



Zero Sum Game: The Austin Streetcar and Development



*An analysis of the
Capital Market Research Report*

*by
The Wendell Cox Consultancy
(DEMOGRAPHIA)*



Mission Statement

The mission of the **Coalition on Sustainable Transportation (COST)** is to promote sustainable, cost-effective people mobility solutions for the Austin region.

Purpose

COST's purpose is to seek and provide objective, analytically based and understandable information which allows citizens, elected officials, other community leaders, and transportation officials to assess people mobility alternatives and select those which equitably serve the Austin region's greater good.

Approach

COST will engage in people mobility solutions which are cost effective, with the goal of guiding voters and public officials toward well informed, fact based decisions.

Results

COST's efforts will:

- Reduce congestion and improve mobility for *ALL* citizens;
- Provide better, more cost-effective services to those truly dependent on public transit;
- Eliminate wasteful spending of our tax dollars on ineffective mobility projects, which do not serve the greater good of our community.

Zero Sum Game: The Austin Streetcar and Development

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EXECUTIVE SUMMARY

The city of Austin commissioned a report by Capital Market Research, Inc. (CMR) on the development impacts of the proposed streetcar, which was published in August of 2006. This analysis, *Zero Sum Game: Development and the Austin Streetcar*, finds that the projected property value increases near the streetcar line by CMR are generally negated by property value losses in the rest of the community. Thus, the streetcar produces no material increase in property values --- it is a “zero-sum game.” The conclusions are as follows.

OVERALL: *The CMR report provides no basis to conclude that the streetcar will increase property values in the Austin area.* Virtually all of the additional development attributed to the streetcar appears to be taken from elsewhere in the central area or metropolitan area. There is no evidence that the streetcar would materially increase total property values.

Office Space: *The CMR report provides no basis to conclude that the streetcar will increase office property values in the Austin area.* The projected gain in office space downtown with the streetcar is simply transferred from elsewhere in the metropolitan area. There is no indication that overall office property values would be greater with the streetcar.

Apartments: *The CMR report provides no basis to conclude that the streetcar will increase apartment property values in the downtown area.* The projected gain in apartment units along the streetcar corridor with the streetcar would simply be transferred from elsewhere in the downtown area. There is no indication that overall apartment property values would be greater with the streetcar.

Condominiums: *Data in the CMR report indicates that the streetcar will not increase condominium property values in the downtown area.* The projected gain in condominium units along the streetcar corridor with the streetcar would simply be transferred from elsewhere in the downtown area, according to CMR data. There would be no increase in the gross property value of condominiums with the streetcar.

Retailing: *The CMR report provides no basis to conclude that the streetcar will perceptively increase retail property values in the downtown area.* There is no indication that more retail space would be attracted in the streetcar corridor with the streetcar, nor that more retail development would be attracted to downtown.

EXECUTIVE SUMMARY

Relevant Experience in Other Urban Areas: *In the one relevant cited example, Portland's Pearl District, subsidies have been the principal factor driving development, now totaling more than \$100,000,000 plus 10-year tax abatements.*

Developments using the tax abatements have been required to prove their necessity to make projects commercially viable, excluding any possibility that the streetcar had an influence in development.

Residential Development Trends in Central Austin: *Central Austin is experiencing a significant amount of downtown residential development, without the streetcar.* The number of new residential units in central Austin is three-quarters of the number achieved in Portland that have not received tax abatements.

Use of Transit Tax Revenues: *The streetcar will consume transit revenues that could be used to improve mobility for low-income households and reduce low-income unemployment.* The unnecessarily large expenditures on the streetcar would use funding that could provide significantly more mobility for underserved low income households, which are disproportionately minority.

Additional Observations

Congestion: Though beyond the scope of this analysis, the placing of rails and streetcar stations and operating a high frequency streetcar on Austin's busy downtown streets is likely to substantially decrease street capacity for private and commercial vehicles resulting in greater congestion and more intense air pollution emissions

CMR Study basic findings: The CMR study is consistent with wide experience and previous studies indicating that urban passenger rail does not create additional jobs or housing and retail demand but may influence the location of certain developments, particularly if incentives are provided to developers. However, any such developments cannot be considered as a net increase to the taxable property valuations of the area.

INTRODUCTION

The city of Austin commissioned a report by Capital Market Research, Inc. (CMR) on the development impacts of the proposed streetcar, which was published in August of 2006. This analysis, *Zero Sum Game: Development and the Austin Streetcar* provides an analysis of the CMR report and related issues. The analysis of the CMR report is limited to a review of the data provided and does not include an evaluation of CMR methodologies. The following issues are covered:

1. Property Development Impacts of the Streetcar
2. Relevant Streetcar Experience in Other Urban Areas
3. Residential Development Trends in Central Austin

In addition, observations are provided on the use of transit revenues. Finally, because of the frequent reference to “smart growth” policies in Portland and their potential applicability in Austin, a brief resume of Portland developments is provided on in an appendix.

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

The CMR report predicts that the streetcar would lead to higher property values in the downtown area and the proposed streetcar corridor within downtown. The CMR results are reviewed below.

Summary of Property Impacts

Overall: *The CMR report provides no basis to conclude that the streetcar will increase property values in the Austin area.* Virtually all of the additional development attributed to the streetcar appears to be taken from elsewhere in the central area or metropolitan area. There is no evidence that the streetcar would materially increase total property values.

Analysis: The CMR report does not provide complete information on the property valuation impacts of the streetcar. No office, apartment or retail valuation estimates are provided for outside the study area. Complete valuation projections are provided only for condominiums (Table 1). The condominium data indicates the same total valuation in the downtown area with or without the streetcar. The projected gain in the streetcar corridor is achieved at the expense of the balance of the downtown

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

area. CMR data indicates that the streetcar would be associated with an only nominal increase in the value of retail establishments in the study area by 2015 (perhaps a rounding remainder).¹

Tables 1 through 6 below have 46 color coded cells indicating data that would be required to adequately assess the impact of the streetcar on the Austin area. Thus, the CMR report contains insufficient information to make judgments about streetcar influence on overall property values in either the metropolitan area or the downtown area.

The property development impacts of the streetcar appear to be a “zero-sum game” --- the office space gains in the streetcar corridor or study area impacted by the streetcar are negated by losses in areas of the community not impacted by the streetcar (such as the balance of downtown or the balance of the metropolitan area).

