Light transit systems

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4. Light rail transit to stimulate development: the developer's perspective

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SYNOPSIS. Olympia & York is developing Canary Wharf, a £3 billion project which will form the centrepiece of London's third business district in Docklands. As part of the development agreement, Olympia & York are contributing about £70 million towards upgrading and extension of the Docklands Light Railway. Olympia & York has subsequently agreed to make a major contribution to extention of the Jubilee Underground Line also to Docklands. The paper discusses reasons why Olympia & York was prepared to make these contributions, and also looks at the potential for other private contributions to rail projects in London and around the world.

1. This paper is listed in the programme as presenting 'the developers case for light transit'. For the transport planner and engineer, the idea that a developer would even have a 'case' for light rail may more often be wishful thinking than reality. Speaking first as a transport planner, I know that we have many more rail schemes that we consider 'worthwhile' than we can probably ever convince government to fund. So the idea that developers might also help to make the case for light rail should, I think, be welcome indeed.

2. Before joining Olympia & York I spent two years in Honolulu planning a transit line that makes eminent economic sense, but remains stalled because government will not risk the necessary money in an environment where almost everybody drives a car. Public transport is viewed with suspicion, because its benefits have sometimes been oversold, and operating losses seem to go on forever. Private support will, hopefully, play a critical role in Honolulu because the willingness of developers and investors to put their own money forward will be the best evidence that public investment will also be worthwhile.

3. In London, also, we have seen government hesitate or even simply refuse to invest billions in rail schemes that are strongly supported by planners, and yet with considerably less hesitation approve schemes that are backed by development interests. Politicians see planners as generating schemes with unclear objectives, objectives of sometimes dubious merit, too many unsolved implementation problems, and too long

a payback. Private investor support, even for only a part of the cost of a project, is quite properly seen as evidence that it will have at least some very real benefit to somebody, and therefore probably quite a few benefits to society as a whole.

4. Certainly the Bank Extension to the Docklands Light Railway, which benefits Canary Wharf, also gives enormous benefits to the development of Docklands as a whole. Government was quite content to see the scheme go ahead quickly on the basis of Olympia & York paying half the cost.

5. The case for the Jubilee Extension was somewhat more difficult, mostly because it is a much larger scheme with benefits not just to Canary Wharf and Docklands, but to London as a whole. Our original proposal, to simply build a line from Canary Wharf to Waterloo, suited our needs but did very little for the London Underground network as a whole. London Underground quite properly insisted that we instead contribute to a larger scheme, one which would carry substantial traffic both ways, carrying passengers from East and South London into Westminster and the West End, as well as from the Waterloo to Docklands. The planners thus made sure that London got a better line, but still one that private developers would support financially.

6. Subsequent to the government approving the Jubilee line, we are asked by people involved in other rail schemes around the country if they thought it was realistic for them to get similar private contributions.

7. The circumstances where developers will choose to actively and substantially support rail schemes are fairly rare, certainly very rarely on the scale of Canary Wharf. But then government can only contemplate a few schemes a year, or indeed only one or two at a time even in a city as large as London. So the schemes with private money are likely to take precedence for some years to come. It is certain that governments both here and abroad will look with increasing interest for private support before funding any major scheme. So regardless of one's views on whether private funding is right or wrong, planners are probably wasting their time if they ignore it.

8. Planners must do two things differently if they are to get more private developers actively making and supporting the case for rail transport. First, they must design schemes more specifically attuned to developers' needs. Second, they must do a better job convincing developers that they need to be involved.

9. Developers are businessmen, so they will only support a rail scheme to the extent that it creates value. Creating value is, unfortunately, not as simple as it sometimes seems. Once upon a time it was easy - put up a better building and people will pay to use it. But as our cities have become more complicated, it has become more difficult to create value without also destroying it. Last fall the Public Accounts Committee suggested Docklands developers were reaping windfall profits. A few weeks later, one of the largest went bankrupt,

indicating that they had, on balance, actually created less value than they destroyed - or spent. Developing is a very risky business, and the potential rewards reflect the risks.

10. Even assuming a development succeeds, the value which is created often bears only an indirect relationship to the usual measures of congestion relief and passenger time savings that are familiar to transport planners. Developers see value in rents, which means real money you can put in the bank. This is quite different from the output of a transportation forecasting model!

11. To the developer, the value of the time savings may vary enormously for different types of people, frankly relating to how important they are, or, in the case of shoppers, how much they are likely to spend. In the case of retail traffic, specific details of access time and route may be extremely important, in ways that are rarely included in any transport planning process. If light rail planners want developers to support rail projects, they must tailor their projects to the needs of developers. I will return to this with a few examples later.

