

Federal Highway Administration Webinar on Making the Business and Economic Case for Value Capture

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Answers to Questions Posed During the Webinar

Presenters:

- Julie Kim - BeneTellus
- Matt Stern – Chicago Metropolitan Agency for Planning
- Elizabeth Schuh – Cook County (IL) Bureau of Economic Development
- Enrique Silva – Lincoln Institute of Land Policy

Have there been examples of parking requirement changes in zoning to increase density and better take advantage of value capture techniques?

Schuh: While there have not been changes in parking to use value capture techniques in particular, Chicago has been changing zoning requirements for parking near transit stops to facilitate higher-density development.

Would it be correct to say that value capture requires a more entrepreneurial mindset than typical infrastructure planning?

Silva: I would argue value capture requires a good planning mindset rather than an entrepreneurial mindset - this difference is in how the starting point for value capture is framed. If real estate investment is the starting point for using value capture, then some entrepreneurial thinking may be needed. However, a more basic understanding of value capture as being driven by public investment and regulatory action means an understanding of planning and land use regulations is the foundation for how the public sector is creating this value.

Schuh: Public investments are meant to be used. From a transit perspective, there is a lot of public good in encouraging density, and value capture does that to an extent. The same is true on the highway side where the public investment is quite costly and should be placed in areas where roads will be utilized over the long term.

Kim: This is kind of a “chicken-and-egg” question where the infrastructure projects create value on the real estate side only if the project can be paid for and constructed. There is often a timing issue where projects have great value appreciation potential, but the money to build the infrastructure is not presently there.

Regarding the information asymmetry issue, what are some effective tools at reducing such asymmetries and associated agency costs?

Stern: Some of the best examples from the Chicago region are practitioners working in a very collaborative way with a business seeking an incentive, creating a clear policy at project initiation for data and information the public sector expects of the business, and finally having a clear sense of how much money the public sector is prepared to incentivize regardless of the expressed funding gap from the private sector. For example, there is great benefit in hiring a third-party firm to review the books and determine an accurate size of the funding gap.

Silva: For those trained as planners, understanding the financial logic of the real estate sector is key as is becoming more informed about the intersection of fiscal planning, transportation planning, and land use planning. There are mechanisms to quantify the land values and be transparent about the increments of value recovery from value capture projects.

Are most large projects using value capture also required to follow the National Environmental Policy Act (NEPA)? If so, aren't a lot of these concerns/risks often required to be addressed in the NEPA document?

Kim: Value capture does not affect any environmental requirements at the Federal and State levels.

How could a planner-turned-developer maximize their profits in a value capture district without shortchanging the government? In other words, what are some win-win strategies for developers to approach this situation?

Stern: The hope is the relationship between a developer and the public sector is one of transparency and honesty to understand what the actual funding gaps are and how to reduce risk rather than pursue profit maximization.

In evaluating and managing the risk of whether property values will increase, is it helpful to distinguish between increases in land value (as a direct result of infrastructure improvement) versus increases in building values (as a direct result of private development decisions)?

Kim: It depends on how infrastructure and private development projects are structured. If private development occurs based on two transactional points -- (1) land sales from land owner to developer (this can happen when the land is publicly owned), and (2) building or property sales from developer to property owners when development is complete--it makes sense to decouple the two and estimate the residual land value for land sales separate and distinct from property sales. In this case, planned use of value capture tools in the future (e.g., special assessments, impact fees) may (though not always) affect the residual land value. In a situation in which the land owner and developer are one and the same or working together, however, I am not sure what the benefit of decoupling might be. In that case, the infrastructure improvements would enhance the value of both land and buildings. Infrastructure improvements inherently increase building value whether private development occurs or not (there is always the value enhancement potential that drives the development).

Do you have any suggestions for how I can promote the consideration of value capture within my agency, particularly with senior management?

Schuh: You can point to projects where there is a financial need and which have the potential to create a transformative amount of value. Consider value capture early in funding and financing discussions: it is often discussed later in the conversation when multiple funding streams are available. I would argue it makes the best use of public dollars in terms of leveraging the value created, and it can be a way to expand the pool of infrastructure to invest in. Doing an order-of-magnitude analysis for a particular potential project can be critical as well.

Kim: Combining the total impacts of different value capture techniques over a longer term and across several projects can be very persuasive to decision-makers to forecast total value generation potential.

Is there a tipping point where agencies and smaller municipalities begin mimicking the use of TIF districts and/or other value capture techniques?

Stern: Yes, case studies and peer conversations spread the ideas of value capture techniques, in addition to practitioners witnessing the economic success of early implementers.