

Transfer of Development Rights (TDR) Market and Economic Analysis

March 18, 2014

HEARTLAND



SKAGIT COUNTY TRANSFER OF DEVELOPMENT RIGHTS (TDR) MARKET AND ECONOMIC ANALYSIS

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TRANSFER OF DEVELOPMENT RIGHTS MARKET AND ECONOMIC ANALYSIS¹

EXECUTIVE SUMMARY

SCOPE OF ANALYSIS

Heartland was contracted by Skagit County to undertake a market analysis to inform transfer of development right (TDR) policy. The project scope included analyses of both pre-defined Candidate Receiving Areas (CRAs) and pre-defined potential sending area zoning districts:

Candidate Receiving Areas

1. Bayview Ridge Residential & Commercial Development
2. Burlington City-Center Residential & Commercial Development
3. Rural Upzone Areas

Sending Zoning Districts

1. Ag-NRL
2. RRC-NRL
3. RRv
4. SF/IF-NRL

The first phase of analysis (Phase II) provided a high-level look at supply and demand characteristics within each CRA and summarized the analyses which had been conducted to-date on sending and receiving area economics. The second phase (Phase III) of analysis leveraged the Phase II findings to inform an in-depth TDR exchange rate analysis which looked at the economic dynamics at play within the CRAs and within the potential sending areas. Additionally, Heartland endeavored to understand how a hypothetical TDR program, informed by the results of this market analysis, could interact and align with the existing density credit and purchase of development right programs in the County.

PHASE II SUMMARY

The Phase II analysis focused on understanding the supply and demand dynamics of each CRA to inform areas of concentration for the in-depth Phase III market study. Heartland utilized a macro capacity analysis to determine annual supply and demand for land within the CRAs and to project the relative capacity within each CRA to accommodate projected growth (both household growth and growth of commercial space requirements). This macro analysis produced a “Capacity Threshold Year”, which is the year when land capacity would be extinguished based on projected growth patterns. The Capacity Threshold Year can be thought of as a relative indication of land scarcity and demand for density above base levels, which subsequently are indications of implied market demand for a TDR program. The results of this analysis are summarized on the following page.

¹ This document is meant to accompany the presentation: *Transfer of Development Rights (TDR) Market and Economic Analysis*, an abbreviated version of which was presented by Heartland, LLC to the Skagit County Board of County Commissioners on March 18, 2014.

SUPPLY & DEMAND ANALYSIS SUMMARY									
	Burlington Residential/Commercial			Bayview Ridge Residential			Bayview Ridge Commercial		
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
Developable Land Supply	333 Acres			297 Acres (BR-R) 230 Acres (BR-UR)			383 Acres (LI) 252 Acres (HI)		
Annual Growth	26 DU & 100,000 SF	37 DU & 150,000 SF	72 DU & 200,000 SF	42 DU	58 DU	114 DU	70,000 SF	100,000 SF	130,000 SF
Dev Assumption	14 DU/Acre (Res) 0.3 FAR (Com)			4 DU/Acre (BR-R) 1 DU/5 Acre (BR-UR)			0.25 FAR (LI) 0.12 FAR (HI)		
Annual Land Utilization	10 Acres	14 Acres	20 Acres	11 Acres	15 Acres	29 Acres	9 Acres	13 Acres	17 Acres
Years of Capacity	34 Years	23 Years	16 Years	27 Years	20 Years	10 Years	47+ Years	47+ Years	42 Years
Capacity Threshold	2047	2036	2029	2041	2033	2023	2060+	2060+	2055

The macro capacity analysis determined that there would be relatively little demand for above-base commercial density in the Bayview Ridge CRA, therefore this CRA was not included in the Phase III analysis. The Burlington residential/commercial and the Bayview Ridge residential CRAs were determined to have relatively the greatest potential under this macro capacity analysis and therefore were analyzed further in Phase III. The Rural Upzone CRA is not a geographically-defined area; therefore a macro capacity analysis was not applicable. Demand for TDR in this CRA was inferred from past use of the upzone program, therefore the CRA was analyzed further in Phase III.

PHASE III SUMMARY

TDR is a process of transferring density from sending area property to receiving area property. This density has value both to the sending property owner and to the receiving property owner (or developer). Understanding value expectations on each side of this equation is an important component to structuring a TDR program, and was the focus of Heartland’s Phase III analysis.

RECEIVING AREA ABILITY TO PAY

To determine whether a property owner on the receiving end of a TDR program has the ability to pay for additional density it is necessary to understand the property’s value before and after receiving the additional density. In a market with sufficient land sale activity at all levels of zoned density, this can be accomplished by analyzing recent comparable sales of properties at both the pre and post-TDR density levels. However, in the absence of this dataset, it is necessary to use a residual land value (RLV) modeling approach to establish the value lift associated with TDR density.

Heartland determined that the dataset of sales in Skagit County was not sufficient for a strictly sales-based analysis, therefore RLV was the primary method used to calculate receiving area ability to pay. A RLV approach determines land value by modeling a hypothetical development project and determining how much a developer could “afford” to pay for land and still have the development make economic sense.

The RLV analysis estimates the total value lift that the receiving land owner/developer achieves when receiving TDR density credits. This value lift may or may not be what a developer should be charged for the density. To determine a *fee inference* from this value, Heartland incorporates a *fee as percentage of value* metric of 50%. This means the *fee inference*, or amount a developer should be asked to pay per density credit, is 50% of the value they receive from that credit. This *fee as percent of value* metric is meant to provide a margin of error in the analysis and to make the TDR density credits more attractive to developers relative to a next-best option (buying more land).

The detailed results of Heartland’s ability to pay analysis can be found on slides 17, 19, and 21 of the accompanying presentation.

Brief Summary of Findings

- Bayview Ridge Fee Inference: \$6,600 to \$7,350 per unit
- Burlington Residential Fee Inference: \$3,800 per unit
- Burlington Commercial Fee Inference: \$17.50 per square foot of density
- Rural Upzone Fee Inference: \$12,460 to \$17,025 per unit
- Higher Bayview Ridge and Rural Upzone fees are associated with the ground-related nature of development in those CRAs relative to the more vertical-related increased density in the Burlington CRA

One note is that Burlington does not currently have a maximum allowable density for commercial development. For a TDR program to function there would need to be a base density which could be exceeded with TDR bonus density credits. In order to make a fee inference for the Burlington commercial CRA, Heartland set a hypothetical base density at a 0.30 floor-area-ratio (FAR, gross building square feet per land square feet). This figure was determined to be approximately what the market is currently demanding for commercial space. The ability to pay analysis focused on the value created by going above this hypothetical base density. In the context of Burlington’s market, this would entail reducing the amount of a development site that is allocated to surface parking and replacing that area with an expanded building structure.

SENDING AREA VALUE

Establishing a range of sending area values for multiple zones throughout for conservation land that may be located throughout the county is challenging for a number of reasons. These include the quality of the land and amenities on it, the location of the property, the level of development pressure it faces, and so on. In an ideal situation, the value of the development right would be estimated using comparable transactions. One set would be valuation of land unencumbered and then this value would be compared to sales of similar quality land after the development rights are extinguished. The difference between these two reconciled sets (before less after) would be the value of the development rights. Using County assessor sales data, we had a sufficient set of transactions that did not involve easements for each zone; however, the set of sales to gauge the “after” value was limited in every zone except for the Ag-NRL, which had roughly 60 transactions dating back to 2007. Because conservation easements that have been acquired through the Farmland Legacy Program (FLP) program are likely more restrictive than easements that would be transferred in a TDR transaction, the value of a TDR development right is less than one secured in the FLP. Given this background, we based our sending value range estimates in the following manner:

1. Assembled sales data for each sending area.
2. Estimated the average value of a development right for FLP transactions to be approximately 30%. This formula is the development right value divided by the unencumbered value.
3. A second set of information from Snohomish County and Forterra was reviewed regarding its PDR vs anticipated TDR pricing relationship.
4. Blending these two relationships with our assessment of the impact on value resulting from fewer restrictions on TDR easements compared to PDR easements, we estimated the average development right would be roughly 20% of the unencumbered value.
5. Applied this ratio to the assembled County sales data for each sending area zone.
6. This output resulted in a range of sending site values per development right for each zone that a party seeking the purchase of a development right may pay.

7. Assumed TDR purchases would be in the first or second quartile of the resulting TDR values as buyers would likely gravitate towards the lower cost credits unless policy decisions influenced their decision.
8. TDR values for RRv and RRc-NRL include the value of the CaRD density bonus potential
9. Refer to slide 24 for results

EXCHANGE RATE RECONCILIATION

An exchange rate is needed in a TDR program when the value of one credit on the receiving side is not equal to the value of one credit on the sending side. Without an exchange rate in this scenario, transactions would not occur because one side of the deal would not be receiving adequate compensation for the density that they are either sending or receiving. In this analysis, we calculated exchange rates by dividing the sending area per credit value by the receiving area per credit value, which determines the number of receiving area credits required to extinguish one sending area credit. Detailed results of these calculations can be found on slides 25 to 27 of the accompanying presentation.

Brief Summary of Findings:

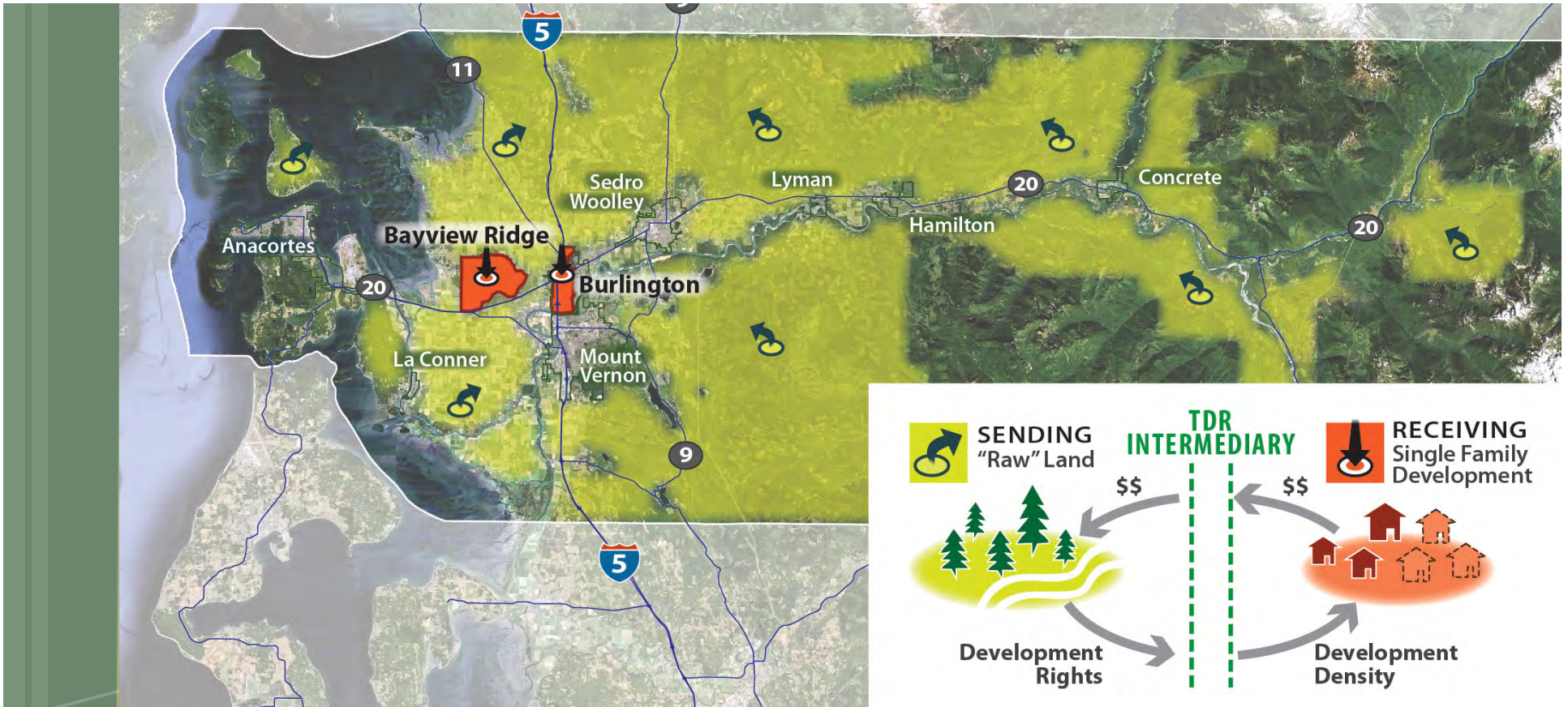
- Bayview Ridge Exchange Rates: 3 to 6 receiving units per sending credit
- Burlington Residential Exchange Rates: 6 to 10 receiving units per sending credit
- Burlington Commercial Exchange Rates: 1,200 to 2,200 receiving square feet per sending credit
- Rural Upzone Exchange Rates: 1 to 3 receiving units per sending credit
- CRA ability to pay is set, therefore exchange rates fluctuate based on differing values in the sending area zones
- Receiving area credits have highest “buying power” in sending zones with the lowest development right values (SF/IF-NRL) and the lowest buying power in sending zones with the highest development right values (Ag-NRL). Therefore, assuming a fixed demand for density credits on the receiving side, the opportunity to extinguish the most sending credits would be in these low cost sending zones.

ANALYSIS RECOMMENDATIONS

1. **Macro-Level Considerations:** Heartland determined that the current CRA market environments will most likely not support a robust TDR program in the near term. The initial program would likely consist mainly of isolated project utilizations of TDR, where benefits exceed costs to individual developers. However, there are several benefits to implementing a program in expectation of future utilization: it allows the County to be prepared to capture funds for conservation when development does occur and it allows the County time to work out details, fine-tune and expand awareness of the program before major utilization. We anticipate use will increase as the economy strengthens, existing capacity is utilized, and especially if additional receiving area opportunities are created.
2. **Sending Areas:** The County needs to determine its conservation priorities so that the sending areas can be focused on conserving high-priority land. The sending areas in this analysis were broad zoning districts, which could be refined to target specific conservation goals. Since the Ag-NRL zone already has several conservation programs in place and has more expensive development rights relative to other potential sending zones, a TDR program could focus on lands outside of the Ag-NRL zone. Stakeholder meetings indicated that general interest exists in providing these zones, which are currently left out of programmatic conservation efforts, with a conservation outlet.
3. **Farmland Legacy Interaction:** As indicated above, a program could be structured to focus on conserving lands not currently conserved by the FLP, which focuses on the Ag-NRL zone. However, a TDR program could also include Ag-NRL as a sending zone and not be directly competing with the FLP. A market-based

TDR program would naturally gravitate towards lower-value AG-NRL land that would likely not qualify for the FLP, acting as a secondary option open to Ag-NRL owners.

4. **Receiving areas:** Bayview Ridge residential development would be urban (encouraged by Growth Management Act) and have good TDR buying power relative to Burlington, but it appears that the county is re-evaluating moving in that direction. Other ground-related residential applications could be similarly promising; but the County would need to find another appropriate city/area. There was substantial interest in the development community in rural to rural density transfers, which would also have high conservation buying power. However, increasing density in rural zones has not been a County priority. On the commercial side, a commercial TDR program in Burlington would require placing a limitation on commercial density that is not currently in place, which necessitates a discussion of the City's priorities.
5. **Program Structure:**
 - **Traditional Program:** Private market transactions between buyers and sellers, where the price of credits can be negotiated directly between the two parties. This system creates a potential for economies of scale, which can lead to larger-scale conservation. The County would set the guidelines for the program and record the easements. Additionally, most successful traditional TDR programs will also utilize a financial intermediary, which can logistically align the buyers and sellers. The intermediary could be run by the County or by a third party.
 - **Fee-in-Lieu Program:** Developer purchases density from a financial intermediary at a set price. Revenues from density purchases are aggregated by the intermediary and used for targeted conservation purposes.
 - **Preferred Option- Blended Program:** A program which allows for both direct TDR transfer and a fee-in-lieu density purchase option would provide developers with flexibility to choose which method makes the most sense for their project. Sending areas for this program could include SF-NRL, IF-NRL, RRc-NRL and targeted RRv lands. Additionally, Ag-NRL could either be excluded or included, with the TDR program complementing the existing Farmland Legacy Program. Burlington's existing fee-in-lieu program (Agricultural Heritage), which provides funds to FLP, could remain in place, with fees updated per this analysis. The County could determine additional receiving areas for the TDR fee-in-lieu component aimed at conserving land outside of FLP's target area.
6. **Exchange rates:** In a traditional program it is important for the County to set an exchange rate to align value expectations on the sending and receiving ends of the transaction. The exchange rate can either be fixed or floating. A fixed exchange rate stays constant, while a floating exchange rate fixes one side of the equation (either sending or receiving) and fluctuates based on the appraised value of the unfixed side. Based on the large variation in sending site geography, we would advise a floating exchange rate for Skagit County's program with a fixed receiving value and a sending value based on appraisal. The disadvantage of this system is increased administration costs related to the appraisal process. However, we see these costs as necessary unless sending areas become more defined.
7. **Areas for Further Consideration:** Additional receiving areas could increase program utilization and the extent of conservation from TDR transactions. Heartland's analysis of Bayview Ridge indicated that an opportunity exists for areas with a maximum density in place of 4 units per acre or less that could be exceeded with TDR purchase. Ideas for potential receiving areas include involving more cities or applying TDR to UGA expansions. Our stakeholder meetings indicated an interest in rural-to-rural density transfers. Potential receiving areas in this vein include integration of TDR with the CaRD program or allowing higher-density infill development in rural villages.



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HEARTLAND



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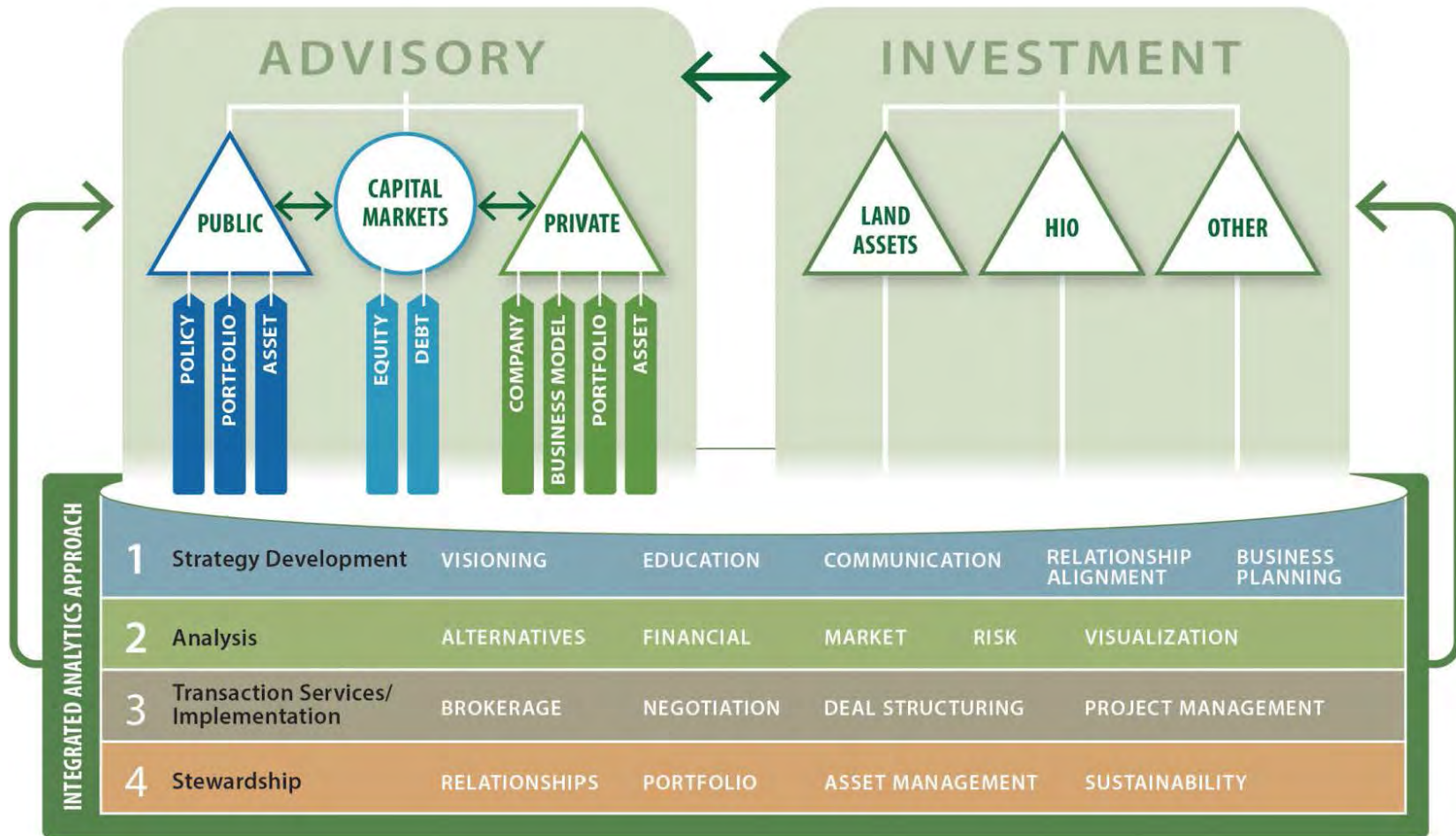
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Introduction

