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Tuesday, May 25, 20108 Comments

How Portland Sold Its Banks on Walkable Development

by Noah Kazis

Gresham, Oregon used to look like your typical suburb. Lots of lawns and lots of parking. When Portland's MAX light-rail line expanded to Gresham, developers saw an opportunity to bring something different: walkable development. But a downturn in the local real estate market interceded. One developer trying to build a four-story condo project decided that he'd be better off with a video store surrounded by surface parking.

The Crossings at Gresham brought transit-oriented development to Portland's suburbs, opening the door for financing to flow to similar projects. Image: Myhre Group Architects.

Metro -- Portland's regional government -- decided that wasn't good enough. They bought the site outright. Then Metro proceeded to double down on the original plans for the project, which it called The Crossings. Four stories became five, making the development the tallest building in Gresham. Condos became a mixed-use development with ground-floor retail, sidewalk cafés and engaging street-level facades.

There was still one big problem: financing. Charlotte Boxer, director of commercial real estate at Pacific Continental Bank, was skeptical of Metro's project. "What would draw people to live there, or what would make a retailer decide to lease there?" she asked. "There was substantial risk on Metro's part and on ours as the lender, because we had no comparables to go to that would say this would work." For the project to succeed financially, they'd have to charge rents 25 percent higher than the going rate in Gresham, for a type of development no one had ever tried there.

In many parts of America, efforts to build transit-oriented, walkable communities are foiled because financing can't be secured for projects that differ from the templates lenders have become used to since World War II. In Salt Lake City, for example, the local government's push for transit-oriented development has been stymied because local banks won't lend to projects without huge parking lots.
Why do lenders balk at development that reduces car dependence? In a word, inertia. "The lending industry appears to be very conservative, if your definition of conservative is doing the same thing this year as you did five years ago," said David Goldstein, the co-director of the Natural Resources Defense Council's energy program and an expert on environmental real estate financing. Because banks have no institutional memory of lending to transit-oriented development, they are reluctant to do so going forward.

In Portland, officials and activists have begun to escape this cycle. The policies they've pursued to foster walkable development are instructive for many American cities looking to grow without making traffic congestion worse.

Even in transit-rich New York, economic development officials have subsidized developers who import car-oriented standards. They are happy to secure favorable lending terms, underwritten by the U.S. government,for multi-story parking decks. It's safe to say that goals like enhancing the pedestrian environment or attaining sustainability targets are not motivating these decisions. Portland development officials do things differently. When planners there decided that urbanism and sustainability were good outcomes, they went out and started convincing lenders to change the way they do business.
Megan Gibb runs Metro's transit-oriented development program, which works with developers and offers financial incentives for TOD. The Crossings, for example, received discounted land, tax breaks, and other financial incentives from Metro. "Our whole program is to build more market-comparables," said Gibb. "The more TOD projects there are, the more it builds on itself." Each project that gets built makes the next one easier to finance.

Gibb also highlighted the centrality of public-private partnerships to Portland's success. According to Gibb, banks normally look at standard, car-oriented development models and say, "We know this worked in the past. Why would we want it to be any different?" When the public sector commits to smart growth, however, bankers instead see that the government "thinks this is really important and is willing to put their money where its mouth is." For financial institutions that are often quite risk-averse, government action provides the security necessary to move forward.

John Warner, who manages most of the TOD projects at the Portland Development Commission, argues that at first, government may have to push the envelope to convince banks that walkable development pays off. "Until you've got examples that lenders can look back in time at," he said, "you have to be doubly conservative and oversubsidize something to prove the concept." Warner added that in Portland, where lenders have bought into a consensus about the need for sustainable development, they've been able to walk back many subsidies.

At The Crossings, Metro's vision -- and incentives -- turned the project into reality. Financially, it's a complete success, with 100 percent occupancy and a sizable waiting list. It's won awards for transit-oriented design and earned the praise of Gresham's residents and politicians. Perhaps most importantly, however, it set an example.

Boxer, the initially skeptical executive at Pacific Continental Bank who provided The Crossings' financing, now says she is "very proud to say I have financed the project." She also calls it "truly pioneering," providing a model for how to bring walkable development to suburban locations. The Crossings, itself possible because of the successful projects that preceded it, helped pave the way for more and better transit-oriented developments that followed.


The Beranger condos, a new transit-oriented development in Gresham, wouldn't have been possible without The Crossings' success. Image: Gresham Downtown Development Association.

Even in Portland, though, proponents of walkable development have more convincing to do. One bank that's played a central role in financing urban-style housing near transit, ShoreBank Pacific, is still getting accustomed to projects with less parking, for instance. "Having no parking for a business is still a pretty challenging place to be," said ShoreBank VP Bonnie Anderson.

Moving forward, then, Portland will have to craft policies that expand the comfort zone of lenders. Gibb and Anderson saw shared parking and car-share as tools to mitigate banks' fears about financing projects with fewer parking spaces than normal.

There are also structural reasons that banks avoid transit-oriented development, which can't be overcome by building a few market comparables. Because profits from transit-oriented development tend to materialize more slowly than from typical suburban development, new financing methods are needed to make TOD more attractive to lenders. And of course, banks respond to the regulatory environment. Portland makes many developers adhere to principles of walkable development near transit lines.
It's true that Portland area bankers have yet to embrace the full range of development needed to reduce car-dependence. But as the region attempts to grow sustainably, it benefits immensely from development officials like John Warner, who talks passionately about "the community organizing needed to get all the stakeholders on board with the absolute necessity of transit-oriented development." While here in New York, where growth is ostensibly shaped by a citywide sustainability plan, the chair of the local Economic Development Corporation still thinks that not providing enough parking is "the worst thing we could do."

Noah Kazis joined Streetsblog as a New York City reporter at the start of 2010. When he was a kid, he collected subway paraphernalia in a Vignelli-map shoebox.