

# City of Bainbridge Island Transfer of Development Rights Program Review



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# Introduction

Bainbridge Island's Transfer of Development Rights (TDR) program was implemented in 1996 to provide incentives for preserving environmentally sensitive areas, agricultural land, and open space and for fostering urban growth where urban services are located. However, no transactions have taken place to date. In June of 2006, the City of Bainbridge Island commissioned MAKERS architecture & urban design and Community Attributes to review the program and to recommend improvements that:

- Function within economic conditions.
- Consider economic incentives for protecting environmentally-sensitive areas.
- Encourage growth strategies identified in the Comprehensive Plan.
- Are consistent with State law.



*Figure 1. Bainbridge Island's TDR Program is intended to protect agricultural, environmentally-sensitive, and open space areas while funneling growth toward Winslow and other more-urban areas.*



# TDR Basics

A Transfer of Development Rights program is a mechanism to relocate development potential from one property to another. The first TDR mechanism appeared in the New York City Landmark Preservation Law in 1968. Since then, this technique has been adopted by a number of communities throughout the country. TDR Program goals often include:

- Preservation of farmland, open space, and natural resources in outlying areas.
- Protection of historic buildings, open space, and affordable housing in urban zones.

TDR programs are comprised of three basic components:

1. **“Sending” and “Receiving” areas.** Sending areas are the areas that a particular community would like to protect, and “receiving areas” are the locations where the community wants to focus growth. Development rights are transferred from the sending to the receiving area.
2. **Medium of exchange or unit of measurement.** The medium of exchange or unit of measure quantifies the development potential that is being transferred from one site to the other. Typical units include:
  - Housing units to housing units.
  - Housing units to square footage.
  - Square footage to square footage.



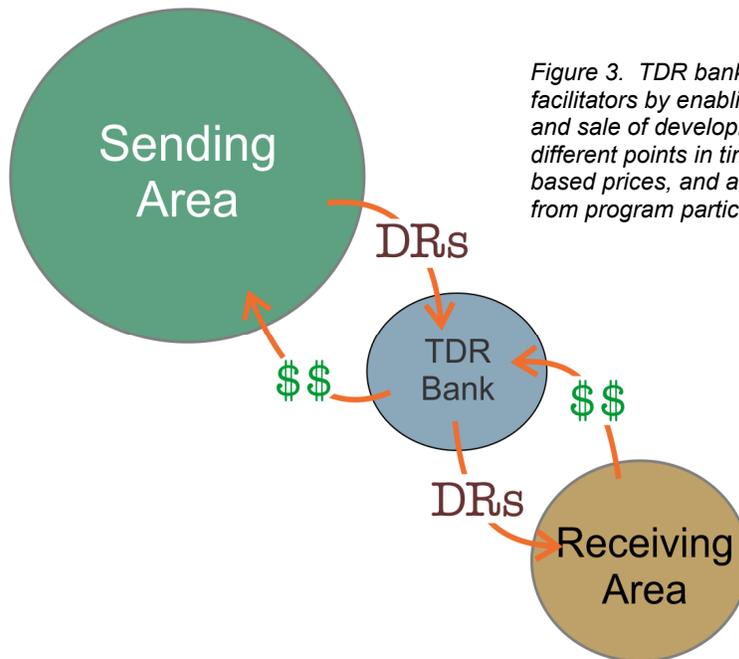
*Figure 2. Sending areas usually include areas beneficial to preserve, while receiving sites are areas where additional development is desired.*

**3. A transfer mechanism:** The transfer mechanism enables development rights to be sent from a specific lot in the sending area to a specific lot in the receiving area. Such mechanisms include:

- An intermediary between the sender and receiver that facilitates the exchange on the open market, such as a staff person, consultant or real estate broker.
- A "TDR bank," where development rights may be purchased from sending areas and sold to receiving areas by the local government. A TDR bank can:
  - Provide a guaranteed market, purchaser and price for TDRs, which helps resolve speculative land values and timing issues.
  - Capitalize on the land acquisition experience of city staff, local councils, or other management entities.
  - Act as a central clearing house and maintain a single register of TDR transactions.

Overall, TDR programs have become increasingly popular because they are seen as a way to:

- Protect resources and meet civic goals with minimal impact on the City / County budget.
- Compensate land owners in areas being protected from development.
- Harness private market forces to accomplish smart growth objectives.



*Figure 3. TDR banks act as program facilitators by enabling the purchase and sale of development rights at different points in time, setting market-based prices, and answering questions from program participants.*

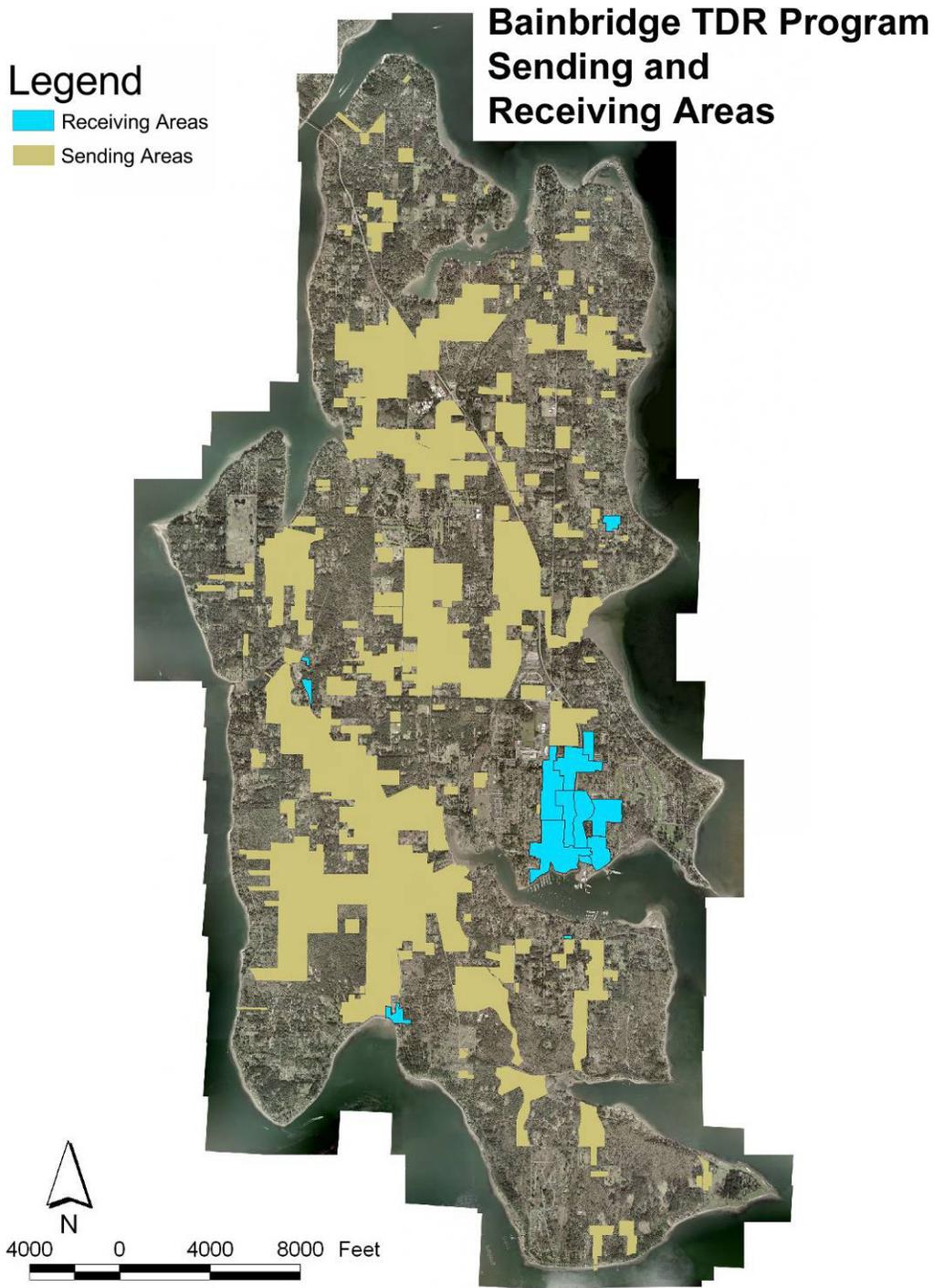


Figure 4. Bainbridge Island's TDR program identifies several eligible sending and receiving areas

# Bainbridge Island's TDR Program

Bainbridge Island's TDR program is intended to preserve wetlands and high-vulnerability recharge areas, agricultural land, and open space (BIMC 18.37). The program's basic components are summarized below.

## **Sending and Receiving Areas**

Bainbridge Island's TDR program identifies agricultural lands and areas identified on the Critical Area Overlay as sending areas (See Figure 4). Receiving areas include the Mixed Use Town Center (MUTC), High School Road (HSR), Neighborhood Service Center (NSC), and the R-8 Single Family Overlay District east of Ferncliff Avenue.

## **Unit of Measurement**

Bainbridge Island's program assumes a right measured in units per acre will translate to an un-specified amount of additional FAR in the MUTC and HSR receiving zones and directly to housing units in both the R-8 Single Family Overlay District and in the NCSs (NCSs also allow higher residential densities in mixed use developments without the use of TDRs).

## **Transfer Mechanism**

Bainbridge Island's program does not include provisions for an intermediary or TDR bank. Buyers and sellers must find each other, negotiate a price per development right and facilitate the transfer, which adds a degree of uncertainty and complexity to the TDR process.

# Process

In order to understand the dynamics affecting Bainbridge Island’s TDR program, the team:

- **Interviewed stakeholders**, including local developers, property owners, and real estate professionals, to discuss program issues and to brainstorm strategies to improve the program’s success.
- **Met with City staff, 2025 Committee, and the public** to discuss issues and potential improvements to Bainbridge Island’s TDR program and coordinate with the ongoing effort to allocate growth on Bainbridge Island.
- **Surveyed other jurisdictions** to identify successful features as well as problematic elements of other TDR programs.
- **Reviewed real estate market conditions** in order to identify the market-based barriers to participation in Bainbridge Island’s TDR program. This review included identifying market trends in sending and receiving areas for relevant product types (rural uses, single-family housing, multifamily housing, retail, and office) and assessing near-term market outlooks by use.
- **Assessed feasibility barriers** by applying the existing TDR program to two receiving area lots and evaluating development feasibility using a pro forma analysis. This assessment also identified other barriers to development including existing land use requirements.
- **Reviewed other policies and plans**, including the critical areas ordinance, draft Winslow Tomorrow recommendations, and draft population forecasts associated with Comprehensive Plan update.

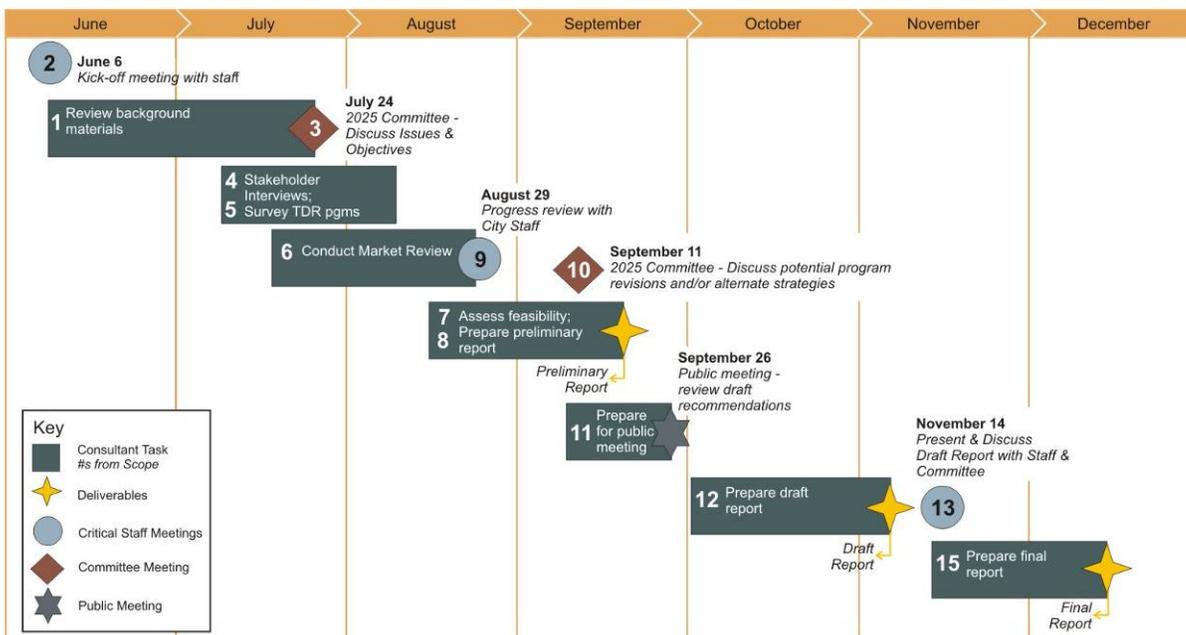


Figure 5. TDR Program Review project schedule

# Report Organization

The remainder of this document summarizes findings and recommendations resulting from the analysis of Bainbridge Island's TDR program. Additional information is included in the document's appendices, organized as follows:

Appendix A: Summary of the TDR programs surveyed

Appendix B: Summary of Interviews with project stakeholders

Appendix C: Economic Analysis Technical Report

Appendix D: TDR program issues analysis summary

Appendix E: Draft recommendations survey

Legend

-  Conservation Easments
-  Wetlands
-  Farms and Ag Land
-  Streams
-  Slope 15 - 40
-  Slope 40+
-  Landslide Areas
-  Critical Area Overlay

### Bainbridge Island Critical Area Ordinance Features and Sending Areas

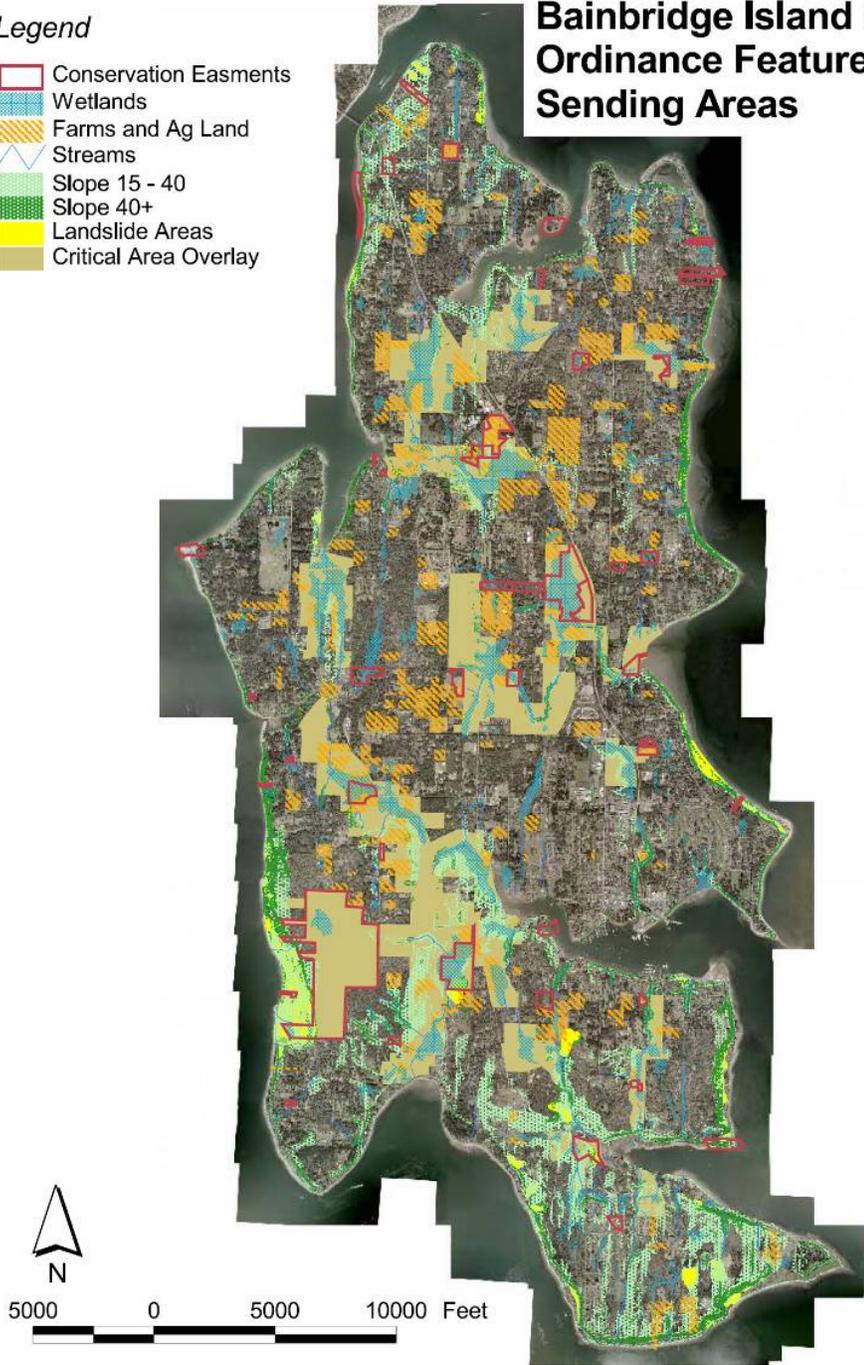


Figure 6. Bainbridge Island's existing Critical Area Overlay does not appear to correspond to wetlands and recharge areas or include all environmentally sensitive zones addressed in the Critical Areas Ordinance.

