# Bel-Red Subarea

## Continued Discussion of Draft Zoning Incentive System

**Bellevue City Council**

**October 13, 2008**

BEL RED
*corridor project*

# Property Counselors Response to ULI

- Response to ULI Technical Recommendations:
  - Capitalization rates adjusted upward
  - Project development cost adjusted upward
  - Parking revenue eliminated in modeling

  Conclusions:

  - $15 per square foot value for additional development rights has been tested and is supportable given results of revised feasibility analysis
  - Bonus rates for each amenity generally higher than those derived from the earlier economic analysis

# Staff Response to Non-Technical Recommendations

- **Areas of Agreement:**
  - **Set Base FAR at 1.0**
  - **Increase Tier 1 lift within nodes to 2.5 FAR; outside nodes to 1.0 FAR**
  - **Provide Tier 2 bonus within nodes of 0.5 FAR**
  - **Waive additional incentive fees for affordable housing**
  - **Consider transportation impact fees when balancing total incentive fees**
  - **Count privately financed public amenities**
  - **Recognize conveyance of land to public use**
  - **Encourage Transferable Development Rights (TDRs)**
  - **Framework for building bulk and scale**
  - **Minimum parking requirements should anticipate future transit-oriented neighborhoods**
  - **Review incentive system in 3 years *(5 years is staff recommendation)***

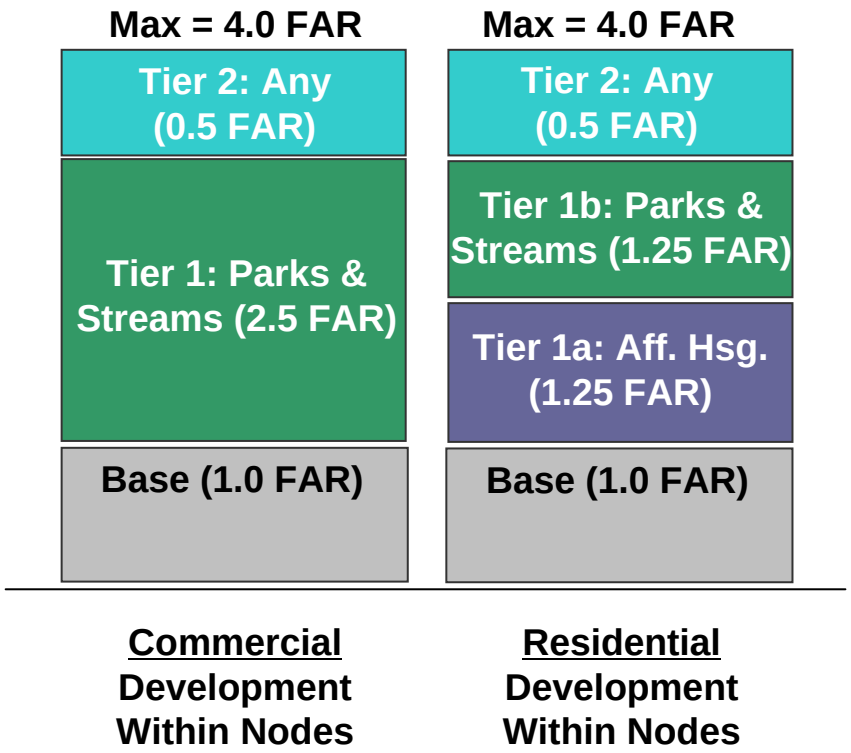
# Staff Response to Non-Technical Recommendations