Table 1 Overall Streetcar Impact on Property Values: 2015			
	Not in Streetcar Corridor	In Streetcar Corridor	Total
Without Streetcar			
Office:Metropolitan Area	No Information	\$1,445,875,464	No Information
Apartments: Downtown Austin	No Information	\$1,105,363,161	No Information
Condominiums: Downtown Austin	\$2,278,045,275	\$1,779,093,645	\$4,057,138,920
Retail Downtown Austin	No Information	\$939,786,024	No Information
Total	No Information	\$5,270,118,294	No Information
With Streetcar			
Office: Metropolitan Area	No Information	\$1,588,187,251	No Information
Apartments: : Downtown Austin	No Information	\$1,310,512,313	No Information
Condominiums: Downtown Austin	\$1,928,396,078	\$2,128,742,842	\$4,057,138,920
Retail Downtown Austin	No Information	\$939,801,523	No Information
Total	No Information	\$5,967,243,929	No Information
Change			
Office: Metropolitan Area	No Information	\$142,311,787	No Information
Apartments: Downtown Austin	No Information	\$205,149,152	No Information
Condominiums: Downtown Austin	(\$349,649,197)	\$349,649,197	\$0
Retail: Downtown Austin	No Information	\$15,499	No Information
Total	No Information	\$697,125,635	No Information
Data from Tables 2, 3, 4, & 5.			

¹ Based upon CMR data, the increase in downtown retail value if the streetcar is built would be \$15,000 or 0.0015 percent.

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

Office Space Impacts

Office Space: *The CMR report provides no basis to conclude that the streetcar will increase office property values in the Austin area.* The projected gain in office space downtown with the streetcar is simply transferred from elsewhere in the metropolitan area. There is no indication that overall office property values would be greater with the streetcar.

Analysis: The CMR report projects office space in the Austin metropolitan area to rise from 34.7 million square feet in 2006 to 44.9 million square feet in 2015, an increase of 29 percent (CMR Table 6). In the previous nine years (1997-2006), metropolitan office space increased 47 percent without a streetcar.² CMR further projects downtown Austin office space to increase from 8.5 million square feet in 2006 to 9.5 million square feet in 2015, an increase of 12 percent if the streetcar is not built (CMR Table 8). CMR forecasts that downtown office space will rise to 10.3 million square feet in 2015 if the streetcar is built, an increase of 23 percent from 2006 (CMR Table 10). CMR implies that this increase will be due to better access by “rail,” but provides no description of its methodology for that conclusion.³ Further, the increase in downtown office space for the previous nine years (1997-2006) was also 23 percent, without a streetcar.⁴

However, the downtown gain from 2006 to 2015 would be achieved by reducing office construction in the rest of the metropolitan area. The office space absorption would be the same in the metropolitan area, with and without the streetcar (CMR Tables 6 & 11). This indicates that the total office space in the metropolitan area would be the same with and without the streetcar (Figure 1 and Table 2). CMR does not indicate how much of the projected increase in streetcar corridor development would be relocated from Williamson County, Hays County, Caldwell County, Bastrop or other parts of Travis County or the city of Austin.

CMR estimates that the streetcar will add 10 percent to the value of office land and improvements in downtown Austin by 2015. CMR does not provide an estimate of the loss in office land and improvements that would occur in the rest of the metropolitan area as an equal amount of office square footage is attracted away to down-

²Calculated from CMR Table 6.

³The Austin area will experience a substantial increase in road access as a result of toll road openings. The impact of this improvement does not appear to have been considered by CMR.

⁴Calculated from CMR Table 7.

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

town (Table 2). Depending upon the relative value of the office space attracted away from other parts of the metropolitan area to downtown, there might be either a net loss or gain in value throughout the metropolitan area. CMR does not address this issue.

The CMR report contains insufficient information to make a judgment about the streetcar influence on office values in the metropolitan area

Table 2 Streetcar Impacts on the Austin MSA Office Space Market: 2015			
	Not in Streetcar Corridor	In Streetcar Corridor ⁵	Total Metropolitan Area (MSA)
Without Streetcar			
Total Square Feet	35,448,972	9,468,427	44,917,399
Total Value	No Information	\$1,445,875,464	No Information
With Streetcar			
Total Square Feet	34,644,483	10,272,916	44,917,399
Total Value	No Information	\$1,588,187,251	No Information
Change			
Total Square Feet	(804,489)	804,489	0
Total Value	No Information	\$142,311,787	No Information
Date from or calculated from CMR Tables 6, 7, 8, 9, 10, 11, 12 & 13. ⁶			

**Office Space: 2015
Austin Metropolitan Area**

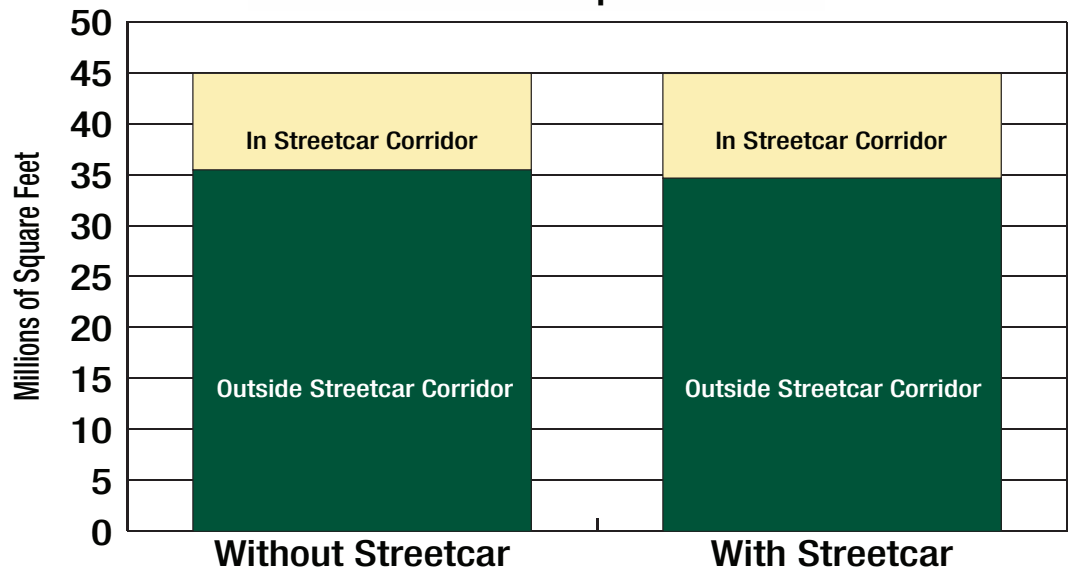


Figure 1

⁵Streetcar corridor for total office space purposes is the downtown area.

⁶CMR uses the terms “citywide” and Austin MSA” (Austin Metropolitan Statistical Area) interchangeably (Tables 6 & 11.)

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Apartment Impacts

Apartments: *The CMR report provides no basis to conclude that the streetcar will increase apartment property values in the downtown area.* The projected gain in apartment units along the streetcar corridor with the streetcar would simply be transferred from elsewhere in the downtown area. There is no indication that overall apartment property values would be greater with the streetcar.