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# Summary of Findings

A review of Bainbridge Island's TDR program revealed a number of issues that are summarized below. A more detailed discussion of program issues can be found in Appendix E.

## Finding 1. The program is unclear.

It is unclear *who* eligible participants are, *how* they participate, and *what* the advantages of participation are. The program's elements and process are not clearly described and many items are vague and seem overly complex. In addition, the program is not advertised; many sending area land owners are unaware of the program. Further, sending and receiving areas are not clearly identified and do not appear to link directly to program goals.

- ❑ Regarding agricultural land protection, various surveys have identified different parcels as farm and agricultural land over the years. There is no definitive resource that identifies specific parcels as agricultural land.
- ❑ Regarding protection of wetlands and recharge areas, the "Critical Area Overlay" mapping of eligible sending areas does not appear to include all of the island's wetlands. Per the Critical Areas chapter of the Bainbridge Island Municipal Code, the entire island is identified as a recharge area for the island aquifers; this is subdivided into high, medium and low aquifer recharge zones. It is unclear how the program protects these areas.
- ❑ Parcels appropriate to preserve as "open space" are not specifically identified as eligible sending areas.

## Finding 2. There is no mechanism to facilitate TDR transfers.

As there is no management mechanism establishing a market-based price and transfer ratio for development rights; therefore, buyers and sellers must agree on an appropriate value. Because of the rapidly appreciating housing market, sending area land owners often believe they will not receive fair compensation for their development rights and set a rate too high for potential buyers.

# Open Space Commission Acquisitions

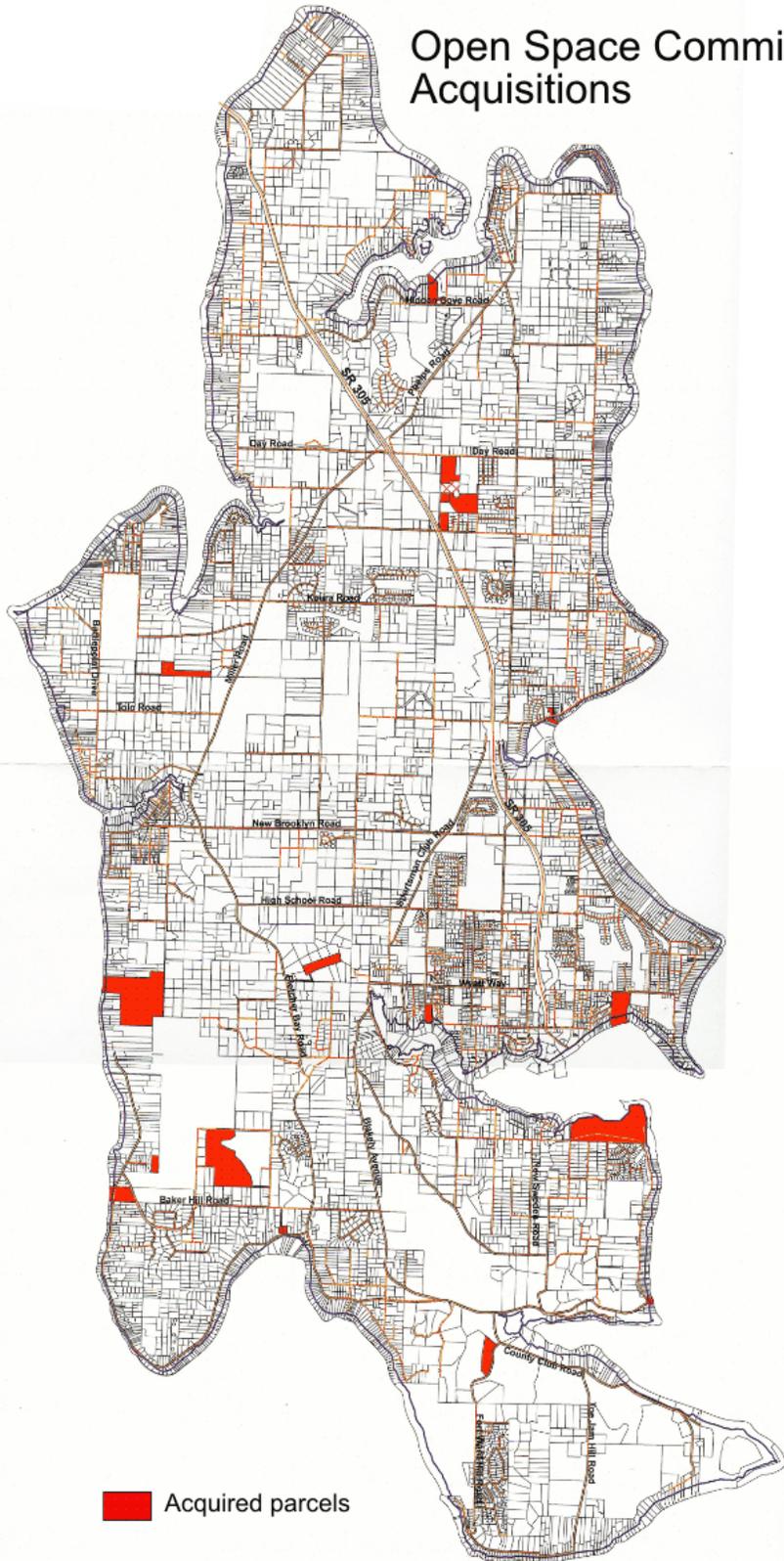


Figure 7. The Open Space Commission has successfully acquired a number of targeted parcels using open space bonds

### Finding 3. Other efforts have more successfully addressed program goals.

- ❑ Regarding protection of agricultural land, the City of Bainbridge Island has acquired fee ownership of six agricultural properties through general revenue, Open Space bond dollars, and donation<sup>1</sup>.
- ❑ Regarding protection of critical areas, Bainbridge Island's Critical Areas Chapter 16.20 of the Municipal Code<sup>2</sup> minimizes the impact on wetlands, streams and related buffer zones.
- ❑ Regarding open space protection, the Open Space Commission has used open space bonds to purchase and preserve 238 acres of open space (Open Space Commission 2004 Annual Report).

### Finding 4. Demand for development rights is limited by receiving area capacity.

Market demand would likely allow development at higher densities than is achievable in Winslow due to current parking requirements and Floor Area Ratio (FAR) maximums. Further, it has been reported that the perceived lack of community support for additional density also limits the size of proposed projects and, as a result, the demand for TDRs. Additionally, the lack of zoned area, available sites and sewer service in most of the Neighborhood Service Centers limits development capacity and demand for TDRs in these zones.

### Finding 5. Competing City programs further limit demand.

Developers who wish to obtain additional development capacity in the Mixed Use Town Center and High School Road zones have a number of alternative ways to reach the maximum density allowed in each zone, including the purchase of additional "bonus" Floor Area Ratio (FAR). In addition to the FAR purchase program, developers can increase their development envelope by building a variety of downtown amenities (as approved by the City), providing underground ferry terminal parking (this allows for additional FAR in the Ferry Terminal District only), or constructing affordable housing.

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<sup>1</sup> *An Assessment and Recommendations for Preservation and Management of City-owned Agricultural Land*, Prepared for the City of Bainbridge Island, by American Farmland Trust with Cascade Harvest Coalition

<sup>2</sup> Pursuant to the Washington State Growth Management Act, Bainbridge Island identified and adopted measures to protect critical areas in 1992. These were codified as the Environmentally Sensitive Areas chapter 16.20 of the Bainbridge Island Municipal Code. Revisions to this chapter (renamed Critical Areas) based on Best Available Science were adopted in 2005.

It is currently more predictable, easier, and cheaper for developers to pursue one of the alternative methods, rather than participate in the TDR program. Additionally, the City has set a fee for the purchase of bonus FAR (\$18 to \$32 per square foot, depending on the use) that is cheaper than the square footage cost of a transferred development right, further limiting demand for TDRs.

In addition, as property owners with wetlands are allowed to cluster development on the unencumbered portion of their site, for any value less than dictated by the market value for homes in the sending area, there is little incentive to sell the development rights affected by the critical area.

## Finding 6. The program does not protect all small farms.

The TDR Program allows an agricultural land owner to sell unused development rights, calculated based on parcel size, zoning and the amount of existing development. For example, the owner of a five acre parcel zoned R-0.4 (1 unit per 2.5 acres) with one existing house would have two total development rights and one unused development right eligible for the program. Many farms on Bainbridge Island are relatively small; approximately 30 percent do not have unused development rights, given their current zoning, size, and development.

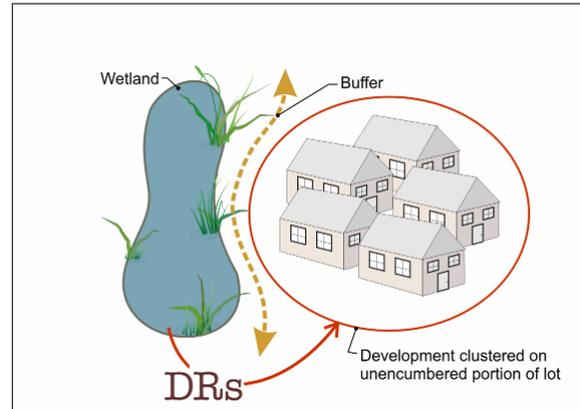


Figure 8. Clustering development is an alternative to transferring development off-site through the TDR program

## Finding 7. The value of development rights in the receiving areas can vary considerably.

A key finding of the Feasibility Analysis (Appendix C) is that the value of development rights in the receiving areas will vary considerably based on the scale of the development, the site, and market conditions.

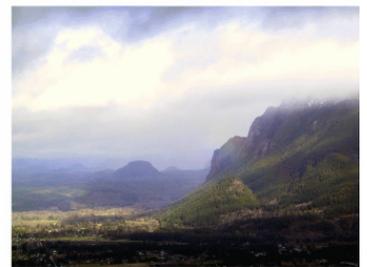
## Finding 8. Sending area development rights are valued higher than receiving area rights.

The Feasibility Analysis also suggests that the value of one sending area development right is significantly more than the value of one receiving area development right, assuming a receiving area development right equates to a 1,000 square foot dwelling unit. Given today's market values, one sending area development right is likely between three and 10 times more valuable than one receiving area development right, depending primarily on development size (larger receiving area projects generate lower ratios—closer to 3, while smaller projects generate higher ratios—between 10 and 12). Please refer to the Feasibility Analysis included in Appendix C for details.

## Other TDR programs

As part of the program review process, the consultant team conducted a survey of TDR programs in other communities to determine common themes of success and prevalent issues. Programs surveyed included:

- Montgomery County, Maryland
- Falmouth, Massachusetts
- Lake Tahoe, California
- King County, Washington
- Snohomish County, Washington
- Issaquah, Washington
- Seattle, Washington
- Redmond, Washington



## Keys to Success

A review of other TDR programs reveals a very consistent list of factors that affect program success. These include;

- A strong real estate market in receiving zones; ideally, the demand for development rights outweighs supply.
- Incentives to use the program, such as:
  - Development right values set to provide incentive to both the sender and receiver.
  - “Dual zoning,” which encourages participation by allowing for additional development in receiving areas (allowing receiving area participants to develop at a higher density than the code usually allows) and compensation for otherwise unusable development rights in sending areas.
  - Rights tailored to the community (In Redmond, Washington, this meant allowing receiving area land owners to build additional parking by exceeding the code’s impervious surface limits).
  - Limiting competing means to obtain increased development rights.
- Promotion / marketing of the program.
- A program that is easy to use and understand.
  - A TDR bank to facilitate transactions.
  - Clear and simple language.
  - A streamlined process.

## Recipes for Failure

Conversely, many of the programs surveyed struggled before finding a successful formula, and there are many examples of programs which have never been used. Common elements of ineffective programs include;

- Complex & unpredictable program elements; in many cases lack of a TDR bank or other transfer mechanism makes the process confusing, and leads many potential participants to believe they are not receiving fair market value for development rights.
- Lack of tailored incentives based on the unique local conditions and interests of local land owners / developers.
- Lack of financial incentive to participate.
  - Value of development rights is set too low to interest senders and/or too high to interest receivers.
  - There are easier, more predictable ways to obtain the program’s additional density benefits.

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# Draft Recommendations

## Recommendation 1. Prioritize goals.

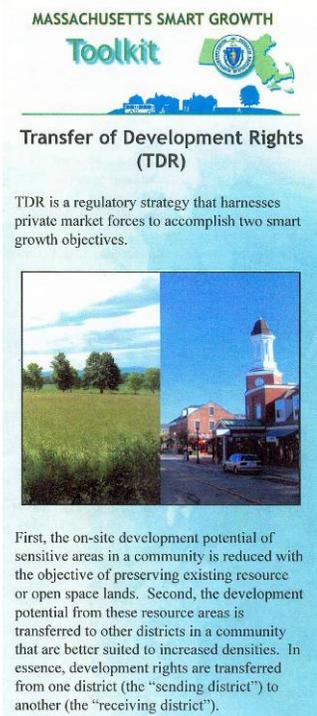
The current program goals are to preserve wetlands and recharge areas, agricultural land and open space. It is unclear whether these goals remain the community's highest priorities, especially given the effort to implement Winslow Tomorrow, provide downtown amenities, increase affordable housing on the island and allocate population growth.

An important next step for Bainbridge Island in regards to its TDR program as well as many of its other efforts will be to prioritize community goals and to coordinate and focus Bainbridge Island's programs and efforts to achieve its priorities. Once goals are prioritized, efforts such as the TDR program can be tailored to maximize effectiveness at achieving these objectives. If priorities change, programs can be re-aligned as appropriate.

## Recommendation 2. Simplify and clarify the TDR program.

After community goals have been prioritized, the second effort should be to clarify TDR program elements, streamline its process and develop tools to describe and market its benefits.

- 2a. **Clearly identify and map eligible sending and receiving areas.**
- 2b. **Allocate City staff or a contractor to market and administer the program.**
- 2c. **Aggressively market the program to potential participants.**
  - Create a pamphlet or brochure to describe and market the program.
  - Provide clear information and contacts on the City's website
  - Send direct mailings to target property owners highlighting the benefits of selling development rights, including the cash value of the rights, retention of the property asset, and potential reduction in taxes.



*Figure 9. A brochure can be an effective tool to help market the TDR program.*

## Recommendation 3. Tailor the TDR program to more effectively address community priorities.

Once Bainbridge Island establishes its priorities, adjust the TDR program to increase its effectiveness, as applicable.

### **Agricultural land protection**

Tailor the TDR program to increase its effectiveness at agriculture land protection:

**3a. Clarify identify defining criteria for agricultural land and map all qualifying sending areas.**

**3b. Aggressively market the program to eligible land owners.**

**3c. Work with Farmland Trust and other non-profit groups.**

Collaborate to develop programs targeted toward small farms without saleable development rights and toward promoting continuing agricultural use on Bainbridge Island.

**3d. Reassess the 3 to 1 bonus for continued agricultural use.**

The Bainbridge Island TDR Program offers an additional incentive for owners of productive agricultural land to continue to farm. For every unused development right, the owner of agricultural land may sell three, if they accept an agricultural easement on their land from the American Farmland Trust, Inc. or some other appropriate trustee. It is unclear whether this “bonus” provides enough benefit to warrant the added expenditure. If the bonus is retained, work with Farmland Trust or other City-approved third party to effectively enforce easement provisions.

### **Open space protection**

The TDR Program could have an increased role in protecting open space, supplementing the recent and potential future success of the Open Space Commission in purchasing open space with bond funding. To investigate this possibility, the City should:

**3e. Work with the Parks District / Open Space Committee to create an open space plan for Bainbridge Island.**

**3f. Determine the appropriate role for the TDR Program, if any, in implementing the open space plan.**

Because the sending area parcels remain in private ownership, the TDR Program will likely be most effective in protecting open spaces desired for view corridors, rather than for public access. Given its limitations, the City should weigh the costs and potential public benefits of identifying open spaces as TDR Program sending areas.



Figure 10. Examples of potential “significant buildings” in Winslow

### Significant buildings & district protection

TDR Programs are often used to protect a community’s historic resources. Tailoring the TDR Program toward significant building and district protection was supported during the planning process as a viable method to protect cherished assets in danger of redevelopment. Recommended City actions are outlined below:

**3g. Identify significant buildings and/or districts and their character features.**

It will be important for the City to identify the character elements or significant features that establish the identity of the buildings or districts.

**3h. Establish TDR program parameters.**

The program should allow development rights, measured in square footage, to be sold if the owner retains the character defining elements of the buildings and maintains them per City Code requirements.

