

Equitable Transit-Oriented Development: A New Paradigm for Inclusive Growth in Metropolitan America

Inequality is a significant challenge in the United States today. But what can be done to drive inclusive growth in communities across the country? This question has risen to the top of agendas for elected officials at all levels, community funders and activists, and everyday Americans. Many may see this challenge through the lens of policy, philanthropy or social justice—not from the perspective of an investor.

However, two key areas of public and private investment—transportation and affordable housing—can play a major role in addressing it. Investment in these areas helps determine where and how communities develop, who gets to live where, and what kinds of jobs, resources and amenities are available to them. When transportation and affordable housing efforts are coordinated, they can stimulate economic growth and vitality, while at the same time creating a more equal and fair society.

In particular, inclusive growth can be achieved through equitable transit-oriented development (eTOD), which focuses on creating and preserving affordable housing and other community services around transit stations. eTOD is attractive because it generates a range of benefits on multiple scales: jobs, economic growth, social inclusion, greenhouse gas reductions and healthy, walkable communities. New research also suggests

that if it is used to reduce social isolation and enable poor children to grow up in connected, economically diverse neighborhoods, eTOD can be an effective tool for helping them escape poverty as adults. One study showed that children under age 13 who moved out of high-poverty areas and into higher-income areas, even for a short period of time, earned an average of 31 percent more as adults than those who remained in poor areas throughout their childhoods.

The opportunity to achieve social and economic impact at scale by investing in eTOD is substantial. Over the next decade, investment in public transportation in the United States could exceed \$1 trillion. Federal investment in low-income housing programs will likely exceed \$500 billion over the same period, but will be combined with additional state and local sources to leverage many times more than that in private capital. This is an important national priority.

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Meeting eTOD's capital needs is cutting edge work and requires collaboration between public, philanthropic and private investors to develop innovative financing solutions. Investors like Morgan Stanley and the Low Income Investment Fund (LIIF) are engaged in developing innovative capital tools to break new ground for capital providers and to offer scalable eTOD approaches in cities and regions throughout the United States. As a result of these efforts, eTOD models are emerging in diverse regions throughout the U.S.—Denver, Seattle, Atlanta, Salt Lake City, San Francisco, Los Angeles, to name a few. It turns out that policy, philanthropy and advocacy are not the only tools that can help drive inclusive growth and reduce inequality—investment choices can play a game-changing role as well.

Introduction

Population growth in many cities and regions across the country is expected to increase over the coming decades, requiring large-scale transportation and housing investment to get people from where they live to where they work.⁴ In many cases, low-income families and communities are also moving further and further from urban centers and their commute times are skyrocketing. Since most commuting still takes place in cars, the environmental impact of sprawl is profound. The investments we will make as a nation to shape this population expansion will be a key driver of regional economic growth.

Over the next decade, the investment in public transportation infrastructure and operations in the United States is estimated to exceed \$1 trillion.⁵ Federal investment in low-income housing programs is expected to exceed \$500 billion over the same period, but will be combined with additional state and local sources to leverage many times more than that in private capital.⁶ This investment comes at a time of heightened public concern about the widening gap between rich and poor, the loss of the middle class, and increasing racial segregation in many communities.⁷ How and where transportation investments are made will have a profound impact on the civic and social structure of regions, cities and communities. Even more important, these are fixed investments that will be with us for decades to come. If new transit systems are planned with social equity in mind—in particular, if they are paired with investments in affordable housing—we can encourage mixed-income, racially diverse communities with good schools and services. If not, these investments are likely to lead to “business as usual” where the major social trends are already underway—growing inequality, increasingly concentrated poverty and segregation—will be exacerbated.



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In other words, transportation investment can promote equality or inequality, integration or segregation, opportunity or barriers to opportunity. Neighborhoods on the receiving end of transit investments become more desirable; nearby homes and businesses see rising values and stronger local economies. People living in these communities benefit from easier access to jobs and also from “walkable” commutes. The benefits of living close to high-frequency, regionally connected transit systems are profound. However, a laissez-faire approach to transportation investment can exacerbate inequality either by inadvertently displacing lower-income communities who stand to benefit the most from transit, or by bypassing them entirely. Communities bypassed by regional transit systems become less desirable and can be shut off from jobs, services and economic growth. Where and how transportation and housing investments are made will shape much about our future civic life.

