Item No. SS 2(c)(2)
October 6, 2008

CITY COUNCIL STUDY SESSION ITEM

SUBJECT

The Bel-Red Subarea Plan includes an ambitious vision that will require significant public and private investment. A key piece of the financial strategy is an incentive zoning system. At the City's request, the Seattle District Council of the Urban Land Institute assembled a technical assistance panel to provide feedback on the economic feasibility of the incentive zoning system developed for the Bel-Red Plan.

This agenda memo focuses on a revised incentive zoning system based on the ULI Panel's recommendations and the results of updated economic modeling from Property Counselors.

STAFF CONTACTS

Matt Terry, Director 452-6191
Dan Stroh, Planning Director 452-5255
Planning & Community Development

POLICY ISSUES

Should the City adopt a new incentive zoning system for the Bel-Red Subarea as part of the Bel-Red subarea plan and land use code package? How can the incentive zoning system best balance delivery of public amenities with economic development of the area?

DIRECTION NEEDED FROM COUNCIL

____ Action
__X__ Discussion
__X__ Information

The September 22 Study Session was the first in a series of Council engagements to review the proposed Bel-Red Subarea Plan and implementing regulations. One of the key pieces of the new land use code provisions is an incentive zoning system. The City requested in June 2008 that ULI Seattle convene a technical assistance panel to review the Bel-Red incentive zoning system.

The ULI Panel and the City's economic consultant, Property Counselors, will present their findings on October 6. Staff will present an updated incentive zoning system based on the ULI Panel and Property Counselors work. Council will have the opportunity to review and discuss the current proposal. No action is requested at this Study Session. The incentive zoning system is part of the larger Land Use Code amendment currently under review by Council.

The materials for this agenda item are provided three-hole punched to be added to the Bel-Red binder that was distributed for the September 22 meeting.

BACKGROUND / ANALYSIS

The Bel-Red Subarea Plan includes an ambitious vision that will require significant investments in transportation projects, new parks and open spaces, environmental improvements, and other public amenities. These improvements will be realized through a combination of public capital investment, development standards (or requirements), development incentives and other public and private strategies. This analysis focuses on a proposed incentive zoning system that would allow greater building intensities and height above a base level in exchange for the provision of public amenities from a pre-defined list.

Bonusable Amenities

The Planning Commission spent considerable time discussing the bonusable public amenities that they thought should be on the incentive list. The list includes a range of large and small public features that, depending on the amenity, could occur either as part of a development (on-site), off-site in certain circumstances, or through a fee-in-lieu system. The common thread as discussed by the Planning Commission is that all items on the list provide a public benefit.

The Planning Commission prioritized a set of Tier 1 amenities to support investment in those public needs that are most critical to redevelopment of the area. Tier 1 amenities include: workforce/affordable housing (for residential projects), parks and open space, and stream restoration. Tier 2 amenities include: natural drainage features, public access to plazas, active recreation areas, community/non-profit space, child care, arts/cultural uses, public art/sculpture, public restrooms, LEED gold or platinum, workforce/affordable housing (for commercial development), and regional TDRs (reserved). Development standards for each of the amenities are included in the draft code package.

Initial Economic Modeling

Much of the Bel-Red area is being considered for an upzone. The incentive zoning system uses a portion of the value created by the upzone to fund part of the cost of the public projects and amenities needed to support higher intensities enabled by the plan. A residual land value analysis was prepared for the City by Property Counselors in May 2008. The residual land value was then divided by achievable FAR to provide an estimate of the value per square foot of bonus FAR. Conceptually, the analysis estimated the difference between land value under current zoning vs. the land value under new zoning resulting from the Bel-Red Plan. The lift value was then spread between potential new public funding tools (such as impact fees) and the incentive zoning system at varying levels. Bonus ranges for each of the amenities on the incentive list were part of the public hearing draft of the Bel-Red plan and code provisions in May 2008.

Public Input on Initial Bonus Ranges

Feedback from affected developers and property owners on the initial incentive bonus ranges was that the system was overly aggressive; some argued that the costs imposed on new development would make desired Bel-Red land use change infeasible.

The City understands the tension between the positions of developers seeking to maximize private return on investment vs. the City seeking to secure from new development investment in the infrastructure needed to support redevelopment of the area. Nonetheless, both parties want to ensure that Bel-Red development is feasible and that the proposed land use changes result in redevelopment of the area.

