

STEERING COMMITTEE MEETING #4 8/5/15



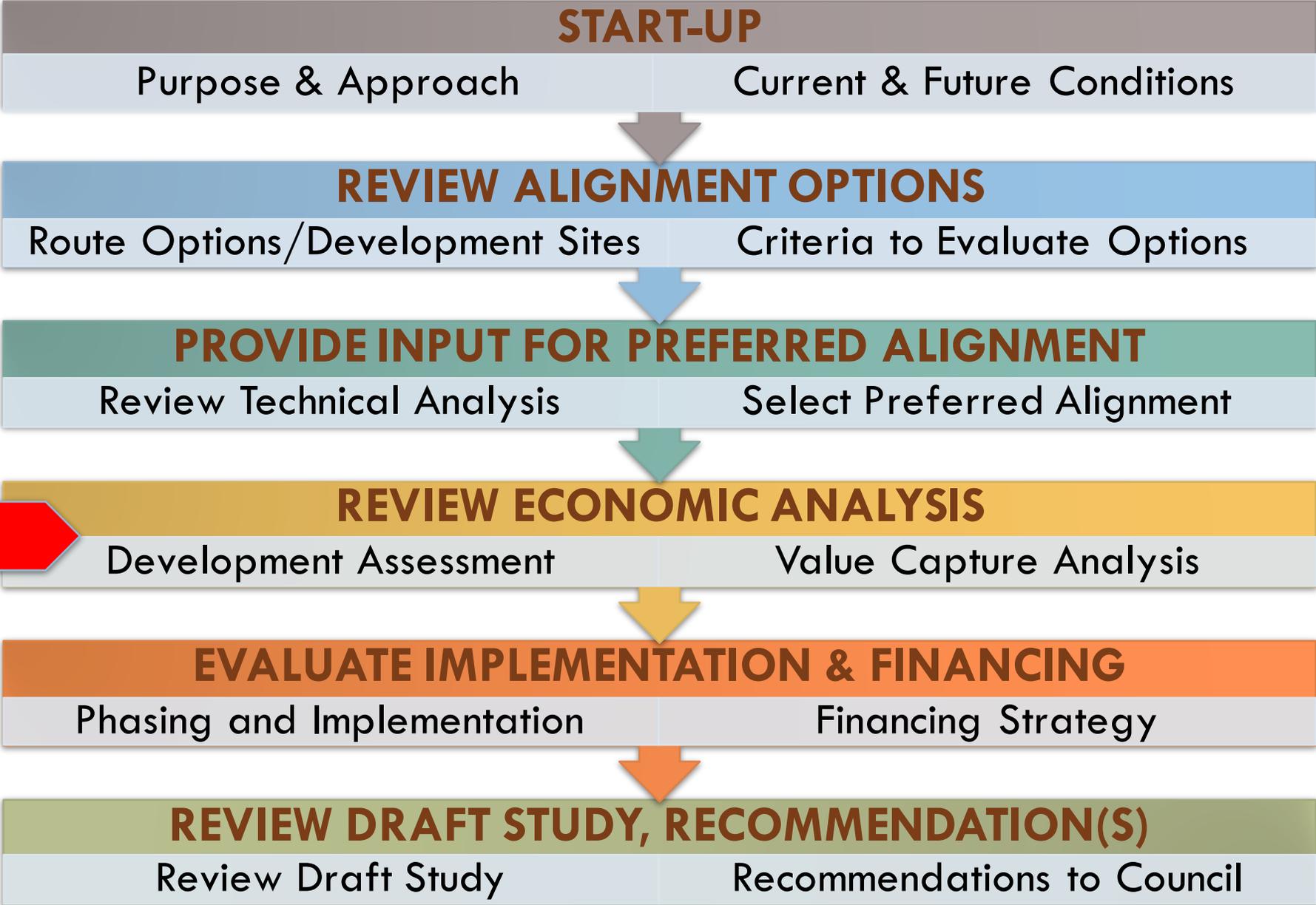
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RECONNECTS
STREETCAR STUDY

