careful investigation into the types of financing opportunities available, Del Norte Place might have never been built. The combination of owner equity, tax exempt redevelopment, and mortgage housing bonds and tax credits took some time to investigate. In the end, all these sources were needed, and it was important to realize some of the restrictions on them, such as with the mortgage housing bonds and commercial development. A detailed investigation into financing sources may spell the difference between a completed project and one that is abandoned.

### Public Process

Although Del Norte Place was built during a time when the public's perception of the Redevelopment Agency was low, the project itself went through the process with little fanfare. For the most part, the development was successful because it replaced a declining area with a new development which was compatible with the surrounding area. With the final relocation of the Silver Dollar Restaurant, a balance was struck between attaining a public good and the disruption of neighborhood institutions. It also appears that political arguments were kept to a minimum. This can sometimes alienate the public, causing them to lobby against it. The balanced mix of housing types seems to have helped alleviate neighborhood fears that normally accompany developments which are entirely "low income" or "senior" complexes.

Unlike the Del Norte Place project, the theater complex is expected to generate greater public concern because it will be attracting a much larger number of people, many from outside the area. If the agency and the developer want to see a project go through, it is important to address the public's concern early and ensure that the positive aspects of the development outweigh the negative aspects.

### Long Term Vision and Perspective

From planning to completion, Del Norte Place took nearly five years, and it was just the first step in the development of a transit based development. Developments of this type require the lead agency to adopt a long range view which transcends short term political goals. Elections for the El Cerrito City Council are held every two years. In 1989, at the beginning of the Del Norte project, three council positions were up for election. Two more positions were contested in 1991. Although the council members elected during that time



avored redevelopment, the political climate could change quickly. In addition, the City Council may feel a need to increase sales tax revenue and may pressure the agency to satisfy their agenda. It is hard to estimate how much political pressure has been applied to the Redevelopment Agency to increase the sales tax base, since their other contributions to the area have been Target, Foods Co., and Home Depot, all “big box” retailers. For the Del Norte area to succeed as a transit based project, further transit based developments need to be encouraged.

At the same time, perspective is needed to realize that only one development such as Del Norte Place does not create a transit village. Ongoing hard work building upon the success of Del Norte Place will be needed to attract future development. These qualities will be needed in any future transit linked development.

## **SUMMARY**

The El Cerrito Del Norte BART station is currently at a crossroads. New development has consisted of both auto oriented retail outlets and transit oriented mixed use development. Del Norte Place appears to be a success in both the public and private realm, encouraging transit ridership while turning a profit for the developer. The project was built during a difficult time for new development, with a souring economy, cutbacks at nearby job centers such as U.C. Berkeley, and the natural disasters of the Loma Prieta earthquake and the Oakland Hills fire. Yet the flexibility in the relationship between the Redevelopment Agency and the IBEX group ensured the completion of the project, even after project costs jumped from around \$16 million to over \$18 million. This joint relationship is what ensured the completion of this development, compared to previous attempts which had failed.

At Del Norte Place residents can get off of the BART train, walk a block north, buy a cup of coffee, a dinner, or a new pair of glasses, and enjoy their new home. The 135 rental units provide an opportunity for a group of people of mixed incomes and backgrounds to live together in a harmonious environment, all taking advantage of the nearby services. The 21,500 square feet of retail establishments provides added sales tax revenue to the city while providing convenience to residents and neighbors.

The current year, 1997, should be an interesting time for El Cerrito Del Norte. During this time, the fate of another transit linked project, the AMC theater, with its multi-modal parking idea, retail features, and apartment complex should be decided. In addition, three positions on the City Council will be up

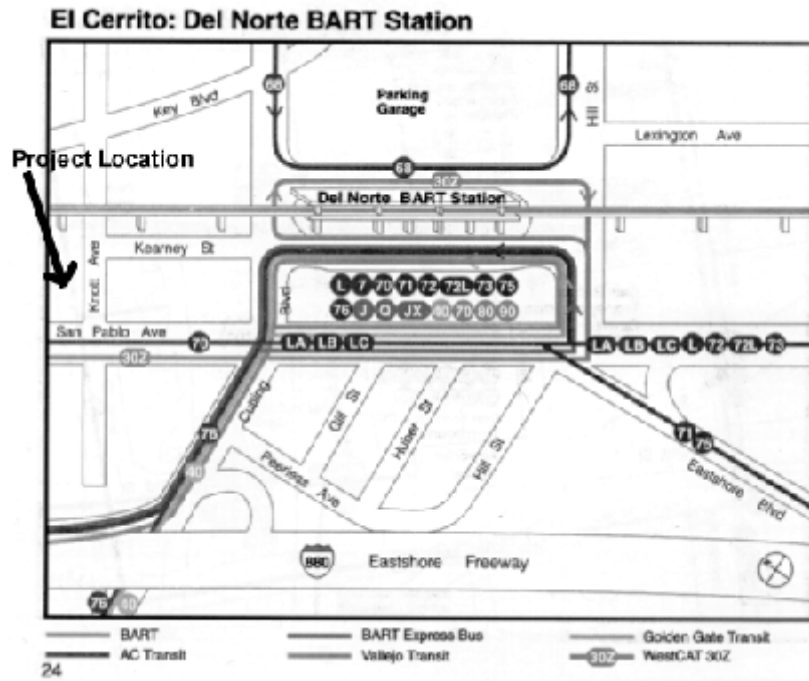
for election, possibly changing the decisions of the Redevelopment Agency. These decisions, and the way they are carried out, may have a significant impact on whether Del Norte BART becomes an integrated transit based development or a typical suburban BART stop. It is possible that the success of Del Norte Place will encourage decision makers and the public to continue to favor transit oriented projects.

<b>Del Norte Place; El Cerrito, California</b>	
<p>135 unit, four story rental apartment complex with 21,500 square feet of retail and service space.</p> <p>Location is one block from El Cerrito del Norte BART station, providing convenient alternative to driving.</p> <p>Agencies involved: El Cerrito Redevelopment Agency, City of El Cerrito, Contra Costa County, BART</p>	
<b>Special Features</b>	<b>Architect</b>
<p>Public/Private Development Agreement and Lease</p> <p>Mixed Income rental housing with retail</p> <p>Senior Housing and Services</p> <p>Transit oriented project</p>	<p>Sandy &amp; Babcock</p> <p>1349 Larkin St.</p> <p>San Francisco, CA 94109</p>
<b>Developer</b>	<b>Financing / Management</b>
<p>The IBEX Group</p> <p>2310 Mason St.</p> <p>San Francisco, CA 94133</p>	<p>The IBEX Group</p> <p>2310 Mason St.</p> <p>San Francisco, CA 94133</p>

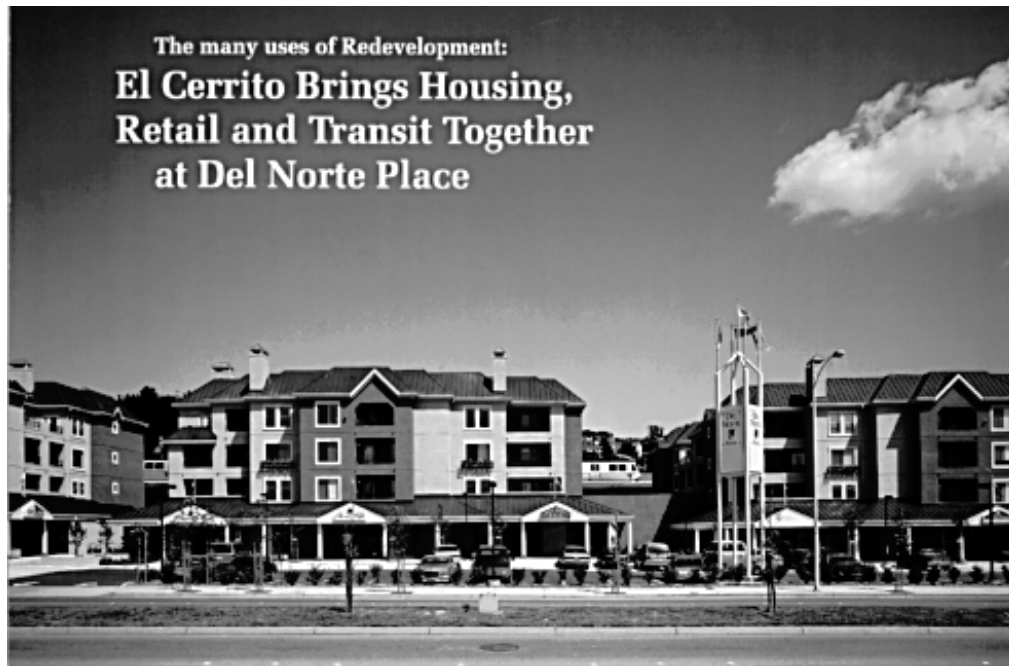
<b>Land Use Information</b>		<b>Development Schedule</b>	
<i>Site Area</i>	4.1 acres	<i>Planning started</i>	June 1989
<i>Total Dwelling Units</i>	135	<i>Site leasing started</i>	October 1990
<i>Gross Density</i>	33 u.p.a.	<i>Dev. Agreement/</i>	April 1991
<i>Gross Building Area</i>	137,000 sq. ft.	<i>Construction started</i>	
<i>Total Parking Spaces</i>	64 retail	<i>Sales/leasing started</i>	July 1992
	159 residential	<i>Leasing completed</i>	April 1993
<i>Number of Stories</i>	4		

<b>Residential Unit Information</b>					
<u>Unit Type</u>	<u>Size (sq.ft.)</u>	<u>Number</u>	<u>Market Rate</u>	<u>Low</u>	<u>Senior</u>
		<u>Built</u>	<u>Units</u>	<u>Income</u>	
One bedroom avg.	641	57	\$900	\$485	\$680-740
Two bedroom avg.	914	78	\$1,000	\$572	\$680-930
Development Total	107,829	135	N/A	N/A	N/A
Senior Units		29			
Low Income Units		27			

Building Use Information			Development Cost Information	
	<u>Sq. ft.</u>	<u>% GBA</u>		
Residential Units	107,000	78%	Site Acquisition	\$3,000,000
Retail	21,500	16%	Site Improvements	\$370,497
Common Areas	<u>8,500</u>	<u>6%</u>	Construction Costs	\$11,120,147
Total	137,000	100%	Soft Costs	\$4,295,656
			Architecture	\$825,608
			Marketing	\$294,471
			LC Fees/bond issue	\$395,963
			Construction Loan.	\$746,325
			Construction loan fee	\$586,589
			Contingency	\$620,000
			Taxes and Insurance	\$75,000
			Legal	\$68,611



**Figure 2-1 Location of Del Norte Place, El Cerrito, CA**



**Figure 2-2 Advertisement for Del Norte Place**



**Figure 2-3 View of Del Norte Place from BART station**



## **ATHERTON PLACE**

### **Hayward, California**

#### **INTRODUCTION**

Atherton Place is a high-density residential development located in downtown Hayward, Alameda County, California. Hayward lies approximately 25 miles north of San Jose in the Bay Area. The project lies adjacent to Hayward's city library and the under construction civic center site, and is within two blocks of the downtown shopping district. The 3.3 acres of land contains 83 units of townhouses built at a density of 25 units per acre. The Hayward BART station is across C Street from the development and the station is served by a transit center for AC Transit buses.

This \$12.2 million development provides high-density housing in the downtown Hayward area and is the first of numerous sites scheduled to be redeveloped by the Redevelopment Agency of the City of Hayward. The Redevelopment Agency was the public agency that initiated the proposal for high-density housing on this site. In July 1992, the City adopted what is known as the Downtown Core Area Plan in which they detailed their plans of the downtown area. Bringing housing to this area was a top priority toward creating a strong, diverse identity for downtown Hayward. They found a willing developer in Atherton Place Company, a California limited partnership and subsidiary of Regis Homes of Northern California.

The Redevelopment Agency had to significantly discount the cost of the land to the developer in order to attract the desired type of development. The Agency paid \$2,622,768 and sold it to the developer for \$763,930.

#### **PROJECT CONCEPT**

In the early 1980s there was interest in developing high-density residences on this lot. A partnership of four developers bought the land and in 1985 and 1986 submitted initial plans to build a 14 story residential high rise building. The partnership dissolved amidst problems of securing financing for the project. At this point, both BART and the Hayward Redevelopment Agency showed interest in the parcel; BART wanted to add on to their existing parking lot, and the Redevelopment Agency wanted to use the lot to help bring back housing to the downtown area. A bidding war resulted. This



caused the final selling price to be somewhat inflated, especially considering that 1988 was the peak time for land value. However, the Redevelopment Agency felt that additional BART parking would be detrimental to their plans to reinvigorate downtown Hayward. The project concept was initiated by the Redevelopment Agency through the creation of the Downtown Core Area Plan in 1992.

## **BACKGROUND**

### **Neighborhood Background**

From the early days of its existence, Hayward was a satellite town connected by the railroad to other East Bay cities: Oakland, Alameda, and San Leandro. The original downtown district was a thriving center of residential, civic and commercial lots and a public square with a park. After 1952, the development patterns of the city changed and the original gridiron form was drastically altered. New arterial streets ripped through the downtown district (Foothill Boulevard and Mission Boulevard), and geologists discovered that the Hayward Fault ran just east of Mission Boulevard. A setback of 50 feet on each side of this fault was created to prevent development and potential damage close to the fault, and this too detracted from downtown development.

Another alteration in the downtown area was the construction of a BART station in 1972. The station offers a transit option to Hayward which has gone unrealized due to careless placement of BART surface parking lots. The current layout has effectively cut off pedestrian traffic to the station from other downtown areas.

### Transit Options

There are two public transit options for residents and workers of the Hayward area: BART (Bay Area Rapid Transit) and AC Transit (Alameda-Contra Costa Transit), the local and regional bus agency. The BART station is located across C Street from the development and AC Transit has a bus center in the BART parking lot. Highways 92, 880, and 580 are also close to the project.

### Previous Uses of Land

The parcel upon which Atherton Place was built had been vacant for a long time until the late 1970s, when P G & E owned it and used it as a service lot.

### Demographics

The project demographics (with 43 units sold) are in Table 3-1:

**Table 3-1 Atherton Place Demographics**

<b>Marital Status</b>	<b>Age</b>	<b>Place of Employment</b>
56% married	24% under 30 yrs	52% Alameda County
38% single	35% 31 to 40 yrs	26% San Francisco
6% divorced	35% 41 to 50 yrs	22% Other
	6% 51 to 60 yrs	

Almost half of the buyers previously lived in apartments and these buyers are evenly split between one and two income households.

#### Project Marketing for Residential

The targeted homeowners have been young, first time buyers. Sares-Regis, the project developer, assumed there would be many female head-of-household buyers and a large percentage of commuters due to the project's proximity to BART and the nearby highways. The marketing strategy included an emphasis on the security aspects of the development, giving potential buyers peace of mind due to the downtown location of the project.

#### Germination of Project

After acquiring the land for \$2,622,768, the Redevelopment Agency issued a RFP to develop this plot of land at a density of at least 30 dwelling units per acre. The Agency chose a developer and entered into an Exclusive Negotiating Agreement in 1988. However, disagreements created a rift between the Agency and the Developer and finally caused the Exclusive Negotiating Agreement to be canceled in 1989.

After the failure of that attempt, the Agency held onto the plot of land, known as Site I of their redevelopment sites. Instead of moving on with the development process for Site I, they began issuing an RFP for the Site III location. While going through their selection process for the new project, another developer expressed interest in developing Site I. Negotiations continued for approximately one year until the developer requested a lower density project from the Redevelopment Agency. The Redevelopment Agency did not want to deviate from the set density level, and their judgment was supported by the Solomon Consulting report which confirmed that higher density housing was needed to make the project viable. The Redevelopment Agency then decided to offer the development of Site I to another developer, the one who had won the bid for Site III: Sares-Regis. They accepted the offer.

Participants for the Site I project included the following agencies and organizations:

- Developer: Atherton Place Company,
- Architects: Seidel/Holtzman (San Francisco)  
James Guthrie & Associates (San Mateo)
- Civil Engineer: Giuliani and Kull (Cupertino)
- Landscape Architect: Guzzardo and Associates (San Francisco)
- Legal Services: Cassidy and Verges (San Francisco)
- General Contractor: Regis Contractors of Northern California

The architects Seidel/Holtzman were chosen because they had extensive experience with designing high-density housing alternatives and had been extremely effective in maximizing volume and light in compact spaces. They also had extensive experience with urban site plans.

## **PHYSICAL FEATURES**

### **Location and Orientation of Project**

The project lies in the heart of downtown Hayward. The Redevelopment Agency hopes to revitalize the area with its planned Focal Point being just one block away from the Atherton Place development. The Focal Point block will include a downtown plaza, and its purpose will be to reestablish a connection to the transit center and provide a defined public space for civic events. Possible uses for buildings include public uses and a firehouse. The Redevelopment Agency is also considering utilizing the buildings for City or County offices.

The project site is bounded by Atherton Street to the east, C Street to the north, D Street to the south, and the BART tracks to the west.

### **Project Size**

The project is a strictly residential development, situated on 3.3 acres of land. Table 3-2 shows the unit breakdown:

**Table 3-2 Atherton Place Apartment Details**

<b>Plan</b>	<b>Unit Size</b>	<b>Ft<sup>2</sup></b>	<b>Units</b>	<b>Sale Price</b>	<b>Price/Ft<sup>2</sup></b>
A	3 bdrm/3 bath	1325	58	\$169,500	\$128
B	2 bdrm/2.5 bath	1095	21	\$155,000	\$142
C	2 bdrm/2 bath	1175	4	\$153,000	\$130
Average Per Unit		1260	1	\$165,036	\$133
Development Total		104,545	83	\$13,698,000	\$133

Many of the units have doors which open directly to the street, but most of the garages and entryways open onto Atherton Place, the circular drive running through the interior of the complex. The development has been termed “pedestrian friendly” with its easy access to transit options and the future civic center. The Development has a community center with a swimming pool, located in the center of the complex. Initial sale prices were expected to be \$153,000 to \$169,500 and all project phases are expected to be completed by December 1997.

### **Environmental Issues**

There were some concerns about possible hazardous materials in the soils on the BART Triangle property. When it was tested for contamination, the levels were low enough and the soil was to be removed for construction purposes anyway, so the soil was legally allowed to be extracted and disposed of in a special landfill at no extra cost.

The Hayward Fault Line, an earthquake fault, runs through downtown Hayward and has proven to be a disruptive element. Fifty foot setbacks have been imposed on either side of the fault to prevent destruction to buildings in the event of an earthquake. The Redevelopment Agency has proposed the idea of realigning Mission Boulevard to run with the fault, and widening the Boulevard to cover the setbacks. A median park is planned for the middle of the Boulevard and two lanes of traffic running in each direction. The historic City Hall currently sits on the faultline, and it has been proposed in the Core Area Plan that it be relocated to the new Focal Point.

### **THE PARTNERS AND PARTICIPANTS**

The Redevelopment Agency of the City of Hayward and Atherton Place Company were the main partners in the Atherton Place Project. The Hayward Redevelopment Agency hopes to balance downtown uses between commercial, residential and office uses. This project provides ownership of

housing in the downtown area. Long term objectives were to alleviate blight from the downtown area and to provide for private reinvestment in the area. The Redevelopment Agency hoped to develop the property with only a few restrictions. They wished the project to be 30 units per acre, to conform to the existing residential zoning. The units were to be owned privately and it was necessary to conform to the city design plan. The Redevelopment Agency wanted no variance from the zoned density or parking requirements.

Interest in developing this lot for high-density residential units came about in the early 1980s. The land was eventually bought in the mid 1980s when initial plans for a high rise residential building were submitted. Financing problems caused the breakup of the partnership of owners and the public sector began showing interest in the property. A bidding war between BART and the Hayward Redevelopment Agency inflated the final selling price, with the Redevelopment Agency eventually purchasing the property for \$2,622,768. The Redevelopment Agency developed a Core Area Plan, with the purchased property designated as Site I and slated for a density of 30 dwelling units per acre. After several unsuccessful attempts at securing a developer for the Site I location, the Redevelopment Agency concentrated on getting RFPs for the Site III location of their Core Area Plan. While going through this process the Agency found a developer who expressed interest in developing the Site I plot. After negotiating density, Sares-Regis finally won the bid to develop the Site I and Site III properties.

## **DETAILS OF THE NEGOTIATIONS**

The following information is from the *Reuse Appraisal and Summary Report*, published by the Hayward Redevelopment Agency. On July 26, 1994, a joint public hearing of City Council and the Hayward Redevelopment Agency was held to discuss the Disposition and Development Agreement (DDA) between the Agency and the Developer. The developer, Sares-Regis Group of Northern California, formed a new partnership titled Atherton Place Company, a California limited liability partnership.

In the DDA , the Developer is responsible for the following:

- Submit for Agency approval construction plans and specifications, the construction contractor contract, and a financing plan which will include an economic proforma and evidence of the financing for the Development and a construction budget.
- Purchase the Site I Property from the Agency for \$763,930<sup>1</sup> plus estimated interest payments.

- Construct, or cause to be constructed, at its sole costs and expense, 83 units or more of for-sale housing consisting of two and three bedroom units.
- Construct, or cause to be constructed, related landscaping, parking, on site and off site improvements and all other necessary improvements, with the exception of the Agency's site preparation requirements.

Given the current market conditions, a project developed at 30 units per acre will likely result in a residual land value of \$9,000 to \$10,000 per unit. According to the Reuse Value of Property in the Amended Hayward Site I Reuse Appraisal and Summary Report, the Agency will sell the property to the Developer for \$763,930 plus estimated interest payments.

The Agency is responsible for the following:

- Act as the liaison between the Developer and the City of Hayward during the approval process.
- Sell the Site I Property to the Developer.
- Deliver the Site, after all known and visible concrete improvements currently existing on the site have been removed.
- Construct curb, gutter, sidewalk, and street work along Atherton and D Street frontages as required by the City of Hayward.

Site I had been targeted for a high-density residential development in the General Plan and Zoning Ordinances. However, a zoning change did have to be made as this development is considered a Planned Unit Development (PUD).

Public meetings and workshops were encouraged. A meeting was held to discuss the development of the specific plan for the downtown area. A series of workshops established a Downtown Plan framework. Issues brought up by citizens were the Focal Point, Housing, B Street, and Cultural Activities.

## **FINAL AGREEMENTS AND CONTRACTS**

The agreement between the Redevelopment Agency and Atherton Place Company is detailed in the Deposition and Development Agreement (DDA). The following information was taken from the DDA, dated October 10, 1994 and the First Amendment to the DDA, dated May 16, 1995.

**Land Cost**

The Site I parcel was bought by the Redevelopment Agency for \$2,622,768 in 1988 and sold to Atherton Place Company for \$763,930 in 1994. The developer also paid a deposit of \$13,930 into escrow with BART to purchase the 14,000 square foot BART Triangle parcel. The principal amount of the Agency's note may also be reduced by 1) up to \$100,000 only, and 2) the amount of any school fees the Agency has agreed to cover, if any. All ad valorem taxes and assessments on the site, if any, and taxes on the agreement were paid by the Agency. All ad valorem taxes and assessments levied for any period commencing upon or after closing for the escrow were paid by the Developer. From the purchase price, \$34,495 was retained in escrow to be used by the Agency for remediation of known hazardous materials on the BART Triangle. The Agency and the Developer agree to fund any additional funds needed in the event that more remediation costs accrue. The Agency is liable for up to \$20,000 and the Developer is liable for up to \$20,000 for any additional remediation costs.

**The Agency's Responsibilities**

- The Agency entered into a purchase and sale agreement with BART to acquire the BART Triangle (Lot 89 of Tract 6716)
- The Agency was required to deposit in escrow a maximum of \$12,000 to pay the following:
  - 1) costs necessary to put the Site in condition for conveyance as required by the provisions of the DDA
  - 2) escrow fees
  - 3) recording fees
  - 4) notary fees
  - 5) ad valorem taxes, if any, upon the Site for any time prior to conveyance of title
  - 6) any applicable State, County, or City documentary transfer tax
  - 7) the premium, including any date downs, for a CLTA (California Land Title Association) standard title insurance owners policy as set forth in section 208 of the DDA, with endorsements as approved by the Agency
  - 8) the costs of an ALTA (American Land Title Association) survey of the Site

- 9) the premium, including any date downs, for an ALTA lender's title insurance policy insuring the Agency's Deed of Trust with endorsements
- 10) the premium, including any date downs, for any title policies with endorsements insuring any Construction Financing Security Interests.

#### Site Clearance and Preparation

The Agency was responsible for performing any work required to remove all known and visible concrete improvements currently existing on the Site, including concrete slabs and foundations, except for existing A/C paving.

#### Off-Site Improvements

The Agency shall try to bury underground the existing overhead utilities along Atherton and D Streets prior to close of escrow. Also any curb, gutter, sidewalk, and street work along Atherton Street side of the Site.

#### **The Developer's Responsibilities**

The Developer deposited \$25,000 with the Redevelopment Agency as a "good faith payment."

#### Taxes and Assessments

The Developer is financially responsible for securing all construction permits, paying all real estate taxes and assessments.

#### Site Clearance and Preparation

The Developer shall perform all work necessary to prepare the Site for construction of the improvements, remove all improvements currently on the Site, and perform any necessary utility relocation, compaction and grading.

#### Off-Site Improvements

The Developer shall construct all necessary off-site improvements, any curb cuts related to the Agency off-site work and storm drains.

#### **Projected Agency Costs**

As of May 1995, the Agency expended approximately \$2,791,567.

Land Purchase Price	\$2,622,768
Relocation costs	N/A
Other pre-development costs	\$56,499 <sup>2</sup>
Interest	<u>\$112,300</u>
Total	\$2,791,567



These costs have been paid from tax increment revenue. The Agency has previously borrowed a portion of the funds used to pay these costs, and there was interest required to be paid by the Agency to the City in connection with these costs.

### **Projected Agency Revenue**

#### Revenue from Sale of Property

Note and Deed of Trust	\$750,000
plus: BART Triangle acquisition	<u>\$13,930</u>
Net Payment to the Agency	\$763,930

The Note is for a term of five (5) years from the conveyance of title to the Developer. The estimated value includes interest for the first 36 months of the note.

### **Agency Revenue**

Net costs equal the difference between projected revenues and costs.

Revenue from Sale of Property	\$763,930
Present value of Future Tax Increment	<u>\$2,518,991</u>
Subtotal	\$3,282,921
Less: Agency Costs to Date	<u>(\$2,791,567)</u>
Net Financial Gain (Projected)	\$491,354

### **RESULTS**

#### **The Redevelopment Agency**

The Redevelopment Agency has successfully achieved its goal of creating high-density housing in the downtown Core Area of Hayward. The Core Area Plan is an inclusive, elaborate plan in which the Downtown/BART Station district will be revitalized through the creation of a strong civic focal point, retail developments, high-density housing, and cultural activities. The creation of Atherton Place on Site I is the first of many elements the Redevelopment Agency is using to give downtown Hayward a new identity.

Although there was no public resistance to the proposed higher density, the Planning Commission had mixed feelings about the proposed density of the project of 30 units per acre. They felt that the density was too high for Hayward but too low to be considered a viable transit oriented development.

The Redevelopment Agency has entered into agreements with Sares-Regis to construct the new Hayward City Hall, another townhouse project of 80 units,

and a rental residential project. All of these projects are near the BART station and Atherton Place on Sites II and III. The City felt that the whole process of developing this project was a learning experience. Being the first in the redevelopment zone, the project required new procedures and officials struggled with the planning, financing, and negotiations, knowing that with the next project the process would be easier.

### **The Developer**

According to the Developer, this project was complex, as most redevelopment projects are. They have no estimate as yet of their return on investment and, according to Mark Kroll, Executive Vice-president of Atherton Place Company, the project has gone over budget, mainly due to increases in prevailing wages for union workers, changes in the lumber market, changing City requirements, and increased redevelopment fees. Only time and profits will tell if this project will encourage this developer to build similar projects.

### **Neighborhood Reaction**

The project won an award at the Pacific Coast Builders Conference in 1996, and the design has been well received by the City and the neighboring community. According to the current property manager, the people living in the Atherton Place development have expressed their happiness with the project. As of November 1996, even though only 35 of the 85 units were completed, 43 were sold and 20 were occupied.

### **ANALYSIS**

The project is successful in that the units are selling well and the design has been well received. This is the first phase of a large downtown redevelopment plan for the City of Hayward, and the success of this development may not be realized until other sites in the Core Plan are completed.

The Redevelopment Agency successfully found a developer who was willing to work within their constraints. Sares-Regis has entered into agreements with the Redevelopment Agency to construct the new City Hall and two residential projects in the Core Area, so it seems a working relationship has developed. Sares-Regis feels that it would be helpful if the City of Hayward's Down Payment Assistance program were given more funding, since the majority of first time home buyers need help with the down payment. They feel that this type of program is important if Hayward hopes to bring market rate residents into the downtown core to live. When a city has a redevelopment zone and has specific plans for a site, they may need to be willing to bend on minor details in order to find and keep a developer for that project.

The most difficult issue for the Redevelopment Agency was change in its upper management in the middle of the project. The change affected the consistency and the efficiency of their relationship with the developer.

The neighborhood is being revitalized, and the current residents are excited about the positive changes. The City's expectations of this project are being met by the developer, and they are very happy with the way the development is turning out.

## **SUMMARY**

Atherton Place in downtown Hayward lies in the Redevelopment Agency's Core Area Redevelopment Zone. The downtown area has deteriorated over the past 40 years due to changing development patterns. In response the Redevelopment Agency created a comprehensive plan for revitalizing the area. Atherton Place is a strictly residential development, built at 25 units per acre. The Hayward BART station lies directly across C Street from the \$12.2 million project. After acquiring the land for \$2,622,768, the Redevelopment Agency issued a RFP to develop this plot of land at a density of at least 30 dwelling units per acre. The Agency identified a developer and entered into an Exclusive Negotiating Agreement in 1988-89, but disagreements created a rift between the Agency and the Developer and finally caused the Exclusive Negotiating Agreement to be canceled.

Interest in developing this lot into high-density residential units on this lot began in the early 1980s. After one failed attempt at a partnership, the Redevelopment Agency bought the property but for some time could not find a developer. Eventually, when the allowed density was changed, Sares-Regis won the bid to develop both Site I, the future location of Atherton Place, and Site III.

The Redevelopment Agency has successfully achieved its goal of creating high-density housing in the downtown Core Area of Hayward. The Core Area Plan is an inclusive, elaborate plan in which the Downtown/BART Station district will be revitalized through the creation of a strong civic focal point, retail developments, high-density housing, and cultural activities. The creation of Atherton Place on Site I is the first of many elements the Redevelopment Agency is using to give downtown Hayward a new identity. The Agency felt that having a quality developer to work with made all the difference in the success of the project. They felt that Sares-Regis has an excellent background of working on projects like this and has the ability to foresee future problems.

The City of Hayward has great hopes for the redeveloped downtown area and

the Atherton Place development is an important part of the expected renaissance of downtown Hayward.

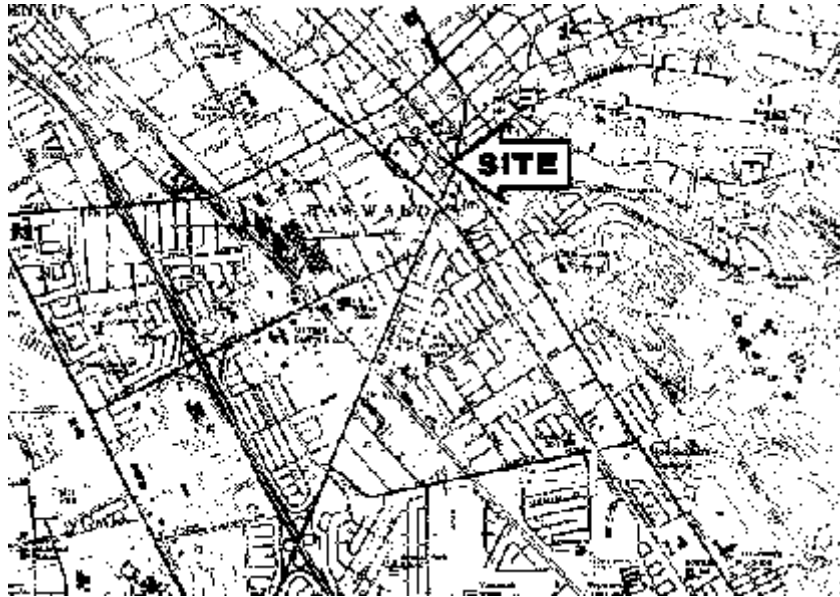
<b>Atherton Place, Hayward, California</b>
Residential townhomes project (83 units) Near BART and Highways 880, 92 and 580 Agencies Involved: City of Hayward Redevelopment Agency, Atherton Place Company

<b>Special Features</b>	
One/two blocks from BART, future city hall, library, and downtown Hayward shopping district	

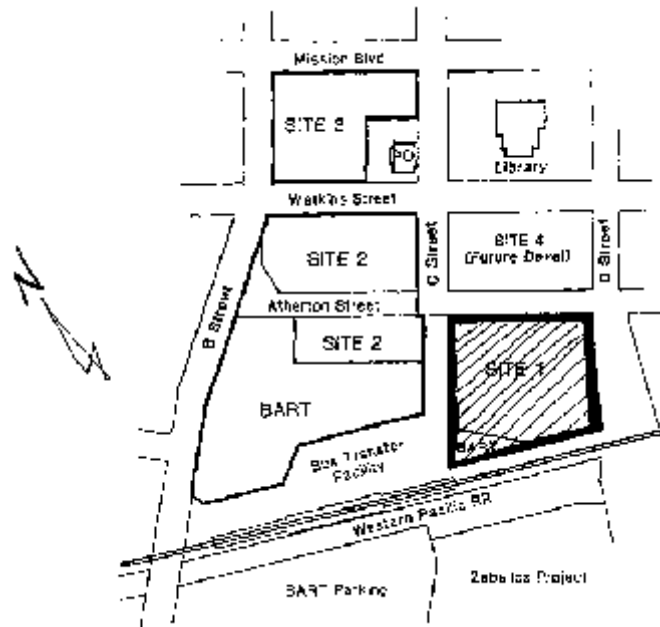
<b>Developer</b>	<b>Architect</b>
Atherton Place Company 393 Vintage Park Drive, #100 Foster City, CA	Seidel/Holtzman San Francisco, CA

<b>Land Use Information</b>		<b>Development Schedule</b>	
<i>Site Area</i>	33 acres	<i>Planning started</i>	1992
<i>Total Dwelling Units</i>	83	<i>Construction started</i>	1995
<i>Gross Density</i>	30 units per acre	<i>Sales/leasing started</i>	1996
<i>Gross Building Area</i>	400,000 sq. ft.		
<i>Number of Stories</i>	2		

<b>Residential Unit Information</b>			
<u>Unit Type</u>	<u>Size (sq.ft.)</u>	<u>Number Built</u>	<u>Market Rate Units</u>
Two bedroom/2 bath	1175	4	\$153,000
Two bedroom/2.5 bath	1095	21	\$155,000
Three bedroom/3 bath	1325	58	\$169,500
Development Total	104,545	83	\$13,698,000



**Figure 3-1 Location of Atherton Place, Hayward, CA**



**Figure 3-2 Plan of Atherton Place**



**Figure 3-3 Atherton Place from the northeast**



**Figure 3-4 Atherton Place from the southeast**

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### Endnotes

<sup>1</sup> The Agency determined the sale price based on the following figures:

Development Revenue or total sales volume	\$13,017,000
minus Development Costs	<u>\$12,253,070</u>
Residual Land Value	\$763,930

<sup>2</sup> The Agency has spent \$11,499 to date with estimated \$10,000 projected for the balance of required demolition work and \$35,000 for site remediation for the BART Triangle to complete site preparation by the Agency.

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## **SEQUOIA STATION**

### **Redwood City, California**

#### **INTRODUCTION**

Sequoia Station is a transit oriented, multi-use development located in Redwood City, San Mateo County, California. Redwood City has a population of 66,000 people and lies approximately thirty miles west of San Jose. The development combines a 178,030 square foot community shopping center (retail, dining and other commercial services) with a multi-modal transit facility center linking CalTrain system and service improvements with new SamTrans bus terminal facilities and services. The project serves as the western gateway to Redwood City's Downtown District. The City's Downtown District is the traditional retail, restaurant, office, banking, civic, cultural and residential activity center, an important location for Sequoia Station, as it provides the critical mass (a high daytime employee population count and level of activity) necessary for its success.

Sequoia Station was developed to satisfy a demand among Redwood City citizens and workers for high quality retail, restaurants, and other commercial services, as well as to encourage the use of public transit. The developer anticipated that the project's transit component and Downtown District location would create a ready market for the development's commercial center. The Redwood City Redevelopment Agency and City expected the project to eliminate blight, increase transit ridership, create a new source of local tax revenue, and help to revitalize the City's struggling Downtown District economy and stimulate downtown redevelopment. These efforts complemented the Downtown Entry Features, Storefront Improvement, and Sidewalk Improvement Programs.

The project's \$31.5 million commercial center was constructed in two phases. Phase I was developed through an agreement between the Redevelopment Agency, the City and the developer, Dave Irmer of Sausalito Equity Interests, Inc., a Marin County based commercial and residential development firm. The Agency and the City agreed to contribute to the developer 1.4 acres of City owned land (valued at \$760,000) and sales taxes from the project for 15 years. The developer agreed to pay for all project site acquisition and development costs. The site's Phase II commercial center expansion did not involve a financial partnership. Safeway purchased the Phase II parcel directly from a private land owner and paid for all development costs.

A separate agreement was required between the developer and the San Mateo

County Transit District (SamTrans), whereby the developer agreed to purchase and lease portions of the site's commercial center land from SamTrans and to build the site's CalTrain/SamTrans subterranean commuter parking garage. The project's new subterranean garage and bus terminal improvements also required a separate financial and land use arrangement between the California Department of Transportation (Caltrans) and SamTrans. Finally, with the exception of the site's depot clock tower improvement and a downtown transit center entry sign, which were paid for with Redevelopment Agency funds, CalTrain was responsible for financing and developing the project's train station improvements.

At the time of these negotiations, Caltrans was running the commuter train line between San Jose and San Francisco. This commuter line, called CalTrain, had been taken over from Southern Pacific Railway in the mid-1980s. In 1987 CalTrain operations were taken over by the Peninsula Corridor Joint Powers Board (JPB) which is comprised of the transportation agencies and local government representatives from San Francisco, San Mateo, and Santa Clara counties.

## **PROJECT CONCEPT**

Since the early 1980s Redwood City's City Manager and Redevelopment Board, which is the City Council, had envisioned the development of an improved and expanded train station (a downtown transportation hub) and a complementary commercial center which would serve as the western gateway into Redwood City's Downtown District. In 1984, Southern Pacific and SamTrans, who owned property within the project site, also had plans for future expansion of the Redwood City train station and intended to use the site's Southern Pacific property as a surface parking lot. Initially Southern Pacific and SamTrans were unable to participate in the development of Sequoia Station because both were undergoing ownership and operational changes. Eventually, however, the Redevelopment Board was able to convince both of them that a surface parking lot was not the best use of their property and that it should be a part of the overall development (*Sequoia Station Project Files, 1988-1996*).

For the Redevelopment Board and Agency, the Sequoia Station project represented an opportunity to transform the project site's 12 acres from its then blighted condition into a vibrant transportation and commercial hub (*Sequoia Files*). The project concept was consistent with the Agency's Centre Area Revitalization Plan policies which promoted the elimination of blight within the Downtown Redevelopment District. The project concept was also

consistent with the City's General Plan Transportation and Land Use policies which promoted development near transit and which encouraged the creation and use of public transportation alternatives. On the other hand, the commercial center did require a zoning variance to allow reduced parking (790 parking stalls were provided where 890 were required). The parking variance was allowed because the project provides transportation facility alternatives (train, bus, and bicycle) and because the project's commercial center is within walking distance of downtown employment centers and nearby development neighborhoods.

From the early 1980s the developer showed an interest in assisting the City with its vision of a downtown multi-modal transit oriented community shopping center. In 1984, the developer received the exclusive right to negotiate (ERN) from the City for the development of the site's commercial component. It was not until the early 1990s with the formation of the new regional transit agency, the Joint Powers Board (JPB), that the site's transit component began to move forward. With determination, persistence, and cooperation between the developer and the Agencies, Sequoia Station has become a reality. Completed in July of 1996, Sequoia Station is now a lively downtown community shopping center and Redwood City's primary downtown transportation hub (*Sequoia Files*).

