

# Issues and Requirements of Real Estate Developers

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**R**eal estate developers can virtually make or break mass transit projects. Understanding their perspective, therefore, is critical to any project's success. Experts on real estate development and its relationship to mass transit in Pittsburgh, the District of Columbia, New Jersey, Las Colinas, and San Francisco point to many of the same issues. First and foremost, it must be understood that developers work under considerably greater time pressures than do the public bodies that approve and construct mass transit systems. Second, the uncertainties that have plagued mass transit projects weigh heavily on the

thinking of developers, who cannot gamble on a system's being built on an optimistic time schedule or even on a system's working properly once built. Developers are also concerned about funding and financing; a need exists for better working relationships in which public and private entities share the profit and loss of a project. Other developer concerns include coping with the necessary dialogue with public bodies and citizen groups, determining feasibility, competitiveness, access criticality, internal circulation, rights-of-way, aesthetics, costs, and the balance of risks.

IT IS RECOGNIZED THAT transportation and good access are the most important aspects of urban infrastructure on which stable and growing economies depend. Public transit systems play a key role in transportation and access by allowing major activity centers to be less dependent on only one mode of transportation. Moreover, transit conserves the use of prime real estate for greater commercial and economic activity, rather than for storage of automobiles. Early in the 1800s real estate developers used public transit as a means to open up prime lands for development, essentially creating the first suburbs.

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Today the real estate developer continues to be a central player in planning, designing, and funding transit systems. Transit projects that adhere to the needs and interests of the real estate development community will have a better chance of being funded and built. Without the support of this community, a project is almost certainly doomed to failure. Therefore, what leading real estate developers identify as the critical issues they consider when determining to either support or reject a proposed transit project can be vital information. And, given these issues, what are the requirements of real estate developers? It is believed that transit planners and engineers must fully understand the decision processes and vernacular of the real estate industry to plan and design successful projects.

The viewpoints presented in this paper are those of experts (see Acknowledgments) who are leaders in large-scale real estate development throughout the nation or are directly involved in planning or building a transit system in which the real estate interest is highly visible. Each expert outlines key issues and requirements brought to light during the project with which he has had experience in coordinating public transit with real estate development. Then the experts reexamine and rank the key issues and requirements according to importance.

### **THE VIEW FROM PITTSBURGH AND WASHINGTON, D.C.**

By making key locations more accessible, transit increases land values and rents. By mitigating traffic impacts and allowing development to occur, transit can unlock development potential. But transit cannot turn a sow's ear into a silk purse. Transit can influence location decisions within a market, but it cannot generate a market where none exists. This is the essence of the competitiveness issue.

A 1 million-ft<sup>2</sup> office development has been proposed at Three Rivers Stadium in Pittsburgh. Two plans have been offered to the city—one involving a Westinghouse people mover that would connect the stadium to downtown and one without a people mover. Adjustments for phased integration of a people mover were also proposed. Calculating the impact on the project raised the per-square-foot land value more than 50 percent when a people mover was included, as well as proffers for fixed-price construction, provision of a station and guideway within the project, and willingness to participate in a special district that would make annual cash payments to defray operating costs.

The difference in the values offered constituted the value of the transit connection. The site would be developed without the people mover and there

is a market without the people mover. The site has tremendous views, plenty of parking, a waterfront park, amazing highway access, and striking visibility, even if it does not have a fixed-guideway link to downtown. But are developers prepared to pay more for the people mover? Yes, and the extra value can be quantified. That value—or increment, the delta—is where the public/private partnership begins.

The impact of transit improvements on land values and development potential will vary depending on the nature of the prior land uses. For example, in Washington, D.C., Metrorail raised downtown land prices near stations about 10 percent. In suburban and secondary market areas, property values have doubled or tripled within just a few years. Don't let the percentages mislead in figuring dollar impacts—\$500/ft<sup>2</sup> land values jumped 10 percent, while \$5/ft<sup>2</sup> land values tripled. The delta in this case is \$50 downtown and \$10 outside, even though the percentage changes are different.

In order to derive these increments, another factor must be present—project credibility. Few Washington developers were influenced by Metrorail until the system actually began operation. Given all the years most transit projects are talked about and given all the false starts, few developers can place themselves at risk until they see the system built and, in not a few cases, see it working properly. Washington is the hottest real estate market in the country and Metro stops are the hottest locations. However, Metrorail is not creating that market; it is only influencing location decisions within it.