BAE URBAN ECONOMICS
PLACEWORKS | IBI GROUP

TONIGHT'S MEETING

- Update on where we stand in the study process
- Review of Preferred Alignment and Proposed Phase 1
- Consider linkage between streetcar and development
- Key topic: Value Capture Analysis, including development potential, development feasibility, and resulting potential funding
- Review next steps and schedule
- Public questions and comments

COMMITTEE PROCESS



UPCOMING MEETINGS

- SC #5: 8/26 – Financing and Implementation Strategy
- SC #6: 9/23 – Review Admin. Draft Feasibility Study
- Public Release of Draft Feasibility Study: 9/30
- October Presentations:
 - Public Utilities Board: 10/2
 - Riverside Transportation Board: 10/7
 - Planning Commission: 10/8
- Tentative Date for City Council Presentation: 11/10



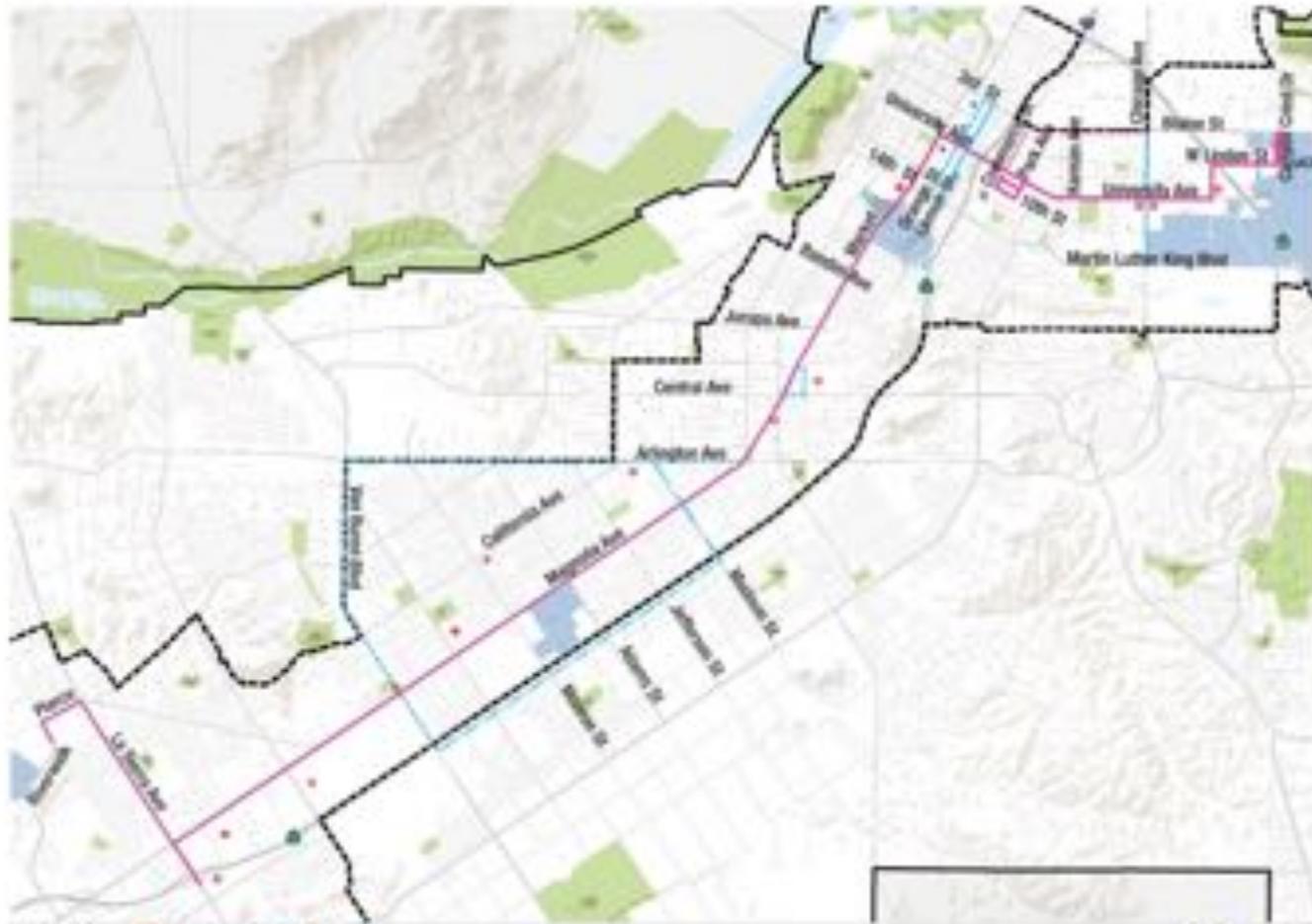
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PREFERRED ALIGNMENT |

