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The Value of Transit-Accessible Projects

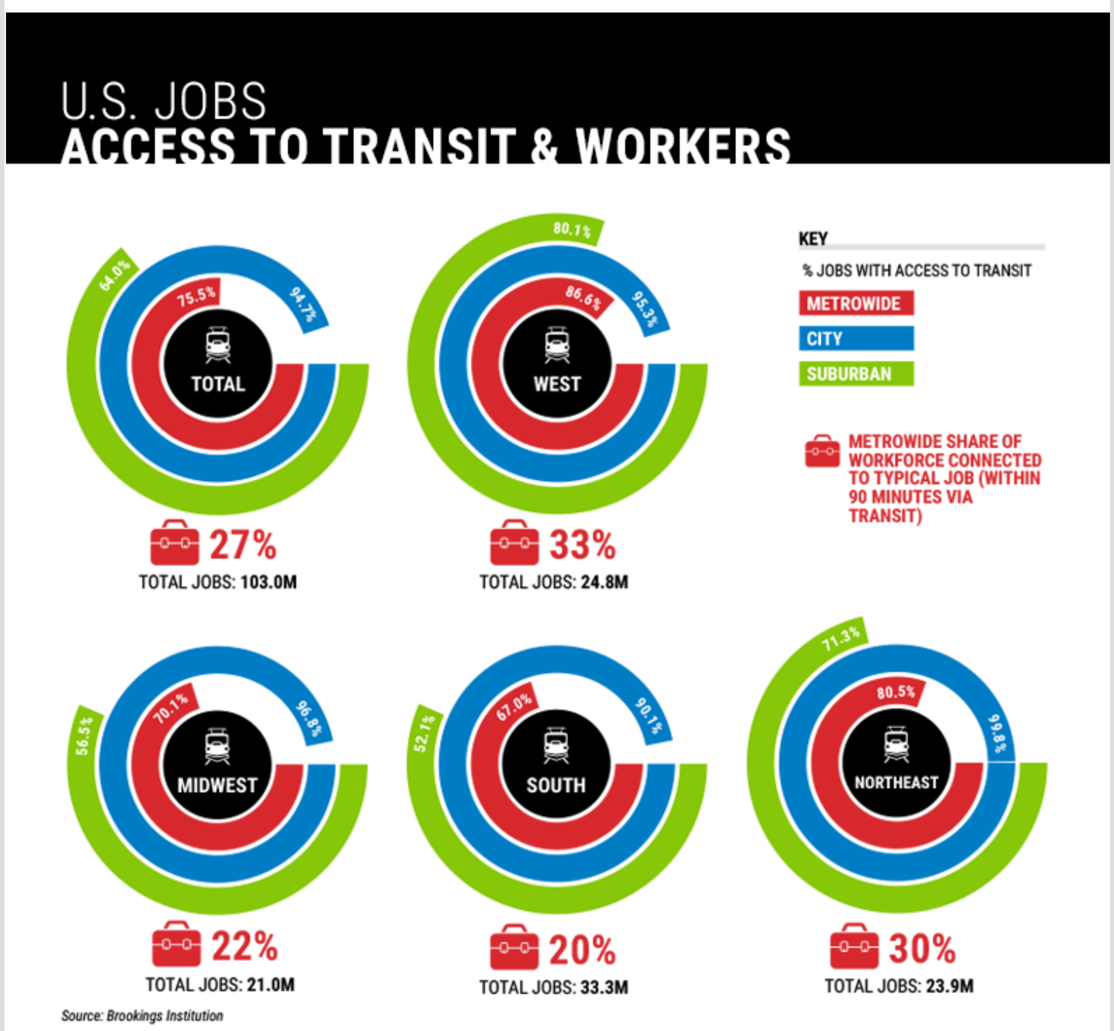
By Lauren Douglas

The National Trend: Employers and Workers Are Prioritizing Transit-Accessible Offices

Transportation has historically driven development, as cities blossomed in locations with proximity to water and rails. The shift in our nation's economy from manufacturing to services and information/technology has freed many workers to live in physically and socially desirable locations, upending the model of workers following jobs. It has become common for firms to locate wherever skilled workers prefer to reside, leading to a clustering of highly educated talent into a limited number of markets. However, most people still commute to work on most days, and the post-World War II trend of single-occupant, private automobiles traveling from dispersed suburban locations is evolving. Public transit creates value for employees, employers, developers and asset owners by making a larger number of workplaces more accessible to a greater number of workers.