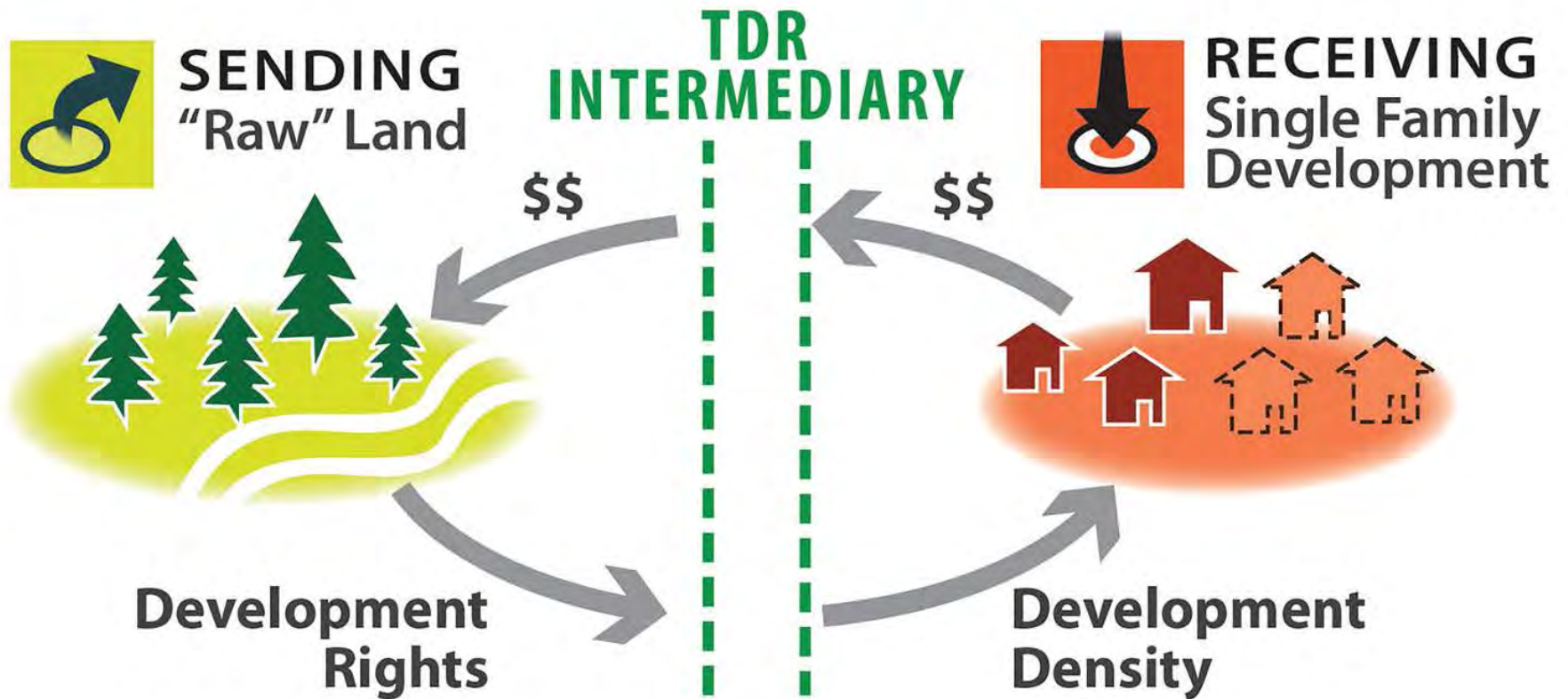
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Who We Are

HEARTLAND



TDR Programs



Four Criteria of Successful TDR Programs

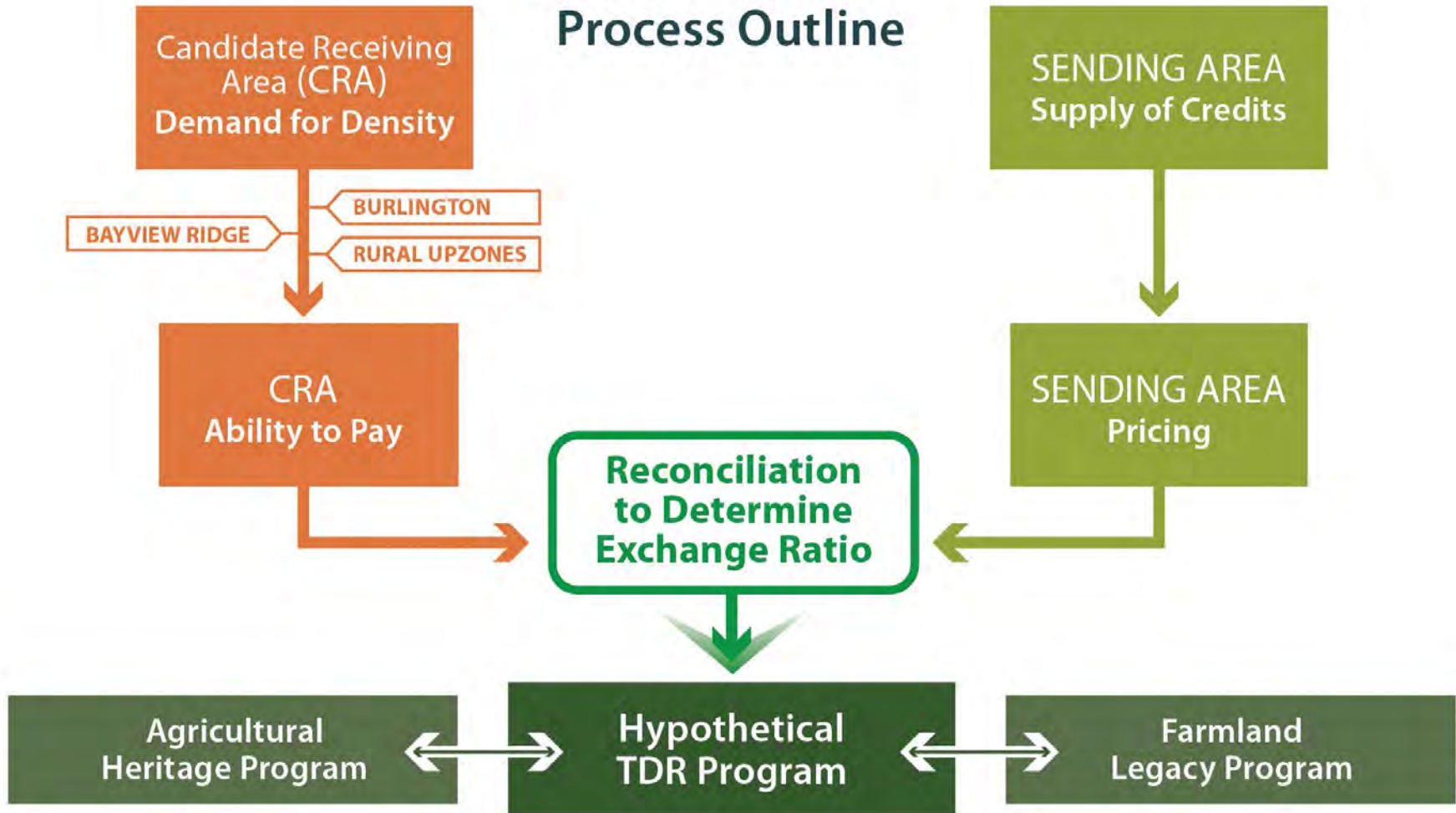
- Market Demand for Additional Density
- Affordability
- Priority within Incentive Stack
- Option Flexibility

TDR Program is Voluntary

- Sending-area landowner participation is voluntary
 - Willing sellers only (like Farmland Legacy)
 - No forced downzones
- Receiving-area landowners/developers:
 - Optional TDR purchase allows access to additional development potential
 - Pricing provides economic incentive

Process Outline

TDR ANALYSIS Process Outline

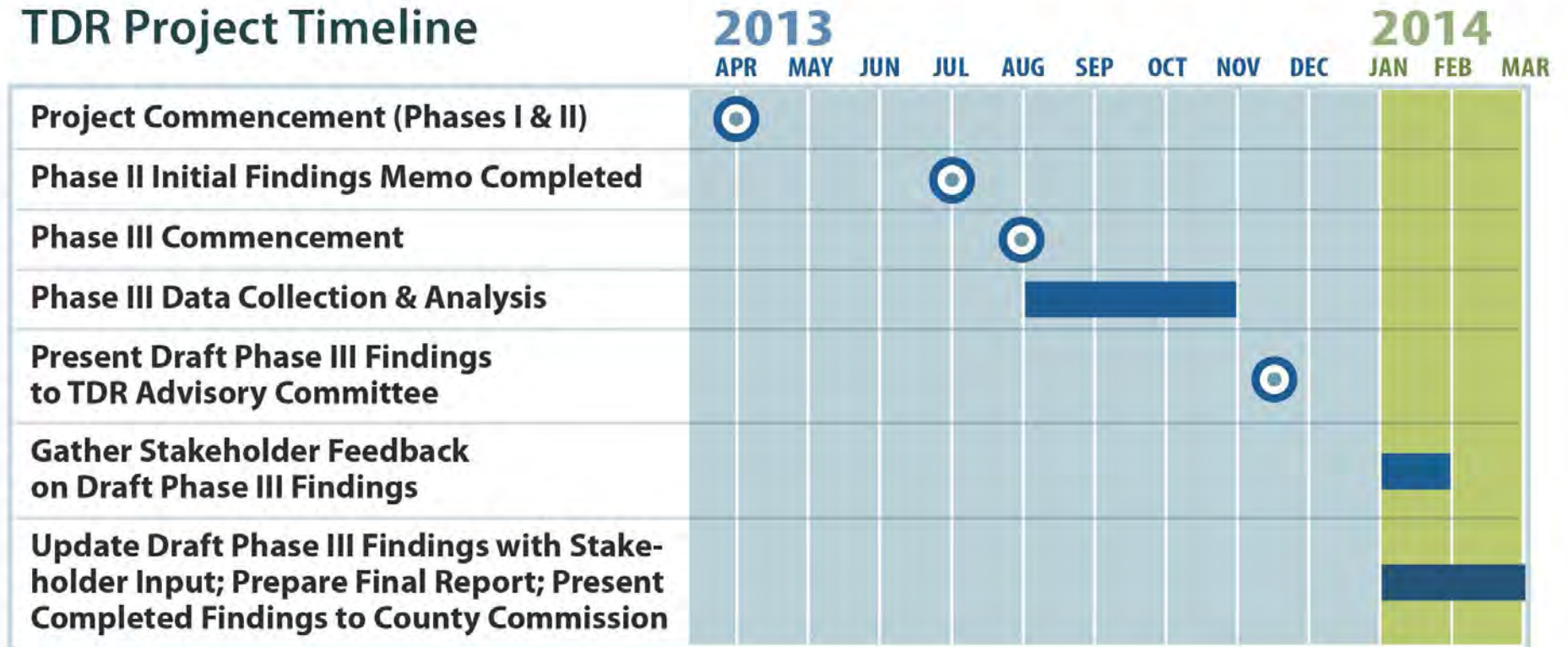


Approach

- Phase II:
 - Goal: Determine study areas for further consideration in Phase III.
- Phase III:
 - Goal: Determine relative value of density credits for sending and receiving sites to inform a TDR program exchange ratio

Timeline

TDR Project Timeline



Phase II Analysis

- Methodology
- Findings

Supply & Demand Methodology

SUPPLY & DEMAND ANALYSIS SUMMARY

	Burlington Residential/Commercial			Bayview Ridge Residential			Bayview Ridge Commercial		
	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH	LOW	MEDIUM	HIGH
Developable Land Supply	333 Acres			297 Acres (BR-R) 230 Acres (BR-UR)			383 Acres (LI) 252 Acres (HI)		
Annual Growth	26 DU & 100,000 SF	37 DU & 150,000 SF	72 DU & 200,000 SF	42 DU	58 DU	114 DU	70,000 SF	100,000 SF	130,000 SF
Dev Assumption	14 DU/Acre (Res) 0.3 FAR (Com)			4 DU/Acre (BR-R) 1 DU/5 Acre (BR-UR)			0.25 FAR (LI) 0.12 FAR (HI)		
Annual Land Utilization	10 Acres	14 Acres	20 Acres	11 Acres	15 Acres	29 Acres	9 Acres	13 Acres	17 Acres
Years of Capacity	34 Years	23 Years	16 Years	27 Years	20 Years	10 Years	47+ Years	47+ Years	42 Years
Capacity Threshold	2047	2036	2029	2041	2033	2023	2060+	2060+	2055

- Phase III CRAs:
 - Burlington Residential/Commercial
 - Bayview Ridge Residential
 - Rural Upzones

TDR Economics Findings

SUTTLES/MUNDY EXCHANGE RATE CONCLUSIONS

SENDING ZONE	SENDING SITE VALUE PER DEV RIGHT	RECEIVING ZONE	RECEIVING VALUE	FEE AS % OF VALUE	FEE \$/UNIT	IMPLIED EXCHANGE RATIO (URBAN UNITS PER SENDING DEV RIGHT)
Ag-NRL	\$100,000	Bayview Ridge Residential (4 DU/Acre -> 6 DU/Acre)	\$40,000 Per Unit	15%	\$6,000	\$100,000 / \$6,000 = 17 Units
Ag-NRL	\$100,000	Burlington Commercial (0.5 FAR -> 0.6 FAR)	\$45 Per GBSF	30%	\$13.50	\$100,000 / \$13.50 = 7,400 GBSF
Ag-NRL	\$100,000	Burlington Residential	\$11,730 Per Unit	15%	\$1,760	\$100,000 / \$1,760 = 57 Units

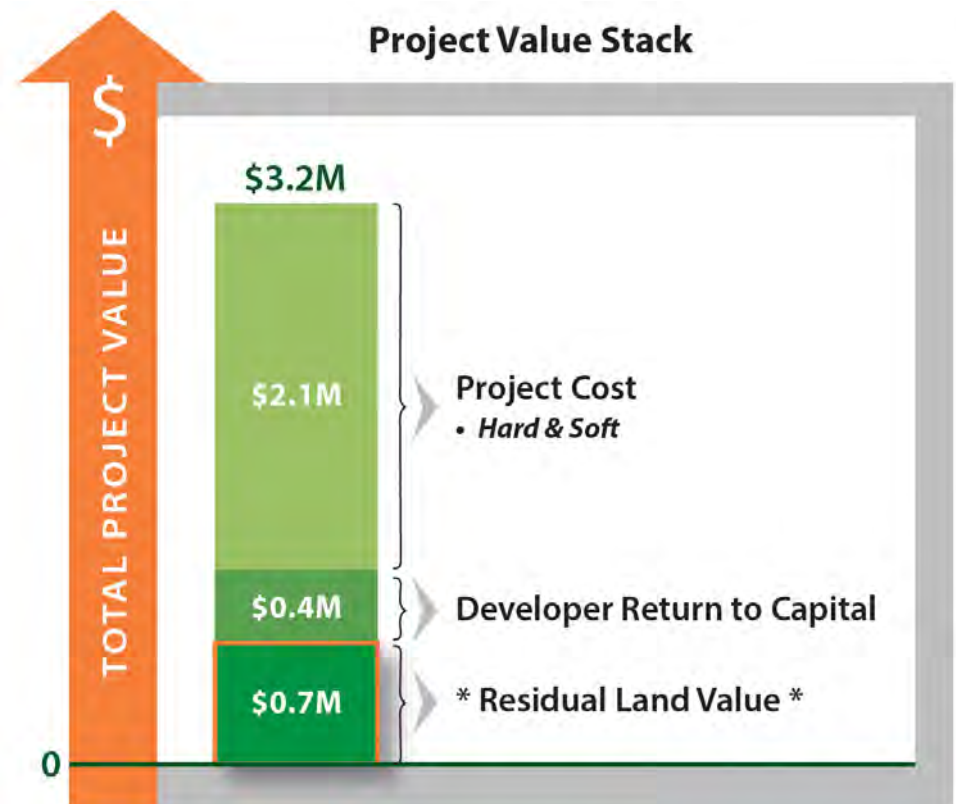
- Areas of focus in Phase III:
 - Sending Site Values for Non-Ag Land
 - Ag-NRL Values from Expanded Suttles Appraisal Set
 - Updated Receiving Site Ability-to-Pay
 - Rural Upzone Sending/Receiving Values

Phase III Analysis

- Methodology
- Bayview Ridge CRA
- Burlington CRA
- Rural Upzones CRA
- Sending Zones
- Exchange Rate Analysis
- Existing Programs

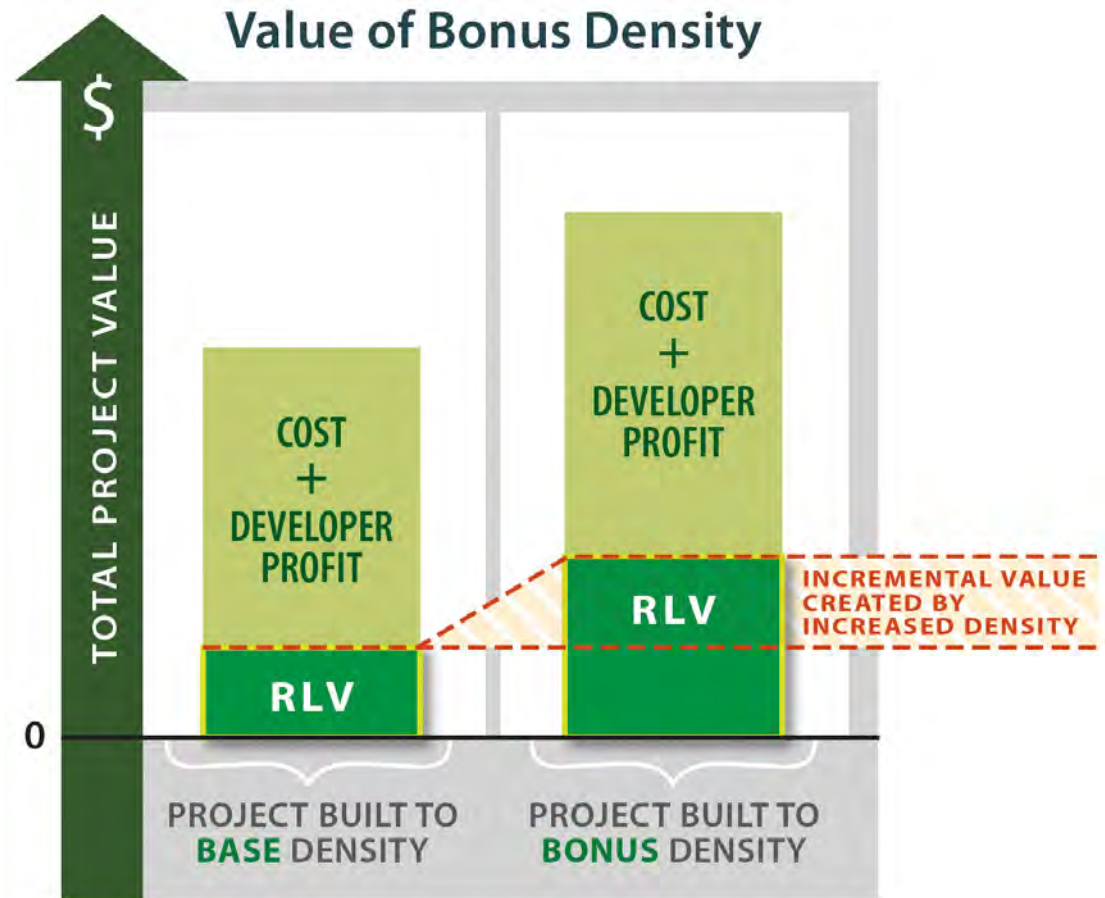
Methodology

- Residual Land Value (RLV) = What new development can afford to pay for land given:
 - Development Value
 - Development Cost
 - Return on Capital (profit) to Equity
- Land Sales
 - Market-driven indication of land value
 - Preferable to RLV when robust set exists

