

## ULI Technical Assistance Panel Recommendations

### City of Bellevue - Downtown Incentive Zoning Update



## ULI Northwest

The Urban Land Institute provides leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI Northwest, a district council of the Urban Land Institute, carries forth that mission as the preeminent real estate forum in the Pacific Northwest, facilitating the open exchange of ideas, information and experiences among local, national and international industry leaders and policy makers.

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- Encourage the collaboration among all domains – public and private – of the real estate industry.
- Build consensus among industry and public leaders who influence land use, transportation, environmental, and economic development policies.

## City of Bellevue

Located in the Eastside region of King County, Bellevue has the second largest city center in the state. Based on per capita income, Bellevue is the sixth wealthiest of 522 communities in Washington. More than 145 companies have located in Bellevue, such as T-Mobile, Microsoft, Nintendo, and Expedia. As of the 2010 census, the city had a population of 122,363. The name “Bellevue” is French for “beautiful view.”

## Contact us:

ULI Northwest  
1325 Fourth Avenue, Suite 1510  
Seattle, WA 98101

tel: 206.224.4500  
fax: 206.224.4501  
email: [northwest@uli.org](mailto:northwest@uli.org)  
[northwest.uli.org](http://northwest.uli.org)

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# ULI Technical Assistance Panel Recommendations

## City of Bellevue

### EXECUTIVE SUMMARY

The last three decades in Bellevue have been a time of major growth and development, guided by a land use code adopted in 1981. As a part of its Downtown Livability Initiative, the City of Bellevue has embarked on a targeted revision of its downtown land use code. This includes updating the downtown incentive zoning system to encourage public amenities as part of private development. These amenities, incorporated into the next generation of projects, will support a more vibrant urban environment and bring value to the city and all its residents.



The Downtown Bellevue Incentive Zoning Update is likely to be effective in attaining adopted goals for livability in downtown Bellevue. Given the variety of constraints, City staff has met the objectives set by the Bellevue City Council for the downtown zoning incentives. As the City moves forward into the implementation phase of these code provisions, it is important for all concerned to bear in mind the following:

- No plan is perfect, nor will it satisfy all stakeholders.
- Because incentives are market-based, it is important to engage in regular updates to the land use code going forward. This will ensure that incentives are effectively tied to real estate development cycles and conditions.

Based on the current economic assumptions in the BERK report, the recommended new base (as-of-right) floor area ratios (FARs) are adequately adjusted upward to maintain existing property values. They should not be perceived as a downzone.

Going forward, the following concerns should be addressed, as feasible:

**Periodic review.** Much of the modeling of the proposed incentive zoning changes depends on the projected exchange rate, or the dollar value of the FAR or height earned between the new base zoning and new maximum through the incentive zoning system. However, the modeling is necessarily based upon a finite period in time that coincides with a historically strong real estate market. The actual value of the FAR or height earned by participants will vary depending on market factors. Ideally, the code will accommodate periodic review so that recommendations and adjustments can be made in light of market conditions that affect construction costs, land values, retail viability, and parking management. Ideally, review would follow the evolution of functional floorplates within the construction industry.

**User-friendliness.** The update does not seem likely to simplify the incentive zoning system,



and it also lacks a clear “off ramp” to administrative review. This may have the unintended effect of discouraging bold design or creative solutions for livability in individual projects.

**Parking.** The City should make it a priority to address parking minimums and maximums in downtown, particularly in potential transit-oriented development areas. As the City has already determined, making structured parking a bonused amenity is no longer necessary in downtown Bellevue. The quantity of parking included in a project should be guided by the developer’s analysis of market need and lender requirements. Minimum parking requirements should be reexamined and possibly eliminated, especially in light rail station areas.

**Height.** The City should encourage heights desirable for mixed use and residential development through the Incentive Zoning Update. The incentive zoning system should not impose cost for extra height if a project is vesting in bonus floor area ratio (FAR) allowances through the incentive system.

**Affordable housing.** It is understood that incentives for affordable housing have not been identified, and terms are being developed as part of a citywide strategy for affordability. However, the absence of the housing component in incentive zoning increases uncertainty for developers. Concurrent rollout of an affordable housing strategy would reduce that uncertainty, at the same time that it sets conditions for securing a supply of affordable housing.

## BACKGROUND

Downtown Bellevue is the City’s fastest growing neighborhood, and is expected to take a significant share of population increase.

