

Policy Capsule

Smart Growth Technical Session II: Infill Development: Overcoming the Risk Barrier

Introduction

The following overview is provided to help frame the discussion at the December 5, 2003 Smart Growth Technical Session. It is assumed that session participants will have some familiarity with infill development and project development pro forma analysis. This capsule is intended to begin a discussion on the factors affecting risk and feasibility for infill projects, particularly housing, mixed-use and transit-oriented development.

BACKGROUND

Infill development is a core component of Smart Growth. As more cities and counties in the Bay Area implement urban growth boundaries, and address loss of farmland and open space, greater pressure is mounting to direct growth inward.

Implementation of the Regional Agencies/Bay Area Alliance *Smart Growth Vision* relies significantly on infill development. ABAG *Projections 2003* suggest a trend of continued growth in population and jobs in the region, with an increased share (compared to previous projections) of it focused within the region's urban cores and within the core cities of each county. If these projections take shape, a much larger percentage of development, both housing and jobs, will come in the form of infill.

Infill has not yet become the prevailing development pattern in the region. There is some agreement on the need for increased levels of infill in the Bay Area; the question is how to make it happen.

THE ISSUES

In debates concerning the merits of Smart Growth versus prevailing land-use patterns, infill development is often considered infeasible and lacking market viability. This argument suggests that, compared to traditional greenfield opportunities, infill development lacks market appeal and poses too many additional risks for developers. Even in instances when cities and developers are committed to infill projects, the less traditional nature of the projects may find reluctant lenders. Indeed, cities promoting infill usually offer incentives to developers to make projects "pencil out." When local opposition to infill developments is added to the mix of risk factors, such projects can become altogether infeasible.

There are examples of successful infill projects in the Bay Area, including dense housing, mixed-use and transit-oriented development projects. Some argue that sufficient market demand exists for more infill projects. Local governments can streamline approval processes, establish clearer design guidelines and employ other measures to produce more infill. Similarly, there may be opportunities for lenders to modify risk/feasibility assumptions to better reflect market demand and for developers to employ new strategies to boost the certainty of infill projects.

Perhaps the risk of infill projects could be reduced if lenders, developers and local governments knew which variables introduced the greatest uncertainty in each of their respective pro forma analyses. For example, "sticking point" issues such as parking minimums may have very different feasibility implications for lenders, developers and local governments. A better understanding between these players may produce more infill projects.

KEY QUESTIONS

- What are the top three sources of risk inhibiting infill development for developers, lenders and local governments? More specifically, what administrative, construction or design issues are most likely to produce an unfavorable risk picture for developers, lenders and local governments?
- What solutions, from the developer, lender or local government perspectives, could work to overcome the barriers highlighted in the previous question?
- What CEQA modifications might increase the feasibility of infill developments?

NEXT STEPS, STRATEGIES TO CONSIDER

- What actions can developers, lenders, local governments, regional agencies and the state take to support the viability of infill projects?

Examples:

Local Government actions:

- Adopt urban design guidelines (move toward form-based codes approach) for infill projects?
- Adopt criteria for “as of right” approvals for infill housing and mixed-use projects?
- Adopt guidelines for reductions of development impact fees for infill projects meeting smart growth criteria (e.g., proximity to transit) and an increase in impact fees for edge or greenfield projects? Reductions could be linked to reduced infrastructure cost and less traffic generation.

Regional Agency actions:

- Create revolving loan fund dedicated to assist with site acquisition and pre-development costs for infill projects?
- Adopt guidelines for environmental of commercial development distinguishing local-serving (pedestrian oriented) from regional-serving (auto-oriented) retail?

State Actions:

- CEQA reform: Require infill development to be considered an environmental benefit within CEQA-related environmental analysis?

Sources:

- S. Wheeler, “*Smart Growth Infill: Creating More Livable Communities in the Bay Area*,” Greenbelt Alliance, 2002.

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