**3i. Consider additional incentives.**

Given Bainbridge Island’s limited development capacity, to further incentivize protection of significant buildings and districts, consider either:

- **Allowing all development rights associated with a particular parcel to be sold**, regardless of development on the site. This would allow the owner of a 10,000 square foot parcel zoned to a 2.0 FAR to sell 20,000 square feet of development rights. Seattle’s TDR program employs this method to further incentivize program participation.
- **Applying a bonus for unused development rights (measured in square footage) sold from significant buildings and districts.** This would allow the owner of a 10,000 square foot “significant” building on a 10,000 square foot lot zoned to a 2.0 FAR to sell 10,000 square feet of development rights. Applying a three to one bonus would allow the owner to sell 30,000 square feet of development rights.

## Critical area protection

Using the TDR Program to protect critical areas appears to be of limited benefit given the protections of the Critical Areas Chapter 16.20 of the Municipal Code. However, if the community desires to reduce or eliminate development on the unencumbered portions of parcels that have wetlands, streams, recharge areas or other features:

**3j. Revise the TDR program to incentivize the transfer of development rights from the unencumbered portions of parcels with environmentally-sensitive areas.**

To provide an additional incentive to sell development rights rather than cluster them on unencumbered areas, consider assigning a bonus value for each development right sold from a parcel with a wetland or stream.

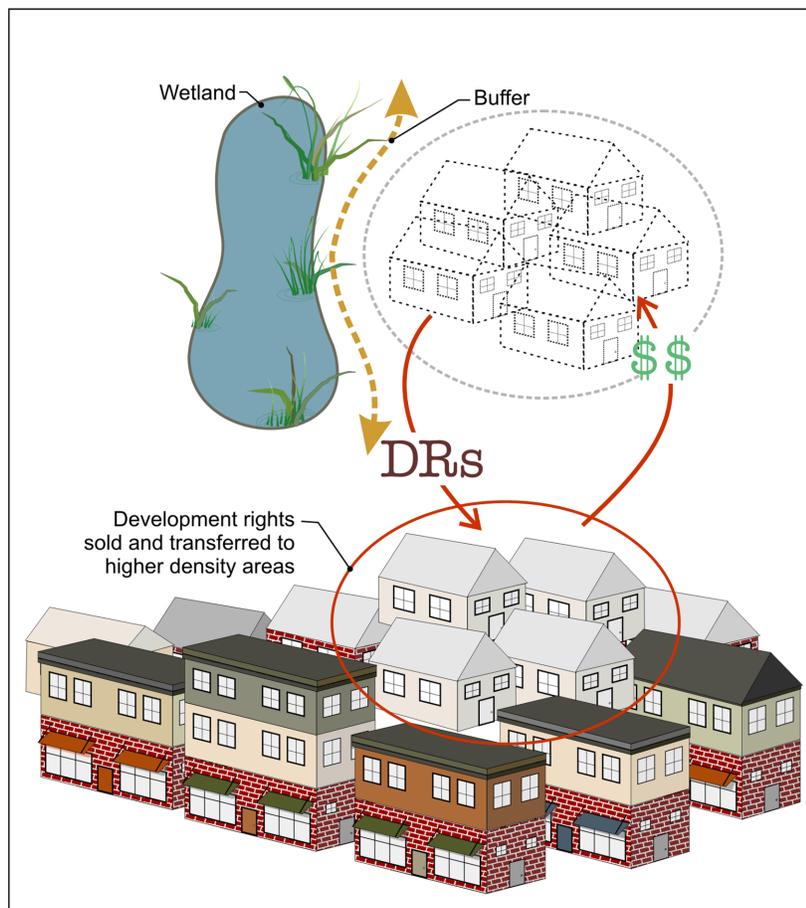


Figure 11. The TDR Program could be tailored to allow critical area land owners the ability to transfer development off-site rather than clustering development on unencumbered portions of their land.

## Recommendation 4. Simplify and coordinate all “competing” City programs.

Bainbridge Island has five programs that allow developers to qualify to reach the maximum (or “bonus”) density allowed, though some programs apply only in certain zones. These include:

1. Building a variety of downtown amenities (as approved by the City)
2. Providing underground ferry terminal parking (Ferry Terminal District only)
3. Constructing affordable housing.
4. Purchase of additional “bonus” Floor Area Ratio (FAR) (Mixed Use Town Center / High School Road Districts only).
5. Purchase of TDRs

Though these programs funnel resources toward a numerous City priorities and provide flexibility for developers; at the same time, this variety decreases the effectiveness of any one program (including TDR) in meeting its goals.

The structure of the FAR purchase program (Program 4 above) adds complexity to the situation. Once developers purchase “bonus” FAR, 60% percent of the cash generated is held in an account and then allocated to purchase development rights from agricultural land, while 40% is held in a separate account and then allocated to develop downtown amenities (which can include a variety of projects determined by the City).

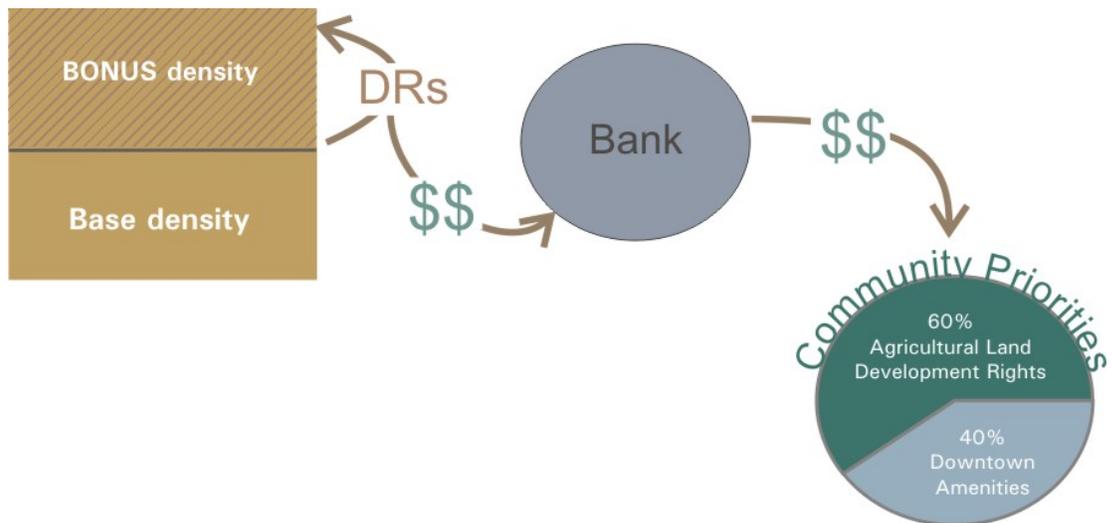


Figure 12. Diagram illustrating current FAR purchase program.

**4a. Assess each program’s effectiveness in light of updated community priorities**

The following questions are offered as a first step in simplifying and coordinating Bainbridge Island’s programs to better align with community priorities.

- Is the program appropriate given updated community priorities?
- Has the program been successful at meeting its goals?
- Is the private or public sector more effective at providing this goal? (i.e. is the private sector or a public agency more practiced at providing affordable housing?)
- Is the community better served with private or public sector providing the goal (i.e. is it better for the private sector to build downtown amenities or to contribute money to an account for the City to allocate?)
- Is there a need for additional ferry terminal parking, given the pending WSDOT ferry terminal improvement project and the recent OPUS project in the Ferry Terminal District?

**4b. Adjust the FAR Purchase program fund allocation given updated community priorities. Then, eliminate or modify other programs to simplify and coordinate these efforts.**

Though not the focus of this evaluation, due to its close relationship to the TDR Program, the FAR Purchase Program warrants some additional discussion. FAR Purchase program goals overlap with the goals of the TDR program; they also overlap with the downtown amenities construction program. Paradoxically, while the FAR Purchase program meets the goals of the TDR program, it simultaneously creates disincentives to use it by offering a more direct method to qualify for bonus densities. The FAR Purchase program has a number of advantages over the TDR Program:

- It allows the City to control how funding is allocated; thereby ensuring funds are spent where they best achieve community goals to protect agricultural land.
- Since developers can buy square footage rather than “a development right”, it flexibly allows purchase of as much or as little FAR as is needed, within existing code limits. This bypasses the need to determine an appropriate value for the development right that is acceptable to both the sending and receiving area owners.

A disadvantage of the FAR Purchase program is that it requires City staff time to manage and allocate the funds generated.

The FAR Purchase program appears to be a relatively simple and effective mechanism to generate private sector funding for the community’s highest priorities. The fees it generates essentially function as a TDR bank, creating a revolving fund for future TDR transactions.

## Increase the demand for all programs

- 4c. Aligned with Winslow Tomorrow implementation and 2025 population allocation efforts, allow additional “bonus” density in the areas where the community prefers to focus growth.
- 4d. Relax other standards, such as parking, coordinated with a purchase of additional FAR, as appropriate.
- 4e. Increase the development capacity of the Neighborhood Service Centers. In the Neighborhood Service Centers, consider developing infrastructure that can support new development or providing greater incentive for developers to include a portion of the utilities in their construction projects (the existing TDR program allows a bonus of three additional single family units per acre to developers who include public sewer and water)

## Consider a tiering incentive system

- 4f. Institute a tiering system in order to clarify bonus programs and create additional incentives to generate funding for its highest priorities. This program would separate “bonus” FAR into different tiers, allocating the maximum density bonus to one program. One possible organization of a tiering incentive system is illustrated in Figure 13.

BONUS	2nd Tier: 2.5 FAR TDR Program
	1st Tier: 2.0 FAR TDR Program FAR Purchase Program Affordable Housing Program
	BASE: 1 FAR

Figure 13. Example Tiering Incentive System

# Summary of Recommendations

The following table summarizes the draft recommendations of the Bainbridge Island TDR Program Review.

Primary Recommendation	
1. Prioritize goals	
2. Simplify & clarify the TDR Program	
<ul style="list-style-type: none"> <li>• Identify and map eligible sending and receiving areas</li> <li>• Allocate City staff or a contractor to market &amp; administer program</li> <li>• Aggressively market the program to potential participants</li> </ul>	
3. Tailor program to more effectively address priorities	
If Community Goals are:	
Protect Agricultural Land	<ul style="list-style-type: none"> <li>• Clarify sending areas</li> <li>• Aggressively market program</li> <li>• Support non-profit / agency efforts to preserve small farms</li> <li>• Reassess 3 to 1 bonus</li> </ul>
Protect Open Space	<ul style="list-style-type: none"> <li>• Coordinate with the Parks District / Open Space Committee to develop an island-wide open space plan</li> <li>• Determine role of TDR Program in implementing island-wide plan, considering public benefit criteria</li> </ul>
Protect Significant Buildings / Districts	<ul style="list-style-type: none"> <li>• Identify districts and/or buildings the community would like to protect and their character features</li> <li>• Establish program parameters</li> <li>• Consider additional incentives</li> </ul>
Protect Critical Areas	<ul style="list-style-type: none"> <li>• If the community desires to reduce development on the unencumbered portions of parcels with sensitive areas, revise the program to incentivize this transfer of development rights</li> </ul>
4. Simplify & coordinate all “competing” City programs	
<ul style="list-style-type: none"> <li>• Assess each program’s effectiveness in light of updated community priorities</li> <li>• Adjust the FAR Purchase program fund allocation given updated priorities; then, eliminate or modify other programs as appropriate</li> <li>• Allow additional “bonus” density in appropriate areas</li> <li>• Relax other standards as appropriate</li> <li>• Increase the development capacity of the Neighborhood Service Centers</li> <li>• Consider a tiering incentive system</li> </ul>	

## Appendix A

# Review of Other TDR Programs

As part of the program review process, the consultant team conducted a survey of TDR programs in other communities to determine common themes of success and prevalent issues. The following section summarizes several TDR programs from around the country and state.

### Montgomery County, Maryland

After rejecting a straight downzoning of all farmland as unfair to landowners and determining that it would be too costly to buy a significant number of agricultural easements, Montgomery County implemented a TDR program in 1979 in an effort to preserve its rural character and farmland. Key program components included:

- Sending areas—identified as 90,000 acres of agricultural land—were down-zoned from 1 unit per 5-acres to 1 unit per 25-acres, with program participants allowed to trade development rights at the original density (1 unit per 5-acres).
- Receiving sites—identified as areas easily served by transportation and other public services—were rezoned with two lower baseline densities and a higher "with TDR" density. Density bonuses vary with location but often provide up to three additional development rights with program use.



*Figure A-1. Montgomery County developed a successful TDR program that uses dual zoning to protect farmland.*

Under the Montgomery County TDR program, sending site owners can continue farming but still receive some revenue from the development potential of their land through the sale of development rights. Over the last 20 years TDR-based zoning has allowed the county to reach almost half of its farmland preservation goal.

## Falmouth, Massachusetts

The Town of Falmouth adopted one of Massachusetts' first TDR bylaws in 1985 as a means to protect natural resources, including marine recharge areas, Areas of Critical Environmental Concern (ACEC's), and aquifers for municipal water supply. The primary elements of Falmouth's program, which has had several successful transactions, are as follows:

- The program can only function as part of a subdivision application and adds a Special Permit requirement.
- Incentives are added in the form of density bonuses. These bonuses are awarded according to a detailed schedule and vary between 20 to 40 percent.



Figure A-2. Sending and receiving areas in Falmouth and resulting residential development.

## King County, Washington

King County's award-winning TDR program is modeled after other successful programs around the country, including programs serving The Pinelands, New Jersey; Boulder County, Colorado; and Montgomery County, Maryland. The program has helped preserve nearly 100,000 acres of land.

- Sending areas are "lands that provide a public benefit" and include farm, forest, open space, regional trails, designated urban separator lands, and habitat for threatened or endangered species.
- Receiving areas can include unincorporated urban areas, incorporated cities, and some rural areas where services such as sewer, water, and transportation exist or can be readily provided.
- A permanent conservation easement is placed on the sending site before density may be transferred. Development rights may be transferred through private party transactions or purchased by the TDR bank.



Figure A-3. Qualifying King County receiving area land near Snoqualmie.

## Seattle, Washington

The Seattle TDR program is considered one of the most successful programs in the nation. Established in 1985, the program created a complex system of sending and receiving areas based on specific planning objectives for particular areas of the downtown. As a result, the mechanisms and guidelines used to transfer development rights in Seattle's downtown area vary between different districts.

Primary program components include:

- Dual-density sending and receiving areas.
- Use and design incentives to:
  - Develop affordable housing.
  - Add day-care facilities to commercial/office space.
  - Create theater space.
  - Include ground floor retail space.
  - Maintain a mixed building height appearance.
  - Incorporate pedestrian or bicycle amenities, atriums, green rooftops, and art display areas.
- A TDR credit bank to facilitate transactions, which has become one of the most crucial aspects of program success. Though the City served as the sole purchaser of TDRs in the program's early years, the TDR bank ensured that in 1997, when demand for these rights began to grow, developers had an easy avenue through which to acquire additional development rights.



*Figure A-4. Seattle's TDR program has funded historic building renovation projects, such as the Paramount Theatre and downtown YMCA, and allowed additional square footage in new developments like the W Hotel and Washington Mutual building.*

## Redmond, Washington

Redmond's TDR program was designed to protect agricultural land, critical habitat, and historic landmarks. Though TDR purchases have totaled more than \$13 million since its inception in 1998, the City recently reviewed and revised the program to ensure continued demand for participation.

The program's primary components include:

- Buyers and sellers finding each other (no TDR bank); however, the primary buyer is self-motivated (Microsoft) to use the program.
- Sending areas transferring commercial or residential rights.
- Receiving areas being able to use acquired rights for additional height, parking, or "trips."

## Issaquah, Washington

- In September of 2005 Issaquah's City Council adopted a TDR program. Though they had not had any transactions as of July of 2006, the program was recently revised to better accommodate developer interests by allowing receiving area participants to exceed impervious surface and height limits. The program's primary elements include:

- Sending areas include critical environmental sites and properties that are difficult to develop due to limited access
- One "development unit" from a sending area equals 1,000 - 2,000 square feet of impervious surface (dependent on zone), 2,000 square feet of additional height (in specific zones), or 1,000 square feet to fill in "wedding cake" setbacks (in specific zones).
- Transactions currently take place on the open market; however, they are considering establishing a TDR bank.