Why Support Equitable Transit-Oriented Development?

eTOD has been shown to generate an impressive range of social, economic and environmental benefits. For example, eTOD is believed to increase the overall economic productivity of a region by connecting workers to jobs and spurring new economic activity around transit stations. Local jurisdictions stand to benefit from increased tax revenue due to higher density and mix of land uses associated with eTOD.⁸ eTOD can also increase transit ridership and reduce greenhouse gas emissions, thereby bolstering the financial viability of transportation systems while simultaneously mitigating climate change.⁹ Finally, people who live adjacent to transit tend to spend less on transportation and tend to be healthier because they drive less and walk more. After a new transit line was introduced in Charlotte, for example, commuters who switched from driving to taking transit lost about 6 pounds, on average.¹⁰

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In addition, recent breakthroughs in research have helped us understand just how powerful eTOD can be for reducing inequality and promoting social gains. The latest evidence has increased our understanding about what works to build successful futures for all Americans, rich and poor alike. Several headlines stand out from emerging trends and evidence:

- **Poverty is increasingly concentrated and segregated:** Both the number of extremely poor neighborhoods (those where more than 40 percent of residents are poor) and the number of people living in them has more than doubled since 2000,¹¹ and concentrated poverty has increased in two thirds of our largest cities since the start of the Great Recession.¹²

- **Where you grow up matters:** Your zip code is more important than your genetic code in determining your future.¹³ Economically diverse communities that are safe and well-served with good schools and social supports enable children and families to move up the income ladder. Living in neighborhoods just a few miles apart can mean a difference in life expectancy of up to 20 years.¹⁴

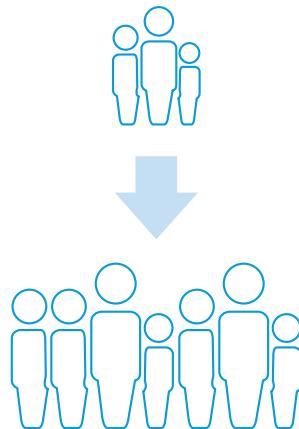
- **Mobility matters:** Moving to “high-opportunity” places—those with less concentrated poverty and richer amenities—makes a huge difference in the likelihood of going to college and getting a decent job, especially for young people. Young children who move out of high-poverty neighborhoods as part of the U.S. Department of Housing and Urban Development’s Moving to Opportunity experiment were 15 percent more likely to attend college than those who remained in areas of concentrated poverty, and also earned 31 percent more as adults.¹⁵

- **Isolation is harmful:** Concentrated poverty stunts futures much more than being poor in mixed-income communities. Yet racial segregation persists,¹⁶ and the national trend for economic segregation is going in the wrong direction; over the past four decades, the share of both poor and affluent neighborhoods has rapidly increased, while the share of families living in middle-class, mixed-income neighborhoods has decreased from two thirds to 42 percent.¹⁷

In the past decade, big data techniques and social experiments have allowed researchers to understand poverty and social mobility patterns with much greater clarity than in the past. For example, Raj Chetty and the other researchers of the Equality of Opportunity project used tax records and geographic data for more than 5 million families who moved across 741 subregions across the country to establish that children are much more likely to escape poverty if they grow up in places like Montgomery County, Maryland, that are less segregated by race and income, have lower levels of income inequality, fewer single-parent households, higher levels of social capital and higher-quality public education—than if they grow up in places that score low on these measures, like Baltimore City.¹⁸ In a related study using data from the Moving to Opportunity experiment, the Equality of Opportunity project found that much of the damage of living in high-poverty neighborhoods can be overcome by moving to better-served places while children are still young. In fact, children under age 13 who moved out of high-poverty census tracts and into higher-income areas, even for a short period of time, earned an average of 31 percent more as adults than those who remained in poor areas throughout their childhoods.¹⁹ Both studies showed that each year a child spends living in

a nonpoor neighborhood improves her earnings, college attendance and other social outcomes as an adult.

