

## *Issue Paper*

*Evaluation of Alternative Methods for Financing  
Metro Rail Stations and Related Support Facilities  
Through Private Development*

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*Southern California Rapid Transit District  
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EVALUATION OF ALTERNATIVE METHODS FOR FINANCING  
METRO RAIL STATIONS AND RELATED SUPPORT  
FACILITIES THROUGH PRIVATE DEVELOPMENT

SUMMARY

There exists a large source of funds that the City of Los Angeles can tap to help pay for Metro Rail. By evaluating and revising some of its existing policies, the City could easily raise hundreds of millions of dollars from the private sector for construction of Metro Rail stations and support facilities:

- With Metro Rail to begin operation soon, less parking will be needed at existing and new developments near stations. As many as 10,000 new parking spaces may not be needed between now and the year 2000. The City can adopt a policy to allow a reduction in parking for new developments located close to Metro Rail stations. This could save developers as much as \$150 million which could be tapped by the City to help pay for the construction of stations and station-related facilities.
- The City could grant density bonuses to developers in return for a share in the costs of constructing Metro Rail stations. Rail-related amenities worth millions of dollars could be generated from the private sector in this manner.
- Other potential methods of raising money for Metro Rail through private development include transfer of development rights, capture of rent increases, annual assessments and bonding.

This paper presents and briefly evaluates each of the methods listed above. These City actions have the potential to raise hundreds of millions of dollars for Metro Rail from a relatively small amount of development. The District stands ready to work with the City on any of these concepts.

Rail projects as well as . revise its approach concerning provision for automobile travel. Ultimately, the essential issue is how to best provide for personal mobility while at the same time enhancing the environment in which we all live and work.

The District stands ready to work with the City in considering the concepts outlined in this paper.

### HISTORY AND CASE STUDIES

The concept of privately financed transit facilities is not new, and perhaps the leading example locally is the Subway Terminal Building at 417 South Hill Street. In the early 1920's, the Pacific Electric Railway Company sold a portion of a piece of property it owned on Hill Street for \$705,000 to a corporation named the Subway Terminal Corporation, formed by some of the City's leading citizens. The Corporation paid an additional \$400,000 to have Pacific Electric build an underground passenger terminal on the site. The Subway Terminal Corporation subsequently built a twelve-story office building over the passenger terminal, and the Pacific Electric Railway Company retained perpetual rights to the entire basement area and some ground floor area in order to operate this subway station. The terminal portion of the building was eventually abandoned in the 1950's when subway service to the station was discontinued.

Although recent efforts in the United States to finance the construction of an entire transit station through private development are less prevalent, newer systems have typically captured some of the costs of station construction from private development through means such as joint development, benefit assessment, underground connection payments, and other methods. For example, the Washington Metro Area Transit Authority (WMATA) which has a strong joint development program, leased its 3.5-acre site above the Bethesda, Maryland station to a developer who built a mixed-use office, hotel and retail development totaling approximately 510,000 square feet in size. As part of this project, the developer built and paid for some surface and below grade transit amenities including a bus terminal with ten bus bays and administrative offices, a 32-space short term parking facility, and walkways leading to the entrance of the subway station. WMATA receives \$1.6 million per year in lease payments from the developer for the site and will eventually receive a percentage of gross rents once revenues reach a specified level. At its Gallery Place North Metro site, WMATA has entered into a similar agreement with a developer to build over one million square feet of office, hotel and residential space. WMATA owns 80% of the project site (1.17 acres) and will receive over \$1 million in lease payments, plus a percentage of the gross rents. Construction of the development is expected to start in November, 1988.

In a very recent but less successful example, two private companies offered to fund the total construction cost of a metro rail station as part of a large residential and commercial development in Alexandria, Virginia. WMATA was to operate and control the facility which would be the first new station built in the middle of WMATA's already existing Yellow-Line. In addition to the transit station, the developers also proposed to build 106 residential units, 13 commercial office buildings and a hotel on the

benefits resulting from the presence of the Metro Rail facilities. The magnitude of facilities that can be built using this approach depends on the additional amount of square footage that the City is willing to permit at any particular location.