## Snohomish County, Washington

In October of 2002 Snohomish County performed a study to determine the feasibility of establishing a test or "pilot" TDR program to protect agricultural lands, primarily in the Arlington / North Marysville area. Preliminary conclusions of Snohomish's Feasibility Study included:

- TDR programs have only proven workable where there is no other less expensive mechanism for a receiving site developer to achieve the same goal
- TDR programs are most effective for sending area landowners when they are the best option to realize financial return (a more attractive option than development of the land)
- "New urban areas" seem to be the most feasible type of receiving site
- A major challenge will be to reconcile a sending site land owners perception of value with the market's perception. The study recommended that the County develop an "early action program" (begin purchasing development rights) to secure development rights in key sending areas. This would establish a market price, amass development units that could later be sold to developers in receiving areas, and would secure critically important farmlands
- Receiving area land holders seem more interested in the TDR program than farming land owners (sending areas), due to financial benefit gained by the process; to reconcile price



*Figure A-5. Microsoft, the primary participant in Redmond's TDR program, actively seeks ways to exceed base parking and height limits.*

differences and increase the likelihood of participation, the study recommended that the County consider the following:

- Allocating 2 instead of 1 development rights for each 10 acres of farmland to provide incentive to sending area land owners
- Setting a transfer ratio of 2:1 to encourage developers to purchase rights
- Establishing a TDR program will take significant County staff time or funding for a third party to manage the program

The findings of the feasibility study led the County to establish a TDR program in Arlington (through an inter-local agreement). To spur participation, the County set a 4 to 1 ratio in the sending areas (agricultural land); every development right that is transferred yields four development “certificates”. To create demand in the receiving area, the County requires that 25% of new single family development and 50% of new multi-family development capacity come from TDRs. Additionally, receiving area land owners can purchase development right certificates worth 10,000 SF of retail / commercial space each.

The County, is currently acting as a program intermediary, or bank, but would like future transactions to occur on the open market. The County recently purchased development rights on 91 acres of agricultural land, placed a conservation easement on 71 acres of that land, and is in the process of negotiating the sale of the development rights to receiving area land owners.

### Marketable Rights Transfer Programs, Lake Tahoe Basin, California

The 1987 Regional Plan restricted the overall amount of impervious surface and development in the Tahoe Basin. This restriction created the opportunity for landowners to buy, sell, or otherwise trade five different types of rights. These include.

- *Coverage*, which is the right to create or retain impervious surface on the land
- Development Rights
- *Residential Allocation*, which means one of the 6,000 allocations for building residences that was created in the 1987 Regional Plan
- Commercial Floor Area (CFA)
- *Tourist Accommodate [Accommodation?] Units (TAUs)*, which is the right to create or retain transient hotel or motel units

Although private buyers and sellers participate in the market, often with the assistance of consultants and real estate brokers, one of the most important market players is the California Tahoe Conservancy, a state agency that often purchases land for preservation and then resells the rights from that land through its Land Coverage Bank. In the case of commercial and tourist rights, the South Lake Tahoe Redevelopment Agency has also played a major role. These entities have essentially acted as TDR banks, facilitating transfers from sending to receiving sites.



*Figure A-6. A variety of marketable rights transfer programs has been developed to help conserve environmentally sensitive areas and to compensate property owners affected by strict development regulations.*

The Lake Tahoe programs differ from traditional TDRs in that they:

- Involve trading several different types of marketable rights, none of which, by themselves, confers the right to develop.
- Seek to use a trading system not just to preserve vacant land, but, in some cases, to actually remove existing development that is considered environmentally undesirable.
- Focus on environmental goals, including water runoff and quality, air quality, and wildlife habitat, whereas most rural TDR programs seek to preserve agricultural land.
- Were created, in part, to provide relief to property owners who might be harmed by strict implementation of the Regional Plan.

## Appendix B

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# Interview Summaries

Interviews with a number of key stakeholders, interested parties, and/or knowledgeable resources helped inform the TDR program review. These interviews are summarized below.

### Receiving area property owners, developers, real estate resources, and TDR program developers

Those familiar with the TDR program and real estate dynamics on Bainbridge Island identified a number of issues affecting the existing program, including the following:

- The program was developed in response to the community's high-priority goal at the time: protection of agricultural land. It assumed a relatively stable real estate market and value for development rights and intended to create incentives for participation by offering tax breaks and a modest return, while still allowing farmers to farm. Today, the strong residential real estate market in the sending areas has decreased the incentive to sell TDRs. In addition there are relatively few large tracts of agricultural land remaining on Bainbridge Island.
- There is a lack of understanding regarding the valuation and transfer of the actual rights and the lack of an established transfer mechanism.
- Due to municipal requirements, such as parking standards, it is difficult to develop sites in the MUTC and HSR zones to the allowed bonus densities, which reduces the demand for development rights.
- Although increasing allowed densities in Winslow could increase demand for development rights, there is a perceived lack of support for increased density by the community.
- The lack of utilities—specifically sewer—in the Neighborhood Service Centers. This constrains development so significantly as to impair the demand for the additional development allowed through the TDR program.

### Sending area land holders

Discussions with sending area land owners revealed that:

- Land owners in the process of subdividing their property to develop housing were not aware of the TDR program's existence.
- Land owners felt that selling development rights would not be as profitable as developing their land or subdividing and selling to developers.
- The process by which development rights are transferred is too complicated and does not encourage participation (there is no mechanism to facilitate the exchange).
- Potential participants may feel negotiating on the open market would not maximize their benefit.
- Property owners willing to sell their development rights would likely be conservation-minded and actively seeking ways to restrict future development.
- There is not enough viable farm land remaining on Bainbridge Island to warrant classification as primary sending areas. The City should consider revising the program to protect aquifer recharge areas or other, more critical, resources.



## Appendix C

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# Economic Analysis Technical Report

## City of Bainbridge Island Transfer of Development Rights Program Evaluation

## Economic Analysis Technical Report

November 2006

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## INTRODUCTION

### Background and Purpose

The City of Bainbridge Island has a Transfer of Development Rights (TDR) program intended to preserve wetlands, high vulnerability recharge areas, agricultural land and open space. The program allows owners of real property located in designated “sending areas” to split the right to develop real estate from the property itself, and then sell those rights to a developer or donate those to an approved trustee. Those who purchase development rights (in units) can transfer them to receiving areas to increase the developable Foot Area Ratio (FAR) or to increase the number of units per acre, depending on the site. The market-based approach is intended to direct increases in density according to Bainbridge Island’s Comprehensive Master Plan.

The TDR program was established in the City’s Municipal Code in 1996 to accomplish Comprehensive Plan goals. To date the program has not been utilized and the City of Bainbridge is currently evaluating the program as a strategy to implement the vision put forth in the *Winslow Tomorrow* city planning efforts and to bring the City of Bainbridge’s comprehensive plan and development regulations in compliance with the planning requirements of the Growth Management Act. This report presents an economic and feasibility analysis of the Bainbridge’s Transfer of Development Rights from the perspective of potential TDR program participants and identifies the market principles and conditions that have limited the utilization of the program.

The purpose of this report is to illustrate the economic forces that affect the success of the City’s TDR program. To that end, analysis is required to describe potential development and investment value of housing and development in the City. This report is not an appraisal and contains no analysis suitable for valuations that require appraisals. The valuation analysis contained herein is for illustrative purposes only, to explain the economic forces that have challenged the success of the City’s TDR program.

### Approach and Methods

A TDR program is market-based strategy designed to preserve lands that serve a public value while encouraging higher density development in other areas. A TDR program is a means towards some larger planning strategy in which lands that hold non-market public values are designated as “sending areas” and lands that are targeted for increased density are designated as “receiving areas”. Unlike zoning ordinances, a TDR program works within market forces to compensate the owners of lands designated as “sending areas” by allowing them to sever their development rights from their real property, and then sell or donate those rights.

A well designed TDR program operates through the incentive of profit for both the sellers and buyers of development rights, and allows communities to

plan for and shape growth with minimal public funds. A TDR program allows owners of lands with special environmental or social values to capture the economic value of their land that would be lost if the property were restricted through some other planning mechanism (such as the addition of preservation easements or downzoning). Additionally, TDR programs encourage increased development in designated “receiving areas” by allowing developers to purchase additional development rights beyond the permitted base-line. Buyers of development rights should benefit through improved profit by allowing for increased development potential of their real estate holdings.

A successful TDR program includes the following essential factors:

1. The designation of preservation zones (the sending areas) and growth areas (the receiving areas).

The designation of preservation zones and growth zones must be designated through a process with sufficient public consultation and support.

2. Incentives for real property holders in sending areas (the supply side)

Property owners must have sufficient incentive to sell their development rights rather than develop the property themselves. Whether the property owner has sufficient incentive will be determined by the market price of the development right relative to the profit that could be realized through redevelopment. Thus, the degree to which the seller will be motivated is derived from the redevelopment potential of the property without unbundling the development rights and the market price of the severed development rights.

3. Incentives for developers in receiving areas (the demand side)

The decision of whether or not to use additional development rights will be based on the developer’s estimation of the additional profit that could be gained. Market conditions must include demand for development with density greater than what is permitted under baseline zoning rules in the designated receiving area in order for there to be sufficient incentive for buyers to purchase development rights. Additionally, participating in the TDR program must be as attractive to developers as other options for increasing the allowed development (such as pursuing variances or purchasing additional development rights through other means). Finally, the profit expected from the additional square footage of developed property must be greater than the purchase price of the development rights necessary to build it.

This analysis examines Bainbridge Island’s particular TDR programmatic elements in the context of current market conditions. We combine information from existing data sources and interviews to assess the

economics of the program and identify limits to the current program in light of market circumstances.

## ORGANIZATION OF REPORT

This report provides technical analysis designed to accompany a complete program evaluation produced by Makers Architecture + Urban Design. This technical report provides market data and economic analysis to analyze the City's TDR program, presented as follows:

- **Current Market Conditions.** Presents current market data for conditions in the City's sending and receiving areas.
- **Feasibility Studies.** Case studies illustrating development opportunities and challenges in the receiving areas at today's market prices.
- **Feasibility Analysis.** Additional analysis interpreting the effect of current market conditions on the City's TDR program.

## CURRENT MARKET CONDITIONS

### Sending Areas

The Bainbridge Island Municipal Code defines development right "sending areas" as all properties within the Critical Areas Overlay District (CAOD) as designated on the land use map of the City's Comprehensive Plan. Additionally, any owner of agricultural lands, whether located in or outside of the CAOD, can elect to have the agricultural land designated as a sending area. However, any land that already has some form of development restriction (such as easements or covenants) is not eligible for sending area designation.

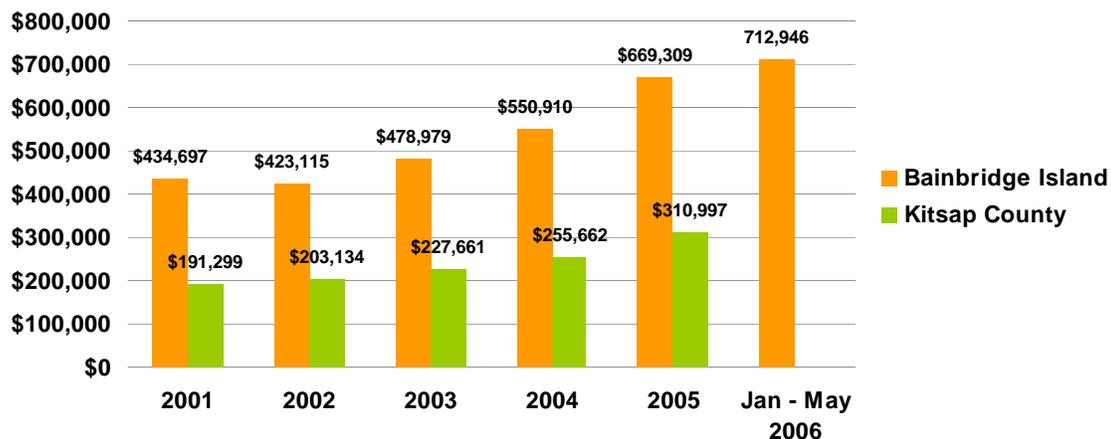
For all eligible lands, the owner has the potential to sell or transfer one development right for every unused development right associated with his or her property. Additionally, Bainbridge Island's TDR program offers further incentive for owners of productive agricultural lands. For every unused development right, the owner of agricultural land may sell three development rights and accept an easement upon their land from the American Farmland Trust, Inc. or some other appropriate trustee. This multiplicative factor should increase the incentive to sell development rights from agricultural lands.

### Market Conditions

The sending areas are dominated by low-density residential development inter-mixed with wooded lots and small-scale agricultural operations. Land holdings are highly distributed and are predominately held in small 1 to 3 acre

holdings. The housing market in Bainbridge Island has followed the nationwide boom in housing prices. Since 2002, strong market fundamentals and historically low interest rates have supported a dramatic climb in the value of housing (see **Exhibit 1**). In 2005 the average home price in Bainbridge Island was more than twice the average home price for Kitsap County as a whole.

**Exhibit 1**  
**Bainbridge Island Average Home Prices, 2001 – May 2006**



Source: Multiple Listing Service, Kitsap County Consolidated Housing Authority, Richards & Associates, Inc.

**Exhibit 1** displays the average home prices for both existing and new development. The average price of *new* homes was higher in 2005 at \$750,209 for Bainbridge Island and \$406,559 for Kitsap County. The average home price in Bainbridge Island was even higher for the first part of 2006 (through May) at \$712,946. Thus, strong demand continues to support increasing rates in housing values and makes development in the sending areas attractive for potential investors.

### **Estimated Value of a Development Right in Sending Areas**

In order to conduct a feasibility analysis it is important to make informed assumptions about the cost of development. From the perspective of a developer interested in obtaining additional density through the purchase of development rights, anticipating the cost of development rights is a critical step in planning a new development and determining its feasibility. The most common method used to estimate the cost of development rights is a comparables approach, in which an estimation of the cost of development rights is based on recent sales of development rights and local market trends. Since Bainbridge Island’s TDR program has never been utilized, this approach is not available to us.

For the purposes of performing a feasibility analysis of a proto-typical development, we are using the price of unimproved, bareland in the “sending areas” as a proxy for the market price of development rights. The price of land is a reflection of the development potential of that land, the market demand for improved uses (housing, office, retail, industrial space, and others), and consideration of already existing improvements (buildings or other amenities). Land value without any improvements represents a combination of the development potential and the market demand for improved uses. Thus, the current market price of unimproved land acts as a proxy for the cost of a development right.

**Exhibit 2** lists all of the bareland sales on Bainbridge Island from 2005. All the properties are relatively small, ranging in size from .13 acres to 6.26 acres. Eleven out of the 31 land sales listed are for properties of less than an acre. The average price per property is \$229,894 and the average price per acre for land is \$246,079.

