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EXPECTED BENEFITS TO PROPERTIES IN THE LOS ANGELES CENTRAL BUSINESS DISTRICT AND THE ROLE OF THE METRO RAIL PROJECT

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INTRODUCTION

The underlying basis for the SCRTD Benefit Assessment Program is the expectation of monetary benefits resulting from the construction of Metro Rail. Implementation of a major public improvement such as Metro Rail offers the opportunity for the private development market to focus land use and development decisions in specific areas. These decisions may result in a variety of economic impacts. The documented experiences of North American cities that have implemented major rail transit systems since 1970 support the contention that these economic impacts of transit systems on property and property owners occur and are related to the distances transit patrons are willing to walk to and from a transit station.

Pursuant to Section 33000 of the California Public Utilities Code, the SCRTD Board of Directors was designated by the State Legislature as the conclusive judge of the proportion of benefits produced by Metro Rail facilities and of the distribution of special benefits among parcels of property located within the benefit assessment district. An extensive process was undertaken by the SCRTD Board of Directors to identify the types of benefits which can reasonably be expected to accrue to parcels and improvements located near Metro Rail stations and where those benefits can be expected to occur. The SCRTD Board was assisted in this evaluation by a Benefit Assessment Task Force, composed of public and private sector members, which worked closely with the Board to establish fair and equitable district boundaries and methods of assessment.

Once the incidence and location of these benefits was established, the Board identified two ways in which to implement benefit assessments. The first involved directly calculating the benefits which accrue to individual properties because of Metro Rail and basing the assessment on the amount of benefit calculated. However, it was determined that the analytical tools and the requisite experience with benefit measurement needed to directly estimate benefits to individual properties were not available to implement this type of program. In addition, there was no legal requirement that this be done as well. The second method of benefit assessment acknowledged that it was not possible to determine the benefits expected to accrue to individual properties and therefore used the findings of the types and location of properties which could reasonably be expected to benefit from Metro Rail to establish an assessment rate structure which spreads the assessment equitably among those properties and reflects the proportional benefits to land and improvements expected to occur. This was the means selected for administering the Metro Rail benefit assessment program. The boundaries of the benefit assessment districts were established to include, as accurately as possible, all properties which could reasonably be expected to benefit from the Metro Rail project. This process met, in all respects, the requirements of Sections 33000 et. seq. of the Public Utilities Code concerning the establishment of benefit assessment districts.

The purpose of this paper is to establish the basis for the finding of reasonable expectation of benefit to properties in downtown Los Angeles as a result of numerous factors, including Metro Rail, and therefore establish Metro Rail's rightful position as a claimant to a portion of those benefits. The

paper will address three topics: (1) the documented benefits to property and land use impacts of the construction of modern transit systems elsewhere in the United States and the observed interrelationships between transit system development and other public sector policies and programs, (2) the adopted City of Los Angeles policies and programs concerning the Los Angeles Central Business District and, more specifically, the Central City East area and (3) current redevelopment and economic activity underway in the Central City East section of downtown Los Angeles.

LAND USE IMPACTS OF TRANSIT AND RELATIONSHIP TO PUBLIC POLICY

Transit, Downtown Revitalization and Relationship to Redevelopment Programs

This section establishes the basis upon which positive benefits to property in downtown Los Angeles can reasonably be expected to occur with the development of the Metro Rail system. A consistently observed impact of transit system development in other cities has been the revitalization of downtown areas.

The regional rapid transit system constructed in Washington, D.C. has demonstrated a strong influence on overall development patterns. Between 1979 and 1982, approximately two-thirds of all commercial development in the region took place within sixty geographically defined development centers, forty-six of which were located near existing or future rail transit stations. During the same time-frame, nearly one-half of all commercial floor space constructed in the Washington, D.C. metropolitan region was located near existing or future Metro stations, accounting for an investment value of over $2 billion. When the CBD portion of that development is examined, the result is even more striking. In the core jurisdictions of Arlington and Alexandria, Virginia and the District of Columbia, 97 percent of the total commercial development that was undertaken between 1979 and 1982 was located in rail transit station areas (Cardwell, 1983, p.25). For those same jurisdictions between 1976 and 1980, 91 percent of the net increase in employment occurred in Metro station areas (Cater, 1984, p.45).

