



Financing the Development in Transit-Oriented Development

CDFI Case Study on the Denver Regional TOD Fund

Leiha Edmonds

April 2018

US cities are increasingly focused on transit-oriented development (TOD), policy used to expand the stock of mixed-use (commercial and residential) development near public transit stations. TOD relies on public and private investment, rezoning, and development incentives to create dense mixed-use communities near transit routes (Smith 2015). Community Development Financial Institutions (CDFIs), financial institutions devoted to ensuring low- and moderate-income people and communities have access to the investment capital and financial services, are becoming strong participants in these projects. Through special purpose funds, they leverage state and local monies, philanthropic investment, and the CDFI's own equity to attract larger quantities of market-rate senior debt. The funds' combined capital stack provides lower-cost debt to finance land acquisition, affordable housing development, and related community and commercial facilities along transit corridors. Recent examples of TOD funds CDFIs managed are in Denver, San Francisco (Bay Area), Seattle (Puget Sound), and Los Angeles. This brief details learning from the work in Denver.

The Denver Regional TOD Fund focuses on lending for preserving and developing multifamily affordable rental housing, mixed-use projects that provide community facility or nonprofit space (e.g., child care centers, health clinics, charter schools, fresh food markets), and the development of vacant property. The fund lends to developers in the Denver metropolitan area within a half mile of a light rail station or a quarter of a mile of a frequently running bus (defined as buses that stop every 15 minutes or more). It provides fixed-interest below-market rate loans of up to \$5 million for a maximum of five years.¹

BOX 1

The Urban Institute's Collaboration with JPMorgan Chase

The Urban Institute is collaborating with JPMorgan Chase over five years to inform and assess JPMorgan Chase's philanthropic investments in key initiatives. One of these is Partnerships for Raising Opportunity in Neighborhoods (PRO Neighborhoods), a \$125 million, five-year initiative to identify and support custom solutions for the unique challenges facing disadvantaged neighborhoods in US cities, with community development financial institutions (CDFIs) as critical partners in that effort. The goals of the collaboration include using data and evidence to inform JPMorgan Chase's philanthropic investments and informing the larger fields of policy, philanthropy, and practice. Urban Institute research is exploring the complexity of how to build CDFI capacity and impact, recognizing the diverse ways CDFIs serve their target communities. This case study highlights a program that illustrates the role that CDFIs can have in promoting equitable development at the municipal level.

The idea for the fund was developed in the mid-2000s following regional passage of a sales tax, known as "FasTracks," that would enable the region to build out a transit system over a decade. Denver area residents, community groups, and CDFIs came together to discuss the region's plan, with an emphasis on ensuring the investment in transit would benefit historically low- and moderate-income neighborhoods near existing or proposed transit lines and did not displace low-income residents because of rising land prices and rents. This strategy became known as "equitable TOD." The Denver wing of the national CDFI, Enterprise Community Partners' (Enterprise), became involved early in the planning process, supporting the equitable TOD strategy. Enterprise shared insights on how to provide capital that could help preserve affordable housing and inform site-plan control to make sure that TOD land development was designed with community input.²

To effectively create and preserve affordable housing and community facilities near transit, Enterprise, the city and county of Denver, the Colorado Housing and Finance Authority, and the Colorado Division of Housing partnered with the Gates Family Foundation, the Rose Community Foundation, the Denver Foundation, the John D. and Catherine T. MacArthur Foundation, the Ford Foundation, Mile High Community Loan Fund, Mercy Loan Fund, US Bank, Wells Fargo, and First Bank to establish the Denver Regional TOD Fund (the fund).³ Structured as a unique blend of risk and return requirements, the fund is capitalized with \$24 million of acquisition loan capital available to qualified borrowers with a plan to preserve or create affordable housing in proximity to public transit throughout the seven-county metro Denver region. The fund's goal is to support the creation and preservation of 2,000 affordable housing units by 2024 through strategic property acquisition in both current and future transit corridors.⁴

The fund is designed to allow affordable housing and community developers—nonprofits, for-profits, and housing authorities alike—to acquire and hold strategic transit-accessible properties for preservation or future development purposes. By providing flexible financing terms and a streamlined underwriting and closing process, the fund allows qualified borrowers to react to opportunities and compete with other potential buyers who may not have affordable housing in their plans.