KEY POINTS FOR PREFERRED ALIGNMENT

- Preferred alignment needed to complete feasibility study
- Preferred alignment includes potential future extensions:
 - Downtown Loop
 - Riverside Plaza Connection
 - Arlington – Airport – Van Buren
 - Indiana Avenue
 - Chicago Avenue
- UCR terminus may evolve based on current UCR Master Planning
- Future planning may consider other changes and extensions



Legend

-  Metrolink Stations
-  Hospitals
-  Shopping Centers
-  Points of Interest
-  Maintenance Spur Line
-  Potential Primary Alignment
-  Future Potential Alignment Extensions
-  Streetcar Study Area Boundary
-  Final terminus at UCR to be determined based on traffic considerations and coordination with the University

PHASE 1 ALIGNMENT

- Recommended for highest ratio of ridership, development potential to length of route
- UCR – RCC, approximately 3 miles in length
- Focused on University Avenue and Market Street, includes:
 - Connection from Canyon Crest via Linden, Ohio
 - Connection to Metrolink
 - Maintenance yard at RTA 3rd Street yard, with non-revenue spur line
- UCR terminus may evolve based on current UCR Master Planning
- Future planning may consider other changes and extensions

Potential Phase 1



- Legend**
- Metrolink Stations
 - Hospitals
 - Shopping Centers
 - Points of Interest
 - Maintenance Spur Line
 - Potential Phase I Alignment
 - Future Potential Alignment Extensions
 - Streetcar Study Area Boundary
 - Final terminus at UCR to be determined based on traffic considerations and coordination with the University



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DEVELOPMENT POTENTIAL |

CURRENT MARKET CONDITIONS

- Real estate market recovery has been lengthy in Riverside, with activity picking up in past year
- Residential values are still below their 2000's peak
- Developers are currently pursuing Downtown sites for new denser, infill development projects that are transit-supportive
- Other LA, OC developers interested in Riverside, waiting to see growth in high quality jobs that support infill development

EXAMPLES OF PROPOSED PROJECTS

Imperial Hardware Lofts



University Ave. at Main St.

Stadler Project



Market St. at Mission Inn Ave.

*Center Point
Apartments*



Market St. at First St.

FUTURE DEVELOPMENT POTENTIAL

- Current SCAG projections, as adjusted by City, assume significant new development along the streetcar corridor
- Streetcar has the potential to attract additional development
- Constraints from availability of sites for development, economics of developing multi-story projects
- Surveyed “opportunity sites” – vacant or under improved sites
 - Phase 1: 148 acres
 - Phase 2: 229 acres

DEVELOPMENT SCENARIOS

- “Baseline” scenario based upon current SCAG projections, current zoning
- “Accelerated” scenario reflecting streetcar induced development, transit-supportive zoning – up to 30% above baseline

Area	Residential - du	Commercial - sf
Phase 1 - Baseline	2,746	2.7M
Phase 1 - Accelerated	3,570	3.5M
Phase 2 - Baseline	4,119	2.7M
Phase 2 - Accelerated	5,355	3.5M