In the greater San Francisco metropolitan area, downtown revitalization has been enhanced by the Bay Area Rapid Transit (BART) system, not only in San Francisco, but also in the older downtown areas of Oakland and Richmond. BART has enhanced the ability of the City of San Francisco to revitalize the Market Street area, and it has facilitated the expansion of the financial district to the area south of Market Street. San Francisco provides an excellent example of the synergy between development of a transit system and other public policy actions to yield benefits to property in station areas. BART is attributed with providing impetus for the Market Street Development Project, a $35 million project to upgrade the area which ultimately contributed to the significant redevelopment which occurred. In addition, BART is attributed with stimulating a study which gave rise to new zoning regulations allowing for increased density for buildings located in BART station areas. Another factor which contributed to the redevelopment of the area south of Market Street was the lower cost of land in this area. Once BART and the Market Street Development Project worked to improve the image of the area, the lower land costs became a strong incentive for redevelopment to occur in that location (John Blayney Associates/David M. Dornbusch & Co., Inc, 1979, p.65-66). A similar situation exists in the eastern portion of downtown Los Angeles.

In Oakland, BART has played an important role in financing several public redevelopment projects, which were subsequently instrumental in attracting a college campus (Laney College) and two major office buildings in downtown Oakland. Inclusion of the 12th Street BART station area in the boundaries of the Oakland Redevelopment Project area was a key factor securing Federal funding for the project (John Blayney Associates/David M. Dornbusch & Co., Inc, 1979, p.67). In Richmond, California, new CBD development has been limited, although the location of the $30 million Social Security office building was directly influenced by BART (Booz, Allen & Hamilton, Inc., 1977, p.49).

The Metropolitan Atlanta Regional Transit Authority (MARTA) rail project in Atlanta, Georgia provides additional evidence of the positive benefits which can be expected when transit system development occurs in conjunction with the redevelopment policies and programs of other cognizant agencies. A major public/private effort in downtown Atlanta MARTA station areas aimed at revitalizing this portion of the CBD, the Fairlie-Poplar Project, resulted in approximately $68 million in private investment and approximately $9 million in public investment in these areas (Atlanta Regional Commission, p.2). Another project, Government Walk, is a $73 million, multi-governmental project to coordinate public and private projects in a ten block area of downtown Atlanta which crosses the transit line. The project is resulting in the private renovation of 10 major buildings in the area, including office, hotel and retail facilities (Atlanta Regional Commission, 1984, p.3-4). As in San Francisco, the interrelationships between the development of the transit system and the actions of other public agencies have led to significant redevelopment, with the transit system a major contributor to that result.

Transit and Specific Benefits to Property

Stemming from these CBD-wide effects of a rail rapid transit system are a series of benefits that occur at the individual property level. Under supportive conditions such as those described above, these benefits have been observed to occur with some consistency. The existence of these specific benefits provides the primary basis for the establishment of the SCRTD Benefit Assessment program.

These specific, transit-induced benefits are the result of the response of various commercial markets to the enhanced market identity, increased development capacity, and the concentration of higher density development that occurs in the areas surrounding the rapid transit stations. The market response reflects the improved accessibility (both actual and perceived) provided to properties close to rail transit stations, the channelization of pedestrian traffic close to retail facilities resulting from transit patronage, the opportunity to use the rapid transit line as a business selling point, and, in some cases, the decrease in the demand and need for parking for customers and employees.

The level of benefits accruing to individual property owners will clearly be related to the underlying strength of the Los Angeles commercial market, the willingness of public officials to accommodate transit-induced growth, the individual actions taken by property owners and businesses near the stations and the joint-development projects that may occur in the vicinity of Metro Rail Stations. The owners of real property and the proprietors of hotel, retail, commercial office and other commercial establishments located in the vicinity of metro Rail stations can reasonably be expected to be prime beneficiaries of the

system's implementation. Of particular importance is the documented increase in land values for properties located near transit stations.

Among U.S. cities with recently built rapid transit systems, Washington, D.C. has experienced the highest level of documented land value increases. A U.S. House of Representatives subcommittee report published in 1981 found that commercial land values in downtown Washington, D.C. increased by $1.6 billion over inflation between the opening of the Metrorail system in 1976 and 1981. During this period, significant land value increases also occurred in the suburban areas of Washington D.C. served by the system. For example, over $36 million in increased commercial land values occurred in the rail transit station areas of Montgomery and Prince George's counties, and at least $100 million was added to residential land values in the Arlington County areas served by the initial stages of the Metro system. These documented increases were over and above the rates of increase experienced by properties not served by the rapid transit system. Local assessors' offices have reported that the value of prime commercial office properties increased from $100 to $150 per square foot in the early 1970's to an excess of $500 per square foot in the 1980's. Premium rent increases are conservatively estimated at $1 to $2 per square foot (Rybeck, 1981). The net property value increases associated with the Washington, D.C. Metrorail system are expected ultimately to roughly equal the total capital cost of the system.