Analysis: CMR projects that the downtown area will have 7,425 apartments by 2015, compared to 2,785 in 2006 (CMR Table 19). The number of apartments in the streetcar corridor without the streetcar would rise from 623 in 2006 to 2,860 in 2015 without the streetcar (CMR Table 20). With the streetcar, the number of apartments in the streetcar corridor would rise from 623 in 2006 to 3,221 in 2015 (CMR Table 22). Thus, CMR projects an increase of 461 apartment units in the streetcar corridor if the streetcar is built.

However, CMR projects that the total number of apartments in the downtown area would be the same in 2015, regardless of whether the streetcar is built. With or without the streetcar, there would be 7,425 apartments in 2015 (CMR Tables 19 and 21). Without the streetcar, there would be a gain of 2,403 apartment units in the downtown area outside the streetcar corridor. With the streetcar, there would be a 1,942 gain in apartment units in the downtown area outside the streetcar corridor.⁷ The loss of 461 apartment units outside the streetcar corridor would simply negate the gain of 461 (Table 3 and Figure 2).

CMR forecasts that in 2015, apartment land and improvement values in the streetcar corridor would be 19 percent higher with the streetcar than without the streetcar (CMR Tables 23 & 24). CMR provides no valuation information for the downtown area and as a result no judgment can be made with respect to the overall valuation impact of the streetcar (Table 3). Thus, the CMR report contains insufficient information to make a judgment about the streetcar influence on overall apartment values.

⁷Calculated from data in CMR Tables 19, 20, 21 and 22.

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

Table 3 Streetcar Impact on the Downtown Apartment Market: 2015			
	Not in Streetcar Corridor	In Streetcar Corridor	Total Downtown Area
Without Streetcar			
Total Units	4,575	2,850	7,425
Total Value	No Information	\$1,105,363,161	No Information
With Streetcar			
Total Units	4,104	3,321	7,425
Total Value	No Information	\$1,310,512,313	No Information
Change			
Total Units	(471)	471	0
Total Value	No Information	\$205,149,152	No Information
Date from or calculated from CMR Tables 19, 20, 21, 22, 23 & 24.			

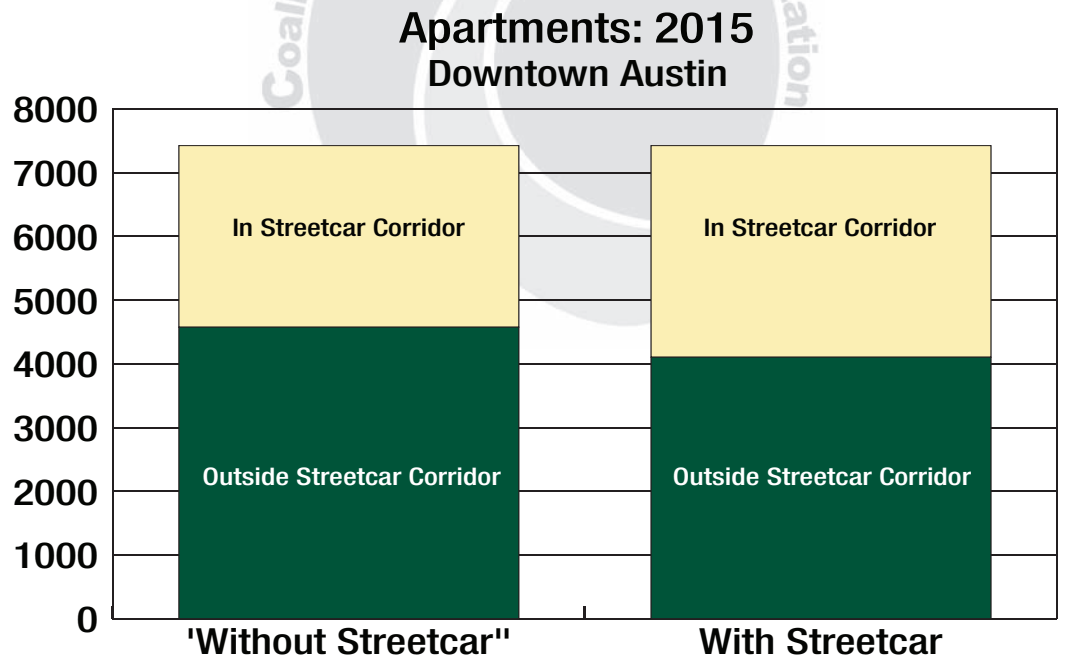


Figure 2

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

Condominium Impacts

Condominiums: *Data in the CMR report indicates that the streetcar will not increase condominium property values in the downtown area.* The projected gain in condominium units along the streetcar corridor with the streetcar would simply be transferred from elsewhere in the downtown area, according to CMR data. There would be no increase in the gross property value of condominiums with the streetcar.

Analysis: CMR projects that the downtown area will have 9,426 condominiums by 2015, compared to 4,951 in 2006 (CMR Table 32). The number of condominiums in the streetcar corridor without the streetcar would rise from 703 in 2006 to 3,292 in 2015 without the streetcar (CMR Table 33). With the streetcar, the number of condominiums in the streetcar corridor would rise from 703 in 2006 to 3,762 in 2015 (CMR Table 35). Thus, CMR projects an increase of 470 condominium units in the streetcar corridor if the streetcar is built.

However, CMR projects that the total number of condominiums in the downtown area would remain the same regardless of whether the streetcar is built. With or without the streetcar, there would be 9,426 condominiums in 2015 (CMR Tables 32 and 34). Without the streetcar, there would be a gain of 1,886 condominium units in the downtown area outside the streetcar corridor. With the streetcar, there would be a 1,416 gain in condominium units in the downtown area outside the streetcar corridor.⁸ The loss of 470 condominium units outside the streetcar corridor would negate the gain of 470 in the streetcar corridor. With or without the streetcar, the downtown area is projected to have the same number of condominium units in 2015 (Figure 3 and Table 4)

CMR forecasts that, through 2015, there would be a 14 percent increase in units and a 20 percent increase in total value for condominium units in the streetcar corridor with the streetcar compared to without the streetcar (CMR Tables 36 & 37). However, CMR data indicates that there would be no change in the total downtown area condominium unit valuation (Figure 4 and Table 4). The CMR data indicates that the streetcar would transfer \$265 million of valuation to the streetcar corridor from the balance of the downtown area (Figure 4 and Table 4).⁹ The data in the CMR report indicates that the streetcar impact on condominium values in the downtown market area would be zero.

⁸Calculated from data in CMR Tables 19, 20, 21 and 22.

⁹Calculated from CMR data. CMR Tables 32 and 34 indicate that the average value per condominium unit and the number of condominiums in the downtown area will be the same with or without the streetcar.

