

## **About the Transit Oriented Development Strategic Plan**

The Indianapolis Metropolitan Planning Organization (MPO) is studying alternatives for mass transit along the 23-mile rail corridor from downtown Indianapolis (Marion County) through Fishers to Noblesville (Hamilton County). The Northeast Corridor is primarily owned by the Hoosier Heritage Port Authority. CSX owns the section between 10<sup>th</sup> Street and Union Station in downtown Indianapolis, which is utilized for freight transportation.

As required by the Federal Transit Administration (FTA) for federal funding, the MPO is in the process of completing an Alternatives Analysis (AA) and Draft Environmental Impact Statement (EIS). The objective of the AA program is to assist in financing the evaluation of all reasonable modal and multimodal alternatives and general alignment options for identified transportation needs in a particular, broadly defined travel corridor.<sup>1</sup> The purpose of the EIS is to provide an evaluation of environmental issues to inform decision-makers and the public about reasonable alternatives to minimize adverse impacts and enhance the quality of the environment.

Based on the recent history of federal investment in transit projects through the *New Starts* and *Small Starts* programs, the FTA recently began placing a higher priority on land use and economic development impacts of proposed transit projects. This was based on increasing case study evidence that successful transit infrastructure investment can and should be leveraged to yield broader community and economic development benefits through transit-supportive land use planning and policies.

Concurrent with the AA/EIS process, the Transit Oriented Development (TOD) Strategic Plan was prepared for the Indianapolis Metropolitan Planning Organization by EDEN Collaborative, Greenstreet Ltd. and Reconnecting America/Center for Transit Oriented Development between May 2011 and December 2011.

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<sup>1</sup> 49 U.S.C. 5339

## Executive Summary

# Real Estate Analysis for Transit-Oriented Development in Central Indiana and Along the Northeast Corridor

## Scope of Work

The TOD Strategic Plan is an assessment of the potential regional demand for TOD,<sup>2</sup> as well as the physical characteristics of station areas and local land use policies that influence the feasibility of transit-oriented development. While the assessment is based on regional demand, the application of this assessment and analysis of potential station areas is limited to the proposed Northeast Corridor.

The scope of work for the TOD Strategic Plan includes:

- Evaluation of the land use and economic development scoring criteria of the current *New Starts* program and development of the supporting documentation for a competitive *New Starts* application for the Northeast Corridor;
- Determination of the market demand for transit-oriented development in the Central Indiana region, with specific application along the Northeast Corridor;
- Analysis of the existing conditions of 14 potential station areas along the Northeast Corridor;
- Engagement with municipalities and a Citizens Advisory Committee of stakeholders along the Northeast Corridor to determine the transit-readiness of 14 potential station areas;
- Recommendations, from a land use and economic development perspective, for nine potential station areas, informing the AA/EIS process to determine a locally preferred alternative;
- Development of a regional framework for potential station-area typologies, with principles for land use planning, urban design and priorities for investment and implementation.

## Trends Favoring Transit in Central Indiana

Demographic changes, economic trends and shifting lifestyles are leading to greater demand for development that is walkable, higher density, mixed-use and transit-served. These trends are present in communities nationally, including Indianapolis.

*Declining Homeownership Rates:* Central Indiana's homeownership rate peaked near 70% around 2000<sup>3</sup>, but several factors are now driving those rates down. One- and two-person households comprised 58% of the region in 1990, but they are projected to grow to 68% of total households by 2035. The sub-prime mortgage products that enabled growth in homeownership between 1990 and 2005 have generally been eliminated, and Fannie Mae and Freddie Mac have questionable futures. Mortgage

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<sup>2</sup> "Regional" is defined as defined as the MPO's official Metropolitan Planning Area.

<sup>3</sup> U.S. Census Bureau, 2000

companies have tightened underwriting guidelines and increased down payment requirements, which may lock out a large portion of the next generation of homebuyers, Gen Y.<sup>4</sup>

*Consumer Preference for Higher Density Housing in Mixed-Use Districts:* A series of recent national surveys<sup>5</sup> have shown that consumer preferences are changing in line with demographic shifts. Most significantly, a study conducted by the National Association of Realtors (NAR)<sup>6</sup> found that 88% of households are more likely to base a home choice the neighborhood than on the home size, and nearly 60% would be willing to purchase a smaller home in exchange for a shorter commute to work. Further, only 12% of households indicated a preference for a suburban, housing only neighborhood.

