

**“Building Housing Near Transit: A Long-Lasting Affordability Strategy”
Congressional Testimony of Shelley Poticha, President
Reconnecting America and the Center for Transit-Oriented Development**

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Appropriations Subcommittee on Transportation, Housing and Urban Development, and
Related Agencies
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Chairman Olver and members of the Subcommittee, thank you for the opportunity to appear before you today to address priorities for linking housing and transportation policy.

I am Shelley Poticha, President of Reconnecting America, a national non-profit dedicated to using transit investments to spur a new wave of development that improves housing affordability and choice, revitalizes downtowns and urban and suburban neighborhoods, and creates lasting value for our communities. We host the federally-funded Center for Transit-Oriented Development, a web-based resource of best practices and cutting edge research, as well as the National TOD Database, the only database of every fixed transit station in America, and we provide technical assistance to the 40 regions that either have transit or are planning to build new transit lines. We work in partnership with two other groups: the Center for Neighborhood Technology and Strategic Economics.

The challenges of linking housing and transportation investments have been a focus of mine for close to three decades and it’s refreshing to see a new interest in harnessing these trends in service of improving the quality of life, economic stability and environmental sustainability of our regions. Today, I would like to share with you some of the larger trends that are reshaping the housing market and creating an unprecedented opportunity for development near transit. In our work, we’ve identified a set of recommendations for Congress and the federal government to better meet the growing demand and challenges for mixed-income housing near transit.

I firmly believe that our patterns of growth and our investments in infrastructure make a tremendous difference to household affordability and our ability to reduce our dependence on foreign oil. Let me explain:

The housing market in the U.S. has been changing as American households get older, smaller and more diverse, and traffic makes long commutes to the suburbs less and less appealing. At the same time, both housing and transportation costs are on the increase. One in three American households now spend more than 30 percent of income on housing, and one in seven spends more than 50 percent. While finding a cheaper house in the suburbs used to be a strategy that resulted in savings, recent studies show the increased cost of transportation nearly wipes that savings out. The Center for Housing Policy quantified the trade-off, concluding that for every dollar a working family saves on housing it spends 77 cents more on transportation.

Today, transportation is the second highest cost for American families, second only behind housing. Among the 28 largest metropolitan areas, these two costs accounted for 57 percent of household expenditures in 2000. This leaves little extra money for families to meet other important needs such as health care, education or even food.

Intractable traffic congestion and rising transportation costs are a serious issue for households and employers. Traffic congestion is crippling our road network and represents \$84 billion in lost productivity annually. The average commuter spends 1 work week each year stuck in traffic.

These trends are concurrent with a resurgence of interest in public transportation: transit ridership is up 25 percent since 1995. In regions with newer transit lines, like Minneapolis, San Diego and Houston we're seeing transit ridership levels far exceeding projections. And, there has been a transit building boom across the country, with more than 700 new stations under development for a total of more than 4,000 stations nationwide.

As I go from region to region, it is clear that there is a thirst for new and increased investments in transit. Mayors see transit's value as a vehicle for spurring urban regeneration and reducing traffic congestion. Businesses value transit because employees can get to work on time and the improved quality of life that transit can provide make it easier to attract the highly desirable "creative class".

Today, regions are using transit investments to help focus growth and provide mobility options for residents. Take into consideration Denver. In 2004, residents of the region voted to tax themselves to build five new transit lines in 15 years. They're making a \$4.7 Billion investment in their future and focusing a significant percentage of regional growth into neighborhoods around each station. We're also seeing similar investments in Houston, Salt Lake City, and Charlotte, North Carolina – regions that even a few years ago wouldn't immediately come to mind as transit-based places.

Add to this the fact that urban neighborhoods, especially downtowns, have been recognized as an important new market for infill housing and mixed-use development. Virtually every major homebuilder now has an "urban division" that is seeking sites near transit stations. Indeed, "Emerging Trends in Real Estate," a highly regarded report reflecting the views of 500 leaders in the real estate, development and investment industries has ranked sites near transit "the No. 1 choice for all development."

Plus, people who live near transit consistently drive less than others. Our National TOD Database has found a four-fold increase in walking, biking and transit use by residents who have the option to use high quality transit. Since transportation is among the largest contributors to greenhouse gas emissions, we ought to place a high priority on strategies like this that help people travel without needing to drive.