## ULI Recommendations which raise Staff concerns:

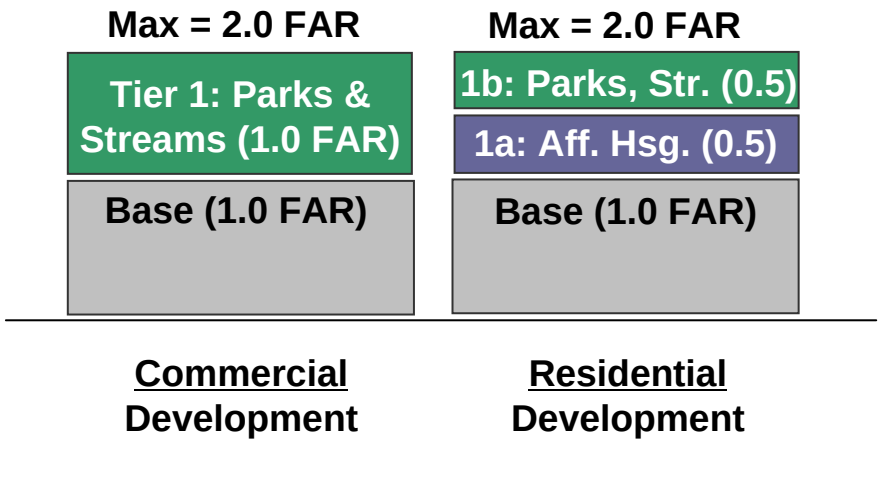
- Do not apply FAR limit for residential
- Add underground parking to incentive list
- Eliminate phasing
- Lot coverage and setback modifications when property owner conveys land for right-of-way, or other public use
- No floor plate restrictions up to 100 feet of building height
- Expedited entitlement and construction activities