*Supply-Demand Imbalance:* The same national surveys showed remarkable concurrence about preferences for housing types; approximately 60% of Americans want single-family detached homes and about 40% want attached homes.<sup>7</sup> While a majority of households will desire single-family detached homes, more diverse housing choices could potentially fulfill the other 40% of the market. Currently, over 90% of all new homes built in Central Indiana are single-family detached, primarily suburban, housing-only subdivisions where residents are dependent on an automobile to fulfill daily needs. The current regional supply of nearly 50,000 single-family detached lots represents a more than adequate backlog to serve the 60% demand. In contrast, current demand for attached housing in mixed-use districts is under-served in Central Indiana, and that demand is projected to increase with demographic changes over the next 20 years.<sup>8</sup>

*Housing + Transportation Costs:* Relative affordability is traditionally measured by an area's housing costs, but new research by the Center for Neighborhood Technology indicates that housing and transportation costs are actually a better metric. With most households living in auto-dependent neighborhoods, over half of the region's households are paying more than 45% of median income on housing and transportation. Transit-rich neighborhoods, in contrast, shift transportation expense to discretionary household expenses, which can have greater impact on local spending. If all other things remain the same, households earning the median income along the Northeast Corridor could save \$6,000 to \$12,000 each year by moving to (or becoming) a transit-rich neighborhood.<sup>9</sup>

*Hidden in Plain Sight:*<sup>10</sup> In 2005, the Center for Transit-Oriented Development (CTOD) published *Hidden in Plain Sight*, a study of the 4,000 half-mile station areas along fixed-guideway transit corridors in the United States. CTOD found that about six million households were already located within a half-mile of a fixed guideway transit station, and that more than 14.6 million, or about one-quarter, of total

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<sup>4</sup> According to recent studies, Gen Y is the most educated generation ever, but also the poorest generation since the Great Depression, carrying significant debt and little savings or liquid assets.

<sup>5</sup> Arthur C. Nelson, Robert Charles Lesser and Company (RCLCO), National Association of Realtors (NAR)

<sup>6</sup> The 2011 NAR National Consumer Preference Survey deserves special attention because 1) it was very large (conducted at the 95% confidence level nationally), 2) recent (February 2011), and 3) conducted to help realtors actually sell homes, rather than to advocate for a particular housing type.

<sup>7</sup> Arthur C. Nelson, Robert Charles Lesser and Company (RCLCO), National Association of Realtors (NAR)

<sup>8</sup> MetroStudy, October 2011

<sup>9</sup> CNT defines "auto-dependent neighborhoods" as areas where the average household spends greater than 25% of their income on transportation costs. Conversely, households in "transit-rich neighborhoods" spend less than 15% of the area median income on transportation costs.

<sup>10</sup> Center for Transit-Oriented Development

households will favor transit-served housing by 2025.<sup>11</sup> *Hidden in Plain Sight* also analyzed demographics in each of the station areas to profile the most likely groups of people to live around transit. Considering these findings with research on housing preferences,<sup>12</sup> four groups emerged as potential TOD residents: transit-dependent households, seniors with limited mobility, Baby Boomers, and Gen Y.

*Transit-Dependent Households:* Households earning less than \$25,000 a year, which statistically have limited access to a personal vehicle, are categorized as transit-dependent households. On average, about 40% of riders on U.S. transit systems earn less than \$25,000 a year, but 70% of IndyGo riders meet this income threshold.

*Seniors with Limited Mobility:* Mobility becomes a greater issue as people age, and many seniors find themselves dependent on public transportation. A Transportation for America study called *Aging in Place, Stuck Without Options* measured seniors' access to transit, and Indianapolis ranked 7th worst among 46 metro areas of 1 to 3 million people, leaving 79% of seniors with poor access to transit.

*Baby Boomers:* The first Baby Boomers turned 65 in 2011, and the number of people turning 65 in Central Indiana each year will skyrocket over the next 10 to 15 years. The 78 million Baby Boomers account for about 27% of the nation's population, and about 26% of Central Indiana (390,000 residents). About 60% of seniors will change housing type between the ages of 65 and 85, and surveys indicate that Boomers want "safe urbanism," walkability, and proximity to "third places," which are inherent in TOD.<sup>13</sup>

*Gen Y:* Gen Y, also known as the Echoboomers or the Millennials, are the largest and most educated generation in history, but also the most economically depressed since the Great Depression. The 81 million Gen Y Americans account for 27% of the national population, and 415,000 account for 27% of Central Indiana's population. Serving, housing, and employing Gen Y will dominate the economy for the next 20 years. Based on surveys,<sup>14</sup> 77% of Gen Y will prefer to live in an urban core, and most prefer denser, more walkable neighborhoods with transit and proximity to jobs.