Recently, the Washington Metropolitan Area Transit Authority put out a major joint development site for bid in Prince George's County, Maryland, a growing bedroom community. Although many bids were received, all but one of the five short-listed contenders have withdrawn because they do not believe the market can support Metro's expectations for the site. The message is that even in the hottest market in the United States and with a world-class transportation system, it is possible for planners to exaggerate the benefits of transit on development potential.

Recently, more than 1,300 acres of property were placed under contract in two sites in Virginia, south of Fredericksburg. The hope is to develop the land in a responsible fashion that does not add to the traffic woes of this rapidly growing exurban area on the bow wave of development pushing out from Washington, D.C.

Driving this market is economics—relatively low-priced land and low taxes. If these properties are developed with extensive infrastructure and fixed-guideway transit services to mitigate traffic, there is absolutely no way they can compete against neighboring sites. Although development of these 1,300 acres is planned to address the quality end of the market and utilize new concepts for mixed use communities, the end product must meet the requirements of the marketplace or fail.

The dried bones of visionaries whose projects were ahead of their times—the new towns and the like—are a painful reminder that solutions to difficult transportation problems must still allow competitive developments.

Government, through proper planning, can form a true partnership with developers to prevent the mess often referred to as “suburban mobility problems.” One developer with vision and creativity will not be able to reverse the effects of poorly planned, cheap, destructive development fostered by a “y’all come down” attitude toward growth that suddenly reverses 180 degrees when traffic and public service impacts become intolerable.

In order to allow quality development that is supportive of transit and meets the needs of the market, government must have professional and competent land use planning and be willing to invest in the infrastructure required to support desired levels of growth.

In the next sections, views of the Las Colinas, Texas, and New Jersey waterfront developers are aired. These are both prime examples of how this aim can be accomplished. Although Dallas is severely overbuilt, Las Colinas began in a hot market, just as the Jersey waterfront is now. Both areas—New Jersey through public processes and Las Colinas through the vision of private individuals—recognized the need for fixed-guideway transportation to accommodate a projected level of development and incorporated it into comprehensive land use and financing plans. This is the kind of support that responsible developers need to build to the quality end of the market.

## **THE VIEW FROM THE JERSEY WATERFRONT**

The process used by New Jersey Transit and the New Jersey Department of Transportation in negotiations with real estate developers to provide transit for the rapidly developing Hudson River waterfront is described in the next paper in this report, *Integrating Light Rail Transit into Development Projects on the Hudson River Waterfront*, by Martin E. Robins, Jerome M. Lutin, Alfred H. Harf, Clifford A. Ellis, and Viktoras A. Kirkyla.

From the real estate developer’s point of view, the key issues are (1) feasibility and decision making; (2) finance, particularly the public side; (3) schedules and delays; and (4) the degree of certainty.

The real estate developer, from experience, looks at mass transit projects with skepticism. By the time anything happens with the transit system, it may be too late for current real estate plans. Therefore, things must happen more quickly. Perhaps projects should be planned on a more limited scale. For example, the developer cannot build the building before tenant leases are signed. Because tenants are concerned about losing employees when relocating, transportation becomes an important factor. This means that the developer may need to develop interim plans that can fit into the overall longer-

term transit project, hence the need for phased development. Actual improvements must occur while future improvements are being planned and implemented.

Vacancy along the Hudson River waterfront is 8 percent, whereas the New Jersey statewide average is 22 percent. While a real estate developer is privately providing additional transportation access, this only underscores the point that public transit does not make the real estate market. There must already be a good market, which transit only enhances.

## THE VIEW FROM LAS COLINAS

Las Colinas is a 12,000-acre master-planned development near Dallas. It includes single-family and multifamily residences, four golf courses, recreation facilities, an equestrian center, industrial and commercial business parks, a telecommunication center, film and recording studios, hotels, public schools, a college, and the Las Colinas Urban Center. The Urban Center is a 960-acre central business district of high-rise office buildings and multifamily residence buildings and hotels surrounding a 125-acre artificial lake.

Access to the Urban Center is provided on three levels:

- Lowest—water taxis and a water bus operating on the lake and canals;
- Ground—pedestrian ways and streets; and
- Upper—a fixed-guideway automated transit system called the Area Personal Transit (APT).

