Community and Economic Development in North Carolina and Beyond Blog: Aligning Transit Agencies and Private Developers through Joint Development

By CED Program Interns & Students

Article: https://ced.sog.unc.edu/aligning-transit-agencies-and-private-developers-through-joint-development/

This entry was posted on May 25, 2018 and is filed under Built Assets & Housing, Financing Development

As development activity continues to boom nationally and throughout North Carolina, developers continue to find creative ways to create value. One such example would be through working alongside transit agencies to drive private development projects and transit enhancements. The Federal Transit Administration's guidelines for joint development provide a framework for transit authorities and developers to use in thinking through transit-oriented developments.

The Federal Transit Administration's Guidelines for Joint Development

According to the Federal Transit Administration, a joint development is the simultaneous improvement of a transit system and the surrounding real estate, coordinated between real estate developers and transit agencies. Throughout North Carolina, transit projects – such as the Lynx Light Rail in Charlotte – have resulted in significant private development proximate to stops. However, few, if any, projects in North Carolina have been able to take advantage of the FTA's financial assistance for joint developments.

Developers recognize the value of accessible transit as part of a broader placemaking strategy. Transit agencies also recognize the value of private investment, often in the form of increased ridership, operating efficiencies, improved connectivity, and rental revenue potential. As such, the Federal Transit Administration provided guidelines for transit agencies applying for various FTA and other capital grants in conjunction with private sector development.

Under a joint development arrangement, the transit agency – also known as the "sponsor" – applies for one or a series of FTA grants for a project property which adheres to the following criteria:

1. Project creates an economic benefit by enhancing economic development or incorporating private investment;
2. Project provides a public transportation benefit by either: (a) enhancing the effectiveness of a public transportation project, or (b) establishing new or enhanced coordination between public transportation and other transportation;
3. Project provide a fair share of the produced revenue for public transportation; and
4. Project provides that a person occupying space in a facility constructed with FTA funds must pay a fair share of the costs of the facility through rental payments or other means

Joint Development Demystified

To put some color around these guidelines, DFI connected with Patrick McDonough, Manager of Planning and Transit-Oriented Development at GoTriangle, a major provider of transit services across North Carolina's Research Triangle Region.

McDonough explained that in almost all cases, joint developments occur on transit agency-owned land. The agency – either seeking to improve an existing transit site or develop a new one (criteria #2) – can ground lease a portion of the land to a private developer (criteria #1). The developer and sponsor come to an equitable agreement for the sponsor to receive a “fair share” of the project’s revenues (criteria #3) – the minimum for this is the original FTA investment contributed to the joint development. And, finally, any person or entity occupying space within an FTA-assisted development must pay to the sponsor and partners a fee (generally rent) equal to at least the costs of operating and maintaining the leased space (criteria #4).

At its core, joint development generates revenue for a transit system, provides an avenue for private investment to improve public infrastructure, and allows private developers to take advantage of development opportunities immediately proximate to transit stations.

Examples and Complications

The FTA’s official support of joint development is relatively new; however, numerous projects throughout the United States have taken advantage of FTA grants in this manner. TriMet, Portland, OR’s transit authority, used this program to convert an Old Motel directly adjacent to a new light rail stop into affordable housing. Notably, when affordable housing or community service-related projects are built, the “fair share” criteria can equal less than the original FTA investment, incentivizing less valuable projects. Other projects have been successful in Columbus, OH, Atlanta, GA, Saint Paul, MN, as well as elsewhere in the US.

While this sounds like a straightforward process, in practice, joint development is difficult to execute. McDonough noted that joint development almost always occurs in conjunction with major transit capital projects, and timing often becomes a major constraint. Major transit projects often have lengthy timelines, making coordinating timing tricky alongside the private sector. Moreover, the FTA is looking for significant local participation in joint development projects – from both local private developers as well as city and county entities, implying that some form of Public Private Partnership typically goes in hand in hand with successful joint development.

Despite some complications and the relative newness of joint development, leveraging the Federal Transit Authority provides an additional avenue for structuring and financing projects that often have material benefits for underserved, transit-dependent communities.

Stan Portnov is a recent Master of Business Administration graduate of the Kenan-Flagler Business School at UNC-Chapel Hill. Until his graduation from UNC, Stan was also a Community Revitalization Fellow with the Development Finance Initiative.