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

Table 4 Streetcar Impact on the Downtown Condominium Market: 2015			
	Not in Streetcar Corridor	In Streetcar Corridor	Total Downtown Area
Without Streetcar			
Total Units	6,134	3,292	9,426
Average Value per Unit	\$371,380	\$540,429	\$430,420
Total Value	\$2,278,045,275	\$1,779,093,645	\$4,057,138,920
With Streetcar			
Total Units	5,664	3,762	9,426
Average Value per Unit	\$340,465	\$565,854	\$430,420
Total Value	\$1,928,396,078	\$2,128,742,842	\$4,057,138,920
Change			
Total Units	(470)	470	0
Average Value per Unit	\$743,937	\$743,937	\$0
Total Value	(\$349,649,197)	\$349,649,197	\$0
Data from or calculated from CMR Tables 32, 33, 34 & 35.			

**Condominium Units: 2015
Downtown Austin**

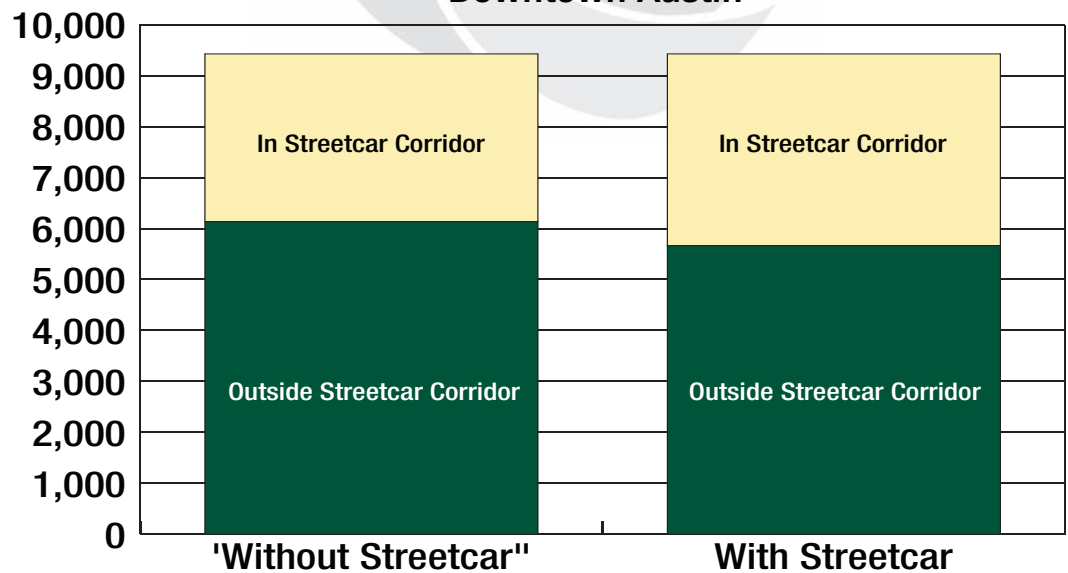


Figure 3

1. PROPERTY DEVELOPMENT IMPACTS OF THE STREETCAR

Total Condominium Value: 2015 Downtown Austin

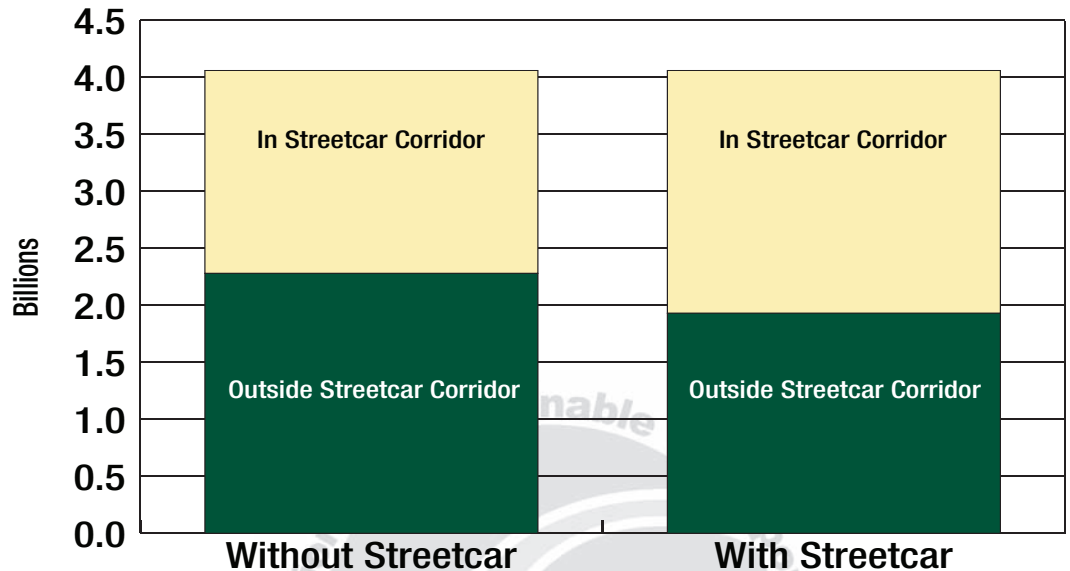


Figure 4

Retail Impacts

Retailing: *The CMR report provides no basis to conclude that the streetcar will perceptively increase retail property values in the downtown area.* There is no indication that more retail space would be attracted in the streetcar corridor with the streetcar, nor that more retail development would be attracted to downtown.

Analysis: The CMR report is unclear on projected retail impacts. The text indicates that, under the baseline (no streetcar) case, there would be an increase of 1,151,561 square feet in demand for retail space from 2006 to 2015 (Page 72). The apparently corresponding table indicates a demand increase of 980,588 square feet over the same period [change in demand for retail space 2006 and 2015 (CMS Table 41)].

The total retail property value in the study area is not directly presented, but can be derived from CMR Table 44, by subtracting the office, apartment and condominium property values from the total values. This calculation indicates that there is only a very small difference in anticipated retail valuation with or without the streetcar (Figure 5 and Table 5).¹⁰ The difference is so small as to suggest the possibility that it results from a rounding remainder.¹¹

¹⁰It is not clear whether the retail valuation for the “study area” in the CMR report relates to the entire downtown area or just the streetcar corridor.

¹¹Based upon CMR data, the increase in downtown retail value if the streetcar is built would be \$14,000 or 0.0015 percent.

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No information is provided with respect to the anticipated demand for retail space for the rest of downtown with or without the streetcar. Finally, no retail property value information is provided for either downtown or the streetcar corridor, with or without the streetcar. Thus, the CMR report contains insufficient information to make a judgment about the streetcar influence on overall retail values.