# Higher FAR, Incorporating ULI Recommendations

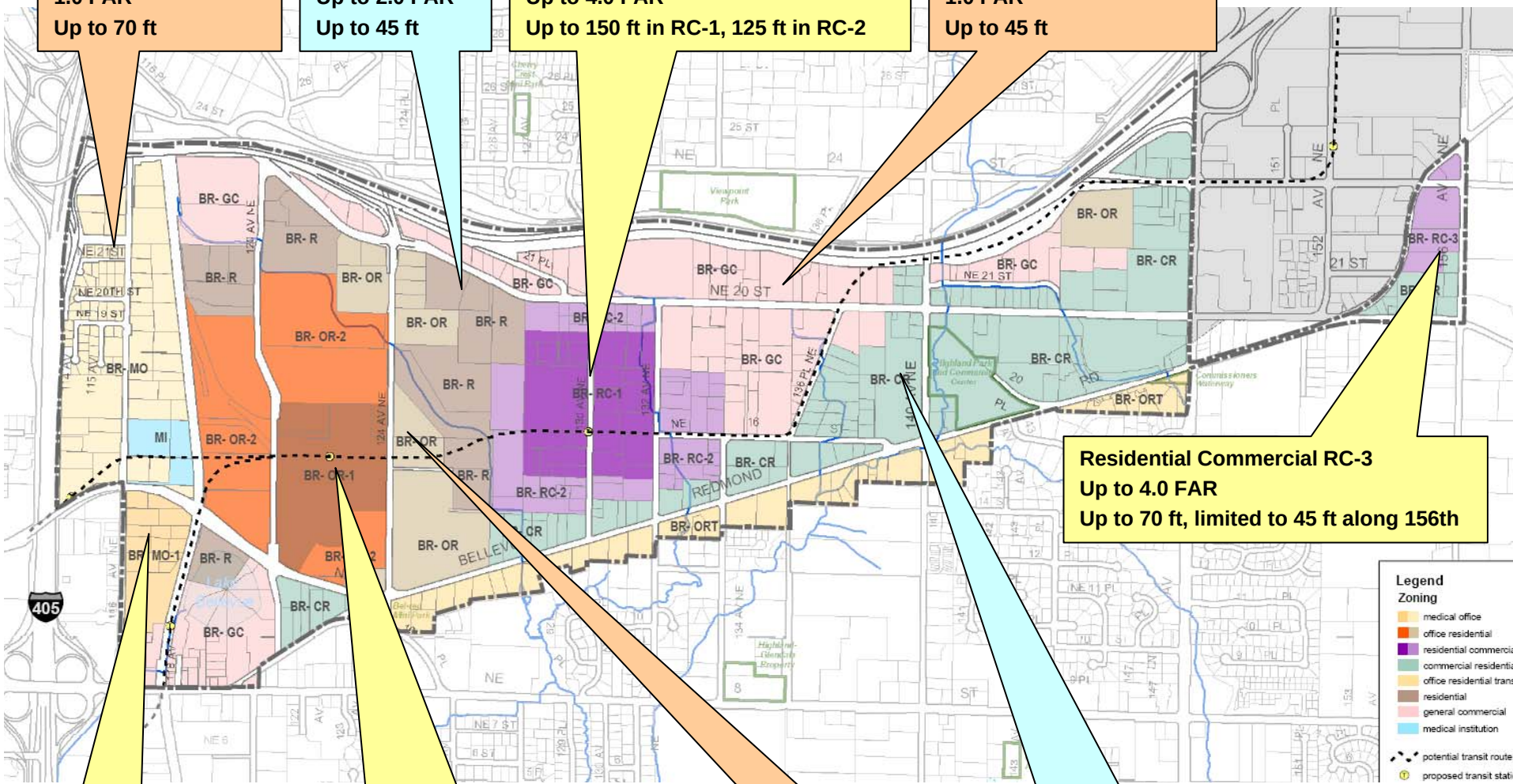
## Within Nodes




## Outside Nodes (R and CR Districts Only)



# Insert Zoning Map with Annotations for Proposed Maximum FARs and Heights, showing where incentive system would apply



# Areas Outside Nodes

*Since these areas may be slower to redevelop, is there enough flexibility to provide for their health in the interim?*

- Lower level of upzone; lower increase in land value; lower redevelopment pressure
- Expect lower rate/slower timing of redevelopment—consistent with Steering Committee vision
- Some districts proposed as max. 1.0 FAR; no bonus system
  - BR-MO, BR-CR, BR-GC, BR-ORT—comprise about half of area outside nodes
- Some districts proposed as max. 2.0 FAR, including bonus system
  - BR-R, BR-CR—comprise the other half of area outside nodes
- Market will determine redevelopment timing—proposed initial phasing requirements (LUC 20.25D.040.A) do not apply

# Areas Outside Nodes, cont.

*Can existing uses continue until redevelopment occurs, even if not compatible with future vision for Bel-Red?*

- Many existing uses are also permitted as new uses
  - BR-GC, BR-CR uses very similar to today's GC and CB zones
- Issue focuses on existing uses that have "light industrial characteristics"—i.e. associated with noise, fumes, heavy truck operations, etc.
  - Ex: should we allow new types of manufacturing uses in BR-R, (an area now LI) that is intended in the future for predominantly residential use?
  - Proposal says no *new* uses of this type in BR-R, but existing ones may continue
- In the interim prior to redevelopment, extraordinary provisions made to promote the continuance of existing uses
- May continue to operate existing use, may alter operations, and may expand outside nodes, even if it would not be an approved new use
  - Exceptions: no expansion of hazards; some limits on expansions in the BR-R (residential) District

# Modified Bonus Rates, Based on $15/sq. ft.

| Bonus Amenity (each defined in the Land Use Code) | Bonus Rate |
|---|---|
| **TIER 1** | |
| **Workforce / Affordable Housing – Rental at 80% AMI**<br>Bonus Rate (SF Market / SF Affordable) | **4.6** |
| **Workforce / Affordable Housing – Ownership at 100% AMI**<br>Bonus Rate (SF Market / SF Affordable) | **7.2** |
| **Parks**<br>Bonus Rate (SF Building Area / SF Feature) | **5.7** |
| **Stream Restoration**<br>$ / SF Building Area<br>SF Building Area / $1,000 of Feature | **$15.00**<br>**66.7** |
| **TIER 2** | |
| **Non-profit / Community Service Space (Subsidized Space)**<br>Bonus Rate (SF Building Area / SF Feature) | **13.7** |
| **Public Restrooms**<br>Bonus Rate (SF Building Area / SF Feature) | **16.7** |

**Full set of recommended bonus rates included in Council packet**

**How are rates calculated?**

- **Cost to provide amenity per sq. ft. / $15 value of sq. ft. of additional development.**
  **Example for park: $85 cost to develop sq. ft. of park / $15 = 5.67 bonus rate;**
  ***For every sq. ft. of park provided, 5.67 sq. ft. of additional development is earned***

# Example of Large Residential Apartment Development

**Example Residential Site**

- 100,000 sq. ft. site (2.3 acres)
- About 1 Bel-Red block (320' by 320')
- 4.0 FAR (max. within nodes)
- Two or three buildings

**Building Totals**

- 432 total units: 400 market units, 32 affordable rental units (affordable about 7.5% of total units)
- 5,154 sq. ft. active recreation area
- Maximized 4.0 FAR, with affordable housing FAR *exempt*