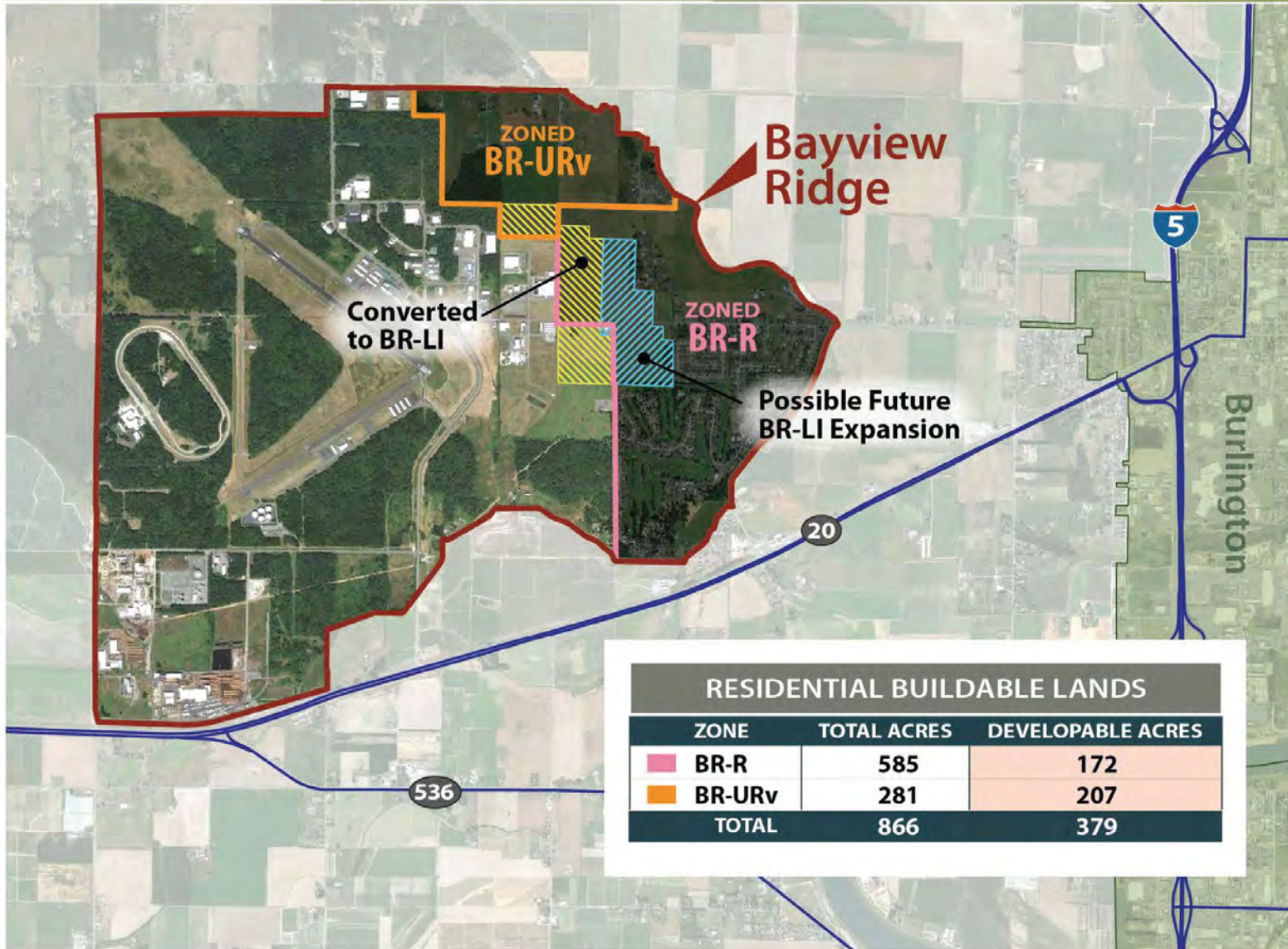


Methodology

- Residual Land Value
 - Calculate Base Land Value
 - Calculate Bonus Increment
- Actual Fee Charged for Density
 - Lower of Incremental Value and Cost of Additional Land
 - TDR only attractive if less expensive than next available option



Bayview Ridge CRA

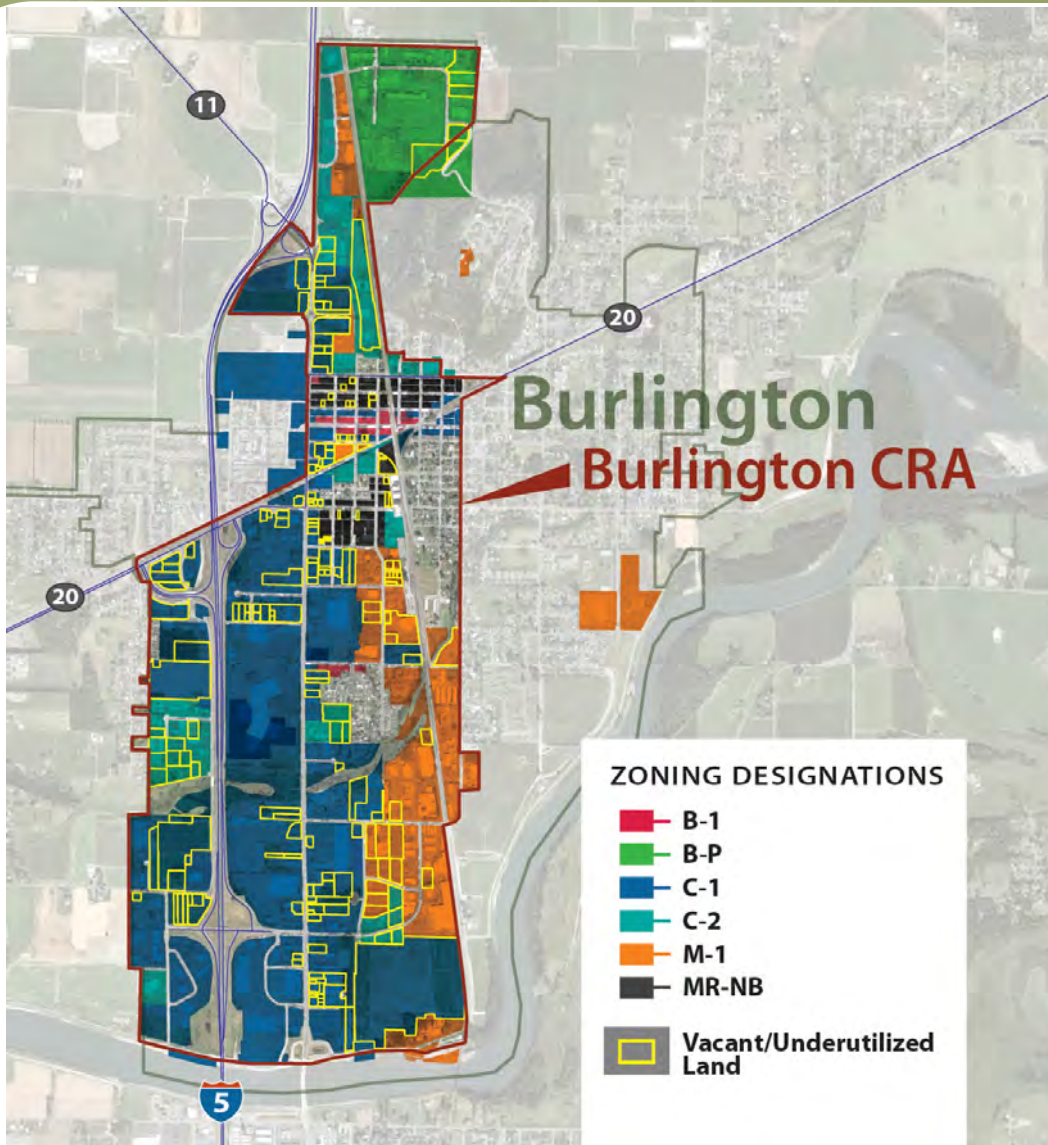


Bayview Ridge Residential

BAYVIEW RIDGE DEVELOPMENT SCENARIOS & FEE INFERENCE

HYPOTHETICAL 30-ACRE DEVELOPMENT	TDR DEVELOPMENT SCENARIO	BASE	BONUS	BASE VALUE	BONUS VALUE	INCREMENTAL VALUE	FEE INFERENCE @ 50% LOWER OF BASE LAND VALUE & INCREMENTAL VALUE
	BR-URv	6 Lots 1 Lot/5 Acres (w/ CaRDs)	—	\$254,000 (\$8,475/Acre) (\$42,360/Lot)	—	—	—
	BR-URv -> BR-R	6 Lots 1 Lot/5 Acres (w/ CaRDs)	120 Lots 4 DU/Acre	\$254,000 (\$8,475/Acre) (\$42,360/Lot)	\$1,761,000 (\$58,700/Acre) (\$14,675/Lot)	\$1,507,000 (\$13,200/ Bonus Lot)	Incremental Value \$13,200 x 50% = \$6,600 Per Lot
	BR-R 4 DU/Acre -> 6 DU/Acre	120 Lots 4 DU/Acre	180 Lots 6 DU/Acre	\$1,761,000 (\$58,700/Acre) (\$14,675/Lot)	\$3,645,000 (\$121,500/Acre) (\$20,250/Lot)	\$1,884,000 (\$31,400/ Bonus Lot)	Base Land Value \$14,675 x 50% = \$7,350 Per Lot

Burlington CRA



2012 BLA BY CITY OF BURLINGTON (ACRES)			
ZONE	VACANT	UNDERUTILIZED	BUILDABLE
C-1	70	63	133
C-2	103	1	104
MR-NB	3	3	6
B-P	15	2	17
B-1	0	0	0
M-1	45	28	73
TOTAL			333

- Majority of buildable land exists in C-1, C-2 and M-1 zones
- Geographic concentrations of buildable land

Burlington Commercial

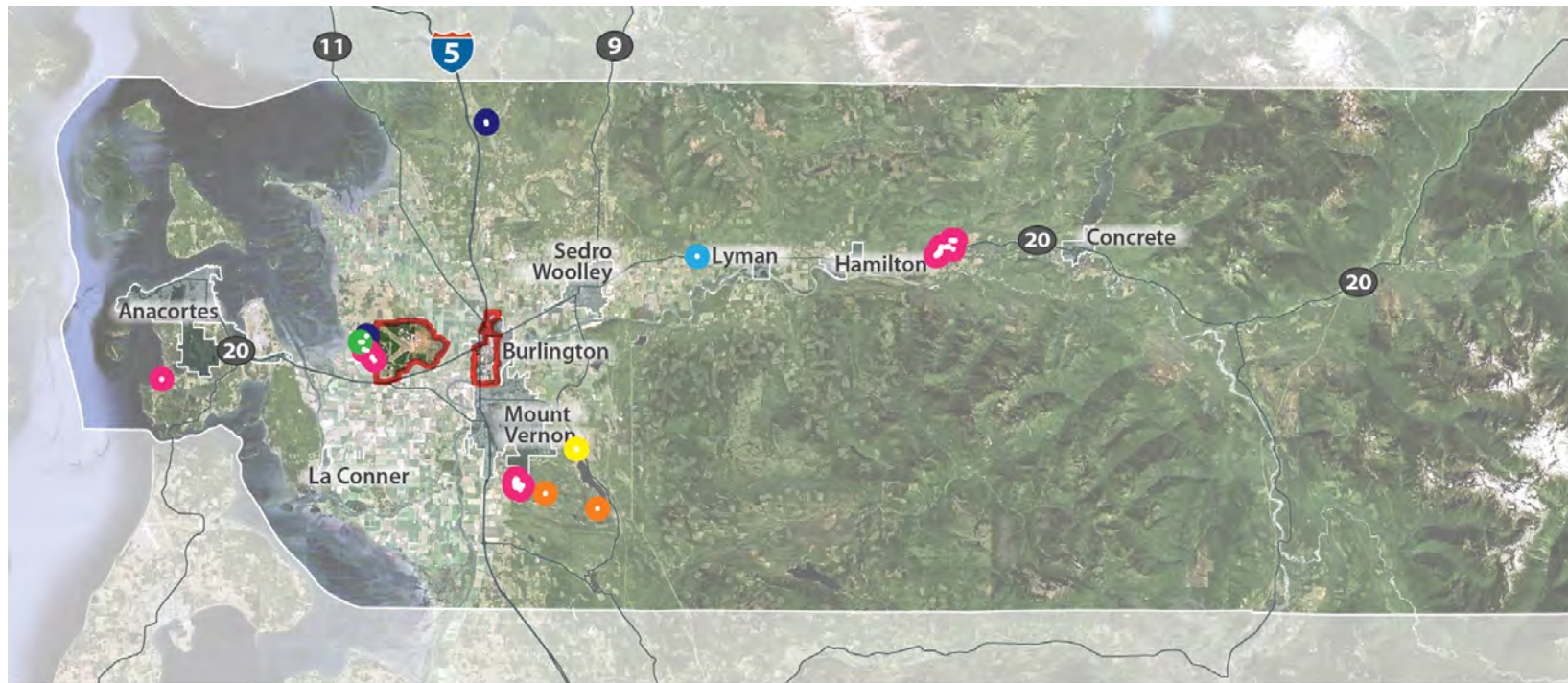
BURLINGTON DEVELOPMENT SCENARIOS & FEE INFERENCE

1-ACRE RESIDENTIAL DEVELOPMENT	TDR DEVELOPMENT SCENARIO	BASE	BONUS	BASE VALUE	BONUS VALUE	INCREMENTAL VALUE	FEE INFERENCE @ 50% LOWER OF BASE LAND VALUE & INCREMENTAL VALUE
	C1, C2, MR-NB & B1 Base Density	14 DU/Acre	—	\$111,620 (\$2.56/SF) (\$7,975/Unit)	—	—	—
	C1, C2, MR-NB & B1 Bonus Density	14 DU/Acre	23 DU/Acre	\$111,620 (\$2.56/SF) (\$7,975/Unit)	\$180,075 (\$4.13/SF) (\$7,830/Unit)	\$68,460 (\$7,600/ Bonus Lot)	Incremental Value \$7,600 x 50% = \$3,800 Per Lot
1-ACRE COMMERCIAL DEVELOPMENT							
	C1, C2, MR-NB & B1 Hypothetical Base Density	0.3 FAR 13,068 GBSF 5 Stalls/KSF	—	\$459,230 (\$10.54/SF) (\$35/GBSF)	—	—	—
	C1, C2, MR-NB & B1 Bonus Density	0.3 FAR 13,068 GBSF 5 Stalls/KSF	0.35 FAR 15,246 GBSF 4 Stalls/KSF	\$459,230 (\$10.54/SF) (\$35/GBSF)	\$633,620 (\$14.55/SF) (\$42/GBSF)	\$174,390 (\$80/ Bonus GBSF)	Base Land Value \$35 x 50% = \$17.50 per GBSF

Rural Upzones

- Rural Residential Upzone Activity (To Date)

- 12 Permit applications involving a total of 57 unique parcels
- A total of roughly 400 acres comprise the permits relative to over 440k acres in eligible zones.
- A total of roughly 31 (w/o CaRD) and 42 (w/ CaRD) development rights added



 Candidate Receiving Areas (CRA)

REZONE ACTIVITY

-  IF to SF  RRc to RRv  RRv to RI  RRv to RVR  SF to RRv

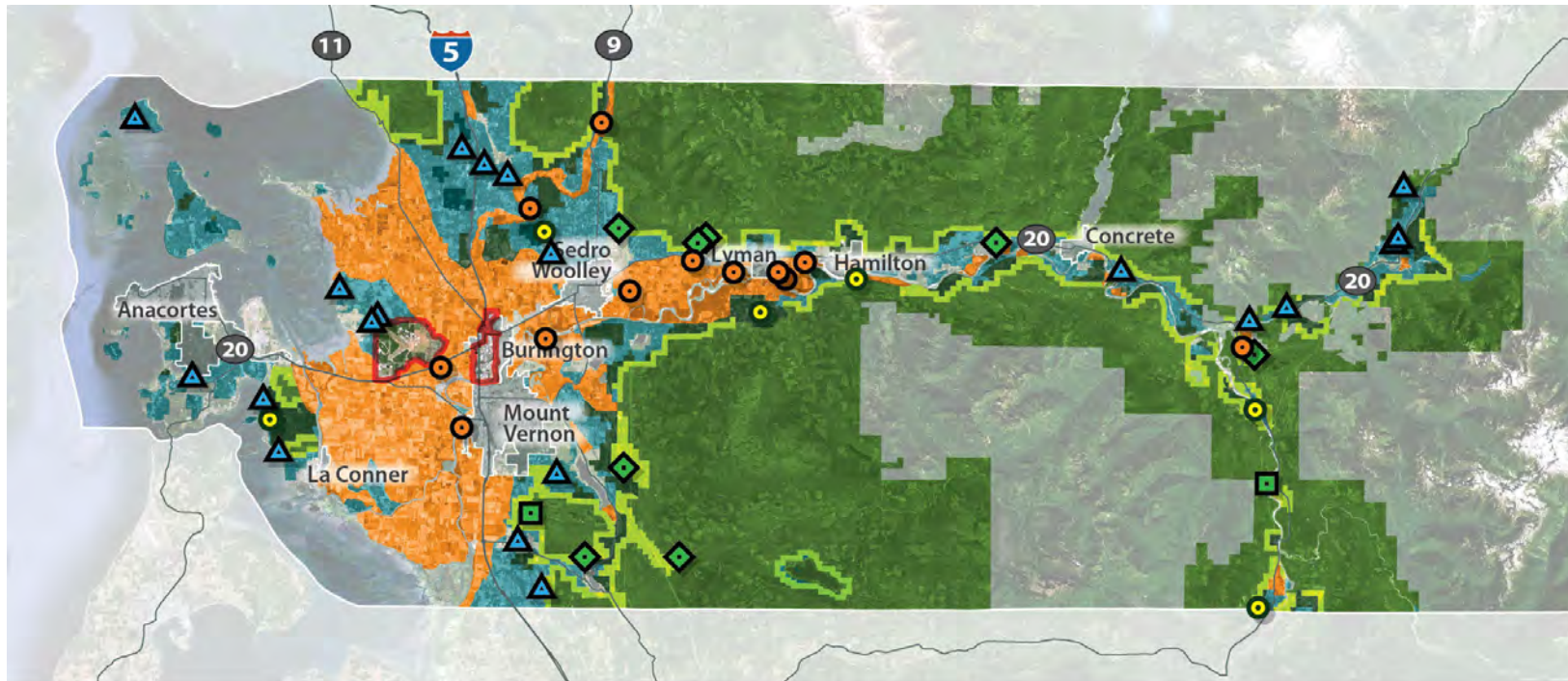
Rural Upzones


RURAL UPZONE DEVELOPMENT SCENARIOS & FEE INFERENCE

TDR 40-ACRE DEVELOPMENT SCENARIO	"BASE (W/ CARDS)"	"BONUS (W/ CARDS)"	BASE VALUE	BONUS VALUE	INCREMENTAL VALUE	FEE INFERENCE @ 50% LOWER OF BASE LAND VALUE & INCREMENTAL VALUE
RRc-NRL	4 Lots 1 Lot/10 Acres	—	\$200,260 (\$5,000/Acre) (\$50,065/Lot)	—	—	—
RRc-NRL -> RRv	4 Lots 1 Lot/10 Acres	8 Lots 1 Lot/5 Acres	\$200,260 (\$5,000/Acre) (\$50,065/Lot)	\$324,000 (\$8,100/Acre) (\$40,500/Lot)	\$123,740 (\$30,935/ Bonus Lot)	Incremental Value \$30,935 x 50% = \$15,470 Per Lot
RRv -> RI	8 Lots 1 Lot/5 Acres	16 Lots 1 Lot/2.5 Acres	\$324,000 (\$8,100/Acre) (\$40,500/Lot)	\$596,350 (\$14,910/Acre) (\$37,270/Lot)	\$272,350 (\$34,050/ Bonus Lot)	Incremental Value \$34,050 x 50% = \$17,025 Per Lot
RRv -> RVR	8 Lots 1 Lot/5 Acres	40 Lots 1 Lot/1 Acres	\$324,000 (\$8,100/Acre) (\$40,500/Lot)	\$1,121,090 (\$28,030/Acre) (\$28,030/Lot)	\$797,090 (\$24,910/ Bonus Lot)	Incremental Value \$24,910 x 50% = \$12,460 Per Lot

Sending Zones Sales Activity

- Market Transactions within Sending Zones
 - This set is used to estimate the implied TDR value per credit



 Candidate Receiving Areas (CRA)