Before expanding to a regional, multiborrower resource in late 2014, the TOD Fund operated only in the city of Denver and with a single borrower, the Urban Land Conservancy.⁵ In just three years, the fund deployed over \$15 million to make eight acquisitions throughout the city, creating a pipeline of 570 affordable homes, a new public library, and well over 100,000 square feet of supportive commercial and nonprofit space, all in proximity to public transit.

Enterprise staff note that CDFIs are often a natural fit for managing TOD funds because of their ability to do things “soup to nuts,” from early planning on how to provide seed capital to long-term lending for housing developers. In addition, CDFIs that are active partners with community organizations and local governments better understand the complex politics and potential risks of TOD displacing long-term low-income residents because of TOD impact on property value in hot real-estate markets (Yu, Pang, and Zhang 2017). CDFIs are well positioned to inform and support equitable development policies that include the preservation and expansion of affordable housing in transit corridors as well as to negotiate community benefit agreements with large private developers (Pollack, Bluestone, and Billingham 2010).

Although many cities and regions are interested in creating their own TOD funds, CDFI staff who manage the fund in Denver recommend that before thinking about a fund and financing strategies, municipalities must engage their residents around the investment in TOD and identify the core problem TOD is meant to solve. Is the purpose to increase transit ridership, expand the availability of affordable housing, or support dense commercial development in proximity to public transit? CDFIs are best able to deploy capital for development and address financing gaps on TOD projects when the municipality has done the work of designing effective policy supports. Enterprise notes that in comparison with other new TOD funds, Denver strikes a balance between regulating developers and preserving and developing affordable housing in a high-growth market. For example, the fund encourages rather than requires affordable housing development, allowing developers to access state and local affordable housing tax credits on projects, in addition to the low-income housing tax credit, but not penalizing developers that do not include affordable units.⁶ In addition, the fund is not bound by the traditionally longer loan approval process or credit committees of banks or traditional lenders to allow nonprofit borrowers to access loans faster.

CDFIs and municipalities interested in developing TOD funds can continue to learn from the successes and challenges of existing funds. The Denver Regional TOD Fund’s creation shows the value of city partnerships with philanthropy and with CDFIs as well as the benefit of a streamlined process for accessing loans. CDFIs in collaboration with community organizations, community development corporations, and local lawmakers can impact the formulation of state and local equitable TOD policy and provide new opportunities to creatively fund and develop affordable housing and community facilities near public transit.

Notes

¹ “Denver Regional Tod Fund Term Sheet,” Enterprise Community Partners, updated March 29, 2018, <https://www.enterprisecommunity.org/financing-and-development/community-loan-fund/denver-regional-tod-fund-term-sheet>.

² From interview with Enterprise, 2/2/2018.

³ Enterprise Community Partners, “Denver Regional Transit Oriented Development (TOD) Fund” (Columbia, MD: Enterprise Community Partners, 2015).

⁴ Enterprise Community Partners, “Denver Regional Transit Oriented Development (TOD) Fund.”

⁵ From interview with Enterprise, 2/2/2018.

⁶ From interview with Enterprise, 2/2/2018.

References

Pollack, Stephanie, Barry Bluestone, and Chase Billingham. 2010. *Maintaining Diversity In America 's Transit-Rich Neighborhoods*. Boston: Dukakis Center for Urban and Regional Policy at Northeastern University.

Smith, Kyle. 2015. *Putting Places First: Targeting Infrastructure Improvements to Spur Investment in Priority Development Areas*. Chicago: Center for Neighborhood Technology.

Yu, Haitao, Hao Pang, and Ming Zhang. 2017. “Value-Added Effects of Transit-Oriented Development: The Impact of Urban Rail on Commercial Property Values with Consideration of Spatial Heterogeneity.” *Papers in Regional Science*.

About the Author



Leiha Edmonds is a research analyst in the Metropolitan Housing and Communities Policy Center at the Urban Institute. Her research interests include community and economic development strategies to support more equitable cities and regions. Before joining Urban, Edmonds was a research assistant at the Great Cities Institute in Chicago, a transportation and mobility planner for the City of Evanston, Illinois, and a community organizer in cities across the Midwest. Edmonds holds a master's degree in urban planning and policy from the University of Illinois at Chicago.

Acknowledgments

This brief was funded by a grant from JPMorgan Chase. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

A special thanks to Enterprise Community Partners' Noni Ramos and Megan Marsick whom I interviewed in advance of this brief.



2100 M Street NW
Washington, DC 20037

www.urban.org

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

Copyright © April 2018. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.