**Tier 2: Any (0.5 FAR)**

- 100,000 x 0.5 = potential 50,000 sq. ft. bonus (~50 market units)
- 50,000 potential bonus / 9.7 bonus rate = 5,154 sq. ft. active recreation area

**Tier 1b: Parks/OS & Streams (1.25 FAR)**

- 100,000 x 1.25 = potential 125,000 sq. ft. bonus (~125 market units)
- 125,000 potential bonus x $15 per sq. ft. = $1.875m for stream enhancements, or could be parks/open space

**Tier 1a: Affordable Housing (1.25 FAR)**

- 100,000 x 1.25 = potential 125,000 sq. ft. bonus (~125 market units)
- 125,000 potential bonus / 4.6 bonus rate = 27,173 sq. ft. affordable rental (~32 units), (w/ affordable *exempt* from FAR calculation)

**Base (1.0 FAR)**

- 100,000 x 1.0 = 100,000 sq. ft. as-of-right (~100 market units)

**Residential Development Within Node**

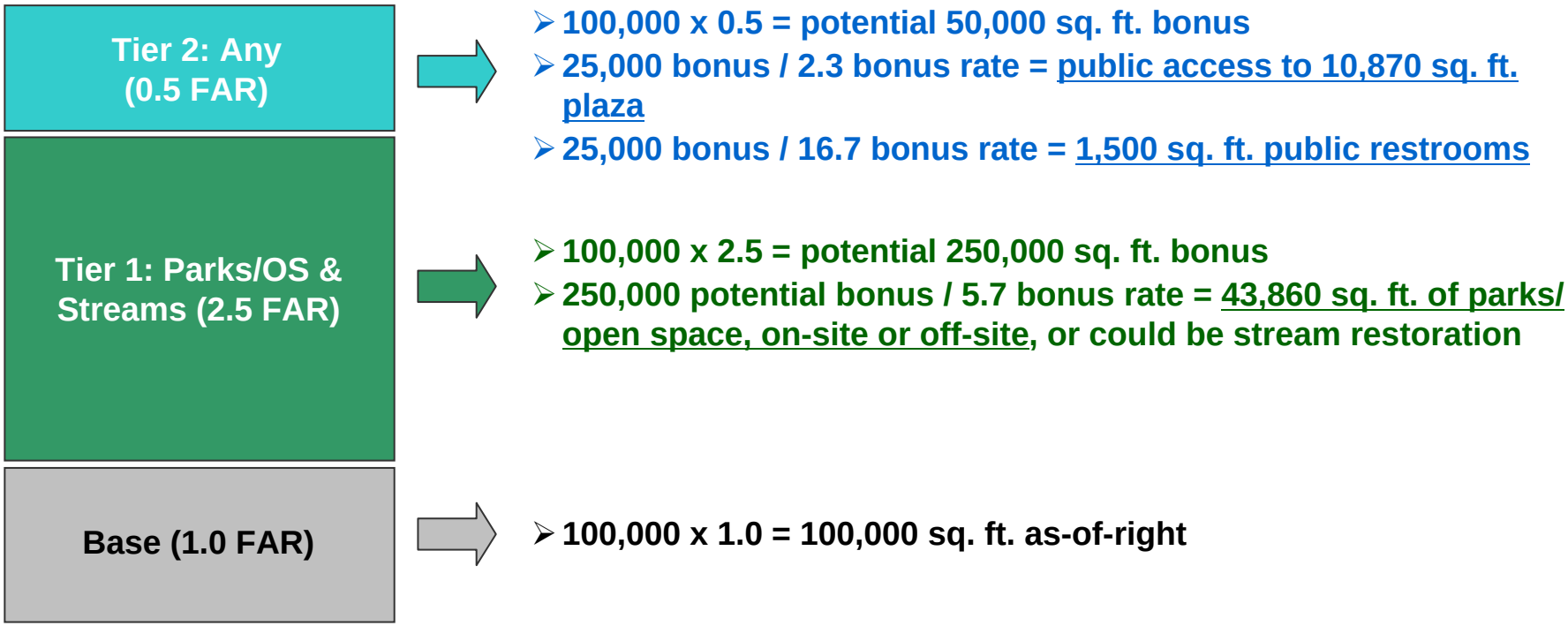
# Example of Commercial/Office Project

**Example Commercial/Office Site**

- 100,000 sq. ft. site (2.3 acres)
- About 1 Bel-Red block (320' by 320')
- 4.0 FAR (max. within nodes)
- Multiple commercial/office buildings