## **BACKGROUND**

Prior to development of Sequoia Station, the project site was comprised of 15 separate parcels which were owned by Southern Pacific Railroad (SP), Caltrans, Redwood City, and nine private land owners. The Caltrans parcel, bounded by the railroad right of way, James Street, and Redwood Creek, was formerly owned by Southern Pacific Railroad and later by Santa Fe Pacific. The nine privately owned parcels were previously occupied by 22 businesses. In addition, the project's five acre parcel, located north of James Street, was previously in private ownership.

In 1982, Safeway intended to build a new store in Redwood City and purchased two large, vacant, privately owned parcels within the project site for this purpose. After purchasing the parcels, Safeway met with the Redwood City Manager to express an interest in purchasing one of the site's City owned parcels (*Sequoia Files*).

The City Manager rejected Safeway's initial request to purchase the City owned project site parcel, as he envisioned the development of an expanded 12 acre shopping center which would include the two parcels recently

purchased by Safeway. The Redevelopment Agency viewed the 12 acre site of vacant land as “ripe” for redevelopment. The City Manager approached the Redevelopment Board, whose membership is identical to the City Council, with the idea of creating an expanded community shopping center, and the Redevelopment Board agreed to expand the project area for that purpose (*Sequoia Files*).

Meanwhile, Safeway contacted Dave Irmer of Sausalito Equity Interests, Inc. for assistance with the two parcels they purchased within the project site. Irmer entered into a long term option agreement with Safeway for the two parcels subject to obtaining approval from the City to become the developer of the Sequoia Station commercial center (*Irmer, 1996*).

Between 1982 and 1983, prior to receiving from the Redevelopment Agency the exclusive right to negotiate for formal development of the site’s commercial component, the developer worked with the City to determine exactly what the City wanted on the site. The Redevelopment Board had two major objectives: 1) to improve and expand upon the site’s existing CalTrain Station (which borders the site to the east) with a new multi-modal transit facility; and 2) to develop a new commercial shopping center to help stimulate the City’s lagging Downtown District economy. The City and developer also initially explored the possibility of developing a residential component for low to moderate income households and for the elderly. However, the Sequoia Station site was not zoned for residential use, and the City had plans to develop other properties within the downtown and along El Camino Real with residential developments. It was determined that the Sequoia Station site would be developed strictly for use as a multi-modal transit oriented community shopping center (*Sequoia Files*).

## **PHYSICAL FEATURES**

Prior to development of Sequoia Station, the project site was physically and economically blighted. The vacant, underutilized Southern Pacific and Caltrans parcels, bordering the railroad right of way, were not well maintained and were being used for dumping garbage. Redwood Creek was used by indigents for bathing and camping. An Arco gas station on the site’s southeastern boundary was being used as an outdoor repair and storage yard for junked cars.

The land between Franklin Street and El Camino Real also contained vacant parcels, two privately owned and two city owned surface parking lots. James Street, the site’s small retail street, had deteriorated. The VCR repair shop lost

clients when repairs exceeded the cost of new VCRs. The vacant gas station and dry cleaner sites, with their leaking underground storage tanks, contaminated soil, and unknown clean-up costs, failed to attract commercial developers. The site's four residential units, located above the James Street shops, were not built to current health and safety standards. Finally, the site's car dealership property, located at the corner of Jefferson Avenue and El Camino Real, while still considered a viable business, was failing to attract customers. It could not be seen from the freeway. This dealership has since relocated to a site on US Highway 101.

Today, Sequoia Station's commercial center contains a total of 33 shops and restaurants including two anchor tenants: the largest Safeway in Northern California (62,040 sq. ft.) and a Longs Drugs (25,500 sq. ft.). The site also contains multiple restaurants, specialty services, and professional offices: Max's Cafe, Fresh Choice Restaurant, Starbucks Coffee Shop, Noah's Bagels, Una Mas Taqueria, See's Candy, Blockbuster Music and Video, and a Barnes and Noble Bookstore. In addition, a new wing of stores, including an Old Navy Clothing Co. and a Johnny Rockets malt shop, were added to the site's Phase II parcel in 1996.

The Sequoia Station site is approximately 17.43 acres in overall size with a total gross leasable area of 178,030 square feet and a combined total of 1,265 parking stalls. The site's 10.43 acre Phase I property contains 123,390 square feet of retail space, 23,940 square feet of office/service space, 14,700 square feet of restaurant space, and a 670 stall surface parking lot. Caltrans also purchased a five acre parcel north of James Street for the new SamTrans bus terminal and a new 160 stall surface commuter parking lot. SamTrans developed a 2.44 acre, 315 stall subterranean commuter parking garage on the site's Phase I property. The project's 1.96 acre Phase II commercial center expansion parcel is comprised of 10,000 square feet of retail and 6,000 square feet of restaurant space with a 120 stall surface parking lot.

The commercial center which includes both Phase I and Phase II is rectangular and covers an entire city block. The project's buildings lie along the site's perimeter with surface parking for 790 cars located within the development's center. The site is bordered to the east by the CalTrain Station. An open air plaza serves as the primary link or transition between the train depot and the shopping center. Bus and auto access to the site is from El Camino Real to the west, Jefferson Avenue to the south, and James Street to the north.

The project's subsurface commuter parking garage is located on the northeastern portion of the site with access on James Avenue. The separate

five acre parcel, located just north of the Sequoia Station commercial center, contains the SamTrans bus transit center area and the CalTrain parking lot. Access to the parking area is provided from James Avenue and California Street.

Sequoia Station has three pedestrian entrances. To the east, from the CalTrain station, one enters through a shopping area with several pleasant outdoor restaurants. There is also an elevator to the underground parking garage.

The second entrance to the plaza from downtown and the western residential neighborhoods is on the southwestern corner of Jefferson Avenue and El Camino Real. This has a forty foot tower, the center's focal point, stucco bollards with wrought iron fencing, benches, and plants.

The third entrance is from the north. This CalTrain/SamTrans transit center entrance can be accessed from Broadway, one of two major downtown district retail streets, through an arch. Like the other two entrances, this one has decorative paving, benches, landscaping, and old-fashioned light standards like those along Broadway Street.

Pedestrians can also enter the Sequoia Station development from the City's downtown business district (located just east of the site via three informal pedestrian rail crossings: one is located next to the CalTrain depot and the two others are to the north, off Broadway and Winslow Street. The first rail crossing leads directly to the heart of the commercial center. The other two crossings lead to the site's SamTrans bus terminal and CalTrain train depot. Pedestrians can also enter Sequoia Station from various points along Jefferson Avenue (south), James Street (north) and El Camino Real (west).

## **THE PARTNERS AND PARTICIPANTS**

### **Developer**

The developer's short term objectives were to satisfy Safeway's desire for a new store and to satisfy the Redevelopment Board's desire for the multi-modal transit oriented community shopping center development. The developer was initially responsible for financing and building the center's commercial component, south of James Street. Under a separate agreement, the developer was responsible for building the site's subterranean parking garage, and SamTrans was responsible for financing the garage (*Irmer, 1996*). The developer attempted to purchase the site's Phase II parcel, but the owner initially refused to sell the property, and so the developer and the city decided to postpone pursuit of this parcel (*Irmer, 1996*).

The developer's long term objective was to see the project come to fruition: a successful commercial center and multi-modal transit facility which would generate profits and fulfill the community's need for quality retail services. The developer and the City also felt that the site's Phase II parcel would contribute significantly to the project's overall aesthetics, providing the project with an important focal point in the formal pedestrian entrance on the west side. This parcel was eventually needed to alleviate parking problems within the site's Phase I commercial center and has enabled the development of additional retail and restaurant services (*Sequoia Files*).

Between April 1990 and March 1992 the developer tried to find financing for construction of the Sequoia Station project. At that time, California was in an economic recession and traditional lenders were not lending money. After 12 months of searching for financing without success, the developer, to provide additional security to a lender, was able to convince Safeway and Longs Drugs Store to guarantee 80% of the site's construction loan. This was a first for both companies. Even with this guarantee, the developer still could not obtain financing. Finally, in the spring of 1992, Safeway decided to finance the entire commercial center project themselves; another first for that company.

With Safeway as the new commercial center owner, the developer signed a Development Contract with Safeway to develop, construct, and lease the project's commercial center properties, including the site's Phase II commercial center improvements. (*Irmer, 1996*).

### **Safeway**

Safeway initially planned to sell the two parcels they purchased within the project site to the developer in exchange for an assurance that the developer would build a new Safeway store within the expanded community shopping center. However, as previously mentioned, Safeway ultimately purchased the entire commercial center (*Irmer, 1996*).

### **Public Agencies**

The short term objectives of each of the public agencies were to contribute, acquire, or deed parcels to the development and to assemble the parcels needed for the project. The City's Redevelopment Agency sought to work with Caltrans to upgrade Redwood City's train station (*Planning Analysis, 1989*).

The long term objective of the Redevelopment Agency was to implement the City's Centre Area Redevelopment Plan. The development was expected to, and did, generate 562 net new jobs, revitalize a blighted area, and serve as a



gateway to the struggling downtown district. The Redevelopment Board, which is the City Council, also hoped to stimulate greater use of public transit by developing a downtown multi-modal transit hub (*Planning Analysis, 1989*).

Since its formation in 1987, the Joint Powers Board has sought to purchase CalTrain station properties and to assume local responsibility for CalTrain rail line operations. Today, the JPB operates Sequoia Station's transit facilities, but Caltrans currently holds title to the Redwood City CalTrain station. The transit facilities are in the process of being transferred from State (Caltrans) ownership to the JPB (*Peninsula Corridor, 1995*).

CalTrain and SamTrans, which is the administrative arm of the JPB, expected the Sequoia Station project to increase transit ridership and to enhance their station property values.

## **DETAILS OF THE NEGOTIATIONS**

### **Transit Component Development Agreement**

Prior to the creation of the JPB, the Redevelopment Agency and developer had discussions with SamTrans, and they agreed to a Disposition and Development Agreement (DDA) that included the following (*DDA, 1990*):

1. SamTrans would purchase the SP land lying between the creek and Jefferson Avenue and agreed to pay for the construction of a 315 space underground parking structure.
2. The developer would purchase the SP land not needed for the underground structure from SamTrans and would build the parking structure for a fixed cost.
3. The end product would be a specialized "vertical subdivision" with SamTrans owning the underground parking structure and the developer owning the surrounding land and the surface rights above the garage where the commercial center would be developed.

### **Transit Component Development Arrangement**

Meanwhile, discussions had been continuing between the Redevelopment Agency and Caltrans over the reconstruction of the Redwood City train station. Redwood City's train depot had burned down a decade earlier and was never rebuilt.

Caltrans agreed to give SamTrans the Redwood City project site property, to pay for the train station improvements, and to design the site's new transit

facilities in harmony with the shopping center and the old depot building (*Sequoia Files*).

## **FINAL AGREEMENT AND CONTRACTS**

### **DDA Commercial Component**

By 1990, the JPB and Caltrans were committed to the Sequoia Station project, so the developer and Redevelopment Agency were able to begin the commercial center DDA negotiation process. In April 1991, after 14 months of negotiation, the developer and the City signed the DDA. In essence, the developer would provide the Agency with a letter of credit for \$4,300,000. That was the estimated cost to the Agency for the acquisition of the parcels. Payment was for the following cost categories (*DDA, 1990*):

- Real Property (including all site toxic remediation cost and creek relocation costs)
- Fixtures and Equipment
- Relocation Consultant
- Goodwill and Relocation Costs
- Condemnation Attorney
- Title/Escrow Costs
- Court Costs
- Agency Attorney

In exchange for the developer agreeing to pay for all up-front project costs, the City, through the Redevelopment Agency, agreed to contribute two parcels of land it owned within the project site to the developer at no charge. The land totaled roughly 1.4 acres and was valued at \$760,000.

The Redevelopment Agency also agreed to provide subsidy payments to the developer of up to \$300,000 per year for a maximum of 15 years made up of a property tax increment added to the project. If the property tax increment did not reach \$300,000, the City agreed to contribute up to 50% of the sales tax increment added by the project. If these two sources did not produce \$300,000 in any one year, the deficiency would not carry over to subsequent years.

The subsidy was to terminate before 15 years if either of two conditions occurred: 1) if the Net Operating Income (project's total income minus certain defined operating costs) reached 15% of the total project costs, or 2) if the

project sold and the developer realized a 15% internal rate of return on total project costs.

Both parties to the agreement felt reasonably comfortable with the site acquisition costs, except for relocation and goodwill expenses. Review of other projects indicated wide variability in these costs. Ultimately, the Agency agreed to share up to twenty per cent of the costs that exceeded the budget estimates. In the final analysis, relocation and goodwill costs did not exceed original budget estimates.

The developer and the Agency found it difficult to assign responsibilities for the site's toxic remediation costs. Ultimately, the developer agreed to cover this cost up to \$1,309,599 (*Sequoia Files*).

**First DDA Amendment: Safeway Ownership (March, 1992)**

Due to California's economic recession and the developer's inability to obtain project financing, Safeway decided to purchase the entire commercial center and asked for the following changes to the DDA (*Sequoia Files*):

1. Sausalito Equity Interest, Inc. was asked to assign its interest in the DDA to Safeway.
2. The predevelopment site analysis indicated that four project site parcels were contaminated. The developer was aware, from other projects they had developed, that the cost to clean up sites could exceed the land value and that clean up estimates always seemed to be lower than actual costs. The Agency acknowledged that the project could not absorb an unlimited amount of clean up costs and the parties agreed that if the site's toxic remediation problems exceeded \$1,309,599 the Agency would meet and confer before the developer exercised its right to terminate the deal. If no decision was made to terminate, the parties would each be responsible for half the remediation costs that exceeded the \$1,309,599. To date, site remediation is ongoing but the \$1,309,599 threshold has not yet been exceeded.
3. The DDA subsidy provisions were changed to guarantee that the developer would receive a \$300,000 subsidy for 15 years from the government agencies rather than terminating this subsidy at sale or when profits reached given thresholds. In exchange the Redevelopment Board insisted that the development contain one bookstore of 10,000 square feet or more in size and two restaurants with combined tenant improvements in excess of \$875,000. If the developer was unable to get a bookstore or restaurants, the subsidy

would terminate in 12 instead of 15 years. The developer was able to meet this obligation.

4. In March 1992, the developer received the Letter of Credit from Safeway, which enabled the Agency to begin property acquisitions. The entire process involved the acquisition of nine privately owned parcels and the relocation of 22 businesses and four residential tenants. The Agency duties under the DDA were completed ahead of schedule, before mid-1993, and \$375,000 under budget.

#### **Second DDA Amendment: Redwood Creek (November, 1992)**

The Second Amendment to the DDA established the developer's responsibility for mitigation in the amount of \$165,000. The mitigation was required by the Corps of Engineers in order to culvert and realign Redwood Creek (*Sequoia Files*).

#### **Third DDA Amendment: Original DDA and Phase II (June 1995)**

The Third Amendment to the DDA did not alter the original DDA. It only provided for issuance of the Certificate of Completion for Phase I and summarized continuing obligations. These obligations included the Agency's and the City's obligation to make subsidy payments of up to \$300,000 per year for 15 years and the developer's obligation to complete the toxic remediation of the site. The Third Amendment also defined the total remediation costs for both parties, with deadlines, to preclude later disputes which resulted in a few technical amendments to the Certificate of Completion.

The Third DDA Amendment also covered the project's Phase II commercial expansion parcel, the auto dealership at the corner of El Camino Real and Jefferson Avenue. The Agency's only commitment in this DDA was to agree to use its power of eminent domain to acquire the parcel, if an agreement between the property owner and developer on behalf of Safeway could not be reached. The Agency had no obligation to provide subsidies to Safeway under this agreement. As it turned out, the property owner preferred to sell the auto dealership parcel directly to Safeway.

The developer, on behalf of Safeway, also requested an amendment to the City's adopted Phase II Specific Plan which resulted in a smaller retail area than originally proposed because of a need for more parking. The Specific Plan called for two retail buildings totaling 25,000 square feet in size. As amended, only one 16,000 square foot retail building was developed on the site (*Sequoia Files*).

### **Additional Negotiation Details**

#### Redevelopment Agency/Developer

As previously mentioned, the Agency's long term land use objective was to eliminate blight and carry out the policies of the Centre Area Redevelopment Plan (*Hall, 1985*). The Agency accomplished this objective and fulfilled its obligation under the partnership by using its redevelopment powers to acquire, assemble, and transfer the nine privately owned parcels (occupied by 22 businesses) within the project site to the developer. The Agency also agreed to contribute, without reimbursement, the cost of their officers and employees both during and after the execution of the DDA.

The Agency also assisted in the relocation of businesses, households, and a church. The Agency placed four families from the project site within a new City sponsored low and moderate income housing development (*Sequoia Files*).

To further the project's traffic circulation improvements, the Agency agreed to pay for plan review and inspection costs related to the state right of way and for construction costs related to signal modifications on El Camino Real and Franklin Street at Jefferson Avenue. These improvements are along the site's southern border, adjacent to the site's Phase II parcel. The Agency agreed to finance the development of the CalTrain Station depot clock tower and a downtown district entry sign next to the northern plaza entrance (*Sequoia Files*).

#### City/Developer

To further the project and fulfill its partnership obligations, the City expedited the permit approval process for the developer. The City approved a parking variance and, at no charge to the developer, prepared a Specific Plan for Phase II of the commercial center expansion improvements.

At the request of the developer, on behalf of Safeway, the City also allowed the Phase II commercial center plans to be modified to provide additional parking. Modifications to the Phase II Specific Plan included the loss of 9,000 square feet of retail space, the development of a smaller entry plaza area, and a less elaborate entry tower (*Sequoia Files*).

#### CalTrain and SamTrans

To further the development's multi-modal transit component, Caltrans financed the development of the new train station improvements. At the City's request, Caltrans agreed to formalize two of the site's three existing informal pedestrian rail crossings between the City's central business district and

Sequoia Station, including safety cross bars and access for disabled persons (*Church, 1996*).

Caltrans also contributed the parcel north of the creek to SamTrans to enable the development of the subterranean commuter parking garage. Caltrans purchased five acres of land north of James Street from a private party to enable the development of the site's bus terminal and the parking lot.

SamTrans paid for the construction of the site's subterranean parking garage, five passenger bus shelters, and other bus terminal improvements. At the City's request, SamTrans and Caltrans agreed to coordinate the design of the project's transit improvements with the design of the commercial center.

#### Developer and SamTrans

The developer also financed several SamTrans subterranean parking garage improvements to the project's commercial center. These improvements include the painting of the garage to make it more attractive and bright, providing an improved garage lighting system for safety, and installing an elevator from the SamTrans garage to the commercial center (*Irmer, 1996*).

#### The Developer and the City

The City required several design changes to the commercial center to provide shoppers a place to gather, rest, dine, and socialize, and required landscaping at the three entry plazas (*Irmer, 1996*). Portions of the commercial center's eastern building elevation were modified and stepped back from the property line to break up its linear appearance. Different colored shop awnings provided individual business identification. The City required a new bus stop on El Camino Real and the resurfacing of James Street to carry the heavier weight of bus traffic from El Camino Real to the bus terminal (*Irmer, 1996*).

#### Safeway

Safeway also agreed to contribute a portion of the site's Phase II land to the City to provide a right turn lane from Jefferson Avenue. It was initially anticipated that El Camino Real would provide the primary vehicular entrance into the center but, as it turned out, Jefferson Avenue has become the preferred vehicular entrance. This new turn lane helps to reduce traffic congestion at the corner of Jefferson Avenue and El Camino Real (*Irmer, 1996*).

## **RESULTS**

The Sequoia Station center initially generated some resistance from central

downtown business owners and lessee who feared that the new commercial center might draw customers away. According to the Redevelopment Director, the biggest problem facing central downtown Redwood City is the public's preference for the conveniences offered by larger shopping mall complexes. One is the Hillsdale Shopping Mall in San Mateo. Another is the Stanford Shopping Center in Palo Alto (*Church, 1996*).

The Redevelopment Director believes that downtown businesses may be hurting because most of the shops are leased and the landlords refuse to upgrade the appearance of the shops even with matching funds available through the Agency's "Storefront Improvement Program." In other instances, there appears to be a lack of market demand for the goods and services offered by some downtown businesses. "Today, the downtown restaurants and antique shops appear to be prospering the most" (*Church, 1996*). Many of these businesses have benefited from the Agency's Storefront Improvement Program.

The city continues to invest money through downtown improvement programs. Two new high-density residential developments will also be developed downtown in 1997 and 1998 (the Civic Center Plaza and Franklin Neighborhood residential developments), which should help to support downtown business (*Church, 1996*).

The City required that the Sequoia Station design complement downtown commercial and residential buildings. The center's design compliments the old Quang Lee Building, Redwood City's oldest commercial structure. In keeping with the older design, the residential structures use wood frame construction, shiplap and stucco siding, paned windows, and terraced and gabled roofs. The buildings are low, one or one and a half stories, and well landscaped.

The City also wanted to ensure easy foot passage between Sequoia Station and the City's downtown district. Sidewalks provide access along the site's western, northern, and southern borders. The City also negotiated with Caltrans for three informal pedestrian rail crossings to facilitate the flow of downtown pedestrian traffic to the center. One rail crossing leads directly to the commercial center; the other two crossings lead to the site's SamTrans bus terminal and CalTrain rail depot facilities. At the City's request, Caltrans has committed to formalizing two of the site's three existing pedestrian rail crossings to provide an even stronger link between the Sequoia Station project and the City's central downtown business district. At the time of this writing, the two formal rail crossings have not yet been installed by Caltrans, but are expected to be built in early 1997.

This project offers transportation alternatives: train and bus services and bicycle and auto parking. The Redevelopment Board and the developer recognize that the automobile is still the public's preferred transportation, but they hope the new transit hub will entice people to use public transit, or at least reduce the need for a second or third car.

Based on Sequoia Station's high level of traffic both night and day, it is fair to say that this transit based project is popular with the community. According to the city staff, feedback from citizens regarding Sequoia Station has been very positive (*Riordan, 1996*). The developer's company has also received many letters of thanks and congratulations for the Sequoia Station project. According to Irmer, "the community has received the center as their own" (*Irmer, 1996*).

Sequoia Station offers residents, workers, and visitors a popular, quality community shopping center and an attractive, convenient, downtown transportation hub. The project has also spurred private upgrading and redevelopment of many surrounding downtown commercial properties and others along El Camino Real (*Church, 1996*).

## ANALYSIS

### Transit Based Multi-Modal Facility

During the ten year history of the Sequoia Station project, there were many false starts. In the beginning, it appeared that the Redevelopment Board's objective to develop a transit oriented commercial center was in conflict with the various owners and with the transit agency's operations on the site. To the Agency and the developers it appeared that Caltrans saw the shopping center as an annoying complexity rather than as an opportunity. By 1986, they had lost hope that Caltrans would participate in the project. The Board considered breaking off negotiations with the developer (*Sequoia Files*). Negotiations were not broken off but between 1985 and 1990 the Agency and the developer found it very difficult to determine who best to talk to about the transit agency properties.

In 1979, even before the Sequoia Station project, the Southern Pacific Railroad Company (SP) had announced plans to close down the San Mateo County rail line because of falling revenues. At that time, the state stepped in and began to share funding responsibilities with SP. In 1980, Caltrans assumed responsibility for station acquisitions and capital improvements and agreed to manage passenger operations, while SP assumed responsibility only for the system's freight operations. At this time, Caltrans renamed the rail



service CalTrain (*Bay Area Transportation News and Analysis, 1994*).

By 1984 the transit agencies had plans for the future expansion of Redwood City's train station, intending to use Southern Pacific's property as a parking lot. An improved train station was also an important objective of the Redevelopment Board. The Board told Caltrans of their interest in developing a transit oriented shopping center and that it did not regard surface parking as the best use of the property (*Sequoia Files*). At that time, the concept of a joint public/private partnership to develop a shopping center combined with transit facilities was a new and uncomfortable idea for Caltrans.

The Southern Pacific Railroad Company broke up and began selling its land to Caltrans. In 1986 Santa Fe Pacific purchased the Redwood City station property north of Redwood Creek (bounded by the creek, James Street, and the railroad tracks), while Southern Pacific kept the rest of their Redwood City parcels (from the creek south to Jefferson Avenue) (*Sequoia Files*).

Caltrans eventually expressed an interest in purchasing the Santa Fe project site parcel. The disposition of the Santa Fe property in Redwood City was heavily influenced by events in San Francisco. Santa Fe attempted to use its ownership of the Redwood City station site property as negotiation leverage with Caltrans and the City of San Francisco over the planned San Francisco Mission Bay Project. Caltrans owned land south of Market Street in San Francisco which Santa Fe wanted in order to complete the proposed rail line extension to San Francisco's Mission Bay site.

Santa Fe eventually agreed to sell the Redwood City property to Caltrans. However, while Caltrans was in the process of buying the property, the Governor declared that the state would be getting out of the CalTrain system operation by 1990 (*Sequoia Files*). Senator Quentin Kopp claimed they were paying Southern Pacific too much for the right of way, and some individuals at the state level were convinced that BART was the only viable transit system for the San Francisco Peninsula (*Bay Area Transportation News, 1994*).

The Governor's action caused Caltrans to lose interest in the proposed Sequoia Station project (*Church, 1996*), but by 1989 Caltrans had acquired title to the Santa Fe property in Redwood City.

As the state deadline for withdrawing from the CalTrain operation approached, the local transit agencies of San Mateo, San Francisco and Santa Clara counties began talks that would eventually lead to the creation of the Peninsula Corridor Joint Powers Board (JPB) (*Sequoia Files*). In 1987, the JPB took control of the CalTrain system. In December 1991, the JPB

purchased the right of way from SP. They assumed operational responsibilities for CalTrain in mid-1992. The JPB assumed one hundred percent of the operating subsidy one year later (*Peninsula Corridor, 1995*). It should be mentioned that while Caltrans was beginning to move away from operating the CalTrain system, they continued to maintain oversight responsibilities for site design and construction operations of the station (*Peninsula Corridor, 1991*).

It was not until 1990 that Caltrans agreed to give SamTrans the site north of the creek for the project's underground parking garage. Southern Pacific, by this time, had agreed to sell its land to SamTrans.

### **Public Agency Procedural Inefficiencies/Efficiencies**

According to the developer, "in terms of time, cost, and man hours involved, the Sequoia Station project was the most complex and difficult development" he had "ever built." (*Irmer, 1996*). He added that, "The greatest development challenges came as a result of having too many state and federal agencies involved" (*Irmer, 1996*).

### **Southern Pacific and Caltrans**

Due to SP's and Caltrans lack of commitment to the Sequoia Station project, the developer tried twice to get out of the Development Agreement with the Redevelopment Agency but was convinced to stay by the Redevelopment Board and the City Manager. On one occasion, the Redevelopment Board considered terminating the project partnership for the same frustration with state and federal bureaucracies. For several years the developer and the City tried without success to convince Caltrans to enter into a public/private partnership for the transit facility. Failing this, they tried to persuade Caltrans to contribute their site parcel to SamTrans for a subterranean parking garage under the center. According to the developer, it took Caltrans a long time to decide what they wanted to do with their parcel and how much they wanted to contribute to the transit improvements. Eventually Caltrans did contribute their site to SamTrans but only for exclusive use by the SamTrans and CalTrain transit systems. No underground parking was provided for the commercial center.

The developer and SamTrans had hoped to purchase the Southern Pacific property, but they were unable to negotiate a reasonable price and the Redevelopment Agency did not have the power to condemn the property for transfer to the developer. SP did not enter into a public/private partnership, but it did sell the land to SamTrans.

It was not until 1990 that the developer and SamTrans agreed to develop the

underground parking garage and the commercial center. SamTrans contributed the money for the garage, and the developer agreed to build the garage and to assume all over budget costs. The garage was built under budget.

Caltrans began upgrading the train station at the same time that SamTrans began to construct their subterranean parking garage. The train station was not completed until a year after the garage. Currently the developer is working with Caltrans to install a new right turn lane along the commercial center's southern border. According to Irmer, plans for the turn lane were submitted to Caltrans in November of 1995 but one year later the permit had not yet been issued by Caltrans.

### **Army Corps of Engineers**

Part of the agreement called for the realignment of Redwood Creek and the culverts. The developer paid for a wetland enhancement project as mitigation for the work on the creek. According to the developer, the Redevelopment Agency pushed the Corps of Engineers to process the required EIRs and clearances quickly as they were causing delays that added to the cost of the project (*Irmer, 1996*).

### **Local Government Agencies**

In contrast, the developer expressed his overall satisfaction with the local government process and stressed the importance of having a good working relationship with the Redevelopment Agency and the City. According to the developer, his "partnership with the Redevelopment Agency and the City made the Sequoia Station development happen; without this partnership the development would never have been built." "The early coordination between the developer, the City Manager and the Redevelopment Board and its Steering Committee went extremely well. Without the commitment to condemnation of the properties required, we would not have had the center as we now know it."

Irmer goes on to say,

The Redevelopment Director, City Attorney, and Planning Director made all the difference in the process. These people were on board with the plan and were helpful and encouraging throughout the process. The Redevelopment Director was the "City Partner" without whom we could not have succeeded (*Irmer, 1996*).

In addition,

Planning was simply the best I have ever encountered at any City. The Planning Director and staff treated the developer as a team member, giving help wherever and whenever necessary. What was truly impressive was their public stand relative to the project. They would fight for our position so long as the position was one we all agreed to (*Irmer, 1996*).

The Building Department staff also made the difference between getting the project started ahead of weather and being bogged down in red tape. Their staff was as good and professional as one could ask for. I have never been refused a meeting on a tough question, nor have we ever experienced a negative response. There was a great deal of good faith on both sides, and it was never abused (*Irmer, 1996*).

In addition,

The City Manager was of enormous help with Phase II. Although Phase II (the former auto dealership parcel) was strictly a private undertaking, it was the City Manager's assistance that kept us on track and moving in the right direction. He was most helpful in giving me a "read" on the political position of the Council and Board relative to redevelopment and the condemnation process (*Irmer, 1996*).

However, the developer further asserted that

We should have included Phase II into the project's first phase and politics be damned. It cost the developer (Safeway) over \$1 million dollars for this refusal to add the Phase II property to the initial development (*Irmer, 1996*).

In addition, the developer expressed his dissatisfaction with the City's Engineering Division. According to Irmer, "Engineering was a real chore. There were stumbling blocks all along the process that were simply not necessary" (*Irmer, 1996*).

### **Existing Site Conditions**

Four properties within the development site contained contaminated soil and/or ground water (the Arco Station on Jefferson Avenue, the SP property, and the dry cleaner and car dealership parcels). In late 1996, the developer was still attempting to obtain environmental clearance from the San Mateo County Environmental Health Department for project site ground water toxin clean up work. According to the developer, the on-going remediation of these properties caused significant time delays and may continue to add to project

costs (*Irmer, 1996*).

Furthermore, the SP properties contained fiber optic cable that fed the entire San Mateo Peninsula. Relocating these cables took two years (*Irmer, 1996*).

### **Market and Economic Forces**

The project site was located in a blighted area of Redwood City's Downtown District. This fact, along with Redwood City's previous reputation with retailers, made it difficult to find quality retailers to lease the commercial center shops (*Irmer, 1996*).

The final blow to the developer, however, was California's economic recession (1989 to 1992) and the resulting local bank loan crisis. The developer looked for financing, but the banks were not lending money for real estate or construction. Ultimately Safeway purchased the entire commercial center.

In 1991, with Safeway financing, the Redevelopment Agency began property acquisition. The developer had leased 70% of the proposed commercial center (*Irmer, 1996*). In 1992, construction of the underground garage began, as did property demolition. Once environmental clearances were obtained from the Corps of Engineers, it took only four months to realign and culvert Redwood Creek. In 1993, the first commercial center tenant, Fresh Choice, opened their doors for business, followed by Safeway, Longs, and a Barnes and Nobles book store. Full center occupancy occurred by late-1994. The multi-modal transit facility was completed (for the most part) by late 1995 and the Phase II commercial spaces were fully occupied by July of 1996.

### **Financial Success**

#### Percent of Space Leased

Today, the Sequoia Station commercial center is 100% leased and "every tenant is doing well" (*Irmer, 1996*).

#### Developer's Opinion of Future Returns on Investment

In spite of the retail center's success, the developer gained only a marginal return on his investment because of the time involved and the site's high land costs (including toxic clean up costs). According to Irmer, "a developer attempts to maximize his return on total investment. With retail centers in California this return is generally 12% on total cash invested." (*Irmer, 1996*) Sausalito Equity Interest, Inc., the developer's company, will not keep projects unless they can get a 12% rate of return. Banks require the developer

to put more equity in the development if a 12% rate of return cannot be achieved.

The Sequoia Station project generated slightly under a 12% rate of return, so the developer decided to sell his interest in the center to Safeway. Irmer believes that in one to three years the center will reach a 12% return and will eventually exceed this amount. "The Center should appreciate since there is little competition to Sequoia Station in nearby Peninsula communities" (*Irmer, 1996*).

#### Agency's Opinion of Future Returns on Investment

Financial benefits to the Agency from Sequoia Station will not be realized until after the year 2010 because of the Agency's DDA commitment to contribute property tax increment from the project to the developer for fifteen years. According to the City's Redevelopment Director, "the Agency's primary interest in the Sequoia Station project was to eliminate blight; any future revenue generated from the project will be considered a secondary benefit" (*Church, 1996*).

#### Project Budget and Financial Standing Upon Completion

The Redevelopment Director had the following to say about the project's budget: the site's "property acquisitions were completed under budget and under the anticipated time line" (*Church, 1996*).

According to the developer, the commercial center was completed on budget but required the use of his 5% contingency monies to pay for unexpected development costs. The SamTrans garage however was built ahead of schedule and under budget (*Irmer, 1996*).

With respect to the project's financial standing, Irmer had the following to say:

On total invested capital, Safeway is in excellent financial standing since they did not have to obtain a loan; rather they were able to pay for the entire Sequoia Station commercial center in cash (*Irmer, 1996*).

#### **Future Possibilities**

##### Developer

The developer voiced his frustration with the difficulties and complexities of the Sequoia Station development process. However, he stated that this project provided him with the "highest level of satisfaction." With the experience he has gained and with the success of the Sequoia Station retail center, the

developer has indicated that he is very interested in pursuing other partnerships. "Our experience in Redwood City has taught us a great deal about the process and we feel this knowledge makes us an outstanding partner with redevelopment agencies." He cautions, however, about the time commitment involved and the capital required prior to development approvals.

Redevelopment undertakings are a unique development experience for the private sector developer. One must look to the redevelopment process as a partnership, with the City and Agency working closely with all staff levels to undertake the goals of the project and see them through to a successful conclusion. As in any partnership, all parties involved must work together for the common good. City staff are not always accustomed to this position. It is important to have your City Manager, Redevelopment Agency Director, and Community Development staff committed to the development plan, and understand the challenges the private sector may exact from the undertaking. There are time delays coming from both sides, and this must be understood and worked with politically and practically (*Irmer, 1996*).

#### Safeway

In the May 6, 1993 edition of the *San Mateo County Peninsula Quarterly*, Safeway's development consultant, Gary Ward, indicated that he believes the chance for Safeway to invest in building its own store will pay off in the long run. He further asserted that Safeway's purchase of the Sequoia Station commercial center gives Safeway a good image by showing every one that the company is a player and wants to participate in growth. According to Ward, "Safeway is already eyeing other opportunities" in the Bay Area (*Delollis, 1993*).

Since that newspaper article was written, however, Safeway has decided to get out of the shopping center business and has decided to subdivide Sequoia Station commercial center into three parcels. Safeway will continue to own and operate the Redwood City Safeway store, but intends to eventually sell off the center's two remaining parcels (*Safeway, 1996*).

#### City

Like the developer, the Agency and City indicated an interest in pursuing other partnerships (*Church, 1996*). In 1995, the City approved the Civic Center Plaza project which will be located adjacent to the new City Hall

building (*Civic Center Plaza File, 1995*). In 1994 the City Council adopted an *Area Plan* and certified the Final Environmental Impact Report (EIR) for the proposed twenty-five acre Franklin Street High-density Residential Neighborhood Development (*LCP, 1994 and 1995*). According to the Redevelopment Director, the City is also exploring the development potential of another site located between the CalTrain rail line and Perry Street in downtown Redwood City (*Church, 1996*).

### **Domino Effects**

Even though the developer did not receive the rate of return he expected from his investment, the success of Sequoia Station as a retail center has given Irmer increased recognition in the development community and with other Bay Area cities interested in pursuing transit oriented developments. "The Sequoia Station development has created a special interest from other cities to have similar developments built within their communities" (*Irmer, 1996*). For example, Redwood City has given Dave Irmer the exclusive right to negotiate for development of the Perry Street site. The City of San Leandro has asked Irmer to develop a transit oriented project near their BART Station. The developer also has been given the exclusive right to negotiate for development of all remaining rail line properties within San Mateo County.

According to the developer,

The lesson learned (from the Sequoia Station project) is that private/public interests can indeed come together and create projects for the greater good of the community being served. It takes leadership, dedication to the challenge at hand, trust, and commitment. These are lofty goals, very much attainable when the parties involved take time to understand one another and totally commit to the goal. I was most grateful for the City's (Redwood City) participation in the planning and entitlement process. It worked exceptionally well throughout (from 1983 to date) the process. Too many times government is there to confuse the issue, acting as a road-block to the problem instead of being a part of the solution. This simple and very upsetting situation must be addressed first before the Sequoia Stations of the world can be created (*Irmer, 1996*).

### **SUMMARY**

The stumbling blocks to Redwood City's Sequoia Station development were many. According to the developer, Sequoia Station's development challenges



included:

- delayed transit agency commitment to the transit oriented concept;
- procedural inefficiencies by public agencies, primarily state and federal, which caused unnecessary delays and added to project costs;
- unreasonably high land costs, specifically, the Southern Pacific and Phase II commercial center properties;
- development site difficulties and unanticipated expenses (the required relocation of fiber optic cables, the need to mitigate for the culverting and relocation of Redwood Creek, and ongoing toxic soil and ground water remediation costs);
- unfavorable local market conditions, specifically the site's blighted condition and the City's struggling downtown business district reputation;
- and, the final blow to the developer, California's 1989 to 1992 recession and consequent bank loan crisis.

While some of the development obstacles to Sequoia Station project could have been avoided, others could not. Nothing could have been done to avert the economic recession, but that obstacle precluded the developer from obtaining financing. Had it not been for Safeway's financing Sequoia Station, the project might not have been built during those recessionary years.

At that time the Agency, the City, and the developer agreed to work as partners in the project, but Southern Pacific, Caltrans, and the JPB were restructuring and agreement between the two groups was delayed by six years. With their restructuring completed, the transit agencies should no longer hamper future transit oriented projects.

Even after the transit agencies' restructuring, Caltrans did not appear to be committed to the project. Caltrans personnel were often inaccessible and there were lengthy permit processing delays. Certain Caltrans improvements, like the rail line safety cross bars and disability access improvements, are still not completed.

Another unavoidable obstacle was the high price of the Phase II and Southern Pacific properties. The price of the properties was, in part, the result of a sellers' market. The property owner was not selling her land under duress. She knew her land had value and that the developer and Safeway needed the land to build the project. She demanded and got a good price for her land. SP's price for its land was high but it was lowered when SamTrans purchased the

SP property and transferred their cost savings on to the developer. However, whatever the developer may have saved in land costs through SamTrans, he paid for in time since it took S. P. six years to decide to sell their land and enable the development of the Sequoia Station project.

The developer anticipated certain difficulties when taking on the Sequoia Station project. For example, pre-development site research revealed that this infill site contained soil and ground water contamination and underground fiber optic cables and that Redwood Creek would require relocation before development could begin. However, the developer did not anticipate the extent of the toxin contamination or the costs involved in remediation nor did he anticipate the time involved in obtaining permits for the culverting and relocation of the Creek. The developer and Caltrans agree that the Corps of Engineers delayed permit processing and caused unnecessary delays and increased costs.

Still, the success of Sequoia Station to some degree hinged on the private and public sectors' ability to create a strong local market at the project. Sequoia Station's quality retail environment and pedestrian friendly downtown district all work to create a strong market at Redwood City's transit hub. The City convinced the developer to make design changes that would make the center acceptable to quality shops and restaurants, and the developer worked to bring the businesses in. Their combined efforts helped to achieve their mutual goal of creating a popular, attractive environment where people would want to live, work, relax, and shop with transit nearby.

According to the Redevelopment Director, Sequoia Station has revitalized a blighted area, generated 562 net new jobs, and spurred private commercial building upgrades within the City's Downtown District and surrounding neighborhoods. In addition, developers and realtors are interested in developing new sites in Redwood City (*Church, 1996*).