Demographic shifts – including the aging of baby boomers and a demonstrated preference by millennials to live in urban settings without owning cars – are characterized by increased demand for walkable neighborhoods. Thus, many workers and employers have come to favor mixed-use, 24-hour neighborhoods with proximity to transit. Workers are attracted to the neighborhood amenities and easy access to public transit for commuting. Employers, particularly in the high-growth knowledge-based industries, recognize that increased productivity is a benefit of public transportation. Further, proximity to transit – often coupled with subsidized fares – is an important tool to attract and retain top talent. According to the American Public Transportation Association, 79% of riders of public transportation are within the peak working age range of 25 to 54, 51% have a bachelor's degree or more, 65% have a driver's license and 23% are millennials (even though they constitute only 17% of the U.S. population). Demand for transit-accessible development is reflected in the well-documented rent and sale premiums commanded by commercial (12%-15% rent premium) and residential (5%-20% rent premium) projects that are located at or near transit.

Although transit-accessibility is a growing priority, there remain gaps in connectivity. As shown in the adjacent graphic, more than 75% of all jobs in the nation's 100 largest metropolitan areas are located in neighborhoods with transit service, but the typical job is connected to only 27% of the workforce by transit (in 90 minutes or less). In short, many jobs are near transit stations, but many homes are not. There are regional differences – in the West and Northeast, 87% and 81% of jobs are located in neighborhoods with transit, but the comparable figures are only 70% in the Midwest and 67% in the South. For jobs located in cities, the transit coverage rate is above 90% for all regions, but it declines precipitously for suburban jobs.



Featured Market: Denver

Denver's public transit system has been late-maturing compared to those of its peers. The first light rail stations opened along the central corridor in 1994, with subsequent extensions, and Southeast line opened in 2006. To date, four lines have been added, including the long-awaited A Line which services Denver International Airport and which was completed in 2016. Enhanced access to transit is effective; according to the Downtown Denver Partnership, 39% of the downtown's 130,227 employees use public transportation, while 39% drive alone. The crown jewel of Denver's transit-oriented development (TOD) is the public/private redevelopment of the historic Union Station building and surrounding neighborhood of 10 city blocks. This $500-million multi-modal transportation hub, with $1 billion in initial residential and commercial development, celebrated the grand opening of its first phase in 2014, including a boutique hotel and retail in the renovated historic building and two office buildings which were 100% leased and occupied upon completion. The neighborhood has been a powerful local and regional economic engine, generating $3.8 billion in initial impact, an additional $2.9 billion on an ongoing basis and a development flurry including multihousing, office, and retail.

The sales of three office buildings located in the Union Station neighborhood shattered local records, each topping $600/SF. Union Station's success drove robust expansion in the Lower Downtown (LoDo) office micromarket, which currently boasts the majority of development and net absorption, the lowest vacancy rates and the highest rental rates. However, Union Station is not the only project that has spurred additional development. The A Line is driving a "land grab" and active development in River North (RiNo), Denver's hottest emerging neighborhood, and this activity is spreading outward along the new train route. Finally, suburban assets also benefit from proximity to transit. In the core Southeast Suburban submarket, new projects delivered at transit stations since 2008 enjoyed faster lease-up than non-transit-accessible assets, and three corporate headquarters have recently sprung up at TOD sites.

What Are the Implications for Our Clients?

Millennials are in high demand by employers, particularly those in high-growth, knowledge-based sectors, and although they already outnumber baby boomers in the workforce, their presence will increase proportionally as baby boomers retire. Thus, millennials' demonstrated preference for transit over owned vehicles, coupled with their ascendance in the workplace, will continue to elevate the value of real estate that is proximate to transit. Although projects in transit-rich CBDs will remain a sound investment for developers and owners, the gap between transit-accessible jobs and transit-inaccessible homes offers rich opportunities for development. Untapped suburban TOD sites, though likely in dwindling supply, may be excellent development plays by connecting workers with jobs. Suburban development also could appeal to millennials who are moving to the suburbs, a nascent trend driven by the rising cost of urban living and millennials starting families, albeit at a later age than previous generations. Finally, while a future full of autonomous vehicles has the potential to detract from the value of transit, autonomous vehicles may become the preferred modality for first-mile connection to major transit hubs – reinforcing the worth of transit and of transit-oriented development.

Research

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