ULI Technical Assistance Panel

At the City's request, ULI Seattle assembled a technical assistance panel (ULI Panel) to provide independent feedback on the feasibility of the Bel-Red incentive zoning system. The ULI panel was asked to review the assumptions and conclusions of the Property Counselors analysis, as well as the overall objectives and structure of the bonus incentive system.

The ULI Panel prepared a report containing a number of recommendations that are intended to contribute to the dual objectives that new development will pay for its share of the cost of public infrastructure, and that development is economically feasible. The ULI Panel's comments are listed below. They are broken down into technical adjustments/corrections to the model and non-technical recommendations. (See Bel-Red binder for full ULI Panel report.) The ULI Panel believes "the overall approach of the incentive zoning system is sound public policy", and that their "recommendations create a greater probability that the Bel-Red corridor will develop sooner, and in a way that complements Downtown Bellevue and the city as a whole."

ULI Panel Technical Comments on Economic Model

The ULI Panel's recommendations include a number of proposed adjustments or corrections to the economic model. Property Counselors has reviewed the Panel's recommendations and adjusted the economic model as follows (See Bel-Red binder for full Property Counselors report):

ULI Panel Recommended Model Adjustments or Corrections	**Property Counselor Response**
Adjust stabilized property value downward (by raising capitalization rates).	Capitalization rates have been adjusted upward by 0.5%.
Move estimates of total cost of project delivery upward (example of $345 in Property Counselor model vs. $375-$400 actual cost/SF).	Cost factors have been adjusted upward to correspond to this range.
The opportunity cost of capital is understated.	Model includes the interest carry as one of several soft cost items. No change was made in the analysis.
The costs of tenant improvement and leasing commissions are understated in the office model.	Cost factors have been adjusted to correspond to the total delivery cost range identified above.
The income potential for parking is overstated for the office model	Revenue factors have been adjusted to exclude any charges for parking.

ULI Panel Recommended Model Adjustments or Corrections	Property Counselor Response
Total incentive fees should not exceed $15 per square foot of additional development rights.	A $15 per square foot value for additional development rights has been tested and is supportable given the results of this revised feasibility and bonus incentive analysis.
The City should consider increasing the maximum FAR allowed under the plan.	Generally, higher allowable FARs improve financial performance as the fixed cost of land is spread over more revenue-producing development.

Staff generally agree with the ULI Panel's recommendations concerning density in the Bel-Red corridor. Adjustments necessary to implement the Panel's conclusions are outlined below.

ULI Panel Non-Technical Recommendations

The ULI Panel included a number of non-technical recommendations in their final report. City Staff has reviewed their recommendations and provided responses below. Modifications suggested by the ULI Panel and supported by Staff, such as increasing allowable FARs in nodes, have been included in Property Counselor's revised modeling.

ULI Panel Non-Technical Recommendations	Staff Response
Keep the base FAR of 1.0 throughout the corridor.	**Agree:** Provided in the ORT transition zone on the south side of Bel-Red Road, the base should remain 0.75 FAR.
Increase first-tier lift inside nodes for commercial development to 2.5 FAR, for a maximum FAR of 3.5 (base + Tier 1).	**Agree:** This will allocate a substantial amount of the zoning lift to Tier 1 public amenities.
Increase first-tier lift outside nodes for commercial development to 1.0 FAR, for a maximum FAR of 2.0 (base + Tier 1).	**Partially Agree:** Outside of the nodes, the Planning Commission's recommendation includes FARs of up to 2.0 in the R and CR zones. The increment from 1.0 to 2.0 FAR should be allocated to Tier 1. The Planning Commission increased the maximum FAR in the R and CR zones from 1.0 to 2.0 during their deliberations based on mixed-use opportunities, independent of financial feasibility. Staff does not feel that an FAR increase is appropriate in the ORT (maximum 0.75) or GC, MO and OR zones (maximum 1.0).