**SEQUOIA STATION, REDWOOD CITY, CA**

Commercial Retail Shopping Center

Train, bus, and auto facilities

Agencies Involved: City of Redwood City, Redwood City Redevelopment Agency, Caltrans, CalTrain, SamTrans, and Safeway Stores

<b>Special Features</b>	<b>Architect Phase I</b>
Gateway to downtown Open air Plaza Mall Landscaping 40 Foot Tower	Edward Gee & Associates 444 DeHaro St. Suite 201 San Francisco, CA

<b>Developer</b>	<b>Architect Phase II</b>
Sausalito Equity Interest, Inc., 2656 Broadway Sausalito, CA	DES 399 Bradford St. Redwood City, CA

<b>Land Use Information</b>		<b>Development Schedule</b>	
<i>Site Area</i>	12.42 Acres	<i>Planning started</i>	1984
<i>Retail</i>	133,390 sq. ft.	<i>Construction started</i>	1992
<i>Office/Service</i>	23,940 sq. ft.	<i>Sales/leasing started</i>	1988
<i>Restaurant</i>	20,700 sq.ft	<i>Site leased</i>	100%
<i>Total Parking Spaces</i>	790 surface	Phase I by 1994	
<i>Number of Stories</i>	1 to 1.5	Phase II by 1996	

**DEVELOPMENT ARRANGEMENTS:**

Developer pays all acquisition and development costs of project.

Redevelopment Agency and City pay property and sales tax increment for 15 years and contribute 1.4 acres of land (free of charge) within development site to developer. (Refer to DDA for Details).

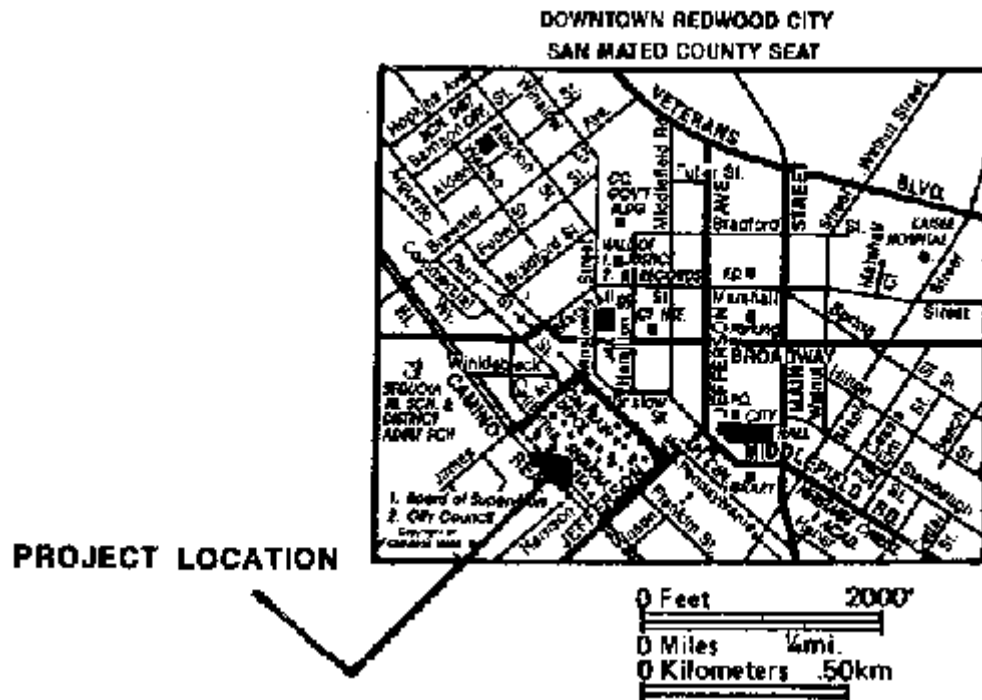


Figure 4-1 Location of Sequoia Station, Redwood City, CA

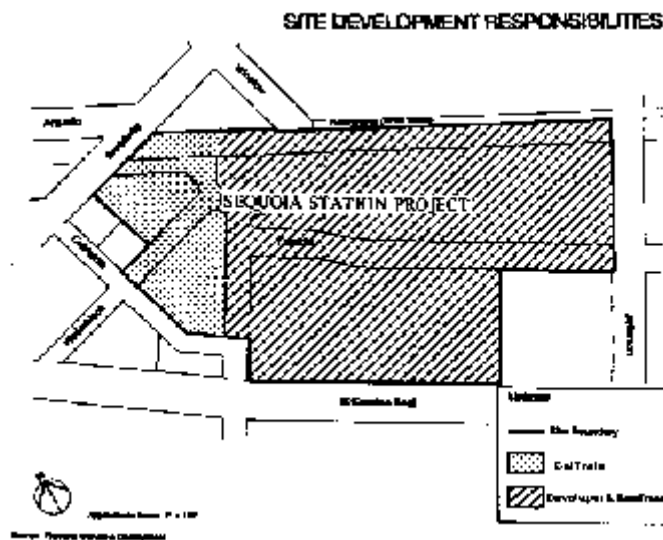


Figure 4-2 Plan of Sequoia Station



**Figure 4-3 CalTrain depot in Redwood City**



**Figure 4-4 Sequoia Station from El Camino Real**

## **LA MESA VILLAGE PLAZA**

### **La Mesa, California**

#### **INTRODUCTION**

La Mesa Village Plaza is a multi-use development located in the City of La Mesa, 10 miles northeast of downtown San Diego. The development lies adjacent to the La Mesa Civic Center on 5.6 acres of land and contains over 244,000 square feet of office, retail, and residential uses. The San Diego Trolley East Line connecting downtown San Diego to the City of Santee has a stop at La Mesa Village Plaza. The trolley and two bus lines operated by the San Diego Transit Corporation provide employees and residents of La Mesa Village Plaza and La Mesa's Civic Center with the ability to use public transit for both work and leisure.

The \$26.6 million project was developed through an agreement between the City of La Mesa Redevelopment Agency and the developer, La Mesa Plaza Associates Joint Venture. The Redevelopment Agency sold the 5.6 acres of land to La Mesa Plaza Associates at a significant discount. The land was valued at approximately \$1.3 million but was sold for approximately \$700,000. Also participating, under a separate agreement with the Redevelopment Agency, was the San Diego Metropolitan Transit Development Board (MTDB). MTDB agreed that the trolley station would be architecturally and physically compatible with the site development. The trolley station was built by La Mesa Village Plaza Associates Joint Venture.

The project developed into four buildings of one to five stories. It was completed in July, 1991.

#### **PROJECT CONCEPT**

Since the late 1980s the Metropolitan Transit Development Board (MTDB) in cooperation with several cities within San Diego County has guided enterprising transit village strategies. These strategies have included a mix of planning guidelines and specific joint development and station area development projects, of which La Mesa Village Plaza is one. It was with the City of La Mesa and MTDB that this project was brought to fruition.

The County of San Diego and its cities have been implementing urban growth management policies since the late 1970s. This growth management strategy

emphasized infill development in urbanized areas adjacent to existing urban infrastructure. Both the infill and the development adjacent to urban areas implemented a policy that allowed new growth and took advantage of existing public facilities. The policies focused on the development of transit corridors.

The City of La Mesa would see several of its policies implemented in the development of La Mesa Village Plaza. Not only would the project provide infill development, but it would bring about the redevelopment of an area sorely in need of redevelopment. The City wanted a combination of higher density residential and commercial development next to the transit stop and to the civic center. In 1973 the City created the redevelopment area in and around the Civic Center to carry out these policies.

Two government entities, the City of La Mesa Redevelopment Agency and the MTDB, worked together to create the Trolley stop and an area plan to redevelop the Civic Center. The La Mesa Village Plaza Associates Joint Venture was formed to build a mixed use project meeting the criteria of the Redevelopment Agency.

## **BACKGROUND**

### **Neighborhood Background**

The City of La Mesa is approximately 10 miles northeast of downtown San Diego. The city covers 9.05 square miles and was incorporated in 1912. From 1985 through 1995, La Mesa sustained a population of just over 52,000 and by 1996 had more than 56,000 residents. The La Mesa City Council recognized the importance of redevelopment and formed a Redevelopment Agency in 1964. The Agency currently oversees three project areas: Central Area (55 acres), Fletcher Parkway (103 acres), and Alvarado Creek (200 acres) These zones were created in 1973, 1984, and 1987 respectively. The average age of the residents of La Mesa is 35 years and the average home value is \$163,802. The civic center offices, police station, post office, and chamber of commerce are across Allison Street from the La Mesa Village Plaza development.

### **Transit Options**

There are two main public transit options for La Mesa: the San Diego Trolley and the public bus system. The San Diego Trolley, the County of San Diego's light rail system, started service to La Mesa in 1989 and has four trolley stops in La Mesa, three of which are located in City redevelopment areas. The County bus line is operated by San Diego Transit Corporation, consisting of 45 local and urban routes, two of which run through La Mesa. There are three

major freeways running through La Mesa city boundaries: Highways 8, 94, and 125.

#### Previous Uses of Land

The land uses were a mixture of marginal retail, residential, service, and commercial. This area was the historic heart of the town. The City of La Mesa recognized the value of redevelopment for the downtown corridor, so in 1964 the La Mesa Community Redevelopment Agency was created. It was not until 1973 however that a plan for the Central Area Redevelopment Project was created and adopted.

#### Demographics

The project demographics are as follows:

**Table 5-1 La Mesa Demographics**

<b>Race</b>		<b>Age</b>		<b>Household Size</b>	
White	96.6%	17-24 years	0%	1 occupant	30.6%
Hispanic	1.7%	25-34 years	8.6%	2 occupants	69.4%
Black	1.7%	35-49 years	3.4%		
		50-64 years	29.3%		
		65+ years	58.6%		
		Mean	64.4	Mean	1.69

#### Project Marketing for Residential

The residential portion of the project consists of 60 two bedroom units (average 1338 sq. ft.) and 35 three bedroom units (average 1555 sq. ft.), priced from \$132,500 to \$160,000 with a density of 17 units per acre. All the residences have been sold, and there has been stability in the resale market. As of June, 1996 only two of the residential units were listed for resale.

#### Retail/Commercial Leasing Information

Office space in Building A leases for \$1.35 per square foot and in Building B for \$1.25 per square foot. The lease price includes electrical utilities, property taxes, security services, property management services, maintenance services, upkeep of common areas, and janitorial service five nights a week. The managers estimate the price for the services is 12% higher than for the useable square footage. For example, a 1000 sq. ft. office in Building A would rent for \$1512 per month ( $1000 \times 12\% = 120$ ;  $1000 + 120 = 1120$ ;  $1120 \times 1.35 = 1512$ ). The retail shops lease a flat for \$1.10 per square foot, which includes common area maintenance but not utilities or janitorial services.



### Retail/Commercial Uses

The retail shops include a sandwich shop, a yogurt shop, a beauty salon, a Chinese restaurant, a pharmacy, a bookstore, and miscellaneous specialty shops. The commercial buildings contain dental offices, a physical therapy center, a large financial advisor, and a credit union. As of June 1996, two retail spaces were available for lease. All current office tenants are original lessees.

## **PHYSICAL FEATURES**

### **Location and Orientation of Project**

The project lies adjacent to the Civic Center at the geographical center of La Mesa. There is a Trolley station at the project site, the La Mesa Blvd. Station, and two bus lines run through the area. The project consists of approximately 244,000 square feet on 5.6 acres. Pedestrians and residents have a 50 yard walk to the trolley stop located in a public plaza surrounded by retail shops. A paved walkway connects La Mesa Blvd. to the south with Allison Ave. to the north, providing pedestrian access to the Trolley and a buffer parallel to Spring Street to the east.

### **Project Size**

The project is mixed-use, in four buildings, which include office, retail/commercial, residential, and parking facilities. The building use is shown in Tables 5-2 and 5-3:

**Table 5-2 La Mesa Building Use**

<b>Site Use</b>	<b>Area, Sq. Ft.</b>	<b>%</b>
Residential (95 Units)	136,604	56%
Retail	27,207	11%
Restaurant	5,450	2%
Commercial/Office	60,470	25%
Common Areas/Parking	14,205	6%
Totals	243,936	100%

**Table 5-3 La Mesa Building Space Allotment**

<b>Building</b>	<b>Stories</b>	<b>Square Feet</b>	<b>Usage</b>	<b>Other *</b>
A	4	40,193	office	909 sq. ft.
B	2	13,166	office	3,200 sq. ft.
C	1 retail 4 residential	27,507 136,604	retail residential	2,517 sq. ft.
D	1	7,111	office	N/A

\* Available square footage as of June 1996.

Building C includes structured, at grade parking for commercial and residential guests and underground parking for tenants or owners. There is executive parking for some office tenants.

An at-grade level plaza (14,000 sq. ft.), with landscaping and urban furniture to improve the open space, links the trolley stop to the project. Parking includes 216 surface spaces and 274 spaces in a parking structure.

### **Environmental Issues**

There was hydrocarbon contamination in the project area left by an on-site gas facility. The Agency took the responsibility for remediation but was reimbursed by the party responsible.

### **Homeless/Loitering Issues**

Initially, there were problems with homeless people loitering around the transit stop at La Mesa Village Plaza when it was the last stop on the East Line. The transients would get off and loiter around the plaza, disturbing the residents and the patrons of La Mesa Village Plaza. The MTDB acted promptly to step up security measures, effectively eliminating the nuisance. Also, the line has since been extended past La Mesa to the City of Santee.

## **THE PARTNERS AND PARTICIPANTS**

The City of La Mesa Redevelopment Agency and La Mesa Village Plaza Associates Joint Venture were the main partners in the project. The City's Redevelopment Agency was created in 1964 and has been planning the redevelopment of the Civic Center area since 1973. The Agency currently oversees three project areas: Central Area, where the La Mesa Village Plaza is located, (55 acres), Fletcher Parkway (103 acres), and Alvarado Creek (200 acres). These zones were created in 1973, 1984, and 1987 respectively. It was

of particular importance to the Redevelopment Agency to have this development incorporate the trolley stop into the project. The interest of the Redevelopment Agency was threefold: to rejuvenate the Civic Center area, to obtain a Trolley stop in the Civic Center area and to develop a mixture of uses that would support the Trolley stop and the Civic Center area. As a long term goal, the Agency wanted to link housing and transit to other areas of La Mesa.

The private sector partner and developer was La Mesa Village Plaza Associates Joint Venture. This joint venture was put together by several experienced developers who were familiar with the La Mesa area. They were convinced that, given the proper incentives, a higher density, mixed use project near the Trolley and the Civic Center would be financially successful. The partners used the design firm of Dominey and Associates. The lender for the construction loan was Chase Manhattan Bank. The Joint Venture's main expectation was to develop a financially successful mixed use development. It was also thought that if this project was successful it could be used as a model for other areas along the Trolley line.

Another participant in the project was the Metropolitan Transit Development Board which operates the San Diego Trolley. This light rail system began service to La Mesa in 1989. The MTDB wanted to place a transit stop in the civic center area and took this opportunity to do so.

The Redevelopment Agency took the lead in choosing the area for La Mesa Village Plaza, writing the Deposition and Development Agreement (DDA), and recruiting a developer. They also had a great deal of input into the design of the project. La Mesa Village Plaza Associates Joint Venture was required to obtain all planning permits, construction loans, and permanent financing, and they designed and built the project.

## **DETAILS OF THE NEGOTIATIONS**

In order to sell the land, the Redevelopment Agency reduced the land costs by \$593,000 and reduced the down payment on the purchase to \$150,000. The Redevelopment Agency also gave the developer credits of \$587,000 toward the plaza construction responsibilities and utility relocation duties.

The Metropolitan Transit Development Board was not involved monetarily in the plaza design or construction, but they arranged the changes to their alignment and right of way, provided ticketing machines, and were consulted on the design of the trolley stop. The developer was responsible for the design and construction of the plaza.

Public input varied regarding the development of this property but, as it took

several years to get this development underway, the public was ready and waiting for the project to begin. There was some public concern regarding the removal of a large ficus tree, but eventually the tree was relocated instead of being destroyed.

## **FINAL AGREEMENTS AND CONTRACTS**

The agreement between the Redevelopment Agency and La Mesa Village Plaza Associates Joint Venture is the Deposition and Development Agreement (DDA).

### **Main Provisions of the DDA**

#### Land Cost

There was an initial cost of \$1,330,000, less adjustments, (referred to as developer credits) to include:

- \$250,000 maximum credit if Agency elects to transfer to the Developer the responsibility for the relocation of underground utilities;
- \$317,000 maximum credit if agency elects to transfer to developer the Plaza Area duties of constructing a Trolley stop shelter, a plaza and a fountain.

#### Plans and Specifications

The developer was responsible for preparing and submitting detailed plans and drawings for public improvements, facilities and utilities on-site as well as curb, gutter, and sidewalk plans for the streets adjacent to the site (La Mesa Boulevard, Acacia, Allison, Orange and Date Avenues).

### **Agency Responsibilities**

The Redevelopment Agency provided tax allocation bonds which were sold as part of the acquisition of the property prior to this project being negotiated. It was also responsible for:

- Relocation of utilities
- Plaza area duties to construct the shelter, the plaza and the fountain
- La Mesa Boulevard and other street improvements
- Construction of a storm drain on Date Avenue
- Construction of a traffic median on Allison Avenue and Nebo Drive
- Vacating of Nebo Drive and portions of La Mesa Boulevard

### Developer's Responsibilities

- Architecture and design
- Signs
- Developer's improvements (buildings, landscaping)
- Screening
- Standards, controls, and restrictions
- Vehicular access
- Demolition, site clearance, and site preparation
- Roofs
- Utilities and public improvements
- Construction
- Restaurant use
- Covenants, codes, and restrictions
- Subdivision map and/or condominium plan
- To secure permanent financing for the site through Chase Manhattan Bank.

**Table 5-4 La Mesa Funding**

<b>Funding</b>	<b>Use</b>	<b>Amount</b>
Revenue	Sale of Land	\$1,330,000
Credits	Plaza	\$317,000
	Plaza Utility	\$270,000
Capital Improvements *	Storm Drain	\$200,000
	Street Improvements	\$320,000
Payment of Loan	Phase II A	\$800,000**

All figures based on 1984/1985 land values.

\* Redevelopment Agency costs.

\*\* A note was drawn on a local bank for initial land purchase.

## RESULTS

### The Redevelopment Agency

With the construction of the La Mesa Village Plaza, the Agency met its goal of developing a mixed use, transit oriented project in the Civic Center redevelopment area. To do so, they needed to significantly discount the land

costs (by \$593,000) and reduce the amount of money they required of the developer up-front (reduced to \$150,000). It took ten years to find the right developer for the project. Numerous developers would not agree to the terms of the first agreement. This problem took up a great deal of time and resulted in the Agency needing to give more financial incentives to the eventual winner of the project, La Mesa Village Plaza Associates Joint Venture. The City does not expect a return on its investment but is pleased with the final development and it has added to the tax revenues received by the City and Redevelopment Agency.

The Agency indicated that this development had many hurdles to overcome before completion. Mixed-use projects are still very hard to finance and build. The Agency had successfully completed two other transit oriented developments that were less time consuming: Grossmont Trolley Center and the Villages of La Mesa, both within La Mesa city boundaries. The Grossmont Trolley Center development, a strictly commercial development, is unique in that it shares its parking lot space with the San Diego Trolley Grossmont Center Station. The Villages of La Mesa is a residential development of 390 rental apartments.

The Agency also feels that working with the Metropolitan Transit Development Board (MTDB) on this particular project helped build a good working relationship for future transit oriented projects. The City is also happy that the “kiss and ride” trolley station was incorporated so well into this project.

### **The Developer**

The development process for this project was not more difficult for the developers than for others but, as it had three types of land use, it was more of a financial risk than a normal residential project. The developers declined to give an opinion on the future return on their investment. They indicated however that the project’s financial standing was on target for the goals set. The market and time will tell if such developments will appeal to other developers in the future.

From the start the developer felt that the project would complement the surrounding area and improve the general appearance of the environment. However, according to the developer, the neighboring merchants, residents, and local architects had differing opinions on this project. Some merchants felt that the project was much too large and dominated the “quaint downtown” image of the businesses along La Mesa Boulevard.

The development was, from the beginning, designed to be built around the La

Mesa Boulevard Trolley station to take full advantage of the benefits of public transit. The Trolley station was not essential to the success of the development, but the developer considered it an important feature for marketing the project. Public transportation is beneficial to the residents of the development, the majority of whom are mature people. He felt there is not a great demand for mixed-use projects, except in communities where retail services are lacking. In these cases, transit oriented development can be a “draw” to the community. As the partners in the development firm are nearing retirement, they have no desire to build similar projects even though the city is willing.

### **Homeowners’ and Local Merchants’ Opinions**

The current homeowners association president stated that the Village was a wonderful mixed use development and that he personally uses the retail shops and the Trolley every day. However, some nearby merchants feel that the project is too large and dominates the neighboring commercial areas along La Mesa Boulevard.

## **ANALYSIS**

The project’s contribution to transit oriented developments is hard to measure. In this particular case, it contributed positively but the developer feels that this success was largely based on the demographics of the development, as a majority of the residents are over 50 years old. However, in the Southern California region, the auto is still the primary and highly favored mode of transportation.

All the people who were interviewed for this study indicated that the development was ambitious for the City of La Mesa, but the City and the developer knew what each wanted at that particular site. With perseverance and a firm grasp of financial reality, the project was finally built. The final success of the development will be measured by the willingness of the residents of La Mesa to use the Trolley and the commercial facilities. Of all trips made by the project’s residents, 7.7 percent were made using public transit. Of that 7.7 percent of trips, 9.3 percent of those were work trips. These figures compare with the City of San Diego as a whole and the City of La Mesa as a whole as follows: 2.5 percent of San Diego’s public transit trips were work trips and 2.6 percent of La Mesa’s public transit trips were work trips. These numbers are encouraging to cities and developers who are interested in creating developments centered on transit systems.

The La Mesa Village Plaza is a very successful suburban, mixed use, transit

oriented development. Coordination with the MTDB will continue in the future with projects extending into the Mission Valley area of San Diego. At least five transit oriented developments are being planned for this area. These transit oriented developments are becoming feasible because of the \$240 million Mission Valley West Trolley extension into this rapidly growing area.

One lesson learned from this project is that even an ambitious project can be successfully completed with a little patience and a lot of time. However, timing is everything, and the economics of this development made it quite a challenge to complete. Communication between agencies and involved parties is essential in the success of any good development. The DDA in this case clearly defined all the details and specified all the responsibilities, so nothing was left to chance. In a complex mixed-use project such as this everything needs to be carefully thought out. Perhaps better interaction with the public, through public notification and informal meetings, and with local architects would have provided better feedback from residents and from the community at large.

Recommendations for future projects would include improved communication with local residents. Although it is not a force that can be controlled, timing within the economic environment is also important in getting a project of this type completed quickly.

## **SUMMARY**

The \$26.6 million, mixed used development, La Mesa Village Plaza, has been considered a success by the City of La Mesa, the private developer and MTDB. The city used its redevelopment agency to foster the project and to involve a developer who could carry through with the project. To do so the Agency needed to lower the cost of the land significantly and to offer other inducements. The private developer, La Mesa Village Plaza Associates Joint Venture, did the market analysis and did not proceed until they felt assured there would be a market for the project and that the financing would be adequate to cover the development. The developer is unsure if this type of mixed use project can be successfully duplicated in Southern California because of that area's devotion to private vehicles.

Despite a long wait due to problems with economics, financing, and finding the right partners, the La Mesa Village Plaza development was completed and has met the expectations of the City, the developer, and the general public. It is important to note that the working relationship between the City and the transit agency on this particular project was very cooperative.



MTDB was able to build a Trolley stop that could be used by local residents and by commuters. The transit district is in the process of expanding the Trolley to the Mission Valley area, north of downtown San Diego, thus allowing for more transit related projects, not unlike La Mesa Village Plaza.

**La Mesa Village Plaza, La Mesa, California**

Mixed use: residential, retail, office, commercial.

Average walking distance to transit and shopping: 50 yards.

Redevelopment Agency owned the 5.6 acres adjacent to the station.

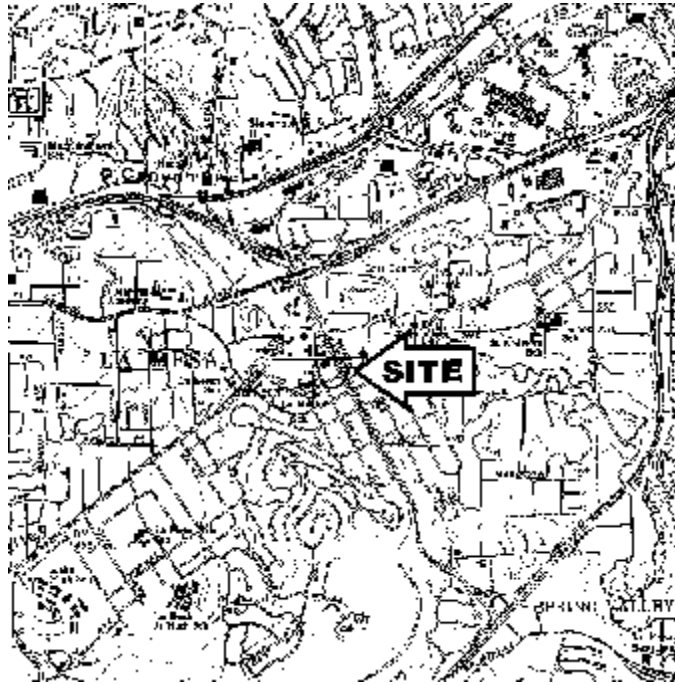
<b>Special Features</b>	<b>Architect</b>
Redevelopment Agency had to discount significantly land costs and the money required up-front.	Dominez/Larson/Carpenter La Mesa, CA

<b>Developer</b>	<b>Developer</b>
La Mesa Village Plaza Associates/Jack McCormick CMS Management. 2401 W. Olive Ave. #210 Burbank, CA 91506	Commonwealth Companies, Inc., Perdon Development Company & Commonwealth Dynamic Corp. 10675 Sorrento Valley Rd. #200 San Diego, CA 92121

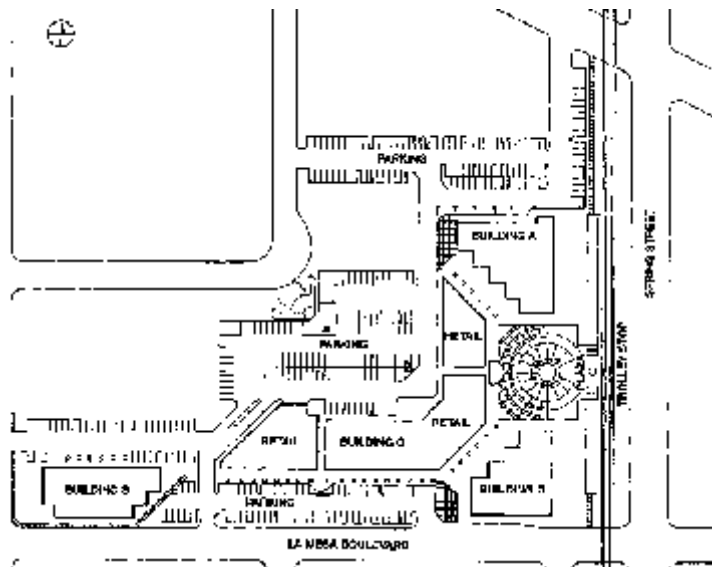
<b>Land Use Information</b>	<b>Development Schedule</b>
<i>Site Area</i> 5.6 acres	<i>Planning started</i> Early 1980s
<i>Total Dwelling Units</i> 95	<i>Construction started</i> 1989
<i>Gross Density</i> 17	<i>Sales/leasing started</i> July 1991
<i>Total Parking</i> 195 residential 329 commercial	
<i>Number of Stories</i> 5 (4 residential on top of office/retail ground floor)	

<b>Residential Unit Information</b>			
<u>Unit Type</u>	<u>Size (sq.ft.)</u>	<u>Number Built</u>	<u>Market Rate Units</u>
Two bedroom	1338 (average)	60	\$132,500
Three bedroom	1555 (average)	35	\$160,000
Development Total	1446.5	95	\$13,550,000

<b>Building Use Information</b>		
	<u>Sq. ft.</u>	<u>% of GBA</u>
Residential Units	136,604	56%
Retail	27,207	11%
Commercial/Office	60,470	25%
Restaurant	5,450	2%
Common Areas and Parking	14,205	6%
Total	243,936	100%
80% market rate units (20% subsidized) Lender: Chase Manhattan Bank		



**Figure 5-1 Location of La Mesa Village Plaza, La Mesa, CA**



**Figure 5-2 Plan of La Mesa Village Plaza**



**Figure 5-3 Aerial view of La Mesa Village Plaza**



**Figure 5-4 View of trolley station at La Mesa Village Plaza**



## MERCADO APARTMENTS

### San Diego, California

#### INTRODUCTION

The Mercado Apartments is a residential development located in the City of San Diego, approximately one mile southeast of downtown in the Barrio Logan district. The development covers 4.3 acres and consists of 144 housing units. The San Diego Trolley South Line connecting downtown San Diego to the City of San Ysidro has a stop at Barrio Logan, two blocks from the project site. Three bus lines operated by the San Diego Transit Corporation are also available to residents.

The \$12.4 million project was developed through an agreement between the City of San Diego Redevelopment Agency and the developer, MAAC Project (Metropolitan Area Advisory Committee). The Redevelopment Agency acquired the 4.3 acres of land for \$1.5 million and assembled the parcels through eminent domain. Since MAAC Project is a non-profit agency, the development has been targeted to low income families. There is a Phase II commercial project currently being considered adjacent to the development, which the San Diego Redevelopment Agency hopes will be brought to fruition in the near future.

The project was completed in May, 1994 and has incorporated numerous amenities for its residents, such as a day care center, a community meeting room, a computer learning center, a Head Start office, and social services offices.

Specific building information is contained in Table 6-1.

**Table 6-1 Mercado Apartments Building Use**

<b>Number of Bedrooms</b>	<b>Number Built</b>	<b>Square Feet</b>	<b>Rent Levels</b>
1	18	648-773	\$295-471/month
2	60	812	\$311-548/month
3	66	1003-1036	\$328-618/month
Total	144		

The project is targeted toward low income families, and there is a waiting list to get an apartment.

## **PROJECT CONCEPT**

The project was initiated by the San Diego Redevelopment Agency in 1991 when they incorporated the Barrio Logan district as a Redevelopment Zone. The area is historically a predominantly Hispanic, low income community and was in need of affordable housing and relief from blight.

MAAC Project came up with the idea for the Mercado development. They hoped to help contribute to the needs of the community and provide successful affordable housing with community services. The San Diego Redevelopment Agency's main objective was to revitalize a blighted area of the city.

The partnership between the San Diego Redevelopment Agency and MAAC Project was mutually beneficial in that both entities accomplished their goals.

## **BACKGROUND**

### **Neighborhood Background**

Historically, the area known as Barrio Logan has been a largely Hispanic community. The nearby docks and ports offered many opportunities for employment, and many of the residents were employed at the canneries and the docks. When these docks and canneries moved or shut down, many residents were left jobless. This began the deterioration of the Barrio Logan community. Blight began to set in.

### Transit Options

Bus lines run adjacent to the project, along Main Street and National Ave. The San Diego Trolley stop is two blocks away. Highway 5 and the Coronado Bay Bridge bisect the Barrio Logan community. The construction of these freeways was extremely damaging to the community in that they divided the area into four sections. When walking through this area today, the immense size of the overpasses dwarfs the buildings and people. They block much of the sunlight and are gray, very noisy, and overwhelming.

### Previous Uses of Land

The site is zoned mixed-use, industrial and residential. The area has deteriorated over the past twenty years due to inconsistent zoning patterns, political apathy, and unmonitored environmental regulations. The previous use of the Mercado property was as a San Diego Gas and Electric storage facility and maintenance yard. In 1991, a community plan was adopted by the

SDRA which incorporated the Barrio Logan district as a redevelopment zone. More affordable housing was needed in the area, so the City welcomed MAAC Project's proposal.

### Demographics

The demographics for this tract are as follows: a 71% minority population, of which 50% of the families live below the poverty level, the median income is \$14,410, and the unemployment rate in 1990 was 10.4, the highest in the City. The percentage of housing built before 1939 is 43% and the percentage of overcrowded conditions is also 43%.

The demographic breakdown as of March 1995 for the Mercado Apartments follows.

**Table 6-2 Mercado Apartments Demographics**

Race		Age		Household Size	
Hispanic	97.7%	17-24 yrs	18.2%	1 occupant	0%
Black	2.3%	25-34 yrs	36.4%	2 occupants	0%
		35-49 yrs	40.9%	3 occupants	29.6%
		50-64 yrs	4.5%	4 occupants	18.5%
		65+ yrs	0%	5 occupants	25.9%
				6+ occupants	25.9%
		Mean	32.8	Mean	4.48

### Project Marketing

The Mercado Apartments are aimed at families earning between \$11,000 and \$29,000 per year. As of October 1995, a minimum annual wage of \$11,000 is required for entry into the apartments. The project site lies on 4.3 acres and includes 144 residential units. The units consist of one, two, and three bedroom apartments and comprise 128,800 square feet of the total 189,000 square feet of property, or 68% of the total. As of June 1996, all 144 units were rented.

The apartments are oriented toward the street in an effort to create a safe environment and to deter crime and vandalism. The residential units provide a sense of "ownership" of the street with porches, front entry doors, and private second floor balconies. The on-site parking is divided into two smaller areas within the interior of the development, in keeping with the pedestrian oriented



scheme. The driveway entry to the development parking lots is bordered by wrought iron fences. The fences are an aid to safety and ensure that the limited parking is used only by residents. In addition to the 144 units, the project contains a day care center, two laundry rooms, a play area, a community meeting room, a computer learning center, a Head Start office, and social services offices. The development's slogan is "...More Than Housing" because it offers so many services to its residents.

### Phase II

In 1991, the San Diego Redevelopment Agency designated the area the Barrio Logan Redevelopment Zone and began acquiring adjacent properties to complete Phase II of this project. Phase II is the commercial center and marketplace. The San Diego Redevelopment Agency has invested \$8 million in purchasing the surrounding industrial properties for Phase II of the project.

There is a plan to develop a park adjacent to the apartments, an extension of "Chicano Park," which is known for its colorful murals depicting the Chicano lifestyle. There is a proposed 100,000 square foot commercial center to be developed by MAAC Project, which would bring a grocery store, restaurants, shops, and professional services to the community. Political and financial problems have held this project back. Large chain supermarkets have not expressed any interest in locating there, and the SDRA is still in the process of purchasing properties included in the Phase II plans.

## **PHYSICAL FEATURES**

### **Location and Orientation of Project**

The Mercado Apartments lie on approximately 4.3 acres in the Barrio Logan District of San Diego. The District is served by the San Diego Trolley Line and by three bus lines run by the San Diego Transit Corporation. Special considerations went into the design of this project regarding the safety of residents, providing a sense of ownership, and creating a pedestrian oriented project.

### **Project Size**

The completed development is solely residential and consists of the following:

**Table 6-3 Mercado Apartments Project Use**

<b>Residential</b>	<b>Parking/Common Areas</b>	<b>Day Care Center</b>	<b>Total</b>
68%	30%	2%	100%
128,796 sq. ft.	57,204 sq. ft.	3,000 sq. ft.	189,000 sq. ft.

### **Community's Reaction to Overpasses**

In protest to construction of the Highway 5 freeway and the Coronado Bridge overpass project, some members of the community painted colorful murals in Chicano Park depicting the heritage and struggles of the Latino community. These murals have become famous, and people from many places have come to see them. The murals complement other murals in the park celebrating the strength of the Mexican-American people.

A note on the murals: the Coronado Bridge is slated for seismic retrofitting soon and in the process, many of these murals will be destroyed. Caltrans has made verbal promises to coordinate with community leaders to try to capture the murals in their present condition on video and film in order to recreate them after the retrofitting is complete. The murals will be repainted by locals artists and plans for a cultural center to display the photos have been discussed. There remains some animosity by the residents toward Caltrans, so the murals will be a sensitive issue in the future.

### **THE PARTNERS AND PARTICIPANTS**

The San Diego Redevelopment Agency and MAAC Project were the main partners in the Mercado Apartments project. In 1991, the Redevelopment Agency designated the Barrio Logan area a Redevelopment Zone.

The Mercado development was conceived by the MAAC Project (Metropolitan Area Advisory Committee). The MAAC Project is a multi-purpose social service agency established in 1965, with the mission of providing not just affordable housing but jobs and business opportunities as well, and service oriented, self-sufficient communities. Working through churches, schools, community action groups, gangs, business groups, and government agencies, MAAC is striving to achieve better communication between neighbors and agencies, while fostering opportunities for those it serves.

Other project participants included the following:

- Development consultants: Odmark & Thelan
- Construction Management: Cuatro Corporation

- Architects: Lorimer/Case
- Civil Engineers: RBF/Sholders & Sanford
- Landscape Architect: Estrada Land Planning
- Tax Credit Consultants: Devine & Gong
- Project Management: Steve Kuptz
- Legal Services: Sullivan, Cummins, Wertz, McDade & Wallace
- Limited partnership legal services: Riordan & McKinzie
- General Contractor: Nielsen Construction Co.
- Project Oversight: MAAC Project staff

**Objectives**

The short term objective of the partnership was to provide housing that accurately reflected the community and to provide a center for the Latino community. The long term objective was to introduce into the community badly-needed redevelopment, providing housing, social services, day care services, and a strong sense of pride for the community. Revitalization of a blighted area was the main objective of the City.

**DETAILS OF THE NEGOTIATIONS**

The City has legal requirements for the project which include having oversight for the remainder of the life of the redevelopment plan (35 years). In addition, there is a stipulation that the housing project will remain affordable for 55 years. The San Diego Redevelopment Agency contributed \$1,966,000 to the project and had the responsibility of acquiring and assembling the parcels for both Phases, making the necessary zoning changes and channeling federal Community Block Grant funds to the project.

MAAC Project acted as the project manager and took the responsibility of coordinating the architects, construction teams, and the numerous social service elements that were incorporated into this project.

The community was involved in the design process through MAAC Project, and their concerns regarding appearance, affordability, and safety were successfully met. There was a project area committee of 15 people organized in 1989 to help identify and address the issues and concerns of the community.

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## **FINAL AGREEMENTS AND CONTRACTS**

Legal requirements regarding the Mercado Apartments include allowing the City of San Diego to have oversight for the remaining 35 years of the life of the redevelopment plan. The project is also under agreement with the City to remain available as affordable housing for the next 55 years.

The total funding for the Mercado Apartments was \$12,452,200. The sources of funding are broken down as follows:

### **Private Sources**

Source: Bank of America and the Community Redevelopment Bank

Amount: \$2,800,000

Terms: 30 year, 8.75%, fully amortized

Source: Federal Home Loan Bank

Amount: \$800,000

Terms: 40 year, 3% interest only, residual

Source: Cal. Equity Fund (Local Initiative Support Corp.)

Amount: \$5,100,000

Terms: Equity investment

### **Public Sources**

Source: San Diego Housing Commission/Trust Fund

Amount: \$1,625,000

Terms: 30 year, 6% residual receipts, forgivable on sale

Source: San Diego Redevelopment Agency

Amount: \$1,966,000

Terms: N/A

Source: Development Fee Deferral/ MAAC Project

Amount: \$161,000

Terms: N/A

## **RESULTS**

### **The Redevelopment Agency**

The management of the development and the Redevelopment Agency are interested in building more projects of this type, especially in conjunction with transit systems. The City and the SDRA have set their priorities in the Mission Valley area for future expansion of the Trolley and building successful transit oriented developments. This area lies northwest of

downtown San Diego and is the main area projected to absorb the future growth of the metropolitan area.

The City is not having problems attracting proposals for transit oriented developments involving residential projects, but commercial projects are not faring as well. The SDRA feels there is a domino effect, especially with the extension of the Trolley to the Mission Valley area. Most of these projects are privately funded, but possibilities for partnerships are open. The SDRA feels that it is too early to tell if this development will have any effect on the success of transit oriented developments. They feel that the completion of Phase II will make a big difference in the gentrification of the area but that currently too many of the residents still use their cars instead of the Trolley.

### **The Developer**

This project was a 25 year dream come true for the Barrio Logan community. In an area suffering from blighted conditions, this development is the first step of the area's rebirth. Phase I is the residential project and Phase II is the commercial center.

The community welcomes this project, as it gives them something they desperately need: affordable, yet attractive housing, something in which they can take pride. Initial community studies were conducted by the architect in addition to working closely with community groups and neighbors to understand their concerns and needs. The project area committee of 15 people organized in 1989 helped identify and address the issues of the community.