Examination of the impacts of the San Francisco BART system on station-area land values indicates that the system has had a positive, but limited, effect. The BART system has contributed to increased lease rates in the Central Business District areas of San Francisco, Oakland and Richmond since BART service commenced. In addition, land value increases in the Mission district have been partially attributed to the transit system. Sufficient information is currently not available regarding the effects of BART on land values in any of the CBD areas (John Blayney Associates/David M. Dornbusch & Co., Inc, 1979, p. 95). More importantly, though, the BART experience supports the effect of public sector actions on the ultimate benefits to land from a transit system. Public policies adopted at the time of BART planning and implementation did not promote the development-generating potential of the system and may have even served to counteract the system's potential economic benefits. Specifically, the down-zoning of land in some station areas likely had the effect of dampening land value increases. To some extent, these policies may have been the result of lack of recent experience with major rapid rail systems, given that BART constituted the first major system to be constructed in the United States in some time. As will be shown in the following sections, public policy in Los Angeles has learned from the BART experience and is considerably more supportive of transit-related growth.

Studies conducted by the Atlanta Regional Commission provide good documentation of the impacts of rapid rail systems on retail sales for stores located near transit stations. A survey was conducted among a number of Atlanta business owners, asking their opinions on the effects of the system on retail sales. The survey found that 49% of the respondents expected their sales to increase as a direct result of the rail station (Stein and Ross, 1982, p.6).

Research in other cities indicates a high degree of general reliance for major downtown retail centers on public transit. For example, a large retail complex in Philadelphia, Gallery I, was developed in conjunction with a transit station

providing access to several rail systems - subway, Port Authority Transit Commission of Pennsylvania (PATCO) and the high-speed Lindenwold rail line to suburban New Jersey. A major retailer in the complex, Gimbel's, conducted surveys which showed that a majority of its patrons arrived by transit. In addition, after the complex opened in 1977, PATCO reported that weekend trips to the station serving Gallery I had set new highs and weekday trips were well above 1977 levels (Public Technology, Inc, 1983, p.87).

Relationship Between Benefit and Walking Distance from Rail Stations

As can be observed from the previous discussion, transit-induced, specific benefits occur in relative proximity to the transit stations. Based on interviews of property owners near transit stations in Atlanta, Miami and Washington, D.C. and on the recognized relationships between pedestrian activity levels and transit-related, monetary benefits, it is clear that the determination of the geographic extent of monetary benefits is related to the distances that people will walk to and from transit facilities.

Several studies of other North American transit systems have examined walking distances to and from transit stops to provide some insight into distances patrons are willing to walk when using a transit system. Those data are summarized in Table 1. In the cases where only the walking distance to the station/bus stop was measured, the stated figure is also assumed to also be reflective of the distance a patron is willing to walk from the station to reach his/her destination.

The data in the table indicate: (1) riders will apparently walk a greater distance to gain access to a rail system as opposed to a bus system, presumably because of the higher level of service and perceived reliability of rail systems. This finding is suggested by the Toronto/Edmonton study and appears to be supported by the data in Table 1 and (2) a conservative estimate of reasonable average walking distances to and from downtown rail stations supports the 1/2 mile walking distance which was used to establish the boundary of the CBD Benefit Assessment District.

TABLE 1

TRANSIT-ASSOCIATED WALKING DISTANCES

RAIL SYSTEMS

CITY	WALKING DISTANCE	MEASUREMENT AND SOURCE
Atlanta	.6 miles	Average walking distance to stations (1980 on board survey of 9,000 MARTA users)
San Diego	3.1 blocks	Median walking distance from transit station to downtown destination (1983 ridership survey of 5,000 users)
Toronto/Edmonton	.6 miles	Median walking distance to station (1980 Survey of 2,000 Employers/Residents)
Washington, D.C.	1.1 miles	Median walking distance to station (Prediction curve based on 1979 on board survey of 3,000 workbound METRO users)

BUS SYSTEMS

CITY	WALKING DISTANCE	MEASUREMENT AND SOURCE
San Francisco/ Oakland	2.7 blocks	Average walking distance from starting point to bus (1979 On Board survey of 1,500 bus users)
Miami	.3 miles	Average walking distance to and from the bus (1980 On Board survey of 26,000 bus users)
Honolulu	1.4 blocks (approx. .14 miles)	Average walking distance to the bus (1982 Survey of 2,800 bus system users)

Implementation of a rail transit system provides the potential for monetary benefits, but the actual realization of these benefits may require a variety of actions on the part of the potential beneficiary, e.g. the sale of land, the advertising of the distance to the transit station, building demolition or renovation, or ingress/egress changes.