 Agriculture (Ag-NRL)
89,000 Acres
 Sales

 Secondary Forest (SF-NRL)
38,000 Acres
 Sales

 Rural Resource (RRc-NRL)
27,000 Acres
 Sales

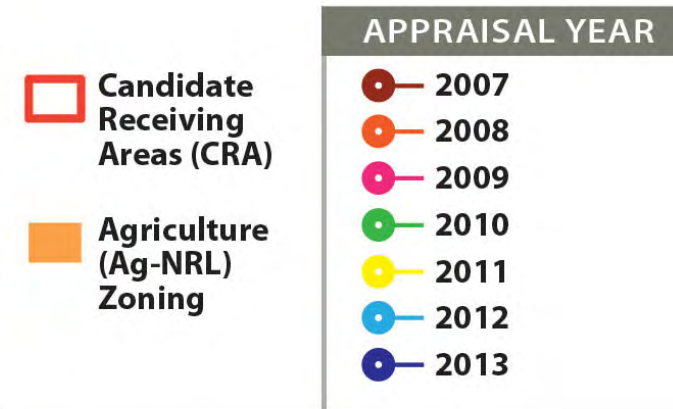
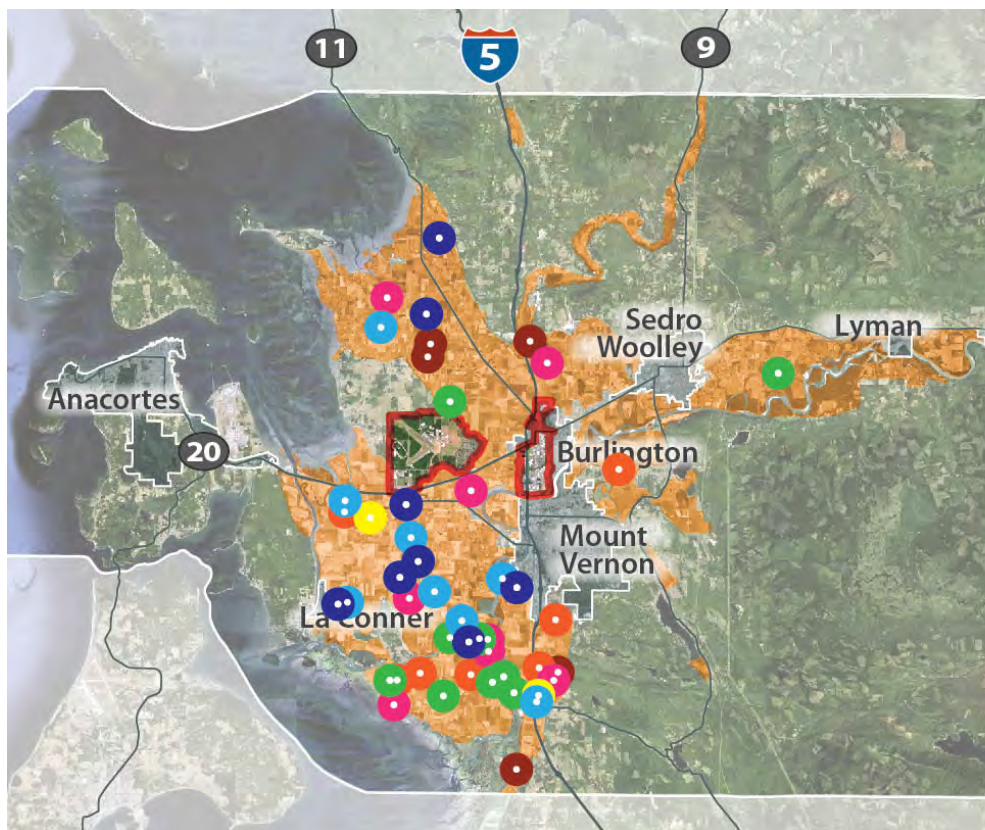
 Industrial Forest (IF-NRL)
320,000 Acres
 Sales

 Rural Reserve (RRv)
67,000 Acres
 Sales

NOTE: Not all zoned resource land acreage may be in natural resource production

Sending Value Methodology- AG-NRL

- Proxy for TDR credit pricing based on:
 - Farmland Preservation appraisals
 - Snohomish County PDR/TDR pricing relationship



Set of 60 Appraisals

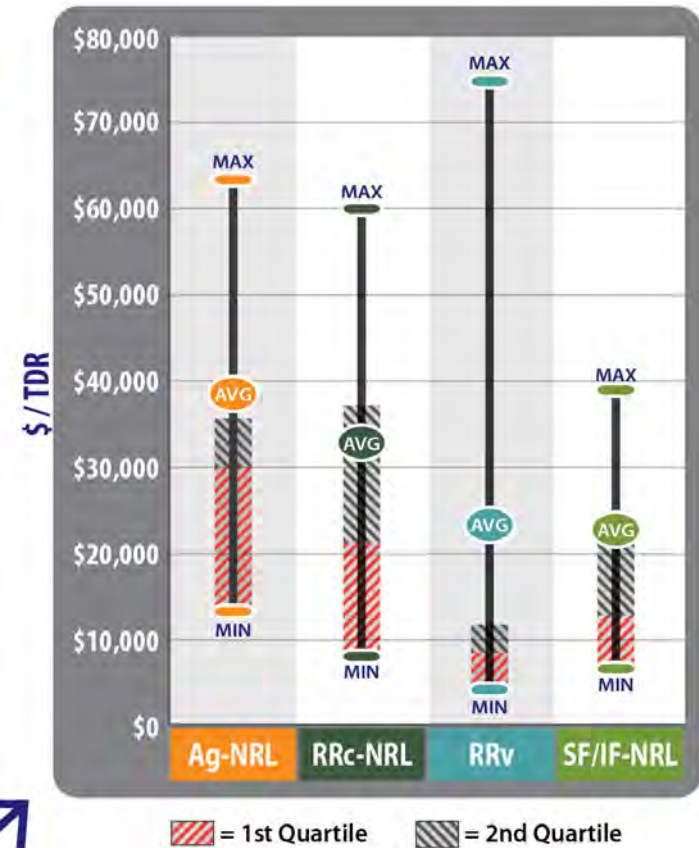
FIRST QUARTILE: \$90K
MEDIAN VALUE: \$100K
THIRD QUARTILE: \$116K

Sending Value Estimates

- Value Range for TDRs (per Development Right)

Total Value per:			
	DEVELOPMENT RIGHT	TDR VALUE	REMAINING VALUE
Ag-NRL			
MIN	\$65,000	\$13,000	\$52,000
AVG	\$193,000	\$38,600	\$154,400
MAX	\$317,000	\$63,400	\$253,600
RRc-NRL			
MIN	\$40,000	\$8,000	\$32,000
AVG	\$164,000	\$32,800	\$131,200
MAX	\$300,000	\$60,000	\$240,000
RRv			
MIN	\$20,000	\$4,000	\$16,000
AVG	\$116,000	\$23,200	\$92,800
MAX	\$375,000	\$75,000	\$300,000
SF/IF-NRL			
MIN	\$33,000	\$6,600	\$26,400
AVG	\$115,000	\$23,000	\$92,000
MAX	\$195,000	\$39,000	\$156,000

Assumed TDR Right % of Value: 20%



Exchange Rate Analysis

Bayview Ridge

BAYVIEW RIDGE EXCHANGE RATIO ANALYSIS

SENDING SITE ZONE	SENDING VALUE RESIDENTIAL (PER DU)	RECEIVING SITE ZONE	RECEIVING VALUE		RESIDENTIAL RATE (# DU)	COMMERCIAL RATE (# GBSF)
			RESIDENTIAL FEE (PER DU)	COMMERCIAL FEE (PER GBSF)		
BR-UR Receiving Zone (to BR-R)						
Ag-NRL	\$38,600	BR-UR	\$6,608	N/A	6	N/A
RRc-NRL	\$32,800	BR-UR	\$6,608	N/A	5	N/A
RRv	\$23,200	BR-UR	\$6,608	N/A	4	N/A
SF/IF-NRL	\$23,000	BR-UR	\$6,608	N/A	3	N/A
BR-R Receiving Zone (to 4 DU/Acre -> 6 DU/Acre)						
Ag-NRL	\$38,600	BR-R	\$7,337	N/A	5	N/A
RRc-NRL	\$32,800	BR-R	\$7,337	N/A	4	N/A
RRv	\$23,200	BR-R	\$7,337	N/A	3	N/A
SF/IF-NRL	\$23,000	BR-R	\$7,337	N/A	3	N/A

Exchange Rate Analysis

Burlington

BURLINGTON EXCHANGE RATIO ANALYSIS

SENDING SITE	SENDING VALUE	RECEIVING SITE	RECEIVING VALUE		RESIDENTIAL	COMMERCIAL
ZONE	RESIDENTIAL (PER DU)	ZONE	RESIDENTIAL FEE (PER DU)	COMMERCIAL FEE (PER GBSF)	RATE (# DU)	RATE (# GBSF)
Burlington Zones (C1, C2, MR-NB, & B1)						
Ag-NRL	\$38,600	BURL	\$3,803	\$18	10	2,197
RRc-NRL	\$32,800	BURL	\$3,803	\$18	9	1,867
RRv	\$23,200	BURL	\$3,803	\$18	6	1,320
SF/IF-NRL	\$23,000	BURL	\$3,803	\$18	6	1,309

Exchange Rate Analysis

Rural Upzones

RURAL UPZONE EXCHANGE RATIO ANALYSIS						
SENDING SITE	SENDING VALUE	RECEIVING SITE	RECEIVING VALUE		RESIDENTIAL	COMMERCIAL
ZONE	RESIDENTIAL (PER DU)	ZONE	RESIDENTIAL FEE (PER DU)	COMMERCIAL FEE (PER GBSF)	RATE (# DU)	RATE (# GBSF)
RRc Receiving Zone (to RRv)						
Ag-NRL	\$38,600	RRc	\$15,467	N/A	2	N/A
RRc-NRL	\$32,800	RRc	\$15,467	N/A	2	N/A
RRv	\$23,200	RRc	\$15,467	N/A	1	N/A
SF/IF-NRL	\$23,000	RRc	\$15,467	N/A	1	N/A
RRv Receiving Zone (to RI)						
Ag-NRL	\$38,600	RRv	\$17,022	N/A	2	N/A
RRc-NRL	\$32,800	RRv	\$17,022	N/A	2	N/A
RRv	\$23,200	RRv	\$17,022	N/A	1	N/A
SF/IF-NRL	\$23,000	RRv	\$17,022	N/A	1	N/A
RRv Receiving Zone (to RVR)						
Ag-NRL	\$38,600	RRv	\$12,454	N/A	3	N/A
RRc-NRL	\$32,800	RRv	\$12,454	N/A	3	N/A
RRv	\$23,200	RRv	\$12,454	N/A	2	N/A
SF/IF-NRL	\$23,000	RRv	\$12,454	N/A	2	N/A

Analysis Recommendations

TDR Implementation: Macro-Level Considerations

- Current market conditions will not support a robust TDR exchange program
 - Limited number of potential receiving areas
 - Lack of strong demand to build above base density levels
 - Initial program would likely only consist of isolated project utilizations of TDR, where benefits exceed costs to individual developers
- Why consider implementation in this context?
 - Acts as low-cost insurance policy: Program that is in place prior to growth occurring has the opportunity to capture public benefit when growth occurs in a systematic way
 - Provides opportunity to work out details, expand awareness of TDR
 - Use will increase as economy strengthens, existing capacity is utilized, and especially if additional receiving area opportunities are created

Program Focus: Sending Area Considerations

- TDR programs can be customized to work towards the County's conservation objectives
 - Need to determine County's conservation priorities
- Ag-NRL Lands
 - A clear County priority with Farmland Legacy Program (FLP) PDR program in place
 - FLP has high barrier to entry, limited to the highest-value agricultural land
 - Potential for TDR program to provide conservation option for Ag-NRL land that does not qualify for FLP (would not interfere with current program)
 - Mixed views in Ag-NRL community towards TDR adoption
- Non-Ag-NRL Resource Lands
 - Strong interest in conserving priority areas within these zones (SF/IF-NRL, RRc-NRL, and some resource land within Rural Reserve)
 - Zones currently left out of programmatic conservation efforts
 - Generally lower-value development rights relative to Ag-NRL land

Program Focus: Receiving Area Considerations

- TDR programs can also be customized to work towards the County's development objectives
- Ground-related residential density
 - Framework in place for BVR program, but County priorities may be changing
 - General interest in rural-to-rural density transfers (in place of current rural upzone system)



Program Focus: Receiving Area Considerations

- Vertical residential density
 - Constrained by cost of construction, surface parking land area requirements
 - PDR program in place in Burlington; little historical utilization but evidence that may change
- Commercial development density
 - Established base density, and demand to surpass base density, necessary for functioning program
 - Constrained by cost of construction, surface parking land area requirements



Program Focus: Recommendations

- **SENDING AREAS:** Focus on resource lands that do not currently have a mechanism for conservation
 - Landowner interest exists
 - Avoid any perceived competition with FLP
 - Well-defined sending areas could prioritize resource land with the highest conservation value
- **RECEIVING AREAS:** Burlington and “rural-to-rural” CRAs most promising
 - BVR left out because of current uncertainty over residential growth in the area
 - However: We see high potential for a ground-related residential density program similar to our hypothetical BVR framework, but target area is currently undefined



Program Structure: Considerations

- TDR Component “Traditional Program”
 - Private market transaction between buyer & seller
 - Sales price negotiated directly between the two
 - Potential economies of scale pricing
 - Program issues development certificates, records conservation easement
- Density Credit Component / “Fee in Lieu Program”
 - Developer purchases density credits at a set price
 - Revenues aggregated and used for targeted conservation purposes (Burlington > Farmland Legacy)
 - Efficient, easy mechanism by which to access additional density
- Blended Program
 - Maximizes program flexibility

Program Structure: Recommendations

- TDR Component “Traditional Program”
 - Sending areas: SF-NRL, IF-NRL, RRc-NRL, and targeted RRv lands
 - Could include or exclude Ag-NRL: if included, Heartland believes that TDR would complement rather than detract from the existing PDR program (FLP)
 - Exchange ratio could be fixed or floating
 - Most successful programs have TDR financial intermediary



Program Structure: Recommendations

- Density Credit Component / “Fee in Lieu Program”
 - Current Burlington density fees (Ag Heritage Program) continue to Farmland Legacy; pricing can be updated per Heartland analysis
 - Burlington determines how future fee revenues are directed
 - New fee revenues from County program (after defining receiving areas) directed towards conserving Forest, Rural Resource, and other priority resource lands



Program Structure: Exchange Rate Considerations

- No exchange rate (one-to-one)
 - Only works if developer value is equal to sending site value
 - Rarely is the case, meaning transactions will not occur
- Fixed exchange rate
 - Exchange ratio (receiving density credits PER sending credit purchased) set through valuation analysis (Heartland's analysis)
 - Allows for upside opportunity if developer can source cheaper credits
 - Conservation will focus on land with the lowest-cost development rights
- Floating exchange rate
 - One side of equation is set (developer ability to pay)
 - Appraisal determines value of sending density credits on a per-transaction basis (higher admin costs)

Program Implementation & Maintenance

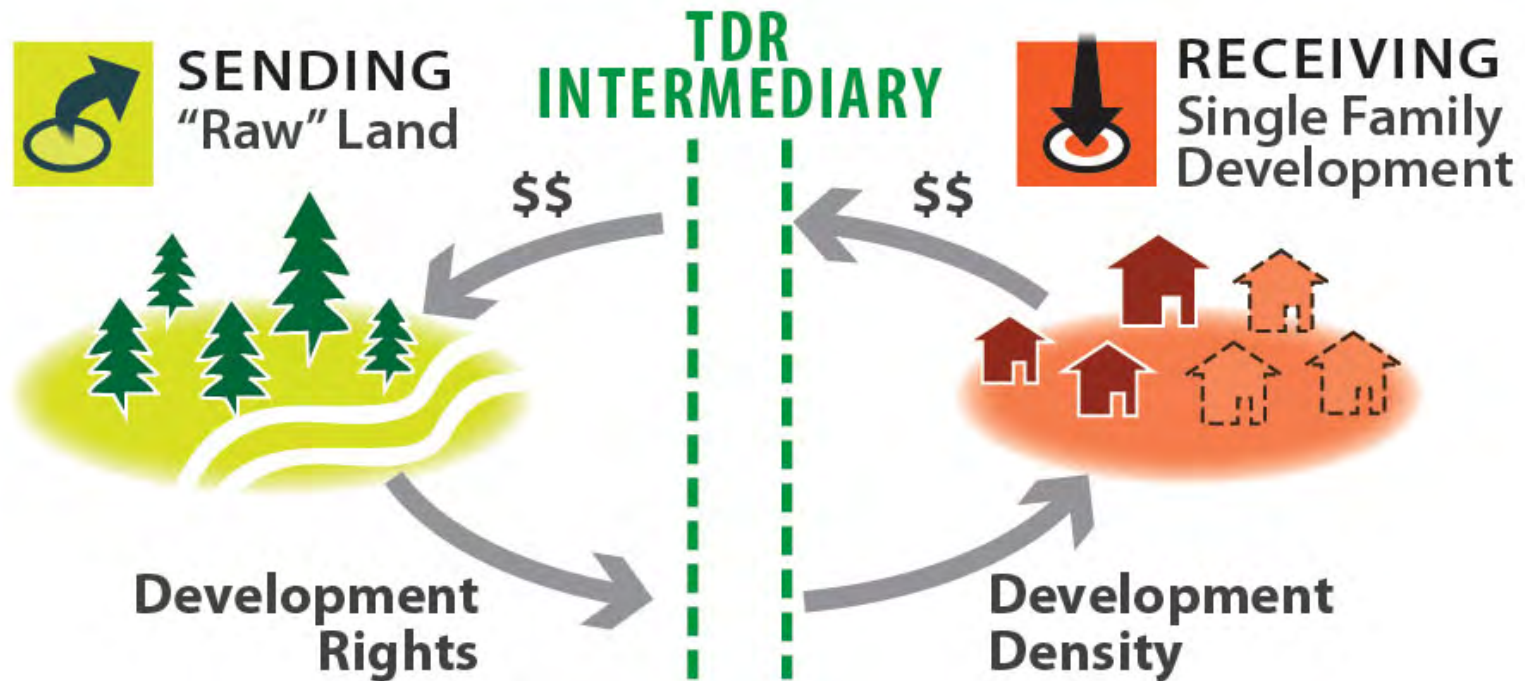
- Density Credit Component
 - Current Burlington program already has framework in place (Farmland Legacy)
 - New County program could:
 - Provide fees to Farmland Legacy for Ag-NRL conservation; or
 - Create a new mechanism for achieving conservation on other , non-Ag-NRL resource lands
 - Fees based on ability-to-pay analysis
 - Periodic evaluation of fees; timing determined by market observation



FARMLAND LEGACY PROGRAM

Program Implementation & Maintenance

- TDR Component “Traditional Program”
 - Financial intermediary is recommended, either run by the County or a third party

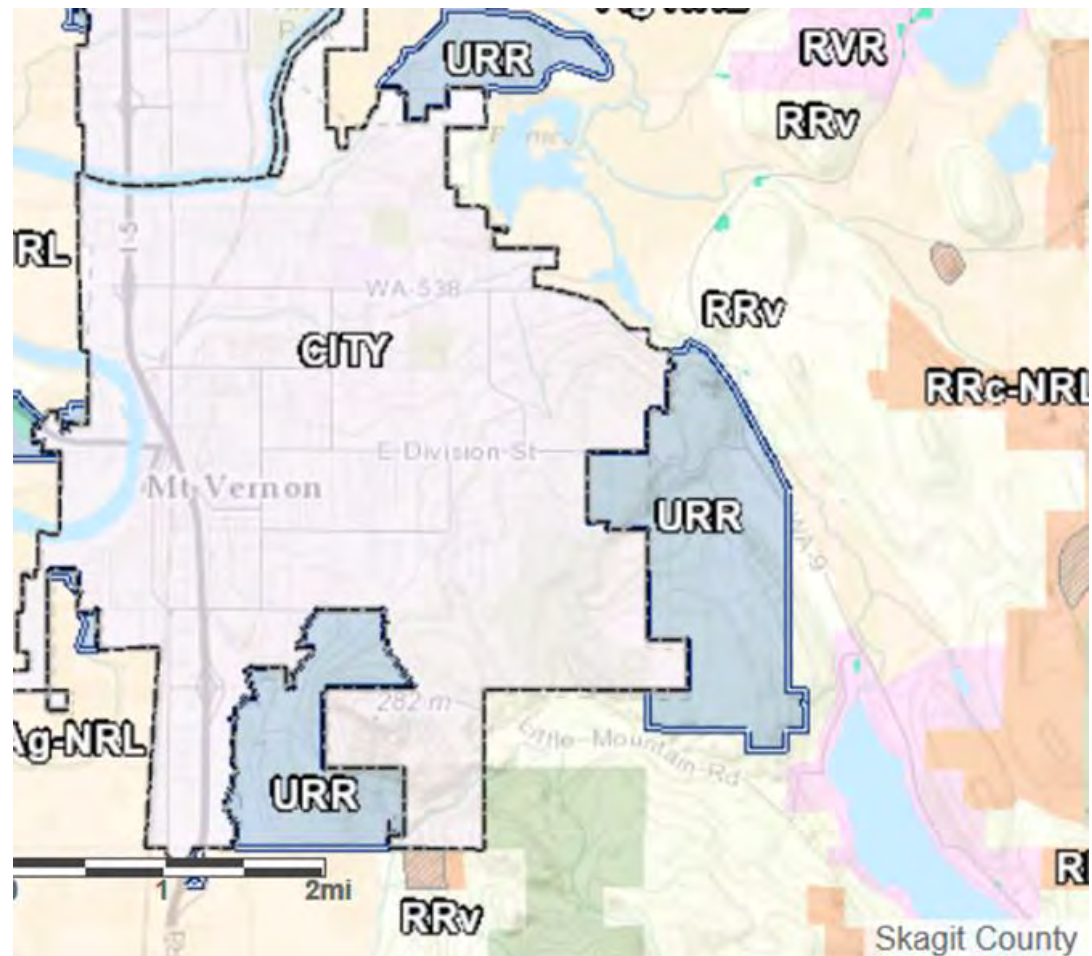


Areas for Further Consideration

- Other Receiving Area Opportunities
 - Additional receiving areas could increase program utilization and extent of conservation
 - Ground-related residential is area of opportunity, but need to find suitable location with 4 DU/Acre or less cap on development (assuming BVR is not where County wants additional density to locate)
 - Application of TDR to UGA expansions?
 - Get other cities involved?
 - Commercial TDR opportunity difficult in surface-parked market context, unless density is capped at an artificially low level

Areas for Further Consideration

- Other Potential Rural TDR Applications
 - Rural upzone analysis can be used as a basis for ability-to-pay pricing
 - Integration with the CaRD program?
 - Infill development in Rural Villages?