	Not in Streetcar Corridor	In Streetcar Corridor	Total Downtown Area
Without Streetcar			
Total Sq. Ft. Demand	No Information	550,499	1,280,334
Total Value	No Information	\$939,786,024	No Information
With Streetcar			
Total Sq. Ft. Demand	No Information	697,035	No Information
Total Value	No Information	\$939,801,523	No Information
Change			
Total Sq. Ft. Demand	No Information	No Information	No Information
Total Value	No Information	\$15,499	No Information

Date from or calculated from CMR Tables 12, 13, 23, 24, 36, 37, 41, 42, 43 & 44.

**Total Retail Property Value: 2015
IN STREETCAR CORRIDOR**

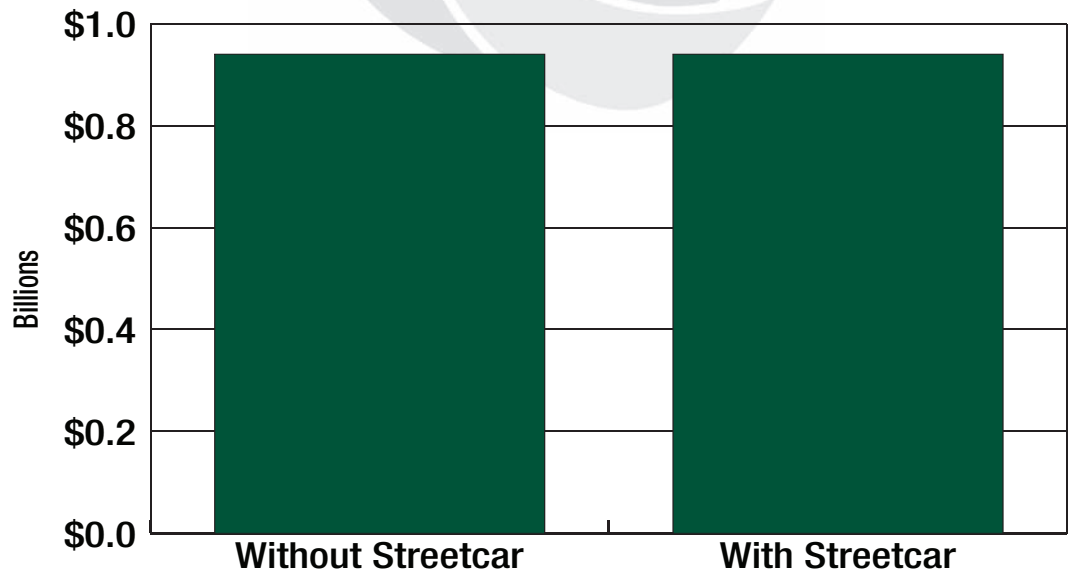


Figure 5

2. RELEVANT STREETCAR EXPERIENCE IN OTHER URBAN AREAS

Relevant Experience in Other Urban Areas: *In the one relevant cited example, Portland’s Pearl District, subsidies have been the principal factor driving development, now totaling more than \$100,000,000 plus 10-year tax abatements.*

Developments using the tax abatements have been required to prove their necessity to make projects commercially viable, excluding any possibility that the streetcar had an influence in development.

Analysis. CMR cites experience with a number of projects around the nation as evidence to support the proposition that the streetcar would increase property values. Only one, Portland’s Pearl District has relevance to the Austin situation. Each of the other cases involves materially different urban rail technologies and systems, such as Metros (subways), light rail and commuter rail.

The Pearl District has been developed as an urban renewal project by the Portland Development Commission, an agency of the city of Portland. CMR says that

“The ability of the streetcar to leverage private investment is nowhere more evident than in Portland.”¹²

CMR goes on to note that the streetcar was built to connect “two vacant parcels of land north and south of downtown.” In fact, construction in the northern parcel, the Pearl District, had begun in 1994 and by 1999 nearly 1,350 units had been completed.¹³ The streetcar began service in 2001.

CMR implies that the streetcar has been a major reason for the development of new housing in the Pearl District. At the same time, CMR notes that a zoning revision that increased allowable densities along the streetcar line by five times. CMR does not provide any analysis to separate the impacts of the streetcar from this liberalization of zoning regulations.

CMR relies on a Portland economic report (the “Hovee” report)¹⁴ that attributes much of the higher density development in the Pearl District to the streetcar. The

¹² CMR Report, page 82.

¹³ Portland Development Commission, *River District Housing Implementation Strategy Annual Report*, March 2005, http://www.pdc.us/pdf/ura/river_district/200503_housing_implementation_strategy.pdf.

¹⁴ E.D. Hovee & Company, LLC, *Portland Streetcar Development Impacts: Review Draft*, <http://www.reconnectingamerica.org/pdfs/BriefingbookPDF/Hovee%20Exec%20Summary.pdf>, accessed 2 January 2007.

2. RELEVANT STREETCAR EXPERIENCE IN OTHER URBAN AREAS

Hovee report simply notes that higher densities “coincided” with streetcar development. As with the CMR report in Austin, no evidence is provided to show that the streetcar increased overall development or its value in the Pearl District, the city of Portland or the Portland metropolitan area.

Further, the CMR report is silent on the issue of subsidies.¹⁵ Nonetheless, subsidies have been an integral element in the development of the Pearl District. A city of Portland adopted report said:

“City Council continues to endorse the use of the range of available implementation tools including tax increment financing, revenue bond financing, partial property tax abatements, LIHTC tax credits, applicable fee and SDC¹⁶ waivers, and, as funding permits, other state and federal resources.”¹⁷

In fact, however, subsidies in the form of tax abatements have been the proximate cause of much development in the Pearl District. Under the Charter and City Code of Portland, developers can obtain 10 year property tax exemptions if they “demonstrate that property tax abatement is required to achieve economic feasibility for the residential use intended.”¹⁸ In other words, a pre-condition is demonstration that the project would not be built without the property tax exemption. The streetcar is not an issue with respect to this required finding. As defined in the city charter and code, any development receiving such tax abatements was built *because of* the tax abatements. The streetcar could not therefore have been a factor in the development decision.

The streetcar could have had no influence in these cases. Between the streetcar opening and 2005 approximately 1,250 housing units were in projects that obtained tax abatements on the basis that they would not otherwise have been commercially

¹⁵ The draft Unified Planning Work Program for 2006-2007 for the Portland area notes that Hovee had produced a 2005 report (publicly funded,) which recommended “methods to show causality between the streetcar and intensity of development that form the basis of the current work program.” (http://www.metro-region.org/library_docs/trans/2007_upwp_032306.pdf, page 39)

¹⁶ Development impact fees.

¹⁷ Portland City Council, *River District Housing Implementation Strategy Update*, April 1999, http://www.pdc.us/pdf/ura/river_district/housing_implementation_strategy_199904.pdf.

¹⁸ Portland Charter and City Code, Section 3.104.010, <http://www.portlandonline.com/auditor/index>.