**Exhibit 2**  
**2005 Bareland Sales for Residential Lands on Bainbridge Island**

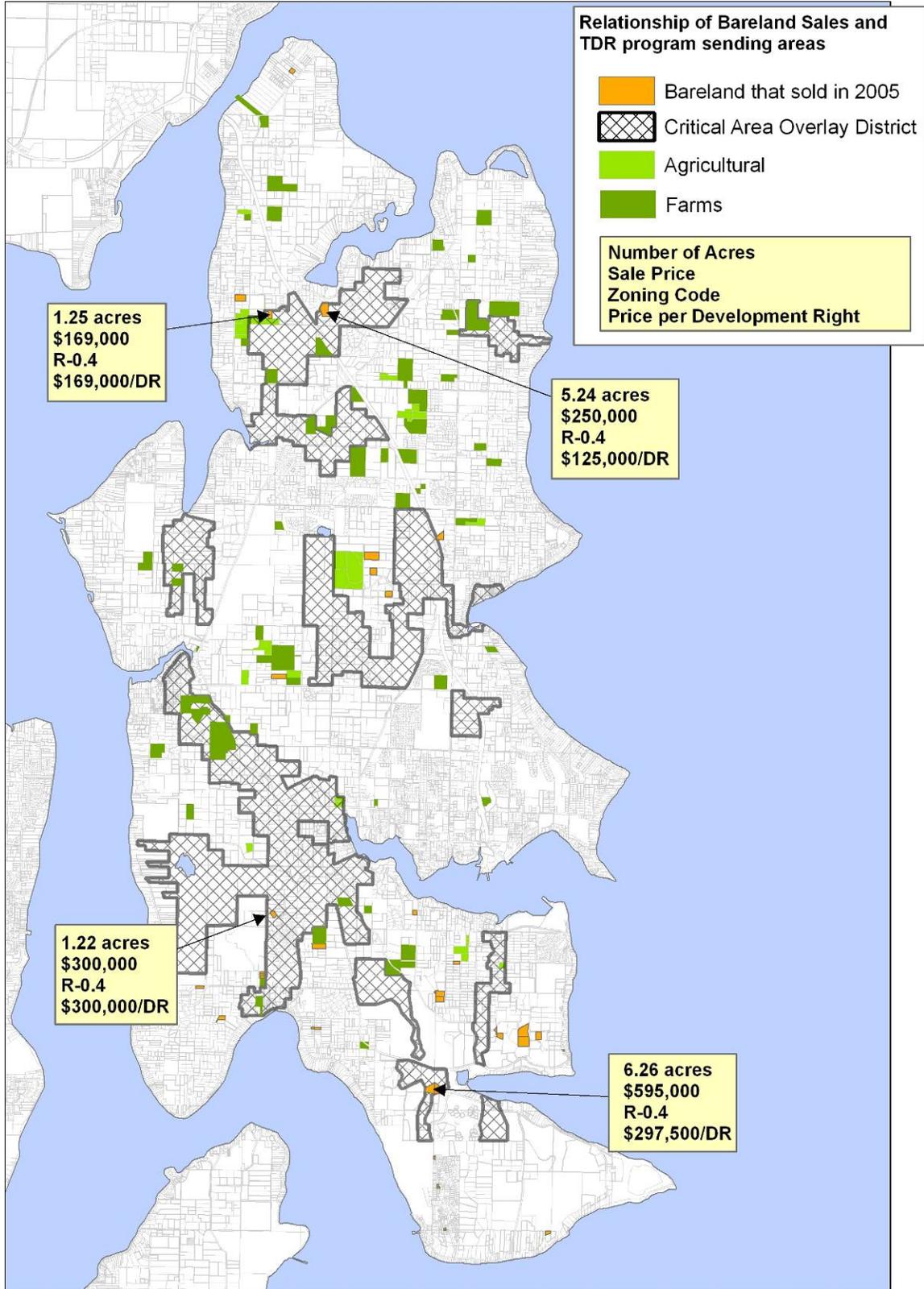
<b>Parcel ID</b>	<b>Acres</b>	<b>Land Influence</b>	<b>Sale Date</b>	<b>Sale Price</b>
032502-4-016-2006	3.62	No acc	8/15/2005	\$175,000
042502-1-114-2002	5.24	Fair util	4/20/2005	\$250,000
042502-2-011-2004	3.17	Topo	12/19/2005	\$520,000
042502-2-034-2007	1.25	Topo	4/18/2005	\$169,000
4131-000-013-0306	1.21		8/11/2005	\$156,000
152502-1-078-2003	1.96	Other Fair util	8/1/2005	\$125,000
212502-1-038-2004	2.76	Services	3/14/2005	\$195,000
4175-000-014-0005	4.84	Vw Fair No acc	4/28/2005	\$295,000
5081-000-005-0006	1.99	Vw Fair	7/13/2005	\$350,000
5081-000-013-0006	1.73		4/14/2005	\$275,000
4209-000-033-0002	1.23	Vw Fair Fair util	12/2/2005	\$130,000
4185-008-002-0000	2.03	Topo	4/15/2005	\$247,000
4185-005-001-0106	0.9		12/22/2005	\$180,000
4176-000-029-0304	0.64	Vw Fair Fair util	2/24/2005	\$245,000
4164-002-020-0105	0.94		11/17/2005	\$279,000
4154-000-010-0004	1.01		11/21/2005	\$165,000
4152-000-033-0405	0.51		10/3/2005	\$145,000
4152-000-033-0306	0.51		10/3/2005	\$145,000
4152-000-033-0207	0.51		10/3/2005	\$145,000
4150-003-012-0000	0.25	Services	2/4/2005	\$59,900
4146-004-006-0003	0.16	Fair util	6/17/2005	\$52,000
4146-004-005-0004	0.2	Fair util	6/17/2005	\$52,000
4146-001-016-0007	0.22		11/10/2005	\$231,000
342502-1-017-2004	1.03	Topo	2/11/2005	\$135,000
332502-4-006-2002	3.16	Long acc	12/15/2005	\$185,000
332502-1-066-2005	1.22	Common	9/7/2005	\$300,000
032402-4-039-2000	6.26	Topo Vw Fair	6/15/2005	\$595,000
022402-2-009-2001	2.22	Vw Fair	7/8/2005	\$375,000
022402-1-091-2002	2		2/18/2005	\$290,000
022402-1-087-2008	1.88	Shape	2/4/2005	\$235,611
022402-1-071-2006	4.52		7/18/2005	\$340,000
022402-1-070-2007	4.7	Topo	7/25/2005	\$290,000
012402-2-025-2002	0.13	Vw Avg Topo	7/27/2005	\$255,000

Source: Kitsap County Assessors Office, 2006

We combined information on the 2005 sales from the Kitsap County Assessors Office with Bainbridge Island’s Comprehensive Plan to determine whether recently sold bareland parcels were located within the CAOD district or on designated agricultural lands. In addition, we also determined the baseline zoning for each of the parcels in order to calculate the number of development units associated with each bareland sale.

**Exhibit 3** displays the location of each of the bareland sales in 2005, along with the “sending areas” comprised of the Critical Areas Overlay District and agricultural-related parcels. There are four parcels that fall within the “sending areas”.

### Exhibit 3 2005 Bareland Sales



Out of all the bareland sales in 2005, the four parcels fell within sending areas are listed in **Exhibit 4** All four parcels fell within the R-.4 zoning category, thus limiting the maximum development potential to 1 unit per 2 and a half acres.

**Exhibit 4**  
**2005 Bareland Sales Within Bainbridge Island "Sending Areas"**

<b>Sale Date</b>	<b>Acres</b>	<b>Sale Price</b>	<b>Price/Acre</b>	<b>Zoning Class</b>	<b>Potential DU</b>	<b>Price per DU</b>
4/20/2005	5.24	250,000	\$47,710	R-0.4	2	\$125,000
4/18/2005	1.25	169,000	\$135,200	R-0.4	1	\$169,000
9/7/2005	1.22	300,000	\$245,902	R-0.4	1	\$300,000
6/15/2005	6.26	595,000	\$95,048	R-0.4	2	\$297,500

The price per development unit ranges from \$125,000 to \$300,000, with a simple average price of \$222,875 per development unit and a weighted average of \$219,000 per development unit. These values are in-line with estimates given by real estate professionals from Bainbridge Island. Local estimates of development rights ranged from 70,000 per development unit to \$200,000 per development unit.

One dynamic worth mentioning is the relation between the size of the parcel and the price per development unit. Each of the bareland sales that fell within designated sending areas only included 1 or 2 development units. The price per development unit is sensitive to scale: the smaller number of units a seller has to sell, the more expensive they will be on a per unit basis. The highly fragmented ownership and small nature of land holdings on Bainbridge Island will result in higher prices per development unit. In the estimation of one local appraiser, one out of two development rights on a 5 acre parcel will price at about \$150,000 to \$200,000, whereas the one out of 20 development rights would price at only \$50,000. However, the conditions for the latter do not exist on Bainbridge Island.

**Land Value for Land with No Development Allowed**

Land in the sending areas that has no development and also does not have the right to develop still would have value in most cases. Conceivably buyers could purchase the land for agricultural, recreational or other uses. The extent to which uses could generate revenue or otherwise create economic benefits would drive the upper end of this value in most markets. On Bainbridge, the values might be set higher by a home owner purchasing land adjacent next to their home for recreational use or aesthetic value.— an extended yard, in effect.

Because the agricultural uses on the island are mostly hobby farms and do not compose a major industry, values of land on which there are no development rights are not likely to be driven up by industry. Large parcels might present

new opportunities as plant nurseries or Christmas tree farms, but buyers for productive purposes would not likely encounter bidding wars.

Assessed land values in agricultural areas elsewhere in Kitsap County might average \$5 per s.f. or so. One could theoretically back that value out of the value based on development rights. However, note that one bareland transaction in 2005 sold at just more than \$1 per s.f., which suggests that the land value is zero without the development.

Recreational uses and aesthetic value of living adjacent to open space would likely set the value in these cases on Bainbridge Island. The market value would vary widely, depending more on the wealth and values of adjacent land owners than the property's actual characteristics. For these unpredictable reasons, this concern is not quantified or factored into this analysis potential.

## **Receiving Areas**

Lands located in the Mixed Use Town Center (MUTC), the High School Road district and the neighborhood service centers (NSC), and the Urban Single-Family Overlay District are designated "receiving areas." Holders of properties in the MUTC and HSR district can increase their allowed floor area ratio (FAR) (as provided for in the Bainbridge Island Municipal Code) up to 100 percent through the purchase of additional development rights either directly from the city or through the TDR program. Holders of property in the NSCs can increase their development potential from 2 units per acre up to a maximum of 5 units per acre. In the Overlay District the property owner can go from the baseline zoning of 2.9 or 4.3 units per acre up to 8 units per acre.

## **Neighborhood Service Centers**

The neighborhood service centers (NSC) include Lynwood Center on the south end, Island Center in the middle and Rolling Bay to the northeast. According to Bainbridge Island's Municipal code, they are intended to provide a mix of neighborhood-scale commercial and service activity which is compatible with the scale, character, and intensity of the surrounding residential neighborhood. Lynwood Center is currently the most developed as a service center and is the only center with sewer service. Currently, Island Center offers a mini-mart, a restaurant, and two auto-related establishments. Rolling Bay offers Bay Hay & Feed and a post office, but is thought not be conveniently located enough to attract further commercial development.

## **Mixed Use Town Center and High School Road Commercial Zones**

The Mixed Use Town Center and High School Road Commercial Zones correspond to downtown Winslow. According to Bainbridge Island's municipal code, the Mixed Use Town Center Zone is intended to be a strong mixed use community with both residential and commercial uses. This section reviews the current markets for various land uses.

## Market Conditions

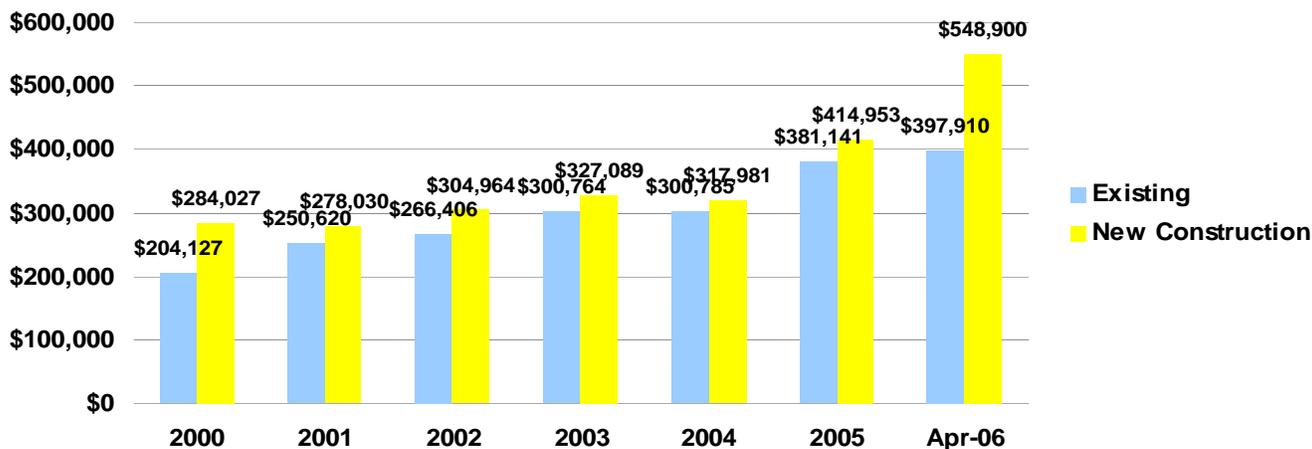
### *Residential*

#### OWNER-OCCUPIED MULTIFAMILY

Bainbridge Island's condominium market is currently undergoing a period of rapid expansion with more than 335 new units currently under construction (Re-Solve, Inc), which will be added to Bainbridge Islands existing 470 condominium units. While there has been a lot of "pre-sale" activity, the amount of new development coming on to the market has created some concern about an over-saturation of multifamily housing in the town center.

In 2004, 101 new condominium units came on line, and prices dropped for new units (see **Exhibit 5**). However, to date prices do not appear to have been impacted negatively by this next wave of expansion. In 2005, prices on existing condominiums were \$381,141 and prices for new construction were even higher at \$414,953, as displayed in **Exhibit 5**. For the five sales at the beginning of 2006 (January through April 200) prices were appreciably higher for new construction, reflecting the addition of higher quality inventory, though the year end average for 2006 may not be as high.

**Exhibit 5**  
**Bainbridge Island Average Condominium Closed Sales Prices**



Source: Multiple Listing Service, Re-Solve, Inc

Community stakeholders and real-estate professionals expressed some concern over whether there is enough demand for high-end, high-density living. New condominium inventory is thought to be quite expensive, and local professionals are still wondering if there is enough demand at high-end price points to support the amount of new development. Some also felt that work/live units and less expensive units might be a better fit for the current market than luxury residential units.

## RENTER-OCCUPIED MULTIFAMILY

The apartment market has not seen the trend of expansion that the condominium market has. There are currently 576 apartment units on Bainbridge Island, 45% of which are subsidized. Bainbridge Island makes up a part of the Poulsbo Market, which had an average vacancy rate of 3.10% in April 2006, as shown in **Exhibit 6**.

### Exhibit 6 Apartment Rent and Vacancies – 20+ Unit Buildings Poulsbo/Bainbridge Island, April 2006

	ALL	1 BED	2/1 BATH	2/2 BATH	2/3 BATH
<b>Market Vacancy (%)</b>	3.10%	1.80%	2.20%	4.90%	4.80%
<b>Actual Rent (\$)</b>	\$873	\$712	\$799	\$1,016	\$1,137
<b>Act Rent per NRSF (¢)</b>	--	98.2	91.2	96.2	94
<b>Bldgs/Units Surveyed</b>	6/419	5/113	5/139	4/122	2/42

Source: Kitsap County Trends, Dupre & Scott, Inc

The data presented in **Exhibit 6** includes apartment rents and vacancies for buildings of a variety of ages and for apartments located in both Bainbridge Island and Poulsbo. **Exhibit 7** displays asking rents for a sample of new apartment complexes on Bainbridge Island. Rents for the 1 bedroom units are similar to the rents displayed in **Exhibit 6**, but rents are slightly higher than the Poulsbo market in general for 2 and 3 bedroom apartments.

### Exhibit 7 Newer Construction Multifamily Asking Rents (Sample)

	Unit Style	Square Footage	Average Rents (\$)	Rents Per Square Foot (cents)
Island Homestead	2/2	1140	\$1,437.50	126
Island Crossings	1/1	700	\$1,050.00	150
Island Crossings	1/1 condo	700	\$1,050.00	150
Lynwood Commons	st/1	680	\$800.00	118
	1/1	771.5	\$902.50	117
	2/1-2	1129.5	\$1,200.00	106
	3/2	1279	\$1,300.00	102

## Office

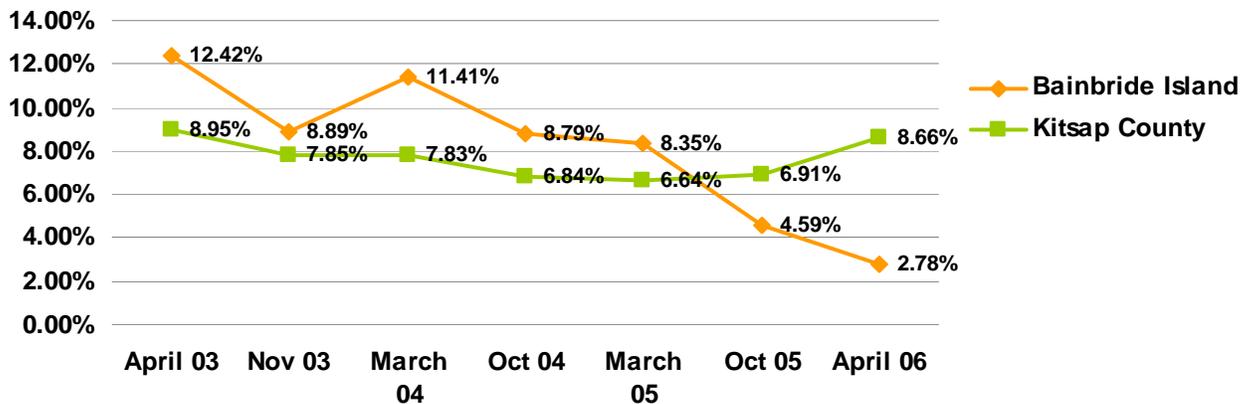
There are 254,000 square feet of office space on Bainbridge Island, amounting to a very small office market. As a consequence market prices for office space can be affected if only a handful of tenants change offices. Prices for office space vary by the age of the building, whether they are close to the Ferry terminal, whether or not they have a view, and their proximity to other services such as markets, coffee shops or other amenities.

Current rents are estimated to range from \$12 to \$28 (NNN). Local real estate professionals estimate an average of \$18 per square foot for the entire city, with new office in the MUTC core priced at approximately \$25 per square foot.

Office vacancy rates have been in decline, as shown in **Exhibit 8**. In fact, according to Kitsap County TRENDS report Bainbridge Island is the only city in Kitsap County that showed a decrease in office vacancies for 2006, and the vacancies that did exist had accessibility challenges. As of April 2006, the vacancy rate was 2.78%, down from a recent high of 12.42% in April 2003. The decline in vacancy rates suggests sufficient demand for new development.

Analyses by GVA Kidder Mathews (*Discussion Draft: Real Estate Market Analysis for the Washington State Ferries Bainbridge Island Ferry Terminal Project*, March 2006) have shown Bainbridge Island to be absorbing about 11,160 square feet of office space per year since 1998. Given job and population growth, along with the low vacancy rates, we would expect office rental rates to rise and there to be sufficient demand to support additional development.