The result is an opportunity unprecedented in recent history to allow families to reduce household expenditures by choosing to live in neighborhoods with lower transportation costs because they are located near transit. When you add in a mixture of uses: shopping, employment, schools, restaurants, and housing all within the same neighborhood people have even greater

choices that they can access without needing to drive. This is an important tool for providing and maintaining independence for those who are too young, too old or too poor to drive. And it makes for vibrant, healthy local economies.

But the way we've traditionally looked at housing and transportation – in separate silos and separate agencies – isn't working anymore. We have the evidence that location matters a great deal. While the average American family spends roughly 19 percent of its household budget on transportation, households with good access to transit spend just 9 percent. This savings can be critical for lower-income households that need to make every dollar count because transportation costs as a percentage of the total household budget varies greatly according to income: from 9 percent for high-income families, to over 55 percent for very-low-income families. This severely limits the ability of these households to create wealth or meet daily living needs. We must find ways to break down those silos and bring together housing and transportation strategies.

Developing housing near transit can be an affordability strategy. For all the reasons I've mentioned – traffic, housing and transportation costs, demographic changes – there has been increasing interest in transit-oriented development or what we call "TOD."

The Center for Transit-Oriented Development has estimated the demand for housing near transit to increase to almost 16 million U.S. households by the year 2030, roughly a quarter of all renters and buyers, and a more than doubling of demand from the 6 million households that live near transit today. While married couples with children made up the vast majority of households after World War II, single adults will soon comprise the new majority. All the demographic groups that are increasing in size in this country – older, smaller households and singles, and non-white households – are the same groups that have historically preferred urban living and that do use transit.

Transit-oriented development is the creation of a neighborhood or district with housing, shopping and job opportunities placed in an environment that promotes walking and transportation choices. These transit-oriented districts can be around heavy rail, light rail, streetcars or even bus, and they can be in both urban and suburban locations. The goal is to make it possible for residents to live convenient, affordable, active lives by providing multiple housing and transportation choices including access to regional transit.

Developers are interested in TOD because sites near transit usually permit the higher densities and lower parking ratios that make these infill projects pencil out. Transit agencies are interested because TOD makes transit convenient and boosts ridership. Cities are interested because they see that TOD can spark economic development that provides value and benefits to both new and existing residents. Renters and buyers are interested because they are looking for convenience, affordability, and the amenities they can find in downtowns, urban neighborhoods and suburban town centers.

But as the market for transit-oriented development heats up and these neighborhoods prove popular with renters and buyers, there is an increasing need and challenge to ensure that development includes housing for all income levels. This is due in part to the fact that cities and transit agencies may not understand the importance of working together to promote development

near stations. Few tools exist to direct affordable housing to neighborhoods with transit service. Existing planning and zoning often limit the development potential of station areas. Moreover, there isn't much available land or many ready-to-go development sites. The result is that this kind of infill development is time-consuming and expensive to build, which causes developers to build to the high end of the housing market.

A recent report funded by the Ford Foundation finds that neighborhoods near transit already support more racial and economic diversity than the average census tract, and that they are home to a greater share of a region's lower-income households. The data also shows that in three-quarters of these "transit zones" – defined as the half-mile radius around stations -- households have one car or no cars. This low-rate of auto ownership indicates that residents do realize the cost-savings that comes from lower auto ownership. But as the demand increases and the market heats up for land and housing in these neighborhoods, the threat of displacement is very real forcing households to lose potential affordable transportation and affordable housing options if they are pushed out of transit accessible neighborhoods.

One way to ease these pressures and keep rents and home prices down is to increase the overall supply of housing near transit. If more mixed-income housing is built near transit, displacement pressures in desirable neighborhoods could lessen. Otherwise this will be an enormous missed opportunity to use the market to help address the nation's growing affordability crisis. This strategy provides the additional benefit of addressing the problem of traffic congestion, and expanding access to jobs, educational opportunities and prosperity.