2. RELEVANT STREETCAR EXPERIENCE IN OTHER URBAN AREAS

viable. This represents approximately 40 percent of the total completions during this period.

Further, projects may be eligible for impact fee exemptions.¹⁹ In characterizing this program, the Portland Development Commission, indicates:

“The developer will receive a “gift certificate,” which can be applied towards certain development fees.”²⁰

Over the same period nearly 400 units have been built in projects that received such exemptions. Overall 45 percent of projects completed since the streetcar opening have received tax abatements and/or impact fee exemptions. No summary of the cost of these programs has been identified.

There are additional subsidies. The Portland Development Commission, which manages the urban renewal district, receives tax increment financing (TIF) revenues, against which it borrows and contributes toward Pearl District development. As of 2006, a total of \$103 million had been issued in bonds for the Pearl District.²¹ A further \$122 million Pearl District related debt is anticipated by 2013.²² This would bring the total tax increment financing spending to \$225 million.

The amount of tax increment bond subsidies alone, through 2006 appears to be between \$10,000 and \$15,000 per new housing unit, excluding bond interest. Various additional subsidies are detailed on an Internet page maintained by the Portland Development Commission.²³ No information was found on the subsidies resulting from the 10-year tax abatements, impact fee exclusions or other programs (Figure 6)

¹⁹ These impact fees are called System Development Charges in Portland. One project received both the tax abatement and the impact fee exemption during this period.

²⁰ Portland Development Commission, *Development Fee Waiver Program for Affordable Housing*, http://www.pdc.us/housing_serv/hsg_development/dev-fee-waivers.asp; accessed 2 January 2007.

²¹ Portland Development Commission, *River District Housing Implementation Strategy Annual Report*, March 2005, http://www.pdc.us/pdf/ura/river_district/200503_housing_implementation_strategy.pdf; page 7, accessed 2 January 2007.

²² Response by the Portland Development Commission to a public record request by Jm Karlock (by email 4 January 2007.)

²³ Portland Development Corporation, *Financial Products for Housing Development*, http://www.pdc.us/housing_serv/general-hsg/finance-products.asp; accessed 2 January 2007.

2. RELEVANT STREETCAR EXPERIENCE IN OTHER URBAN AREAS

Subsidies to the Portland Pearl District
BY CATEGORY

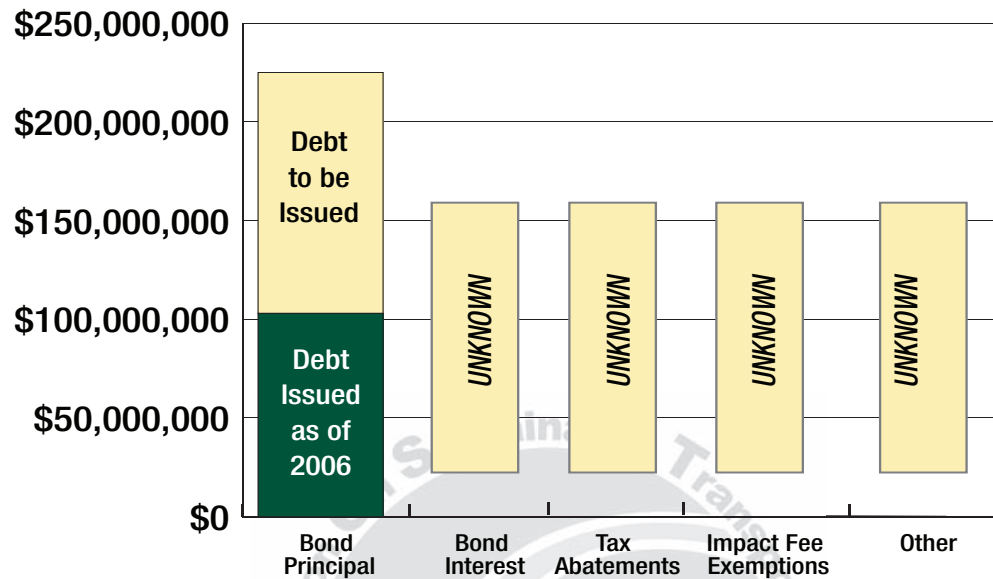


Figure 6

Public Opinion Backlash: Public concern about the equity of subsidies to the Pearl District and similar areas has led to a public opinion backlash in the city of Portland. The issue has become an issue in municipal elections. A candidate for city council called the Pearl District a “yuppie theme park.”²⁴ A moratorium on some tax abatements has now been enacted.²⁵

Other Cited Cases: CMR cites other cases in which rail systems are purported to have increased property values. Each of the other cases, however, deals with much more significant regional rails systems, such as Metros (subways), light rail and commuter rail.²⁶

²⁴ Scott Learn, The Oregonian, “Critics Question Need for Continued Property Tax Breaks in Portland, Ore.,” 27 June 2003, http://www.accessmylibrary.com/coms2/summary_0286-8904540_ITM; accessed 2 January 2007.

²⁵ Portland Development Commission, Revisions to New Multiple-unit Housing (NMUH)/Central City Tax Abatement, http://www.pdc.us/housing_serv/hsg_development/multi-lta.asp.

²⁶ These studies, like the CMR report, do not provide comprehensive information on property values throughout the rest of the urban area and are thus incomplete. For example, a University of North Texas study indicates that property values have risen more quickly near Dallas light rail stations than in other areas, though does not evaluate light rail’s overall impact. The impact is not estimated of other transportation on property value improvements (such as the renovated and expanded North Central Expressway at Mockingbird Lane built at the same time as the light rail line.) Any such impact would reduce or could even negate the property value increase attributed in the study to light rail. No information is provided on the overall property value impact in the broader corridors or in the overall DART service area. It is possible that, as the CMR report implies in Austin, there is no net gain in property values throughout the Dallas area, resulting in a “zero-sum” game for regional property values. No information is provided on the extent of subsidies (if any.) A detailed evaluation of this research was not performed due to the inapplicability of the Dallas situation to the Austin streetcar. The larger issue is that these cases are not relevant for comparison to the proposed Austin streetcar.

3. RESIDENTIAL DEVELOPMENT TRENDS IN CENTRAL AUSTIN

Residential Development Trends in Central Austin: *Central Austin is experiencing a significant amount of downtown residential development, without the streetcar.* The number of new residential units in central Austin is three-quarters of the number achieved in Portland that have not received tax abatements.

Analysis: Downtown areas throughout the nation are experiencing a renaissance of residential development. For the first time in decades, and after many “false starts,” this renaissance appears to be real. A number of factors have propelled this change, such as changing demographics, an improving central city crime rate and, in many cases, substantial development subsidies.

