Mark Looney's Paper on Transit Oriented Development Incentives
(Referenced at Wiehle Avenue Subcommittee Meeting 09-08)

Much of the Task Force's discussion on future development and redevelopment along the Dulles Corridor has focused on the form and amount of development one desires to see adjacent to Reston's three transit stations. What type of place does the community envision these station areas becoming, and what tools need to be provided to help make that vision come true? Increased density and flexibility in its use certainly will provide property owners with many of the tools they need to weave the rail stations into a new Reston fabric over the long term.

But density is not the only factor property owners (and their lenders) will consider when deciding to invest or reinvest in transit-oriented development. They also want to know what it will cost to develop and how much return they can expect for their investment. Creating a package of incentives that address both the amount of new residential development permitted and the cost of constructing it will help motivate property owners to participate, sooner than later, in Reston's transformation into a series of transit-oriented nodes of mixed-use development.

There are a number of factors that affect the cost of construction. Some of these are market-driven (e.g., cost of materials and labor, etc.), while others are policy-driven (e.g., parking minimums, proffers, etc.). Little can be done by elected officials on a project-by-project basis to affect broader market cost factors. But elected officials can and do use incentives on a project-specific basis to reduce development costs and encourage investment and reinvestment.

The most common of these cost-reduction strategies is the use of bond financing issued through the local development authority. By allowing corporations to borrow development funds at below-market rates, the local government helps lower the cost of capital and, by extension, the cost of construction for desirable economic development projects. Fairfax County similarly uses flexible zoning standards in designated revitalization areas, such as automatic reductions in parking and setbacks, to encourage new investment.

The use of policy measures to reduce residential construction costs is most critical during the early stages of the redevelopment of Reston's new transit station areas. Indeed, property owners and investors charged with transforming a neighborhood or place (such as the former RCIG areas) need more encouragement to invest than does one who follows the crowd once the majority risk is removed. Thus, focusing policy incentives principally on the pioneers in an area (e.g., the RCIG areas) promotes early investment without jeopardizing the long-term policy objectives Fairfax County has for the transit station areas.

Among the principal drivers of residential construction costs (excluding land) are the following:

- (a) Parking (structured and underground);
- (b) Building materials (wood-frame v. steel/concrete);
- (c) Financial contributions for regional mitigation of impact (schools, parks, roads);
- (d) Affordable housing (ADU and workforce combined); and
- (e) Architectural materials.

Devising policy incentives focused on reducing these costs for early investors will help encourage property owners to develop/redevelop sooner than they otherwise might while providing Reston's transit station areas a financial advantage over non-TOD areas elsewhere in the region, perhaps attracting a greater share of the region's forecasted growth. Some examples of the types of incentives that might be used include:

(a) **Parking** – provide automatic (voluntary) parking reductions of up to XX% for developers who construct residential projects within a TOD area. Permit the developer to select the parking ratio it thinks is most marketable, understanding that unused parking spaces are wasteful. Make the reductions automatic rather than negotiated.

(b) **Variable Costs** – Encourage early development by reducing variable costs through a date certain tied to the opening of transit service. Examples:

(i) If the developer secures zoning approval for 3 residential buildings totaling 1,000 units, then every residential unit for which an occupancy permit is issued within XX years following the commencement of transit service shall be exempt from making monetary contributions for schools, parks and other offsite improvements (many of which typically are factored on a per-unit basis). If only 250 units are occupied by the date certain, then the developer must pay the contributions for the remaining 750 units. If none of the units are occupied by the date certain, then all 1,000 units must pay.

(ii) Exclude from the calculation of required workforce housing every residential unit for which an occupancy permit is issued within XX years following the commencement of transit service (mandatory ADUs in wood-frame buildings can't be exempted). Thus, if the developer secures zoning approval for 3 residential buildings totaling 1,000 units and secures occupancy permits for 250 units by the date certain, then the 12% workforce/affordable housing required for the project is calculated based on the remaining 750 units. If none of the units are occupied by the date certain, then the 12% is calculated based on all 1,000 units.

(iii) Exclude from the requirement to secure LEED certification those residential buildings for which an occupancy permit(s) is issued within XX years following the commencement of transit service.