These findings complement other research showing how social outcomes are tied to place. For example, numerous studies have demonstrated that poor children do better in economically diverse schools than in poor, segregated schools.²⁰ Moving out of areas of concentrated poverty to more integrated, higher-opportunity neighborhoods has also been shown to generate profound physical and mental health improvements among women and girls, including major reductions in diabetes, extreme obesity and depression.²¹ These effects are striking because they are equal to what the most successful clinical treatments have achieved.²²



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eTOD often serves to enable poor families to gain or maintain access to transit-connected neighborhoods that are experiencing rising rents, growing amenities and an influx of higher-income residents. The growing evidence on the power of place, as described above, suggests that by reducing social isolation and enabling poor children to grow up in connected, economically diverse neighborhoods, targeted eTOD investments can be effective for helping them escape poverty as adults, among other positive social benefits. This new understanding of eTOD's potential to interrupt cycles of poverty comes at a time when inequality is center stage on the national policy agenda because concentrated poverty in metropolitan America is on the rise, as previously described. And there is an adverse racial component to this trend; if you are poor and African American, you are around four times more likely to live in a high-poverty neighborhood than if you are poor and white.²³ Racial and economic segregation in schools is also increasingly common.²⁴ Since 1988, schools with a white population of one percent or less have more than doubled.²⁵ The result is that as inequality has widened and become a hot political issue, the rich and poor are literally living further apart in place and also in well-being.

Using eTOD to help poor families secure access to less poor neighborhoods more connected to opportunity is also consistent with several recent federal efforts, including HUD's new Affirmatively Furthering Fair Housing (AFFH) rule. It is also consistent with directives from the Department of Education²⁶ and the Department of Transportation—including a recent joint call from the secretaries of these agencies to align housing, education, and transportation policy and resources to support socioeconomic diversity.²⁷

At its core, eTOD is about inclusive growth. It is a strategy that shapes major public and private investments in transportation infrastructure and affordable housing so that low-income families and residents have a place in a region's vision for economic growth. As new transportation lines are developed, housing and land prices around existing and new transit stations will often rise.²⁸ eTOD is a way to incorporate affordability that ensures socioeconomic diversity, while at the same time creating access to regional opportunity for those at the lower end of the income spectrum. It also connects people to jobs that more and more are located outside urban centers. Without deliberate public and private efforts to support housing affordability alongside transportation investments, poor families have no way to secure a foothold near convenient transit and risk being displaced to higher-poverty neighborhoods less connected to regional opportunity and jobs through transit.

How We're Doing It

Morgan Stanley and the Low Income Investment Fund (LIIF) have each invested in eTOD projects in the San Francisco Bay Area, Salt Lake City

and other regions across the country. An excellent case in point about how eTOD can work is the Bay Area Transit Oriented Affordable Housing (TOAH) Fund. Here, we use LIIF's portfolio of eTOD projects in the San Francisco Bay Area (most of which have included Morgan Stanley as a co-investor through the Bay Area Transit Oriented Affordable Housing (TOAH) Fund, described later in this paper) to offer a window into how these investments may be helping to reduce inequality by creating opportunities for poor families to live in neighborhoods that are not only transit-rich—and thereby connected to regional economic opportunity—but also socioeconomically diverse.

By and large, LIIF-supported eTOD projects in the Bay Area are located in higher-poverty areas that are currently undergoing various stages of gentrification and displacement of lower-income families and individuals, and are in some cases located in close proximity to high-opportunity areas.^{29,30} In this context, eTOD strategies to create affordable housing are critical for helping poor families gain a long-term foothold and avoid displacement to higher-poverty neighborhoods with worse access to



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In addition, we estimate **medical cost savings** from lower rates of diabetes and extreme obesity among their parents could exceed \$50 million in real dollars.

regionally serving transit.³¹ Should the areas around LIIF-supported eTOD projects become less poor, as expected, we estimate that across the approximately 575 family-targeted units in these projects, the thousands of children who we estimate will spend part of their childhoods before age 13 in them will earn more than \$800 million more in real income over their lifetimes than if they grow up in higher-poverty areas. In addition, we estimate medical cost savings from lower rates of diabetes and extreme obesity among their parents could exceed \$50 million in real dollars.³² Even if these neighborhoods do not change to the degree we expect, poor households living in LIIF-supported affordable housing near transit will still benefit from the economic opportunity of being able to easily access job centers across metropolitan areas, and saving on housing and transportation costs will enable them to spend more on essentials like food and health care.