These changes can be seen in visits to downtown areas from expected locations, such as Seattle and Portland to less expected locations, such as Milwaukee and Kansas City. It is occurring both where there are transportation projects, such as the proposed streetcar or light rail and where there are no such projects. In Seattle, Minneapolis, Denver and Milwaukee and elsewhere significant new downtown residential development began either before or without transportation projects.

For example, more than 3,000 new housing units were built in downtown Kansas City from 2000 to 2006, yet there was no major transportation project. As of 2006, another 3,000 new units were either under construction or planned.²⁷ Downtown Seattle is one of the nation’s fastest growing central areas and was projected to add more than three times the population of downtown Portland from 1998 to 2010.²⁸ The region’s under-construction light rail line will not penetrate the principal area of construction, to the north of downtown and the city’s heritage streetcar is not within walking distance.

There is no reliable national database on downtown residential development. Nonetheless, it is apparent that there is strong residential development in downtown Austin. One 1998 report projected downtown populations for a number of US urban areas.²⁹ Austin was projected to gain 5,000 new residents through 2010. This is slightly more new residents than was projected for downtown Portland through 2010. Based upon the data and forecasts in the CMR report, downtown Austin ap-

²⁷Downtown Council of Kansas City, Missouri, *DTC Annual Report; State of Downtown: 2006*, <http://www.downtownkc.org/FileUploads/2006DTCweb2.pdf>; accessed 2 January 2007.

²⁸The Brookings Institution Center on Urban and Transportation Policy and the Fannie Mae Foundation, *A Rise in Downtown Living*, <http://www.brook.edu/es/urban/top21fin.pdf>; accessed 2 January 2007.

²⁹The Brookings Institution Center on Urban and Transportation Policy and the Fannie Mae Foundation, *A Rise in Downtown Living*, <http://www.brook.edu/es/urban/top21fin.pdf>; accessed 2 January 2007.

3. RESIDENTIAL DEVELOPMENT TRENDS IN CENTRAL AUSTIN

pears to be in the process of improving on that projection, with the expected net addition of 5,700 housing units between 2000 and 2010³⁰ and another projected 5,000 units by 2015.

From 2001 to 2004, more than 1,350 new housing units were built in Austin's downtown area, without a streetcar.³¹ This is 75 percent as many units as were built in the Pearl District (1,800) without specific tax abatements or impact fee exemptions. No information was found to identify how many of the 1,800 Portland units received other forms of subsidy (such as the more than \$100,000,000 in tax increment financing subsidies), but potentially all may have been subsidized in one form or another.

4. USE OF TRANSIT TAX REVENUES

Use of Transit Revenues: The streetcar will consume transit revenues that could be used to improve mobility for low-income households and reduce low-income unemployment. The unnecessarily large expenditures on the streetcar would use funding that could provide significantly more mobility for underserved low income households, which are disproportionately minority.

Analysis: The streetcar is a comparatively expensive technology. Bus technologies could perform the same function as the streetcar at a considerably lower capital and operating cost. This is an important consideration in light of the unmet mobility needs within the Capital Metro district.

More than 20,000 households in the city of Austin do not have automobiles. This population must necessarily rely to a large degree on Capital Metro for its mobility. Yet, in east Austin, with the largest concentration of low-income households, transit services tend to operate on 30 minute frequencies during mid-day. This infrequent service makes travel times inordinately long, especially where transfers are required to other routes with similar frequencies. This service level is inadequate in meeting the mobility needs of the area's low-income population. Finally, it appears that Capital Metro's current service configuration, including its route structure and service frequencies do not yet meet the standards that were the basis of the 1985 tax referendum.

³⁰ At average household size in central areas, this would indicate an increase of at least 7,500 residents between 2000 and 2010, compared to the 5,000 forecast for 1998 to 2010.

³¹ CMR Report.

4. USE OF TRANSIT TAX REVENUES

Finally, most service is downtown oriented and little access is provided to the other employment areas within the Capital Metro district. Studies have associated higher levels of unemployment with the inability of people to access jobs in suburban areas to which there is insufficient transit service.³² In short, there is both a need and a potential for significantly higher levels of transit service. Maximizing service to low income households requires cost effective transit strategies.

The streetcar line would do little, if anything to improve mobility for transit dependent households. Indeed, by spending more tax funding than necessary, the streetcar will reduce the funding that could be used to serve the transit dependent population not only of Austin, but of the rest of the Capital Metro service area. Thus, development of the unnecessarily expensive streetcar may not be consistent with Capital Metro's mandate for improving transportation in the Austin area.

Legal Risks: Further, transit strategies that are especially more costly per passenger, such as the streetcar, have potential risks. In some areas, similar policies have led to legal actions (class action suits) against public authorities. In Los Angeles, an aggressive rail building program was drastically cut back in response to an action by the Bus Riders Union and the NAACP. Their contention had been that the transit authorities were spending a disproportionate amount of funding to attract more affluent riders, to the detriment of low income, principally minority riders. Moreover, they found fare increases detrimental to low income riders. Their contention was that the fare increases could have been avoided with the funding spent on expensive rail systems. A similar legal action is now pending in the San Francisco Bay Area contending that operating and capital subsidies disproportionately benefit affluent transit riders at the expense of lower income, principally African-American and Hispanic riders.³³

³² For example see: Annalynn Lacombe, *Welfare Reform and Access to Jobs in Boston* (Washington, D.C.: U. S. Department of Transportation, Bureau of Transportation Statistics, 1998.)

³³ See: Public Advocates, Inc., *Darensburg v. Metropolitan Transportation Commission*, <http://www.publicadvocates.org/transportation.html>; accessed 2 January 2007.

APPENDIX: SMART GROWTH AND TRENDS IN PORTLAND

Portland is known for its “smart growth” policies. Some Austin interests have indicated admiration for such policies and see Portland as a model. However, Portland’s policies have been associated with consequences that may not be attractive to Austin and other metropolitan areas. These are described below.

Unrepresentative Demographics: The Pearl District is attracting a demographic less broad than that of the broader Portland area, with families representing only a third of the city of Portland rate.³⁴ The city of Portland itself is experiencing an inordinate decline in the share of households with children. According to Bureau of the Census data, the average household size in the city of Portland fell from 2.30 to 2.25 persons between 2000 and 2005. At the same time the average suburban household size rose from 2.64 to 2.69 persons. Portland city school district enrollments have fallen 15 percent since 1995.

Backlash against Densification: At the same time, Portland’s planning policies have produced a political backlash. A negative citizen reaction led to a referendum that significantly reduced the power of the regional land use agency to force densification in existing neighborhoods. This weakens the ability of the planning agency to impose its infill development objectives.

Negative Population and Employment Trends: People and businesses are “voting with their feet” and leaving or avoiding the areas most impacted by Portland’s smart growth policies.