As it works to update the Downtown Land Use Code, the City of Bellevue is building on its Downtown Livability Initiative with a number of projects and programs. The Downtown Livability Initiative is part of a broader agenda for making downtown Bellevue more people-friendly, vibrant and memorable city center. Bellevue is stepping forward in several ways:

**Transportation.** As a part of the Downtown Transportation Plan Update, several near-term projects address walkability, with specific improvements for those who are mobility-impaired. These include enhancements to intersections and pedestrian crossings, and improvements to the Pedestrian Corridor, with a gently sloping ramp at the Garden Hillclimb.

**Grand Connection.** Based upon adopted City Council priorities, an overall vision and conceptual plan is being developed for a Bellevue Grand Connection. It would contribute to a multi-modal corridor through the center of Bellevue, linking downtown with the waterfront at Meydenbauer Bay and the Wilburton District and Eastside Rail Corridor on the east side of Interstate 405.

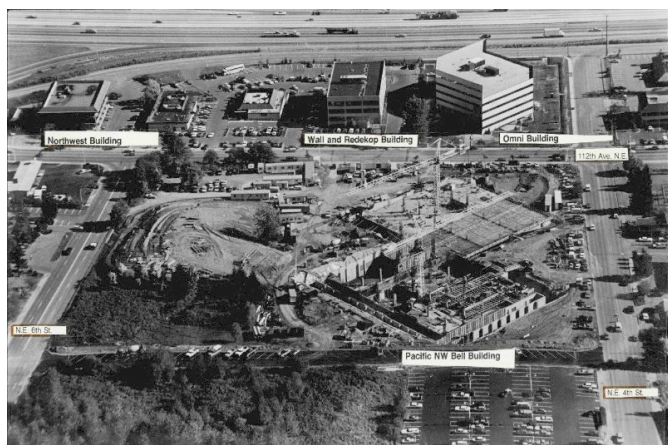


**Old Bellevue.** The Old Bellevue identity project, completed in 2015, includes gateway signage and district markers for that portion of downtown. A plan for landscaped medians will be implemented beginning in 2017 through funding included in the budget adopted by Bellevue City Council.

**Light Rail.** The East Link light rail project is coming to downtown Bellevue, with stations at East Main Street and NE 6th Street. It is scheduled to open in 2023, with a connections to downtown Seattle and Redmond's Overlake District and the rest of the expanded system. The Downtown Transportation Plan has identified access improvements and transit route modifications that are being coordinated to put 97 percent of downtown residents and employees within a short walk to a transit stop or station, including bus transit.

**Traffic and wayfinding.** Vehicle mobility is being addressed, adding capacity to some streets entering and exiting downtown, and adding on-street parking spaces. A number of physical projects and wayfinding improvements also address bicycle mobility.

**Parks.** New and enhanced parks and open spaces are underway, with the completion of Downtown Park and the new Inspiration Playground there. Work also continues on Meydenbauer Bay Park, which will help to complete the connection between downtown Bellevue and the Lake Washington waterfront.



1981



Today

### Amenity Incentive System

Bellevue's floor area ratio (FAR) Amenity Incentive System is a key land use regulation in downtown development, intended to increase livability as downtown Bellevue rises to higher densities and building heights. Through this system, a project provides public amenities, directly or indirectly through a fee-in-lieu, in exchange for additional height and floor area over an as-of-right limit for the project site.

The current incentive system has been in place since 1981. Through the Downtown Livability Initiative, the City of Bellevue has been engaged in the first major update of its incentive zoning system, an update intended to adapt the system to the realities of greater densities and the aspirational goals of the 21st Century, as well as today's market. The

incentive system is expected to support livability in downtown Bellevue through slate of amenities that improve the pedestrian realm. These include outdoor and enclosed plazas, improvements to parks and donations of park property, historic preservation, public art and performing arts space.

The City of Bellevue has embarked on a companion effort to develop an affordable housing strategy that provides expanded living opportunities throughout the City, including downtown Bellevue. As density and corresponding land values rise, one unintended result is that the urban workforce can no longer afford housing in, or near, the urban center.

In 2016, the City of Bellevue commissioned a study of the Downtown Bellevue Amenity Incentive System Update by BERK Consulting. The BERK study evaluates proposed changes to the incentive zoning system and it's effects under the current market, all based on an approach reviewed by the Planning Commission and City Council in June 2016.

## RECOMMENDATIONS

As Bellevue updates its Downtown Land Use Code and creates an effective, fair incentive zoning system, it is important to remember that successful development is a partnership between public policy and private investment.

### Approach

The Downtown Bellevue Incentive Zoning Update is an extension of public policies intended to shape a diverse urban environment that is attractive to developers as well as future residents and employers. It is designed to work in combination with available land, working capital, and market feasibility.