**Exhibit 8**  
**Historical Bainbridge Island Office Vacancy Rates**



Source: Kitsap County TRENDS; Bradly Scott, Inc.

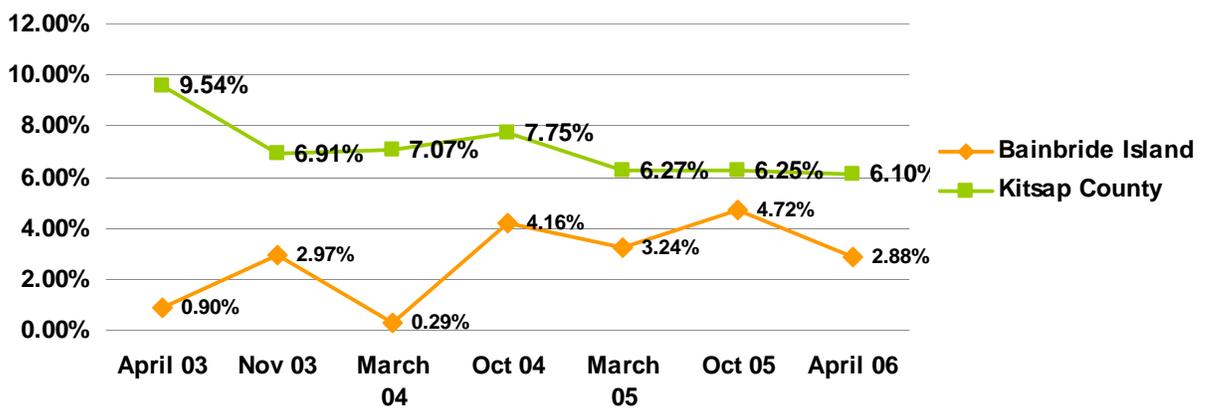
## Retail

Like Bainbridge Island's office market, its retail market is quite small. There is approximately 327,000 feet of retail space, mostly located in Winslow and the neighborhood services centers. The most desirable retail real-estate is located in downtown Winslow, between the Highway and Madison Avenue, though individual retailers may have a preference for retail locations out of the central core and in the neighborhood services centers. Current asking prices range from \$20 to \$32 per square foot (NNN) depending on locations, the quality of the space and other amenities. According to local real estate professionals, parking for both employees and patrons is a primary determinant of retail rents and a common item negotiated in leases.

Retail vacancies have remained below the county-wide retail vacancy rates, but have climbed somewhat since its low of .29% in April of 2004, as shown in **Exhibit 9**. Vacancies crested in October 2005, and declined again in 2006 to 2.88%. The low vacancy rate indicates that the market could absorb additional square footage of retail space.

Analyses by GVA Kidder Mathews (*Discussion Draft: Real Estate Market Analysis for the Washington State Ferries Bainbridge Island Ferry Terminal Project*, March 2006) have shown Bainbridge Island has been adding approximately 6,000 square feet of retail space a year since 1998, with an additional 47,500 square feet currently in the pipeline. As additional residential units come on line in the Mixed Use Town Center, it is likely that demand for retail space will increase.

**Exhibit 9**  
**Historical Bainbridge Island Retail Vacancy Rates**



Source: Kitsap County TRENDS; Bradly Scott, Inc.

## FEASIBILITY STUDIES

Analysis of the City's TDR program requires an assessment of development feasibility in the receiving areas and an understanding of how purchasing additional development rights might factor into development decisions. This analysis focuses on potential development scenarios in the Mixed Use Town Center receiving area.

To illustrate this decision-making process, two prototypical sites were chosen: a relatively small site with 7,000 s.f. of land, and a medium-sized site with 18,000 s.f. of land. The following basic parameters provided the framework for this analysis:

- As there are no typical lot sizes in the Mixed Use Town Center, a small (70' x 100') and a medium (120' x 150') lot in the MUTC Core were assumed.
- Lots were assumed to be mid-block, with back alley access, topography, soil conditions, and other characteristics facilitating maximum developable area.
- Projects were mixed-use condos over retail with underground parking.
- Development complied with existing parking requirements and maximum base and bonus Floor Area Ratios (FAR). (The City has recently updated its parking requirements and is reviewing its FAR requirements in the MUTC Core.)
- Developments to the allowed base and bonus Floor Area Ratio (FAR) capacities were explored.
- Small Lot Scenario. Assuming very favorable topography, only 19 parking spaces fit on this lot. As these spaces are needed to meet parking requirements for 4,200 square feet of commercial space (retail or office), no residential units could be developed. Purchase of bonus FAR would allow five residential units over 3,500 square feet of commercial uses on the site.
- Medium Lot Scenario. The configuration and width of this lot allows for a very efficient parking configuration, accommodating 50 spaces. This allows for development of the maximum 10,800 commercial square feet (base FAR) plus seven residential units (with one parking space per unit). These units could easily be accommodated on one story, without building to the site's height limit of 45 feet. Purchase of bonus FAR would allow an additional five residential units (12 total) over 9,000 square feet of retail on the site.

# MIXED-USE - SMALL LOT

Residential over retail/office and underground parking

## TYPICAL EXAMPLE

### Location:

- Small development lot in Core area
- Alley access

**Site Area:** 7,000 sf (70' x 100')

### Construction Features:

- Wood-frame with a concrete base

## BASE FAR

### Development Type:

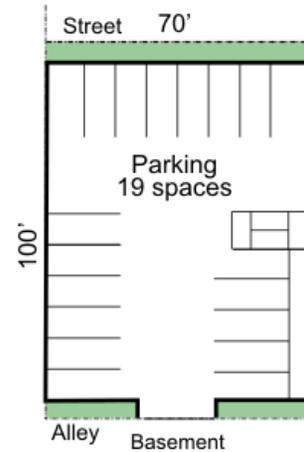
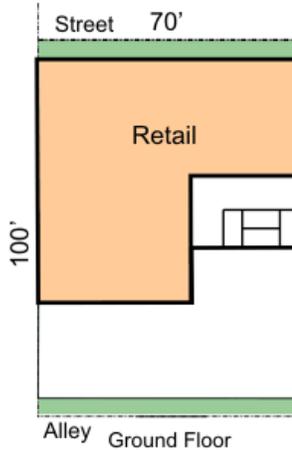
- 2 floors, approx. 15' above grade
- 1 level underground parking: 6,350 sf
- 1 level retail/office: 4,200 sf

### Parking: 19 spaces

- 4/1000 retail = 19

**Density:** 0 du/acre

**Unit Size:** na



## BONUS FAR

### Development Type:

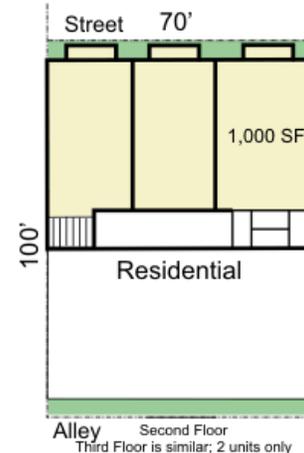
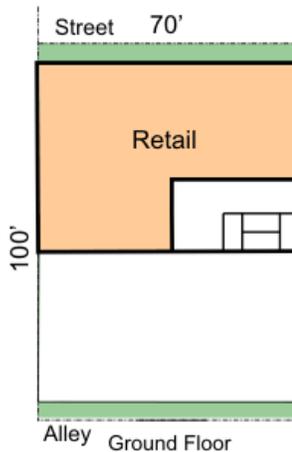
- 4 floors, approx. 35' above grade
- 1 level underground parking: 6,350 sf
- 1 level retail/office: 3,500 sf
- 2 levels residential: 7,000 sf / 5 units

### Parking: 19 spaces

- 4/1000 retail = 14, 1/unit residential = 5

**Density:** 31 du/acre

**Unit Size:** 1,400 SF avg



The feasibility analysis explored layouts for a typical medium and small lot in downtown Winslow to determine the amount of mixed-use development (the City's targeted development type) each would accommodate under existing code regulations.

# MIXED-USE - MEDIUM SIZED LOT

Residential over retail/office and underground parking

## TYPICAL EXAMPLE

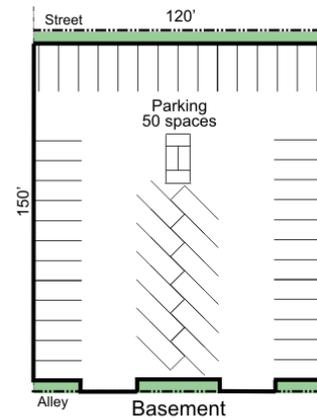
### Location:

- Good development lot in Core area
- Alley access

**Site Area:** 18,000 sf (120' x 150')

### Construction Features:

- Wood-frame with a concrete base



## BASE FAR

### Development Type:

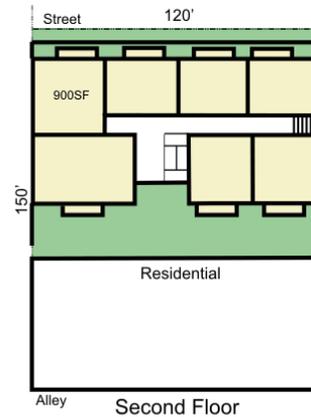
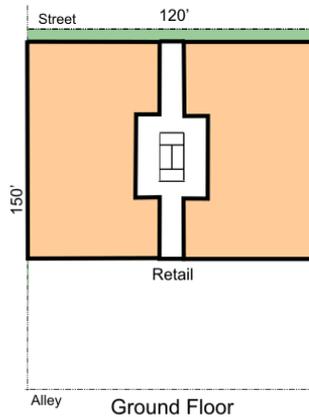
- 3 floors, approx. 25' above grade
- 1 level underground parking: 17,400 sf
- 1 level retail/office: 10,800 sf
- 1 level residential: 7,200 sf / 7 units

### Parking: 50 spaces

- 4/1000 retail = 43, 1/unit residential = 7

**Density:** 17 du/acre

**Unit Size:** 1,000 SF avg



## BONUS FAR

### Development Type:

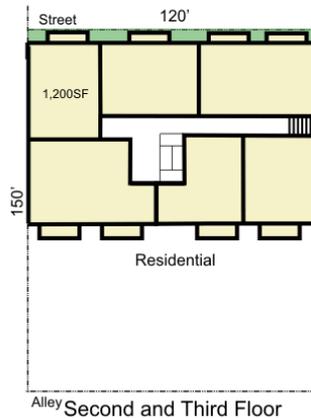
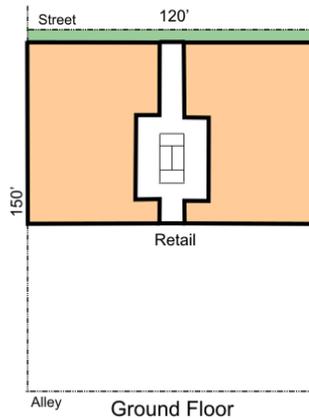
- 4 floors, approx. 35' above grade
- 1 level underground parking: 17,400 sf
- 1 level retail/office: 9,000 sf
- 2 levels residential: 18,000 sf / 12 units

### Parking: 50 spaces

- 4/1000 retail = 36, 1/unit residential = 12

**Density:** 29 du/acre

**Unit Size:** 1,500 SF avg



This section presents key considerations in discussing development on each site as a means to identify the value to a developer of purchasing additional development rights. The details for the following discussion are presented in the pro forma income statements, included at the end of this Appendix.

## Small Lot Scenario

### Small Lot with Base FAR

The base analysis of the small lot considers one floor of commercial space (4,200 s.f.) above one level of parking below ground (6,350 s.f.). This project includes no residential units.

With land costs at \$40 per s.f. and the total development costs of \$1.7 million, the project would require \$135,000 of net operating income per year to yield a 6.0% cap rate.

The commercial space fully leased at \$30 per s.f. (slightly above today's commercial market rates), assuming 30% of gross revenues going to operating expenses, would yield \$84,000 of NOI, for a cap rate of 3.74%. The project would not likely get built in this scenario. Cap rates for commercial properties currently average closer to 6.0% in the central Puget Sound region.

#### **Base FAR**

##### **Development Type:**

- 2 floors, approx. 15' above grade
- 1 level underground parking: 6,350 s.f.
- 1 level retail/office: 4,200 s.f.

##### **Parking:** 19 spaces

- 4/1000 retail = 19

##### **Density:** 0 du/acre

##### **Unit Size:** na

### Small Lot with Bonus FAR

Modeling the addition of two levels of residential units can illustrate the profitability associated with adding residential units to the development modeled above. In this scenario, the residential portion meets feasibility objectives while the commercial portion falls a little short, but nearly meets feasibility independently.

#### **Bonus FAR**

##### **Development Type:**

- 4 floors, approx. 35' above grade
- 1 level underground parking: 6,350 s.f.
- 1 level retail/office: 3,500 s.f.
- 2 levels residential: 7,000 s.f./ 5 units

##### **Parking:** 19 spaces

- 4/1000 retail = 14; 1/unit residential = 5

##### **Density:** 0 du/acre

##### **Unit Size:** na

Adding residential units requires a reduction in the ground-floor commercial space to accommodate service areas, reducing it to 3,500 s.f. The bonus FAR development includes two floors of residential, 3,500 s.f. each, with a total of five units. Parking remains underground.

Maintaining land assumptions at \$40 s.f., this development modeled at \$3.1 million total construction costs, for a total development cost of an estimated \$3.36 million.

Allocating the costs of land and parking to each use suggests the residential portion of the project would cost nearly \$2.1 million and the commercial portion would cost \$1.3 million (**Exhibit 10**).

**Exhibit 10**  
**Small Lot with Bonus FAR Development Costs**

	Total Cost by Use with Land	Parking Share		Total Costs w/ Parking Allocated
		%	Costs	
Residential	\$1,725,632	39%	\$329,531	\$2,055,162
Commercial	\$784,279	61%	\$524,559	\$1,308,838
Development	\$2,509,911		\$854,089	
Parking	\$854,089			
<b>Total w/ Parking</b>	<b>\$3,364,000</b>			<b>\$3,364,000</b>

The dwelling units have been modeled as owner-occupied condominiums, in this case 1,200 s.f. units selling for \$575,000, or \$483 per s.f. After sales of all five units, the investor would not quite meet market trends in profitability (assumed to be 30% of total development costs in this scenario), falling short by a net present value of roughly \$140,000. This shortage expressed in terms of dollars per s.f. of residential space is just \$23 per s.f. (net residential space, netting out hallways and common areas), suggesting that the project is close to being feasible and worth further analysis.

Profitability for the commercial portion of development, assuming fully leased at \$30 per s.f. (full service), would yield annual gross operating profit of \$66,000, for a capitalization rate of slightly more than 5.000%. The adequacy of this return depends on the perceived risk (based on the location, the viability of retail) and the investors appetite for risk. Cap rates for commercial properties are in this range today, but mixed-use projects are typically somewhat more risky, asking for a somewhat higher risk.

**TDR Program Implications**

This small lot scenario essentially compares two developments, one with residential and one without. Without residential, the basement parking requirements pull the project under feasibility expectations, with a cap-rate of just 3.74%, with NOI falling short by about \$51,000 per year (or valued at a short-fall of nearly \$400,000 over ten years).

Adding residential to this development project, does several things to increase the viability. First, the residential component is profitable, yielding a high return on the residential component alone. Second, the residential development revenue can absorb much of the basement parking costs, allowing the commercial component to perform closer to market expected returns.

On a per unit basis, as shown above, a developer in the receiving area that had confidence in this project as modeled would be willing to pay less than \$48,400 for the right to develop each unit. The under-performing nature of the commercial development (relative to development costs with basement parking) and the requirement to develop commercial space would offset the gains reflected in the \$48,400 by approximate \$14,000 (the present value of

the commercial revenue stream short-fall, \$100,000 divided into the seven units), for an estimated willingness-to-pay of approximately \$34,000.

## Medium Lot Scenario

### Medium Lot Base FAR

The analysis also considered development options on a medium-sized lot, with 18,000 s.f. of developable area. The development modeled with base FAR includes one level of underground parking to serve one level of commercial usage and one level of seven residential units.

**Exhibit 11** below shows the development and land costs of \$6.9 million allocated residential (\$2.2 million) and commercial uses (\$4.6 million). The basement parking required for commercial usage tilts the allocation of parking to commercial considerably, requiring the commercial use to bear 86% of parking costs.

#### **Base FAR**

#### **Development Type:**

- 3 floors, approx. 25' above grade
- 1 level underground parking: 17,400 s.f.
- 1 level retail/office: 10,800 s.f.
- 2 levels residential: 7,200 s.f./ 7 units

#### **Parking: 50 spaces**

- 4/1000 retail = 43; 1/unit residential = 7

#### **Density: 17 du/acre**

#### **Unit Size: 1,000 s.f. avg**

**Exhibit 11**  
**Medium Lot with Base FAR Development Costs**

	Total Cost by Use with Land	Parking Share		Total Costs w/ Parking Allocated
		%	Costs	
Residential	\$1,862,574	14%	\$345,641	\$2,208,215
Commercial	\$2,539,671	86%	\$2,109,114	\$4,648,785
Development	\$4,402,245		\$2,454,755	
Parking	\$2,454,755			
<b>Total w/ Parking</b>	<b>\$6,857,000</b>			<b>\$6,857,000</b>

This project performs similarly to the small lot with bonus development, though on a larger scale. The residential units are slightly larger, leading to a slightly greater sales price assumption of \$475,000 per unit or \$540 per s.f. Commercial rents are assumed at the same at \$30 per s.f. Overall the project is feasible with these assumptions, carried by the residential with the commercial component underperforming current market expectations slightly.