Reference Slides

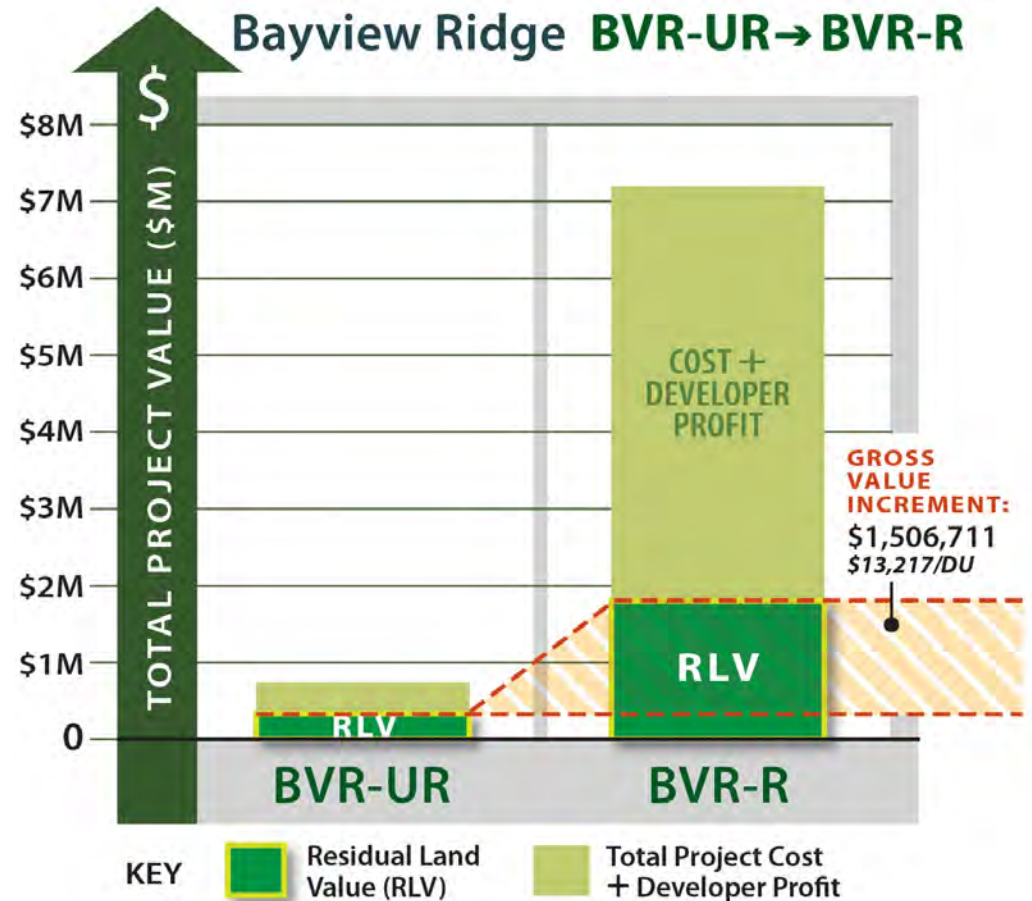
BVR-UR RLV Model Inputs

BVR-UR RLV Model Inputs		
	Value/Input	Unit
Acres Per Unit	5	
Lot Size	43,560	SF
Space Program		
Site Area	30	Acres
Total Lots	6	Lots
Circulation	20%	% over lot size
Total Residual Land Area	993,168	SF
Residual Land Area Value	\$4,500	\$/Acre
Finished Lot Revenue		
Finished Home Size	3,250	SF
\$/SF	\$180	
Avg Finished Home Value	\$585,000	
Finished Lot-to-Home Ratio	20%	
Finished Lot Value	\$117,000	
Gross Finished Lot Value	\$702,000	
Gross Open Space Value	\$102,600	
Gross Project Revenue	\$804,600	
Costs		
Soft Costs	\$19,250	\$/Lot
Hard Costs	\$55,000	\$/Lot
Developer Profit	15%	% of Total Value
Total Project Cost	\$445,500	
Developer Profit	\$104,948	
Residual Land Value	\$254,152	
	\$8,472	\$/Acre
	\$42,359	\$/Lot

Bayview Ridge Residential

BVR-UR -> BVR-R

- Incremental value
 - 30-Acre development
 - 6 lots under base
 - 120 lots under bonus
 - Gross value added: \$1.5M
 - \$13K/Lot
- Credit Pricing:
 - Base land value: \$42K/Lot
 - Pricing based off incremental
 - @ 50% Fee, credits at \$6,500



BVR-R RLV Model Inputs

BVR-R RLV Model Inputs				
	Scenario 1	Scenario 2	Scenario 3	Unit
Units/Acre	4	5	6	
Space Program				
Site Area	30	30	30	Acres
Total Lots	120	150	180	Lots
Circulation	25%	25%	25%	% Loss
Lot Size	8,100	6,500	5,400	SF
Finished Lot Revenue				
Finished Home Area	2,350	2,300	2,250	SF
\$/SF	\$120	\$120	\$115	
Avg Finished Home Value	\$282,000	\$276,000	\$258,750	
Finished Lot-to-Home Ratio	22.5%	22.5%	22.5%	
Finished Lot Value	\$63,450	\$62,100	\$58,219	
Gross Project Revenue	\$7,614,000	\$9,315,000	\$10,479,375	
Costs				
Soft Costs	\$10,500	\$9,188	\$7,875	\$/Lot
Hard Costs	\$30,000	\$26,250	\$22,500	\$/Lot
Developer Profit	15%	15%	15%	% of Total Value
Total Project Cost	\$4,860,000	\$5,315,625	\$5,467,500	
Developer Profit	\$993,130	\$1,215,000	\$1,366,875	
Residual Land Value	\$1,760,870	\$2,784,375	\$3,645,000	
Per SF	\$1.35	\$2.13	\$2.79	\$/SF
Incremental Value Added		\$1,023,505	\$860,625	
Per Unit		\$34,117	\$28,688	\$/Unit
Per Unit from 4 -> 6			\$31,402	

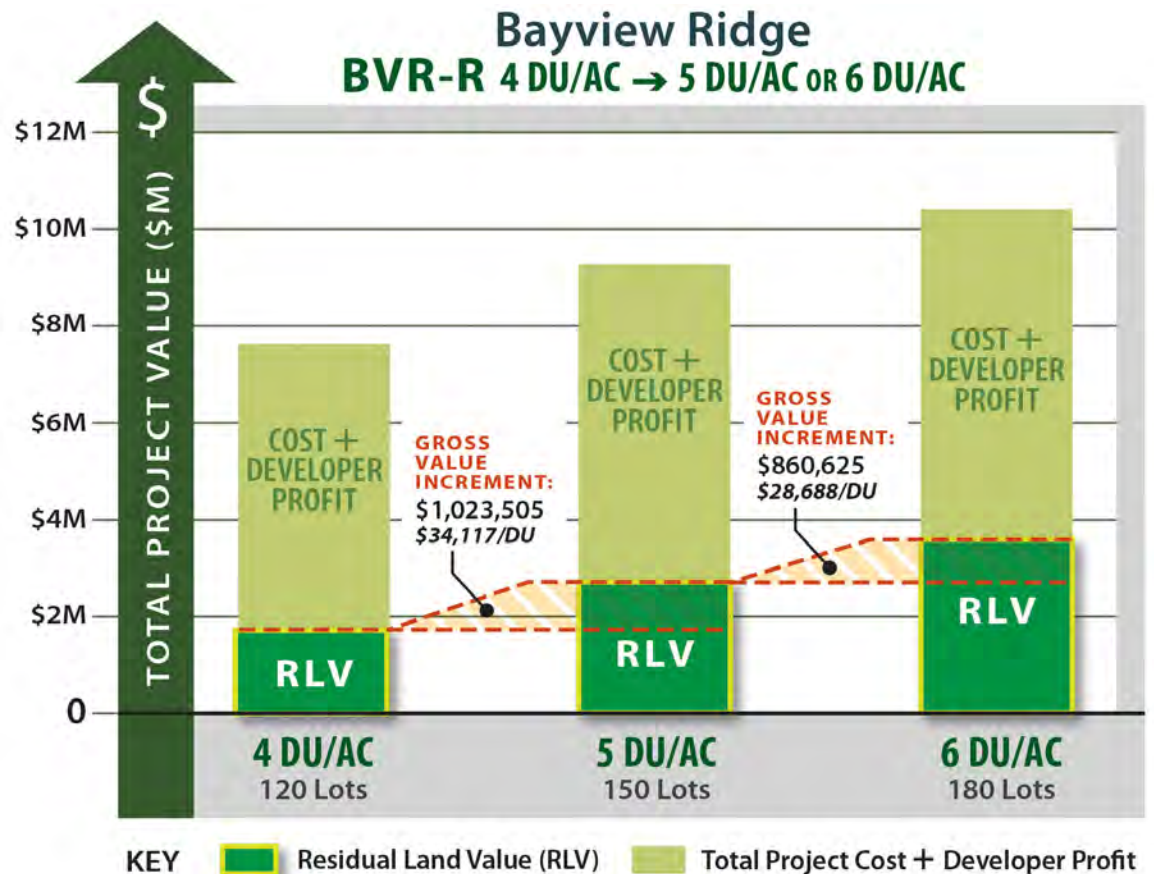
Bayview Ridge Residential BVR-R 4 DU -> 6 DU

- Incremental Value

- 30-acre development
- 120 lots under base
- 150/180 lots under bonus
- 4 -> 5 = \$1M, \$34K/lot
- 5 -> 6 = \$860K, \$28K/lot

- Credit Pricing:

- Base land value: \$15K/Lot
- Pricing based off land value
- @ 50% Fee, credits at \$7,500



Rural Upzones RLV Model Inputs

Rural Upzones Model Inputs					
	Value/Input	Value/Input	Value/Input	Value/Input	Unit
Zone	RRc	RRv	RI	RVR	
Acres Per Unit	10	5	2.5	1	
Lot Size	43,560	43,560	21,780	21,780	SF
Space Program					
Site Area	40	40	40	40	Acres
Total Lots	4	8	16	40	Lots
Total Lot Area	174,240	348,480	348,480	871,200	SF
Circulation	15%	15%	20%	20%	% over lot size
Total Lot Area + Circ	200,376	400,752	418,176	1,045,440	SF
Total Residual Land Area	1,542,024	1,341,648	1,324,224	696,960	SF
Finished Lot Revenue					
Finished Home Area	2,500	2,500	2,350	2,350	SF
\$/SF	\$190	\$190	\$175	\$175	
Avg Finished Home Value	\$475,000	\$475,000	\$411,250	\$411,250	
Finished Lot-to-Home Ratio	22.5%	22.5%	22.5%	22.5%	
Finished Lot Value	\$106,875	\$106,875	\$92,531	\$92,531	
Gross Finished Lot Value	\$427,500	\$855,000	\$1,480,500	\$3,701,250	# of lots x finished lot value
Open Space Value	\$4,500	\$4,500	\$4,500	\$4,500	\$/Acre
Gross Open Space Value	\$159,300	\$138,600	\$136,800	\$72,000	
Gross Project Revenue	\$586,800	\$993,600	\$1,617,300	\$3,773,250	
Costs					
Soft Costs	\$17,500	\$17,500	\$15,750	\$14,000	\$/Lot
Hard Costs	\$60,000	\$50,000	\$45,000	\$40,000	\$/Lot
Developer Profit	15%	15%	15%	15%	% of Total Value
Total Project Cost	\$310,000	\$540,000	\$972,000	\$2,160,000	
Developer Profit	\$76,539	\$129,600	\$210,952	\$492,163	
Static RLV	\$200,261	\$324,000	\$434,348	\$1,121,087	
	\$5,007	\$8,100	\$10,859	\$28,027	\$/Acre
	\$50,065	\$40,500	\$27,147	\$28,027	\$/Lot

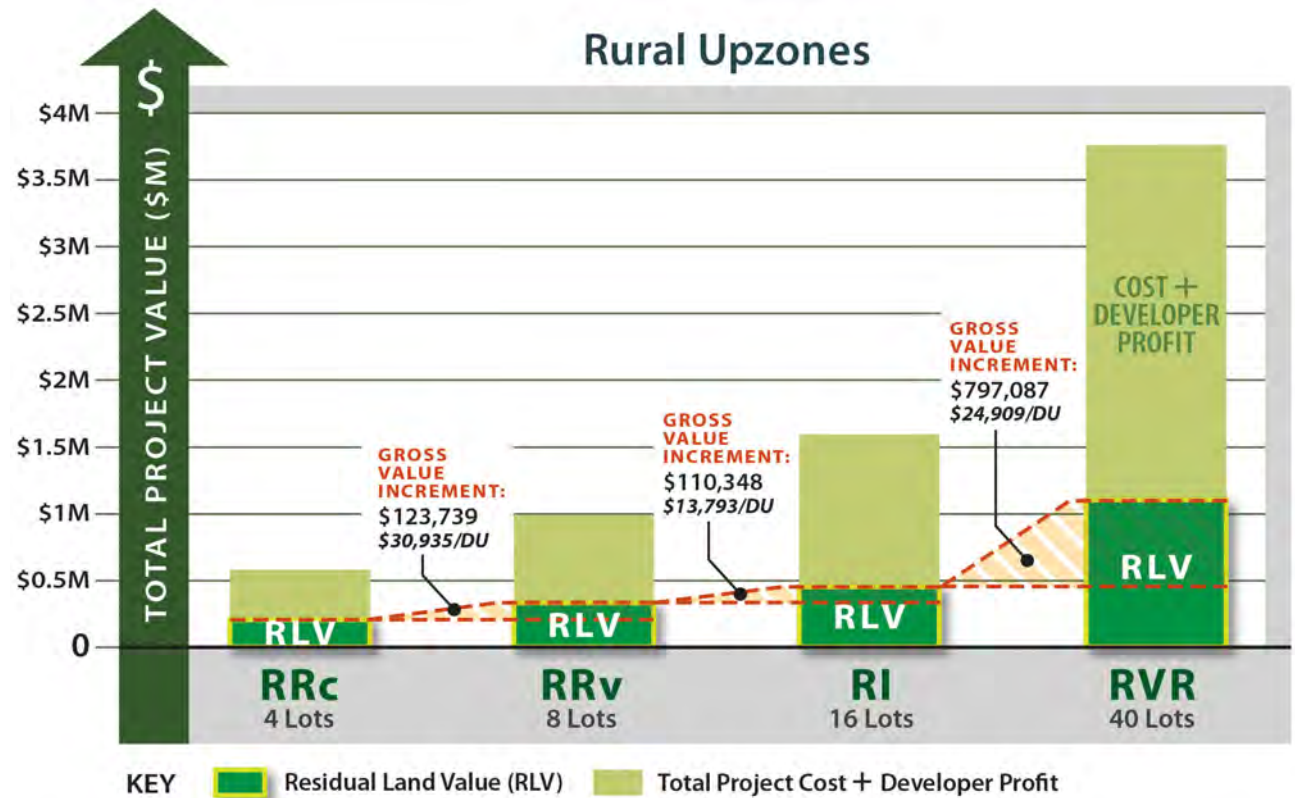
Rural Upzones

- Incremental Value

- 40-acre development
- 4/8 lots under base
- 8/16/40 lots under bonus
- RRc -> RRv: \$31K/Lot
- RRv -> RI: \$34K/Lot
- RRv -> RVR: \$25K/Lot

- Credit Pricing:

- Base land value: \$27K - \$50K/lot
- Pricing based off increment value
- @ 50% Fee, credits at \$12,500- \$17,000



Burlington Residential Zoning Context

Burlington Residential Zoning				
	C-1	C-2	MR-NB	B-1
District Description:	General Commercial District	Heavy Commercial District	Medium Density Res & Neighborhood Bus.	Business District
Residential Dev Qualification:	Mixed-use buildings have limited restrictions. Single-purpose have the following restrictions:	Single-purpose or mixed-use have the following restrictions:	Single-purpose or mixed-use have the following restrictions:	Only allowed with ground floor commercial uses.
Density				
Max DU / Ac	14	14	14	14
Max Units	None	None	8 units	No Limit
Max Building Size	8,000	8,000	6,500	No Limit
Max Parcel Size	No Limit	No Limit	24,000	No Limit
Max Height				
Stories	2	2	2	4
Height (ft)	30	30	35	45
Site Restrictions				
Min Lot Depth	0	80	0	0
Min Lot Width	0	60	0	0
Max Lot Coverage				
Impervious	70%	70%	100%	100%
Buildings	30%	30%	100%	100%

Burlington Residential RLV Model Inputs

Burlington Residential RLV Model Inputs			
	Value/Input	Value/Input	Unit
Lot Size	43,560	43,560	SF
Density	14	23	DU/Acre
Space Program			
Units	14	23	
Unit Size	1,000	1,000	GSF
Community Space	10%	10%	Of Bldg
Total GSF	15,400	25,300	GSF
Parking	1.5	1.5	Stalls/Unit
Value Inputs			
Base Leasing Income	\$1.20	\$1.20	\$/NRSF
Vacancy	5%	5%	of gross income
Operating Expenses	\$5,015	\$5,015	\$/Unit/Yr
NOI	\$134,637	\$221,189	
Cap Rate	6.0%	6.0%	
Gross Project Value	\$2,243,943	\$3,686,478	
Cost Inputs			
All-In Hard Costs	\$87	\$87	\$/GBSF
Soft Costs	35%	35%	% of hard
Project Cost	\$1,811,762	\$2,979,764	
Developer Profit	\$320,563	\$526,640	
Residual Land Value	\$111,618	\$180,075	
Per Unit Incremental Value		\$7,606	