The principals outlined by the Bellevue City Council for reviewing the zoning update include the following:

- Recognize that incentive zoning is just one piece of a broader land use code
- Prevent effective “downzoning,” or loss of residual land value
- Protect adjacent single-family areas
- Pursue a “wedding cake” or tiered approach to downtown urban form
- Provide a meaningful increase in allowable FAR and height through incentives
- Incentivize public realm improvements and infrastructure
- Seek to simplify existing zoning designations while adhering to the above principles
- Be sensitive to overall increases in downtown density



## The BERK model

The City of Bellevue retained BERK Consulting to analyze the impacts of the proposed Downtown Bellevue Incentive Zoning Update. A quick evaluation of the resulting BERK report shows a sophisticated approach, using appropriate testing protocols. As with any economic modeling effort, the impacts and equities are only as valid as the underlying assumptions. While the approach is sound, it has some inherent limitations.

The BERK report shows that the incentive zoning update achieves the desired result under current robust market conditions. Due to the constraints of the process, it necessarily measures a moment in time. Inherent in this assumption is the fact that key variables can change, and one can expect different results under differing conditions involving available land, working capital and market feasibility. Changes in these factors can undermine the ability to meet the goals of the zoning ordinance.

Ideally, a zoning ordinance such as the Downtown Bellevue Incentive Zoning Update accommodates changing economic factors. These include demand, interest rates and capital availability. Accommodation might include periodic review and adjustment to the system and built-in flexibility for inclusion of amenities not on the formal list.



## Observations

The following observations about the proposed Downtown Bellevue Incentive Zoning Update are based on questions generated by the Bellevue City Council for the purposes of this study.

**Consistency with Directives.** The overall approach to update the incentive system is consistent with stated Council principles and also with best practices. However:

- The proposal does not seem to simplify the incentive zoning system. The layers of implementation for various zoning district and perimeter overlays, combined with lack of a clear “off ramp” to administrative reviews, make it complicated. It may also discourage bold or unusual design.
- The cost of increased building height may conflict with what the market can support. To compensate for that, as an incentive, greater as-of-right heights may be appropriate in residential areas.
- Adjustments to shifting market conditions for retail, parking, traffic and floorplates appear limited. The modeling assumes these will stay the same, whereas they are likely to change significantly over time.
- Designing for livability must integrate all aspects of the code, including transportation and





urban design frameworks.

- The proposed incentive system, as currently drafted, does not assess downtown affordable housing provisions. This places a cloud of uncertainty over future development that could work to the disadvantage of the system.

**Property Value Impact.** Based on the current economic assumptions in the BERK report, the recommended new base (as-of-right) floor area ratios (FARs) are adequately adjusted upward to maintain existing property values, and to compensate current owners for the loss of incentives for parking and residential development. They should not be perceived as a downzone.

**Bonus System.** The question of whether the additional FAR and/or height available under the proposed bonus system will truly act as an incentive and add value to downtown land when compared with the new base is dependent on a number of key variables. These include:

- The proposed project. Are designs and plans well adapted and suited to the framework of the incentive system?
- The size of the parcel. Parcel size has a lot to do with developability under the proposed overlay. Small parcels will inevitably be more challenging for developers.
- The location. Even within the divisions of the proposal, different locations will yield different levels of opportunity and feasibility.
- The market cycle. Market factors, including anticipated demand and availability of capital, will influence the use of the incentive system.
- Details and trade-offs. The terms of the incentive system and process, including the choices between payment-in-lieu versus developer performance (building the desired amenity as part of the project) make a great deal of difference in the level of participation and the timing of completed physical improvements.

**Exchange rates.** The exchange rate is the dollar value of the FAR or height earned between the new base zoning and new maximum through the incentive zoning system. This valuation is later “exchanged” or converted into bonus ratios for desired amenities. The valuation of exchange rates is reasonable, as analyzed in the BERK report, subject to the limitations of the static approach to market conditions. Its ultimate value to the City is dependent on how the bonus is applied and the value of the amenities.

To achieve projected bonus ratios as the incentive system is applied, it may be necessary that:

- Exchange rates and cost estimates for public amenities are periodically calibrated to reflect changing market cycles.
- The City maintains a visible return on investment in the form of built public amenities, as outlined in the model.
- City officials are aware that some amenities will be more desirable to developers, and could impact choices under the plan. This may result in unintended uniformity.
- Proposed public realm improvements are consistent with the City's urban design framework.