The project has accurately reflected Hispanic culture in its design. The building reflects the Mexican culture with urban townhouses and courtyard bungalow housing that is reminiscent of the architecture of the 1930s and 1940s.

The project had a limited construction budget and successfully kept construction costs to \$39.00 per square foot. The final cost of \$86,000 per unit has made this project one of the most affordable residential developments in San Diego.

The Mercado Apartments and the proposed Phase II commercial center are separated from each other by the Coronado Bridge overpass and by a small plot of land currently occupied and owned by Caltrans. The Metropolitan Transit Development Board would like to link the two developments to the Trolley station two blocks away via a large public plaza. An adjoining mixed use development, containing a police office, a day care center, a restaurant, and office space, would also be linked to the Mercado development via the plaza.

The developer, MAAC Project, does not expect any monetary return on investment, but the investment in the neighborhood and its citizens is seen as priceless. The developer feels that this project was extremely successful and hopes to build and finance similar affordable developments in the future. The SDRA and the City do not expect any return on investment from the residential project. However, they do expect to see some profits from the commercial phase of the project.

## **ANALYSIS**

The Mercado Apartments have been a hugely successful project, with everyone involved coming out a winner. The City benefits from redeveloping an area of the city which desperately needed a low income housing project and commercial zoning. The residents of the community benefit from the redevelopment and from the low income housing. The developer has built a thriving project offering much more than just housing for the community. The MTDB will benefit from the possibility of more people taking the Trolley from the proposed plaza connecting the station to the development area.

Getting Phase II completed in the near future is the difficult task the developer and City face at this point. It has been a challenge to draw commercial tenants to the site, especially an anchor supermarket, but the promise of a “market place” atmosphere where vendors could rent stalls for their carts, keeping community ties close, encourages the parties to keep working on the project.

This project differs from the suburban La Mesa Village Plaza development greatly. The demographics of each location is distinct, but they do have the Trolley in common. They are both successful transit oriented developments in a high growth region and both are using the infill strategy to their advantage. These projects are good examples for other cities wanting to build similar developments but who are worried about the stigma attached to low income housing or a large mixed use development. A lesson learned from this particular project has been that good communication between the public and private agencies involved must be present to ensure that the final product is one where everyone is happy. The community affected must be involved in the development process in order to have their concerns addressed.

## **SUMMARY**

The \$12.4 million Mercado Apartments project has been a highly successful development for the City of San Diego and especially for the Barrio Logan community. The San Diego Redevelopment Agency worked closely with the developer, MAAC Project, and a constructive working relationship was

created with communication playing a key role in achieving the common goal. The City would like to use this development as a model for attractive, cost effective, low income housing developments, and for transit oriented developments. MAAC Project will continue to provide their services for developing affordable housing and community serving projects. The development was able to keep construction costs down to \$39.00 per square foot and still produce an attractive, functional low income residential project.

The Mercado project was completed in May, 1994 and provides a great service to the Barrio Logan community. The Mercado Apartments have given the community a new housing development of which to be proud, and is a symbol of the promise the City of San Diego has made to redevelop the Barrio Logan area to benefit the Hispanic community. The design for the apartments was carefully developed by a local Hispanic architect, keeping in mind the elements of safety, affordability, culture, and originality. The development offers many additional services for the residents and community in the form of a day care center, a community meeting room, a computer learning center, a Head Start office, and social services offices.

This public/private partnership has been considered a success by the City agencies, developer, and the community it serves. The City and developer both hope that this project will serve as a model for future affordable transit based housing developments.

### Mercado Apartments, San Diego, California

Residential: Affordable Housing, Community Services Offices

**Agencies involved:** San Diego Housing Trust Fund

San Diego Housing Commission

Centre City Development Corp.

The San Diego Redevelopment Agency

2 laundry rooms, play area, child care center, community meeting room, computer learning center, and social services offices

Special Features	Architect
100K sq. ft. commercial center (proposed) for families earning \$14-25,000 annually 2 blocks from Trolley; adjacent to 3 bus lines Free Head Start program, computer classes, and parenting classes	David Lorimer & Associates 1747 Hancock St. Suite D San Diego, CA 92101

Developers
MAAC Project 1770 Fourth Ave. San Diego, CA 92101
Odmark & Thelan

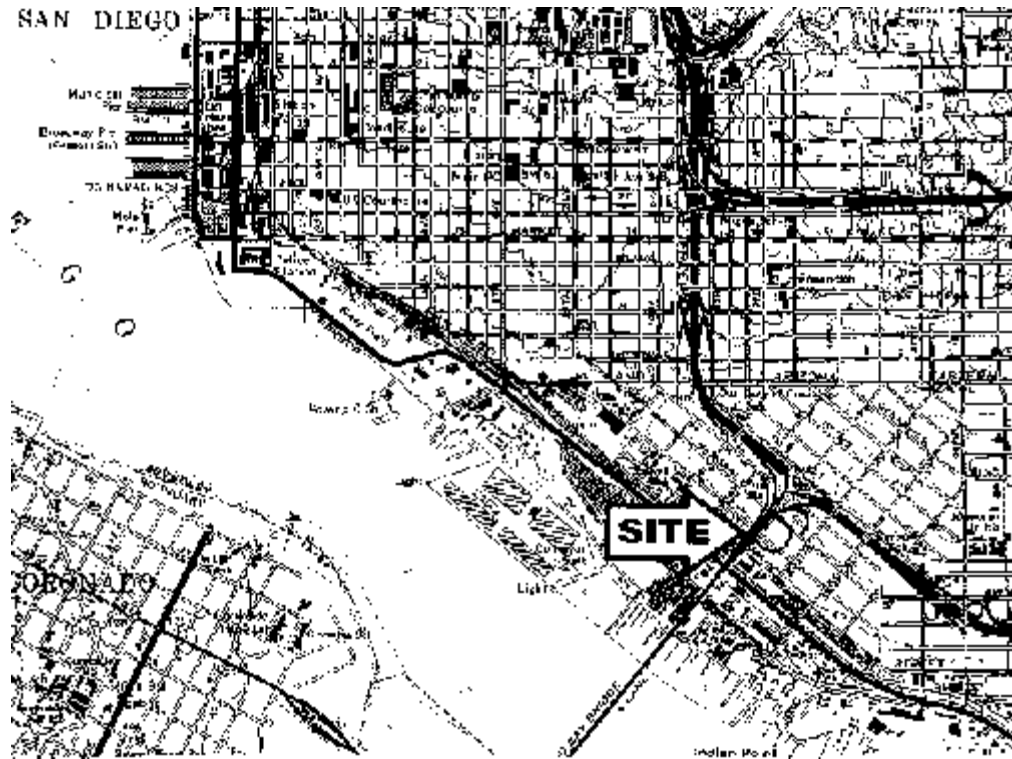
Land Use Information	Development Schedule
<i>Site Area</i> 4.3 acres	<i>Planning started</i> 1990
189K sq. ft.	<i>Construction started</i> 1993
<i>Total Dwelling Units</i> 144	<i>Sales/leasing started</i> May 1994
<i>Gross Density</i> 36 units per acre	
<i>Total Parking Spaces</i> 213	
<i>Number of Stories</i> 2 and 3	

Residential Unit Information			
<u>Unit Type</u>	<u>Size (sq.ft.)</u>	<u>Number Built</u>	<u>Market Rate Units</u>
One bedroom	648-773	18	\$295 - 471 / month
Two bedroom	812	60	\$311 - 548 / month
Three bedroom	1003-1036	66	\$328 - 618 / month
Development Total	131,200	144	

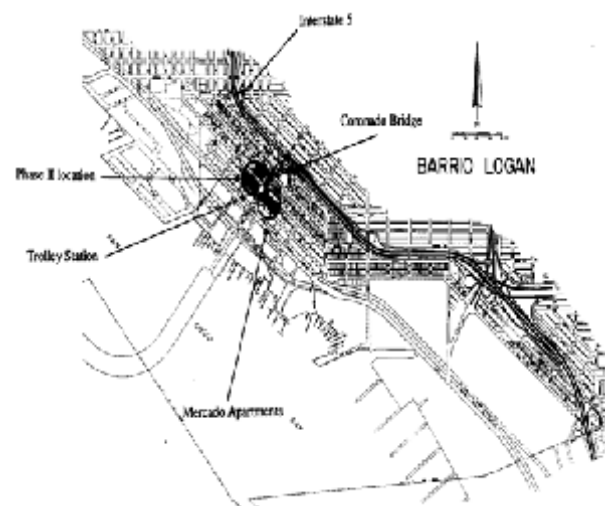


Building Use Information			Development Cost Information	
	<u>Sq. ft.</u>	<u>% of GBA</u>	Construction	\$86,000/unit
Residential Units	128,796	68%		
Common Areas and Parking	57,204	30%		
Daycare Center	<u>3,000</u>	2%		
Total	189,000	100%		
<i>Dev. Cost per Sq. Ft. of GBA: \$39</i>				

Parties Involved	
Odmark & Thelan	Development Consultants
Cuatro Corp.	Construction Management
David Lorimer Architects & Assoc.	Architects
RBF/Sholders & Sanford	Civil Engineer
Estrada Land Planning	Landscape Architect
Sentre Partners & Gong	Financial Consultants
Sullivan, Cummins, Wertz, McDade & Wallace & Riordan & McKinzie	Legal Services
Nielsen Construction Co.	General Contractor
MAAC Project staff	Project Manager



**Figure 6-1 Location of Mercado Apartments, San Diego, CA**



**Figure 6-2 Site of Mercado Apartments**



**Figure 6-3 Mercado Apartments and the Coronado Overpass**



**Figure 6-4 Mercado Apartments from the east**

## **BALLSTON METRO CENTER**

### **Ballston, Virginia**

#### **INTRODUCTION**

The Ballston Metro Center is a 711,192 square foot development in Ballston, Virginia, comprised of an office tower, hotel, retail, and residential condominiums. Construction took almost three years to complete, beginning in May of 1987 and finishing in February of 1990.

The 2.7 acre building site incorporates the Ballston Metro Station, a portion of the Virginia-Maryland-Washington, DC Metrorail system. The rationale for this development was to capture some of the 10,000 riders a day who use this station for the ten minute ride to Washington, DC and to build a “new downtown” for Arlington County.

The construction of the Ballston Metro Center was the culmination of County planning for this area beginning in 1972 with the publication of the first draft documents which attempted to rationalize land use and zoning for the anticipated construction of the Metrorail system in Arlington County.

In no small measure the Ballston Metro Center exists today because of the detailed planning and environmental reviews conducted by the County. The approval process for the specific project took less than four months. Its permit application in 1985 conformed almost entirely to the area’s zoning, which, in various forms, had been debated since 1972 and was finally agreed to by the County in 1980.

The Washington Metropolitan Area Transit Authority (WMATA) which runs the Metrorail system, had an Office of Real Estate with the mandate to maximize income from surplus Metrorail land by promoting public/private developments. The Office of Real Estate had a history of close cooperation and coordination with local jurisdictions, facilitating the construction of projects around other Metrorail stations. Their experience and willingness to deviate from their “typical” terms would prove to be critical for this project.

When the construction of the Ballston Metro Center began, few people outside the immediate area knew where the town of Ballston was. Due to the extensive marketing and public relations undertaken by The Ballston Partnership, Ballston had, by the completion of construction, an image that aided greatly in selling the condominiums and leasing the office tower. In 1985 this public/private volunteer organization began to market and promote

the town of Ballston.

In spite of the minimal entitlement risks and favorable land terms obtained from WMATA, the project was not an economic success for the developer, International Development Incorporated (IDI). IDI began planning the project six years before construction completion. The real estate market changed dramatically in those six years, which ultimately overwhelmed the leasing of the office tower and retail.

## **PROJECT CONCEPT**

Arlington County, in the State of Virginia, is an urban county of about 26 square miles located southwest across the Potomac River from Washington, DC. No incorporated towns or cities exist within its boundaries as a result of a 1922 decision by the Virginia Supreme Court of Appeals which declared Arlington a “continuous, contiguous and homogeneous community.” In 1937, Arlington became the first county in the United States to operate under the “Manager” form of government. The County Board, Arlington’s legislative body, is composed of five members elected at large. The Board appoints the County Manager and a variety of citizen boards, commissions, and advisory groups. The Planning Commission, appointed by the Board, prepares Land Use Plans and evaluates changes in use and zoning. Its recommendations are then made to the County Board which holds public hearings and makes final decisions on land use and other issues.

Arlington’s first General Land Use Plan was adopted by the County Board on August 12, 1961 as one element of the County’s Comprehensive Plan. It was modestly amended periodically up until the 1970s, when planning attention was focused on two proposed Metrorail transit corridors, Rosslyn-Ballston and Jefferson Davis. These plans intended to evaluate and capitalize on potential economic and environmental benefits to the County.

The Rosslyn-Ballston Corridor was to run from Washington, DC through the middle of the County while the Jefferson Davis Corridor would serve the eastern (Pentagon/National Airport) edge. In 1972, the County published its first comprehensive planning document examining redevelopment alternatives for the Rosslyn-Ballston (R-B) Corridor. It detailed three alternative scenarios, with separate growth patterns and traffic studies, as the basis for developing policy guidelines for the Corridor. In 1975, after the publication of additional studies on various aspects of the Corridor’s potential, the County Board adopted *A Long Range County Improvement Program (LRCIP)*, specifying objectives for the R-B Corridor’s future development. The plan set

forth a basic development pattern calling for a concentration of high-density mixed use around Metro Stations, a tapering of density towards the surrounding lower density residential areas and preservation of established neighborhoods on the periphery. In 1977, after two years of additional public input, the County Board approved changes to the General Land Use Plan to guide future development in the Rosslyn-Ballston Corridor.

The Rosslyn-Ballston Corridor incorporates five Metrorail stations which opened between 1976 and 1979. It is approximately three miles long and three-quarters of a mile wide with each of the five stations approximately ten minutes walk from neighboring stations. Between 1977 and 1984 the county produced detailed Sector Plans, further refining and rationalizing planning and development for each station.

The Ballston metro station is the western terminus of the Rosslyn-Ballston Corridor. The County's specific planning goal for the Ballston Metrorail area was for it to become the "new downtown" in central Arlington, creating a "dynamic downtown area by ensuring that future development would include a mix of office, commercial and residential uses." The other four Metrorail stations were each assigned specific roles within the Corridor: Rosslyn would become the core office and hotel area; Court House would become the County government building area; Clarendon would become an "Urban Village;" and Virginia Square would become the cultural, educational and recreational area.

## **BACKGROUND**

### **Area Demographics**

The County of Arlington in 1990 had a population of 170,936 with a median household income of \$44,600. The Ballston Metro Area had a 1990 population of 6,262 (4% of the County's population) with a slightly higher median family income of \$45,700. The ratio of renter occupied to owner occupied housing differs dramatically between the County and the Ballston area. Renters are 55% of the County's households, whereas 73% of Ballston's households rent. In addition, while only 28% of the County's housing units are in structures of 50 or more units, 52% of Ballston's housing units are in structures of 50 or more units.

The educational level is slightly higher in the Ballston area for individuals 25 years or older. The percentage of high school graduates and college graduates is 90% and 60% respectively in the Ballston area, while 88% of the individuals in the county have high school degrees and 52% have graduated college. Both the County and the Ballston area are predominately white. The

population of the County is 77% white, 13% Hispanic, and 11% black. The Ballston area figures are: 81% white, 12% Hispanic, and 5% black.

### **Transit Options**

The Ballston Transit Area contains approximately 260 acres of land and is accessible by significant and varied transportation modes. The Ballston metro station is the last of five metro stations within the Rosslyn-Ballston Corridor which form a three mile section of the Orange Line of the Metrorail system. Metrorail is operated by the Washington Metropolitan Area Transit Authority (WMATA), which also operates the bus system (Metrobus) for the Washington, DC metropolitan area. The Metrorail system in Virginia is funded jointly by the federal government, the State of Virginia, local jurisdictions, and fare paying passengers. It extends from the District of Columbia core in a spoke pattern to the States of Virginia and Maryland.

The combined Metrorail and Metrobus systems transport slightly more than one million passengers each weekday, with Metrorail handling 508,000 of these passengers on its 89 miles of existing track. In comparison, Bay Area Rapid Transit (BART) in the San Francisco Bay Area operates 71 miles of track and handles 252,000 passengers each weekday. The Ballston Metrorail averages slightly less than 10,000 riders daily.

Adjacent to the Ballston Metro Station are seven bus bays which serve as a major transfer point for the Metrobus system. Approximately 18% of Virginia Metrorail riders currently use buses to access Metrorail. Over 90% of Northern Virginia's residents are located within walking distance of a bus route.

The Ballston area has direct access to Interstate 66, completed in 1983, leading to downtown Washington, DC and route 495, the beltway which circles the city. The County's main north-south artery is Glebe Road, which crosses through the heart of the Ballston area.

## **PHYSICAL FEATURES**

### **Location, Size, and Occupancy**

The 2.72 acre Ballston Metro Center site sits directly atop the Ballston Metrorail Station with the only pedestrian access to the Metrorail on Ballston Metro Center property. In keeping with the County's desire that Ballston become the "new downtown," this twin towered, mixed use development is the tallest development in the Rosslyn-Ballston Corridor at 26 stories (246 feet). It comprises 209 hotel rooms, 277 residential condominiums, 202,961

square feet of office space, 14,598 square feet of retail space and 706 parking spaces.

The taller, 26 story East Building tower combines eighteen stories of condominiums atop a mechanical floor and a seven story hotel. The twelve story West Building combines eleven stories of offices atop ground floor retail, with a mezzanine incorporating a health club and additional retail businesses. The four levels of underground parking have reserved spots for the condominiums with the offices, the hotel, and the retail stores sharing parking consistent with their complementary day and evening use patterns.

### **Accessibility**

Occupying an entire block, the glass and brick Metro Center forms an orientation point for both drivers and pedestrians in the Ballston area. By the use of a two story glass enclosed atrium, the public has 24 hour access between and through Ballston Metro Center's three primary uses: hotel, office and residential. Semi-enclosed pedestrian overpasses tie Ballston Metro Center into Ballston Common Mall, a one million square feet shopping mall jointly developed between the County and Forest City Enterprises in 1986.

The entrances to the three major building components were situated either to maximize privacy and exclusivity or to take advantage of the Metrorail access. The office tower entrance, on the northwest corner site, is located directly between the Metrorail and Metrobus, reflecting the importance of office workers' use of public transportation.

### **Previous Uses of Area**

The Ballston area in the 1970s contained mostly low density, wood frame commercial and industrial buildings with poorly maintained on-grade parking lots, consistent with its industrial/commercial zoning at that time. The Ballston sector plan was completed and adopted in 1980 as the second in a series of the five sector plans which further defined the County's 1977 General Land Use Plan. The Ballston plan called for a balance of residential development with high rise offices, a hotel and retail space, regional shopping (Ballston Common Mall), urban open space, and townhouse infill development. As part of the studies done to produce the Sector Plan, detailed traffic and environmental studies were based on the maximum allowable densities.

Shortly after County adoption of the Sector Plan, 30 acres surrounding the Ballston Metro Station were re-zoned to a coordinated mixed use (C-O-A) development district. Additionally, an apartment dwelling and commercial district (R-C) was adopted to encourage medium high-density residential and



mixed use development between the C-O-A district and the outlying lower density residential uses. The new zoning ordinance classified all land within the Ballston area according to these districts with development within them “by right.”

As an incentive for the proposed commercial development projects to contain significant residential square footage, these projects could have their permitted building height to floor area ratio (FAR) increased to 6 from a standard 3.5 FAR for proposals without any residential square footage. That is, 250,000 square feet of additional commercial would be permitted for each 100,000 square feet of site square footage for residential/commercial projects, up to the 6 FAR ceiling. Residential zoning was up to 135 units per acre and hotels were permitted up to 210 units per acre. Retail at street level was required of all new commercial development within the C-O-A district.

## **THE PARTNERS AND PARTICIPANTS**

### **Washington Metropolitan Area Transit Authority (WMATA)**

In 1982, three years after the Ballston Metro station opened, the Washington Metropolitan Area Transit Authority (WMATA) issued a “prospectus” for development proposals on several WMATA owned sites at metrorail stations, including Ballston. These sites were parcels of various sizes acquired to accommodate the construction of the Metrorail system and had been identified by the Joint Development Branch of WMATA’s Office of Real Estate as potential public/private development sites.

WMATA had a history of using its surplus real estate in joint developments since the 1970s. WMATA’s public/private development goals, as outlined in its Joint Development Policies and Guidelines are as follows:

- Attract new riders to the transit system by fostering commercial and residential development projects on WMATA owned or controlled land and on private properties adjacent to Metro stations.
- Create sources of revenue for the Authority to operate and maintain the transit system by expediently negotiating joint development agreements between WMATA and public or private development entities.
- Assist the WMATA local jurisdictions to recapture a portion of their past financial contributions and to continue making subsidy payments by expanding the local property tax base and adding value to available local revenue.

### **The Initial Development Prospectus**

WMATA coordinates closely with local jurisdictions within the WMATA Transit District, including Arlington County, to protect local plans, goals, and interests. The Chief Executive and relevant Board members of these jurisdictions receive drafts of offering documents on proposed WMATA public/private development sites and are encouraged to review and comment on the preliminary drafts. Studies conducted by WMATA on individual sites are conducted jointly with the local jurisdictions and consultants.

With these goals and with the close coordination of Arlington County, in 1982 a public/private development prospectus was issued for the 87,118 square feet Ballston Metro Station site, as part of WMATA's larger comprehensive document, "Prospective."

No developers responded. After some study and developer interviews, WMATA and the County recognized that, because of the Ballston Sector Plan's C-O-A zoning and its density bonus incentive formula which encouraged sites with a minimum size of 80,000 square feet, WMATA did not own and control a sufficiently large enough site to effectively utilize the Sector Plan's benefits. There were indications, though, that if a contiguous 31,414 square foot parcel, owned by a private party, were added to WMATA's parcel, an economically viable development could be accomplished on what would then be an entire city block with 118,532 square feet.

With that in mind, WMATA, for the first time, discarded competitive bidding and gave exclusive negotiating rights to Clarence Dodge Jr., owner of the contiguous smaller parcel. However, there was a stipulation that Dodge contract an experienced developer, acceptable to WMATA, to finance and build a mixed use project on the combined properties.

### **International Development Incorporated and Development Partnership**

In late 1984, Dodge entered into a partnership with International Development Incorporated (IDI) to develop and build a hotel and condominium project, called Ballston Center Associates Limited Partnership (BCA). Concurrently, BCA entered into a partnership with Jesse Lee, a qualified "minority business enterprise," to develop and build an office and retail project on land to be leased from WMATA, called Ballston Office Center Associates Limited Partnership (BOCA).

IDI, a large regional developer, developed the 22 story Rosslyn Metro Center, an office and retail tower built atop the Rosslyn metro station in Rosslyn, Virginia. Mr. Lee, an Asian American, was Senior Vice President of IDI

responsible for procuring project financing and negotiating agreements with WMATA.

Majestic Builders Corporation, a regional builder, would be the construction manager for the combined project, to be constructed in one phase. The Smith William's Group would be the design architects while Holle, Lin, Shogren Architects, P.C. would produce the working drawings. The architect and the engineer would integrate the design of both projects.

### **Creation of the Ballston Partnership**

During the formation of the development partnership in 1985, a unique volunteer organization was formed to promote the Ballston area's qualities and opportunities. Called The Ballston Partnership, it is an organization of County officials, residents, merchants, business owners, real estate brokers, and developers committed to advancing Ballston's opportunities. Its funding comes from the private sector and from Arlington County and employs a full time Executive Director and an assistant. Its goals are to bring consensus to the planning and development process, help implement the Ballston Sector Plan, and market and promote Ballston to the development community, commercial tenants, and consumers.

## **DETAILS OF NEGOTIATIONS**

### **City Approvals**

After ten months of planning, design, and engineering, on October 15, 1985 formal application was made to Arlington County's Planning Department for project approval. Two months later the Planning Commission approved the project; and on January 4, 1986 the Arlington County Board unanimously approved the project.

The application to the Planning Department and the design of the project followed the C-O-A zoning and, therefore, the Sector Plan, except for BCA's request for an additional 0.25 FAR, for a total of 6.25 FAR, which is above the standard 6.0 FAR. With the costly public spaces BCA designed into their project to accommodate the Metrostation and the bus bays, they requested the additional income producing building square footage to partially offset the unusual costs.

The County did not approve the request but instead allowed BCA's taller East Building to rise 30 feet above the 216 foot zoning height limit to 246 feet. In addition the County required a portion of the retail space to be placed on the second floor mezzanine to enliven the pedestrian walkway connecting

Ballston Metro Center with Ballston Common Mall.

As one of the goals of the extensive planning and of the public hearings sponsored by the County in preparing the Sector Plan, BCA's proposed project obtained planning approval in less than four months. The statistics comparing the proposed project with what was eventually approved and constructed are strikingly similar.

**Table 7-1 Ballston Planning Application  
Proposed vs. Constructed**

	<b>Planning Application</b>	<b>Constructed</b>	<b>Difference</b>
Hotel Rooms	210	209	(0.5%)
Condominiums	285	277	(2.8%)
Office Square Feet	205,207	202,961	(1.1%)

### **WMATA Negotiations**

While planning approval was being obtained, BCA began negotiating with WMATA on the subdivision of WMATA's 87,119 square feet parcel into a 15,000 square feet parcel which BCA would purchase and a 72,119 square feet parcel which BCA would lease for 99 years. The hotel and condominium tower had to be entirely on fee simple land to facilitate the marketing and sale of the condominiums. The site to be purchased from WMATA, combined with the 31,414 square foot parcel already owned by the partnership, would allow the hotel and condominium tower land to be legally separate from the office and retail component, thus permitting the sale of the condominium units.

To be negotiated were the financial terms of the deal between WMATA and BCA, the degree of incorporation of bus bays into the project and WMATA's rights to review and approve design and construction elements.

The Ballston Metro Station, the last stop on the Orange Line, opened in 1979 and had become a major passenger transfer point from bus to rail, using the vacant WMATA site for bus traffic. Critical to WMATA was how many bus bays BCA would incorporate into their development to maintain the transfer point, since the vacant parcel would be built on. Additionally, WMATA had to determine if passenger bus to rail traffic would be more conveniently served by the new Vienna Station, scheduled to open in 1987. The Vienna Station would extend the Orange Line another five stops beyond Ballston and would become the new terminus of the Orange Line.

## **FINAL AGREEMENTS AND CONTRACTS**

On September 8, 1986 separate land lease and purchase agreements were signed which included the following leases and terms.

### **The 72,199 Square Feet Land Lease**

1) Seven bus bays would be designed into the project creating a sawtooth curb and sidewalk to accommodate the loading and unloading of pedestrians. This design would reduce private vehicle traffic on Stuart Street. By placing the bays on Stuart Street, passengers would be only a few yards from the entrance to the Metrorail Station. Initially, WMATA desired thirteen bus bays but, after working with the design team to reassess expected bus traffic, they agreed to reduce the bays to seven.

2) BCA agreed to build a dispatchers' kiosk, lavatory, and related facilities for WMATA's use.

3) With respect to all design and construction impacting or materially affecting the existing Metrostation and related bus facilities, BCA agreed to provide all design and development plans for WMATA's written approval and to allow inspections during construction. All comments and requested changes from WMATA were to be addressed by BCA before additional work could proceed.

4) Design and construction that would not impact or materially affect WMATA's facilities would be reviewed by WMATA and could be commented on, but BCA would need only to give such comments "due consideration."

5) It was agreed that the construction of the project would not materially interfere with ongoing Metrostation and Metrobus operations.

6) The lease term would be for 99 years, broken down into a 60 year term commencing September 8, 1986 with one 39 year extension. WMATA typically used a 50/49 year lease but, at the request of BCA's lenders, WMATA agreed to extend the first term of the lease from 50 to 60 years. WMATA would not, however, subordinate their land lease to either construction or permanent financing.

7) Upon termination of the lease in 99 years, BCA would surrender and deliver the property constructed on the leased land to WMATA.

8) Until construction was completed and the first office and retail tenants commenced rental payments to Ballston Metro Center, BCA would make

lease payments to WMATA of \$25,000 for year 1 and \$75,000 for years 2 and 3. It was assumed in the lease that the project would be completed by the end of year 3 and at that time BCA would begin paying \$300,000 rent in year 4, incrementally increasing to \$450,000 for years 7 through 60. WMATA would also be paid additional annual rent of 8.5% of revenue above an annual base figure of \$5,500,000.

9) Two years before the automatic 39 year renewal, three appraisers, one each to be chosen by BCA and WMATA and the third to be chosen by the other two appraisers, would calculate a new rent for the renewal period, assuming the land was unimproved but taking into consideration the cost to demolish and remove the existing improvements.

10) BCA agreed to submit to WMATA annual certified financial statements.

#### **The 14,919 Square Feet Land Purchase**

1) A Base Payment of \$1,470,000 (\$98 ft) would be paid to WMATA in the following four installments:

March 31, 1989	\$500,000
March 31, 1990	\$300,000
March 31, 1991	\$300,000
March 31, 1992	\$370,000

2) An additional payment of 1.5% of the gross income from the sales of the condominiums would be due to WMATA upon the sale of the last condominium unit, but not later than March 31, 1992.

#### **Construction Scheduling and Financing**

Construction of the \$96 million project began in May, 1987 with Signet Bank of Virginia as the lead construction lender. Participating in the construction loan was Chase Manhattan Bank, Sovran Bank and Dominion Bank of Northern Virginia. The Equitable Life Assurance Society provided a standby permanent loan on the office/retail portion of the project.

As part of the requirements of the construction loan, Signet Bank would not close the loan until at least 50% of the condominiums, to be called Alta Vista, were presold at prices ranging from \$80,000 for a lower level studio to \$400,000 for a two bedroom penthouse with a den. The hotel, managed by Ramada, opened for business in September of 1989, slightly more than two years after groundbreaking. The office and retail portions opened during December of 1989 and the condominiums, which were almost sold out, opened in February of 1990.

## RESULTS

Ballston Metro Center was successful for both the County of Arlington and WMATA but was a questionable economic deal for IDI and BCA.

### Public Policy Results

#### Arlington County

The County of Arlington obtained the centerpiece of their “new downtown” in accordance with their Sector Plan and got a substantial increase in assessed property, jobs, and residential units. It achieved its goal of mixing residential and commercial to achieve 24 hour activity.

In November, 1994, KPMG Peat Marwick LLP released a study evaluating the return, if any, Virginia received on its financial contributions to the Metrorail system. Based on the incremental increase in tax revenues from additional development and the associated jobs directly related to Metrorail’s presence in Virginia, the study found that the State achieved a 19.2% return on its investment, a powerful argument for mass transit and public/private joint venture developments.

The County’s efforts in creating the Ballston Sector Plan and zoning plan were praised by all participants because they brought certainty to the process. With traffic and environmental studies completed by the County and issues regarding what could be built on the site predetermined, IDI was able to negotiate quickly and accurately with the minority land owner and WMATA on the terms of the land purchases and lease.

The Sector Plan prevented the development from being delayed by public hearings and planning meetings because the public had previously reviewed and discussed potential developments on all the sites within the Ballston Area. Very early in the approval process the architects and engineers were able to design what ultimately was built. Obtaining planning approval for a development of this size in less than four months is testament to the success of the Sector Plan and the efforts the County and community made in planning for the future of Ballston.

#### WMATA

The County and WMATA’s close cooperation and WMATA’s ability to modify its customary public/private guidelines were instrumental in changing a site that initially received no developer interest into a site that became the focal point of Arlington County’s new downtown.

WMATA clearly benefited from increased ridership on Metrorail and the conversion of vacant residual land to a valuable 99 year stream of cash. To

their credit they accommodated BCA where necessary. For example, they permitted seven bus bays instead of the desired thirteen and agreed to subdivide and sell a portion of their site instead of leasing the entire site, as was originally contemplated.

### **Ballston Partnership**

The Ballston Partnership proved to be an especially effective and useful advocate not only for the Ballston Metro Center but for the entire Ballston area. At the time of the initial planning of the Ballston Metro Center, Ballston was an area of Virginia with which few people were familiar. The five years between 1985 when the Ballston Partnership was initiated and 1990 when the Ballston Metro Center was completed allowed the Partnership to do significant marketing on Ballston's behalf. According to a spokesperson from IDI, the partnership was "a huge lift" in marketing the condominiums, office space, and the hotel, and that it significantly aided all the development projects in the area. Twice a month, meetings were held by the Partnership with all the active developers, the public and County officials to provide updates on various projects and to provide a forum to solve common problems affecting many of the participants. The County Signage Ordinance proved to be cumbersome for all the developers building at that time and, with the advocacy of the Partnership, it was amended by the County.

### **Private Developer Results**

IDI and BCA assumed the risks and rewards of any developer. Their entitlement risks were minimized by the Sector Plan and by accommodations from WMATA. To help IDI reduce their risks further and in recognition of the large amount of cash necessary to get to construction loan close, WMATA agreed to minimal, up-front lease and land purchase payments until project completion.

With the initial requirements of the construction lender (typical of lender requirements in the area) most of the condominiums were sold before completion of construction, at an average price of around \$150,000.

When the 203,000 square foot office building was completed in December of 1989, two other buildings of higher quality were completed one block away with a combined total of 800,000 square feet of space. IDI was unable to lease the building at its original rate of \$26.50 foot with the competition it faced. After two years of effort the building was finally leased but at average rents of \$18 foot, 32% less than the original asking price. Because of the lower rents and the increased length of time to lease the space, Equitable, who had placed a loan on the building upon construction completion, foreclosed on the



commercial building in 1992.

The problems of the commercial portion affected the ability of the partnership to make the final “Additional Payments” to WMATA on the land purchase. Total condominium sales revenue were approximately \$41,200,000 triggering an Additional Payment to WMATA of 1.5% or \$618,000. IDI was not able to make this payment as called for under the terms of the September 8, 1986 Purchase Agreement. An amendment, therefore, was agreed to on December 20, 1993 which provided for a \$300,000 lump sum payment on December 31, 1993 and quarterly installment payments of \$53,000 through June 30, 1995 along with accrued interest. IDI was able to fulfill the terms of this Amendment which terminated all of WMATA’s rights in the 14,919 square foot parcel.

The hotel portion of the project was sold by IDI in 1996, formally ending IDI’s relationship with the Ballston Metro Center. The project proved to be a difficult development economically for IDI and BCA.

## **ANALYSIS**

The Ballston Metro Center is an example of a farsighted County government, a flexible transit agency, and an experienced risk taking developer combining vision and efforts to produce what is unquestionably a successful addition to the Ballston community. Many of the risks and costs of public/private development can be minimized and reduced as occurred with the Ballston Metro Center. What can never be reduced entirely is the market risk all real estate projects face upon completion. Six years elapsed between the time IDI became the developer of the site and final construction completion. Much had changed in the real estate markets during that period, rendering obsolete many of the absorption and lease up assumptions underpinning the economics of the Ballston Metro Center.

## **SUMMARY**

The \$96 million Ballston Metro Center is considered successful by WMATA, Arlington County, and the Ballston Partnership. The Metro Center increased ridership on Metrorail, it created a “new downtown,” and it proved the validity and effectiveness of a public/private partnership. It also showed that real estate cycles can frustrate even the most detailed and thorough construction and leasing plans. IDI, the developer of the Metro Center, benefited greatly from the County’s farsighted planning process, from WMATA’s willingness to enact innovative land disposition land, and from the Ballston Partnership’s advocacy and marketing. In the end, however,

unfortunate timing in the real estate cycle made the Metro Center a marginal real estate development.

<b>Ballston Station, Washington, DC</b>
Mixed use: residential, retail, office, hotel; onsite shopping with transit facility. Washington Metropolitan Area Transit Authority (WMATA) owned 87,118 square feet adjacent to the Metrorail and negotiated a land sale and lease terms critical to the development of the site.
<b>Special Features:</b>
The 26 story tower was constructed atop the metrorail station.

<b>Developer</b>	<b>Architect</b>
IDI, Inc 14901 Pennfield Circle Silver Spring, Maryland	Smith Williams Group Harmony, CA

<b>Land Use Information</b>		<b>Development Schedule</b>	
<i>Site Area</i>	2.7 acres	<i>Site Acquired</i>	1986
	117,612 sq.ft.	<i>Construction Begins</i>	1987
<i>Total Dwelling Units</i>	277	<i>Construction Ends</i>	1989
<i>Gross Density</i>	103 units/acre	<i>Occupancy Begins</i>	Fall, 1989
<i>Total Parking Spaces</i>	760		
<i>Number of Stories</i>	26		

<b>Residential Unit Information</b>		
<u>Unit Type</u>	<u>Size (avg.sq. ft.)</u>	<u>Number Built</u>
Studio	575	11
One bedroom	725	109
Two bedroom	1100	131
Three bedroom	1,300	26
Development Total	950	277 units

<b>Building Use Information</b>		
<u>Building Use</u>	<u>Square Feet</u>	<u>% of GBA</u>
Residential Units	353,773	50%
Retail	24,168	3%
Office	202,961	29%
Hotel	130,290	18%
Total	711,192	100%



**Figure 7-1 View of Ballston Metro Center, Ballston, VA**



**Figure 7-2 Another view of Ballston Metro Center**



## **GRESHAM CENTRAL**

### **Gresham, Oregon**

#### **INTRODUCTION**

Gresham Central Apartments is a high-density residential apartment project situated in the largely middle income and blue-collar city of Gresham, approximately 15 miles east of downtown Portland and at the gateway to the Columbia River Gorge. The project consists of one to three bedroom flats and town homes with rental prices set at market rate. Occupying 2.58 acres, the irregularly shaped site sits on the edge of the aging downtown district and comprises land purchased by the developer as well as a small parcel granted by the Tri-County Metropolitan Transportation District of Oregon, the local transit service provider commonly known as Tri-Met.

The \$4.9 million project, developed through an agreement with Tri-Met and Gresham Development Company, was completed in September, 1995. It consists of 90 units in six wood frame buildings of two and three stories. There is a pedestrian promenade on the north, which abuts the MAX light rail tracks and the Roberts Avenue pedestrian way on the west. Privately owned parcels are on the remaining sides. Parking is at grade and covered, in the center of the development. There are no garages facing the street.

The project is distinguished from typical apartment projects in the region in several ways. It has almost twice the density of conventional developments and incorporates many design features geared toward reinforcement of pedestrian activity. The balancing of higher than average density and greater public orientation helps tie the project to the surrounding community and to the adjacent light rail transit station. The pedestrian related improvements to the north and west of the site close a gap between the light rail station and the Farmers' Market, one block south.

#### **PROJECT CONCEPT**

Several local, regional and national agencies, and the developer, played crucial roles in assuring the project was completed as envisioned. The two key participants were Tri-Met and the Gresham Development Company (GDC). Other agencies that were significantly involved include the Federal Transit Administration, Metro (the Portland region's metropolitan planning organization), the City of Gresham, the Portland Development Commission,

the State of Oregon's Department of Environmental Quality, the Oregon Department of Transportation, the Federal Highway Administration, and the Portland General Electric Company.

Due to a shortage of land available for new construction, the Portland region had come under increasing pressure to experiment with housing which would be subject to initial public site control while also achieving high quality design standards and setting precedents for greater density. One untested mechanism was a development agreement between the private developer and the public agency. Planning officials felt that to be effective this agreement needed to be coupled with the ability to secure public grants in a timely and efficient manner. Tri-Met and GDC entered into an agreement because of the potential of developing a high quality, high-density showcase project in proximity to the light rail. A project had recently been developed in the mid-corridor segment at 163<sup>rd</sup> and Burnside Streets but had not been successful enough to generate enthusiasm for other projects. Behind the scenes, however, the Tri-Met staff was actively engaged in looking at "every scrap of right of way we could build a project from" (from interview with Phil Whitmore, Gresham Central Project Manager, September, 1994).

Because of its role as regional transit provider, Tri-Met has an interest in generating increased ridership on its system. One way to bring this about is by encouraging high-density development in close proximity to its light rail facilities. Tri-Met's particular goal at Gresham Central was to establish a model of regional significance for developers, agencies, and the public to examine in terms of density, building massing, and orientation and reinforcement of pedestrian activity. Tri-Met was more aggressive here than on typical joint development projects and acted as a full partner in the process. The agency's interest paralleled the developer's: to generate interest among other parties to undertake similar projects.

The developer, Gresham Development Company, was led by partners Stan Christiansen and Frank Piacentini. They had a great deal of experience in apartment construction, but this was their first foray into transit oriented development. Besides the sense of pride that comes from building a unique, quality product, the developer was naturally seeking a reasonable return on investment.