ULI Panel Non-Technical Recommendations	Staff Response
Allow a second-tier bonus for project features and local TDRs for commercial nodes of up to 0.5 FAR, for a maximum FAR of 4.0 (base + Tier 1 + Tier 2).	**Agree:** A 0.5 FAR bonus for Tier 2 features up to 4.0 FAR will provide an incentive for these amenities. The Planning Commission increased the maximum FAR within nodes from 2.5 to 3.0, or 3.5 with internal TDRs, during their deliberations based on transit-oriented design principles, independent of financial feasibility.
Do not apply any FAR limit to residential buildings (restrict by height); incentive system would apply above base FAR.	**Disagree:** Staff does not support unlimited residential FARs in the Bel-Red area. Upper-end FAR limits along with height limits are appropriate tools to guide development. Staff proposes to use ULI's proposed commercial FAR limit of 4.0 for residential development in the nodes. FAR exemptions would be available for affordable housing, ground-floor retail, and other amenity features. The primary housing areas outside the nodes, R and CR zones, are recommended by Staff to remain at a maximum of 2.0 FAR. The Staff recommendation is supported by the following: Property Counselor's analysis shows that high-rise residential and mixed-residential at approximately 4.0 FAR (with some FAR exemptions) are the top performing development types of the 10 scenarios tested for the corridor. Mid-rise residential performs at a lower level, but is limited more by parking than by allowable FAR, generally reaching up to 3.0 FAR with above-grade structured parking. Removing FAR limits on residential uses would potentially raise major questions about the ultimate densities that may be developed in the corridor.
Add underground parking to bonus list.	**Disagree:** Staff recommends not including underground parking as a bonus amenity. Underground parking was discussed by the Planning Commission. The conclusion was that it did not rise to the level of importance as the other public amenities that were included on the bonus list, and would have the potential to "trump" other developer amenities in the corridor (i.e. if underground parking is on the bonus list, it would potentially generate enough FAR to preclude other amenities).
Waive fees for inclusion of affordable housing.	**Agree:** Affordable housing is proposed as a Tier 1 amenity. Affordable units included in a project will not have additional incentive zoning fees applied to them.

ULI Panel Non-Technical Recommendations	Staff Response
Consider the burden of transportation impact fees when balancing total incentive fees.	**Agree:** The ULI Panel's economic analysis assumed a $5,000 impact fee per peak evening hour trip currently being considered by the City. The Panel's conclusion that incentive fees should not exceed $15 per square foot of additional development included imposition of transportation impact fees at this level.
Count privately financed public amenities toward incentive.	**Agree:** The proposed incentive system is built around public amenities being provided by private development.
Recognize conveyance of land to public use.	**Agree:** The proposed incentive system allows FAR to be transferred from privately owned land that is dedicated or provided by easement for right-of-way or other public use. If the City or a transportation agency purchased land for public use, then the FAR would be retained by the purchasing party.
Encourage Transferable Development Rights (TDRs).	**Agree:** Local TDRs are part of the current Bel-Red zoning provisions through stream restoration, parks and open space dedication, and right-of-way conveyance. Regional TDRs are a potential mechanism for density transfer from outside the King County urban growth area to within the Bel-Red area. Approaches to including Regional TDRs within the larger density incentive framework are planned for Council discussion as part of the larger Bel-Red package.
Eliminate phasing.	**Disagree:** The phasing provisions included in the draft plan and zoning code are important to ensure delivery of transportation and parks & open space investments to support redevelopment of the Bel-Red area. Phasing mechanisms include: FAR limitations within nodes prior to a Phase 1 financial strategy; BROTS interlocal agreement; and 2030 high capacity transit phasing for commercial development.
Features of the subarea plan that limit building bulk and scale are more than adequate.	**Agree:** The current proposal includes a range of plan and code provisions that will help ensure aesthetically pleasing, distinctive, and long-lasting places.