The Role of Capital in Supporting eTOD

Capital is a major factor in enabling eTOD's success. Developers typically lack access to financing with the patience and risk tolerance needed to assemble land and to develop infill sites, both of which require long holding periods. Meeting eTOD's particular capital needs often requires collaboration among public, philanthropic and private investors to develop innovative solutions. Yet once the models are developed, it is possible to replicate, streamline and create efficiencies.

One example of innovative capital support for eTOD is the Bay Area Transit-Oriented Affordable Housing (TOAH) Fund, a \$50 million public-private initiative created to finance affordable housing and community facilities near transit stops in the Bay Area. TOAH's array of capital sources

How TOAH Came Together

The Bay Area Transit-Oriented Affordable Housing (TOAH) fund grew out of the work by the Great Communities Collaborative (GCC), a "collaborative table" that brought together local philanthropy, policy advocates, transportation experts and community developers to address issues of growth and equity in the Bay Area region. As the GCC considered the region's demographic changes, needs and assets multiple decades into the future, eTOD emerged as a key strategy for supporting inclusive growth patterns. The GCC recognized critical barriers that prevented this work from proceeding organically, including the lack of patient, risk-absorbing capital that can have a powerful impact on the social and economic trajectory of the region.

Once the GCC established the need for innovative capital tools for eTOD, it approached the Metropolitan Transportation Commission (MTC) for support. The MTC is the regional organization that controls federal transportation dollars in the Bay Area, and it was already engaged in major regional planning efforts at the time. MTC ended up committing \$10 million in risk-absorbing capital grants to the effort—a significant and unprecedented commitment from a transportation agency. This \$10 million in seed money was then used to leverage an additional \$40 million in private capital from foundations, community development financial institutions (CDFIs) and banks.

enabled the creation of financing tools designed especially for eTOD, namely site acquisition and early stages of project development. TOAH was able to blend public seed capital with patient and risk absorbing philanthropic capital. This in turn was blended with private capital in a way that facilitated longer terms (up to seven years), higher loan-to-value (LTV) ratios and lower interest rates, tailored to the particular needs of eTOD projects. In particular, the regional government agency MTC's willingness to take the first loss position induced private investors (which included the nonprofit Low Income Investment Fund, a CDFI and Morgan Stanley, a major bank) to provide loans with longer terms and higher LTVs. Participation from Morgan Stanley and Citibank also enabled TOAH's pricing, tenor and increase in size to \$50 million.

TOAH has been in existence for nearly five years and has deployed over \$30 million that will create over 900 units of affordable housing near transit and commercial space including two fresh food markets, a dental clinic and a childcare center. One project example is the Tenderloin Neighborhood Development Corporation's Eddy & Taylor development, which will provide 113 units of affordable family housing above ground floor retail in the Tenderloin neighborhood of San Francisco, and is expected to break ground next year. This project will enable poor families with children to remain in a census tract that is currently high-poverty but under significant market pressure, and which is bordering an area defined as "high opportunity" according to the Kirwan Institute's opportunity mapping analysis.³³ If the neighborhood



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continues to become less poor over time, we estimate that children who spend part of their life growing up in this property will earn more than \$150 million more in real dollars over their lifetimes than if they grow up in higher-poverty areas.

Although TOAH is not the only way to organize capital for eTOD, it provides a model for how different types of investors can collaborate to develop the innovative tools necessary to support this work. TOAH's success has also helped bring new support and resources for eTOD across California. In fact, advocates used TOAH to convince the state of California that allocating a portion of its cap-and-trade revenues to affordable housing near transit would not only be a viable greenhouse reduction strategy, but

also that there was already a pipeline of eTOD projects on the ground ready to make good use of the state's investment (which ultimately came in the form of its Affordable Housing and Sustainable Communities Program).³⁴

Of course, developing a strong eTOD pipeline is a complex endeavor that provides a model for how different types of investors can collaborate to develop the innovative tools necessary to span sectors, including transportation, land use and zoning, community development, and finance.³⁵ Although eTOD clearly provides significant financial and social value across these domains, developing cross-sector consensus is not easy. It can take significant time, conversation and analysis for organizations to develop

the comfort level necessary to make investments and policy decisions in collaboration with new partners, and which fall outside their typical course of business.