## **BACKGROUND**

The Gresham Central site had been developed early in the century. It was adjacent to an active freight rail line owned by the Portland Traction

Company. The freight line operated until Tri-Met's purchase in 1983 of the 0.7 acre parcel to the north of the Banfield Light Rail Project. At one time a nut processing plant occupied the Tri-Met portion of the site. Two residences were later built but they were razed in the 1960s. On the two acre parcel to the south was a vacant house, derelict, overgrown with blackberry bushes and strewn with trash and rubble. Tri-Met's portion was not developable, being encumbered by utilities easements.

In an effort to determine the market for transit oriented development, in 1985 Tri-Met commissioned Economic Research Associates to produce a report establishing reasonable rents for another east Multnomah County site. The report determined that rents would need to be set \$50 a month above market rates, which killed the prospects for a privately financed project.

In August of 1991, Tri-Met initiated talks with the developer to consider combining the Tri-Met owned Gresham site, which was wider than necessary for the Banfield LRT (Light Rail Transit) right of way, with the adjacent privately owned property. The Tri-Met property was unusable due to utility easements encumbering its north side. The easements included overhead power distribution lines (157kV) and underground storm and sanitary sewer line easements. If the two properties could be combined and the easements relocated, the site would be developable. Tri-Met's strategy was to give the smaller parcel of land to the developer at no cost, provided that the project be modified to meet local and regional goals for project density and transit orientation. The conditions attached to the conveyance of this parcel were verbally agreed to by both parties at the start of the project and written into a sale and development agreement three years later. In essence the Tri-Met owned parcel would be turned over to the developer at the start of construction. The developer would use this parcel for construction of a portion of the apartments and the public promenade. Upon project completion, the developer would deed the promenade to the City as a public park. The developer also agreed to provide continuing upkeep for the promenade.

Four years later, in September, 1995, the sale of Tri-Met's property to the developer was completed, and construction commenced. In the interim period, a great deal of work went into forming the agreements which were to make the project a reality.

## **PHYSICAL FEATURES**

The project site is roughly bounded by Roberts Avenue to the west, the light rail tracks and 10<sup>th</sup> Drive to the north, Hood Avenue to the east, and N.E. 5<sup>th</sup>



Street to the south. It is an “infill” project in that it sits at the edge of the old suburban downtown (four blocks to the south) in a relatively mature and developed area. The area is ripe for high intensity redevelopment as low and moderate density residential and light industrial uses predominate.

Zoning of the site is “TD” as adopted under Gresham’s 1994 ordinance which allows high intensity, mixed-use development up to 42 units per acre in gross density. Several parts of Gresham adjacent to the light rail have been similarly zoned, but Gresham Central is the first to take advantage of this designation.

The site is well oriented to existing transportation facilities. Directly northeast of the project is the Gresham Central MAX light rail station with weekday, peak hour trains operating on seven and a half minute intervals and non-peak trains generally at fifteen minute intervals. The site is well served by buses with several lines operating within two blocks of the site (Routes 26, 23, 51, 84, 80, 9, and 4).

The physical characteristics of the project are noteworthy and atypical for the region. Building massing and orientation to the street, rather than to the interior of the project, is an effort to reinforce pedestrian activity. Parking is relegated to the interior of the complex, and no garages face the street. The units themselves, mostly two bedroom apartments, are laid out in an unconventional fashion. The first story consists of one level units with front and rear entries, while the second and third stories each share half the floor space of the lower units. The upper units are thus “stacked” two each over one ground level unit with a party wall dividing them. Entries to the upper level units are oriented toward the central parking.

The lower floor units are surprisingly light and airy due to their east-west orientation and because the first story units have both front and rear entrances: one faces the promenade and the other faces the parking area. The individual unit appears spacious with a large kitchen area opening to the living room. There is no apparent waste of space. The upper floor (two story) units seem compact by comparison but by no means “boxy.” As a whole, the two bedroom units would be attractive for couples or one child families.

The building facade is regularly articulated, presenting a “rowhouse,” versus a monolithic apartment, appearance. Windows face directly onto the street or the promenade. Pedestrian orientation is further reinforced by first story “semi-private” front porches which face the street or the promenade. A net density of 35 units per acre is achieved on a site of 2.58 acres without the use of structured parking.

Aesthetically, the facades echo early-American building fronts, borrowing from turn-of-the-century eastern and western U.S. vernaculars. Conspicuously absent is a contrived, overly articulated “gingerbread” or “Miami Vice” appearance, prevalent in West Coast, multi-family residential construction of the 1980s. Above average quality of construction is evident. A “heavy timber” motif is applied to the facades and rear porches. The use of oversized, exposed stair stringers adds a sense of solidity to the overall appearance. The facade of the buildings enhances the streetscape and vice-versa. Overall the facades appear inviting and “touchable” to the strolling pedestrian.

All units have “semi-private” porches, with zero setback from the sidewalk; lower units face either the sidewalk or the promenade and the upper units face the parking lot. The porches fronting the promenade or the sidewalk achieve a balance between exclusivity and public orientation, seen by many planners as essential for civic and private life.

The most significant unifying feature of the project, the pedestrian promenade, is a combination of landscaping and hardscaping and links the project directly to the light rail station. The concept was realized only after lengthy negotiations with the utility companies and the City, and after the concurrence of Tri-Met Operations and a redesign of the proposed light rail double tracking.

Design of the drainage facilities for the project was in itself extraordinarily complex. To reduce the demand on the City’s storm system, an on-site retention facility was required. Project densities precluded surface basins, so the drainage system is underground. It consists of oval “squish pipe” (49” x 33”) which collects surface runoff from the development and discharges the detained storm water through orifices to the public sewer system, thus mitigating demand on the system during storms.

## **THE PARTNERS AND PARTICIPANTS**

Six different grants were required to make the project a financial success. A significant and painstaking coordination effort, spearheaded by Tri-Met Project Manager Phil Whitmore, was essential to the project’s final success. One of the primary sources of funding for the project was sought through the Congestion Mitigation and Air Quality Improvement-Transit Oriented Development program (CMAQ-TOD). This program targets public funds to transit supportive demonstration projects. In the case of Gresham Central, CMAQ-TOD funds were sought to help close the financing gap and generate a reasonable profit for the developer.

Tri-Met and GDC were the two main partners in the project. As the Portland region's public transportation provider, Tri-Met operates over 80 bus routes and MAX, the 15 mile light rail line serving the east side and the suburb of Gresham. Under construction and scheduled to open in 1998, the Westside MAX will serve the burgeoning communities of Beaverton and Hillsboro. The extension will more than double the system to 33 miles of track, 46 stations, and 72 vehicles.

Tri-Met supports Metro's Region 2040 Growth Concept, the regional blueprint for development in greater Portland, by orienting its long term service planning and system expansion accordingly. The fully realized Primary Transit Network (PTN) will consist of a four tiered service network (LRT, high capacity bus, trunk line bus, and regular bus service) operating on intervals of 15 minutes or less throughout the day. This is thought to be the minimum level of service needed to justify significant transit orientation in development or incorporation of transit preferences in street design. Priority treatment of some surface bus lines will be instituted in order to make these modes more competitive with private transport.

At the regional level, Tri-Met is in a support role for land use. Tri-Met uses public/private partnerships as a direct or an indirect means of assuring that housing and job growth occur within a five minute walk of its Primary Transit Network. However, Tri-Met sees itself as a coordinator and not a developer and does not directly seek land use authority. "We are in the bus and train business, not the development business." (Interview with Kim Knox, Project Manager at Tri-Met, June 15, 1996.) This does not preclude the agency's commitment to be a "good neighbor" and to facilitate community objectives.

One way that Tri-Met has tried to further community objectives and bridge the gap between public land and private investment is through the publication of individual Station Area Development Profiles. The profiles identify "opportunity" sites for public/private development located within walking distance of stations. These sites are defined as vacant land, surface parking lots or land with improvements totaling ten per cent or less of the assessed parcel value. They are concentrated on the new Westside, not the original Banfield/Gresham corridor.

The Westside Light Rail Corridor, currently under construction and set to open in 1998, consists of many large acreage tracts of land; over 1500 vacant, developable acres (so-called "greenfield" sites) have been identified as eligible for high-density uses, with many large parcels in single ownership. Many local planning jurisdictions along the corridor, which cuts through the center of the "Silicon Forest," have adopted interim guidelines promoting

transit oriented development. At least one, Hillsboro, has published a proposed zoning code and comprehensive plan amendments for station areas. These sites are also typically in close proximity to the largest employers in the region, and it is estimated that transit supportive planning policy could draw 81,000 daily riders to the combined Eastside/Westside corridor, versus 39,000 if there was adherence to conventional land uses.

Unlike the westside corridor, the Banfield (Eastside) corridor, in which Gresham Central is located, traverses mainly older, established areas of development. “Greenfield” parcels are not available here, so infill sites of five acres and less present the greatest opportunity.

Tri-Met has been involved in a handful of public/private partnerships but few are beyond the infancy stage. Recent forays by Tri-Met into the public/private development arena include the Civic Stadium project, a partnership with the Portland Development Commission, and Howard’s Way. Both these projects are in the Goose Hollow area immediately west of downtown and sit on Tri-Met owned land adjacent to West Side Light Rail. In both cases Tri-Met’s approach is to contribute the land to the project at no cost to the developer in exchange for meeting certain “non-conventional” standards. Typically Tri-Met provides cost estimates and proformas to expedite the development process and to reduce out-of-pocket costs to the developer.

Besides its involvement as the other “full” partner in Gresham Central, Tri-Met provided the lion’s share of technical assistance and inter-agency coordination, wrote and executed the development agreement, relocated utilities easements, and provided a new consolidated easement on the north portion of the property in the dedicated pedestrian way.

FTA was initially listed as a significant partner in the project. CMAQ funding normally requires approval by FTA. At Gresham Central, CMAQ-TOD funding was sought for the promenade. Tri-Met attempted to justify the promenade as an eligible FTA joint development project because of its beneficial effect on transit accessibility and on environmental grounds. They justified the storm sewer system, which was designed to accommodate drainage from the LRT trackway, for the same reasons.

Oregon is the first state to establish an urban growth boundary (UGB), which is incorporated in the Region 2040 concept. The urban growth boundary concept, established when statewide land use goals were developed in the early 1970s, seeks to contain sprawl and provide a definite transition between rural and urban land. This is accomplished by densifying urban communities within the region, focusing growth along existing and planned transit corridors, preserving open spaces, keeping new lot sizes small, and creating

compact business areas. The UGB is intended to encompass an adequate supply of buildable land which can be provided with roads, public utilities, and other services to accommodate growth for 20 years. Oregon's transportation planning policy has embraced a strong public commitment to transit. Design charrettes for the 50 year planning process are characterized by strong community involvement. The planned construction of new roads has been scrutinized and limited where deemed appropriate.

Metro, the Portland region metropolitan planning organization, is responsible for initiating and coordinating regional aspects of transportation and land use planning and executing the state's land development mandate to maintain the 20 year supply of land for development. Metro is authorized to compel cities and counties to alter land use plans if they conflict with state and regional goals. In 1992 the Metro Charter was adopted based on the Regional Urban Growth Goals and Objectives (RUGGOs) established by the community. It called for a regional framework plan to accommodate growth while sustaining a high quality of life.

Metro's current schedule calls for the regional framework plan (Region 2040) to be adopted by late 1997. Major components of the plan consist of regional transit expansion and improvements plus a commitment to affordable and higher density housing (a minimum 50% of new housing is geared to be multi-family). Another element of the regional plan which sets it apart from other MPOs is a 50 year time frame to allow long term growth, while avoiding major expansions of the urban growth boundary. The major elements of the plan have enjoyed widespread support from local officials. Because of its statutory responsibility for managing the region's urban growth boundary, Metro has set up "urban reserves" in order to direct future growth. Given current, conventional development patterns, projections indicate that land inside the boundary will be exhausted in 12 years, versus the 20 years required under the Region 2040 plan.

Metro had not specifically studied redevelopment in the Gresham Central area as an element of the Region 2040 Plan but did have a regional interest in helping to achieve the density goals stated in the plan. At Tri-Met's behest, Metro was initially listed in the development agreement as a full partner, primarily as a funnel for FTA CMAQ funding. Tri-Met did not wish to be both grantor and recipient of the CMAQ grants required to make the project financially successful and sought Metro's help in disbursing a portion of the grant money. Metro placed the necessary grants on the State Transportation Impact Program (STIP), elevated the project to higher status (along with five other projects) for federal scrutiny, and addressed the federal financing eligibility issues. Eventually Metro's involvement in the project dwindled,

along with the prospects for significant CMAQ funding which Metro unsuccessfully attempted to marshal.

The City of Gresham, like many of the region's municipalities, has adopted density guidelines in keeping with Metro's regional vision. The City assisted the project by accepting the promenade as a city park, agreeing to provide some replacement of "street furniture" and granting a 5 year abatement of city taxes for the project. Gresham also sponsored the applications for CMAQ funding.

The Portland Development Commission (PDC) provided the technical staff for a CMAQ-TOD steering committee and oversight of the City of Gresham during the CMAQ funding application process. Later in the process, PDC handled disbursement of CMAQ funding after it became clear that Tri-Met and Metro were having problems meeting FTA eligibility requirements.

The State of Oregon Department of Environmental Quality (DEQ) established the CMAQ funds which were partially used to finance the project. The Oregon Department of Transportation (ODOT) channeled highway funds from FTA to Tri-Met and provided the contracts for Tri-Met. The Federal Highway Administration (FHWA) became a participant in the later stages of the project channeling federal funds which were unavailable through FTA.

Portland General Electric Company (PGE) redefined their easement in a narrow strip on the north edge of the property, relocated their poles to the center of this easement, quit-claimed the remainder of the parcel to Tri-Met, and permitted joint use of the easement by City storm and sanitary sewer lines. This allowed Tri-Met's formerly unusable parcel to be developed.

## **DETAILS OF THE NEGOTIATIONS**

### **The Nature of the Consensus Building Process**

The unconventional features of the site and buildings and the need for public financing made negotiations extremely complex. Federal requirements had to be balanced with the concerns of the local community, requiring a great deal of "juggling" of funds and making it difficult to identify guaranteed sources of grant money. Coordinating and negotiating with all the concerned agencies without assistance from a public agency would probably deter most developers from accepting a project of this type, even a relatively small one like Gresham Central. "For the amount of work involved," according to Phil Whitmore, "this should have been a \$25 million dollar project, not \$5 million."

### **Laying the Groundwork**

To make the project work and to put transit and density at the forefront, the tangle of easements and utilities in the 0.7 acres that Tri-Met owned had to be worked out. PGE originally had title to the easement with a 157kV distribution line running overhead, but sanitary and storm sewer lines also occupied the strip, and the City had plans for another sanitary sewer to run through the site. Complicating the physical constraints were potential legal problems with PGE. Exacerbating these issues, Tri-Met's engineering consultant was in the process of designing a second MAX track which would require widening the right of way to the south and into the Tri-Met parcel.

Late in 1993 Tri-Met Operations, the City and PGE reached agreement: the easement could be consolidated into a narrow band on the north part of the Tri-Met parcel abutting the trackway. This easement would comprise the pedestrian promenade; at the center of the promenade would be the relocated PGE overhead distribution lines and on either side of the pole line would be the relocated storm and sanitary sewers. Still unresolved was the track widening issue. In mid-1994, the double track consultant concluded it was feasible to reduce right of way requirements by installing a "French Drain" subsurface drainage system rather than a surface ditch as previously planned. Tri-Met was left with a 0.58 acre parcel to turn over to the developer, to be consolidated with his parcel to the south.

### **Tri-Met/Developer Negotiations**

Although several agencies were involved in the development process, Tri-Met was the chief negotiator and advocate on the developer's behalf. Tri-Met served as a conduit for all issues involving grant money and concessions requested from the developer by other agencies. A Sale and Development Agreement was signed by Tri-Met and the developer in August of 1994 which partially relieved the developer of dealing with multiple agencies.

Tri-Met conditionally asked the developer for a number of design considerations to be included in the project, including:

- Orientation of the project toward the track and station along the proposed promenade, in order to create a visual connection
- Placement of building facades on the street
- Placement of parking at the project's interior
- Increased density above the norm for suburban residential projects.

The developer's proforma initially indicated a need for gap financing of \$500,000 for the \$4.9 million project. The developer agreed to supply \$250,000 of that amount by converting some of his profits into an equity source, but he lacked the other \$250,000. These funds were sought by Tri-Met, which subsequently identified \$239,000, including \$57,000 through a waiver of the city's park fee, \$80,000 as the capitalized value of the city's tax abatement contribution, \$72,000 in CMAQ-TOD storm sewer grants, and \$30,000 in direct housing assistance grant "switch" money. Since this amount was sufficiently close to their expectations, the development team felt they had a credible project.

### **Tri-Met and City of Gresham**

At an early stage, Tri-Met had negotiated with the City of Gresham on several facets of the project and eventually sought City financial support. Prior to 1991, there was little community opposition to this project. At public meetings in 1993, local residents expressed enthusiasm for new high-density housing in the downtown area which had the potential of stimulating neighborhood revival and increasing property values. As part of the City's "Visioning" process for downtown, there emerged strong support for housing of up to five stories.

At an early stage, the City agreed in principle to consolidate its storm and sanitary sewer easements on the north portion of the site and to absorb the added cost of rerouting a second planned sanitary sewer alignment around the promenade.

Specific differences of opinion were evident, however. The Downtown Gresham Business Association appealed to the City Staff, and eventually to Tri-Met staff, for a "small-block" grid, as a means of bringing more development into the downtown area. The proposal to extend 7<sup>th</sup> Avenue through the site would have reduced by 33% the densities sought by Tri-Met. Tri-Met also argued that a small-block grid, while advocated by some planners as an excellent prototype for transit oriented development, would, in the case of a large development, be an incongruity. It wasn't until the developer, with support from Tri-Met, threatened to cancel the project that the Business Association, which was without City backing, relented.

Resistance from the City was encountered, however, when it was learned that 40% of the project needed to consist of moderate priced housing. Worried about community opposition to a large "low income" contingent, the City Council withdrew its support for the state housing financial share, preventing the infusion of expected tax credits and low interest loans. The additional development cost of requiring all units to rent at market rate was between



\$500,000 and \$600,000. This was enough of a change to require a redesign, with no structured parking and retail space, thus dropping the achievable residential density.

The City was required to make additional concessions on the project. In the early 1990s the city began imposing System Development Charges (SDC) on new projects. The SDCs are fees assessed on new developments, calculated by pro rating a project's expected burden on the existing infrastructure and utilities. The fees are phased in over a period of several years. Ironically, Gresham Central was the first residential project in the city to feel the impact of this fee structure. The total SDC amounted to \$377,000, a lower fee than would have applied if the development had not occurred in a transit overlay district. The parks fee portion of the SDC was waived by the City because of the project's contribution of a pedestrian promenade. This waiver amounted to a \$57,000 savings from the total, requiring an SDC contribution of \$320,000.

Tax abatements have also been applied to the project by the City. Essentially, the City will withhold taxing improvements on the land for the project's first five years, amounting to about \$80,000 in savings for the owners.

### **Tri-Met and Federal Transit Administration**

Tri-Met was required to negotiate with the FTA at many points in the development process and the going was not entirely smooth. Initially, Tri-Met was required to reimburse the FTA for the federal portion of the value in the Tri-Met owned parcel. To do so required Tri-Met's use of an independent appraiser, who assessed the value as \$18,500. Tri-Met initially argued to the appraiser that the land value was negligible considering the easements encumbering the property. In order that FTA not reap the benefit of the developer's improvements to the parcel, Tri-Met reimbursed FTA for the "before" condition (not accounting for the increased value to the land, once the easements were consolidated). This "profit" amounted to \$25,000 and was not readily available to the developer, so it was put into an escrow account by Tri-Met as a "pedestrian improvement construction fund" to be used later as a backup grant for the promenade.

Although these amounts seem like "small change" compared to the overall project costs, Tri-Met stressed these points in attempting to set precedents and to develop a reliable source of tools in negotiating future projects with FTA.

Gresham Central is the first CMAQ approved project located next to a light rail station. It was identified along with six other transit oriented projects and included in a regional fund of \$3.5 million. The effort to obtain this funding was initially led by the Oregon Department of Environmental Quality (DEQ).

Tentative CMAQ funding had been reserved for the project in October, 1994, and a description of eligibility for the funding was initiated with FTA in November. In July of 1995, three weeks before construction of utilities for the project was to commence, Metro formally requested approval for CMAQ-TOD funding of the project within this overall allocation. The funding was sorely needed for the unexpected imposition of development charges by the City.

The funding approved by the CMAQ-TOD steering committee amounted to \$197,000 and consisted of two grants: \$125,000 for the promenade and \$72,000 for storm sewer improvements. Based on the steering committee's approval, Metro requested from FTA a positive determination for eligibility of the joint development project. The basis for the committee's funding request was on the project's creation of added value for FTA's investment in transit. Metro asked for a Categorical Exclusion (CE) for environmental issues and a Letter of No Prejudice (LONP) for funding eligibility issues, so that the work could commence prior to the rainy season. Metro also requested, at Tri-Met's behest, that FTA not withhold funding if the storm improvements were built as a turnkey project with GDC doing the construction. Metro's stated position was that the small site area did not allow two contractors to work concurrently. Also at issue was that federal funding requirements include competitive bidding and use of Davis-Bacon wage rates, which would have made the project infeasible for the developer.

The FTA's September, 1995 response to Metro was encouraging in that it agreed to a LONP and a CE on environmental grounds. FTA seemed to be uncomfortable with the developer paying the local match funding and was clearly not comfortable with the imminent start-of-construction date even though it had provided a LONP. Although Metro had formally requested a grant, FTA asked for the application to be submitted in a different format.

By November of 1995 problems with FTA requirements were in danger of jeopardizing the project. For example, the FTA suggested that the grant would have to be agreed to by all six of Metro's unions as part of the Labor Department section 13(c) approval. CMAQ funding is unusual in that it may be "routed" through either FTA or FHWA. Each administration has its own requirements and regulations. Since signoff by all required parties would have been impossible given the time constraints, Tri-Met opted not to seek the CMAQ funds directly through FTA and instead sought funding approval through FHWA, which does not have a 13(c) approval. Unfortunately, the project did not initially qualify for FHWA grant approval because FHWA did not recognize the LONP. As a storm sewer improvement, the project was ineligible because construction was already underway. At this point Tri-Met's

only option was to “repackage” the project as a pedestrian feature instead of a storm sewer improvement.

The storm sewer grants evolved into grants for “pedestrian improvements” including the promenade and “Roberts Avenue Pedestrian Way,” which would have been constructed in any event. These funds were to be administered by FHWA as a sole-source contract through a Tri-Met/ODOT agreement, subject to a number of requirements of the developer. The requirements included:

- that the developer donate the land to Gresham
- that the developer agree to maintain the promenade at the developer’s own expense
- that the developer pay the local match on the federal grants
- that the storm sewer for the MAX tracks and promenade be allowed to flow into the surge tanks being constructed in the parking lot of the development
- that the construction contract price be 40% less than independent estimates by Tri-Met staff
- that the developer pay in advance all the costs and absorb all cost overruns.

All but \$20,000 of the CMAQ-TOD storm sewer grant money approved by the CMAQ-TOD steering committee was received by the developer. Tri-Met has agreed to return the \$20,000 to the developer by finding a “switch” project from which to draw, but this is unlikely that this will happen.

Other CMAQ-TOD grants totaling \$155,000 were obtained with less difficulty. Housing grant funds were used to make the project appear more “pedestrian friendly” by changing the facades and adding street furniture. These grants, intended for other regional transit oriented projects, were switched from Metro to PDC.

PDC was then able to move the grants directly to Gresham Central without the approval of FTA. These grants, \$125,000 of directly invested CMAQ money and \$30,000 of “switch” money, went to the Roberts Avenue Pedestrian Way. Since the \$125,000 portion was budgeted at the project’s inception, it did not contribute to the gap financing of \$250,000 required for closure with public grants or assistance.

## **FINAL AGREEMENTS AND CONTRACTS**

A Letter of Commitment from Tri-Met to the Developer in June, 1992 described objectives which Tri-Met would meet in exchange for transfer of the northerly parcel. It codified a verbal understanding held by Tri-Met and the developer and spelled out a number of key points which would be used to guide the transaction. Included was the desire to achieve a 35 unit per acre minimum density in a pleasing environment, with quality of design and construction, and design themes that would echo the adjacent station's architecture. Also included was the condition that Tri-Met obtain an independent appraisal of the parcel and get preliminary approval from FTA. Based on these preliminary conditions, legal descriptions and preliminary sketches, the parties would then enter into a development agreement.

A draft of the final development agreement was sent from Tri-Met to the developer in October, 1993. It stated the objective of building the "most intense development that is both livable and economically feasible." There was also a request that the buildings be a minimum of three stories.

The development agreement, executed in August, 1994 and based upon the letter from Tri-Met, spelled out terms of sale and development and solidified earlier-stated objectives. A key theme was the intent that Gresham Central be viewed as a joint development demonstration project which would make similar developments attractive to private interests. It also set out schedules for the preparation of plans and approval of financing. The agreement listed expected sources of grants and financing, and spelled out terms of indemnity should the contractor find hazardous materials on site. The purchase price as determined by the independent appraisal (\$18,500) would be put into an escrow fund as a backup to fund the pedestrian promenade. The money would be returned to the seller at project completion if it was not used. The agreement was tied to use of the developer's property for construction of the project and included terms for enforcement of the agreement and methods of recourse in the event of either party's default.

## RESULTS

Due to the commitment of the developer and the agency, the project has attained a high, although not unqualified, level of success. The units have been leased as the individual buildings in the complex are completed. As of September, 1996 at least 50 of the 53 available units were leased. Rentals of \$695 for the two bedroom units are competitive for the market, although three to five percent higher than units with equivalent amenities in surrounding Gresham communities. Rents on the eastside are lower than in the more expensive westside communities (\$0.68 per foot versus \$0.80), as developers

leave out many of the amenities found in “luxury” developments elsewhere in the region. Based on Gresham Central’s experience, indications are that people will pay more to live adjacent to high quality transit.

The project blends in with the surrounding developments, both existing or under construction. It was a turnaround for the community, as little new construction had been seen in recent years. A townhouse condominium project is nearing completion one block south of the site, although Gresham Central did not influence its choice of location.

Prospective Gresham Central tenants, as well as the merely curious, react favorably to the internal layout of the units. The buildings are well sited within the neighborhood, and the pedestrian amenities along the promenade and Roberts Avenue provide a natural link between the Gresham Central light rail station and the Farmers’ Market to the south and to downtown.

Neighborhood reaction to the finished development has also been favorable. This is not particularly surprising since the surrounding community has advocated quality mid-rise, high-density housing on this site for several years. There was no vocal “NIMBY” (Not In My Back Yard) group as can be found elsewhere in the nation. The difference may be attributed to the sense of community that exists in Portland where local dynamics are at work. Since the 1970s, when the statewide planning process was put into effect, communities throughout the region have been prepared for positive neighborhood change through higher density development. Of course, an increase in property values could also have a bearing on the residents’ attitudes. In any event, the developer has received positive feedback from neighbors and neighborhood businesses who expect the downtown area to become more viable. Based on the project’s success, the City has expressed willingness to support future projects with a low to moderate income element.

As the project approaches full rental, it is in good financial standing, although about \$180,000 over budget, based on GDC’s “paper” profit. This represents the estimated amount at the close of financing, including costs, grants, and overruns, and taking into account financing difficulties and storm related construction problems. The amount over budget was absorbed by the developer and subcontractors, so the total profit was less than hoped for, probably not more than 5% of the project cost. For example, the promenade proved to be more expensive than anticipated, and the developer absorbed the additional costs. The developer feels that, although the initial profit is less than anticipated, over the long term rental income will make up the difference.

## ANALYSIS

In comparison to conventional development practice, the project was a difficult one as both the developer and Tri-Met will testify. It is difficult for a privately financed project to justify a public feature such as the promenade. “You normally can’t gamble those kinds of improvements for rent,” says the developer. According to project manager Phil Whitmore, the entire process is somewhat like marriage: easy to get into, but tough to follow through on. Knowing that many parties will be involved and aware of the complexity of the public financing process, many developers hesitate before getting involved in a project of this sort.

Masked by the eventual financial “success” of the project was the unwieldy public process by which funding was obtained. Tri-Met was hoping to demonstrate that reliable funding vehicles were in place, particularly the FTA-administered CMAQ-TOD program. However, problems with FTA requirements disappointed Whitmore, who had hoped that Gresham Central would set a precedent for streamlining the process of obtaining grants and make the process simple for the average developer.

The final product, although unconventional for the area, does not, from the planner’s standpoint, represent an extreme departure from normal design practice. The density achieved is high, but there are examples of higher density construction in the Portland area. An example of Gresham Central’s departure from design norms is its treatment of the automobile. Cars are accepted as a fact of life, unlike the “neo-urbanist purist” view. From a casual glance at the centralized parking, it is not evident that the parking ratio has been reduced. Indeed the 1.5 spaces per unit does not restrict the tenants’ mobility, because there is adequate parking along Roberts Avenue. Based on the current leasing rate in the Gresham Project, developers can assume that tenants are willing to forego some of their dependence on cars if transit is easily available.

Much of the project’s ultimate success depends on the interagency coordinator, even more than on the developer. Unfortunately, not many transit agency planners have the necessary knowledge and experience in public financing and development, in local and national transit, and in housing policy issues. Successes to date are few and far between, but, because of this project, the developer and the project manager are being sought to help bring success to other public/private transit oriented projects.

At Gresham Central a great deal of success depended on the trust that formed between the developer and agency coordinator in the early stages of the project. “There are a lot of facets to a project like this,” according to the developer, admitting that the task would have been impossible without the coordinator’s cooperation. Both parties shared a common vision for the project and both stuck to it until the end. The challenges were numerous and often daunting; and, had there been a change of staff during the process, it is unlikely the level of trust would have been maintained. The fact that the developer was also the owner furthered the sense of commitment. Strong commitment generally results in a better end product. Project manager Whitmore believes that in this type of project the developer should be required to hold the property for a stated period of years. The initial fee of ten to fifteen per cent generally required on this type of project was cut to five per cent. Because of the financing and construction problems a large profit is unlikely, so the developer is counting on rentals to make the project profitable. Not all developers are willing to deviate so far from the traditional way of making a profit.

Whitmore agrees that a good relationship between the developer and agency is critical: “Never go for very long with the developer without being specific about what you want. You have to be up front. What’s harder to communicate to the other side are the difficulties you, as the agency, know can arise, due in large part to the complexity of the funding mechanisms, but which you can’t always anticipate.”

A good measure of success is the participants’ willingness to tackle other projects based on the experience gained. The Gresham Central developer states, “I’d do it again,” and Tri-Met is busy looking for other projects to let him keep his word.

## **SUMMARY**

Gresham Central is proof that, given well defined public objectives and both private and public commitment, it is realistic to expect quality results in a development. Given the spotty history of public/private development, the success of Gresham Central represents a positive step in the evolution of sustainable cities. In this case, favorable circumstances existed, including public ownership of land and underusage of nearby, existing transit facilities. Small changes in public and private behavior, combined with strong leadership, went a long way toward the project’s success, and appear to have impacted the community positively.

Regional commitment and agency teamwork also made a difference. In the past, many public agencies across the country have lost credibility in the development community by building expensive transportation systems with little thought given to the decision making process. The planner and developer can interact in mutually beneficial ways to deliver a product not achievable by either party individually. The development agreement is a recapitulation of the principles that should be in place long before it is signed.

Gresham Central's success is not accidental: the communities' and the local agencies' commitment to regional betterment, focused market analysis, the right combination of location and land ownership, and the perseverance, hard work and vision of the principal partners all contributed to making it a reality. Recently enacted ISTEA legislation made CMAQ-TOD funding available which closed part of the gap in financing, and the City contributed with innovative financing incentives. A pleasing architectural motif and attention to the placement of the buildings and the public elements within the existing urban fabric also contributed to the project's success. While it is difficult to gauge long term public acceptance of the final product, it seems safe to say that the partners' experience, intuition, and foresight into evolving consumer needs and tastes played as much a role in its success as the "hard" factors. The recognition that lifestyles are not static in the modern world, and the adoption of refined market analysis tools will serve public agencies and developers well when they consider similar ventures.

From a participant's point of view, the public/private development process is far from smooth. Unfortunately, until more public/private projects are built there is little accumulated experience from which to draw. As precedents are set, and as more public/private developments meet with success, a greater bank of knowledge will be available. Until that time the prospects for "stand alone" projects with little or no public money are in doubt. Perhaps self-sufficiency for projects that contribute to the betterment of urban life is a worthy long term goal.



**GRESHAM, OREGON Gresham Central Joint Development Project**

Residential: High-density apartments (35 units/acre)

Agencies Involved: Gresham Development Co., Tri-Met, Metro, City of Gresham, Portland Development Commission, State of Oregon Department of Environmental Quality, Federal Transit Administration, Oregon Dept. of Transportation, Federal Highway Administration, and special assistance from Portland General Electric Co., Key Bank of Oregon

Special Features	Architect
Density: 35 du/acre Parking Ratio: 1.5 spaces/unit Other: Pedestrian promenade, articulated facade, front porches and zero-line setback	MCM Architects 1022 SW Salmon St. #350 Portland, OR

Developer	Consultant
Gresham Development Co. 1607 SW Stephenson St. Portland, OR	None Used

Land Use Information	Development Schedule
Site Area 2.58 acres	Planning Started Aug. 1991
Total Dwelling Units 90	Development Agreement Aug. 1994
Gross Density 35 units / acre	Construction Started Sept 1995
Gross Building Area 83,000 sq. ft.	Sales/Leasing Started July, 1996
Total Parking Spaces 134	
Number of Stories 3	

Residential Unit Information			
Unit Type	Size (sq. ft.)	Number Built	Market Rate Units
One bedroom	750	2	\$ 560
Two bedroom	909-911	86	\$ 695
Three bedroom	1200	2	\$ 795

Building Use Information			Development Cost Information	
	<u>Sq. ft.</u>	<u>% GBA</u>	Construction	\$3,955,000
Residential	83,000	100	Building Costs	\$2,969,000
Total	83,000	100	Land	\$405,000
			On/Off-Site Improvements	\$520,000
			Landscape, (incl. promenade)	\$61,000
			Construction Loan Interest +/-	\$235,000
			Legal Fees, Taxes & Insurance	\$18,000
			Design, Surveys, etc.	\$436,000
			Marketing and Renting	\$40,000
			Developer's Profit	<u>\$250,000</u>
			Total	\$4,934,000
Development Cost per Sq. Ft. of GBA: \$59.46				



**Figure 8-1 Gresham Central and MAX tracks, Portland, OR**



**Figure 8-2 Central parking at Gresham Central**

## **RESURGENS PLAZA**

### **Atlanta, Georgia**

#### **INTRODUCTION**

Resurgens Plaza is a high-rise, luxury office building of 17 stories built over a 10 floor parking garage in the northern part of Atlanta, Georgia. The garage has been incorporated into the building design to give the appearance of a single, integrated building. There is a direct connection to the Lenox transit station, providing access to the rail and bus service run by the Metropolitan Atlanta Regional Transit Authority (MARTA). This provides a convenient way for workers to commute to the building and for clients and employees to use MARTA to access other areas such as Hartsfield Airport and downtown while leaving their cars at the garage in the building.

Resurgens Plaza was a \$50 million dollar project conceived during the building of the rail system through the area. It is built directly over the tracks on the northeast side of the Lenox station. The project is a good study of transit oriented development because it involves air rights agreements with both MARTA and with a group of citizens who owned homes in the area.

The project was built in two stages. The first stage involved designing the MARTA “envelope,” an enclosure of reinforced concrete, to allow the rail line to run through the area of construction. Construction continued when MARTA was operational. The building was opened in July of 1988, six years after the Development Agreement was signed and four years after the opening of the MARTA north line through the area. Since opening, the building has been operating at full occupancy, averaging less than 5% vacancy over all eight years.

#### **PROJECT CONCEPT**

One of the goals of the Metropolitan Atlanta Rapid Transit Authority was to encourage cluster development around the MARTA stations. In 1973 MARTA persuaded the city of Atlanta to designate special zoning districts allowing high intensity uses around some of the proposed rail stations. These districts were one of the reasons for the increased development in the Midtown area, a building boom which began even before the opening of the midtown stations in 1982. A great deal has been written regarding the air rights agreements of the late 1970s that enabled IBM and Bell South to

construct large office complexes adjacent to or on top of stations in the midtown area. As plans for expansion continued north up to the Lenox station, special zoning districts were also created in the Lenox area, which was a rapidly growing perimeter center.

American Home Equities, forming a limited partnership called Resurgens Plaza Company, hoped to cash in on the combination of a building boom in the area and the convenience of the new MARTA rail system. They designed a plan to build a mixed use project on, and adjacent to, the proposed Lenox station. At the time, MARTA was in negotiations with owners and residents of a lower income neighborhood, called Johnsontown, which was in the path of the proposed rail line. The residents, with the backing of then-mayor Maynard Jackson, were able to negotiate a settlement with MARTA. MARTA became the land owner of the parcel and gained title to the first 100 feet of the air rights above the land proposed for the railway, enough room to build the station. The residents of Johnsontown, through collective action and negotiation, were able to secure the remaining air rights, including those above MARTA's 100 foot threshold. A tiered structure of rights thus evolved over the proposed MARTA station and railway.

The Resurgens Plaza company entered the negotiations with MARTA at the same time that the agreement was being worked out between the previous residents of the area and the transit agency. Resurgens Plaza worked with MARTA to lease their air rights and with the previous Johnsontown residents to purchase the remaining air rights. As a result, the residents received an excellent return on their investment, MARTA was able to build the station, and the developers had an agreement to create a large scale development on the transit station site.

## **BACKGROUND**

### **General Atlanta Background**

The city of Atlanta can be described as a fragmented city of sprawl, or an example of concentrated development near alternative transit modes. Atlanta has experienced tremendous growth since World War II, but most of the population growth has been outside the city limits. The city saw a decline in population in the late 1960s and 1970s. Currently, Atlanta's population is about 400,000 for the city proper, with the metropolitan area over 2 million. Atlanta is also a city with a legacy of racial segregation that is still evident today. Within the city limits, African Americans form a two-thirds majority, while many of the outlying suburbs are nearly 90% white.

## **MARTA**

A major goal of the MARTA system was to stop the white flight that had begun in the 1960s and to spur commercial development back into the largely black central city. However, MARTA was not able to enlist sufficient support in the suburban communities. A one cent sales tax increase imposed to build the system was approved in only two of the five counties making up metropolitan Atlanta. As a result, MARTA and the corresponding bus service planned to provide service only to Fulton and DeKalb counties, the two counties within the Atlanta city limits.

The sales tax initiative was lobbied heavily in the African American community, and this backing was largely the reason for its passage in those two counties. In deference to this support, city leaders pushed for the initial work to begin on the east/west line to provide greater access from minority neighborhoods to downtown. By the end of 1979, approximately 12 miles of the current 15 mile east/west line had been built. This development did not spur the building boom that many had hoped for. Many speculators and developers who had purchased land in the Omni area and Vine City were left with empty land.

The spurt of development did not begin until the MARTA line was built northward. By the time the North Avenue station was opened at the end of 1981, the Bell South building was already planned. As the line extended to Midtown and the Arts Center in 1982 and to Lenox in 1984, these areas were already experiencing high levels of growth. Some of this growth was due to speculation regarding the building of the transit line, aided by the favorable zoning procedures adopted by the city of Atlanta for regions in and around transit stations. However, most of this growth was due to market conditions which had pushed the wealth of Atlanta into the northern area. It is difficult to determine whether growth in the Lenox area was spurred on by MARTA, or whether MARTA was following the growth into that region.

### **Lenox Station Area**

Lenox Station is located approximately seven miles north of downtown Atlanta and is accessible via the Northeast line of the MARTA system. The Lenox area and the adjoining Buckhead area have been a magnet for Atlantans since the construction of Lenox Square, Atlanta's first regional mall, around 1960. Since that time, the Lenox area has seen increases in commercial and more recently in office space, to the point where many consider the area to be Atlanta's "second downtown." Lenox Square has undergone transformation and expansion and continues to be one of Atlanta's premier malls. In the 1970s and 1980s, office and hotel development

experienced large surges of growth in the area. The Lenox area now holds nearly 10% of metropolitan Atlanta's total office space, up from 5% in 1980 (*Cervero, 1994; Cervero and Landis, 1993*).

### **Transit Options**

Resurgens Plaza is located directly on the MARTA Northeast line and has a direct connection to the Lenox MARTA station. This station serves both the MARTA rail line and six bus lines. Adjacent to the MARTA tracks, behind the Resurgens building, are freight rail tracks. Transit proponents envision these tracks becoming a future commuter rail line. Despite the proximity of transit, the Lenox and neighboring Buckhead commercial areas are largely auto dominant. Plentiful parking is provided for both shoppers and office workers. The Lenox and Buckhead MARTA stations are one mile apart, providing easy transit access. However, the area does not see much pedestrian activity, except directly around the Lenox station.