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DEVELOPMENT FEASIBILITY

PURPOSE OF FEASIBILITY ANALYSIS

- Assess whether anticipated Transit-Oriented Development (TOD) could occur based upon current market conditions
 - Vacant sites and sites that are under improved
 - If not feasible, what needs to change for development to occur
- Identify how much value is added by a streetcar, zoning changes, or other actions
 - Informs potential “value capture” financing strategies

APPROACH TO FEASIBILITY ANALYSIS

- Feasibility = value of completed project $>$ total cost of development (including land and profit)
- Use “pro forma” analysis to identify the “residual land value”
 - how much can a developer afford to pay for a site
 - Land is the most variable factor – costs, revenues, “normal profit” fall within typical ranges, or are set by others
 - Compare residual land value to current market land values, or cost to acquire improved sites

Development Scenario D-2 - TOD Project: 4-Story Office with Parking Structure

Characteristics of Project

Site, gross acres	1.50
Floorplate size	16,250
Height - ft / number of stories	50 / 4
Gross office sf	65,000
Common area sf: commercial (a)	7,150
Total rentable	57,850
Parking ratio per 1,000 sf	2.1
Street parking spaces (credited in count)	-
Surface parking spaces	-
Structure parking spaces	137
Underground parking spaces	-
Total parking spaces	137
Size of average parking space, with circulation, sf	335
Parking sf	45,895

Development Costs

Demolition costs, per site sf	\$ 5
Construction hard costs, per sf	\$ 160
On and off-site costs, per site sf	\$ 5
Impact fees (b)	\$ 315,640
Tenant improvements, per sf	\$ 60
Soft costs, % of hard costs	20%
Parking construction cost, per space:	
Surface parking spaces	\$ 3,000
Structured parking spaces	\$ 13,000
Podium parking spaces	\$ 17,000
Developer profit, % of total cost	8%

Revenues and Operating Expenses

Office rental rate, sf/yr	\$ 36
Annual office op. cost - \$ per sf/yr	\$ 8
Vacancy rate	5%

Financing

Construction loan to cost ratio	70%
Loan fees	2%
Interest rate	6%
Period of initial loan (months) (c)	36
Drawdown factor	55%
Total hard + soft construction costs	\$ 19,882,120
Total loan amount	\$ 13,917,484
Capitalization Rate - Office	6.00%

Development Costs (Excludes Land)

Demolition costs	\$ 326,700
Hard construction costs	\$ 10,400,000
On and off-site costs	\$ 326,700
Tenant improvements (g)	\$ 3,471,000
Parking costs	\$ 1,781,000
Soft costs	\$ 3,261,080
Impact fees	\$ 315,640
Total construction costs	\$ 19,882,120
Interest on construction loan	\$ 1,490,563
Points on construction loan	\$ 278,350
Total financing costs	\$ 1,768,912
Total development costs	\$ 21,651,032
per gross sf	\$ 333

Projected Income

Gross scheduled rents	\$ 2,082,600
Less vacancy	\$ (104,130.00)
Gross annual rents	\$ 1,978,470
Less operating expenses	\$ (520,000)
Net operating income (NOI)	\$ 1,458,470

Development Feasibility

Capitalized value	\$ 24,307,833
Less development costs	\$ (21,651,032)
Less developer profit	\$ (1,732,083)
Residual land value	\$ 924,719
per site sf	\$ 14

SITES FOR ANALYSIS

- Chose four actual sites in the corridor that are representative of a number of similar sites
- Formulated development concepts tailored to site, market
 - A: “Wrap” building – multifamily residential
 - B: Urban townhomes
 - C: “Podium” mixed-use development
 - D: Office building
- Made two pro formas for each site: first with existing zoning; second zoned for transit-supportive development

EFFECT OF ZONING, PARKING ON FEASIBILITY

- Zoning and parking requirements shape feasibility
- Current Riverside zoning is not supportive of mixed-use development, or taller development to enable redevelopment
 - Downtown Specific Plan areas do not allow residential
 - University Avenue corridor areas with 35' height limit
 - City intends to bring zoning in Specific Plan areas up to date
- #1 - “Base” projects use existing height limits, parking requirements, however allow residential uses at all sites
- #2 - “TOD” projects use San Diego TOD zoning overlay