12. Time is money, and also risk. Developers will hesitate to get involved in anything that will take a long time to implement. In the high-risk business of property development, two years is a long time and a decade might as well be forever. Yet for a transport planner two years is the normal length of time for a planning programme, and a decade is the normal implementation time. If transport planners are to get developer support, they will need to match the developer's timeframe.

13. Time and risk also relate to convincing developers to get involved. Most developers look for opportunities, not problems. There are always enough problems - getting planning permission, financing, managing architects and builders, getting tenants - so the last thing most developers want is to support a rail line that may not happen.

14. If a developer sees a rail line likely to happen, they see it as an opportunity and try to to capitalize on it. One might conclude from the size of this gathering that there are more light rail planners around than schemes to employ them. Such is not the case in property development. The most successful developers can be very choosy, and have learned not to take the first opportunity that comes along. They are unlikely to invest time and money in a project that will only succeed 'if' a proposed light rail scheme moves ahead.

15. Here it is useful to distinguish developers from property owners. A developer is someone looking to buy land and invest in it to increase its value. Once a developer decides to buy the land, they become a property owner with somewhat different interests. At this point they are committed to the site, and will certainly support anything like a new rail line which is likely to add value. But they are unlikely to make a contribution to costs for two reasons. First, they probably are already locked into a development

program that will mature long before the rail line is actually built. Although they may achieve higher rents eventually, the fact that the developer was already proceeding indicates that the scheme would be viable even without the rail line.

16. Second, light rail routes are usually planned on the basis of transport need and available routes - most developers will ask why they should pay for something that will be built anyway. Even if the government says the scheme is dependent upon private contributions, there is the obvious problem of the 'free rider'.

EXAMPLES

17. Here are a few examples of how rail schemes do - or do not - attract property developer interest:

London Docklands

18. Here was derelict and mostly vacant land, in an enterprise zone with attractive tax incentives, and only two miles from the City of London and some of the highest property values in the world. Here development was only a matter of when, not if, but the London Docklands Development Corporation could have waited a long time. The light railway provided basic access into an isolated area, although of course many people still drive or travel by bus. More important was that the light railway indicates a public commitment and investment to regeneration - a willingness on the side of government to 'get things done', not just in public transport, but building roads, sewers, and so on.

19. The LDDC was pragmatic and bought the most railway they could with the least money. They were prepared to compromise in order to make the project happen, hoping that if the system was successful in attracting many passengers it could be incrementally upgraded. Actually one month before the initial DLR opened for revenue service, Olympia & York agreed to develop the Canary Wharf project and contribute to the upgrading and extension.

20. My colleague from the LDDC has already shown the Canary Wharf project, which will soon emerge as London's third central business district.

21. The DLR is now being virtually rebuilt from the ground up, to prepare for the projected increased traffic. Despite current complaints about DLR reliability, which should end once the upgrading is completed, one must consider the initial Docklands Light Railway to have been an overwhelming success.

Vancouver

22. One must not let the Docklands experience suggest that all a city need do is build a rail line and wait for the developers to arrive. Docklands is happening because the national and regional economy is basically strong, but this is not always the case. No light railway can overcome a recession!

23. Vancouver built the Skytrain system just as the local economy - based too heavily on timber and mining - plunged into a deep recession. Some new buildings have now gone up around stations, but much more slowly than in Docklands. Nevertheless, they have had some success in getting property developers to make financial contributions.

24. At Main Street Station, the transit authority agreed to move the elevated line off the middle of a street and onto a development site. The owner felt this would give better service to his proposed hotel and office complex, and agreed to contribute about $3.00 per square foot once his building was completed. If and when the site is developed, this will probably amount to $3 million - small change in the scale of the project but nothing to ignore. Meanwhile, nothing has yet been built and the contribution is registered on the title to the land.

25. At another location in Vancouver, BC Transit needed a station but had no clear preference where to put it. They effectively held an auction between three adjacent owners along the line, all of who had outline planning permission to build a regional shopping and office centre. The winner agreed to provide space for a bus interchange, and also make a contribution on the same square foot basis as at Main Street. Of course, while BC Transit got the bus loop right away the developer has very carefully built everything first outside the zone where the contribution is required!

Honolulu

26. This system has not yet been built, but is at or near the top of the list for new systems in US cities. It is one of the few American schemes which could actually turn an sizeable operating profit. There are also enormous development opportunities, which together probably could pay for the scheme, but here the free rider problem becomes serious. Nobody will offer a contribution for something which will happen sooner or later on its own.