### **Previous Uses of Project Site**

Much of the area surrounding Lenox Square Mall underwent significant development during the late 1960s and early 1970s. However, the area proposed for the MARTA Lenox station and future Resurgens development had remained a low density residential area. The area contained 35 small parcels with approximately 20 homes still remaining. Many residents were lower income residents working as service employees for affluent Buckhead residents to the west (*Tollett, 1996*). The parcels were laid out on a grid pattern of streets which has since been altered. The Johnsontown area was seven acres in total, separated into a north component of five acres and a south component of two acres. The south component was the part later developed into the MARTA station and Resurgens Plaza. As the residents began to realize that MARTA would be coming through the area, in 1974 they formed the Johnsontown Community Development Corporation (JCD) to negotiate the land deals with MARTA.

## **PHYSICAL FEATURES**

### **Location and Orientation**

Resurgens Plaza is located on East Paces Ferry Road, near the intersection of Lenox Road. The building has direct auto and pedestrian access to the street and to the Lenox MARTA station. Fare gates for the MARTA station are located outside a third floor exit from the building. Pedestrian walkways have been built to allow easy access across the street and over to Lenox Road. The building was built directly over the MARTA rail tracks on the Northeast side

of the station. MARTA rail cars pass through a tunnel at the base of the building when entering or exiting the MARTA station. Directly behind the building run the Georgia Southern Railroad freight tracks.

### **Project Size and Description**

Resurgens Plaza is a 27 story building, situated on an acre of land, part of the original Johnsontown South land holding. This high-rise structure measures 325 feet by 122 feet and fills the entire acre. The building is designed in a Federalist style, reminiscent of buildings of the 1920s. The building contains both offices and parking.

#### Commercial Space

The offices are in the top 17 floors of the building. The building contains approximately 400,000 square feet of class A office space and attracts a clientele of legal firms and high profile business firms. These firms enjoy the convenience of using MARTA to move their employees or their clients to and from downtown or the airport. The lobby of the building is on the 11th floor. There are two banks of elevators. One set is directly connected between the offices and the parking garage, and the second bank runs between the lobby, the MARTA entrance, and the street entrance. At the MARTA entrance to the building, there is a small retail space containing a cafe.

#### Parking

The first 10 floors of the building contain 1000 parking spaces for use by the occupants of the building or their guests. Fees for parking are incorporated into the rent, and guest parking is charged an hourly fee. The ratio of parking to office space is 2.5 spaces per 1000 square feet. This ratio is lower than most surrounding suburban development which is at 3.0 to 4.0 spaces per 1000 square feet. The developer felt that the location next to MARTA enabled them to reduce the parking requirements slightly. This decision was encouraged by city zoning policies.

Parking for the MARTA station is located across the street from Resurgens Plaza in a garage shared with another development. This parking is fee parking. Approximately 600 spaces are dedicated to MARTA users. There is also a surface parking lot on the opposite, north side of Resurgens Plaza, providing approximately 200 spaces, dedicated solely to MARTA users. This lot is a free parking area.

#### Special Features

Resurgens Plaza has many unique features. One feature is the integration of the parking facilities within the building. Dummy window panels were placed



in the first 10 floors so that the front of the building shows no evidence of a parking garage. Ventilation for the garage is provided by screened openings in the rear and one side of these floors.

Resurgens Plaza's location, directly on top of the MARTA rail tracks, creates additional value for a piece of land that many would consider undevelopable. The train envelope, built during the MARTA construction, allowed the building to be built without disruption of rail service, and the construction of the garages on the lower floors helped to buffer the vibrations of the trains from the offices.

Resurgens Plaza also contains many features that make using alternative transportation extremely easy. The direct connection to MARTA allows one to access the bus and rail lines with minimal exposure to the elements. In addition, the developer built a "kiss and ride" facility which encourages carpool use. The facility is a pull-out area along East Paces Ferry Road, where autos can conveniently pick up or drop off passengers using MARTA or going to Resurgens Plaza.

## **THE PARTNERS AND PARTICIPANTS**

The Resurgens Plaza development can best be analyzed in three phases. The first phase involved MARTA and the Johnsontown residents who were to be displaced by the proposed Lenox MARTA station. Much of this negotiation took place during the late 1970s. The second phase involved MARTA, Resurgens Plaza Company, and the Johnsontown residents during the initial planning of the building and the construction of the MARTA facilities. The third phase, which involved MARTA and Resurgens Plaza Company, took place during the actual construction of Resurgens Plaza. Other participants during this time were the City of Atlanta and other developers in the area. Development Agreements and leases assigned responsibilities among the groups.

### **Johnsontown Residents**

The thirty-five parcels making up the Johnsontown area were considered prime locations for a MARTA rail station during the expansion north of downtown. Recognizing the value that their land could have for the transit station and for development around the station, the residents organized into the Johnsontown Community Development Corporation (JCD). By organizing into a group, the owners felt that they would have more power in negotiating the sale of the land to MARTA. The group worked with the City of Atlanta in 1977 to investigate ways to retain air rights for their properties in the station

area. Using the influence of the former mayor, Maynard Jackson, they convinced MARTA to locate the Lenox station on their properties. It does not appear that the residents were displaced against their will. They realized that change was inevitable, and that by banding together they would be able to profit from the changes. JCD sold their properties to MARTA but retained partial air rights to the Johnsontown North and Johnsontown South areas on either side of Railroad Avenue.

## **MARTA**

MARTA was created in 1965 to address transit needs in Atlanta and to attempt to create financing for the creation of a rail line. This financing took some time to get approval after an initial referendum was defeated in 1968. Eventually a one cent sales tax was approved by Fulton and Dekalb counties in 1971. The other three counties in the Metropolitan area, Gwinnett, Cobb, and Clayton, did not approve the sales tax increase. MARTA was trying to achieve a balance between two desires. One was to extend MARTA into the north suburban areas of Dekalb County where many families fleeing the inner city had settled. The other was to provide a convenient transit system for people living in the inner city. From these desires, the East/West and the North/South lines were created. The East/West line was constructed first to provide access from the lower income areas to downtown. The North/South line was created to tie downtown to the new development areas in the north and to encourage suburban travel by subway. MARTA opened the initial East/West arm in 1979 with an east extension in 1993. The North/South line was opened in stages between 1981 and 1992 with a spur line opened in 1996. The Lenox station was opened in 1984. MARTA wanted a station convenient to commuters that would also provide access to Lenox Square, a large shopping mall. It was expected that access to the mall would help increase the number of riders significantly. MARTA was looking at sites just southwest of Johnsontown but chose the Johnsontown site. MARTA then created a long station with two entrances, one Southwest and one Northeast. The northeast entrance had parking on the Johnsontown property. The southwest entrance was located one block away from the southern entrance to the mall. MARTA allowed JCD to retain some of the air rights over the station and the parking areas. By doing so, MARTA was able to obtain the land at a lower cost.

## **Resurgens Plaza Company**

The Resurgens Plaza Company was created as a Georgia general partnership of Resurgens Plaza-American Home Equities, Inc. and Resurgens Plaza-Sonnet, Inc., with the intention of developing the Johnsontown North and Johnsontown South sites. American Home Equities realized the potential of

this site as it was located in the rapidly expanding Lenox area and adjacent to a future rail station. The plan was to develop a mixed use development on both of the sites, including building on top of the rail tracks. In order to do this Resurgens Plaza would have to negotiate a lease for the touchdown rights and partial air rights from MARTA and to purchase the remaining air rights from the JCD group. This resulted in the Development Agreement between MARTA and Resurgens Plaza in 1982, which assigned responsibilities for the project. MARTA would construct the station facility, and Resurgens Plaza would build the caissons and tunnel envelope over the MARTA tracks. Resurgens Plaza built the supports over the tracks for a possible 40 story building, but as the office market cooled in the early 1980s, they scaled down to a 27 story building on the Johnsontown South site. They sold their air rights in the Johnsontown North site to Vantage Properties Inc., who went on to design Atlanta Plaza.

### **City of Atlanta**

The City of Atlanta helped shape this area in many ways. First the City worked directly with the JCD group to help that group retain ownership of their air rights when selling the land. The city, through Mayor Maynard Jackson, influenced the location of the Lenox station on those parcels. The city also created a high intensity usage zone around the station which allowed higher densities than in adjoining areas. Parking requirements were eliminated, allowing the developer's planners to place the amount of parking they felt was needed. It was assumed that MARTA would decrease parking requirements. Other than MARTA's parking needs, the requirements would be at the developer's discretion.

## **DETAILS OF THE NEGOTIATION**

### **MARTA and JCD**

Prior to the Development Agreement with Resurgens Plaza, MARTA had negotiated with JCD to acquire the land for the station and a parking area. This proved to be a lengthy process as each individual land owner had an interest in JCD. MARTA had planned mainly surface parking around the station area. MARTA negotiated with JCD to acquire surface and subsurface rights for the entire area, partial air rights and touchdown rights, the right to develop space above a facility, for Johnsontown South and partial air rights for the Johnsontown North site. As part of the agreement with JCD, MARTA negotiated title to the first 100 feet of air rights and the touchdown rights on the Johnsontown South site, and a small portion of the North site. The title to

the first 100 feet would allow MARTA to construct the concourse and the bus bays for Lenox station. MARTA also had plans for a pedestrian bridge and connections to other developments on the parcels.

### **JCD and Resurgens Plaza Company**

The Resurgens Plaza company expressed an interest in these parcels during the negotiations between MARTA and JCD. Resurgens Plaza had to wait for these negotiations to be settled before starting their own negotiations with JCD, and they had difficulty working with a group composed of 30 individuals. Eventually, they bought the air rights above 100 feet over the south parcel and all of the north parcel air rights.

### **MARTA and the Resurgens Plaza Company**

MARTA and the Resurgens Plaza company entered into a Development Agreement in November of 1982. MARTA would be responsible for the construction of the station and connections from the north concourse area to the Johnsontown North parking area and to the future Resurgens Plaza. Resurgens Plaza would be responsible for construction of the foundation and the train envelope of the building. Resurgens Plaza also was to be responsible for moving the original kiss and ride turnout built by MARTA and would provide an amount of parking equal to the spaces that construction would displace.

MARTA granted easements to the developer to construct the foundation for Resurgens Plaza. However, Resurgens could not disrupt MARTA's own construction of the rail lines in the process. The train envelope was to be 60 feet, half the total width of the resulting building. Resurgens Plaza was on a tight schedule. Construction of the train envelope had to be completed by the time MARTA opened the line in December of 1984. Design of the foundation began in April of 1984, and construction began in June. The lease agreements set the annual rental fees and terms of the lease, with an option to purchase at the expiration of the lease. Included in the Development Agreements and the Lease were the details of plans to realign Railroad Avenue (which became East Paces Ferry Road) and the abandonment of Wolfe Avenue in the Johnsontown North area. Amendments to the lease agreement stated the final terms for the kiss and ride area, the provision of temporary parking during construction of the building, and the provision of replacement MARTA parking.

## **FINAL AGREEMENTS AND CONTRACTS**

### **JCD with MARTA and Resurgens Plaza**

The Johnsontown Community Development group received \$12 per square foot from MARTA for the surface, subsurface, touchdown and partial air rights during their initial negotiations in the late 1970s. The remaining air rights that JCD controlled were later sold to Resurgens Plaza at \$8 per square foot of horizontal space. Overall, JCD received approximately \$20 per square foot for the seven acres of land, amounting to \$6 million in two payments. The deal insured that the small property owners in Johnsontown received a good return on investment. It also was proof of the value of the land in the Lenox/Buckhead area. When the negotiations with Resurgens Plaza were finished, the JCD were no longer a factor in the project.

### **MARTA and Resurgens Plaza**

The Development Agreement was the document used to assign responsibilities for many of the activities involved in the construction of the station and Resurgens Plaza. The agreement was signed in 1982 and worked in tandem with the General Lease signed between the two parties in 1984. The lease of the air and touchdown rights for the Johnsontown site was prepared in time for the first stage of the construction of Resurgens Plaza: the building of the foundation and the train envelope. Due to the tight schedule, the lease was enacted on May 29, 1984 with gaps in some of the terms. These would be filled in through future amendments. In order to complete the foundation and tunnel in time for MARTA's opening at the end of 1984, work on the Resurgens foundation continued around the clock for six weeks from June until August of 1984. MARTA then had ample time to test the line before opening at the end of the year.

One of the advantages of the accelerated work schedule was that the building of the foundation and train envelope could proceed without having to worry about passing trains. This provided substantial cost savings. The cost of the foundation and train envelope was \$1 million including the overtime for working 24 hours a day. If the initial construction had taken place after the start-up of MARTA service, it would have taken between six months and a year to complete and cost up to \$4 million (*Pinckney and Korman, 1987*).

Once construction started, final details were determined regarding lease payments, bonds, and financing, and the details were incorporated into the lease as amendments. The first amendment, issued at the same time as the General Lease, required Resurgens Plaza to maintain a cash payment bond in the amount of \$1 million to help cover Resurgens' obligations and liability to

MARTA for the construction of the train envelope and foundation. The bond amount would be returned by MARTA upon successful completion of the project. This amendment also set a deadline of July 1, 1984 for the agreement of a lease amount for the property. The second amendment to the lease, issued on July 1st, set the rent due to MARTA for their portion of the air rights and touchdown rights at \$105,000 per year.

A soft office market and problems with finding a partner for financing delayed the continuation of the project for eighteen months. During that time, Resurgens Plaza decided to concentrate on developing only the southern portion of the seven acre parcel and sold the air rights to Johnsontown North to another developer. Resurgens also narrowed the scale of the development to offices only, and decreased the project size from a 40 story building to 27 stories. By February, 1986, they found financing for the \$50 million project through a partnership with General Electric Real Estate Equities and amended the lease a third time to include General Electric as a Mortgagee. With the financing secured, construction could begin.

With construction underway, a fourth amendment was created on August 1, 1986 to revise the annual rent to a fixed and a variable component. The variable portion remained at \$105,000 annually but was augmented by a fixed amount of \$7,370 which was to be paid upon completion of the building. The variable amount was to be adjusted in two ways. First, it would be adjusted annually through the use of the Consumer Price Index (CPI) for the Atlanta Metropolitan Region. Second, beginning in 1991, the adjusted rate would be verified by a selection of three auditors. If the auditors' estimated rate determined in 1991 exceeded the current rate, the estimate would be adjusted to reflect the new rate as verified by the auditors. At this point, it does not appear that the rate has been adjusted other than by the consumer price index.

This fourth amendment also solidified the responsibilities of the developer and MARTA for providing the kiss and ride facility and replacement parking. Based on plans submitted in the amendment, Resurgens Plaza would construct the kiss and ride facility at their own expense. The high rise would displace some MARTA surface parking in an area next to the track envelope. Resurgens Plaza would have to pay for 66 new spaces to be added to the existing MARTA surface parking.

### **Resurgens Plaza and Other Developers**

During the downturn in the market which caused the delay in construction, the Resurgens Plaza Company offered both Johnsontown sites to other prospective developers. Vantage Properties, a Texas development company purchased the air rights to the five acre Johnsontown North area. This

developer was not interested in the Johnsontown South site because of the complications of building directly over the tracks and because of the small size of the parcel. The developer negotiated with MARTA for the touchdown rights, connections with the station, and for the replacement of the surface parking. The result was the construction of Atlanta Plaza, a building of 34 stories across the street from the Resurgens site. Ironically, this building was completed before Resurgens Plaza, as construction began soon after the negotiations concluded. Included in this project is a five to six story parking garage in the building with MARTA parking on the lower levels.

## **RESULTS**

### **Final Costs and Schedule**

Resurgens Plaza cost approximately \$50 million, with \$1 million for the initial site improvement to build the portion of the foundation on the MARTA tracks. There is no evidence that the project went over budget. The final architect for this project was Smallwood, Reynolds, Stewart, Stewart & Associates. Construction began near the end of 1986 and the building opened in July of 1988. The Lenox MARTA station was fully functional during this stage of construction. Care had to be taken not to disrupt the activities at the adjacent station and on the rail line. This was a factor which lengthened the time needed to complete the project. For example, the hoisting of materials over the tracks could only be done between 2 a.m. and 5 a.m. while MARTA trains were out of service.

### **Developer and Agency Policy Changes to Insure Success**

Because its charter forbids the sale of agency land, MARTA limited its efforts in the development to leasing its land. MARTA was under an eight year moratorium on development at transit stations, but this restriction was lifted during negotiations. MARTA allowed construction while the rail line was being built and afterwards when the station was in service. It was during these early years that other agreements with private developers resulted in the building of the IBM tower (now called One Atlanta Center) and the Bell South Building, both near MARTA stations.

The developers of Resurgens Plaza also made adjustments to help make the project successful. These decisions were market based. Originally Resurgens Plaza was to be a mixed use project of 50,000 square feet of retail space, 50 condominium units, and a larger office tower. Instead, the project was limited to the 27 story office building. Excess air rights across the street were sold off during a slow time for development in the area. Resurgens Plaza also delayed

in getting financing for the building, securing a better deal in the process. This delay added about eighteen months to the process.

### **Overall Results**

Despite the difficulties, Doug Tollett of American Resurgens Management, a subsidiary of the Resurgens Plaza company, is extremely happy with the results. Vacancy rates have been minimal since the complex opened, and both tenants and management feel that the MARTA connection is a major benefit to the project. American Resurgens Management feels that a project located directly on the station is more desirable than one using a shuttle service and that this has kept vacancy rates low. In addition to the Atlanta Plaza project across the street, recently completed buildings in the immediate vicinity include the Lenox Building and the Marriot office and hotel complex, located on the corner of Lenox Road and East Paces Ferry Road between the Lenox MARTA station and the Lenox Square Mall. Further south on Lenox Road, high-density residential units have also sprouted up. There is still land available awaiting development on the Johnsontown North parcel. Resurgens Plaza also has the option of constructing a building directly over the MARTA station next door to their building, as they already own the air rights. However, there are no plans to build at this time, and the logistics would have to be worked out with MARTA, because construction above the station could severely disrupt the station.

## **ANALYSIS**

### **Developer and Tenants**

One step into the 11th floor lobby of Resurgens Plaza makes a good case for the complex's financial success. Wood detailing and a majestic staircase make the statement that this is luxurious office space and the high end clientele who fill the offices seem to agree. Surveys taken by the management company show the tenants to be very happy with the building and its location.

By building directly on the MARTA tracks, Resurgens Plaza has utilized land usually considered unusable. The tenants' use of MARTA might be higher for a building with a direct connection to the station but this could be due in part to the type of tenants. Personal observation, confirmed by the building's management, shows transit use to be light during the commute period. Many of the employees of the firms claim that they need automobiles for travel during the day, and that MARTA is more a convenience for quick trips downtown and for visitors arriving from the airport. Atlanta has significant urban sprawl, and it is impossible to rely on MARTA for all trips. Despite the



lack of commuters on MARTA, most firms in the building feel that MARTA is a positive reason for locating at Resurgens Plaza.

### **MARTA**

Quite a few office developments worked with MARTA during the rail line construction, securing air rights and designing connections from their developments to the stations. MARTA had a progressive attitude towards solidifying the tie between transit use and land use. Resurgens Plaza was just one of the developments which took advantage of this attitude to build on publicly owned land with a direct connection to the station. MARTA took a risk by signing these agreements, as they added complications and possible delays to the building of the rail line. MARTA was willing to take this chance to spur development close to the rail line and encourage a physical tie between the buildings and the stations.

More recently, MARTA has taken a more passive approach to the leasing of air rights and other methods to attract development to their land holdings. Employees interviewed at MARTA were not aware of any current programs to work with developers. One manager stated that most developers who expressed interest in MARTA land do not call back once they have been presented with MARTA's conditions for development. There has been significant private development around some of the stations, including the midtown stations, Lenox and Buckhead, but these developments have not been built to tie in to the stations. No one can deny the popularity of these areas but it is difficult to cite MARTA as a chief reason for it.

Recently MARTA's main concern has been a plan for moving the millions of people expected to visit the city for the 1996 Olympics. They leased between 2,000 and 2,500 buses from other cities and agencies and speeded up construction of the north line rail addition. Soon after the Olympics, there were plans to begin a new study of ways to attract transit oriented development to MARTA owned land. Many at MARTA realize that they had not been involved in fostering transit based development. However, a recent management consolidation left eight managers without jobs and consolidated nine departments down to three. This left the remaining managers trying to rearrange job roles and new projects were put on hold.

MARTA has another problem. Its charter does not allow the sale of MARTA land, if acquired through federal funding. So the agency has only been able to offer air rights and touchdown rights to developers. This restriction can discourage developers when ownership of the land is required for housing loans. MARTA may need to look at other transit agencies such as Portland to find innovative methods of dealing with unused or under-utilized transit

agency land. Portland has found a way around the sales restriction by dedicating their land to developers in exchange for certain concessions to agency goals.

In conclusion, Atlanta's MARTA system provides a positive case for planning joint development concurrently with the construction of a rail system. Logistically it was much easier to build the caissons and tunnels for Resurgens before the trains were running. Cities planning subway or rail systems might look at MARTA's example of speculative development at rail stations.

## SUMMARY

Resurgens Plaza is a good example of private developers working with a transit agency to create a building tied directly to a transit system. Although the Lenox and Buckhead area have several office high rises, only Resurgens Plaza and its neighbor, Atlanta Plaza, have direct, covered access to the station. Resurgens Plaza may also be the only transit based development which had to negotiate for two sets of air rights. One set was the lease from MARTA for the first 100 feet and the second set was purchased from the Johnsontown Community Development Corporation for the rights above 100 feet from the ground. Through Development Agreements and leases, MARTA worked with Resurgens to insure that the building was constructed and that service on the northeast line started on time.

The resulting \$50 million structure is especially interesting for its integration of the parking facilities into the lower floors of the building. The building has a direct entrance to the fare gates of the north concourse of the MARTA station. Although ridership among employees does not appear to be heavy during the commute hours, tenants feel that, because it provides a convenient link to downtown and the airport, MARTA is a major reason for locating their offices in the building. Resurgens Plaza also owns the air rights 100 feet directly above the station, and could negotiate with MARTA in the future for a joint development directly on top of the station. However, no plans or agreements have been made at this time.

The joint development activity which accompanied the arrival of MARTA at some of the stations during the 1980s resulted in several office complexes being constructed with direct MARTA access. However, these air rights agreements have not been pursued in the 1990s. MARTA has concentrated on running the rail system. However, with decreasing ridership and concerns of further sprawl, it may be time to begin research into attracting developers to

MARTA land. This may require a change in philosophy and an increase in flexibility on MARTA's part. With the Olympics behind them, the time may be ripe for an ambitious new program to attract businesses, residents, and riders to MARTA stations. The hosting of the Olympics and the resultant moving of visitors was an extremely difficult undertaking, and one which MARTA accomplished with limited resources. With the Olympics over, MARTA can now use its resources for improving the movement of residents. Providing convenient land use and transit connections through joint development is one way to do this.

Resurgens Plaza; Atlanta, GA	
27 story, 400,000 square foot office tower in Lenox Station area of Atlanta Located adjacent to Lenox Station, with direct access to the station Agencies involved: MARTA, City of Atlanta	
Special Features	Architect
MARTA runs through building, with parking on first ten levels Agreements involve Air and Touchdown Rights "Kiss and Ride" area built for MARTA Unique agreements with previous land owner	Smallwood, Reynolds, Stewart & Stewart, Atlanta, GA
Developer	Building Management
American Home Equities, Inc. 2929 Lenox Road Atlanta, GA 30324	American Resurgens Mgmt. 945 E. Paces Ferry Rd., #1100 Atlanta, GA 30326

Land Use Information		Development Schedule		
<i>Site Area</i>	1 acre	<i>Development Agreement</i>	Nov.	1982
<i>Total Dwelling Units</i>	N/A	<i>Site leasing started</i>	May	1984
<i>Gross Density</i>	N/A	<i>Construction started</i>		
<i>Gross Building Area</i>	400,000 sq. ft.	<i>transit envelope</i>	June	1984
<i>Total Parking Spaces</i>	1000	<i>office tower</i>	Sept.	1986
<i>Number of Stories</i>	17 offices, 10 parking	<i>Sales/leasing started</i>	July	1988

Financing Information		
Sources	Amount	Terms
<u>Private Funds</u>	\$1,000,000	To build initial building envelope
<u>Bank Loans</u>		
General Electric Real Estate Equity	\$49,000,000	Partnership formed for financing
<u>Public Funds</u>		
None for building construction	\$0	
TOTAL	\$50,000,000	



**Figure 9-1 MARTA tunnel and Resurgens Plaza, Atlanta, GA**



**Figure 9-2 Resurgens Plaza at night**

## **ATLANTA FINANCIAL CENTER**

### **Atlanta, Georgia**

#### **INTRODUCTION**

The Atlanta Financial Center is an 891,203 square foot three building office complex located in the northeastern quadrant of the City of Atlanta within the Buckhead Business District. This case study demonstrates a partnership between a private developer, the State Department of Transportation, and a Regional Transit Authority. Unique to this case study is the fact that the land was already owned by a developer in the process of developing the site when the State Department of Transportation approached the developer with its plan for a new highway through the site. This case study could be re-named “Private Land and Public Partnership,” in a reversal of our title, because of the way in which it differs from the other studies. The partnership that ensued not only provides insight into the public/private dimension of financing and joint implementation of a large office complex, major state highway, and regional rail alignments, it also documents specific techniques employed to overcome obstacles within the joint development process.

The Atlanta Financial Center consists of three phases of development:

- Phase I “South Tower” 13 stories, completed in 1982
- Phase II “East Tower” 19 Stories, completed in 1987;<sup>1</sup>
- Phase III “North Tower” 13 Stories, completed in 1989.<sup>2</sup>

Beyond the public/private partnership, this case study also addresses the importance of integrating a project into its surroundings to achieve the public objectives. In Atlanta those public policy objectives include reduced travel and emissions, increased transit usage, and increased convenience for travelers. It should be easy to walk to lunch, to a shop, or to the bank, and to travel to and from work. Integration of retail shops and office space into projects is important for attracting development to transportation corridors and to expand travel choices.

The Atlanta Financial Center is located immediately adjacent to the recently opened (1996) Buckhead MARTA Station and approximately 3 million square feet of retail development that includes Lenox Square Mall, Phipps Plaza, many restaurants, and other services. However, the environment around the Atlanta Financial Center does not encourage pedestrian use because of limited

sidewalk connections and crossings to other malls and plazas, and because of the high speed traffic on Peachtree Street. The result is an unsafe and unappealing pedestrian environment, increased auto dependence, and reduced transit usage.

## **PROJECT CONCEPT**

This project provides a notable reversal in the roles of the public and private sectors in building a transit based development. The land upon which the road and transit rights of way were constructed was already owned by Robinson-Humphrey Properties, Inc. in partnership with The Mutual Life Insurance Company of New York. (Both Robinson-Humphrey Properties Inc. and its parent, Robinson-Humphrey Company, Inc. are referred to as Robinson-Humphrey in this study.)<sup>3</sup> In 1985 the developer was ready to continue the development of Phase II of the Atlanta Financial Center. Before construction began, the developer was notified by the Georgia Department of Transportation (GDOT) that the construction of an urban toll road known as Georgia 400 (GA400) was planned for the area. An agreement was made between the developers and the Georgia Department of Transportation granting GDOT title to the surface and subsurface rights needed to build the roadway. According to the agreement, Robinson-Humphrey would donate the right of way and \$1 million to GDOT. This grant was provided to GDOT to help in shoring up the land to allow construction of Phase III of the building complex and the construction of the subsurface tollway. Other negotiations revolved around financing construction of the caissons and supports and moving utilities to accommodate the transportation right of way.

As a result of this agreement, Robinson-Humphrey was able to build Phase II of the Atlanta Financial Center. The only financial incentive given to the developer was compensation for the building's structural supports and the parking deck, with additional costs needed to allow the subsurface highway. The public sector's need for the site added complexity to the project but provided no apparent financial incentive for the developer. Robinson-Humphrey had already invested in this location, and perhaps because of large previous investments was willing to work with GDOT.<sup>4</sup> The use of eminent domain by GDOT to acquire the property was not possible at the time of the Phase II permit process because the GA400 highway was not approved. Any move by the state to stop the development might have led to a lengthy court battle causing expensive delays in the construction of the project.

During the 1980s, property values were rising because the Buckhead area of Atlanta was experiencing explosive growth which has continued to date. The

developer did not want to give up the potential profits that accompany rising property values. Based on the expectation of potential profits and rising property values, the developer agreed to work with GDOT.

### **The Public Sector**

The GA400 parkway/tollway was first proposed in a 1952 land use plan prepared by the Atlanta Metropolitan Planning Commission. It was felt that planned expansion of the urban area to the north would create a need for additional highways. Indeed, development did occur in the Lenox and Buckhead areas and further north in the perimeter area of Interstate 285. Further studies done in the 1950s and 1960s mentioned the creation of a corridor for a limited access road. These studies all looked at a corridor similar to the one that was finally agreed on.

The funding analysis for GA400 stated that a tollway, as opposed to a freeway, would speed up construction, because sufficient funding for the proposed project was not available. As a result, the Georgia General Assembly amended the State Toll Bridge Act to include an Atlanta Urban Tollway Authority in 1972. During the 1960s and 1970s Fulton County had purchased some rights of way for a possible Peachtree connector and other parcels in what would become the GA400 corridor. However, a route had still not been decided. Much of the delay was due to the opposition of any highway in the area by the Atlanta City Council. Their objection continued until 1986 when the Council passed a resolution for the development of GA400 and another requesting a MARTA rail line in the median.

### **The Private Sector**

Robinson-Humphrey, in partnership with Mutual Life Insurance of New York (MONY), bought the parcel at 3333-3353 Peachtree Street from the Carlos family in 1980.<sup>5</sup> The parcel was approximately ten acres. The Robinson-Humphrey brokerage firm was interested in developing and owning their own future corporate office. Soon after, they began construction on the first phase of Atlanta Financial Center (AFC), a 13 story building with an adjacent parking garage and surface parking. In 1985 they received a city building permit for a second phase of development. This second phase, as originally approved in the permit, did not allow for a submerged roadway. These plans were drawn up with the knowledge that a highway had been proposed in this location. There had been discussion of this highway for over 20 years, but there was little reason to believe that it would ever be constructed. However, GDOT wanted the GA400 tollway, so plans for the Phase II development were temporarily delayed while Robinson-Humphrey and the transportation agency worked out an agreement.



In the negotiations between Robinson-Humphrey and GDOT, the state could not threaten eminent domain because there was no approved transportation project. Even if eminent domain were available, the state would be required to pay the fair market value of the property, which was several million dollars. Therefore, it was in the best interest of the state to strike a deal allowing the construction of the roadway and the development of the property.<sup>6</sup>

The Phase II portion of this complex lies over the GA400 tollway and the Metropolitan Atlanta Regional Transit Authority's (MARTA) North line in the roadway median. Phase II was completed in 1987. Construction of the tollway did not start until 1989, with completion in 1993. The MARTA line was opened just in time for the Olympic Games in 1996.

### **Public Policy Issues**

Several public policy issues impacted the implementation of Phase II of the Atlanta Financial Center and its success. These issues include:

- local traffic problems in the Buckhead area
- disparity of interests between residential and commercial interests
- limited pedestrian access
- crime and the perception of crime associated with MARTA.

### **Traffic**

A very important issue is the local traffic problem. In response to traffic congestion during much of the day, the Buckhead business community formed a transportation management association (TMA). Its overall objective is a 25% reduction in the total number of commute trips per office development (*Cohen, City of Atlanta; Ares Realty Capital Incorporated, 1997; Atlanta Regional Commission, 1997*). In addition, the Buckhead Coalition, a group of local business leaders, adopted an initiative in 1996 to solve transportation problems in Buckhead as their first priority (*Sam Massell, Director of the Buckhead Coalition, 1997*).

One obvious solution to the local transportation woes was to shift travel demand off the local roads by increasing the use of MARTA. This would require the development of a strong pedestrian orientation within the Buckhead MARTA Station Area fostering access to and from MARTA. With the need to reduce commute trips by 25% for the Buckhead TMA, encouraging MARTA usage should become a primary strategy for many employers, especially those in developments like the Atlanta Financial Center, which is next to the MARTA station.

### Crime and Limited Pedestrian Access

However, in Atlanta, solving traffic problems through the development of pedestrian access to and from MARTA is in conflict with other issues associated with the perception of who uses MARTA. There is a perception that MARTA attracts crime and undesirable people. It is often associated with the decline of an area. Because of these perceptions, MARTA has had limited success in providing pedestrian connections to several nearby, high-density projects, further increasing the need for the automobile and the widening of the roads. The public policy objectives of improved travel alternatives are often outweighed by these concerns.<sup>7</sup>

Research has been conducted to demonstrate that MARTA is not a causal factor in crime. Past studies identifying MARTA as a causal factor in local crimes have been able to document only that crimes have occurred near MARTA stations, not that MARTA was a cause of the crimes.<sup>8</sup> Regional perception of crime was one of the reasons that MARTA's service area was only approved in two of the five metropolitan counties, Fulton and DeKalb. The inability to expand the MARTA system to the northwest into Cobb County or to the northeast into Gwinett County increased the importance to MARTA of obtaining a portion of the GA400 right of way underneath the Atlanta Financial Center. This was the only right of way that would allow MARTA to expand into its service area to the north since this area was still within Fulton County.

## **BACKGROUND**

### **The Buckhead MARTA Station Area**

The newly opened Buckhead MARTA station is directly across Peachtree Street from Atlanta Financial Center. A pedestrian tunnel connects the development's side of the street with the station, providing access to the MARTA station from the Atlanta Financial Center and other businesses located across Peachtree Street. However, typical of most areas developed since World War II, the area around the Atlanta Financial Center does not have the attributes of an area where people would want to walk. There is limited sidewalk continuity, a limited number of safe street crossings, high speed traffic, few points of interest, and little buffering of pedestrian walkways from traffic. The lack of an appealing street environment is one factor that explains limited usage of MARTA.<sup>9</sup> Ridership at the Buckhead MARTA Station is provided in Table 10-1.

**Table 10-1 Buckhead MARTA Station Ridership  
in December 1996**

<b>Measure</b>	<b>Result</b>
Gross monthly gate entries	43,427
Average weekday boardings	2629
Average Saturday boardings	1338
Average Sunday boardings	647

Source: MARTA, Strategic Plan Group, December 1996

The 2600 average weekday boardings is extremely low considering that approximately 10 million square feet of office space and approximately 3 million square feet of commercial space are located within a half mile of the station. This number is also low when compared with the nearby Lenox MARTA Station which showed over 5,000 average weekday boardings or the Arts Center MARTA Station with approximately 6,000 average weekday boardings.<sup>10</sup>

The Buckhead station is a newly created MARTA station on the North line, which opened just in time to handle the visitors for the Olympics Games. As previously indicated, this line runs along the GA400 corridor. The station is just to the northwest of the Lenox Square Mall, and its location on Atlanta's main street thoroughfare puts it close to many large developments in the area. Other plazas and malls have followed Lenox Square to the area including the upscale Phipps Plaza. The Buckhead station area is a regional hub for high rise hotels, with the Hotel Nikko, Wyndham Garden, Embassy Suites, Holiday Inn, and Swissotel all within walking distance of the station.<sup>11</sup>

Much of the development in the Buckhead area has been due more to market conditions than to transit opportunities. Speculation regarding the ease of movement created by the GA400 and MARTA links have possibly influenced the location of only the newer projects. Buckhead is having growing pains. As it matures, it has not become the dense, pedestrian oriented downtown environment that had been predicted (*Planning, May, 1996*). This issue is being addressed by the Buckhead Coalition, headed up by former Atlanta mayor, Sam Massell. The Buckhead Coalition was created in 1988 to address the economic future of Buckhead. The creation of the MARTA station may give the Coalition a new focus as they try to achieve their goal of improved traffic conditions through the creation of a more pedestrian oriented downtown district.

### The Buckhead Transit Station Area Development Study

Between 1991 and 1993, the City of Atlanta Department of Planning and Development and the Atlanta Economic Development Corporation (AEDC) undertook an intensive planning effort focused on the Buckhead MARTA Station Area. This effort, known as the Buckhead Transit Station Area Study (TSAD), responds to the “nodal concept” adopted in the 1973 Atlanta Urban Framework Plan. The Buckhead TSAD Study involved area developers, residents, the City of Atlanta, the Atlanta Regional Commission, and the State Department of Transportation. The TSAD study involved three primary components (*Buckhead TSAD, 1993*):

- review and analysis of existing conditions
- examination of the current and future impacts of the new Buckhead Station
- recommendation of a policy and design plan and a program for changes in land use and the zoning necessary to implement the plan.

The demographic analysis shown in Table 10-2 indicates that the residents of the area around the Atlanta Financial Center are far more affluent than the average for the City of Atlanta. Eighty-six percent of the residents in the vicinity of the Atlanta Financial Center have a vehicle available, compared with a citywide average of 69.5%. In keeping with the other data shown in Table 10-2, a significantly lower proportion of residents in the vicinity of the Atlanta Financial Center took transit to work (15.1%) than the citywide average (24.5%).<sup>12</sup>

**Table 10-2 1991 Atlanta Financial Demographics**

Measure	Vicinity of Case Study	Citywide Average
Gender (% female)	57.5%	53.4%
Unemployment	3.2%	8.1%
Poverty	3.70%	23.7%
White Collar Employment	81%	54.9%
Median Value of Owner Occupied	\$57,600	\$31,800
Have a vehicle available	86%	69.5%
Modal split, journey to work by transit	15.1%	24.5%

Based on the 1990 Census (Buckhead TSAD, 1993)

### Existing and Projected Development

The Buckhead MARTA TSAD Study found the distribution of existing and projected development within the Buckhead Station area displayed in Table 10-3:

**Table 10-3 Existing and Projected Development**

<b>Description</b>	<b>Existing Development</b>	<b>Estimated Future Growth*</b>	<b>Estimated Total Size</b>
Office	8,900,000 sq. ft.	6,450,000 sq. ft.	15,350,000 sq. ft.
Retail	2,704,000 sq. ft.	890,000 sq. ft.	3,594,000 sq. ft.
Hotel	3502 rooms	1100 rooms	4602 rooms
Single Family Units	2565	0	2565
Multi-family Units	4933	4500	9433

\* Estimated growth was based on projections of future amount of development through the year 2006.<sup>13</sup> (Buckhead TSAD, 1993)

The analysis in Table 10-3 was conducted in 1991 and appears to be conservative when compared with recent development trends. In the Buckhead TSAD area more than 5 million square feet of offices, 700,000 square feet of retail space, 800 hotel rooms, and as many as 1,500 condos and apartments are included in the zoning petitions now pending or approved by the city (Michael Dobbins, Commissioner of Planning, City of Atlanta, 1996). The rate of growth in the vicinity of the Atlanta Financial Center and the MARTA Station resulted in the following newspaper quote (Gleewax, Marilyn, *The Atlanta Journal Constitution*, 1997):

Between 1989 and 1995, Buckhead recorded a net gain of more than 6,600 residents and 22,000 jobs. Less than four years after it opened, GA400 is carrying more than the volume of traffic projected for 2010.

If these projections hold true, then the Buckhead business district will surpass the total office space in the Atlanta CBD, which had 14,800,000 square feet of development in 1991 (*City of Atlanta, 1991; Jamison Research, Inc. 1993*). To address existing traffic conditions and to actively plan for future growth, the TSAD study identified three goals for the development of a traffic circulation system within the Buckhead Station Area:

- maximize the potential for pedestrian circulation
- create a comprehensive bicycle trail system through Buckhead
- preserve a corridor for a future people mover system.

Since the completion of the TSAD Study, the City of Atlanta Planning Department has been working with the Buckhead Coalition, MARTA, and the faculty at Georgia Tech to help achieve the three goals of the plan. The city is extremely concerned about the impact of growth on a variety of infrastructure systems in the area, especially when coupled with existing “at capacity” conditions in the Buckhead Station area.

### **GDOT, MARTA, and ARC**

The Georgia Department of Transportation (GDOT) was the successor to the Georgia State Highway Department, which was the department in charge of planning and maintaining all state and federal highways in the state. The Georgia State Highway Department did much of the planning of the Atlanta region’s transportation needs during the 1950s and 1960s. In 1971 the Atlanta Regional Commission (ARC) was created to handle the comprehensive planning for the Atlanta region. ARC was established as the lead agency for regional transportation planning (U.S. DOT, 1987). These groups worked with the metropolitan counties and the City of Atlanta to address current and future traffic problems and solutions. The more important research conducted includes the Atlanta Area Transportation Study, the development of the Atlanta Region’s Transportation Planning Process, and the North Atlanta Corridor Transportation Study which focused on the development of GA400.