However, some common keys to success have emerged in practice for establishing support for eTOD and developing a pipeline of projects. For instance, "collaborative tables" like the GCC in the Bay Area have allowed regional stakeholders to establish shared visions and set the stage for implementation by developing strategies to overcome political, social and economic barriers to eTOD. Funding and policy decisions at multiple levels of government—such as creating inclusionary zoning policies or new subsidy sources—are also critical for

enabling eTOD to thrive. Los Angeles, for example, enacted one of the most aggressive equitable joint development policies in the country in 2015 and has followed up with a commitment to fund eTOD at and around its Metro stations. Further, aligning transportation and community development project pipelines

and making use of publicly owned sites adjacent to stations are important steps for developing pipelines of investment opportunities. Transit agencies, and numerous other public and quasi-public entities, often have portfolios of underutilized land that offer tremendous eTOD opportunities. Proponents are

developing new strategies and tools (legal, financial and political) to leverage these opportunities.³⁶ In short, a healthy eTOD ecosystem can enable innovative capital tools like TOAH to be more impactful in driving inclusive growth and reducing inequality—while creating more opportunities for investors.

Conclusion

Equitable transit-oriented development is an emerging opportunity for both public and private investors who want to create long-term impact, stronger economies, more environmentally friendly communities and a more equitable society. Driving inclusive growth in our communities is not just a topic for policymakers, philanthropists and advocates.

The latest revolution in social science research reinforces its role in promoting social mobility, along with income and racial diversity. Capital is an important tool for enabling eTOD projects to get off the ground. Morgan Stanley and the Low Income Investment Fund are actively engaged creating capital innovations that support this work in many parts of the country. Maximizing eTOD's potential to generate these benefits will require collaboration and alignment of resources between multiple sectors, including transportation, housing, land use and finance. In the current period of major investment in transportation infrastructure and housing, these decisions can play a large role in advancing more inclusive growth in metropolitan America.

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NOTES

¹ Chetty, Raj, Nathaniel Hendren, and Lawrence F. Katz. 2015. The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment. The Equality of Opportunity Project. May.

² Estimate based on current and historical trends in federal, state and local funding for public transportation capital projects and operations. Source: American Public Transportation Association, 2015. Public Transportation Investment Background Data. 11th Edition. November.

³ Current federal expenditures for major low-income housing programs exceed \$50 billion per year, which would translate to more than \$500 billion over the next decade at current funding levels (some of these programs are subject to annual Congressional appropriation). Source: National Low Income Housing Coalition, 2016 Advocates' Guide.

⁴ United States Census. 2016. "Five of the Nation's Eleven Fastest-Growing Cities are in Texas, Census Bureau Reports." May 19. Website: <http://www.census.gov/newsroom/press-releases/2016/cb16-81.html>

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⁶ Current federal expenditures for major low-income housing programs exceed \$50 billion per year, which would translate to more than \$500 billion over the next decade at current funding levels (some of these programs are subject to annual Congressional appropriation). Source: National Low Income Housing Coalition, 2016 Advocates' Guide.

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³⁰ UC Berkeley Urban Displacement Project, 2016. Website: www.urbandisplacement.org

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³² Each of these projects is coming online within the next few years, and has a required affordability period of 55 years due to state-level policy around the Low Income Housing Tax Credit, which is being used to help finance each project. If we estimate that these neighborhoods will become relatively lower-poverty and higher-opportunity within 15 years, average, and maintain these characteristics through the remainder of the affordability term, we assume a period of "impact" of 40 years. Source: Low Income Investment Fund, Social Impact Calculator. 2016. The full methodology and an online version of the calculator are available online at www.liifund.org/calculator

³³ The Kirwan Institute uses a variety of indicators related to health, education, and employment to determine a neighborhood's level of "opportunity." For more information and examples, see: <http://kirwaninstitute.osu.edu/researchandstrategicinitiatives/#opportunitycommunities>

³⁴ California's cap-and-trade program limits the amount of statewide greenhouse gas emissions from regulated entities such as power plants, and generates revenues through auction of tradeable emissions allowances. For more information on cap-and-trade and the State's Affordable Housing and Sustainable Communities Program (AHSC), see the program website: <http://www.hcd.ca.gov/financial-assistance/affordable-housing-and-sustainable-communities>

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