PUBLIC POLICY IN THE LOS ANGELES CENTRAL BUSINESS DISTRICT

Adopted City of Los Angeles Policies and Programs

Overall, the experiences of other cities which have implemented rail transit systems support the conclusion that similar benefits can reasonably be expected to accrue to properties located in downtown Los Angeles with the construction of Metro Rail unless they would be precluded by public policy or action. A review of adopted public policies concerning downtown Los Angeles finds consistent support for revitalization and improvement of the Central Business District (CBD). As such, the benefits of Metro Rail to property located in the vicinity of stations can reasonably be expected to occur throughout the Benefit Assessment District.

On May 2, 1974, the Los Angeles City Council adopted the Central City Community Plan, a part of the General Plan of the City of Los Angeles, which called for a new redevelopment project in Central City with the goal of elimination of blight by assisting and encouraging public and private entities to develop property in the project area consistent with a redevelopment plan. On July 18, 1975, the Los Angeles City Council adopted the Redevelopment Plan for the Central Business District which assigns responsibility for planning, policy development and implementation of the Redevelopment Plan to the Community Redevelopment Agency of the City of Los Angeles (CRA). The boundaries of the SCRTD Benefit Assessment District are located within the boundaries of the CBD Redevelopment Project. CRA recognizes that the CBD Redevelopment Project area has varying problems and needs and has identified Central City East as one of five discrete Development Areas in the Redevelopment Plan, and one of eight Action Areas in the Annual Work Program under which CRA programs for the CBD are developed, approved by City Council and subsequently implemented. CRA has subsequently developed a series of policies concerning economic activity in Central City East which have been officially adopted by the City Council, including the following:

- CRA General Policy Objective for Central City East - "Facilitate the peaceful coexistance of the Skid Row community and industrial businesses in the area. Identify development opportunities for the area compatible with public, commercial and industrial land uses as well as residential, neighborhood conservation and community reinforcement programs. Seek to accomodate industrial growth and job producing activities in a manner compatible with the housing and service needs of the Skid Row residents." (LA CRA Supplement, 1986, Appendix).

- CRA Economic Development Objective for Central City East - "Support economic development in Central City East that is compatible with the housing and social service needs of the residents. Retain those Central City East industries which serve a CBD support function and/or may be an employment resource for residents. Support positive economic interdependencies between Central City East and the rest of the CBD." (LA CRA Supplement, 1986, Appendix).

Official City policy for Central City East is supportive of both meeting the needs of the Skid Row population and revitalization of the commercial activity currently located there, viewing these objectives as compatible and complimentary, not mutually exclusive.

The adopted Redevelopment Plan for the Central Business District Redevelopment Project states "A variety of public and private land uses are proposed for the Central City East Development Area...Rehabilitation of this area is dependent first upon the achievement of a solution to the social and medical problems of the Skid Row population" (LA CRA, 1975, p.21). The CRA has undertaken numerous programs to accomplish this latter objective. The FY 1987 CRA Annual Work Program calls for spending $7.45 million to accomplish hotel rehabilitation in Central City East. The CRA has established the Single Room Occupancy (SRO) Housing Corporation to improve housing and social conditions in Central City East. These actions are completely consistent with the objective of improving the conditions in Skid Row so as to allow for expansion of economic activity which benefits the Central City East area. In addition to the SRO Housing Corporation, CRA has created the Skid Row Development Corporation (SRDC) to identify and resolve physical, economic and social needs of Central City East. Among other projects, "SRDC has completed two industrial complexes (the Commercial Light Industrial Center and the Renaissance Building which employ over 300 people. These facilities are part of an Agency goal to provide economic development and employment opportunities for the community." CRA is also developing a Development Framework for the Central City which will "... help provide an improved environment for area residents and will also meet the needs of growing businesses in the area." (LA CRA, 1986, p. 13-20)

CRA programs in the areas immediately surrounding Central City East are also supportive of redevelopment in the Central City East area. The CRA plans to spend $560,000 in Fiscal Year 1987 AWP for Main Street Rehabilitation to provide rehabilitation loans and technical assistance, hotel management plans and business guidelines for operation and maintenance of Agency-sponsored projects, commercial lease acquisition programs to remove negative commercial uses and support of code enforcement procedures and has designated $2 million for Spring Street/Main Street hotel rehabilitation. CRA is also developing a Development Framework to identify land use and development strategies for Main Street directed toward reducing Main Street's impact on adjacent areas of downtown, and has been instrumental in securing the location of the State Office Building on Main Street, with construction on this project expected to begin this year (LA CRA. 1986. p.21-27). Each of these programs will work to support the economic redevelopment of the Central City East area, in keeping with adopted City policies.