MARTA was brought into existence through a sales tax initiative in 1971 to help finance construction of a heavy rail system. MARTA also became the operator of the region’s buses and built a network of lines which connect neighborhoods to the 45 miles of rail line currently in existence. MARTA participated in many of these studies of the future transit needs of the north Atlanta region, looking at options with or without building the GA400 tollway. Initial studies indicated the possibility for high speed bus lanes in the median of the proposed road.

Due to the changing status of the corridor, MARTA refrained from taking any independent action for development of a bus or rail system, other than its planned northeast line. Instead, it concentrated on improving the bus service throughout the area. In 1983 MARTA conducted studies that considered extending the northeast line up to the Perimeter Center area, either through the tollway median or from a branch past the Brookhaven station. Although the tollway option was targeted as a viable possibility, MARTA waited to see

what GDOT would do with this corridor before obligating resources to a specific investment. Once the GA400 project was approved in 1986, the MARTA Board passed a resolution in August prioritizing rail over a busway.

### **Existing Transit Service**

The Buckhead area, much like Lenox Station, is an auto dominated node with Peachtree Street as its backbone. A main bus line runs on Peachtree Street from the Lenox station, with several other lines joining the street for a distance. The Buckhead MARTA station is located in the GA400 median, underneath and just north of the Peachtree Street bridge. A tunnel under Peachtree Street allows pedestrians to cross Peachtree Street, and the MARTA bus stops are located at the top of the stairs leading from the pedestrian tunnel to the station.

Since the Buckhead MARTA station was built in the median of a highway right of way and the stop is located in an area of intense development, the station is not surrounded by transit customer parking. The street level exits of the station place the transit patron right on the sidewalk of Peachtree Street, at which point one can easily access some of the nearby hotels and office buildings, and the north entrance of Lenox Square Mall, located within a half mile of the station.

The high intensity uses, evident from the number of tall buildings in the area, could enable it to become a more pedestrian oriented environment. However, parking is plentiful in the many garages adjacent to the buildings and some of the developments are set back from Peachtree Street, adding to the walking distance between buildings. Currently there is no pullout on Peachtree Street at the MARTA station, making it difficult to drop off passengers from cars. It is up to the City of Atlanta and the private developers to create better coordination between Peachtree Street and the new MARTA station.

## **PHYSICAL FEATURES**

### **Location and Orientation**

The Atlanta Financial Center consists of three buildings, the tallest of which sits in the middle of the complex, straddling the freeway. The total existing square footage of the Atlanta Financial Center is 891,203 square feet. Development of a potential fourth phase building would provide up to 167,000 additional square feet at no more than 6 stories. The Atlanta Financial Center complex has 2500 parking spaces. The Phase I and Phase III buildings angle away from the Phase II building to the north, forming a “V.”

The buildings are located on Peachtree Road in the Buckhead area of Atlanta, approximately seven miles north of downtown Atlanta. The GA400 tollway and the MARTA tracks run under the parking garage at the southern end of the project and reappear north of Peachtree Road.

There is no direct access from the building or the garage to either the MARTA station or to the toll road. However, a MARTA bus stop is located just outside the complex on Peachtree Street with steps leading from this stop to a tunnel underneath Peachtree Street to the Buckhead MARTA station. Access roads lead from Peachtree Street around the buildings to the garage entrance, and an automobile drop off is located on the southern end of the buildings between them and the garage. Along with easy access to the bus service on Peachtree Street and the Buckhead MARTA station, the building's location is convenient to many area hotels and within walking distance of the Lenox Square Mall. However, high speed traffic along Peachtree Street and large parking areas between the buildings reduces pedestrian movement.

### **Special Features**

Although the Atlanta Financial Center does not have any direct connections with MARTA and GA400, it does integrate some interesting construction characteristics. Special underpinning of the existing garage and the installation of transfer beams had to be done in a manner that would support the garage with the expressway running underneath. Utilities had to be re-routed to allow future building of the subsurface roadway. In addition, Atlanta Financial Center's storm water retention basin had to be incorporated with the tollway's because the tollway cut through the Center's old retention basin. These features provided challenges both during construction of the building and later during the highway building phase.

## **THE PARTNERS AND PARTICIPANTS**

This case study documents a privately financed and constructed project conducted in a manner that accommodated public need of the land for a transportation corridor. Robinson-Humphrey developed the Atlanta Financial Center's three phases in an equal partnership with the Metropolitan Life Insurance Company of New York (MONY).<sup>14</sup>

To allow the developer to move forward with plans for the Atlanta Financial Center, it was necessary at several points in the development process to transfer land equity to capital for the construction of a portion of the project. This occurs at least three times in this case study and is the product of creativity on the part of the developer working in partnership with the Georgia



Department of Transportation (GDOT).<sup>15</sup>

GDOT also had to negotiate with other property owners such as Capital City Plaza, across the street from the Atlanta Financial Center. This existing building had to be shored up during construction of the tollway and certain access routes had to be changed. As a result the Capitol City Plaza complex contains a plaza which hangs over the tollway on the southbound lanes. Buckhead residents also played a participating role in the overall project and were vocal in regards to the placement and size of the highway project. Locating the road further to the west would have greatly impacted this residential area. Residents were concerned about noise and the potential for additional traffic on their streets. GDOT addressed these concerns with sound abatement walls and limited access routes.

Two transactions occurred between the Georgia Department of Transportation (GDOT) and the developer which are noteworthy.<sup>16</sup> One incident occurred shortly before GA400 opened in 1993. GDOT contacted the developer to fireproof the underside of the parking garage. Given the short time available to GDOT and the lengthy time usually associated with government contracting, GDOT asked the developer to do the fireproofing and it was done quickly. Again, shortly after the opening of GA400 in 1993, the ventilation system was found to be inadequate. GDOT contacted the developer once again to install a ventilation system with separate carbon monoxide and fire systems. The efficiency of the private sector was available to GDOT because of their eight year partnership.

Since the construction of the buildings, ownership has been transferred through several different transactions. In 1994 Robinson-Humphrey sold all of its share of Phase I and Phase II, the south and east towers, to its joint venture partner, MONY, with an option to purchase the Phase III north tower. MONY exercised this option and become sole owner of the Atlanta Financial Center.<sup>17</sup> In August of 1996 MONY sold the Atlanta Financial Center to the Overseas Capital Corporation.

## **DETAILS OF THE NEGOTIATION**

Negotiation and compromise on the part of GDOT and Robinson-Humphrey led to this project becoming a successful public/private joint venture. Robinson-Humphrey's original plan for the building did not include a highway and MARTA line in its basement. Likewise, GDOT's original vision for the GA400 tollway through Peachtree Street was that of a standard bridge over a slightly sunken roadway. Being able to work through the complexities

of building the Atlanta Financial Center required commitment from both parties. This commitment was best demonstrated in 1985 when Justus Martin, Managing Partner of the Robinson-Humphrey Company, took his project manager and his attorney aside and stated: “I do not want to be the person that stops Georgia 400. Make it work.”

### **Initial Confrontation**

When GDOT was informed of the permit application for the second phase of the Atlanta Financial Center, they could not condemn and acquire the land through eminent domain without an approved right of way plan. Even though GDOT was unable to use eminent domain, they made attempts to purchase the remaining vacant land. To determine fair market value they got two separate appraisals. One appraisal, made by Upton Associates, valued the remaining parcel at \$8,162,700, while another study, by John Booth and Associates, appraised the land at \$11,500,000.

The discrepancy resulted from the consultants taking different viewpoints of the expected density of development. The John Booth appraisal included the highest density possible in a fair market condition. GDOT rejected this idea as speculative and offered Robinson-Humphrey something closer to the lower range of value. Robinson-Humphrey felt that the profit that would be realized through their proposed investment at this location far exceeded the amount offered by GDOT. The Buckhead area had been seeing significant building. Under these conditions, any appraisal of the land would have had to make assumptions that could be disputed by one of the parties.

### **The Beginnings of Compromise**

GDOT did not want to litigate and was apparently unable or unwilling to pay a price agreeable to the developer. GDOT began to look towards a negotiated compromise with Robinson-Humphrey. At the same time, other area property owners and developers saw the advantage of increased mobility with the tollway and rapid transit. They requested that Robinson-Humphrey work with GDOT on a solution.

Concurrent with these negotiations, GDOT was faced with a residential neighborhood that was largely against a new highway running next to their community. It is important to note that GDOT spent considerable time and money to work out compromises for a highway concept that had not yet been approved. Their work was based completely on speculation, since the Atlanta City Council had previously aligned themselves with the Buckhead residents in opposing the project. In spite of this opposition, GDOT reached a compromise with Robinson-Humphrey to allow a possible highway alignment

through the property approximately one year before the GA400 project was approved for study in 1986.

## **FINAL AGREEMENTS AND CONTRACTS**

### **GDOT and Atlanta Financial Center**

Robinson-Humphrey and GDOT worked out an agreement, filed on July 19, 1985, which ensured a future tollway while allowing all three phases of the Atlanta Financial Center Complex to be built. With this agreement Robinson-Humphrey donated the subsurface right of way to GDOT for construction of the roadway. This donation would be transferred if and when the GA400 project was approved and construction begun. In addition, the specially built caissons and foundation of Atlanta Financial Center Phase II would enable the tollway to be built with a minimum of disruption. When the highway and rail right of way were constructed, the parking garage portions of the buildings would have to be extensively modified. Robinson-Humphrey would donate \$1 million to GDOT to help in construction of the portion of the highway underneath the completed AFC. This donation was to be used specifically to construct a retaining wall sufficient to support Phase III. The burden of this donation was somewhat alleviated because Robinson-Humphrey was allowed to deduct it as a gift from its tax returns.

The process of transferring ownership of the subsurface rights of the property to GDOT involved detailed land surveys to determine the elevation levels at which Robinson-Humphrey's ownership would end and GDOT's would begin. This type of agreement was similar in some ways to the agreements that were worked out at Resurgens Plaza, where American Resurgens owned the air rights 100 feet above the ground. In the AFC case, GDOT was granted the ownership to the land below a certain elevation, which varied depending on the topography.

Although GDOT received the land for GA400 as a donation, they paid for the frontage land along Peachtree Road needed to widen the road, install a median, and allow for access to the MARTA station. The price for this piece of land was \$3,345,359. In addition, the tollway would eliminate some parking spaces and the entrances to the parking garage. In the agreement, GDOT took the responsibility of constructing new entrances for the garage and replacing the parking spaces. GDOT also agreed to reconstruct the lower level of the parking garage to enable the tollway to be constructed underneath it. Transfer beams had to be constructed to replace the original columns, which obstructed the proposed right of way. The Atlanta Financial Center

constructed two additional parking levels at the top of the garage in anticipation of the spaces needed for Phase II. Atlanta Financial Center, for their part, would construct Phase II of the development to specifically allow room through the center for a subsurface throughway. GDOT's cost for the parking garage underpinning amounted to nearly \$10 million.<sup>18</sup>

### **Beginning of Construction and Environmental Issues**

The Atlanta Financial Center's Phase II was begun soon after the agreement in 1985. Phase II, the tallest of the three buildings, was completed in 1987 and featured a connecting skyway to the Phase I building. In early 1986, about the time construction began on Phase II, GDOT began to widen Peachtree Road. This widening was done in anticipation of the planned bridge over the tollway and to provide an area for a bus stop. GDOT was worried that the citizens of Buckhead would oppose any construction related to the construction of GA400 and would challenge the project on the grounds that the Environmental Impact Statement (EIS) on the project was deficient. This street widening, being the first proposal remotely related to the project, would be a way to test the validity of the initial EIS. When the validity of the EIS was upheld, it gave GDOT a signal to proceed with the project with City Council approval. The final EIS was issued in August of 1987. The EIS stipulated sound mitigation in the form of noise abatement walls and the depression of the roadway through Buckhead.

### **Engineering Issues**

After City Council approval, GDOT began working with Robinson-Humphrey to negotiate the underpinning of the garage in preparation for the building of the roadway. The talks and planning stage took place in 1986 and 1987. GDOT's reconstruction of these underpinnings was done at the beginning of GA400 construction in 1989. GDOT also had to work with Robinson-Humphrey to reconfigure the existing storm sewer retention basin for the development. The construction of GA400 would remove much of that system. Much of the runoff and drainage system of Peachtree Street and the Atlanta Financial Center had to be incorporated into the overall drainage plan for GA400, which resulted in a combined runoff, drainage and percolation system in an undeveloped parcel of land further south next to GA400, incorporating a natural drainage area.

### **MARTA**

MARTA was a late participant into the overall negotiations. By the time construction of GA400 began in 1989, MARTA was committed to creating a spur from the existing North line, with the new line traveling up the median of

GA400. This new line traverses a 13 mile distance from North Atlanta to the Perimeter Center area. Most of the negotiation had already taken place and GDOT was aware that the median would be used for rail or high speed bus lanes.<sup>19</sup> The final limited warranty deeds needed to provide the air and subsurface rights for the GA400 and the MARTA corridor were drafted in the early 1990s. Construction of the GA400 roadway began in 1989 and was completed in August of 1993. MARTA's north line opened in 1996.

## **RESULTS**

### **Final Costs and Schedule**

The construction costs for GA400 were approximately \$170 million for approximately seven miles of tollway, of which nearly \$10 million were for the underpinning of the AFC garage. The construction costs for Phase II of Atlanta Financial Center were increased in order to design the building with the right of way through it. Additional time was needed for the construction of the building and the tollway due to these design complications. For all three phases of Atlanta Financial Center, the cost of development was approximately \$100 million. It can be accurately stated that Justus Martin, Chairman of Robinson-Humphrey, is the one man who could have stopped the Georgia 400 tollway. In addition, had GDOT acquired full rights to the land for the tollway, through a forced sale by eminent domain or other court proceeding, they would have been held responsible for demolishing the existing parking structure and providing alternate parking options for Phase I of Atlanta Financial Center. All of these factors could have increased construction costs and the length of time needed for the GA400 project.

### **Policy Changes to Ensure Success**

The compromises made by the public and private interests which resulted in the agreement in 1985 ensured that both Phase II of the AFC and the GA400 tollway could be built on the parcel under dispute. The creation of this agreement represented a definite change of policy for GDOT, whose previous methods of operation involved purchasing entire parcels or using eminent domain when required. By the same token, Robinson-Humphrey did not usually work with public agencies, regarding them as a regulatory mechanism. However, the circumstances of this project required them to work together if there was to be any chance of allowing GA 400 to be constructed.

### **Overall Results**

Despite the difficulties, both parties achieved their objectives. Joe Palladi of

GDOT, who oversaw the engineering design of the road, states with pride that the highway won an award in the Federal Highway Administration's (FHWA) Urban Freeway competition in 1993. This award was partially based on the innovative construction agreement designed for the construction of the Atlanta Financial Center in the air rights of the highway. Robert Nelson, Project Manager for the construction of the Atlanta Financial Center, and Joe Palladi, representing GDOT, were recently brought in by the Ohio Department of Transportation to present their case study of air rights construction.

The need for the highway has been proven by weekday vehicle counts of 100,000 per day, which is the level that GDOT had projected for the year 2010. Fares from the tolls are well above their expectations. The property manager is happy to have a building which includes the highway and the MARTA tracks, giving it a visual appeal and a recognition factor that could be very important in leasing out space should the market ever falter. It is interesting to look down from the top floor and see the highway spilling out from under the building and the parking garage. From the perspective of Peachtree Street, the Atlanta Financial Center, on the south side of the street, provides a continuity to the street landscape which would not have been possible with a standard freeway underpass. This unusual agreement has provided Buckhead with a signature project to add character to the area.

## ANALYSIS

The agreement between Robinson-Humphrey and GDOT has brought about a successful blending of a large scale public project with a private development. Although neither group may want to be in this situation again, under the circumstances it was the best option for both parties. However, it is more by default that this project is considered a Transit Oriented Development. After all, the development was being planned prior to the approval of the tollway and the railway. Other than the tunnels and the changes under the parking deck, the construction of Phase II and Phase III was done to mirror the existing Phase I building. Robinson-Humphrey did not make any special concessions to connect with the Buckhead station, other than sell some of the Peachtree frontage to GDOT to widen the road and provide a bus pullout and MARTA rail access. This in fact made it more difficult to cross Peachtree Street at grade but did increase rail access by the construction of a tunnel.

Because of the placement of the MARTA Buckhead station at Peachtree Road, the Atlanta Financial Center, the neighboring Capitol City Plaza, and the nearby hotels and other office buildings all have easy transit access. This

access can be attributed to the successful negotiations between the private developer and public agency. Although Buckhead is still primarily an auto oriented office center, the installation of the MARTA station and the creation of buildings like Atlanta Financial Center above the tollway and the MARTA tracks may aid future efforts to create more pedestrian and transit linkages in the area.

## **SUMMARY**

This case study centers around bringing transit options to newly built up urban areas. The creation of GA400 through the heart of the Buckhead office area, and the agreements to create the development in conjunction with the highway and the railway, provide some good ideas for future construction of urban roads and railways. Urban areas are now built up more because of market conditions and opportunity than for convenient transit access. As a result, future transit developments may need to be integrated into existing office and commercial centers. Negotiations like those between the Atlanta Financial Center and GDOT can bring new rail lines and highways into already built areas without causing undue stress on the existing infrastructure.

This case study may provide some insight for state DOTs interested in the development of their air rights. Of special interest are the construction of the tunnels and caissons built to support the Phase II structure and the specific financing arrangements made in anticipation of a future state highway. Also of interest is the funding strategy employed in retrofitting the parking facility. Besides the specific obstacles that were encountered, GDOT acted on behalf of MARTA and ensured that the transit authority was accommodated in the negotiations. In this development a DOT and a developer worked together, assisting one another to achieve their objectives.

The agreements allowing the construction of Phase II of AFC and GA400 and MARTA may also instigate a change in the atmosphere of the Buckhead area. By creating a station which is geared to serve area offices and businesses, MARTA may be able to attract patrons working in the Buckhead area who previously traveled by car. The MARTA station was only recently opened, so transit linkages are in the formative process. As the future unfolds, Buckhead may provide an example of significant transit investment being brought into an area with major transportation problems and resulting in the cultivation of a pedestrian and transit oriented environment.

**Atlanta Financial Center, Atlanta GA.**

Set of three office buildings in the Buckhead area of Atlanta  
 Located across the street from the recently opened Buckhead MARTA station  
 Agencies involved: GDOT, MARTA, City of Atlanta

<b>Special Features</b>	<b>Architect</b>
MARTA and GA400 run underneath the building Agreements involve air and subsurface rights. Provides continuity with Peachtree St. Unique agreement with GDOT	Phase I: Smallwood, Reynolds, Stewart & Stewart Phase II & III Stevens & Wilkins, Atlanta, GA

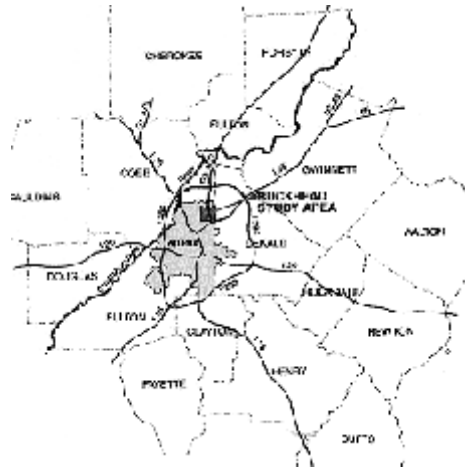
<b>Developer</b>	<b>Financing / Management</b>
Robinson-Humphrey Properties Inc. 3333 Peachtree Road Atlanta, GA	Robinson-Humphrey Mgmt. Mutual Life Insurance Co. of NY

<b>Land Use Information</b>		<b>Development Schedule</b>	
<i>Site Area</i>	9.1 acres	<i>Site bought</i>	1980
<i>Gross Building Area</i>	891,203 sq. ft	<i>Phase I Bldg. completed</i>	1981
<i>Total Parking Spaces</i>	2500	<i>Development Agreement</i>	1985
<i>Number of Stories</i>	13, phase I and III	<i>Phase II Bldg. completed</i>	1987
	19, phase II	<i>Phase III Bldg. completed</i>	1989
		<i>GA400 completed</i>	1993
		<i>MARTA Station opened</i>	1996

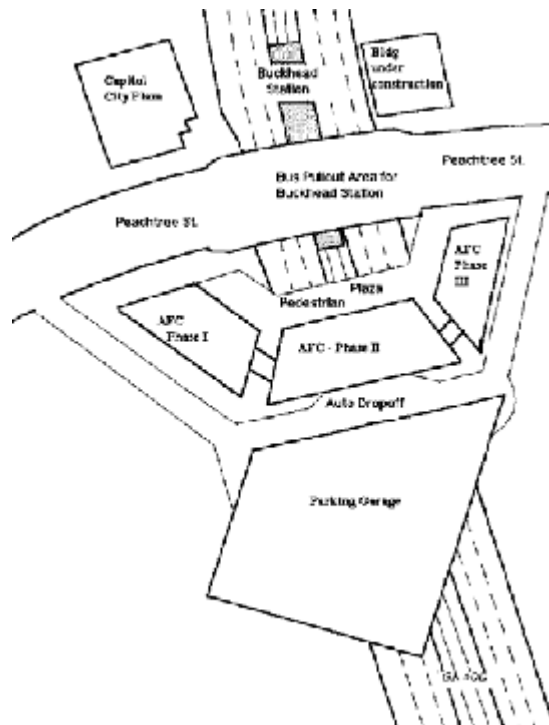
Financing Information	
Sources	Amount (aprox.)
AFC construction:	\$100,000,000
GDOT	\$9,600,000
Mutual Life Ins. of NY	\$90,400,000
Robinson-Humphrey donated \$1,000,000 toward GA400 construction.	



Development Cost Information	
GA 400 Site Acquisition (Peachtree)	\$3,345,359
Other Intersection Improvements	\$9,043,778
Atlanta Fin. Center Underpinning	\$9,602,957
Construction Costs	\$135,623,175
Toll Plaza Construction	\$10,352,395
Landscaping	\$2,342,564
TOTAL DEVELOPMENT COSTS	\$170,310,228
Atlanta Financial Center	\$100,000,000
<i>incl. Site Purchase (9.1 acres)</i>	
<i>Phase 1 cost</i>	
<i>Funds to GDOT for GA 400</i>	\$1,000,000
TOTAL DEVELOPMENT COSTS	\$101,000,000



**Figure 10-1 Location of Atlanta Financial Center, Atlanta, GA**



**Figure 10-2 Plan of Atlanta Financial Center**



**Figure 10-3 Atlanta Financial Center (from an advertisement)**



**Figure 10-4 MARTA and GA400  
at Atlanta Financial Center**

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**Endnotes**

<sup>1</sup> Phase II is the portion of the Atlanta Financial Center Complex that instigated a partnership with the Georgia Department of Transportation.

<sup>2</sup> A fourth buildable parcel also exists but has not been developed.

<sup>3</sup> Robinson Humphrey Properties was set up by the Robinson Humphrey Company, Inc. a brokerage firm based in the Atlanta Financial Center in Atlanta, GA. Robinson Humphrey Company, Inc. is a wholly owned subsidiary of Shearson-Lehman/American Express. The first two phases of the development were constructed in partnership with the Mutual Life Insurance Company of New York.

<sup>4</sup> The original agreement was between Robinson Humphrey Properties, Inc. and the Georgia Department of Transportation. MARTA initiated land acquisition but later signed the property over to the Georgia Department of Transportation who represented MARTA's interest in the negotiations with Robinson Humphrey Properties, Inc. Therefore there was a separate agreement between GDOT and MARTA.

<sup>5</sup> The Carlos family had owned this parcel of land for approximately 40 years.

<sup>6</sup> The developer could have moved forward with the development at this time if he had chosen to do so.

<sup>7</sup> The Georgia Department of Transportation has programmed another widening of Peachtree Street to the west of the MARTA Station.

<sup>8</sup> The reader should be aware that MARTA has not been allowed to expand into the two fastest growing counties in the Atlanta region (Cobb and Gwinnett) immediately adjacent to the MARTA service area (Fulton and Dekalb Counties). Reasons provided for over a quarter of a century of resistance to MARTA by these two counties are largely based on crime but have often been associated with racial prejudice especially given limited ability to document a

causal linkage between MARTA and crime. In fact, recent studies have shown that crime is increasing far more rapidly in suburban locations than in the central areas where MARTA service is most heavily concentrated (Atlanta Journal Constitution, 1996).

<sup>9</sup> In a newspaper article dated February 9, 1997, an area resident is quoted as saying that the Buckhead MARTA station “might as well be in the middle of the Pacific Ocean” (Atlanta Journal Constitution, 1997).

<sup>10</sup> A portion of the ridership shown at Lenox can be attributed to Resurgens Plaza.

<sup>11</sup> Past studies indicate that over 50% of the hotel patrons use taxis to get from the airport to their hotel. MARTA runs directly from the airport to this district providing an extremely high level of transit service.

<sup>12</sup> When viewing this data it is important to remember that the TSAD Study area has far more commuters than local residents. Therefore, this dataset, which only has household level data, could be misleading. What is required is travel data based on the employees who work in the study area and patrons who shop in the study area.

<sup>13</sup> As stated in the Buckhead TSAD report, office absorption within the Buckhead submarket has varied from a high of over 700,000 square feet to a low of 360,000 square feet. A five year absorption rate of 430,000 square feet resulted based on highs and lows from 1986 to 1990. The projected absorption rate is difficult to predict. The period between 1986 and 1990 includes both growth periods and recessions lending credibility to the projection. Estimates were also prepared for population numbers that will occur as a result of the growth (Buckhead TSAD Study, 1993).

<sup>14</sup> The Robinson Humphrey Company, Inc. is a wholly owned subsidiary of Sheerson-Leehman / American Express.

<sup>15</sup> Mr. Robert Nelson, Project Manager for the development of the Atlanta Financial Center for Robinson Humphrey Properties, Inc., gave the keynote address for the opening of Georgia 400.

<sup>16</sup> Robinson-Humphrey Properties, Inc. was dissolved in 1991.

<sup>17</sup> MONY was a silent partner throughout the development of the Atlanta Financial Center.

<sup>18</sup> This amount was the cost paid in the early 1990s when the parking garage was modified to accommodate the tollway. When the parking facility was originally constructed Robinson Humphrey Properties, Inc. offered to prepare the parking garage for the tollway at approximately one third the cost.

<sup>19</sup> In preparation for the rail or bus lanes GDOT had allocated a 40 foot median for a MARTA right of way underneath the Atlanta Financial Center.

## **SUCCESSFUL PARTNERSHIPS**

### **INTRODUCTION**

When a partnership is formed between a public agency and a private company, each partner must be aware that they will not be doing business as usual. The partners each have different goals, different procedures, and different organizational structures. To perform effectively, each partner must keep in mind the other's point of view and particular problems.

The mission of a public agency is to carry out the public will, as defined by the current laws and regulations, under the supervision of a publicly elected or appointed board. A public agency can only act within the mandate it is given. It cannot make changes in personnel, organizational structure, or budgets, even for the sake of efficiency, beyond the limits of its legal authority. The ability of a public agency to respond quickly to changing circumstances is restricted by the democratic process of checks and balances.

The actions of a private company are limited only by the law and its owners or stockholders. A company has no external mandate beyond economic survival in a market economy although it must have the public's permission to carry out its business. For example, anyone may form a construction development company, find capital, buy land, and construct buildings as long as the buildings meet the legal regulations that ensure minimum health and safety standards. Beyond the laws that protect the public, there are no restraints on a company's choice of project or methods. The staffing, organizational methods, and budgets can all be changed instantly by the company's management.

Public and private entities have different goals. Public agencies focus on political issues affecting the health and welfare of the community: keeping the streets clean and safe, the water drinkable, and the air clean. Their political constituencies can range from neighborhood associations to the local chamber of commerce or broader. Depending on local circumstances and the political interest of the community, these agencies will also manage the growth of their community, regulate the cutting down or planting of trees, and impose regulations and requirements for running taverns, day care centers, and schools. Taxes are levied and fees charged to support these activities.

Private interests are driven by one major objective: to make money. With research, experience, and timing, a reasonable return on investment in the

form of a profit can be expected. To make money, the private company must contend with two major forces: financing and the market. Capitalization is the first challenge. Without proper financing a project will not begin. If the financial resources available are not adequate, the project can go over budget. At this point the developer must secure more capital or close down the project. The other challenge is to determine if the product at a particular location will sell or rent at a price that will pay all costs and bring in a profit. The banks, before lending money to a developer, ask the same questions and try to minimize their own risk. A bank's idea of a good loan is one with a high probability of being repaid on time. As a private business, the bank is also looking for a return on investment.

A public/private partnership must accommodate the interests of both participants. If it does not, the project will fail. If either party places undue burdens on the other partner, the project will fail. This section reviews what the public partner and the private partner should expect, so that a bridge of understanding will lead to a successful project.

### **Definition of Public/Private Partnerships**

Public/private partnerships are defined by a formal agreement or arrangement between a public agency and a private company. Their participation may involve either private sector payments to the public entity, or the private sector sharing capital costs and expenses. This study specifically reviews transportation oriented developments. In this type of partnership the public agency puts assets into the project in the form of land or capital, or it may assist in the financing. The private developer, either a for-profit or non-profit entity, agrees to finance, build, rent or sell, and maintain the project. Each of the partners, private and public, expects to earn a return on their investment. For the public agency the reward may be a lease amount for the land or simply the implementation of public policy. The private developer's return will be the financial profit from the developer's fee or net profits from operations. Public/private partnerships are often called joint developments.

### **Why a Partnership?**

A partnership is formed because there is a recognition that one party cannot carry out the project successfully without the other. This basic assumption is too often forgotten in a desire to dominate the partnership, and the relationship sometimes degenerates from cooperation to competition.

Normally the public agency contributes land, financing mechanisms, or local regulatory control. The private company provides the development, financing, marketing, and real estate management experience. Success in a joint project

is unlikely if the developer tries to evade the government regulations or if the agency attempts to control the development and marketing of the project. Each should respect the other's expertise and limits.

### **A Developer's Perspective**

Developers are market driven and usually suspicious of new products and do not change behavior patterns without solid evidence. Market research is the keystone of development decisions. Many people, especially investors and bankers, need to be convinced a project is viable. With a reluctance to be a pioneer and with no guarantee of profit, developers are not rushing to build transit oriented developments but a government agency with the right attitude can help achieve both public policy goals and lower market risk.

### **Benefits of Partnering**

In new, untried or difficult markets the developer will look for any available assistance. The public agency assists by implementing policy and allowing the developer to achieve his goal: to build a profitable product.

The public agency can assist its partner in overcoming community opposition, facilitating land assembly, and offering financial incentives to the developer. Having the land ready for development, with the proper general plan and zoning designation, will minimize the time to construction. The public agency can add value to the project in the form of land, financing, and land use control.

A partnership can be an effective means for implementing public policy but expectation of policy implementation must be coupled with realistic means of achievement based on the interplay of transit investment, land use decisions, and the market.

The market is always changing. Development around the transit systems built in the last thirty years is maturing. These systems (such as the Bay Area Rapid Transit District) initially pushed into areas of weak or immature markets. At first the stations required most commuters to drive to the transit stations. Today these stations are surrounded by more intense development, making the station a locus for higher density, mixed use development.

### **Strategies**

A public/private joint development can vary in quantity, kind, and value. There are three classes of joint development strategies: (1) revenue sharing, (2) cost sharing and use of incentives, and (3) a combination.



### Revenue sharing

Revenue sharing includes ground leases, facility connection fees, benefit assessment districts and tax increment financing. The following describes each of these:

- **Leases.** The local agency leases land parcels, air or subterranean rights, or unimproved space, to private developers or commercial tenants.
- **Facility Connection Fees.** The landowner or private tenant is charged a fee for the right to physically connect a project, usually a retail store or office building, to a transit station or to a park and ride facility via a passageway.
- **Benefit Assessment District.** These are specially designed districts around transit stations for which benefiting landowners pay assessment fees. These fees can help finance capital projects, particularly the infrastructure. They have also been used to fund operating deficits.
- **Tax Increment Financing.** Under this approach, the property tax for benefiting properties is frozen. Incremental gains in property receipts are earmarked for securing capital obligations or funding operating deficits.
- **Other Financial Programs.** Depending on the jurisdiction, other financial programs range from special assessment districts to sales tax increment revenue sharing.

### Cost Sharing

Cost Sharing includes voluntary agreements, incentive based agreements, and mandatory programs. The following are examples of cost sharing:

- **Voluntary Agreement.** These are agreements between public agencies, developers, and private property owners that reduce the development costs of each party through coordinated planning, design, and construction. Examples include shared parking facilities, ventilation, heating and cooling systems, and land assembly and purchase.
- **Incentive Based Agreements.** Public agencies grant the private company development bonuses (e.g. greater density or floor area ratios) in exchange for partial or full funding of public infrastructure.
- **Mandatory Programs:** Developers may be required to provide transit facilities and services as traffic mitigation measures for their

development projects.

### **The Partnership Agreement**

A partnership agreement is a document that spells out the duties, obligations, and financial compensation of each partner. The agreements usually cover standard issues of concern. The following items are of particular importance.

#### Length of Lease

Most of the developments studied have been long term ground leases. Each of the agencies negotiates on a property by property basis, with leases ranging from 30 to 55 years. For example, the leases for land owned by BART in Hayward, El Cerrito del Norte, and Castro Valley are for terms of 50 years. At WMATA in Washington, DC, the sample lease is for a term of 50 years, to be negotiated for each property. At the Metropolitan Transit Development Board (MTDB) in San Diego, leases range from 30 years for an adult education center to 55 years for a housing project.

#### Structuring the Lease Payment Schedule

The land lease payments, when they are due, and how they will be based indicates the amount of risk a public agency is willing to take. If the agency is creative and is willing to accept reduced up front payments or early payments, there will be less financial strain on the project. In exchange for this, the agency might ask for additional participation in proceeds from the project. For the Ballston Metro Center, the transit agency waived the collection of fair market rent (for the portion of the land leased to the developer) and instead accepted a percentage share of gross proceeds from the condominium sales. For the 135 unit Del Norte Place, the redevelopment agency leased the land to the developer for \$1 per year plus a percentage of the cash flow. The Villages of La Mesa and the Mercado del Barrio projects in San Diego and the Strobridge Apartments in Castro Valley, none of which are covered in this report, are other transit based projects where the public agency accepted below market rents in return for a percentage of revenues.

#### Subordination

One of the biggest issues in structuring leases has been the willingness (or unwillingness) of the public agency to subordinate its interest to the interests of other lenders. The governing statutes of most public agencies do not preclude such subordination and many agencies have agreed to do so. For example, BART agreed to a subordination of its land payments at its Castro Valley station. This is a form of risk taking by the agency, but one which may

be necessary in order to obtain financing.

### Structuring Land Assembly

At most station areas, the land is divided into multiple ownership. Assembly of land is needed to achieve development that is of sufficient size to be economically viable and to create the new station with commercial or residential development. In most of the examples reviewed, the redevelopment agency was involved in the assembly of land. In San Diego, the redevelopment agency assembled land for Villages of La Mesa, La Mesa Village Plaza, and Mercado at Barrio Logan. In the San Francisco Bay Area, the lands for Del Norte Place (El Cerrito del Norte), Atherton Place (Hayward), and Park Regency (Pleasant Hill) were assembled by the local redevelopment agency. Although most transit agencies have the power of eminent domain under their governing statutes, they have been hesitant to use this power for transit based development. With a broader reading of the eminent domain power for transit based development, this is beginning to change. For example, in recent years the MTA of Los Angeles County has considered several sites where the transit agency could use eminent domain power for land assembly. The MTA joint development staff did extensive planning to assemble land for a 200,000 square foot Children's Hospital administrative center. The project eventually stalled for lack of financing, but the basis for eminent domain use had been accepted within the agency.

The redevelopment agency should be responsible for land assembly and not the transit agency. However, the redevelopment agency can only undertake land assembly if the station area land is in a designated redevelopment zone. The eminent domain power for the transit agency provides for land assembly in areas not in a designated redevelopment zone, and the transit agency should not be hesitant to use these powers in pursuit of transit oriented development.

### Structured Shared Parking

The surface or structured parking that exists at most suburban transit stations can be used to reduce the parking costs in transit village developments. The most obvious beneficiaries of station area parking are entertainment centers which need parking at night and on weekends, precisely the times that the transit system parking area has open spaces. A shared parking agreement reduces the need for the construction of new parking facilities.

In San Diego, the transit agency entered into a license agreement for parking with a theater owner to share the transit agency parking lot at the Grossmont station. The theater pays MTD an annual license fee of \$40,000. Theater patrons can use the parking lot at all hours, subject to the same limitations as

transit riders: no parking over 24 hours and parking only in properly marked spaces. In many cases, transit agency parking lots, both surface lots and structured lots, have been paid for by the Federal Transit Administration. Any use by a private entity may require FTA approval. Given the FTA push for transit based development, this approval is usually granted. Approval was granted earlier this year at the El Cerrito del Norte (San Francisco Bay Area) station where BART obtained permission for a theater entertainment complex adjacent to the transit station to allow its patrons to use the 1600 space parking garage on nights and weekends.

### **Barriers to Effective Partnering**

Effective public/private partnering is rife with barriers. Public agencies very often do not understand how businesses operate. Their employees have not been trained to maneuver in the private development arena. Land development is an intricate process, of which public land use regulation is a very small part. In general public agencies have been ineffective at managing real estate.

“The key is recognizing that the developers don’t have to be there,” Mr. Jack Limber, General Counsel for the San Diego MTDB, told an industry group considering transit based development. By this he meant that transit agencies, board members, and staff often greatly overestimate the value of their properties and drive away developers with inflated demands and complex procurement processes.

To compensate for these shortcomings, some agencies have set up real estate advisory committees composed of experienced business people who review possible deals and help educate the employees of the public agency.

The following are areas that should be considered when attempting to minimize a public agency’s shortcomings.

#### Coordination

Public/private partnerships require a great deal of inter agency and community coordination to succeed. The public/agency needs the concurrence of any number of other public agencies to allow development to take place. Within the agency itself there will be departments that are unwilling to give approval (e.g. the City attorney’s office, the building department, the public works department).

#### Building Products

Barriers can be just as high on the private side. Most developers are not experienced in providing alternative, potentially risky building products. The typical developer believes that defining the market through research is the

only way to proceed with planning a product. Without market research showing alternative, equally profitable options, developers are unlikely to change.

### Mixing Housing Types

Most developers are wary of mixing housing types and incomes in a project even though such a mixture is often a prerequisite for working with the public entity. Most large scale developers are experienced with providing housing for one or two relatively homogeneous socioeconomic groups, and are cautious of the potential negative effects of a “mixed use” community. Again market research and experience are the keys to overcoming this barrier.

### The Planning Process

The local land use planning process itself can be a hindrance to the establishment of successful partnerships. Local agencies often discourage innovation by placing undue land use regulatory burdens on developers. The developer must deal with the financing, building codes, and land use regulations required in a normal construction project and must meet all the agency’s special requirements. In the more successful projects the transit agency obtained the general plan and zoning entitlements before contracting with a developer, saving both partners a great deal of time and expense when the development was underway.

### RFPs

The request for proposal (RFP) process often requires competing bidders to develop extensive design presentations with concept drawings, financial spreadsheets, and justifications for budgets and costs. This in turn requires a large commitment of time and money just to enter the competition. And, of course, the “loser” of the competition is not reimbursed for his outlay. This process inhibits many developers from bidding.

### Integration of Facilities

When designing the integration of the transit facility and development project, nothing should be presumed by either of the parties. Such presumptions, particularly in connection with the construction of both transit and commercial/residential projects at the same time, can become major barriers to success. Separate designs for a transit station and for adjacent commercial/residential development should be planned.

### Performance Based Specifications

Planning agencies may develop performance based specifications for a

planned project without considering the effect on the developer's profit. For example, they will require a certain number of units at or below specific price thresholds. This requirement will affect the amount of cash flow and the financing that a developer can expect to obtain. The public agency needs to understand the financial consequences of these requirements and needs to be open to public financing or direct subsidies to make up the difference.

### **What the Developer Should Ask**

Developers should review joint development proposals by public agencies by asking about the following:

#### Market feasibility

- Have market studies been completed and are they available for review? Is the local economy diversified?
- Is the project located in a growing or less stabilized area?
- Are other businesses or employers expanding?
- What is the existing and projected amount of square footage of competing projects to be developed in the market area?
- Does market demand exist for the project?
- Are any major tenants or operators interested in the location?