- The core city of Portland has attracted only three percent of the metropolitan area’s population increase between 2000 and 2005.³⁵
- More than 90 percent of metropolitan Portland’s net domestic in-migration between 2000 and 2005 has been to outside the urban growth boundary.³⁶
- Downtown Portland lost 4,000 jobs between 2001 and 2005, while the suburbs added 24,000 jobs.³⁷

³⁴ Portland Development Commission, River District Housing Implementation Strategy Annual Report, March 2005, http://www.pdc.us/pdf/ura/river_district/200502_housing_implementation_strategy.pdf; page 9, accessed 2 January 2007.

³⁵ Calculated from U.S. Bureau of the Census data.

³⁶ Calculated from U.S. Bureau of the Census data. Does not include international migration.

³⁷ Calculated from data in Portland Business Alliance, 2005 Downtown Portland Business Census and Survey, <http://www.portlandalliance.com/pdf/2005census.pdf>; accessed 2 January 2007.

APPENDIX: SMART GROWTH AND TRENDS IN PORTLAND

Worsening Traffic Congestion: Portland has devoted substantial resources to expanding its public transit system, especially with light rail. At the same time, Portland has limited its investment in highways. Nonetheless, traffic volumes have continued to rise at a higher than national rate. Among urban areas with from 1,000,000 to 2,000,000 population, Portland ranks second only to higher-density Las Vegas in traffic congestion.³⁸ There are indications that the intensifying traffic congestion is driving commerce away, according to a report prepared for Metro, the regional land use planning agency.³⁹

Loss of Housing Affordability: Finally, consistent with the economic principle that rationing leads to higher prices, housing affordability has been seriously retarded as Portland's land rationing policies have increased their effect (principally urban growth boundary). As in other markets around the world that have implemented such policies, the historic relationship between house prices and household incomes has been broken.⁴⁰

The Median Multiple (median house price divided by median household income) is widely used as an indicator of housing affordability. This Median Multiple has historically hovered near 3.0 or below in virtually all markets. This has changed markedly in the last five or ten years, with huge increases (losses in housing affordability) occurring in urban areas with more stringent land use regulation, such as “smart growth.”

Housing affordability has been seriously retarded in the Portland metropolitan area over the past 10 years (Figure 7). Portland's Median Multiple has risen more than 40 percent. At the same time, housing affordability has been retained in Austin, where the Median Multiple has declined moderately in the same period. If housing prices had risen as steeply in Austin as in Portland, the median priced house would cost more than \$285,000, instead of \$175,000.⁴¹ According to the Housing

³⁸ Based upon the 2003 Travel Time Index (Texas Transportation Institute.) Portland is tied with three California urban areas. Not only does the higher density of Las Vegas exacerbate traffic congestion, but its proximity to Los Angeles, from which many people drive to visit tourist attractions further burdens the roadways of Las Vegas.

³⁹ Economic Development Research Group Inc., “The Cost of Congestion to the Economy of the Portland Region,” December 2005, available at http://www.metro-region.org/library_docs/trans/coc_exec_summary_final_4pg.pdf; accessed 2 January 2007.

⁴⁰ See: Demographia.com, 2nd Annual Demographia International Housing Affordability Survey, <http://www.demographia.com/dhi-ix2005q3.pdf>; accessed 2 January 2007.

⁴¹ Calculated from 2006 third quarter data.

⁴² National Association of Homebuilders and Wells Fargo Bank, Housing Opportunity Index, http://www.nahb.org/fileUpload_details.aspx?contentID-535; accessed 2 January 2006.

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Opportunity Index, 58 percent of Austin households can afford the median priced house. This is nearly double Portland's 30 percent.⁴²

While some development restrictions in Austin are called “smart growth,” a generally more liberal development process prevails throughout most of the metropolitan area. As a result housing affordability has been preserved and with it substantially greater economic and social opportunities for lower income households, which are disproportionately minority.

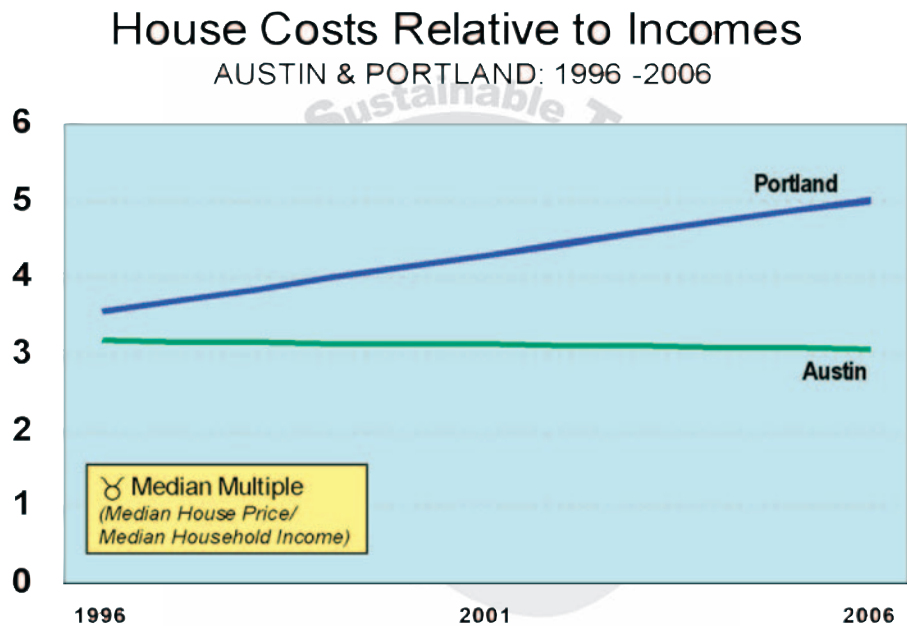


Figure 7

Similar affordability has been preserved in large, growing markets that have not adopted land rationing policies, such as Atlanta, Dallas-Fort Worth and Houston and other markets in the nation that have not engaged in excessive land use regulation, following the Portland model. The Portland land rationing model seems likely to lead to a less inclusive community. Given the important role that home ownership has played in expanding economic opportunities in US urban areas (what may be called the “democratization of prosperity”), it seems likely that an urban area following the more liberal development policies that typify metropolitan Austin will be more competitive and economically vibrant in the future.⁴³

⁴¹ Calculated from 2006 third quarter data.

⁴² National Association of Homebuilders and Wells Fargo Bank, Housing Opportunity Index, http://www.nahb.org/fileUpload_details.aspx?contentID=535; accessed 2 January 2006.

⁴³ Federal Reserve Bank research indicates that urban areas with more restrictive land use policies tend to experience less economic growth than would otherwise be expected. See: Raven E. Saks, Job Creation and Housing Construction: Constraints on Metropolitan Area Employment Growth, <http://www.federalreserve.gov/pubs/feds/2005/200549/200549pap.pdf>.

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