**Building Totals**

- 400,000 sq. ft. commercial/office, maximized 4.0 FAR
- 43,860 sq. ft. parks/open space
- 10,870 sq. ft. public accessible plaza
- 1,500 sq. ft. public restrooms




- 100,000 x 0.5 = potential 50,000 sq. ft. bonus
- 25,000 bonus / 2.3 bonus rate = public access to 10,870 sq. ft. plaza
- 25,000 bonus / 16.7 bonus rate = 1,500 sq. ft. public restrooms

- 100,000 x 2.5 = potential 250,000 sq. ft. bonus
- 250,000 potential bonus / 5.7 bonus rate = 43,860 sq. ft. of parks/ open space, on-site or off-site, or could be stream restoration

- 100,000 x 1.0 = 100,000 sq. ft. as-of-right

# Recap of Incentive System Conclusions

- Developer contributions are a critical part of funding the amenities and infrastructure needed to support the Bel-Red Plan and rezone
- “The overall approach of the incentive zoning system is sound public policy”
- A number of ULI recommendations have been incorporated to refine the consultant’s financial model
- $15/sf bonus FAR is the rate recommended by ULI and supported by the Property Counselors model
- The bonus rate should be re-visited in 3-5 years to see how it’s working and make adjustments if needed.

# Parking assumptions: a major driver, both for mode split and developer return

- Parking ratios have a major influence on trip-making; lower parking is consistent with an environment that supports transit and drive-alone alternatives
- Parking ratios are also a huge cost-driver. Lower parking can significantly improve developer return.
  - Surface parking space (excl. land) $2-5,000
  - Above-ground structured parking space $16,000+
  - Underground parking space $29,000+

# Development return improves considerably with lower parking

## Residual Land Values

### Scenario 1 High Rise Office @ 4.0 FAR

Parking at 3.0 spaces/1000 sf
$20.66

With parking revenue at $50/space monthly
$103.81

Parking at 2.5 spaces/1000 sf
$49.24

With parking revenue at $50/space monthly
$118.51

### Scenario 2 Mid- Rise Office @ 2.5 FAR

Parking at 3.0 spaces/1000 sf
$16.71

With parking revenue at $50/space monthly
$68.49

Parking at 2.5 spaces/1000 sf
$34.53

With parking revenue at $50/space monthly
$77.66

# Draft Parking Ratios and Longer-term implications

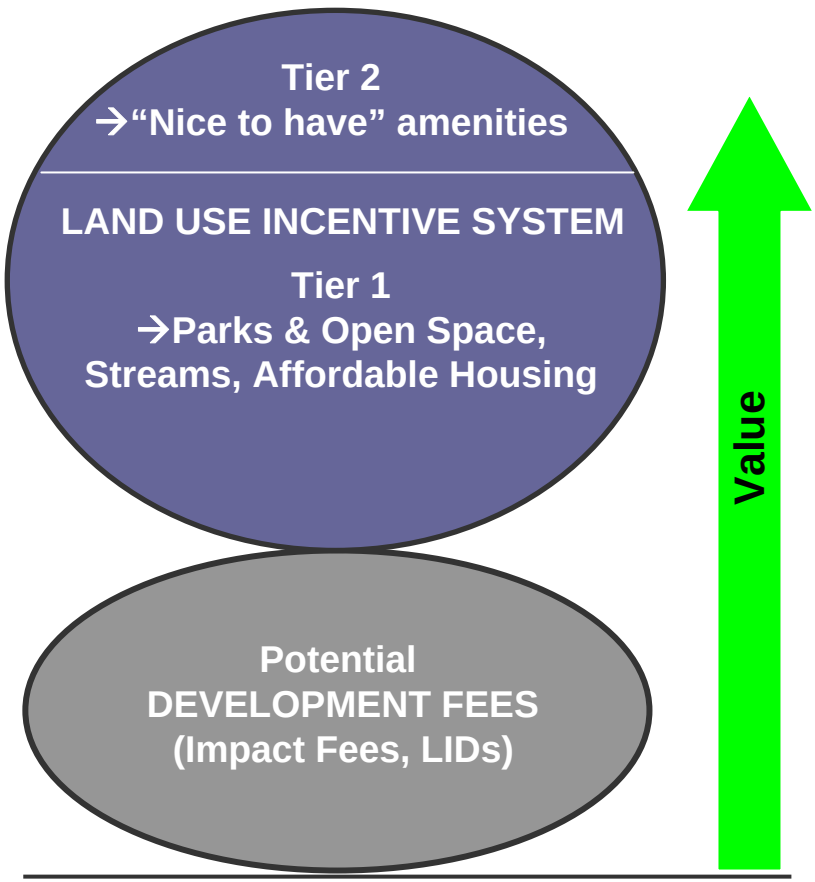
- Parking ratios of 2.5 spaces/1000 sf office or even lower are consistent with the Bel-Red vision
- Lower ratios are consistent with the mixed use, transit-oriented vision, and will lower development costs
- Early development may include some low cost surface parking, with its land area later converted to additional buildings