**Parking impact.** Removing structured parking as a bonused amenity for downtown development is unlikely to impact the amount of above versus below-grade parking, or the total amount of parking for an individual project. The amount of parking included in a project should be guided the developer's analysis of market need and lender requirements, in conjunction with the City's approach to managing traffic. With this in mind, the City should make addressing parking minimums and maximums in downtown a priority, particularly in potential transit-oriented development areas.



**Residential impact.** Removing residential space as a bonused amenity will likely affect the overall amount of residential space developed downtown. For some sites, this step will make office space more attractive than residential, and encourage a switch to office space. It would be advisable to align incentivized heights more closely with building code thresholds and construction types, to allow developers to maximize residential efficiency. These means that threshold heights should reflect breakpoints, or heights at which modern construction technologies and safety factors like pressurization and elevators will change the pro forma economics of development.



**Height.** As proposed, the Downtown Bellevue Incentive Zoning Update could discourage building heights that would otherwise be desirable for mixed use and residential development. Limits in floor plate size could preclude use of incentive FAR. A height-only exchange rate is the answer, one that would apply to projects that exceed the base height limit but not the base FAR. This provision would recognize that slender towers rising from a base may be not only economically feasible in residential development, but also a desirable urban form. As outlined in Option 3 of the City of Bellevue memorandum dated 1.17.2017, the incentive system would apply the greater of the FAR amenity requirement or the height-based amenity requirement for a project that exceeds both the base FAR and the height trigger.

### **Additional Recommendations**

The following issues are ones that were not specifically put to the Panel, but which arose through discussion of the proposed zoning update.

**Affordable housing.** It is understood that incentives for affordable housing have been deferred to a later stage of planning and the development of a broader citywide strategy for affordability. While the structuring of the City's incentive bonus system to produce downtown amenities is a legitimate policy decision, the absence of the housing component increases uncertainty for developers. The corollary is that a concurrent rollout of incentive zoning, along with an affordable housing strategy, would reduce developer uncertainty, and therefore encourage development activity. It could therefore enhance the effectiveness of the incentive program as a whole along with the affordable housing component.

**Light rail stations.** Zoning can drive demand and therefore influence density in station areas, even where they are located within the center of a city. Trade-offs between desirable densities and parking requirements is one example. The city should more clearly identify additional special development standards in downtown Bellevue light rail station areas, typically defined as a quarter-mile radius modified by topography and existing boundaries, like interstate highways.

**Perceptions of development capacity.** Based on interviews with panels of property owners, the City has met its goals of supporting public amenities while retaining real incentive for development and capacity for further development downtown. However, the complexity of the task and the constraints of the planning process make it unavoidable that certain sites will benefit more than others from the proposed changes.

**Possible unintended consequences.** The following represent possible unintended consequences of the zoning update. While some may be addressed prior to zoning revisions, unintended consequences will be inevitable. Some can only be addressed based on development experience after the passage of the zoning update.

- Developers will perceive that the new system increases development costs, and there will



be uncertainty about returns on investment of bonused development.

- The inevitable learning curve for the revised review and entitlement process could result in an extended entitlement period and greater cost.
- Decisions about amenities are not clear until they are analyzed for value to the development and desired outcomes.
- The land use code definition of retail uses should be revisited in light of today's market. A more inclusive definition, one that includes service businesses, could be more supportive of urban development.
- Small lots may still be difficult to develop under the zoning update.

## CONCLUSION

The Downtown Bellevue Incentive Zoning Update is an extension of public policies intended to shape a diverse urban environment that is attractive to developers as well as future residents and employers. The future of downtown Bellevue depends upon a plan and a zoning code that reflects its civic values. It will make the value of good partnership between public policy and private initiative greater than the sum of its parts.

Bellevue's proposed incentive zoning changes will effectively shape a diverse and attractive urban environment, when combined with available land, working capital and market feasibility. They will help make downtown Bellevue an even better place to live, work, and play.



## ULI Northwest Technical Assistance Panel Professional Biographies

### **Al Levine | formerly Seattle Housing Authority (TAP Chair)**

As the former Deputy Executive Director of the Seattle Housing Authority (SHA), Al oversaw SHA's Development, Construction, and Asset Management programs. Under his leadership, the agency took on five HOPE VI redevelopment projects including High Point, which received the 2007 ULI Global Award for Excellence, and New Holly, recipient of the HUD-CNU Award for Changing the Face of America's Public Housing. Al received his B.A. from Hunter College of the City University of New York, and his Masters in Urban Planning from the University of Washington. Al currently serves as adjunct faculty for the College of Built Environments at the University of Washington, and is a member of the College's Department of Planning and Urban Design Professional's Council. He has also served on the Pike Place Market Historical Commission and the Boards of Directors for Common Ground and the Housing Development Consortium of Seattle-King County.