The APT was a key element of the Las Colinas master plan as originally conceived in 1967. Access and internal circulation were and are central requirements for the real estate development project. Residents of the Las Colinas Urban Center are provided with a choice of transportation access.

The APT is being planned and built in phases over a 10- to 15-year period. When completed it will include about 25 stations, more than 5 miles of dual-lane elevated guideway, and a fleet of 50 vehicles.

Stations and guideways through each individual site are typically funded by that site developer. Certain stations, guideway across property owned by Dallas County Utility and Reclamation District, public rights-of-way, and the APT operating system itself are funded by the district. The access right-of-way for the system is planned well in advance of land sales and development to ensure proper alignment and station locations. The early commitment is important and reserving the space for the right-of-way is critical or the site developer will be enticed to put something else in the APT's place.

The initial phase, presently under construction and implementation, is a double-lane shuttle over 1½ miles long with four stations. One two-car train

will shuttle back and forth on the outside lane while a single car will shuttle on the inside lane. Aesthetics has been a critical issue. The guideways have been designed to present a slender appearance, which blends nicely with a variety of other types of architecture.

Because early commitment is considered the key to success, the maintenance facility was designed and built for future expansion. Also, the central control facility and its consoles include all the provisions for easy expansion. Hence, it is possible to show prospective property owners how the system will accommodate future stations and guideways serving their property.

No local, state, or federal funds are involved in the development and implementation of the Las Colinas APT system. All funding is being provided by the district from tax-exempt bonds repaid through ad valorem taxes from property owners within it.

On its completion and commencement of passenger service, the APT system is expected to become an important catalyst for further development within the Las Colinas Urban Center. While it is difficult to estimate the direct value that the APT system will have to the development, it is believed that the implementation of the system will make the important difference to potential site developers between choosing a site in Las Colinas over those available in other areas of metropolitan Dallas. With each land sale and subsequent construction of improvements comes increased value to the City of Irving and the district. Increased value means increased tax base, which in turn allows both the city and the district to support additional expansion of infrastructure and services to serve the public.

## THE VIEW FROM SAN FRANCISCO

When a transportation link is involved in the design of a new building, the architect often serves as the liaison between the developer and the public agency. From an architect's viewpoint, the process between private developers and public agencies takes longer and costs more than anyone would expect. A developer must begin conversations early in the process to avoid cost and schedule overruns. Inherent differences exist between the goals, objectives, resources, needs, and constraints of real estate developers and public bodies, which lead to some fundamental conflicts.

The developer has limited time in which to complete a project or fail to fulfill lease contracts with tenants. Therefore, the developer wants to move fast, whereas the public body traditionally moves more slowly. Limited resources and shorter-term lease contracts also create differences in the quality of design and construction. The developer designs and builds for lifetimes that are consistent with reasonable periods to recoup investments

and make a reasonable profit. These lifetimes are short term. In contrast, the public body designs and builds transit systems to last forever.

The developer is usually under serious time constraints. More time spent on delays translates into more interest (or least payments) paid out. As public agencies run out of money, they look to the developer for more and different kinds of fees. However, it is not only the fees that cost money. Public agencies usually require developers to maintain a dialogue with technical, financial, and community relations departments. Coordinating with the various departments can be frustrating and time consuming if it is not done carefully. For example, developers frequently work with few data and make decisions without the benefit of detailed studies. Public agencies usually require too much detailed information, much of which is less than relevant to the project. Citizen groups are also an important third force that must be brought to the table. The architect can help to mediate disputes between this diverse set of public groups and the developer.

In summary, there is need for realism in determining time schedules and budgets. The developer is working within a very specific time frame and budget. Therefore, in the beginning the worst-case schedule and budget should be identified. Feasibility in the eyes of the real estate developer must be decided on this worst case.

## **IDENTIFICATION AND RANKING OF KEY ISSUES**

When the real estate development experts were asked to identify important issues, they ranked them as follows:

- Schedules and delays—Differences exist in the time frames of projects. Developers work in the short term; public bodies work in the long term.
- Certainties and uncertainties
- Funding and finance—The need exists for a mechanism to form better working relationships in which the public and private bodies share in the profit and loss of a project.
- Dialogue
- Determining feasibility and making decisions
- The public need to be evenhanded
- Project competitiveness
- Access criticality by mode (automobile, transit, pedestrian)
- Internal circulation
- Access rights-of-way and alignments
- Aesthetics and image

- Costs and fees
- Balance of risks

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