# Complete cost accounting important

- Has the model accounted for multiple developer costs, all of which may significantly affect performance and the ability to pay for zoning incentives?
- Specific potential costs – in addition to zoning incentive costs--noted at 10/6 Council meeting:
  - Impact fees
  - LIDs
  - Site improvement costs (local circulation, utilities, demo, grading, etc.)
- If the model is to balance, all these costs must be accounted for

# Incentive System Framework is sensitive to this issue

**New Zoning**




**Current Zoning**
(pre Bel-Red Plan)

*<u>Lift in Land Value</u>*
*The zoning lift has the potential to support the public infrastructure and amenities needed to transform the Bel-Red area.*

# To what extent are these multiple costs incorporated into the economic model?

- Property Counselors Model incorporates all three types of costs:
  - Transportation impact fees assumed at $5,000/PM peak trip
  - LIDS assumed at $4/sf land for west-node office prototypes, with credits against impact fees
  - Site improvements (utilities, grading, demolition) and internal street construction assumed to add $20.50/sf land+ soft costs @33% = $27.27/sf land (2008$)

# Another Model's attempt to determine value of the Bel-Red upzone

- Bel-Red Corridor Real Estate Analysis (April 2008) prepared by GVA Kidder Mathews for Sound Transit
- Analysis focused only on 36-acre Spring District site to determine added value from light rail and the rezone
- Land sales comparisons
  - DNTN-OLB (Achieved FAR 3) at $127/sf land ($42/sf FAR)
  - DNTN-R (Achieved FAR 3.1-4) at $120-241/sf land ($39/sf FAR)
- Residual land value analysis
  - Modeled scenario: $122/sf land ($51/sf FAR)
  - Value increase attributable to rezone of this 36-acre site: $70-93 million

# Economic modeling is not an exact science

- Modeling is very sensitive to variations in inputs
  - Income
  - Costs
  - Cap rate
  - Parking
- Wide variations in project size, type, site conditions—no two projects are alike
- Market changes over time, sometimes quite rapidly

***However, because finding the balance and establishing the momentum is dependent on many variables over time, the Panel recommends a review of the code in three years, to assess whether the balance has been achieved. Specifically, this review should focus on the actual cost of excess FAR above the base, and assess whether this cost is inhibiting desired investment in the corridor. Once redevelopment in the corridor attains critical mass, incentive fees can be increased.***

**--ULI Report**

# Comments/Questions?

# How Bonus Rates Are Calculated

- **Starting point: $15 value for additional sq. ft. of development**
- **Four measurements based on amenity type**

- **Calculation of bonus rate based on <u>sq. ft. construction cost</u>**
  - Example for park development: $85 cost to develop sq. ft. of park / $15 value of additional sq. ft. of building area = 5.67 bonus rate; ***for every sq. ft. of park provided, 5.67 sq. ft. of additional development is earned***
  - Similar calculation for community/non-profit space, public restrooms, publicly accessible plaza
- **Calculation of bonus rate based on <u>affordable subsidy</u>**
  - Example for affordable apartment: $69.20 affordable subsidy per sq. ft. / $15 value of additional sq. ft. of building area = 4.61; ***for every sq. ft. of affordable rental, 4.61 sq. ft. of additional market rate housing is earned***
  - Similar calculation for affordable ownership units