*Number of Boomers + Gen Y vs. other regions:* Baby Boomers and Gen Y account for 52% of the population in Central Indiana, which is comparable to peer regions that are pursuing mass transit initiatives. Considering absolute numbers, Indianapolis has more Gen Y and Baby Boomer residents with a statistical preference for transit than any of its peer regions, except Minneapolis-St. Paul.

## **Residential Demand along the Northeast Corridor**

Residential demand is driven by growth, or the addition of new households, which can come in three forms. First, an area may attract a household to move from elsewhere in the same market, which is

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<sup>11</sup> By 2025, this demand will account for 25% of all U.S. households.

<sup>12</sup> NAR 2011, Nelson 2011, RCLCO 2008

<sup>13</sup> "Safe urbanism" means in a city with proximity to cultural amenities, but also in a safe neighborhood. "Third places" are places to spend time outside of work or home.

<sup>14</sup> RCLCO 2008

known as mobility. Second, an area may attract a household from another market or region, which is known as migration. Finally, new households can form from internal natural growth, like when a child decides to move out of their parents' home or when a couple divorces and moves into two homes in the same area. Numerous factors can cause a household to move, but the two major factors that come into play along a transit corridor are proximity to employment and the supply-demand imbalance.

Of the three product types (residential, retail, and office), residential is the most attracted to locations near a transit station. Studies<sup>15</sup> indicate that corridors which connect to regional employment centers are the most successful in terms of ridership and TOD potential. Since there are few walkable, urban housing options in the region, station areas will have the opportunity to capture some of the demand from the supply imbalance in Central Indiana as people switch to housing that better suits their lifestyle.

### *Single-Family*

The housing market is facing some significant obstacles in 2011. Mobility and migration rates are at post-WWII lows as homeowners across the country are finding it difficult to get out of their current homes. In fact, the 35.1 million Americans who moved in 2011 was the lowest number since 1960, when the nation's population was 40% smaller. Foreclosures continue to plague Central Indiana, accounting for nearly half of all 2010 home sales in Indianapolis. Additionally, Indianapolis recently ranked among the *Emptiest Cities in America*<sup>16</sup> due to the combination of the city's very large geographic size, low housing density, and high residential, retail, and office vacancy rates.<sup>17</sup>

Marion County single-family residential sales are down about 40% from their 2006 peak, and Hamilton County sales are down about 35% from 2006. Despite these challenges, Central Indiana's population is projected to continue growing, and the housing market will continue to grow over the long-term. Based on MPO population estimates and preferences for mixed-use, walkable communities,<sup>18</sup> Central Indiana could have demand for 20,000 transit-served units by 2025 and nearly 40,000 by 2035.

The region's high demand for transit may not translate into reality though. Independent of barriers to transactions or existing housing inventory, every household with a transit preference would move into a station area. Realistically, the rate at which station areas can capture that regional demand will depend on many other factors like neighborhood quality, services, destinations on the corridor, and proximity to employment. Given current inventory, the trend of sales volumes, and case studies of comparable transit regions, the Northeast Corridor should be able to absorb 2,000 to 2,500 single-family units by 2035. Much of this growth will appear as rehabilitated housing and infill on vacant residential lots, particularly in the more urban station areas in Marion County.

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<sup>15</sup> CTOD, *Rails to Real Estate*

<sup>16</sup> CNBC, 2011

<sup>17</sup> Marcus & Millichap, 2011. The 13.5% single-family vacancy rate is among the highest of all major U.S. metro areas.

<sup>18</sup> NAR, Nelson, and RCLCO studies have had consistent agreement around 60% demand for single-family, detached housing and 40% demand for attached housing. In recognition of the cultural dynamics in Central Indiana that have led to 92% of new construction being single-family detached, Greenstreet used more conservative preference rates for target demographics only to estimate potential TOD demand.

## *Multi-Family*

Some of the drivers constraining the for-sale housing market are also helping the rental market. Homeownership rates are down locally and nationally due to the sluggish and uncertain economy, declining home prices, tighter lending standards and a lack of confidence in resale potential.<sup>19</sup> As a result, many households will look for rental housing that better suits their financial situation and their lifestyle. *Hidden in Plain Sight* found that among the 4,000 stations along existing fixed guideway transit, homeownership rates are lower than the surrounding region. Compared to over 60% nationally, homeownership rates at transit stations are only about 30%, driven in large part to a preference toward higher density and rental product.

With several months of positive net absorption<sup>20</sup> and abundant demand in Central Indiana, multi-family residential is currently the strongest product type. However, a boom could lead to bust, with over-supply between 2013 and 2015. Considering trends, the Northeast Corridor should be able to capture 2,500 to 3,000 multi-family units by 2035.

These housing estimates are conservative, and the forecast could increase if certain conditions are met. For example, if one of the transit stations becomes a significant regional job center, housing demand will be positively influenced across the corridor.