If one could invest in residential component alone their NPV of the investment would be an estimated \$665,800, for an NOI of 121%. Clearly the residential portion of this analysis scenario is a profitable endeavor. The commercial component underperforms slightly at a cap rate of 4.4% for commercial costs and operations only, slightly below market expectations.

## Medium Lot Bonus FAR

With the bonus FAR scenario for the medium-sized lot, an additional level of residential is added, for a total of 12 units, up from 7 in the base FAR scenario. The development includes 9,000 s.f. of commercial and underground parking.

Land and parking costs are allocated to residential and commercial uses to isolate marginal values of residential unit

development rights, as per the previous scenarios, shown in **Exhibit 12**. The development is assumed to cost an estimated \$8.8 million, allocating \$5.0 million to residential and \$3.8 to commercial.

### **Bonus FAR**

#### **Development Type:**

- 4 floors, approx. 35' above grade
- 1 level underground parking: 17,400 s.f.
- 1 level retail/office: 9,000 s.f.
- 2 levels residential: 18,000 s.f./ 12 units

#### **Parking:** 50 spaces

- 4/1000 retail = 36; 1/unit residential = 12

#### **Density:** 29 du/acre

#### **Unit Size:** 1,500 s.f. avg

**Exhibit 12**  
**Medium Lot with Bonus FAR Development Costs**

	Total Cost by Use with Land	Parking Share		Total Costs w/ Parking Allocated
		%	Costs	
Residential	\$4,425,264	24%	\$563,273	\$4,988,537
Commercial	\$2,012,177	76%	\$1,770,286	\$3,782,463
Development	\$6,437,441		\$2,333,559	
Parking	\$2,333,559			
<b>Total w/ Parking</b>	<b>\$8,771,000</b>			<b>\$8,771,000</b>

Holding constant the market rate assumptions with the base FAR assumptions, this project improves on residential profitability considerably. In this case, the additional housing units show economies of scale gained in leveraging the structured parking investments.

With the additional FAR and residential units, the residential component of the development produces net cash flow in excess of entrepreneurial requirements of more than \$100,000 per unit, or \$68 per s.f. of gross residential space.

Similar with other options, the commercial component underperforms market expectations with a cap rate of 4.5%. As such, a mixed-use requirement would reduce a developer's willingness to pay for the right to development additional residential units under these scenarios.

## **TDR Program Implications**

The medium-sized lot shows greater incentive to add additional units. The mixed-use requirement and relatively high development costs of associated basement parking again result in the commercial development offsetting the profits obtained by the housing units.

The analysis shows that without considering the short-falls of the commercial components, a developer would pay more than \$100,000 to develop each of the residential units in the receiving areas, and still meet expectations for entrepreneurial return.

However, in the medium lot scenario, the net gain of five units increases the profitability of all units, including the seven units modeled in the base FAR. Economies of scale per unit of absorbing the basement parking costs would enable a developer to pay more than \$100,000 per unit, even after considering the commercial short-comings as discussed in the small lot scenarios above.

## FEASIBILITY ANALYSIS FINDINGS

**Exhibit 13** below provides a more versatile application of these concepts, illustrating that a developer's willingness to pay for FAR increases as FAR goes up and as the development is more intensely developed for owner-occupied housing.

The exhibit shows three different sizes of mixed-use development (20, 40 and 60 thousand s.f. of revenue-producing space each, requiring from 39,000 to 100,000 of total development with basement parking provided), each suitable for development within the Winslow Tomorrow vision (rows 1 – 4 in **Exhibit 13**). The size options range in building value from \$176 per s.f. of building to \$243, varying primarily on the amount of residential development included in each option (row 14). Building values in this case are based on the total revenue potential of the building divided into the total s.f. of the building.

Total building costs are calculated per s.f. of land, varying by three different FAR scenarios, 1.5, 2.0 and 2.5, allowing the size of the land to vary by FAR and by building size. Therefore, expressing costs in terms of development costs per s.f. of land vary, as well. Expressing costs in terms of s.f. of land illustrates the impacts on costs under different FAR scenarios, ranging from \$250 per s.f. of land to \$460 (rows 20 - 22).

When the revenue-based value of the buildings are compared to development costs, after converting to value per s.f. of land based on FAR, the residual value of the land is shown ranging from \$14 per s.f. up to \$148 per s.f. (rows 23 - 25). Residual land value is simply the willingness to pay for the land based on the revenue potential of the development (development revenue per s.f. of land [row 14] multiplied by FAR, less development costs per s.f. of land [row 20 – 22]). The value difference in moving from on FAR scenario is shown at the bottom, converted to be expressed in terms of s.f. of building. As shown, moving from 1.5 FAR to 2.0 FAR for the smaller building would be valued at \$16 per s.f. (row 26). Moving from 2.0 to 2.5 FAR offers greater value per s.f. of the smaller building at \$20 per s.f. of building (row 27).

The larger buildings derive greater value per s.f. of building moving from one FAR to another, and their value per s.f. increases more greatly moving between the higher FAR ranges as well.

Larger buildings benefit more from FAR increases, and within this 1.5 to 2.5 FAR range (the range of FAR generally under discussion in Bainbridge), the higher the FAR, the more a developer would pay for additional FAR.

The key finding of **Exhibit 13** is that the economic benefits derived from additional FAR are not constant among development opportunities. The value of FAR in the receiving areas will vary considerably based on the scale of the development, the site and market conditions.

**Exhibit 13**  
**Analysis of FAR Values in Receiving Areas**

<b>Development Size Options</b>		<b>Small</b>	<b>Medium</b>	<b>Large</b>
1.	Residential space (s.f.)	10,000	30,000	50,000
2.	Commercial space (s.f.)	10,000	10,000	10,000
3.	Parking (s.f.)	19,000	30,000	40,000
4.	Total	39,000	70,000	100,000
<b>Revenue Potential</b>				
5.	Residential sales (per gross s.f. of building)	\$450	\$450	\$450
6.	Less: fees, promotion and conveyance	3.00%		
7.	Net residential sales revenue (per s.f. of building)	\$437	\$437	\$437
8.	Commercial Lease (per s.f. of building)	\$30	\$30	\$30
9.	Less: commercial maintenance and other costs	(10)	(10)	(10)
10.	Net commercial revenue	\$20	\$20	\$20
<b>Value of Building</b>				
11.	Residential (per s.f. of building)	\$437	\$437	\$437
12.	Commercial cap rate	8.00%		
13.	Commercial component value (per s.f. of building)	250	250	250
14.	Blended value of the building (per s.f. of building)	\$176	\$223	\$243
<b>Less: Development Costs (w/ soft costs and fees)</b>				
<b>Building Development Costs</b>				
15.	Residential (per s.f. of building)	\$250	\$250	\$250
16.	Commercial (per s.f. of building)	200	200	200
17.	Basement parking (per s.f. of parking)	85	85	85
18.	Blended value of the building (per s.f. of building)	\$160	\$170	\$180
<b>Site Development Costs (per s.f. of parcel land)</b>				
19.	Site improvements (per s.f. of land)	\$10	\$10	\$10
<b>Total Development Costs per s.f. of land</b>				
20.	At 1.5 FAR	\$250	\$265	\$280
21.	At 2.0 FAR	330	350	370
22.	At 2.5 FAR	410	435	460
<b>Residual Land Value per s.f.</b>				
23.	At 1.5 FAR	\$14	\$69	\$85
24.	At 2.0 FAR	22	96	117
25.	At 2.5 FAR	30	122	148
<b>Change in Value per s.f. of building</b>				
26.	From 1.5 to 2 FAR	\$16	\$53	\$63
27.	From 2 to 2.5 FAR	20	66	79

Key considerations about development feasibility follow:

- **Sites vary in terms of the marginal net benefits associated with additional FAR.** In most sites, marginal revenue at lease holds steady with additional FAR while marginal costs might go down slightly. In some cases, marginal costs could rise, when heavy equipment is required to achieve greater heights (slopes or other site constraints could contribute). In other cases, such as adding a floor of development that achieves views, marginal revenue can increase.

As reported above (and worth repeating), the key finding of **Exhibit 13** is that the economic benefits derived from additional FAR are not constant among development opportunities. The value of FAR in the receiving areas will vary considerably based on the scale of the development, the site and market conditions.

- **Market demand would likely allow development at higher densities than achieved in Winslow.** Higher densities allow for greater revenue production from fixed land costs. Demand for home ownership will continue to produce condominium prices that will sustain higher densities than have historically been developed in Winslow. The new Opus development illustrates the markets belief in this demand.
- **The development climate on Bainbridge requires the TDR program to work within relatively low density levels in the receiving areas.** The range of density considerations acceptable for application within the receiving areas are relatively low compared to the range of development densities found throughout the urbanized portions of the Puget Sound region. In Winslow and in the Neighborhood Service Areas, the local development climate limits the allowable densities based on local values regarding community character, as well as traffic impacts and other constraints.

In most cases, the TDR program, or other programs to acquire additional FAR, results in taking a building from say two stories up to three or four stories. Regardless of market considerations, in no cases in Bainbridge Island can developers utilize the TDR program to go above four or five stories. This range of densities limits the amount that economies of scale can be achieved in development costs.

The medium-sized lot example shows the going from 2.0 FAR to 2.5 FAR. The typical higher-density developments in Winslow are up to about 1.8 to 2.0 FAR. The constraints identified above have prevented developers from achieving higher densities.

- **Net change in profitability drives TDR values in the receiving areas.** The demand and purchase price of FAR through the TDR program should be determined by the net change in profitability of the entire project, not just the marginal net benefits associated with the incremental activity that comes with additional FAR. In Bainbridge's case, this is particularly important because of the options allowable in providing parking.
- **Absorbing fixed costs drives density values.** If acquiring additional FAR allows the development to accommodate more revenue generating space without incurring some key costs, such as structure parking, then substantial benefits can accrue. Bainbridge's pay-for-parking program allows this in some cases. This is the case in both the small and medium lot case studies, where the structured parking provided in the Base FAR scenarios is transferred from commercial to residential usage, and the commercial parking demand is accommodated on the streets or elsewhere in Bainbridge. (Such a program is an effective method for cities to encourage higher density developments.)
- **The analysis suggests a developer would require a multiplier to buy units from the sending areas to apply to the receiving area.** A one-to-one exchange of units would not interest developers given today's market values and the analysis shown in this report. The receiving area values for additional FAR of \$16 per s.f. to \$79 per s.f., for a 1,000 s.f. dwelling unit in the receiving area, equate to \$16,000 to \$79,000.

Assuming the size might vary in the receiving area, paying \$200,000 for a sending-area unit development right would suggest the need for a multiplier of 3 to 10 in the receiving areas, depending primarily on the size of the development. Much larger multipliers are required in the small development scenarios (10 to 12). Multipliers suggested in the medium and larger development sizes range from 2.5 to 3.8 in these scenarios.

**Mixed-Use Medium Sized Lot with FAR Bonus**

**Income and Expense Information**

**Residential**

Sales Price per S.F.		\$529.41
Unit Price		\$675,000
<b>OR</b>		
Leasable Area		15,300
Market Rental Rate per S.F.	Monthly	\$2.00
	Annual	\$24.00
Monthly Rental Rate per Unit		\$2,550
Market Vacancy and Collection Loss		7.5%
Operating Expense Ratio		38.0%
Dupre + Scott Apartment Investment Report		

**Retail**

Leasable Area		9,000
Market Rental Rate per S.F.		\$30.00
Market Vacancy and Collection Loss		5.0%
Operating Expense Ratio		34.0%

**Mixed-Use, Small Sized Lot with Base FAR**

**Site Suitability Analysis for Mixed-Use Medium Sized**

Site Cost or Value		Remaining Site Value:	\$280,000
<b>Improvement Costs</b>			
Site Improvement Costs		\$56,000	
Hard Costs			
Residential	0		
Retail	420,000		
Parking	381,000		
Total Hard Costs		801,000	
Soft Development Costs		<u>266,000</u>	
			1,123,000
Entrepreneurial Return			<u>631,000</u>
<b>= Total Redevelopment Cost</b>			<b>\$2,034,000</b>
<b>Total Improvement Cost</b>			
Residential Cost per s.f.	0		\$1,754,000
Residential Cost per Unit			\$0
Retail Cost per s.f.	920,000		\$219
Parking Cost per s.f. (structured and surface)	834,000		\$131
<hr/>			
<b>Total Development Costs</b>			\$2,034,000
Construction Financing Costs			210,000
Less: Proceeds from Condo Sales (avg. per unit; total)	#DIV/0!	\$	-
Remaining Principal to Finance			\$2,244,000
x Capitalization Rate			<u>6.0000%</u>
<b>= Minimum NOI</b>			<b>\$135,000</b>
<hr/>			
<b>Gross Revenue from Retail</b>			
Retail		\$119,700	
Total Gross		<u>\$119,700</u>	
(1-Operating Expense Ratio)		<u>70.0%</u>	
Gross Operating Profit from Residential and Retail			\$84,000
Total Gross Operating Profit			\$84,000
Cap Rate			3.74%
Gap (Surplus)			\$51,000
Capitalized Gap (Surplus)			\$393,808
NPV of Net Cash Flows			\$648,626

**Mixed-Use, Small Sized Lot with Base FAR**

**Development Specifications**

Site size in acres or s.f.	7,000
Site size in acres of s.f.	7,000 square feet
Market land values	\$40.00 per square foot
Site value	\$280,000
	7,000 square feet
	7,000 square feet
Net Value of Site	\$280,000

**Residential**

Stories	0	
Per Story (sf)	7,200	
Tower Space		0
Total Gross		0
Efficiency	85%	
Total Net		0
Unit Size	875	
Units	0.0	

**Retail**

Total Gross Area		4,200
Efficiency	100%	
Total Net		4,200

**Parking**

Spaces per Unit	1.0	
Spaces		0
Retail Services sf per Space	250	
Retail Services Spaces		17
Total Spaces Required		17

Basement Parking

Stories	1	
Per Story (sf)	6,350	
Stories		
Per Story (sf)		
Total Structure		6,350
Space Size	350	
Spaces		18

Surface Parking

Total Space (sf)	0	
Space Size (sf)	350	
Spaces		0

Total Spaces		18
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**Mixed-Use, Small Sized Lot with Base FAR**

**Development Costs & Financing**

Total Hard Costs			
Residential Building		\$0	
Retail Portion		\$420,000	
Structured Parking		\$381,000	
Surface Parking		\$0	
Total Hard Costs		<u>\$801,000</u>	
Improvement Costs			
Site Improvement Costs per sq ft of site		\$8.00	
Hard Construction Costs per sq ft of improvement			
Residential		\$110.00	
Retail		\$100.00	
Structured Parking		\$60.00	Basement
Surface Parking		\$5.00	
Soft Costs per sq ft or as proportion of all hard costs		0.31	= proportion of h:
Entrepreneurial Return Requirement			
<u>Enter only one return requirement:</u>			
Percent of Developer's Cash Investment		300%	
Percent of Development Costs		0%	

**Market Value Conversion**

Market Capitalization Rate (OAR)	6.000%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%

**Current Property Value Assumptions**

Parcel Size (s.f.)	128,943		
Retail GLA (s.f.)	30,000		
Occupancy Rate	95%		
Gross Revenues (per s.f. and total)	\$25.00	713,000	
Operating Costs (% of gross revenues; total)	30%	<u>(214,000)</u>	
Net Revenues		499,000	
Capitalized Net Revenue (Discount Rate; Value)	6.500%		<u>\$7,677,000</u>
<b>Income Valuation (theoretical)</b>			<b>\$7,677,000</b>
<b>Value per s.f. of land</b>			<b>\$60</b>