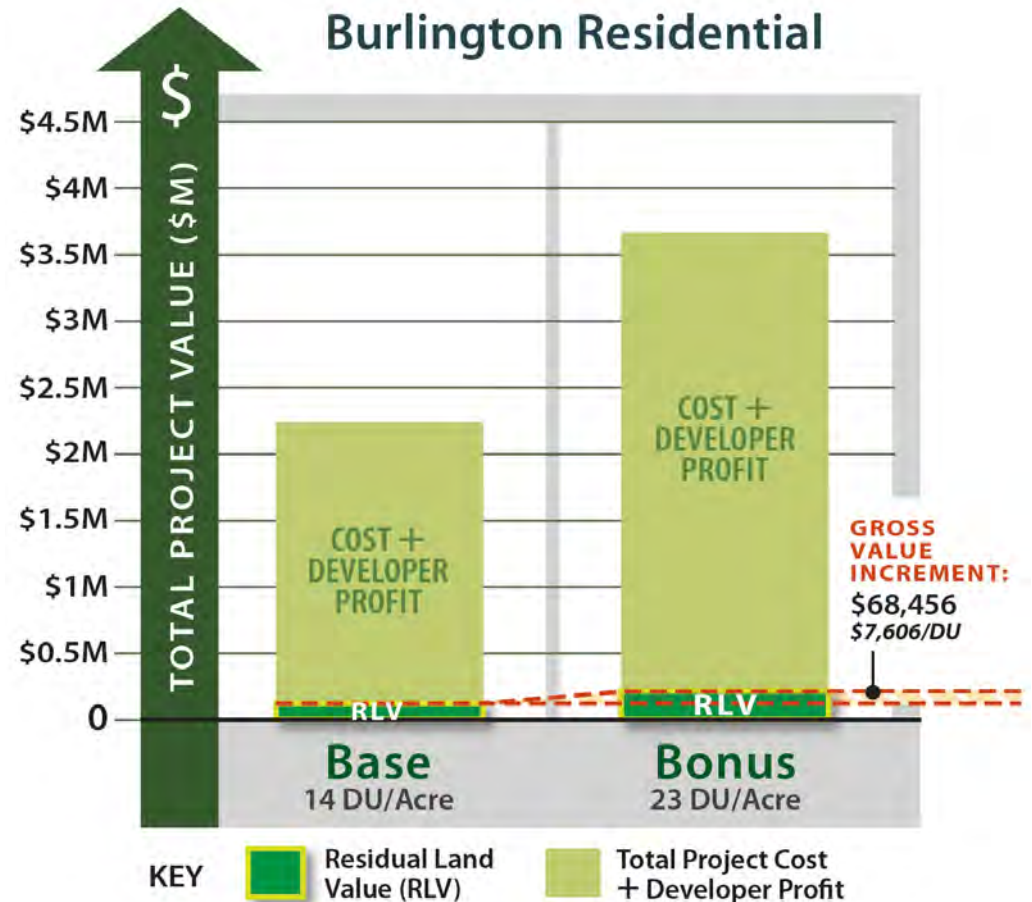
Burlington Residential

- Incremental Value

- 1-acre development
- 14 units under base
- 23 units under bonus
- Value increment: \$68K
- \$7K/unit

- Credit Pricing:

- Base land value: \$8K/unit
- Pricing based off value increment
- @ 50% Fee, credits at \$3,500



Burlington Commercial Zoning Context

Burlington Commercial Zoning					
	C-1	C-2	M-1	B-P	B-1
District Description:	General Commercial District	Heavy Commercial District	Industrial District	Business Park	Business District
Density					
Min Lot Area	0	0	0	435,600	0
Min Lot Depth	0	0	0	0	0
Max Lot Coverage	100%	100%	100%	100%	100%
Max Height					
Stories	4	4	No limit	No limit	4
Height (ft)	45	45	45	35	45

- Few dimensional/density restrictions on commercial development
- Development density dictated by market demand for space/parking

Burlington Commercial RLV Model Inputs

Burlington Commercial RLV Model Inputs			
	Value/Input	Value/Input	Unit
Lot Size	43,560	43,560	SF
Density	0.30	0.35	FAR
Space Program			
Building Size	13,068	15,246	GBSF
Parking	5.0	4.0	Stalls/KSF
Value Inputs			
Base Leasing Income	\$1.83	\$1.83	\$/RSF, NNN of gross income
Vacancy	8%	8%	
NOI	\$264,015	\$308,018	
Cap Rate	7.25%	7.25%	
Gross Project Value	\$3,641,592	\$4,248,524	
Cost Inputs			
All-In Hard Costs	\$87	\$87	\$/GBSF
Soft Costs	35%	35%	% of hard
Tenant Improvements	\$45	\$45	\$/GBSF
Project Cost	\$2,740,956	\$3,099,931	
Developer Profit	\$441,405	\$514,973	
Residual Land Value	\$459,231	\$633,620	
Per SF Incremental Value		\$80	

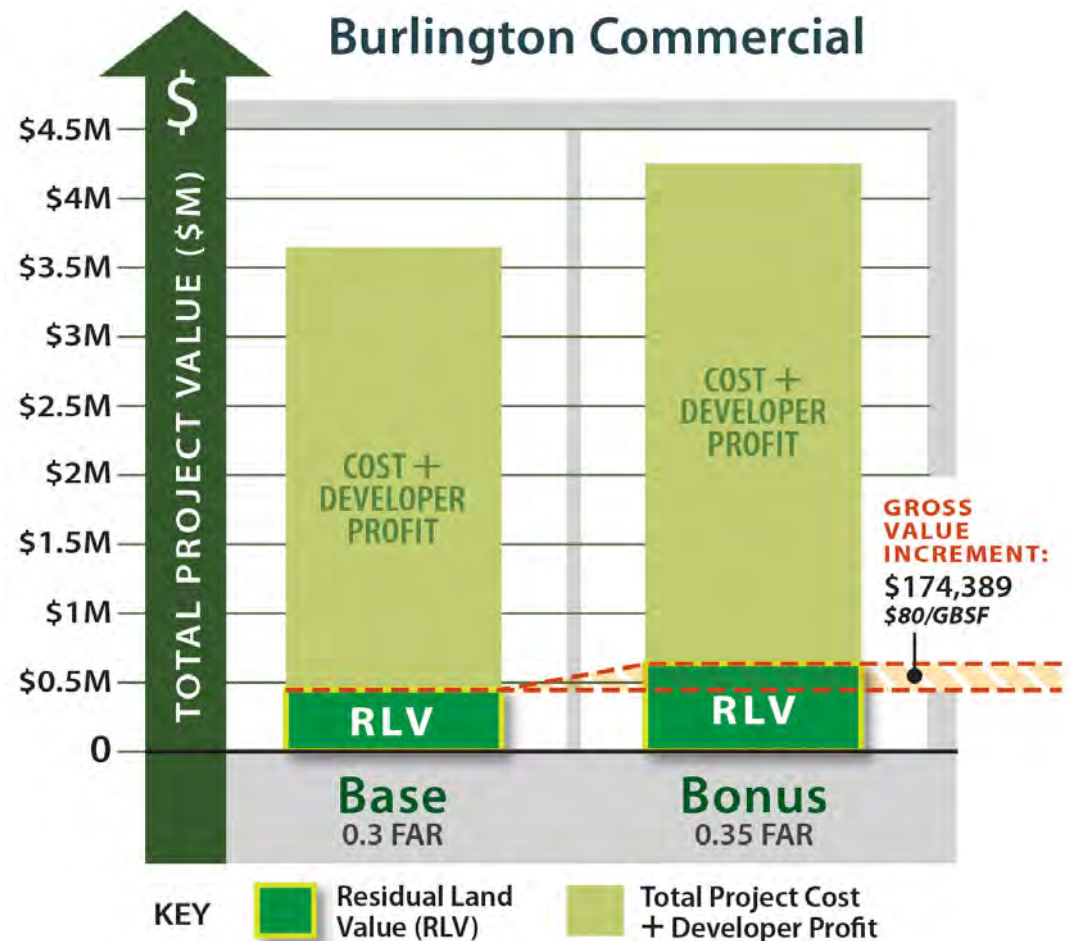
Burlington Commercial

- Incremental Value

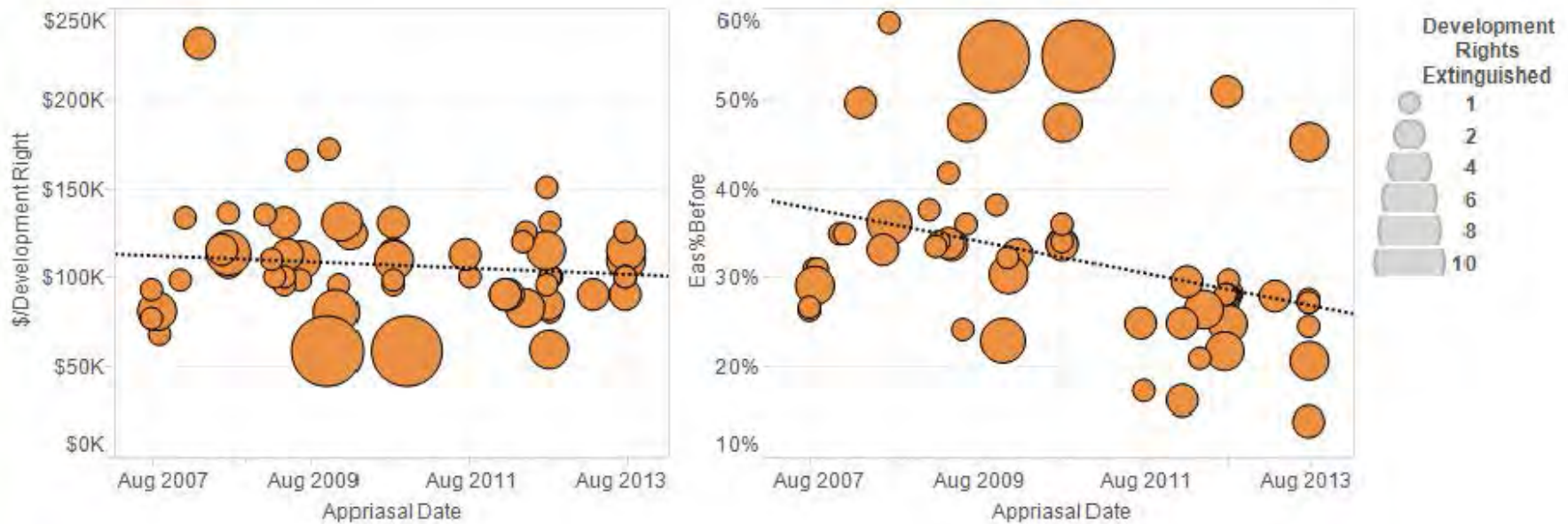
- 1-acre development
- 13 KSF under base
- 15 KSF under bonus
- Value increment: \$174K
- \$80/GBSF

- Credit Pricing:

- Base land value: \$35/GBSF
- Pricing based off land value
- @ 50% Fee, credits at \$17.50/GBSF



FLP Ag-NRL Valuation Trends



PDR/TDR Relationship | TDR Pricing Check

Snohomish County Proxy

Before ¹	\$234,375
PDR ²	\$75,000
TDR ²	\$30,000
TDR/PDR	40%

PDR/Before	32%
TDR/Before	13%

Check with FLP Before Value Average

FLP Average Before Value	\$296,978
Calculated TDR Average ³	\$38,600
Calculated TDR/FLP Before Value	13.0%

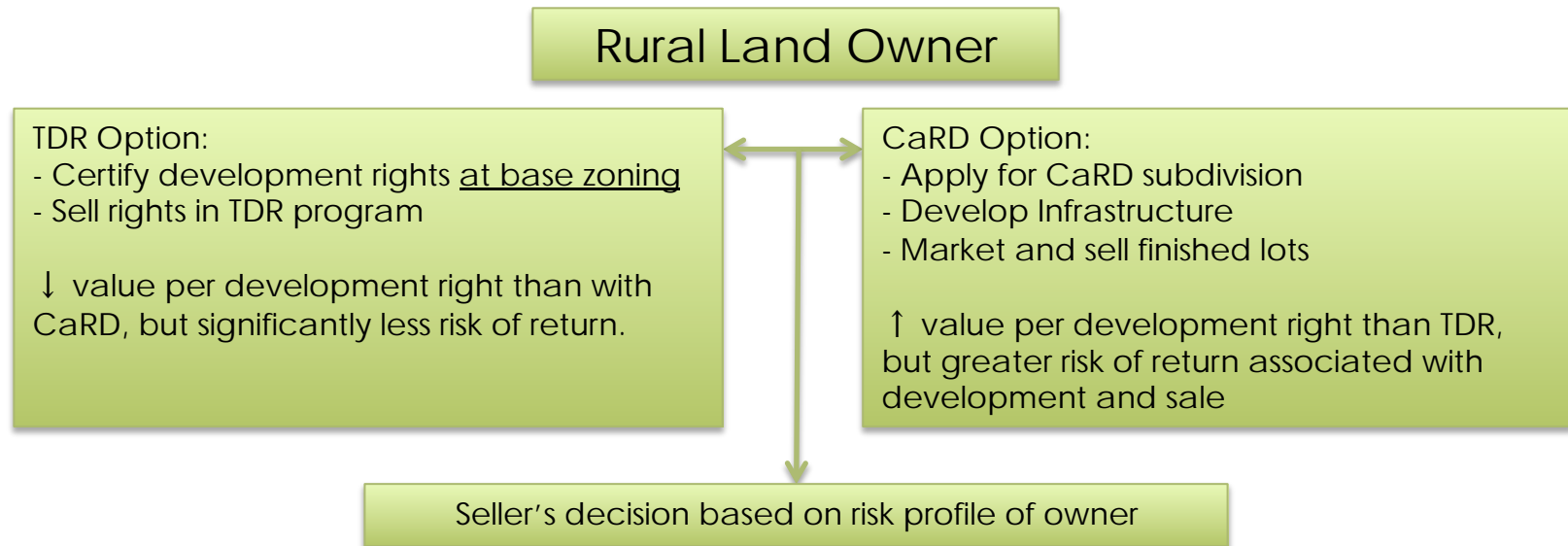
1. Estimated using FLP easement to Market value average of 32%

2. Values provided by Forterra

3. Average of implied easement values based on market transactions multiplied by 20%.

TDR/CaRD Policy Considerations

- Two paths for a CaRD eligible property owner



- Sending site values are calculated using recent market values relative to base unit density
- Market pricing incorporates CaRD optionality
- Therefore, TDR exchanges should be calculated on sending site base density

Review of Existing Programs

Farmland Legacy Program

- Purchase of Development Right Program that purchases land/easements in the Ag-NRL zone
- Nearly 7,000 acres protected by 2009 (est. in 1996)
- Conservation purchases funded by:
 - Conservation futures tax revenues
 - Donations
 - State/federal grant funding
 - Developer purchase of Farmland Density Credits (minimal to date)
- Conservation easement pricing based on Suttles' appraisals

Review of Existing Programs

Agricultural Heritage Program

- Burlington's existing Purchase Development Rights (PDR) Program
- Available in MR-NB, B-1, C-1 and R-3 zones in Burlington
- Credit pricing based on Mundy findings

Credit Pricing

Bonus Units	\$/DU
1 - 5	\$2,500
6 - 10	\$1,500
11 or more	\$1,000



- Use since implementation:
 - One Project
 - July 20, 2010
 - Purchased 2 credits

HEARTLAND

1301 First Avenue, Suite 200 Seattle, Washington 98101 TEL 206 682-2500 FAX 206 467-1429 WWW.HEARTLANDLLC.COM

TO: Kirk Johnson, *Senior Planner*
Skagit County Planning & Development Services

FROM: HEARTLAND, LLC
Doug Larson, *Principal & Project Director*
Matt Hoffman, *Senior Project Manager*
Ian Loveless, *Associate Project Manager*

DATE: July 22, 2013

RE: Skagit County TDR Economic and Market Analysis Findings

SUMMARY OF FINDINGS

This memorandum provides an overview of Heartland's findings for Tasks 2.1 to 2.6 of the Skagit County ("County") Transfer of Development Rights ("TDR") Economic and Market Analysis. These findings are meant to provide an initial indication of TDR feasibility in the defined Candidate Receiving Areas ("CRA") and inform the allocation of time and resources across the CRAs as the analysis moves into Phase III.

Below is a high-level overview of Phase II tasks 2.1 to 2.3 findings, incorporating macro-level supply and demand characteristics to model buildable lands capacity for the CRAs.

BAYVIEW RIDGE CRA

- **Residential:** In the baseline scenario, the Bayview Ridge CRA is expected to have adequate residential capacity to meet anticipated demand through 2033. In our most aggressive scenario, the Bayview Ridge CRA meets its residential capacity in 2023. Most of this growth will occur in the relatively dense Bayview Ridge Residential ("BR-R") zone, while the Bayview Ridge Urban Reserve ("BR-UR") zone is assumed to remain a low-density zone. These findings suggest that there may be an opportunity to implement a TDR program that allows developers to achieve increased density in the BR-UR zone by purchasing TDR credits.
- **Commercial:** In the baseline scenario, the Bayview Ridge CRA has adequate heavy industrial ("BR-HI") capacity until 2046 and light industrial capacity until beyond 2060. Even in Heartlands most aggressive scenario, the area does not meet capacity until 2039 for heavy industrial uses and 2055 for light industrial uses. Additionally, current zoning does not have density limits for commercial development that are conducive of a TDR program. Therefore, Phase II findings do not support further analysis of the Bayview Ridge CRA for a commercial TDR program.

BURLINGTON CRA

- **Residential/Commercial:** The Burlington CRA has mixed-use zoning and therefore will meet capacity for both residential and commercial uses at the same point. In the baseline scenario, the Burlington CRA is expected to have adequate capacity until 2036. The most aggressive scenario has the Burlington CRA hitting its blended residential and commercial capacity in 2029. The commercial zoning in the Burlington CRA does not have limits on building floor area density. Lacking a base limit on development capacity under the current zoning regulations makes it difficult to implement a commercial TDR program in commercial zones. Residential zoning regulation does limit density and could potentially support a TDR program in its current form.

RURAL UPZONE CRA

- Residential:** Skagit County’s rural areas do not lend themselves to the capacity modeling methodology used for Burlington and Bayview Ridge. The potential for implementing a TDR program relies on disproportionate demand for density in specific locations and the economics of the TDR program rather than on the overall unit capacity of rural lands. From a preliminary analysis in Phase II, this demand appears to exist in some areas, as evidenced by past upzone activity and therefore we would recommend assessing rural upzone land in Phase III. In Phase III, we would further evaluate the value dynamics for rural density relative to sending site density. This will better inform TDR program feasibility.

The two tables below detail the buildable land inputs and demand projections that were used in Heartland’s “Moderate Scenario.” This “Moderate Scenario” is also referred to as the baseline projection throughout this memorandum. Heartland relied on the County and the City of Burlington to provide the buildable lands estimate for each CRA. Demand for land, or anticipated delivery of residential and commercial structures, has been projected based on historical growth patterns.

Burlington CRA: Buildable Acres and Demand Projections¹

Zoning Area	Buildable Acres	Annual Demand Projections			Full Buildout Year
		Commercial (SF)	Residential (Units)	Total Acres	
All Zones	327	150,000	37	14.1	
C-1	133	60,840	21	6.1	2036
C-2	104	47,768	16	4.8	
BP	17	7,844	0	0.6	
M-1	73	33,547	0	2.6	

Bayview Ridge CRA: Buildable Acres and Demand Projections

Zoning Area	Buildable Acres	Annual Demand Projections			Full Buildout Year
		Commercial (SF)	Residential (Units)	Total Acres	
All Zones	1,162	100,000	58	20.5	
BR-HI	252	40,000	0	7.4	2046
BR-LI	383	60,000	0	5.5	2060+
BR-R	297	0	33	8.2	2033
BR-UR	230	0	25	6.3	

These inputs form the basis for Heartland’s capacity modeling analysis for the Burlington and Bayview Ridge CRAs. The following table and subsequent bullets summarize the capacity conclusions in three different scenarios for each CRA.

CRA Capacity Modeling: Year Capacity is Met

¹ The “Full Buildout Year” is the year that capacity is met in a particular area, under Heartland’s Moderate Scenario. For example, in the Burlington CRA there are 327 total buildable acres and the annual demand for acres is 14.1; taking 327 divided by 14.1 gives you about 23 years of capacity (23 + 2013 = 2036).

Scenario	Burlington CRA		Bayview Ridge CRA		
	Commercial/Residential	Commercial		Residential	
		BR-HI	BR-LI		
Conservative	2047	2060+	2060+	2041	
Moderate	2036	2046	2060+	2033	
Aggressive	2029	2039	2055	2023	

- The Aggressive Scenario contains residential growth assumptions that are in-line with historical annual growth in the County. The Washington State Office of Financial Management (“OFM”) currently projects the County’s future growth to be substantially lower than what the county has seen in the past.
- While the Burlington CRA and Bayview Ridge Residential CRA both have Aggressive Scenarios that indicate capacity will be reached within a mid-term planning horizon, the Bayview Ridge commercial CRA does not face near to mid-term capacity constraints and is unlikely to be source for TDR credit utilization.
 - These calculations are based on historical delivery of commercial square footage in Bayview Ridge and do not incorporate the potential for future capture of excess County demand for commercial land.
 - In order to better understand the reasonableness of the commercial projection it is advised that an analysis be undertaken which looks at the CRA’s potential capture of future demand relative to the County’s overall demand projections.
 - Under Heartland’s parameters, annual commercial demand would need to increase to approximately 2 times historical levels for the Bayview Ridge commercial CRA to face heavy industrial capacity constraint by 2030 and over 3 times to face a light industrial capacity constraint by 2030.