27. Nevertheless, the route has been planned intentionally to attract as much development potential as possible. The line serves existing centres like Waikiki Beach and the Financial district, but also purposefully runs through major development sites like Kaka'ako, where the state government owns about a hundred acres of prime ocean frontage which it currently uses as a rubbish tip! If the State really wants the rail line, they will probably figure out a way to recover some of the cost by developing this land.

28. Elsewhere, stations have been designed to link directly into existing and planned shopping centres. Provided developers make appropriate contributions, the stations can be designed with 'stacked platforms' to route passengers through the shopping between trains and buses. Again, a developer will weigh any contribution against the extra revenue that will be generated - if rail passengers are mostly budget

tourists or school children, they won't spend much money anyway.

Jubilee Extension

29. As most of you probably know, Olympia & York is now involved in a second rail line to Docklands. This arose originally in response to an invitation from Paul Channon, then Secretary of State for Transport, for private transport schemes. We suggested a new tube line across London, and offered to fund an initial section from Waterloo Station to Canary Wharf. We actually completed preliminary engineering and parliamentary plans in November 1988, but London Underground deferred the deposit of the bill, mostly because it was not part of their overall development plan. After some delay, the East London Rail Study recommended an extension of the Jubilee line from Green Park on much the same route, and they are currently promoting a private bill for this.

30. As a property developer, our interest in the Jubilee extension has been predicated on the same points I have already mentioned.

31. Our first concern was that the line be built quickly. Consequently, we proposed that it follow a 'clean' route mostly under or along existing rail corridors. This minimizes the potential noise and property impacts.

32. We have also proposed a pro-active approach to consultation with community groups, local governments, English heritage, and so on. We know as a property developer that it is in one's best interest to work with these groups and not to fight them. In the nineteenth century railway's might be able to ignore local residents, but not today. Moreover, community groups know their community best and can actually often help. They often have better ideas than the technical experts we pay for advice!

33. Similarly, London Underground prepared a comprehensive environmental statement even though this is not strictly required by Law.

34. Second, we saw it as important that the line serve Waterloo station, a major commuter and Channel Tunnel terminal. Long before anyone dreamed of Docklands becoming a business centre, a Jubilee extension had been planned that missed Waterloo and went instead via Charing Cross. London Underground recognized the changing role of the line, and this was supported not just by other Docklands developers, but also by the transport modelling which actually showed more traffic on the line following the Waterloo route.

35. Third, we have suggested that the line be conceived as a high speed regional service, possibly with new, faster, and more comfortable trains. It is more than a quarter century since London Underground built a new line, and the rest of the world has made a few advances since then. We have also argued against simply building a station every half mile, and have suggested thorough economic and financial analysis of system

elements as each deep tube station can easily cost £30 million.

36. Last, but certainly not least, we agreed with London Underground that it was essential that the new line is not just good for Canary Wharf, but for London. Otherwise one could never expect it to win much public support. While the wider benefits of the Jubilee extension have not received wide press coverage, it will provide significant relief to London tube congestion. The East London Rail Study showed that the line actually diverts more traffic off the congested Central and District lines bound for Westminster, than from Waterloo to Canary Wharf. It also relieves lines that feed the DLR at Bank, including parts of the Northern line, the Circle line, and even the Victoria line.

37. By actually diverting some new office growth out of the congested City and West End, Docklands will provide long term relief in a way that no new line through the centre can match. The Jubilee Extension is essentially a bypass, taking traffic and development around the City and out to the vast land resources in Docklands.

38. We look forward to its rapid passage through parliament and speedy construction!

THE FUTURE

39. The DLR Bank Extension and Jubilee Extension are certainly not the end of the story of private funding of rail lines in the regeneration of East London. Already, developers of Bishopsgate are reported to have made an offer to fund part of the cost to extend the East London Line. Similarly, the London Borough of Lewisham is apparently finding some developer interest in extending the Docklands Light Railway to their patch.

40. Of even more immediate significance is the decision of British Urban Development, a consortium of eleven major companies, to pay additional costs to divert the Jubilee Line very slightly to serve the Greenwich Peninsula. Here the developer's contribution is not only useful to reduce the cost to the taxpayer, it is also insurance that BUD will actually develop the site so there will be passengers on the trains.

41. Canary Wharf is Olympia and York's first development in the United Kingdom. We are extremely pleased with the spirit of co-operation which has developed between ourselves, the Departments of the Environment and Transport, the LDDC, the local Boroughs, London Regional Transport, London Underground, London Buses and the DLR. The transport infrastructure being put in place will be second to none and wholly complementary to the emergence of London's new third business centre.