SITES A-1, A-2



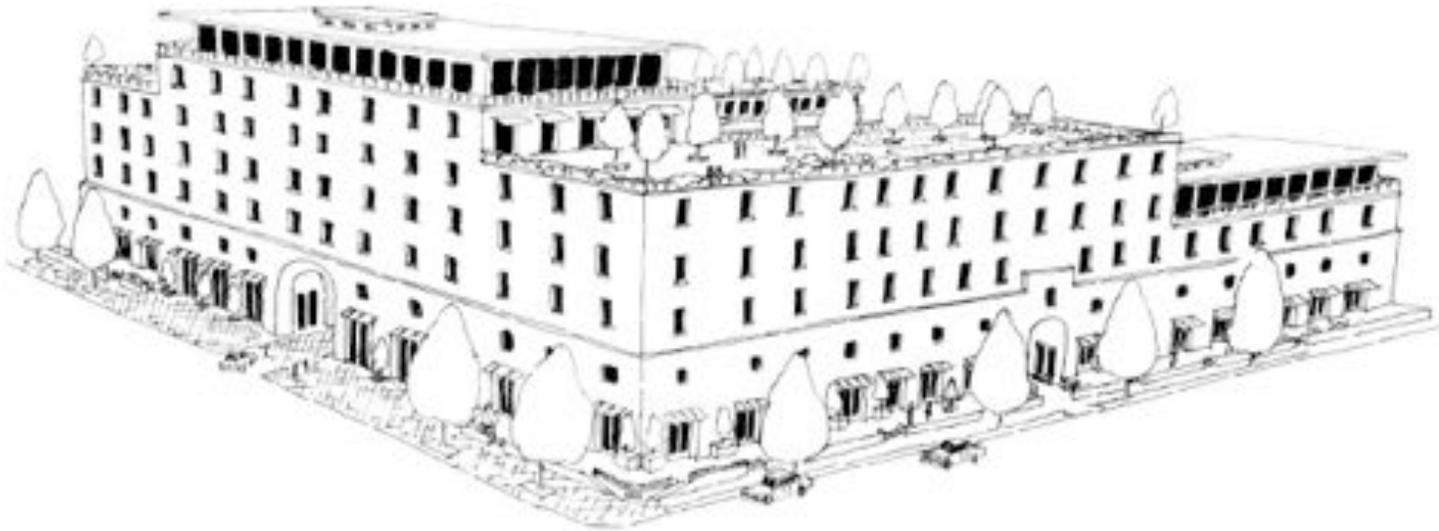
- 4.1 acre site. Base project: 130 du with surface parking (35').
TOD project: 244 du with parking structure (shown)
- Neither project is feasible, with residual land value \$0 or less.
TOD project doesn't add enough value to cover higher costs
- This product type is better suited to larger sites, especially rezoned lower value land (e.g. around Metrolink station)

SITE B



- 1.2 acre site. TOD project only: 22 du, 3-story townhomes with tuck-under parking (no base project alternative)
- Residual land value at \$28/sf is at the lower range of feasibility
- Good infill product for small sites, adjacent to existing residential neighborhoods

SITES C-1, C-2



- 2.5 acre site. Base Project: 135 du in 4-stories over 1st floor retail. TOD Project: 165 du in 5 to 6-stories over ground floor retail
- Both are “podium” projects with 1/2 level down of underground parking; 1/2 level of up of surface parking
- Base project residual land value at \$22/sf is feasibility challenged. TOD project residual land value at \$35/sf is feasible
- Prototype for 1/2 block to full block development

SITES D-1, D-2



- 1.5 acre site. Base project is 3-story 48,750 sf office building. TOD project is 4-story 65,000 sf office building
- Both project have structure parking
- Base project is not feasible with residual land value <\$0. TOD project is feasible with residual land value at \$27/sf
- Product type well suited to smaller sites, can accommodate a variety of office uses