In Phase II tasks 2.4 to 2.6, Heartland relied on an analysis of several existing reports to inform order-of-magnitude data points for receiving site ability to pay and sending site valuation. These data points were compared to determine an implied exchange ratio between urban density units and extinguished rural development rights. Below are some key takeaways from tasks 2.4 – 2.5.

- Heartland reviewed the “Demand for & Value of Density Credits” report by Thomas/Lane & Associates and Bill Mundy & Associates (“TLA/Mundy”) for an indication of receiving site ability to pay. The two tables on the following page summarize the data points from this report for both commercial and residential receiving sites in each CRA.

Summary of Residential Receiving Site Ability to Pay Data Points			
CRA	Value of Additional Unit of Residential Density	Fee as Percent of Value	Residential Ability to Pay (\$/DU) Indication
Burlington	\$15,333	15%	\$2,300
Bayview Ridge	\$44,907	15%	\$6,736
Rural Upzone	No Data	No Data	No Data

Summary of Commercial Receiving Site Ability to Pay Data Points			
CRA	Value of Additional GBSF of Commercial Density*	Fee as Percent of Value	Commercial Ability to Pay (\$/GBSF) Indication
Burlington	\$35.00	30%	\$10.50
Bayview Ridge	No Data	No Data	No Data
Rural Upzone	N/A	N/A	N/A

*\$35.00 is a calculated average of the value per GBSF of additional space for each 0.1 FAR increment between 0.5 and 1.0 FAR.

- The 15% (residential) and 30% (commercial) “Fee as Percent of Value” is a figure that TLA/Mundy determined to be appropriate for a density bonus program. This assumption has a large impact on the ultimate exchange ratio and therefore will need to be further analyzed in Phase III.
- Heartland reviewed two appraisals by John Suttles and the TLA/Mundy report for an indication of sending site value for Ag-NRL land. Heartland believes that Suttles’ determination of sending site value at between \$85,000 to \$100,000 range to be the most up-to-date and useful data point.
- Using these data points, the exchange rate necessary to align a landowner’s ability to pay for urban residential development rights with the value of extinguished rural development rights is very high and not compatible with a program where the goal is large-scale conservation of rural lands. However, as noted later in this memo, we believe there are instances where exchange ratios would likely be more favorable, including when evaluating sending site values for timber lands.

BAYVIEW RIDGE CRA DETAILED ANALYSIS

RESIDENTIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

- Heartland used the OFM's 2012 projections for 2015 through 2040 in this analysis. Heartland extrapolated the OFM projections to 2060 using Mark Personius' methodology (Envision Skagit Report Update). The OFM "Medium Series" was used as the baseline assumption in Heartland's Moderate Scenario. The methodology that Skagit County used in its 2007 Comprehensive Plan population projections, which essentially averaged the Low and Medium Series estimates, was used in Heartland's Conservative Scenario, while the OFM High series was used for the Aggressive Scenario.
- Allocation of growth to the Bayview Ridge CRA: Heartland assumed that the allocation of growth to Bayview Ridge would be consistent with the growth allocation used to develop the 2025 population projections used in the 2007 Skagit County Comprehensive Plan. Bayview Ridge was expected to capture close to **8.5% of the County's total growth**.
- To determine expected population for the CRAs, Heartland applied these allocations to the most recent 2012 OFM projections. To convert the population projection to a residential unit demand projection we used the OFM's current people per household figure for Bayview Ridge of **2.4 people per household**.

b. Findings

- The OFM Medium Series estimate projects that Skagit County will have an annual population growth rate of 1.06%; this is significantly lower than the County's historical growth rate (1960 – 2010) of 1.67% and is significantly reduced relative to the projections made in the 2007 Comprehensive Plan and the 2010 Envision Skagit Report.
- At approximately 8.5% capture of the County's expected growth, Bayview Ridge will grow by 3.3% annually. This equates to an average growth of slightly fewer than 140 people per year. With an average household size of 2.4 people, Bayview Ridge is expected to have a demand for **58 housing units per year**.
- Heartland's Conservative Scenario, using the County's projection methodology which averages the Low and Medium Series OFM estimates, projects an annual demand of 42 units, while the Aggressive Scenario, using the OFM High Series projects annual demand of 114 units.

2. Macro-Capacity Land Supply Analysis (Task 2.2)

- a. **Methodology** - Heartland relied on buildable land capacity inputs provided by the County for the Bayview Ridge CRA. These estimates were originally made for the Bayview Ridge Sub-Area Plan (SAP) in 2008 and were updated for this analysis.

- b. **Findings** - The following chart summarizes the land supply data that was received from the County:

Zone	Developable per 2008 SAP	Developed 2008-2013	Remaining Developable	Buildable
Bayview Ridge Residential	297	Minimal	297	297
Bayview Ridge Urban Reserve	230	Minimal	230	230
			Total	527

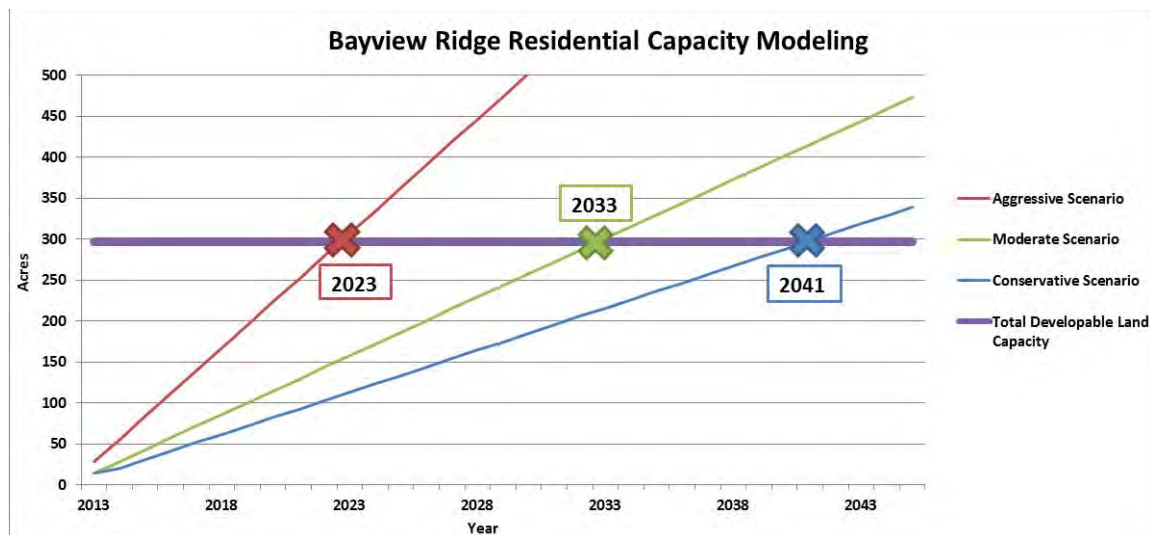
3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

- Heartland developed a model that projects expected demand (utilization) of land for residential uses in the Bayview Ridge CRA relative to existing supply of buildable land.
- It was assumed that the expected annual demand for residential units (**58 units**) would be allocated to the BR-R zone at the base density of **4 units per acre**. If Farmland Density Credits begin to be regularly utilized and this density increases to somewhere between 4 and 6 units per acre, each of the years of capacity will be pushed out to some extent. The BR-UR zone was allocated units at a density of **1 unit per 5 acres**, assuming CaRD utilization. Only 1 unit per year, of the total of 58 units per year, was allocated to the BR-UR zone.

b. Findings

- Using the baseline residential demand assumptions, the Bayview Ridge CRA has residential capacity to last until 2033.
- Heartland's Conservative Scenario has Bayview Ridge's capacity lasting unit 2041, while the Aggressive Scenario estimates that the CRA will have residential capacity until 2023.
- Under the assumptions used in this analysis, the BR-UR zone is a non-factor in the capacity model. At 1 unit per 5 acres, the entire zone has enough buildable land for only 46 total units, less than one year of demand for Bayview Ridge.
- The chart below illustrates the three residential land capacity scenarios for the Bayview Ridge Residential zone. As mentioned above, the BR-UR zone does not have significant impact at current density levels and therefore is excluded from the chart. **However, the BR-UR zone represents an opportunity to implement a TDR program to allow for increased density, significantly extending the Bayview Ridge CRA's capacity horizon.**



4. CRA Ability to Pay (Task 2.4)

a. Methodology

- In Phase II, Heartland's analysis of the CRA ability to pay for TDR credits was limited to a review of the "Demand for & Value of Density Credits" report by Thomas/Lane & Associates and Bill Mundy & Associates. This report provides an order-of-magnitude indication of the ability of developers to pay for density credits.
- TLA/Mundy uses a statistical regression analysis based on 12 Skagit County land sales from 2006 – 2009 to derive the portion of the land sale value that can be attributed to the

development lot and the portion associated with the excess land square footage (SF) in the sale.

- The statistical relationship was adjusted for Bayview Ridge based on sale price-point data for the area.

b. Findings

- The TLA/Mundy Report concludes that the per unit value for residential density in the Bayview Ridge CRA is around \$45,000 for the first unit and \$35,000 for the second unit, as summarized in the table below.

TLA/Mundy Bayview Ridge Value of Incremental Residential Density					
Units/Acre	SF/Unit	Adjusted Value/Acre	Change in Value per Acre	Cumulative Change in Value per Acre	Fee Cost at 15% of Value (Recommended)
4	10,890	\$252,162			
5	8,712	\$297,066	\$44,904	\$44,904	\$6,736
6	7,260	\$331,854	\$34,788	\$79,692	\$11,954

- An important factor to consider in Phase III will be how the per unit value changes when considering the BR-UR zone. If Skagit County implements a TDR program that allows developers to purchase density credits to move from the BR-UR zone’s 1/10 acre (1/5 acres with CaRD) density to a 4 unit/acre (1/.25 acre) density, the developer value indications may change significantly relative to the difference in value between 4 and 6 units per acre. A ten acre property in the BR-UR zone will be able to increase its development capacity from 2 development rights (assuming CaRD) to 40 development rights through TDR credits. An analysis will need to be done that looks at how the developer’s marginal unit value changes across this range.
- Heartland’s recommended Phase III approach would analyze the most-recent available sales data for Bayview Ridge, while incorporating a residual land value approach to further understand the value impact of additional density for a landowner.

COMMERCIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

- Historic Bayview Ridge commercial demand was determined through the analysis of assessor building data from 2000 - 2013². This analysis approximated that 100K SF of commercial space delivered annually during that period.

- b. Findings** - Heartland used this 2000 - 2013 historic annual delivery estimate of **100K SF** as its Moderate Scenario projection, with a conservative to aggressive range of 70K to 130K SF.

2. Macro-Capacity Land Supply Analysis (Task 2.2)

- a. Methodology** - Heartland relied on buildable land capacity inputs provided by the County for the Bayview Ridge CRA. These estimates were originally made for the Bayview Ridge Sub-Area Plan in 2008 and were updated for this analysis.

² Heartland originally estimated a figure of 70K square feet per year of annual commercial delivery in Bayview Ridge. However, this estimate was based off an incomplete assessor dataset. The County augmented the analysis utilizing a more complete dataset which came to the annual square feet estimate of 100K.

b. **Findings** - The following chart summarizes the land supply data that was received from the County:

Bayview Ridge Buildable Lands Table (in Acres)					
Zone	Developable per 2008 SAP	Developed 2008-2013	Remaining Developable	Adjustments*	Buildable
Heavy Industrial	272	20	252	0	252
Light Industrial	363	15	348	35	383
				Total	635

*Adjustment made for the conversion of 25 acres of BR-CC zoned land to the BR-LI zoning designation

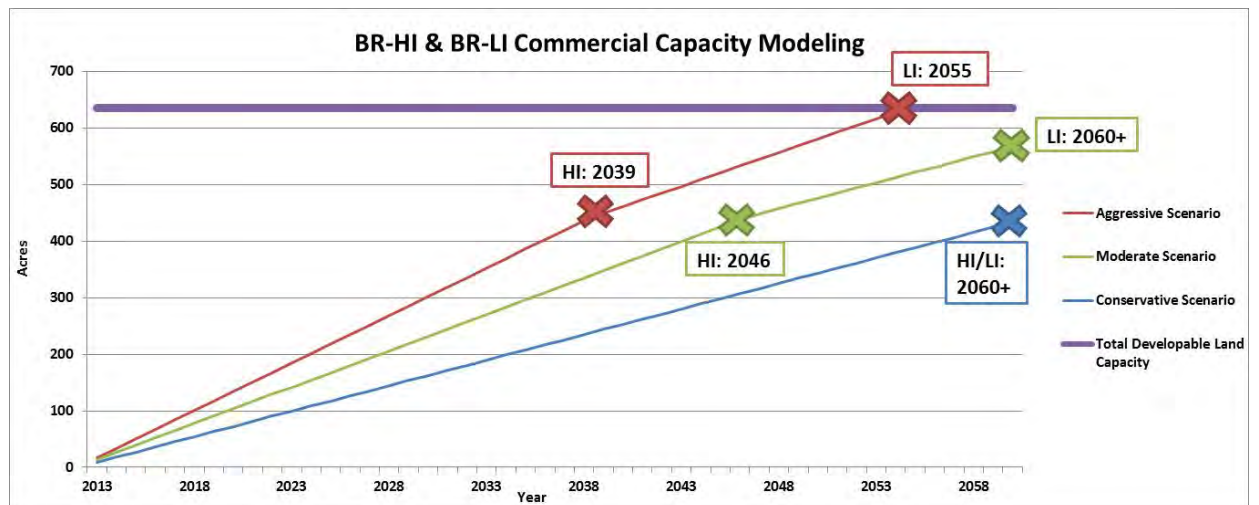
3. **Macro-Capacity Bonus Increment (Task 2.3)**

a. **Methodology**

- Heartland developed a model that projects expected demand (utilization) of land for commercial uses in the Bayview Ridge CRA relative to existing supply of buildable land.
- It was assumed that the expected annual demand for commercial square footage (**100K SF**) would be allocated to the BR-HI and BR-LI zones in proportion to the amount of land currently available in each zone—meaning that the BR-HI zone will capture approximately 40% of the demand and the BR-LI zone will capture 60% of the demand.
- It was assumed that commercial development will be built out at a **0.25 FAR** in the BR-LI zone and to a **0.12 FAR** in the BR-HI. The 0.12 FAR estimate for the BR-HI zone assumes a 70%/30% blend of land-intensive, heavy industrial uses and light industrial uses. Heavy industrial uses are expected to build out at a 0.07 FAR, compared to a 0.25 FAR for light industrial.

b. **Findings**

- In the baseline commercial demand scenario, the BR-HI zone had capacity through 2046, while the BR-LI zone had capacity until beyond our 2060 modeling horizon.
- Under this project’s assumptions, the Bayview Ridge CRA will be able to accommodate both heavy and light industrial demand for commercial space into the long-term.
- The following charts illustrate cumulative commercial demand for land relative to the supply of developable land in both the BR-HI and BR-LI zones of the Bayview Ridge CRA.



4. **CRA Ability to Pay (Task 2.4)**

In Phase II, Heartland’s analysis of the CRA ability to pay for TDR credits was limited to a review of the “Demand for & Value of Density Credits” report by Thomas/Lane & Associates and Bill Mundy & Associates.

This report does not provide data points for commercial unit values in the Bayview Ridge UGA. In light of the initial project findings that the Bayview Ridge CRA may not be well-suited for a TDR program, Heartland has not endeavored to further analyze commercial receiving site values for this area.

BURLINGTON CRA

RESIDENTIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

- Heartland used the OFM 2012 projections for 2015 - 2040 in this analysis. The OFM 2040 projections were extrapolated to 2060 using Mark Personius' methodology (Envision Skagit Report Update). The OFM "Medium Series" was used as the baseline assumption in Heartland's Moderate Scenario. The methodology that Skagit County used in its 2007 Comprehensive Plan population projections, which essentially averaged the Low and Medium Series estimates, was used in Heartland's Conservative Scenario.
- Allocation of growth to the Burlington CRA: Heartland assumed that the allocation of growth to the Burlington would be consistent with the growth allocation used to develop the 2025 population projections used in the 2007 Skagit County Comprehensive Plan. Burlington was expected to capture close to **7.0% of the County's total growth**. The Burlington CRA is expected to capture some portion of this total allocation to the jurisdiction. In this analysis, we assume that the CRA will capture 80% of Burlington's residential growth.
- To determine expected population for the Burlington CRA, Heartland applied these allocations to the most recent 2012 OFM projections. To convert the population projection to a residential unit demand projection we used the OFM's current people per household figure for Burlington of **2.5 people per household**.

b. Findings

- The OFM's Medium Series estimate projects that the County will have annual population growth rate of 1.06%. This is significantly lower than the County's historical growth rate (1960 – 2010) of 1.67% and is significantly reduced relative to the projections made in the 2007 Comprehensive Plan and the 2010 Envision Skagit Report.
- Burlington's 7% capture of the County's growth means that it will essentially grow in-line with the County as a whole at approximately 1.08% annually. Average household demand for Burlington is projected at 46 households per year. The CRA does not encompass the entire city—at an 80% capture this equates to **37 households per year**.
- Heartland's Conservative Scenario, using the County's projection methodology which averages the Low and Medium Series OFM estimates, projects an annual demand of 26 units, while the Aggressive Scenario, using the OFM High Series projects annual demand of 72 units.

2. Macro-Capacity Land Supply Analysis (Task 2.2)

a. **Methodology** - Heartland utilized the buildable lands analysis developed by the City of Burlington. This analysis provided a parcel-by-parcel categorization of potentially redevelopable land.

b. **Findings** - The following table summarizes the current amount of buildable land in the Burlington CRA, aggregated by zone. Heartland made the assumption that future residential growth would be distributed between the C-1 and C-2 zones. While residential development is allowed in the BP zone, the locations of the buildable parcels in this zone are not conducive to residential development.

2012 BLA by City of Burlington (Acres)				
Zone	Vacant	Underutilized	Buildable	Base Res. (DU/Acre)
C-1	70	63	133	14
C-2	103	1	104	None established-through CUP
BP	15	2	17	14
M-1	45	28	73	N/A
Total			327	

3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

- Heartland developed a model that projects expected demand (utilization) of land for residential uses in the Burlington CRA relative to the existing supply of buildable land.
- It was assumed that the expected annual demand for residential units (**37 units**) would be allocated to the C-1 and C-2 zones in proportion to the amount of land currently available in each zone—meaning that the C-1 zone will capture approximately 56% of the demand and the C-2 zone will capture 44% of the demand.
- It was assumed that residential development will be built out at the base density level of **14 units per acre**.
- The proportion of the C-1 and C-2 zones that will be built as residential is driven by the demand for residential land relative to commercial land. Rather than specifying a specific quota of land for residential uses, we let this ratio be determined by our demand and density inputs. This resulted in approximately 20% of the land in these zones being dedicated to residential development in the model.

b. Findings

- The Burlington CRA capacity model is different from the Bayview Ridge model in that residential and commercial uses are competing for mainly the same supply of buildable land (C-1 and C-2 parcels). Therefore, the area reaches capacity for both uses at approximately the same point.
- Using the baseline demand assumptions, the Burlington CRA reaches capacity in 2036.
- Heartland’s Conservative Scenario has the Burlington CRA’s capacity lasting to 2047, while the Aggressive Scenario estimates that the CRA will have residential capacity until 2029.
- The charts following the “Commercial” section illustrate the three capacity scenarios for the Burlington CRA.

4. CRA Ability to Pay (Task 2.4)

a. Methodology

- In Phase II, Heartland’s analysis of the CRA ability to pay for TDR credits was limited to a review of the “Demand for & Value of Density Credits” report by Thomas/Lane & Associates and Bill Mundy & Associates (“TLA/Mundy”). This report provides an order-of-magnitude indication of the ability of developers to pay for density credits.
- The TLA/Mundy Report’s analysis looks at either a small lot (8,400 SF) or a large lot (1 acre), both with an assumed minimum lot size of 8,400 SF (5.2 DU/Acre). However, the zones that allow residential uses in the Burlington CRA have base densities of 14 DU/Acre (CC-2 density is through CUP). The report provides estimates for the incremental value added for each additional unit for a small lot property with a base density of 5.2 DU/Acre up to a max density

of 20.7 DU/acre and a large lot property with a base density of 5 units/acre up to a max density of 20 units per acre. For our analysis, we can look at the incremental value added between 14 DU/Acre and 20 DU/acre as a proxy for the value of additional density units starting with a base density of 14 DU/Acre.

- One note is that the TLA/Mundy report makes the assumption that a townhouse development would need a density of approximately 20 units per acre. The report assumes that additional density, changing the development typology to a stacked configuration, would not be feasible in the market area.

b. Findings

- The tables below summarize TLA/Mundy’s estimation for the incremental value gained by a land owner for each additional unit of density for both a large (1 acre) and small lot development.