Self financing Using Rent Differential - Another approach for obtaining private monies for Metro Rail stations and related support facilities is to capitalize directly on the value added to the adjacent buildings as a result of the Metro Rail. The building owner/developer's most immediate increase in value is the increase in rental prices for the building space due to the proximity of the Metro Rail station and related improvements. The City could seek to capture all or a portion of this increase in rents for a specified number of years to provide capital for Metro Rail.

The attached Table 1 presents an initial estimate of the level of funds that might be generated per year in increased rents by a hypothetical 800,000 square foot building. Such a building would be roughly comparable in size to the newer high-rise developments in Downtown, Los Angeles.\* (All the cost and revenue figures used in this paper are given in 1991 dollars, the estimated start date for construction of the support facilities discussed in this paper.) As shown in the table, one building could generate roughly \$2.4 million in revenue in one year from the increase in rent attributable to being next to a Metro Rail station. The City could capture a portion of this increase, such as eighty percent, or \$1.9 million, for construction of Metro Rail-related facilities.

In order to finance an entire station, contributions would have to equal approximately \$20 million for an aerial station and \$60 million for an underground station. A one-time contribution of eighty percent rent increases, would require contributions from over ten buildings of the size described in the above example for an aerial station and from over 31 buildings for an underground station.

Alternatively, contributions could be made by capturing the rent increases over a number of years rather than just one. This would decrease the amount of buildings needed to fund one station but would increase the amount of time needed to recapture the cost of the station. Related station support facilities such as parking and street improvements would be less costly than a station and would require contributions from a lesser amount of new development.

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\*As an example of building size, an 800,000 square foot building is roughly the size of a newer Downtown, Los Angeles high-rise, such as: One Wilshire Building at 524 South Grand Avenue = 659,903 square feet, 30 stories; Citicorp Plaza at 725 South Figueroa Street = 1,000,000 square feet, 41 stories; and Broadway Plaza at 700 South Flower Street is 626,000 square feet, 32 stories.

The policy implications to the City of this approach revolve primarily around the issue of the reduced parking requirement. It is clear that Metro Rail will reduce the need for private automobile use and related parking along the alignment, particularly adjacent to stations. The City, however, would have to determine how much of a parking reduction would be reasonable without adversely impacting the community or diminishing the viability of the new development.

### CONCLUSION

The idea of privately financing Metro Rail stations and related support facilities is not new. The District already plans to capture some of the value added to privately owned land and buildings by the construction of the rail transit system through its benefit assessment program. There is, however, opportunity and need to raise further amounts of money from the private sector particularly for stations, parking, street improvements and other facilities that are not being funded as part of the federally approved Metro Rail project. This paper has suggested a number of approaches for the City to capture a portion of the additional value that building owners will receive by virtue of being near Metro Rail. The District feels that the Parking Reduction approach offers the most promise for raising significant amounts of funding with the least amount of community impact and administrative requirement. It is a "win-win" alternative. By reducing the parking requirements for new development around Metro Rail stations, the City creates a relatively large and immediate cost saving to developers which can be partly captured by the City. The cost savings occur early in the life of the project (during construction) so the City will not need to become involved in bond issues or long-term collection of assessment. The presence of Metro Rail reduces the need for parking by providing an alternative means of transportation and by reducing the dependence on the private automobile. In short, money is provided for the transit improvements, developers save money, and the impacts of reduced parking are mitigated so that all parties receive some benefit.

Table 2. Financing Using Parking Differential\*

|  |                      |
|--|----------------------|
| Sample Building Size   | 800,000 square feet  |
| Required Parking Without Transit Station (1 space per 500 square feet)     | 1,600 parking spaces |
| Required Parking With Transit Station (1 space per 1000 square feet)       | = 800 parking spaces |
| Reduction in Parking   | = 800 parking spaces |
| Cost Savings per Parking Space (Assumes underground or structured parking) | x \$15,000/space     |
| Total Cost Savings per Building  | = \$12,000,000       |
| Eighty Percent Retention by City   | x 80%                |
| Contribution to Metro Rail per Building                                    | = \$9,600,000        |
| Twenty Percent Savings Retained by Developer per Building                  | = \$2,400,000        |

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\*All figures are in 1991 dollars