In 2005, the Federal Transit Administration (FTA) and the US Department of Housing and Urban Development (HUD) commissioned their first collaborative research effort to examine the linkages between transit-oriented development and the effectiveness of strategies to ensure mixed-income housing near transit. My organization has led this research effort, and expects to release the final report, called "Realizing the Potential: Opportunities for Expanding Housing Near Transit," later this month. We examined five case study regions – Boston, Massachusetts; Charlotte, North Carolina; Denver, Colorado; the Twin Cities, Minnesota and Portland, Oregon – and their proactive strategies to create and preserve mixed-income housing near transit.

All five regions are investing in transit and promoting TOD. Different challenges and opportunities exist for a region like Boston, with its well-established densely populated urban neighborhoods and mature 288-station system, than for Denver, which has a small, relatively new system that is being rapidly expanded, and which serves fast-growing auto-dependent suburban communities.

For some regions, such as Portland, where there is strong coordination of transportation investments and land use decisions by all levels of government, approximately \$2.3 billion in development has occurred along the new streetcar line in the Pearl District -- a substantial return on the \$52 million transit project. Once an abandoned rail yard on the river near downtown, the Pearl is now home to a vibrant mix of uses including 7,000 residential units, 25 percent of which are affordable.

In Boston, where housing prices rose a whopping 81 percent in the last five years, the Commonwealth has taken an incentive-based approach to increasing housing production, particularly in areas served by transit. Existing housing, transit and infrastructure funds are set aside for transit-served neighborhoods. This has been helpful to target development to near-in urban neighborhoods, but hasn't yet helped low income neighborhoods along the Fairmount commuter rail line where community groups are trying to increase transit service to serve the transit dependent population and create more opportunities for housing near existing and future transit stops.

Charlotte is a fast-growing metropolitan region where the local government has taken leadership in crafting a strategy for reinvigorating the city and curbing sprawl by channeling growth and investment along a transit system that has yet to be built. They plan to use the new light rail South Corridor transit investment, expected to open in December 2007, to spur redevelopment of a series of dead shopping centers and defunct industrial sites.

Denver and the Twin Cities, while different, are both discovering the power of their new systems to shape development and to link regional destinations. For example, just six months after the Hiawatha light rail line opened in the Twin Cities, the City of Minneapolis met its 20 year TOD housing projection and now has close to 8,000 housing units underway within a short walk of the transit stations. The line itself has also wildly exceeded ridership projections, forcing the transit agency to find new cars to put in service years ahead of schedule.

But each of these regions also fell short in a number of ways. Denver, for instance provides a poignant example:

The West Corridor, the next regional transit line to be built, includes a high percentage of existing low-income Latino households to whom assuring long-term affordability and access to transit is important. At the same time, realizing the full potential for transit-oriented development in the corridor will require addressing the challenges of concentrated poverty. There are presently three distressed public housing sites located within walking distance of proposed transit stops. The crime and disinvestment of these properties is likely to act as a disincentive to private developers. Without proactive strategies and funding these low-income households will probably be displaced as the corridor develops, given that the line connects to downtown and so many regional job centers. These sites would be ideal candidates for HUD's HOPE VI program, however, the rescission of funding for that program and the lack of any kind of new program to fill the need for redevelopment of distressed public housing properties creates a barrier for preservation of affordable housing at these sites.

All together we've learned that:

- Transit is seen as an amenity which is attracting more riders of choice, and to low-income families it is a necessity. But it is woefully under-valued, under-maintained and under funded.
- Adequate funding for affordable housing and explicit policies to preserve and create mixed-income housing near transit is lacking. Local communities are struggling to preserve existing affordable housing stock, and simultaneously meet the needs of a growing population for housing affordable to households at a range of incomes.

- Land speculation and market interest on sites near transit are driving up housing prices, making much of the new housing unaffordable to moderate- and low-income households.
- Infrastructure improvements may be needed to help urban areas rejuvenate and if placed solely on private sector developers to provide, often makes projects infeasible to finance and return a profit. Yet communities that tie new infrastructure to transit projects are penalized in the New Starts program.
- Regulatory barriers continue to make transit-oriented development challenging in many neighborhoods around transit stations.
- Most government agencies don't yet understand that where we build housing has a direct relationship to the level of affordability that residents' experience. There are still many silos at all levels of government that get in the way of integrated and comprehensive solutions. We need incentives to encourage cooperation among agencies.

It is clear that all levels of government can play a role in catalyzing the market and ensuring that a mix of incomes is served. A significant effort by this study has focused on actions that local, regional and state government can undertake. However, the federal government has an important role to play in ensuring that federal investments in housing, transportation and economic development also support this goal.