Adopted City policies in Central City East are also consistent with the boundaries of the Benefit Assessment District. Central City East properties within the Benefit Assessment District are located approximately in the western one-third of the Central City East area. The adopted CRA 2nd Annual Work Program states: "As the present character of Skid Row has a negative effect upon other areas of downtown, emphasis is placed on locating new facilities in the eastern portion of the present Skid Row. (LA CRA Supplement, 1986, Appendix)" This policy continues to be implemented as evidenced in the 10th AWP where the vast majority of CRA projects planned for FY 1987 are located in the eastern portion of Central City East. Of the mapped projects contained in the 10th AWP, only approximately one-half of Priority Intervention Area 1 is located within

the Benefit Assessment District. The remaining projects, including the other one-half of Priority Intervention Area 1, all of Priority Intervention Areas 2 and 3, and the 6th and Gladys Park Project are located outside of the Benefit Assessment District (LA CRA, 1986, p.16-17).

It is not correct to contend that City policy is focused toward maintaining the status quo in Central City East. The City recognizes the social problems of the Central City East area and has implemented a number of programs to deal with them. The City is also equally committed to the economic revitalization of the area. To perceive CRA programs which are designed to meet the needs of the Central City East population and improve the social conditions of the area as a conscious decision to maintain Skid Row as it is removes those programs from their rightful context. Rather, those programs are a signficant part of a coordinated City policy to improve conditions in Skid Row to allow for redevelopment of the area, among other goals. Development could not be expected to occur in the absence of such social improvements. City policy clearly recognizes that these policies are complimentary and must be pursued simultaneously in order to increase the quality of the area and the value of the properties in the area.

Relationship between the Metro Rail Project and City Policies and Programs

The Metro Rail project can reasonably be expected to compliment and enhance the effectiveness of the policies and programs which have been undertaken in the CBD and Central City East by the City of Los Angeles. The synergy between public policy and transit system development resulting in benefits to property in transit station areas which was described earlier for San Francisco, Oakland and Atlanta can also be expected to occur in Los Angeles. Since Metro Rail can be expected to generate economic activity throughout the CBD which will not be prevented from spreading into Central City East (in fact, public policy would be supportive of such trends), it is not unreasonable to expect that the Central City East properties located in the Benefit Assessment District will benefit from the project as a result.

CONSTRUCTION AND DEVELOPMENT ACTIVITY IN CENTRAL CITY EAST

The impacts of City policies and programs in the Central City East area are clearly visible. The area currently contains a mixture of commercial, retail, wholesale and industrial activity. A recent Downtown News item reported the purchase of the Greyhound Terminal building by a partnership which plans to convert the 188,000 square foot ground floor of this building into one of the largest toy marts on the West Coast. In addition, a survey of building permit activity in Central City East during the time period April 1986 through December 1986 identified nearly $1 million in commercial building activity during this short time frame alone (LA Department of Building and Safety).

CONCLUSION

Based upon: (1) the benefits to property in transit station areas observed in cities throughout the United States which have built modern rail transit systems, (2) the observed interrelationships between transit system development, adopted public policies and programs, and benefits to property, (3) the reflection of these experiences in the development of the SCRTD Benefit Assessment Program and boundaries, and (4) the supportive policies and programs

of the City of Los Angeles in the Central Business District, it is clearly reasonable to expect that properties located within the boundaries of the Benefit Assessment Districts will benefit from the construction of the Metro Rail Project. This is not to suggest that development will be the same throughout the district, nor is it necessary for this to occur for all properties to benefit. Metro Rail will enhance the economic activity which is occurring throughout the CBD by increasing accessibility and mobility and by bringing more people downtown to participate in it. As this occurs in conjunction with public programs designed to improve the desirability of downtown, property values can reasonably be expected to rise and other benefits can reasonably be expected to be experienced by property owners in the station areas. As a contributor to this result, Metro Rail is a just claimant to a portion of those benefits. It is on this premise that the SCRTD Benefit Assessment Program is based.

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