### **Susan Busch | Senior Associate, Runberg Architecture Group**

Susan brings in-depth experience to her role as senior associate, having worked on a full range of housing projects from small suburban remodels to urban highrises. She believes that each project, regardless of its scale or complexity deserves good design, and that creative management and adaptive leadership are critical to each project's success. Susan holds a Master of Architecture and Bachelor of Arts in Architecture from the University of Washington. She is a member of the City of Kirkland Design Review Board, and has served on the AIA Seattle Public Policy Board, ARCH (A Regional Coalition for Housing) Citizen Advisory Board, and the University of Washington Professional Advisory Council.

### **Julie Currier | Director of Development, Unico Properties**

Julie is currently working on a ground up development in Portland's Pearl District, having most recently managed the development of Slate Apartments & Lofts, a 236-unit multifamily asset in Seattle's Interbay neighborhood. Before Slate, she completed numerous development and improvement projects at Seattle's Russell Investments Center, including a substantial full lobby and elevator remodel. Before joining Unico, she was the Northwest Regional Director of Real Estate and development for Catholic Health Initiatives, a nationwide integrated hospital system. Julie has most recently focused her education on development and construction management specifically and is a member of NAIOP, BOMA, and ULI. Active in her community, Julie is involved in Tacoma's Local Development Council, Economic Development Board, Mary Bridge Festival of Trees, and Children's Museum of Tacoma.

### **Jerry Johnson | Principal, Johnson Economics**

As a Principal of Johnson Economics, Jerry is involved in research design, economic and financial modeling, and market analysis. He has consulted on the economics of land use planning and real estate for 26 years and is recognized as a top expert in the field of land use economics. He is a member of the Governor's Council of Economic Advisors for the State of Oregon, and is an adjunct professor at Portland State University's Center for Real Estate, teaching graduate-level real estate market analysis and finance courses. Jerry has managed over 500 projects, working with a range of private and public sector clients. Jerry is an expert at identification and quantification of redevelopment opportunities, including pro forma-based predictive development and redevelopment models. Jerry's primary areas of emphasis are financial analysis, modeling, economic development, and policy. Jerry holds a Master of Urban Planning with a specialization in economic development from Portland State University, as well as undergraduate degrees in architectural design and economics.

### **Rick Krochalis | former Regional Administrator, US Department of Transportation**

Rick was the Regional Administrator of the Federal Transit Administration's (FTA) Region 10 office in Seattle, Washington, from 2002 to 2016 and recently retired from the position. In this position, Rick was responsible for the administration of FTA's capital, operating, and planning grant programs in the four-state Western region, which includes Oregon, Washington, Idaho and Alaska. Before joining the FTA, Rick served as director of design, construction and land use for the City of Seattle. In that position, he improved the performance of Seattle's primary regulatory agency, which is responsible for land use and construction permitting, environmental review, and enforcement activities.



## ULI Northwest Technical Assistance Panel Professional Biographies

### **Tom Parsons | Chief Operating Officer, Holland Partner Group**

As the regional partner and Chief Operating Officer, Tom is accountable for all aspects of the acquisition and development of projects in the Pacific Northwest region for Holland Partner Group. The firm's focuses include multifamily market rate apartments, office, and retail properties. Before joining Holland in 2011, Tom was the Senior Vice President of Opus Northwest for 12 years where he oversaw development of 14 million square feet of office, industrial, retail, residential, and hospitality.

### **Craig Ratchford | Associate, Vitus Group**

Vitus is a developer of smart affordable housing and a catalyst for community revitalization. They work with public and private sector partners to develop quality projects that strengthen neighborhoods and provide housing that families and individuals can feel proud to call home. Craig joined Vitus in 2015 after completing his Master's of Urban Planning at the University of Washington Runstad Center for Real Estate Studies.

### **Stakeholders**

#### **Mayor of Bellevue**

John Stokes

#### **Bellevue City Council Members**

John Chelminiak

Conrad Lee

Jennifer Robertson

Lynne Robinson

Kevin Wallace

#### **City of Bellevue Staff**

Dan Stroh, Planning Director

Emil King, Strategic Planning Manager

### **Support Team**

#### **ULI Northwest**

Kelly Mann

Eric Sanford

Victoria Oestreich

#### **Writer**

Clair Enlow



**Contact us:**

ULI Northwest  
1325 Fourth Avenue, Suite 1510  
Seattle, WA 98101

tel: 206.224.4500  
fax: 206.224.4501  
email: [northwest@uli.org](mailto:northwest@uli.org)  
[northwest.uli.org](http://northwest.uli.org)