#### Physical feasibility

- Does the site have any unusual physical problems such as flooding or soils stability. Is the area large enough for the anticipated project?
- Will the site's topography, access, or visibility increase the project's costs?
- Is site assembly complicated?
- Does the agency want the developer to sign an agreement regarding the disposition of the site earlier than desired by the developer?

#### Financial feasibility

- Do initial pro formas indicate that the project is financially feasible?
- Is the public agency prepared to lessen the developer's initial costs until the project is more certain?
- Will the property be sold or leased?
- Have land values been fairly determined?

- What financial tools does the public agency offer to aid in the development?
- How much of a return on investment is the city likely to negotiate?
- Are other investors interested in the project?

#### Community consensus and clear objectives

- Are local public agencies including the city or county committed to the project?
- What is the likelihood of the developer's receiving favorable review and approvals?
- Are development approvals already obtained?
- Has the public agency evaluated the need for short or long term income versus its need to achieve development goals for the area?
- Are the local agencies interested in achieving social goals, such as affordable housing, employment of minorities, or childcare?
- Are the local agencies willing to put up financial resources to help achieve these goals?
- Have local groups opposed the project?
- Will the public be involved in the design?

#### The staff's sophistication

- Is the public agency staffed with qualified people who understand real estate development?
- Has the agency retained experienced professional consultants to augment its staff?
- What is the track record of the agency in joint public/private ventures?
- Has the agency exercised a patient commitment to complete the project and adhered to its defined ground rules with the developer?

#### The deal

- Does the local agency plan to sell or lease the property?
- Has fair value for the property been established?
- Will the developer be permitted to stage development according to market conditions? Will the developer retain the ability to proceed

with separate stages without being committed to later stages?

- Is the process of selecting a developer protracted and expensive?
- Will political contacts outweigh merit in selection?

#### The unknowns

- What is the likelihood of key city staff leaving or current elected officials being replaced during the course of development?
- What other agencies will require approval of the project?
- Will an environmental impact report be required?

#### **Other Items Needed for Success**

##### Establishing a relationship between transit facilities and the development

- What is the relationship between the mixed development and the transit station?
- Is this a transit stop that will become a major shopping center with the main focus on shopping while the secondary use is transit? An example of this is Sequoia Station in Redwood City.
- What is the economic link between the developments?
- Is the development coming about in hopes of boosting travel demand?
- Are the travel demand forecasting models sufficiently sensitive to site specific conditions? Most forecasting models are developed at the regional level and do not consider specific development at transit stations.

#### Access

Success for both transit and commercial/residential facilities is based on access. The real estate development must be viewed as an activity that does not detract from public transit.

#### Market and Financial Feasibility

This aspect cannot be overstated. The developer will be doing market and financial feasibility studies before submitting a proposal to the public agency. The public agency is well advised to invest in its own study in order to understand the market conditions and why the developers are proposing their particular project. When a real estate developer is chosen by the public agency, financial due diligence of the private developer and determining financial capacity is paramount.



### Documenting Agreements

Both the public agency and private developer must document agreements and changes in agreements. Such documentation need not be complex but it needs to be written and signed by all parties. Included in this documentation are work orders, changes in time schedule, and changes in financing or design. A property owner agreement is also important when neither the public agency nor the developer owns the land. These agreements are sometimes written late in the process when key decisions have already been made by the developer and public agency, without the understanding or knowledge of other property owners. Involve property owners early.

### Environmental and Zoning Requirements

Federal, state and local environmental concerns and documentation must be processed before the project begins construction. Local general plan and zoning ordinance regulations must also be satisfied. The public agency should meet these requirements before the developer is chosen. The process will move quicker if the public agency takes the responsibility for these requirements rather than the private developer. If these items are not done, and the public agency is applying for federal funds through a grant application, the application will be interrupted until they are completed.

### Conducting the Bid Process

When federal funds are involved, federal third party contracting requirements must be met including a competitive bidding process. During this bidding process the public agency should give as much information as possible to potential bidders.

### **Considerations when Using Federal Funds**

Many requirements must be considered when federal funding is included as part of the joint development project. The following are some of those requirements:

- Conformance with Section 3(a)(1)(D) of the Urban Mass Transportation Act of 1964 as amended.
- Continuing control of Federal project assets by the grantee.
- The federal project must be available to the general public for mass transportation purposes.
- Related procurement must be conducted in accordance with the requirements of FTA Circular 4220.

- The Federal project must be included in the Transportation Improvement Plan (TIP) for a capital project and in the Unified Planning Work Program (UPWP) for a planning study.
- The facility must remain in mass transportation service over the life of the asset. If the facility is removed from mass transportation service during its asset life, the prorated depreciated federal contribution must be rebated to the federal government.
- Environmental requirements must be met.
- Davis Bacon Act requirements must be met.

### **A Check List for Joint Development**

The following check list for joint development was put together by the consulting firm of Basile Baumann Prost & Associates and was presented by Jim Prost at a recent workshop on joint development.

- Develop a specific work program. The work program includes what the public agency wants to do, when, what properties, and how much it will cost.
- Conduct a preliminary site investigation.
- Determine the feasibility of development on the property.
- Approve the disposition of joint development plans.
- Issue a request for proposals to developers.
- Review proposals.
- Select a proposal and a developer.
- Negotiate agreements.
- Execute agreements.
- Finalize project design and financing.
- Construct improvements.
- Administer agreements.

### **CONCLUSION**

A potential partnership must be approached with flexibility and a desire by both the public agency and private entity to make the development work. The

“getting acquainted” phase should involve extensive questioning and coming to a mutual understanding of the product to be built. The more preliminary work the public agency does on land use assembly, land use entitlements, environmental clearances, determining the market, and having available financial incentives, the more likely it is that the project will be successful. The more the private entity understands the public policy requirements of the project, the quicker the project can be completed. Flexibility, mutual understanding, and respect are the keys to a successful public/private partnership.

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## **PRIVATE DEVELOPER DECISION CHECK LIST**

**Goal:** Well built, financially successful developments

**Objective:** Completion of project and return on investment

### **Specific objectives**

#### Return on investment

- Review the RFP to determine the steps needed to feasibly build the project while providing for a profit.
- Investigate alternative sources of financing such as housing credits and grants, and work with the public sector to provide gap financing.
- Establish a mutually acceptable Development Agreement with the lead agency to assign responsibilities that avoid surprises.
- Through research, establish the mix of retail and housing tenants who would be attracted to the development.
- Discuss the realities of the leasing potential with the agency and compare their assumptions and their goals with that of the market.

#### Creation of positive reputation

- Work with the agencies involved rather than against them.
- Dispute questionable claims with facts.
- Remain flexible to the public agency's requests while keeping an eye on the bottom line.
- The creation of the Development Agreement will bring about a level playing field from which both sides can effectively address issues.
- Remember that a public agency's "shareholders" include all voting members of the public.

#### Production of positively identified project

- Combine the agency's goals with your development knowledge to create plans for a project which can satisfy their goals and make a profit for you.
- Work with the neighborhood from the beginning to address their needs and desires.

- Balance savings with the cost of adding small design touches which will add to the quality of the project.
- Find an experienced management company that is willing to work with a mix of tenants.

#### Avoidance of litigation

- Research the agency to determine their financial condition and how it will affect the future of the project.
- Keep negotiations open and provide a forum for neighborhood input.
- Use the Development Agreement as the forum to provide responses to questions of possible litigation.

## PUBLIC AGENCY DECISION CHECK LIST

**Goal:** Transit based development

**Objective:** Creation of successful transit based development

**Specific objectives:**

Increased density and mixed use

- Modify the General Plan and zoning to allow for the uses.
- Provide incentives for incorporating increased density and mixed use during the development review.
- Help the developer through the development process. Lobby for changes in zoning that conflict with mutual goals.

Creation of a successful partnership

- Select a developer who is familiar with the goals of the agency.
- Use RFPs to present the agency's goals and provide a forum for quality submissions.
- Establish a lead person within the agency to coordinate negotiations with the developer and all other agencies.
- Create a comprehensive and realistic Development Agreement.
- Allow for flexibility in modifying the Development Agreement. Cooperate with the developer when new situations arise.

Establishment of pedestrian and transit links

- Provide the infrastructure to allow for linkages to public property.
- Provide incentives to incorporate linkages between transit developments and the surrounding community.
- Use a comprehensive approach when analyzing the development proposal. Attention should be paid to the immediate neighborhood. Does the neighborhood need improvements to correspond with the new development?
- Openings on all sides of the development will provide for future ease of access between new developments and access to transit. Fencing

should be discouraged.

#### Financially Successful Results

- Analyze the project site to estimate potential costs and returns.
- Investigate various funding programs, such as bonds, grants, and housing credits.
- Be creative in seeking financial sources! Use multiple sources if necessary.
- If both the developer and the agency have a financial stake in the project, there is added incentive to design a practical project.
- Minimize exactions. Keep in mind that the developer and agency need a return on their investments.
- Consider ways to share the rewards upon completion of the project. (Del Norte Place is an example.)

#### Development adds to the existing neighborhood

- Work with current businesses and residents to identify their desires and needs. This work needs to take place before submitting the general plan and zoning amendments.
- Structure the RFP to achieve a balance between economic needs and neighborhood desires.
- Projects that have a less disruptive effect will be more likely to be supported by neighbors. Infill projects on existing street systems usually appear less threatening.

#### Provide for long term future growth

- Adopt long term development solutions, rather than quick fixes. Keep individual projects in perspective.
- Smaller, incremental projects may be better in the long run than one large “all or nothing” project.
- Do not risk over-funding on a shaky project. It may be better to restructure the RFP.

## METHODS OF FINANCING

This section examines potential financing sources for transit based development at the national, state and local level. Among these potential sources are the Federal Transit Administration's Livable Communities program, the Congestion Mitigation and Air Quality Improvement (CMAQ) fund, the Surface Transportation Program at the federal level and at the California state level, the High-density Housing/Mass Transit SB2559 program, and the Transit Village Act, AB3152. At the local level there are Local Transit Oriented Development Ordinances, congestion mitigation programs, redevelopment funds, and Mello Roos District funds.

### FEDERAL INITIATIVES AND FUNDS

#### Livable Communities Fund

Of the federal funds available, the Federal Transit Administration's Livable Communities Initiative best reflects the federal government's increased interest in the link of land use and rail transit. President Clinton signed the appropriations bill to support this Initiative in 1993. Its purpose is to fund community facilities located adjacent to rail and bus lines and to encourage them. The first fifteen Livable Communities projects were funded in 1994 and 1995. Their locations are set out in a list at the end of this section. The projects represent a wide range of bus and rail transit enhancements. They include customer service enhancements such as sidewalk and lighting improvements, resurfacing of roads serving park and ride lots, new signage, and bicycle lockers. Also funded was the development of a site plan and \$2.3 million in station area enhancements at the Fruitvale BART station in the San Francisco Bay area as well as a child care center combined with a police substation at the Baltimore Reisterstown Metro station.

To obtain money from the Livable Communities fund, a local jurisdiction must show evidence that a project:

- “resulted from a community planning process and contains community endorsement”
- increases access to jobs, educational opportunities, or social services
- incorporates community services or other mixed use developments



- provides opportunities for small or disadvantaged business participation.

Beyond these threshold factors, the community involvement with the project is important, as is the level of funding pledged by other state and local sources. The degree to which the project stimulates commercial and housing development around the transit facility is also considered. Transit agencies and local governments apply directly to the Federal Transit Administration for Livable Communities funds.

### **The Congestion Mitigation and Air Quality Improvement Fund and the Surface Transportation Program**

Two other sources of funds for transit based development are the Congestion Mitigation and Air Quality Improvement (CMAQ) fund, and the Surface Transportation Program (STP) fund. CMAQ funds are federal monies administered through the federally designated local transportation planning organization and are used for a wide variety of transportation improvements linked to reducing traffic congestion. CMAQ funds are utilized for station area improvements such as pedestrian walkways and urban plazas. STP funds are also utilized for a wide variety of transportation and station area improvements. In California, 10% of the State's STP funds are administered through the California Transportation Commission (CTC) for "Enhancements" projects. The Enhancements Program for 1996 was funded at \$35 million.

### **Federal Tax Credits for Affordable Housing**

Federal tax credit financing is based on the application for federal tax credits to fund affordable rental housing. The federal tax credit program was authorized by Congress in 1986 and is covered by Internal Revenue Code Section 42. The program enables rental housing sponsors and developers to raise project equity through the sale of tax benefits to investors, typically public corporations. Affordable housing is defined as housing for renters earning 60% of median income or less. Obtaining funds through tax credits is cumbersome but a good source for permanent financing. Each state administers its limited allocation of federal tax credits through a competition geared to each state's individual housing priorities. In California the program is administered through the California Tax Credit Allocation Committee.

Initial incomes of households in tax credit units cannot exceed either 50% or 60% of the area median income with each project sponsor or developer electing one of the following minimum federal set aside requirements:

- A minimum of 40% of the units must be occupied by households

earning 60% or less of the area median income, adjusted for family size.

- A minimum of 20% of the units must be occupied by households earning 50% or less of the area median income, adjusted for family size.

Federal law requires tax credit projects to remain affordable for fifteen years, and in California the minimum requirement is thirty years. Typically equity earned through the sale of federal tax credits generates between 30% and 50% of a project's costs.

## **CALIFORNIA STATE FUNDS**

During the last three years the State Department of Transportation (Caltrans) has funded several small research projects investigating transit based development. During this same period the State legislature has enacted three bills encouraging transit based development, two of which were signed by Governor Wilson. Despite the State legislature and Caltrans' interest, no significant state money currently exists for the development of transit based development.

### **The High-density Housing/Mass Transit Act**

The first of the three bills, entitled High-density Housing/Mass Transit, SB 2559 (Government Code sections 14045 and 65083 and Health and Safety Code section 50502.5), was enacted in 1991. This bill, authored by Senators Kopp and Greene, established demonstration sites in the state for transit based development. By agreeing to a density bonus of 25% over the maximum density for residential development within a one half mile of a rail transit station, a city or county could apply to be part of the demonstration. If chosen, the city or county would receive "consideration" for state transportation and other infrastructure bond funds. In its initial form, the bill set out specific state funds for participants' "consideration."

### **The Development and Planning Act**

Governor Wilson signed the second of the three bills, the Transit Village Act, AB 3152 (Government Code sections 65460 *et seq.*), in 1994. The bill was drafted and carried by Assemblyman Tom Bates. AB 3152 started as a bill to give local governments power to assemble land for development within a one quarter mile radius of a transit station, and the ability to utilize tax increment funds for transit based development. This bill was changed so that, as enacted, it provided only limited financial incentives but included some additional land

assembly power for local governments.

The Transit Village Act encourages local governments to develop transit village plans for a one quarter mile radius around rail stations. A transit village is defined as a mixed use neighborhood, with an emphasis on multi family housing, and includes small stores and public spaces, all of which need to be pedestrian oriented toward the rail station. As an incentive for developing a transit village plan, local government is allowed to use Low and Moderate Income Housing funds to support housing located within a transit village, even though the village may be outside a redevelopment project area. By California State law, 10% of all property tax collected within a redevelopment area must be used to assist the development of low and moderate income housing.

### **The Financing of Transit Village Plans**

The third bill, Financing of Transit Village Plans, AB 1338, introduced by Assemblyman Mike Sweeney in 1995, provided for direct financial assistance to transit village development. The bill authorizes metropolitan planning organizations and transportation planning agencies to establish a transportation planning revolving fund. This fund is used to make loans to cities and counties for the purpose of preparing transit village plans which must conform to the guidelines adopted by the Governor's Office of Planning and Research (OPR). Local planning departments can use money obtained through the revolving fund to prepare plans that link land use with transportation. The source of the loan money is the federal government, through Metropolitan Planning Organizations (MPOs), and from California, through Regional Transportation Planning Agencies (RTPAs).

AB 1338 was passed by the Legislature but was not signed by Governor Wilson. The bill was opposed by the California State Association of Counties on the basis that money put into a revolving fund would diminish the money that counties have for federal and state transportation planning requirements.

## **LOCAL FINANCING INCENTIVES**

### **Bonds**

There are a variety of bonds that can be used to help build all or a portion of a transportation oriented development. The following is a review of each type and its application to a project.

### Assessment Bonds

These bonds are secured by a lien on the properties that benefit from improvement or development. Landowners are assessed for their expected amount of use. The landowners are then responsible for the repayment of the principle and interest of the bond through their general property taxes. This method is especially effective for the financing of public improvements.

### Tax Revenue Bonds

A city floats bonds to finance capital improvement projects. These bonds are underwritten to minimize risk and are paid by the increase in taxes that are generated by the new development. There are two types of tax increment bonds: sales tax increment and property tax increment. Another type of revenue bond is the fee revenue bond which is issued for public improvements. Bond repayment is based upon a fee charged for the use of the facility.

### Mello Roos Bonds

Under this plan the developer sets up a Mello Roos Improvement District. The bonds issued by the district are secured by, and payable from, a special annual parcel tax levied on property owners within the district. This parcel tax is calculated annually in accordance with the amount of facilities developed.

### Lease Revenue

This is a method of financing used for redevelopment projects to finance the cost of land assembly, clearance, and parking facilities. The bonds are repaid by a public or private entity that accepts the program. That organization pays an annual rent for the facilities in the amount of the debt service on the bonds.

### General Obligation Bonds

These bonds are issued on the full faith and credit of the issuing local government and are paid from property taxes and other revenues. The bonds must be voted on by the people within the local jurisdiction and, in California, it must be passed by a two thirds vote. This type of financing is not very common.

### **Redevelopment and Tax Increment Financing**

A redevelopment agency can be formed in any community by the local legislative body by adopting an ordinance declaring the need for the agency. Most large cities in California have an agency in place. Redevelopment funds must be focused on areas that are 80% urbanized and “physically and/or economically blighted.” Redevelopment agencies have two broad powers:

eminent domain and tax increment financing. These powers provide the redevelopment agency with the authority to do the following:

- Assemble land
- Prepare the site for private improvement
- Finance necessary public improvements
- Impose conditions and restrictions on the development of an area
- Finance the development of an area

Tax increment financing is the primary financing tool of redevelopment agencies. It is based on the assumption that the revitalization of an area will generate higher property taxes than the existing uses. In implementing this financing, the agency borrows against the future taxes levied on property within the project area. The agency then receives the increase in the valuation of the land. To obtain initial funding the agency issues tax allocation bonds. These bonds do not constitute a debt of the enabling jurisdictions (cities or counties), and do not require a vote. Repayment to bond holders relies entirely on the completion of the project and its financial success. The financing works as follows:

- A government invests money from tax increment bonds to improve a blighted area;
- With the money, existing owners improve their buildings and properties;
- The assessed value of property in the area goes up;
- Property taxes increase;
- The amount of property taxes existing before redevelopment took place goes to existing taxing entities (i.e. County, School District, Special Districts);
- The increase in the amount of property taxes, produced by higher assessed value of the properties resulting from redevelopment, goes to the redevelopment agency;
- The agency uses the tax increments to pay the principal and interest on the initial debt and to finance further projects.

### **Community Development Block Grant Monies**

The federal government provides funds to communities for economic development through the Community Development Block Grant program.

These monies can be used to plan build, extend, and upgrade public facilities.

### **The Congestion Management Plan (CMP)**

The CMP is a state mandated program that ties the receipt of dedicated gas tax revenues to the implementation of countywide congestion management programs in the 32 urbanized counties of California. The CMP can assist local governments plan and develop transit based projects in the following manner.

- One element of the CMP requires the adoption of a program to analyze the impact of local land use decisions. The possible development of transit based projects can be part of that analysis.
- State law requires that deficiency plans be prepared when portions of the CMP highway system deteriorate to a low level of service. Transit based development is given preference under the law to overcome the deficiency.

Under both of these features, transit based development is given high status for overcoming the deficiency.

A major incentive for local governments and developers is that transit based development projects are excluded from the required preparation of a Transportation Impact Analysis (TIA). Under the CMP, all development projects required to prepare an EIR must incorporate a TIA into the Environmental Impact Report. Development projects are excluded from the TIA requirements if they are “high-density residential development located within one quarter mile of a fixed passenger station,” or “mixed use development located within one quarter mile of a fixed passenger station.” High-density residential development is defined as equal to or greater than 120 percent of the maximum residential density allowed under the local general plan and zoning ordinance. Other requirements are that the development:

- be within a one quarter mile radius of an existing or planned transit
- have a minimum FAR (Floor Area Ratio) of 2
- have residential uses comprising at least 30% of floor space.

Mitigation credits are given to projects that meet or exceed the Congestion Management Plans or help to reduce congestion. These credits can then be applied to other projects that exceed the plan’s projections. The value of the mitigation credits, though, is undercut because in 1994 the City of Los Angeles had a surplus of 855,000 credit points, enough to build approximately 180,000 multi family dwelling units or 116 million square feet of office space,

not near transit. MTA allows credits to be transferred between local jurisdictions so that, in theory, there is market value for traffic mitigation credits. In practice, however, the other jurisdictions are not in need of credits and have been able to comply with the deficiency planning requirements through standard capital and traffic engineering improvements.

## **PLANNING LINKAGES**

Several municipal governments in California have instituted incentives for plans designed to link development and rail transit. For example, in 1993 the Los Angeles City Council, working with the Metropolitan Transit Authority, adopted a Land Use/Transportation Policy (LUTP). The LUTP seeks to direct 75% of all new residential growth onto 5% of the city's land, primarily within a one quarter to one half mile radius of rail stations and major bus stops. The LUTP is a major break with previous Los Angeles growth strategies. These past strategies emphasized growing outward or anywhere there was land to be developed, as opposed to focusing on specific areas. The policy has been sent to the Planning Department for inclusion in the city's General Plan and Community Plans. The City is divided into thirty five Community Plan areas whose individual Community Plans, together with more general objectives, constitute the City's General Plan. The LUTP is built around the idea of the Transit Oriented District (TOD), defined as the area within a half mile radius of a transit station. The TOD includes a Primary Influence Area, the area within a quarter mile radius of a station, and a Secondary Influence Area, the area between one quarter and one half mile radius of a station. The Secondary Influence Area is intended to serve as a transition between the more intense development directly around the station and the existing neighborhood.

Within the Transit Oriented District (TOD) the city has instituted the following incentives:

- increased density allowances
- reductions in parking requirements
- expedited environmental and permit processing
- automatic conformance with the Congestion Management Plan
- combined hearing procedures for project reviews
- mixed commercial and residential development by right.

Transit based developments in lower income areas (Economically Disadvantaged Areas) are given priority for tax increment financing, block

grants, and housing funds.

### **PRIVATE SOURCES**

The major source of private funding will come from lending institutions, including banks and insurance companies. Commercial banks are the most prevalent source. Federally chartered banks must meet community reinvestment goals as a requirement of the Community Reinvestment Act (CRA). To accomplish these goals, they will lend monies to projects, mainly for affordable housing, in qualified impacted geographic areas at reduced interest rates. Commercial bank lending is often a point of regulatory focus when those banks want to expand or merge. Lending to housing and economic development projects in specified low to moderate income areas has become a necessary business for commercial banks wanting to grow. Several case studies in this report used federally chartered banks as their main source of funding and obtained lower interest rates (see Mercado Apartments and Plaza Del Sol).

### **COMBINING SOURCES**

Sources of funding are not mutually exclusive and may be combined to make a very strong financial partnership. If a project is within a redevelopment area, tax increment bonds together with Federal Tax Credits for affordable housing and CDBG funds can be very powerful. Other non-monitory items such as lowered government processing costs for a general plan change or rezoning also help.

### **SUMMARY**

#### **Financing Alternatives for Targeted Transit Based Development**

None of the targeted transit based financing mechanisms by themselves will be sufficient to achieve station area developments in most areas in California. What they do offer are incentives and financial mechanisms that can be added to other housing and economic development incentives. Projects are beginning to use combinations of financing mechanisms to ensure the transit based developments will work financially.



**Table 11-1 List of Livable Communities Projects**

<b>Project Name</b>	<b>Project Feature</b>	<b>Total Cost (millions)</b>	<b>FTA Share (millions)</b>
Atlanta University Center	Pedestrian Access	\$10.0	\$3.1
Baltimore Reistertown Metro	Child Care Center/Police Substation		1.52
Chester Transportation Center	Pedestrian Access, Safety and Security	7.5	6.0
Chicago Green Line 35 <sup>th</sup> Street	Pedestrian Access, Safety and Security	3.36	2.8
Clackamas County Sunnyside Plaza	Land Acquisition	2.0	1.6
Columbus Engineering for Transit Service Center	Engineering and Architectural Design	10.0	0.4
Corpus Christi Transit Centers Improved Pedestrian Access	Pedestrian Access	2.12	1.6
East Cleveland Windermere	Land Acquisition	6.0	3.2
Los Angeles Neighborhood Initiatives (LANI)	Bus Shelters	2.9	2.3
Louisville Neighborhood Travel and Job Center	Building Acquisition and Customer Service	3.0	2.4
New York Harlem 110 <sup>th</sup> Street Station Security Enhancements	Safety and Security Enhancements	2.8	2.2
Oakland BART Fruitvale Station	Transit Village	4.5	2.3
Rosslyn Metro Stations Bus Bay	Facility Improvements, Bus Access	1.0	0.8
St. Louis Metrolink Wellston Station Enhancements	Customer Services Enhancement	7.0	1.0
Tucson South Park Avenue Improvements	Pedestrian Access	1.25	1.0

## LESSONS LEARNED

Faced with a need to reduce traffic congestion and to provide adequate housing for their citizens, local governments are encouraging higher density housing combined with businesses in mixed use districts close to public transit facilities. Transit oriented developments can reduce reliance on cars, which can improve air quality. They can provide diversity in housing, encourage the use of public transit, and give pedestrians safe and pleasant routes to the goods and services they need.

Land use decisions and transportation funding are tools that can reshape a community. Attention to methods of financing, transportation corridors, and the local environment are important in bringing about desired changes but the key to success is a transit based development built by a private developer and the responsible public agency, often a redevelopment agency or transit agency. In this partnership the developer contributes commercial experience, building expertise, and agility in financing and budgeting. The public agency supplies the land and the permissions needed to build the project. Each party stands to gain. The developer can make a profit, and the agency will fulfill the goals of the local government's general plan or public mission.

The goals seem clear and the arrangement ideal, but public/private partnerships are not common and some that have been tried failed. The purpose of the studies presented in this report is to ask why some projects succeeded while others did not. As the data was assembled and the histories analyzed, we were able to identify patterns in public/private developments and to offer suggestions that will help future partnerships succeed.

The main factors in a public/private transit based development are the participants, the transportation corridors, the land, and the analyses of housing, public facilities, and the economic market.

## PARTICIPANTS

There are three major groups of participants in a transit based development. There is the private developer, with a staff, sub contractors, professional advisors, and lending institutions. Public officials, the second group, include the redevelopment agency, planners, transportation officials, and sometimes task forces of government employees and appointed citizens. The third group is ad hoc associations of local citizens supporting or opposing the

development.

### **Developer**

The developer should be experienced, with a good reputation and in support of the aims of the collaborating agency. In a public project, the developer will have to put together a good team including architects, engineers, financial partners, and lenders, all of who can subscribe to the principles of the development. All of them must be aware that operating in partnership with a public agency is not business as usual. It is especially important that the lead contractor on the project understand what is involved. The developer must take a long view when considering profits as these may come from leasing out the spaces rather than selling the project as soon as it is finished. The best developer for this type of project is one who can be creative with financing, since it will probably be necessary have to combine traditional private loan sources with public funds.

### **Agency**

The agency must be willing to work with a private sector developer, to understand the developer's motivation, which is not just greed but the need to survive in a competitive industry. Public agencies are essentially monopolies and do not face the constant threat of extinction; a developer does. There must be clear lines of authority within the agency and the developer must be informed of how much authority each individual and each of the cooperating agencies has.

### **The right combination**

Even if a developer is competent and the agency knows how to work with the private sector, the partners must be able to get on well and to cooperate easily. Picking the right partner in a business venture is always important but in a public/private development it is essential. The two entities must have the same goals but each must be flexible, understanding that each has its own methods for achieving their mutual ends.

The two entities have diametrically opposed modes of operation. A government agency can do only what is mandated: "what is not specifically allowed, is forbidden." The developer on the other hand can do anything that is not forbidden by law: "anything not forbidden is allowed." Each of the partners must operate within the bounds of the other's institutional culture, which can be frustrating at times.

The agency must adjust to the developer's quick reaction time and its impatience with bureaucracy, and the developer must understand that the

agency cannot react to new situations by changing personnel and budget quickly. An agency needs the permission of the public governing body, its sometimes cumbersome “board of directors.” Ultimately the agency’s “business manager” is the whole of the local population while the developer operates independently.

The best way to avoid the problems of the differing modes of operation is a good development agreement. The agreement is a blueprint for property transfers, the construction schedule, and the legal approval processes. In the course of creating the document the two sides should discuss problems that might arise and the procedures each will use to find solutions.

### **Community groups**

Independent community groups, formed around issues created by the project, can be the wild card in the development game. The developer especially, who seldom has to deal with the community, must spend the time necessary on public relations or risk delays or even termination of the project. It is best to consult with these groups early on in the process to hear their side of the issue and to address their concerns. Getting public consensus is not an efficient process but it is necessary.

## **LOCATION**

It seems obvious, but it is essential that the right development be put in the right place.

### **Transportation**

Transportation corridors are rail lines, bus routes, and highways. A transit oriented project must be adjacent to or very close to one or more of these corridors. To assure that the development is in the right location, it is necessary to study circulation patterns. The studies should include land use, transportation and travel habits, and the relationship of all of these in the past and in the future. It is necessary to have this information at hand before the development plans are finalized and the agreement signed. A development in the wrong location is probably doomed to fail.

### **Land**

Land allocation is the responsibility of the agency partner. Even before a developer is chosen, a conscientious agency will have determined what land is available and ways of acquiring the land that it does not already own or control. It should quantify the land use in conjunction with transport policy,

the environment, and economic uses and viability. Care should be taken that a new development will not adversely affect existing, adjacent residential areas.

### **Redevelopment zones**

Transit oriented developments are usually in a city's or county's redevelopment zone. This zone is based on a plan, a vision of what the agency wants for its community. The constraints of these plans cannot be ignored by the developer. The developer should know what the concept is before planning and be aware that any changes to the plan will be judged on how it conforms to the vision. Whether the agency is in agreement with the change or not, the developer can be sure that any change to the plan will not be made easily or quickly.

## **ANALYSES**

Any aspect of current housing, public facilities, economics, and market conditions that can be investigated, quantified and analyzed should be. Any development based on incomplete or inaccurate analysis will not serve the community and will most likely lead to an unsuccessful project.

### **Housing analysis**

Use the city's most up to date housing survey to determine the type of housing needed in the development. Projections of housing stock will provide guidelines for future housing needs and the development might be built to meet these contingencies. Projects are often designed for mixed income housing, which may not be attractive to the developer but may be required by the agency's mandate.

### **Public facilities analysis**

Public facilities are the infrastructure of the city, its sidewalks, streets, and sewers. A thorough analysis of existing public facilities is needed to assure that they are adequate for the development or to estimate the costs of upgrading if they are not. Predicted and possible future expansion of housing or business must also be taken into account before completing the development plan.

### **Economic and market analysis**

Another study, one which may be handled better by a consultant, is the economic and market analysis. This work should consider both the short term and long term conditions for the leasing or sale of residential and commercial space. Based on the information in a market, future land and transportation

uses can be predicted. The analysis should also take into account employment and real estate projections and probable future activities to estimate the burdens that will be put on public facilities.

## **CONCLUSION**

Public/private partnerships in transit oriented developments have particular, unique circumstances but in the end, if each partner remains flexible, keeps a good perspective, prepares well, and is sensitive to the needs and problems of the other partner, these partnerships can be successful.



## DEFINITIONS

**Acquisition Costs** These costs are the developer's responsibilities for all expenses of the project of every kind and nature, including but not limited to, land acquisition, relocations, site clearance and preparation (including treatment or removal of any hazardous or toxic materials), design, engineering, construction, governmental approvals, and CEQA compliance.

**Disposition and Development Agreements (DDA)** An agreement between a redevelopment agency and a developer for the sale and development of property in the project area. DDAs usually address the following common elements:

- **Sale of Land:** An agency acquires land to sell or lease to the developer.
- **Development:** An agreement for development according to specific plans.
- **Architectural Review:** A procedure documented for review to establish agency control.
- **Agency Assistance:** A document that details nature and extent of agency assistance.
- **Financing Provisions:** Provisions which are required by lenders to insure financing of project.
- **Use Covenants:** Specific uses that are made part of the Covenants, Conditions and Restrictions (CC&Rs), attached to the deed for the land, in accordance with the Redevelopment Plan.
- **Remedies:** These are the details inserted into an agreement in case either partner fails to meet the terms of the agreement.

**Environmental Mitigation Costs** The costs of bringing a site into environmentally legal condition.

**Ground Leases** Ground leases are long term leases, usually greater than 55 years, between the agency and the developer. They contain provisions for the development and financing of the project. They are usually pursued as an option to the sale of the land. These are the advantages of ground leases:

- They reduce or eliminate the developer's up front land costs.
- They provide a flexible way for structuring the consideration for the



land, including future economic performance of the development. This is done through various payments of rent, such as percentage rent (based on sales volume) and participation rent (based upon net income).

- They allow the agency to retain control of a project after completion of the development.
- When the lease term is up, the agency can reclaim the land.

These are the disadvantages of a ground lease:

- Ground leases are cumbersome and expensive, especially in conjunction with an already cumbersome DDA.
- They usually increase the cost of financing and can hinder financing.

**Kiss and Ride Station** A place where commuters are driven and dropped off at a station to board a public transit vehicle.

**Letter of Credit** An unconditional, irrevocable amount of money, issued by a financial institution and acceptable to the agency, to assure the developer's ability to advance the acquisition costs. (In lieu of the letter of credit, the developer can deposit cash in the same amount in the account of the agency, in a bank or trust company mutually acceptable to the developer and the agency).

**Limited Partnership** A partnership formed by various entities involved in a joint activity, where certain risks and rewards from the activity are limited in scope or size.

**Low Income Housing Tax Credits** Provides a way for reducing tax amounts owed by private corporations. For each dollar dedicated to a low income housing project, the corporation can deduct a dollar from the total of their taxes. This method of financing has been used to fill the gaps in traditional financing.

**Negative Declaration** A written statement by the agency responsible for carrying out the project explaining why a project will not have a significant effect on the environment. A mitigated negative declaration explains why certain mitigation measures assure that the project will not have a significant effect on the environment.

**Net Operating Income** is the project's total income minus certain defined operating costs.

**Property Tax Increment** is the increase in property taxes within the

redevelopment project area resulting from the increase in the project's assessed value that exceeds the base year assessed value.

**Redevelopment Agency** A public body assembled to enact policies to help eliminate blight in redevelopment areas in accordance with the redevelopment plan adopted by the city or county.

**Redevelopment Bonds** are financial obligations issued by the agency to generate revenues to implement the redevelopment plan. The bond is repaid with tax increments paid to the agency as a result of actions of the agency to revitalize the project area.

**Redevelopment Plan** The fundamental document which addresses the issue of blight in the area, maps out the target area and governs the agency's activities. The plan is basically the charter for the Redevelopment Agency.

**Relocation and Goodwill Expenses** are all costs incurred as a result of the relocation of households located within the development site that were displaced as a result of the project.

**Remediation Costs** are all costs associated with the clean up of soil and ground water toxins found within the development site.

**Request for Proposal (RFP)** A formal request for development submissions, made by the redevelopment staff or its consultants. This request describes in detail the development opportunities, including pictures and diagrams, agency development objectives, and formal selection criteria. The request asks for a detailed submission on the part of the developer. The developer must submit a good faith deposit as part of the response. Once all submissions are received, they are evaluated based upon the formal selection criteria. A developer is selected by a formal action of the agency.

**Sales Tax Increment** Sales tax paid to a government from a project; the increment being only those taxes generated from the development itself.

**Tax Exempt Income** is that which is exempted from government income tax.

**Tax Exempt Mortgage Revenue Multifamily Housing Bonds** Bonds released by a local agency (city or county) to provide for construction or rehabilitation of multifamily housing. The mortgage rate is generally lower than the market rate, because it is tax exempt. The bonds are paid back through the monthly mortgage payments. The tax exempt status of these bonds is often attacked, because they have occasionally funded market rate housing projects.

**Tax Exempt Qualified Redevelopment Bonds** are those which do not

qualify as a public purpose or governmental bond but still qualify for tax exemption because they meet the following requirements:

- They are issued pursuant to state law authorizing tax increment financing in accordance with a redevelopment plan adopted prior to issuance.
- At least 95% of the net proceeds of the issue is used for one or more redevelopment purposes in a designated blighted area.
- Any increase in real property tax revenues for such an area is reserved exclusively to the extent necessary for debt service on the bonds.

Because of the limitations in the 1986 Internal Revenue Code definitions of “redevelopment purposes” and “blighted areas,” it is now difficult to issue these bonds in California.

**Transit Oriented Development** Development which generally occurs within a quarter mile of a designated transit or rail stop and is situated to encourage interaction between the development and the transit facility through the placement of a facility or the ease of pedestrian access. This development often includes joint development agreements between public agencies and private developers.

**Very Low Income Residents** are those making less than or equal to 50% of the area’s median income.

## GLOSSARY OF ACRONYMS

AC Transit	Alameda-Contra Costa Transit
AEDC	Atlanta Economic Development Corporation
AFC	Atlanta Financial Center
ALTA	American Land Title Association
ARC	Atlanta Regional Commission
AT&SF	Atchison Topeka and Santa Fe
BART	Bay Area Rapid Transit
BCA	Ballston Center Associates
BOCA	Ballston Office Center Associates
Caltrans	California Department of Transportation
CDBG	Community Development Block Grant
CDLAC	California Development Limit Allocation Committee
CE	Categorical Exclusion
CLTA	California Land Title Association
CMA	Congestion Management Agency
CMAQ	Congestion Mitigation and Air Quality Improvement
CMP	Congestion Management Plan
CPI	Consumer Price Index
CRA	Community Development Act
CTC	California Transportation Commission
DDA	Deposition and Development Agreement
DEQ	Department of Environmental Quality (Oregon)
EDA	Economically Disadvantaged Areas
EIR	Environmental Impact Report
EIS	Environmental Impact Statement
ERN	Exclusive Right to Negotiate
FAR	Floor Area Ratio
FHA	Federal Housing Administration
FHWA	Federal Highway Administration
FTA	Federal Transit Administration
GA400	Georgia Highway 400
GBA	Gross Building Area
GDC	Gresham Development Company
GDOT	Georgia Department of Transportation
HUD	Housing and Urban Development
IDI	International Development Incorporated
JCD	Johnsontown Community Development (Atlanta, GA)
JPB	Joint Powers Board (Peninsula Corridor)
LANI	Los Angeles Neighborhood Initiatives
LISC	Local Initiatives Support Corporation
LONP	Letter of No Prejudice

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LRCIP	Long Range County Improvement Plan
LRT	Light Rail Transit
LUTP	Land Use Transportation Policy
MAAC	Metropolitan Area Advisory Committee
MARTA	Metropolitan Atlanta Regional Transit Authority
MHDC	Mission Housing Development Corporation
MOH	Mayor's Office of Housing (San Francisco)
MONY	Mutual Life of New York
MPO	Metropolitan Planning Organization
MTDB	Metropolitan Transit Development Board (San Diego, CA)
NIMBY	Not In My Back Yard
NOFA	Notice of Funding Availability
ODOT	Oregon Department of Transportation
OPR	Office of Planning and Research
PDC	Portland Development Commission
PGE	Portland General Electric (Oregon)
PG&E	Pacific Gas and Electric (California)
PTN	Primary Transit Network
PUD	Planned Unit Development
R B	Rosslyn Ballston
RFP	Request For Proposal
RHCP	Rental Housing Construction Program
RTPA	Regional Transportation Planning Agency
RUGGO	Regional Urban Growth Goals and Objectives
SamTrans	San Mateo County Transit District
SDC	System Development Charges
SFRA	San Francisco Redevelopment Agency
SP	Southern Pacific Railroad
STIP	State Transportation Impact Program
STP	Surface Transportation Program
TCAC	Tax Credit Allocation Committee
TIA	Transportation Impact Analysis
TMA	Transportation Management Association
TOD	Transportation Oriented Development
Tri-Met	Tri-County Metropolitan Transportation District (Oregon)
TSAD	Transit Station Area Development
UGB	Urban Growth Boundary
ULI	Urban Land Institute
USDOT	United States Department of Transportation
WMATA	Washington Metropolitan Area Transit Authority

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