The HUD-FTA study includes the following federal recommendations:

- HUD and FTA should examine existing policy and funding programs at each agency in order to improve the coordination and facilitation of affordable housing and transportation investments. New resources should be identified to help communities meet critical needs.
 - HUD could explore regulatory and policy approaches that increase the supply of affordable or mixed-income housing within transit corridors. These should focus on preservation of existing rental housing near transit, and new construction of affordable and mixed-income housing. Over half of the states include access to transit as a criteria for allocating low-income housing tax credits. HUD should consider similar opportunities to target funding to housing projects near transit out of recognition both of the importance of these sites to maintaining affordability, and to the higher costs associated with housing in these areas.
 - FTA should consider using the New Starts/Small Starts program to promote more diverse TODs in its evaluation of projects both through how it calculates ridership estimates and in providing incentives to projects that include strategies to preserve and create mixed-income housing within proposed new transit corridors. Transit-supportive station area improvements made with local or private funds should be excluded from the cost calculations of projects.
- Improved coordination of federally required long-range investment plans. There are a number of strategies that could be coordinated between agencies to address mixed-income TOD. For instance, federal transportation legislation requires a long-range transportation plan for every metropolitan area. HUD requires those communities

receiving CDBG funds to have a consolidated plan. Together, FTA and HUD could require that these plans be coordinated at the metropolitan level.

- HUD and FTA should continue to study the relationships between housing markets and transit investments: This study is the first in many years to examine the linkages between the market, transit investments, travel patterns and development trends. More analysis is needed to establish performance measures and determine the efficacy of strategies being implemented in communities to try and create mixed-income housing near transit.

But beyond the specific recommendations of this new study, our work in regions throughout the country shows that there is a tremendous need for leadership, vision, and accountability. Congress could make a significant impact and open up new, important markets with four important steps:

1. Encourage integrated, interdisciplinary strategies. We are no longer able to solve the problems of metropolitan regions with separate transportation, housing and economic development programs. We must provide comprehensive strategies to help leverage market trends to achieve a fuller range of community benefits. Federal agencies, regions and locals should be required to work together to coordinate transportation and housing investments in service of broad national goals. We also need to establish better mechanisms for directing funding to the regional level and to provide flexibility in the use of these funds to allow metropolitan regions to solve their unique challenges.

2. Set Accountability Measures for the use of federal funds (regardless of “mode”). In this era of limited funds and a lack of appetite for mis-use of federal funds, we should expect our monies to be spent wisely. In the Bay Area, where I’m from, we condition the allocation of new transit funds on local communities delivering transit-supportive land use actions. We ought to take this model to the national scale, and apply the same performance criteria to transit as we do highways.

3. Strengthen funding and flexibility of the New Starts Program. Getting a transit project built with federal funds typically takes at least 10 years. That’s just too long. We need to be able to respond more quickly than before. Part of the reason for this delay is that there are not enough funds to meet the demand for new transit service. The current federal transportation bill includes over 300 projects seeking federal New Starts funds. At the current rate of funding, and with the current New Starts review process, less than a dozen projects are likely to be funded. This is simply not acceptable. Congress needs to support full funding for the New Starts and Small Starts programs, and not allow the diversion of these funds. It should also encourage the FTA to streamline the review process while improving flexibility of the program to meet local needs.

4. Encourage Partnerships. We have a private sector that wants to help us do this, let’s encourage and reward their involvement. An important change made in SAFETEA-LU was the inclusion of a new project justification factor for economic development. This new criteria presents an opportunity to evaluate new transit project’s on their ability to serve and create economic development within a corridor. Not only to create new jobs, but also to foster market

activity and provide increased transit choice. FTA has not implemented the new economic development criteria in a meaningful way. Congress should re-assert the importance of this measure. HUD needs to be encouraged to place a greater emphasis on partnership strategies to build and maintain mixed-income housing, particularly near transit.

Though many of the trends are distressing, I remain optimistic about our country's future. We have an interested public, we have an engaged private sector and we have elected leadership that sees the responsibility to change. Let's help them by putting in place incentives and support for doing the right thing for all Americans.

Thank you very much for this opportunity.