FEASIBILITY CONCLUSIONS

- 3 of 4 TOD projects are feasible based on current market
- Development economics are feasible for reuse of existing buildings, vacant sites
 - Does not currently support extensive redevelopment of occupied, rent-generating uses (e.g. older 1-story commercial buildings)
 - As market conditions strengthen, especially for residential, more projects for redevelopment of sites will become feasible
- Project feasibility supports having new development contribute to the cost of a new streetcar or Modern Electric Trolley



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FUNDING FROM VALUE CAPTURE |

VALUE CAPTURE

- Public investment in streetcar or Modern Electric Trolley, and upzoning, increases the value of nearby property
- Enhances the potential for development. Properties that will benefit can contribute to the cost of public investment
- Potential benefit to nearby properties:
 - 5% to 10% increase in property value, with largest benefit within 1/8 mile of a transit corridor, minimal effects beyond 1/4 mile
 - Larger increase from rezoning that allows higher value uses and more intensive development

VALUE CAPTURE TOOLS

- Tax increment finance (Enhanced Infrastructure Finance District)
 - Use a portion – up to $\frac{1}{2}$ - of increase in tax revenues
 - Does not increase tax payments by property owners
- Assessment Districts (various types) for capital or operating costs
 - Surcharge on property tax bills
 - Downtown LA Streetcar established a Community Facilities District
- Voluntary agreements with benefitting property owners
 - Can include educational institutions, hospitals, etc.

MODELING POTENTIAL REVENUES FROM A TRANSIT BENEFIT DISTRICT

- Identified corridor $\frac{1}{4}$ mile on either side of streetcar or Modern Electric Trolley corridor
 - Split it into first $\frac{1}{8}$ mile, second $\frac{1}{8}$ mile subareas
- Excluded all single-family residential properties
 - Fewer perceived benefits from new transit
- Creation of any benefit or assessment district would require a vote of the involved property owners

POTENTIAL TRANSIT BENEFIT DISTRICT REVENUES

- Stepped rates to reflect declining benefit further from transit
- Based on assumed rates, potential \$1.15 million in new annual revenues for entire streetcar corridor:

Area	Rate/land sf	Phase 1	Phases 2+
1 st 1/8 mi = 801 acres	\$.0250	\$312,000	\$560,000
2 nd 1/8 mi = 500 acres	\$.0125	\$90,000	\$183,000

- Added cost for owner of 1-acre commercial property = \$1,089 per year (7% increase in tax bill with land value at \$35/sf)
- Revenues could be used for either capital or operating expenses

MODELING POTENTIAL REVENUES FROM TAX INCREMENT FINANCE (TIF)

- Use two scenarios:
 - Baseline development scenario tied to current SCAG growth projections, as revised by the City
 - Accelerated development scenario based on potential for streetcar to attract new development
- Calculate new tax increment to City based on current market values, City's 11% share of the base 1% property tax
- Allocate up to 1/2 of new tax increment to the district. Balance set aside to cover increased City service costs

POTENTIAL TIF/EIFD REVENUES

- Potential new revenues to City. Does not result in higher payments by property owners
- For accelerated scenario, \$3.2M/year in new revenues

Area	Residential - du	Commercial - sf	New Revenues/Yr
Phase 1 - Baseline	2,746	2.7M	\$1.14M
Phase 1 - Accelerated	3,570	3.5M	\$1.47M
Phase 2 - Baseline	4,119	2.7M	\$1.37M
Phase 2 - Accelerated	5,355	3.5M	\$1.76M



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NEXT MEETING: 8/26

NEXT STEPS



- Finalize projected ridership and costs
- Analysis of funding options and financing strategy
- Implementation strategy for streetcar and Modern Electric Trolley alternatives
- Next meeting: Wednesday, August 26th



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COMMITTEE DISCUSSION



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**PUBLIC ATTENDEES Q&A /
DISCUSSION**