## **Retail Demand along the Northeast Corridor**

Unlike housing, retail demand is not associated with transit. Instead, retail is an amenity, and location choices are based on retail fundamentals like population density, traffic counts, demographics, access and co-location. Retail follows rooftops and population and household growth increase density in the trade area, making a site more attractive to retailers.<sup>21</sup> Household spending is directly related to household income, and different retailers will target areas with particular incomes. To determine access, many retailers have requirements about average daily trips (ADT) and ingress/egress to major roads, as well as road visibility, signage and parking. Most retailers actively look to co-locate with other retailers that serve a similar clientele. Known as the cluster effect, retail is more likely to locate where their “sister stores” already operate.

The Indianapolis retail market will be limited by a number of factors. Few of the stations on the Northeast Corridor have existing retail and, according to case studies, transit riders are not a dependable retail market. Nationwide, TOD retail is a delicate balance. Among the many issues facing TOD retail, there have been phasing mistakes (too much retail, too soon), design mistakes (no forced access to retail for transit riders), tenant mix mistakes (excluding national chains and holding out for

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<sup>19</sup> Further compounding the problem, as Baby Boomers age, nearly 2/3 are expected to move after the age of 65. The next generation of homebuyers, Gen Y, will likely not be able to absorb the resulting supply of for-sale homes.

<sup>20</sup> Measured as the net year-over-year change in occupied units, net absorption is a measure of a market's internal demand and supply.

<sup>21</sup> Generally, retailers will consider demographics in the one, three, and five mile trade areas.

local retailers), and target market mistakes (transit riders generally are not a reliable retail market). Indianapolis will have to consider each of these lessons learned in its station area planning.

With one of the worst vacancy rates in the country (12.3%) and 18 consecutive quarters of low or negative net absorption, Central Indiana's retail sector is in recession.<sup>22</sup> Speculative retail construction will have great difficulty securing financing – retail end users will have to be identified and on board early in the process. Based on current trends, the Northeast Corridor should be able to absorb 500,000 to 600,000 square feet of retail space by 2035. However, retail demand is difficult to predict on the corridor level because it's specifically tied to each individual neighborhood. The overall retail outlook is weak nationally and locally, so new space will have to be specific and related to investments in the surrounding neighborhood.

### **Office Demand along the Northeast Corridor**

Office is the most location sensitive product type, with a spatial logic that functions separate from transit. Economic development initiatives, education attainment and employment growth each impact office demand, but new office space will generally locate in established office employment centers like downtown Indianapolis.

The Central Indiana office market is currently struggling with a number of negative trends. As the workforce becomes more technologically advanced, the trend has been for less office space per worker, and thus less demand for office real estate. This, combined with negative demand and high unemployment, has led Indianapolis through two consecutive years of negative net absorption, resulting in one of the highest office vacancy rates in the country.<sup>23</sup> Office development will have great difficulty securing financing in the future, so new office projects will have to be pre-leased. Fortunately, some commercial real estate experts believe that the Central Indiana office market has already bottomed out and bounced back into recovery.

Over the long term, the CBD will remain as one of the strongest locations for office development. The Northeast Corridor should be able to capture 700,000 to 900,000 square feet of office space by 2035. However, given the economics of office development, the majority of that demand will likely be captured around Union Station.

### **Transit is a Market Enhancer; Not a Market Maker**

Transit alone will not overcome the fundamentals necessary to support market-based real estate investment and development. However, in areas with strong market fundamentals, transit can enhance the viability of real estate investment and development. Not every station area will have a strong commercial core near the transit platform. Some station areas will be primarily residential, some

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<sup>22</sup> IRR, 2011

<sup>23</sup> IRR, 2Q 2011

primarily employment, some will be mixed and some will only serve a transportation function. To avoid cannibalization, each station area must be planned strategically within the context of the corridor as well as the regional system.

### **Limiting Conditions**

Greenstreet Ltd., EDEN Collaborative, and the Center for Transit Oriented Development (hereafter "Greenstreet") were engaged to analyze and assess the market factors that can affect the feasibility of transit oriented development along the Northeast Corridor. Key variables and drivers governing the supply and demand of residential, retail, and office uses have been considered.

Every reasonable effort has been made to ensure that the data contained in this study reflect the most accurate and timely information possible and it is believed to be reliable. This study is based on estimates, assumptions, and other information developed by Greenstreet from its independent research efforts, proprietary modeling, general knowledge of the industry and consultations with the Client and its representatives. No responsibility is assumed for inaccuracies in reporting by the Client, its agent and representatives or any other data source used in preparing or presenting this study.

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