TLA/Mundy Burlington Small Lot Value of Incremental Residential Density					
Units/Acre	SF/unit	Adjusted Lot Value	Change in Value per Lot	Cumulative Change in Value per Acre	Fee Cost at 15% of Value (Recommended)
5.2	8,400	\$130,905			
10.4	4,200	\$179,815	\$48,910	\$48,910	\$7,337
15.6	2,800	\$199,223	\$19,408	\$68,318	\$10,248
20.7	2,100	\$209,510	\$10,287	\$78,605	\$11,791

TLA/Mundy Burlington Large Lot Value of Incremental Residential Density					
Units/Acre	SF/unit	Adjusted Value/Acre	Change in Value per Acre	Cumulative Change in Value per Acre	Fee Cost at 15% of Value (Recommended)
14	3,111	\$1,010,030			
15	2,904	\$1,025,362	\$15,332	\$15,332	\$2,300
16	2,723	\$1,038,922	\$13,560	\$28,892	\$4,334
17	2,562	\$1,050,999	\$12,077	\$40,969	\$6,145
18	2,420	\$1,061,823	\$10,824	\$51,793	\$7,769
19	2,293	\$1,071,578	\$9,755	\$61,548	\$9,232
20	2,178	\$1,080,415	\$8,837	\$70,385	\$10,558

- Heartland’s receiving site ability to pay assumption relied on the recommended fee associated with an extra unit of density on a large lot: \$2,300.
- Phase III will involve a triangulation using the TLA/Mundy value estimations, more recent sales data points, and a residual land value analysis informed with current market inputs. This analysis will expand the value range to higher densities, understanding that Burlington is interested in associating a TDR program with potential stacked-flat development in its core.

COMMERCIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology - Future demand for commercial square footage was projected based on historical (1989 – 2012) trends provided to Heartland by the City. This demand for building square footage was translated into a demand for land by applying an assumed floor area ratio (FAR) based off of recently completed commercial projects.

b. Findings - Over the last 5 years there has been an average of 90K square feet of commercial space; the ten-year average is more than double this figure at 195K. Heartland used an assumed Moderate Scenario estimate of **150K SF of annual commercial demand**, with high and low estimates of 200K and 100K respectively.

2. Macro-Capacity Land Supply Analysis (Task 2.2)

- a. **Methodology** - Heartland utilized the buildable lands analysis developed by the City of Burlington. This analysis provided a parcel-by-parcel categorization of potentially redevelopable land.
- b. **Findings** - The following table summarizes the current amount of buildable land in the Burlington CRA, aggregated by zone. Heartland made the assumption that future commercial growth would be distributed between the C-1, C-2, BP and M-1 zones:

2012 BLA by City of Burlington (Acres)				
Zone	Vacant	Underutilized	Buildable	Base Res. (DU/Acre)
C-1	70	63	133	14
C-2	103	1	104	None established-through CUP
BP	15	2	17	14
M-1	45	28	73	N/A
Total			327	

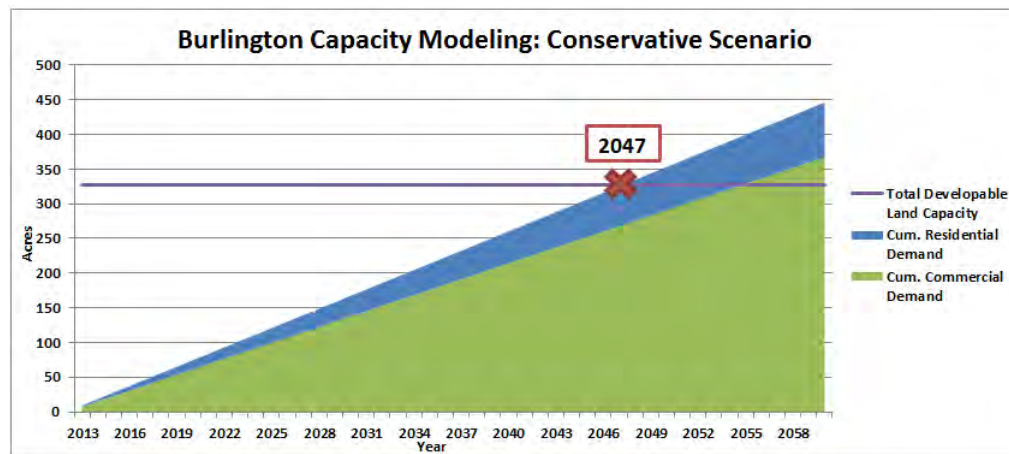
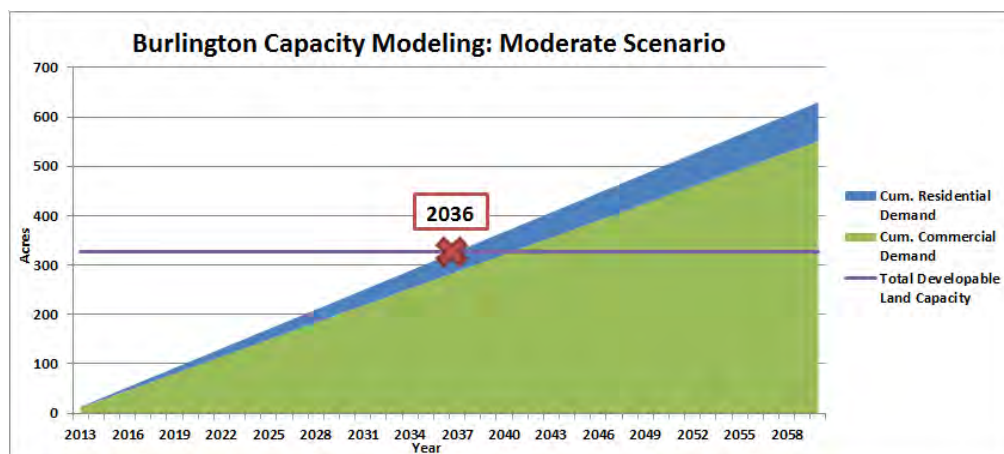
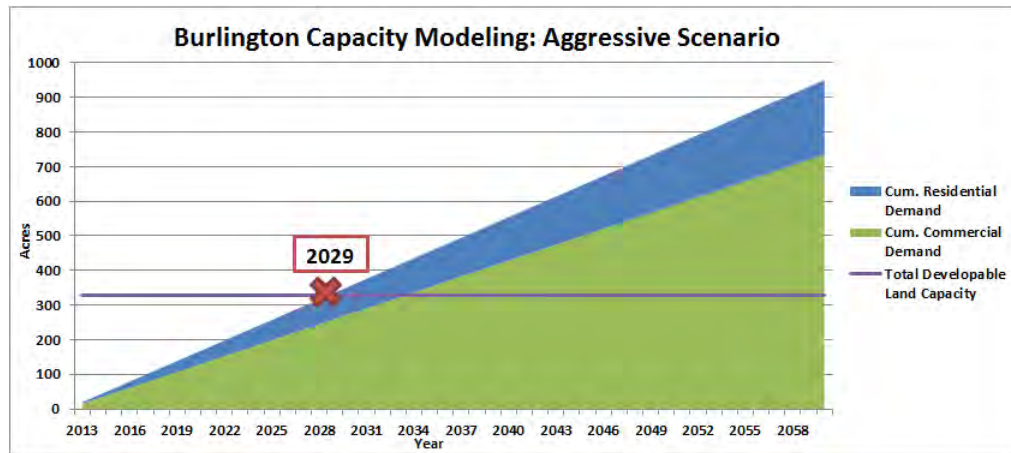
3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

- Heartland developed a model that projects expected demand (utilization) of land for commercial uses in the Burlington CRA relative to existing supply of buildable land.
- It was assumed that the expected annual demand for commercial square footage (**150K SF**) would be allocated across the commercial zones in proportion to the amount of land currently available in each zone—meaning that the C-1 zone will capture approximately 41% of the demand; 32% in the C-2 zone; 5% in the BP zone and 22% in the M-1 zone.
- It was assumed that commercial development will be built out at a **0.30 FAR**; this figure is a blend of the trend for commercial and industrial development over the past 10 years.

b. Findings

- Using the baseline demand assumptions, the Burlington CRA reaches capacity in 2036.
- Heartland's Conservative Scenario has the Burlington CRA's capacity lasting to 2047, while the Aggressive Scenario estimates that the CRA will have commercial capacity until 2029.
- The following charts illustrate the three capacity scenarios for the Burlington CRA.



4. Receiving Area Ability to Pay (Task 2.4)

a. Methodology

- In Phase II, Heartland’s analysis of the CRA ability to pay for TDR credits was limited to a review of the “Demand for & Value of Density Credits” report by Thomas/Lane & Associates and Bill Mundy & Associates. This report provides an order-of-magnitude indication of the ability of developers to pay for density credits

- The TLA/Mundy report notes that at the time of the report the only restrictions on commercial development in Burlington were parking requirements and height restrictions, which essentially makes it impossible to implement a TDR program because there is no base density to add bonus density too. The zoning has not been amended to include a base density since the TLA/Mundy report was published, therefore it will still be difficult to implement a commercial TDR program without first amending the zoning regulations.
- The TLA/Mundy report assumes that a base density for commercial development is set at a 0.5 FAR, and then calculates the value added for each additional 0.1 FAR up until 2.0 FAR.

b. Findings

- Below is a table that summarizes TLA/Mundy’s findings for the value of increased density for commercial receiving sites in Burlington. The “Efficiency” represents a developer’s net benefit or savings for a development per gross square foot of buildable area. TLA/Mundy applies a 30% factor to this to determine an appropriate fee amount per land square foot. Heartland added a calculation for the fee on a per bonus gross building square foot basis.

TLA/Mundy Burlington Value of Incremental Commercial Density					
FAR	Land Value per SF	Value per GBSF	Efficiency	Efficiency Conversion to Value per GBSF	Fee Per GBSF at 30% of Value
0.5	\$13.50	\$27.00			
0.6	\$13.50	\$22.50	\$4.50	\$45.00	\$13.50
0.7	\$13.50	\$19.29	\$7.71	\$38.57	\$11.57
0.8	\$13.50	\$16.88	\$10.13	\$33.75	\$10.13
0.9	\$13.50	\$15.00	\$12.00	\$30.00	\$9.00
1	\$13.50	\$13.50	\$13.50	\$27.00	\$8.10
1.1	\$13.50	\$12.27	\$14.73	\$24.55	\$7.36
1.2	\$13.50	\$11.25	\$15.75	\$22.50	\$6.75
1.3	\$13.50	\$10.38	\$16.62	\$20.77	\$6.23
1.4	\$13.50	\$9.64	\$17.36	\$19.29	\$5.79
1.5	\$13.50	\$9.00	\$18.00	\$18.00	\$5.40
1.6	\$13.50	\$8.44	\$18.56	\$16.88	\$5.06
1.7	\$13.50	\$7.94	\$19.06	\$15.88	\$4.76
1.8	\$13.50	\$7.50	\$19.50	\$15.00	\$4.50
1.9	\$13.50	\$7.11	\$19.89	\$14.21	\$4.26
2	\$13.50	\$6.75	\$20.25	\$13.50	\$4.05

- Heartland’s recommended Phase III analysis would involve looking at recent commercial land sales trends to inform a current commercial land value estimate. The analysis may also use a residual land value approach to model the increased land value associated with increased density.
- Heartland would analyze recent commercial developments to better understand what FAR developers are currently building at. It is our preliminary opinion that 0.5 is an aggressive base assumption for Burlington’s market and that a base FAR would need to be set lower in order to capture value from a TDR density bonus program.

RURAL UPZONE CRA

In this analysis, Rural Areas are defined as all land outside of Skagit County's urban growth areas. Heartland's analysis focused only residential development for the Rural Upzone CRA.

RESIDENTIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

- Heartland used the Office of Financial Management's (OFM) 2012 projections for 2015 through 2040 in this analysis. Heartland extrapolated the OFM projections to 2060 using Mark Personius' methodology (Envision Skagit Report Update). The OFM "Medium Series" was used as the baseline assumption in Heartland's Moderate Scenario. The methodology that Skagit County used in its 2007 Comprehensive Plan population projections, which essentially averaged the Low and Medium Series estimates, was used in Heartland's Conservative Scenario, while the OFM High series was used for the Aggressive Scenario.
- Allocation of growth to Rural Areas: Heartland assumed that the allocation of growth to Skagit's Rural Areas would be consistent with the growth allocation used to develop the 2025 population projections used in the 2007 Skagit County Comprehensive Plan. Rural Areas were expected to capture close to **20% of the County's total growth**. The Envision Skagit report recommends that the target growth allocation to rural areas be reduced to 10%. The current 2060 Plan Trend based on Envision Skagit modeling has the projected allocation of growth at 24%. In this analysis, Heartland modeled the recommended 10% allocation as a reference point, understanding that this is probably not realistic based on trends.
- To determine expected population for the CRAs, Heartland applied these allocations to the most recent 2012 OFM projections. To convert the population projection to a residential unit demand projection we used the OFM's current people/household figure for Rural Areas of **2.5 people/household**.

b. Findings

- The OFM's Medium Series estimate projects that Skagit County will have annual population growth rate of 1.06%; this is significantly lower than the County's historical growth rate (1960 – 2010) of 1.67% and is significantly reduced relative to the projections made in the 2007 Comprehensive Plan and the 2010 Envision Skagit Report.
- At approximately 20% capture of the County's expected growth, population in Skagit's Rural Areas will grow by 0.73% annually. This equates to an average growth of 325 people per year. With an average household size of 2.5 people, Skagit's Rural Areas are expected to have a demand for **130 housing units per year**.
- Heartland's Conservative Scenario, using the County's projection methodology which averages the Low and Medium Series OFM estimates, projects an annual demand of 94 units, while the Aggressive Scenario, using the OFM High Series, projects annual demand of 254 units.
- If the Rural Areas' capture of future growth is reduced to Envision Skagit's recommended 10% level, then each of these scenarios' demand projections would be cut in half, i.e. the baseline projection would be 65 units per year.

2. Macro-Capacity Land Supply Analysis (Task 2.2; not applicable to Rural Upzone CRA)

3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

- In terms of household demand relative to total unit capacity, Skagit County's Rural Areas are assumed to have ample capacity to accommodate projected household demand into the long-term. However, it is foreseeable that specific areas within the rural landscape will experience

disproportionate demand for density and may be able to support a TDR program. This demand may be attributable to idiosyncratic property amenity characteristics or broader geographic conditions, including proximity to employment centers and conveniences offered by cities and towns inside the UGA. The past requests for upzoning of specific rural parcels are examples of this characteristic in effect. In these cases, the viability of a TDR program relies more on the value equation between the sending and receiving sites. Therefore, it is recommended that the Rural Areas analysis move forward into Phase III for a more robust analysis of the overall value characteristics for rural density and the areas where this excess demand exists.

4. Receiving Area Ability to Pay (Task 2.4)

a. Methodology

- The TLA/Mundy report did not provide ability to pay data for rural parcels. Based on the diminishing value of increased density (exemplified in the TLA/Mundy Bayview Ridge and Burlington analysis), it is expected that rural lands will achieve a higher value for increased density than that observed in Bayview Ridge. The incremental value for additional density on rural parcels will most likely be closer to the value attributed to agricultural sending site development rights which is discussed in the next section.
- Heartland's recommended Phase III analysis would analyze recent sales of rural land to identify trends in the pricing of additional density. However, it is expected that scarcity of data will make this approach difficult. Therefore, Heartland would most likely augment this research with a residual land value analysis to determine the incremental value added to land with increased density.

SENDING SITE VALUATION (TASK 2.5)

a. Methodology

- In Phase II, Heartland relied on several reports provided by the Skagit County Farmland Legacy Program to determine sending site development right values. These reports included the TLA/Mundy “Demand for & Value of Density Credits” report and two appraisals of agricultural land development rights conducted by Robert Suttles.

b. Findings

- Below are summary tables of the derived development right value in the Suttles and TLA/Mundy reports.

John Suttles Appraisal Reports					
Property	Valuation Date	Subject Prop Description	Value Indication for Comparable Operating Ag Land w/ Dev Right in Place	Value Indication for Operating Ag Land w/ Dev Right Easement	Value of Development Right
Fohn Farms	8/27/2012	40 acres of agricultural land with one development right in place	\$9,000/Acre (\$360K for Subject)	\$6,500/Acre (\$260K for Subject)	\$100K
Johnson Land	8/22/2012	25.66 acres of agricultural land with two (2) development rights in place	\$13,000/Acre (\$335K for Subject)	\$6,500/Acre (\$165K for Subject)	\$170K for both; \$85K each

TLA/Mundy Report Findings			
Report Date	Value Indication for Base Ag Land w/ out Development Right	Value Added by Development Right	Urban Influence Premium
6/1/2009	\$4,000/Acre	\$130K + per acre "spillover" premium of \$3,000/Acre	High: \$4,000/Acre Moderate: \$2,000/Acre

- The value indication from the Suttles appraisals is between \$85,000 and \$100,000 per development right. This is significantly lower than the TLA/Mundy value determination which puts the base value of a development right at \$130,000, but additionally adds a “spillover³” premium of \$3,000 per acre of land. There is an additional premium added for development rights on properties that are deemed to have a high or moderate level of “urban influence”. For example, on the Fohn Farms 40 acre parcel, TLA/Mundy would value the development right at \$130,000 plus a “spillover” premium of \$3,000 per acre (\$3K x 40 = \$120K) for a total value of \$250,000.
- Heartland attaches more weight to the valuations contained in the two Suttles appraisals. The appraisals are based on a comparable sales analysis of fairly recent transactions for property with and without development units in place. In Phase III, Heartland will endeavor to update and expand the set of sales used in the Suttles appraisals to inform a current indication of value. Additionally, Heartland will conduct a similar analysis for RR-NRL and Secondary Forest land.

³ The spillover premium is the incremental land value associated with an improvement large-acreage property.

EXCHANGE RATE ANALYSIS (TASK 2.6)

a. Methodology

- The Phase II TDR exchange rate analysis is based on the sending and receiving site values that were derived from the reports referenced above. At this point, these values have not been updated to account for recent sales activity and have not been checked against a residual land value approach. Therefore, the Phase II exchange rate analysis will only provide a very rough, order-of-magnitude indication of the necessary exchange rate for a TDR program.
- The exchange rate is based on the relationship of the sending site value relative to the receiving site ability to pay. The exchange ratio is presented as the number of urban density units (dwelling units or commercial GSF) need to extinguish one rural development right.
- The TLA/Mundy Report assumes that a landowner should pay 15% of the total value that is gained by the bonus residential density received; this assumption is used in this analysis as the receiving site ability to pay. The TLA/Mundy report uses a 30% value capture assumption for the commercial density fee; the reason for this discrepancy is not explained.

b. Findings

- Below is a table that summarizes the exchange ratios implied by the valuation reports summarized in this analysis.

Exchange Rate Analysis by Valuation Report				
Valuation Report	Sending Site Value	Receiving Site Ability to Pay by CRA @ 15%		Implied Ratio of Urban Units per Conservation Unit
Fohn Farms Appraisal	\$100,000	Bayview Residential:	\$6,736 per DU	15 Units
		Burlington Commercial:	\$10.50 per GBSF	9,524 GBSF
		Burlington Residential:	\$2,300 per DU	43 Units
Johnson Land Appraisal	\$85,000	Bayview Residential	\$6,736 per DU	13 Units
		Burlington Commercial	\$10.50 per GBSF	8,095 GBSF
		Burlington Residential	\$2,300 per DU	37 Units
TLA/Mundy Report	\$250,000	Bayview Residential	\$6,736 per DU	37 Units
		Burlington Commercial	\$10.50 per GBSF	23,810 GBSF
		Burlington Residential	\$2,300 per DU	109 Units

- The exchange ratios implied by the Phase II sending and receiving site values would not support a robust TDR program. The discrepancy in value between the urban land owner’s ability to pay and the value needed on the sending end means that the program will probably not result in significant conservation. For example, if a developer in Burlington had a 1-acre parcel zoned for 14 units and wanted to increase density to 20 units they would need to pay \$13,800 for the extra 6 units. However, this falls well short of the \$85K - \$100K needed to extinguish one rural development right.
- The imbalance for the implied commercial exchange rate is less severe than for residential. This is in part because the TLA/Mundy report applies different “fee as percent of value” assumptions for commercial and residential density. The assumed percentage of total added value that a developer is forced to pay for additional density is very important to setting an appropriate exchange rate. While the TLA/Mundy Report uses 15% for residential and 30% for commercial, these figures will need to be further vetted in Phase III.
- An additional reason why the exchange rate may improve after Phase III analysis is that the current sending site valuations are for agricultural land, while the TDR program would focus on timber land. In Heartland’s experience, timber land trades at a discount to agricultural land, which would make the exchange rate less severe.