ULI Panel Non-Technical Recommendations	Staff Response
Lot coverage requirements should be allowed to increase and setbacks should be allowed to decrease in the event a property owner conveys land for right-of-way, or other public use.	**Disagree:** The ORT zone is currently the only area with required setbacks beyond typical landscaping requirements. The 75% lot coverage requirement throughout the corridor is important to retain access to light and air and provide opportunities for open space and natural drainage practices.
There should be no floor plate restrictions up to 100 feet of building height. At that point, a "tower" setback may be implemented.	**Disagree:** Staff recommends that floor plate limitations and tower articulation be used along with design guidelines to help shape development in the Bel-Red area. The concern is that very large floor plates could compromise the urban design vision for the area, potentially producing massive buildings that impede access to light, air and views. Staff intends to bring back additional information to Council on this topic during their review of the Bel-Red height and bulk provisions.
Developments that take part in the incentive program should be allowed a priority processing in order to expedite entitlement and construction activities.	**Disagree:** Bellevue offers a high level of service for development within the City for all customers. Priority processing for Bel-Red development taking part in the incentive system could potentially raise equity issues with other development in the City.
Minimum parking requirements should anticipate a future transit-oriented neighborhood for the Bel-Red corridor.	**Agree:** The current proposal includes a broad range for allowed parking, with minimum parking requirements that are transit-oriented, provide for developer flexibility and anticipate changes in demand over time.
Review incentive system in three years.	**Agree:** As part of the implementation work in the Bel-Red Subarea, key plan and code provisions will be monitored and reviewed on a periodic basis (3-5 years).

Revised Incentive Bonus Rates

The Planning Commission's transmittal to Council included a list of bonusable amenities and preliminary bonus ranges, with the understanding that the City Council would set the bonus rates based on Council review of the financial plan. The following table presents Staff's revisions to the bonus rates following the ULI Panel's work and Property Counselors revised economic analysis. Bonus rates are all higher than those derived from the earlier economic analysis and FAR framework.

The key finding from the ULI Panel that affects the amenity bonus rates is that total incentive fees should not exceed $15 per square foot of bonus FAR. Property Counselors derived a bonus rate for each amenity based on the cost of providing the feature, and any embedded benefit to the development of having the amenity. Bonus rates are measured in different ways

depending on the amenity. These include a square foot of bonus area per feature area provided, square foot of bonus area per $1,000 of feature, or a straight FAR bonus for LEED.

The incentive system tiering remains consistent with the Planning Commission transmittal, except that the amount of FAR lift allocated to Tier 1 is now 2.5 within the nodes and 1.0 outside the nodes in the R and CR zones. The Tier 2 FAR lift is now 0.5 within the nodes.

Regional TDRs are included on the incentive list, but do not have a bonus rate. The potential approaches to including Regional TDRs within the larger density incentive framework are planned for Council discussion as part of the overall Bel-Red package, at a future date.

Revised Incentive Bonus Rates

Bonus Amenity	Bonus Rate
TIER 1	
Workforce / Affordable Housing – Rental at 80% AMI Bonus Rate (SF Market / SF Affordable)	4.6
Workforce / Affordable Housing – Ownership at 100% AMI Bonus Rate (SF Market / SF Affordable)	7.2
Parks Bonus Rate (SF Building Area / SF Feature)	5.7
Stream Restoration $ / SF Building Area SF Building Area / $1,000 of Feature	$15.00 66.7
TIER 2	
Non-profit / Community Service Space (Subsidized Space) Bonus Rate (SF Building Area / SF Feature)	13.7
Public Restrooms Bonus Rate (SF Building Area / SF Feature)	16.7
Public Art SF Building Area / $1,000 of Feature	66.7
Public Access to Outdoor Plaza Bonus Rate (SF Building Area / SF Feature)	2.3
LEED Gold or Platinum Certification FAR Bonus for LEED Gold (@2.5% cost premium) FAR Bonus for LEED Platinum (@5.0% cost premium)	 0.13 0.33
Active Recreation Area Bonus Rate (SF Building Area / SF Feature) SF Building Area / $1,000 of Feature	 9.7 66.7
Natural Drainage Features Bonus Rate (SF Building Area / SF Feature)	0.7
Regional Transfer of Development Rights (TDRs)	Reserved

NEXT STEPS

The October 6, 2008, Study Session, will include review of a modified density incentive system based on the recommendations of the Urban Land Institute Panel and revised economic analysis of Property Counselors. The density incentive system is part of the Bel-Red land use code, which was introduced to Council on September 22 and will be incorporated as part of the overall Bel-Red plan and code package.

ATTACHMENTS

The following documents have been provided to Council as part of the Bel-Red three-ring binders:

1. Economic Evaluation for Bel-Red Bonus Incentive System, Property Counselors (May 2008)
2. ULI Technical Assistance Panel Recommendations, Bel-Red Incentive Zoning Feasibility (September 2008)
3. Response to ULI Panel Report, Property Counselors (September 2008)