**Mixed-Use, Small Sized Lot with Base FAR**

**Income and Expense Information**

**Residential**

Sales Price per S.F. \$550.00

**OR**

Leasable Area 0

Market Rental Rate per S.F. Monthly \$2.00

Annual \$24.00

Monthly Rental Rate per Unit \$1,750

Market Vacancy and Collection Loss 7.5%

Operating Expense Ratio 38.0%

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**Retail**

Leasable Area 4,200

Market Rental Rate per S.F. \$30.00

Market Vacancy and Collection Loss 5.0%

Operating Expense Ratio 30.0%

**Mixed-Use, Small Sized Lot with Bonus  
FAR**

**Site Suitability Analysis for Mixed-Use Small Sized**

Site Cost or Value		Remaining Site Value:	\$280,000
Improvement Costs			
Site Improvement Costs		\$56,000	
Hard Costs			
Residential	770,000		
Retail	350,000		
Parking	381,000		
Total Hard Costs		1,501,000	
Soft Development Costs		<u>483,000</u>	
			2,040,000
Entrepreneurial Return			<u>1,044,000</u>
<b>= Total Redevelopment Cost</b>			<b>\$3,364,000</b>
Total Improvement Cost			
			\$3,084,000
Residential Cost per s.f.	1,582,000		\$226
Residential Cost per Unit			\$316,400
Retail Cost per s.f.	719,000		\$205
Parking Cost per s.f. (structured and surface)	783,000		\$123
<hr/>			
<b>Total Development Costs</b>			<b>\$3,364,000</b>
Gross Sales Revenue			
		2,875,000	
Less: Fees, Promotion, Conveyance	2.65%	76,188	
Net Residential Revenue			2,798,800
Residential Total Costs		1,961,000	
Entrepreneurial Return Requirement		608,600	
<b>Surplus Cash Flow from Residential</b>			<b>\$229,200</b>
Surplus Cash Flow per Unit			\$45,840
NPV (5% Discount, 2 years) of Surplus Cash Flow per Unit			\$41,600
NPV of Surplus Cash per s.f. (gross s.f., including commons)			\$30.00
Total Net Cash Flow			\$837,800
NPV of Net Cash Flow			\$759,900
Loan-to-Cost	75%		
Equity Investment (Residential Portion only)		\$490,253	
Return on Investment (ROI; Residential Portion Only)			155%
Commercial Development Costs			\$1,402,989
x Capitalization Rate			<u>6.0000%</u>
<b>= Minimum NOI</b>			<b>\$84,000</b>
Gross Revenue from Retail			
Retail		\$99,750	
Total Gross		<u>\$99,750</u>	
(1-Operating Expense Ratio)		66.0%	
Gross Operating Profit from Residential and Retail			\$66,000
<b>Total Gross Operating Profit</b>			<b>\$66,000</b>
Cap Rate on Residential			4.70%
Gap (Surplus)			<b>\$18,000</b>
Capitalized Gap (Surplus)			<b>\$138,991</b>

**Mixed-Use, Small Sized Lot with Bonus  
FAR**

**Development Specifications**

Site size in acres or s.f.	7,000
Site size in acres of s.f.	7,000 square feet
Market land values	\$40.00 per square foot
Site value	\$280,000
	7,000 square feet
Net Value of Site	\$280,000

**Residential**

Stories	2	
Per Story (sf)	3,500	
Tower Space		7,000
Total Gross		<u>7,000</u>
Efficiency	85%	
Total Net		5,950
Unit Size (Gross)	1,400	
Unit Size (Net)	1,190	
Units	5	

**Retail**

Total Gross Area		3,500
Efficiency	100%	
Total Net		3,500

**Parking**

Spaces per Unit	1.0	
Spaces		5
Retail Services sf per Space	250	
Retail Services Spaces		14
Total Spaces Required		<u>19</u>

Basement Parking

Stories	1	
Per Story (sf)	6,350	
Stories		
Per Story (sf)		
Total Structure		6,350
Space Size	350	
Spaces		18

Surface Parking

Total Space (sf)	0	
Space Size (sf)	350	
Spaces		0

Total Spaces		<u>18</u>
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**Mixed-Use, Small Sized Lot with Bonus  
FAR**

**Development Costs & Financing**

Total Hard Costs			
Residential Building		\$770,000	
Retail Portion		\$350,000	
Structured Parking		\$381,000	
Surface Parking		\$0	
Total Hard Costs		<u>\$1,501,000</u>	
Improvement Costs			
Site Improvement Costs per sq ft of site		\$8.00	
Hard Construction Costs per sq ft of improvement			
Residential		\$110.00	
Retail		\$100.00	
Structured Parking		\$60.00	Basement
Surface Parking		\$5.00	
Soft Costs per sq ft or as proportion of all hard costs		0.31	= proportion of h:
Entrepreneurial Return Requirement			
<u>Enter only one return requirement:</u>			
Percent of Developer's Cash Investment		300%	
Percent of Development Costs		0%	

**Market Value Conversion**

Market Capitalization Rate (OAR)	6.000%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%

**Current Property Value Assumptions**

Parcel Size (s.f.)	128,943		
Retail GLA (s.f.)	30,000		
Occupancy Rate	95%		
Gross Revenues (per s.f. and total)	\$25.00	713,000	
Operating Costs (% of gross revenues; total)	30%	<u>(214,000)</u>	
Net Revenues		499,000	
Capitalized Net Revenue (Discount Rate; Value)	6.500%		<u>\$7,677,000</u>
<b>Income Valuation (theoretical)</b>			<b>\$7,677,000</b>
<b>Value per s.f. of land</b>			<b>\$60</b>

**Mixed-Use, Small Sized Lot with Bonus  
FAR**

**Income and Expense Information**

**Residential**

Sales Price per S.F.		\$483
		\$575,000
<b>OR</b>		
Leasable Area		5,950
Market Rental Rate per S.F.	Monthly	\$2.00
	Annual	\$24.00
Monthly Rental Rate per Unit		\$2,380
Market Vacancy and Collection Loss		7.5%
Operating Expense Ratio		38.0%
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**Retail**

Leasable Area		3,500
Market Rental Rate per S.F.		\$30.00
Market Vacancy and Collection Loss		5.0%
Operating Expense Ratio		34.0%

*Mixed-Use, Medium Sized Lot with Base FAR*

Site Suitability Analysis for Mixed-Use Medium Sized		
Site Cost or Value	Remaining Site Value:	\$720,000
Improvement Costs		
Site Improvement Costs		\$144,000
Hard Costs		
Residential	792,000	
Retail	1,080,000	
Parking	1,044,000	
Total Hard Costs	2,916,000	
Soft Development Costs	949,000	
		4,009,000
Entrepreneurial Return		2,128,000
<b>= Total Redevelopment Cost</b>		<b>\$6,857,000</b>
Total Improvement Cost		
Residential Cost per s.f.	1,667,000	\$6,137,000
Residential Cost per Unit		\$232
Retail Cost per s.f.	2,273,000	\$238,337
Parking Cost per s.f. (structured and surface)	2,197,000	\$210
		\$126
<b>Total Development Costs</b>		
		<b>\$6,857,000</b>
Gross Residential Sales Revenue	3,322,286	
Less: Fees, Promotion, Conveyance	2.65% 88,041	
Net Residential Revenue		3,234,245
Residential Total Costs	\$2,208,215	
Entrepreneurial Return Requirement	685,297	
<b>Surplus Cash Flow from Residential</b>		<b>\$340,733</b>
Surplus Cash Flow per Unit		\$48,716
NPV (5% Discount, 2 years) of Surplus Cash Flow per Unit		44,200
NPV of Surplus Cash per s.f. (gross s.f., including commons)		42.94
Total Net Cash Flow		734,013
NPV of Net Cash Flow		\$665,800
Loan-to-Cost	75%	
Equity Investment (Residential Portion only)	\$552,054	
Return on Investment (ROI; Residential Portion Only)		121%
Commercial Development Costs		\$4,648,785
Capitalization Rate		6.0000%
<b>Minimum NOI</b>		<b>\$279,000</b>
Gross Revenue from Retail		
x Retail	\$307,800	
= Total Gross	\$307,800	
(1-Operating Expense Ratio)	66.0%	
Gross Operating Profit from Residential and Retail		\$203,000
<b>Total Gross Operating Profit</b>		<b>\$203,000</b>
<b>Cap Rate</b>		<b>4.37%</b>
<b>Gap (Surplus)</b>		<b>\$76,000</b>
<b>Capitalized Gap (Surplus)</b>		<b>\$586,852</b>
<b>Feasibility Screen: NO, Commercial NOI does not exceed required NOI at market rates</b>		

Mixed-Use, Medium Sized Lot with Base FAR

Development Specifications				
Site size in acres or s.f.	18,000			
Site size in acres of s.f.	18,000	square feet		
Market land values	\$40.00	per square foot		
Site value	\$720,000			
	18,000	square feet		
Net Value of Site	\$720,000	square feet	0.41	
<b>Residential</b>				
Stories	1			
Per Story (sf)	7,200			
Tower Space		7,200		
Total Gross		7,200		
Efficiency	85%			
Total Net		6,120		
Unit Size (Gross)	1,029			
Unit Size (Net)	875			
Units	7.0			
<b>Retail</b>				
Total Gross Area		10,800		
Efficiency	100%			
Total Net		10,800		
<b>Parking</b>				
Spaces per Unit	1.0			
Spaces		7		
Retail Services sf per Space	250			
Retail Services Spaces		43		
Total Spaces Required		50		
<b>Basement Parking</b>				
Stories	1			
Per Story (sf)	17,400		12	4200
Stories				
Per Story (sf)				
Total Structure		17,400		
Space Size	350			
Spaces		50		
<b>Surface Parking</b>				
Total Space (sf)	0			58800
Space Size (sf)	350			
Spaces		0		
Total Spaces		50		
			@ 300 sf per space	
			0	
Development Capacity (spaces)		50		
<b>Total Gross Area, Excl. Parking</b>		<b>18,000</b>		
<b>Total Gross Area, Including Structured Parking</b>		<b>35,400</b>		
<b>Total Development</b>				
Building Gross Area (excl parking)	18,000			
Structured Parking Gross	17,400			
Surface Parking	0			
<b>Land Area in Excess of Footprint</b>				
Floor-to-Area Ratio	200%			
Excluding Parking		1.00		
With Parking		1.97		
<b>Estimated Footprint (for land price allocation by use)</b>				
Residential		7,200		
Community Services		10,800		
Residential & Community Services		18,000		
<b>Parking</b>				
Parking		17,400		
Residential Parking Share		17,570		
Commercial Parking Share		-170		
<b>Percentage of land devoted</b>				
Residential & Community Services		100%		
Commercial Parking		0%		

**Mixed-Use, Medium Sized Lot with Base FAR**

**Development Costs & Financing**

Total Hard Costs			
Residential Building		\$792,000	
Retail Portion		\$1,080,000	
Structured Parking		\$1,044,000	
Surface Parking		\$0	
Total Hard Costs		<u>\$2,916,000</u>	
Improvement Costs			
Site Improvement Costs per sq ft of site		\$8.00	
Hard Construction Costs per sq ft of improvement			
Residential		\$110.00	
Retail		\$100.00	
Structured Parking		\$60.00	Basement
Surface Parking		\$5.00	
Soft Costs per sq ft or as proportion of all hard costs		0.31	= proportion of h:
Entrepreneurial Return Requirement			
<u>Enter only one return requirement:</u>			
Percent of Developer's Cash Investment		300%	
Percent of Development Costs		0%	

**Market Value Conversion**

Market Capitalization Rate (OAR)	6.000%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%

**Current Property Value Assumptions**

Parcel Size (s.f.)	128,943		
Retail GLA (s.f.)	30,000		
Occupancy Rate	95%		
Gross Revenues (per s.f. and total)	\$25.00	713,000	
Operating Costs (% of gross revenues; total)	30%	<u>(214,000)</u>	
Net Revenues		499,000	
Capitalized Net Revenue (Discount Rate; Value)	6.500%		<u>\$7,677,000</u>
<b>Income Valuation (theoretical)</b>			<b>\$7,677,000</b>
<b>Value per s.f. of land</b>			<b>\$60</b>

**Mixed-Use, Medium Sized Lot with Base FAR**

**Income and Expense Information**

**Residential**

Sales Price per S.F.	\$542.86
Sales Price per Unit	\$475,000

**OR**

Leasable Area	6,120
Market Rental Rate per S.F.	Monthly \$2.00
	Annual \$24.00
Monthly Rental Rate per Unit	\$1,750
Market Vacancy and Collection Loss	7.5%
Operating Expense Ratio	38.0%

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**Retail**

Leasable Area	10,800
Market Rental Rate per S.F.	\$30.00
Market Vacancy and Collection Loss	5.0%
Operating Expense Ratio	34.0%

**Mixed-Use Medium Sized Lot with FAR Bonus**

**Site Suitability Analysis for Mixed-Use Medium Lot w TDR Bonus**

Site Cost or Value		Remaining Site Value:	\$720,000
<b>Improvement Costs</b>			
Site Improvement Costs		\$144,000	
Hard Costs			
Residential	1,980,000		
Retail	900,000		
Parking	1,044,000		
Total Hard Costs		3,924,000	
Soft Development Costs		<u>1,261,000</u>	
			5,329,000
Entrepreneurial Return			<u>2,722,000</u>
<b>= Total Redevelopment Cost</b>			<b>\$8,771,000</b>
<b>Total Improvement Cost</b>			
Residential Cost per s.f.	4,062,000		\$8,051,000
Residential Cost per Unit			\$226
Retail Cost per s.f.	1,847,000		\$338,500
Parking Cost per s.f. (structured and surface)	2,142,000		\$205
			\$123
<hr/>			
<b>Total Development Costs</b>			<b>\$8,771,000</b>
Gross Residential Sales Revenue		8,100,000	
Less: Fees, Promotion, Conveyance	2.65%	<u>214,650</u>	
Net Residential Revenue			7,885,350
Residential Total Costs		\$4,988,537	
Entrepreneurial Return Requirement		<u>1,548,147</u>	
<b>Surplus Cash Flow from Residential</b>			1,348,666
Surplus Cash Flow per Unit			\$112,389
NPV (5% Discount, 2 years) of Surplus Cash Flow per Unit			\$101,900
NPV of Surplus Cash per s.f. (gross s.f., including commons)			\$67.93
			<b>1222800</b>
Commerical Development Costs			\$3,782,463
x Capitalization Rate			<u>6.000%</u>
<b>= Minimum NOI</b>			<b>226,948</b>
Gross Revenue from Retail			
Retail		<u>\$256,500</u>	
Total Gross		\$256,500	
(1-Operating Expense Ratio)		<u>66.0%</u>	
Gross Operating Profit from Residential and Retail			\$169,000
Total Gross Operating Profit from Retail			\$169,000
Cap Rate			4.47%
<b>Gap (Surplus)</b>			<b>\$57,948</b>
<b>Capitalized Gap (Surplus)</b>			<b>\$447,457</b>
<b>Feasibility Screen:</b>	<b>NO, NOI does not exceed required NOI at market rates</b>		

**Mixed-Use Medium Sized Lot with FAR Bonus**

**Development Specifications**

Site size in acres or s.f.	18,000
Site size in acres of s.f.	18,000 square feet
Market land values	\$40.00 per square foot
Site value	\$720,000
	18,000 square feet
Net Value of Site	\$720,000

**Residential**

Stories	2	
Per Story (sf)	9,000	
Tower Space		18,000
Total Gross		<u>18,000</u>
Efficiency	85%	
Total Net		15,300
Unit Size (Gross)	1,500	
Unit Size (Net)	1,275	
Units	12	

**Retail**

Total Gross Area		9,000
Efficiency	100%	
Total Net		9,000

**Parking**

Spaces per Unit	1.0	
Spaces		12
Retail Services sf per Space	250	
Retail Services Spaces		36
Total Spaces Required		<u>48</u>

Basement Parking

Stories	1	
Per Story (sf)	17,400	
Stories		
Per Story (sf)		
Total Structure		17,400
Space Size	350	
Spaces		50

Surface Parking

Total Space (sf)	0	
Space Size (sf)	350	
Spaces		0

Total Spaces		<u>50</u>
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**Mixed-Use Medium Sized Lot with FAR Bonus**

**Development Costs & Financing**

Total Hard Costs			
Residential Building		\$1,980,000	
Retail Portion		\$900,000	
Structured Parking		\$1,044,000	
Surface Parking		\$0	
Total Hard Costs		<u>\$3,924,000</u>	
Improvement Costs			
Site Improvement Costs per sq ft of site		\$8.00	
Hard Construction Costs per sq ft of improvement			
Residential		\$110.00	
Retail		\$100.00	
Structured Parking		\$60.00	Basement
Surface Parking		\$5.00	
Soft Costs per sq ft or as proportion of all hard costs		0.31	= proportion of h:
Entrepreneurial Return Requirement			
<u>Enter only one return requirement:</u>			
Percent of Developer's Cash Investment		300%	
Percent of Development Costs		0%	

**Market Value Conversion**

Market Capitalization Rate (OAR)	6.000%
Debt Financing	
Maximum Loan-to-Cost Ratio	85%

**Current Property Value Assumptions**

Parcel Size (s.f.)	128,943		
Retail GLA (s.f.)	30,000		
Occupancy Rate	95%		
Gross Revenues (per s.f. and total)	\$25.00	713,000	
Operating Costs (% of gross revenues; total)	30%	<u>(214,000)</u>	
Net Revenues		499,000	
Capitalized Net Revenue (Discount Rate; Value)	6.500%		<u>\$7,677,000</u>
<b>Income Valuation (theoretical)</b>			<b>\$7,677,000</b>
<b>Value per s.f. of land</b>			<b>\$60</b>

## Appendix D

# Identified Program Issues

This section includes a discussion of the issues associated with Bainbridge Island's existing TDR program goals

### Preserve Wetlands and Recharge Areas

Protection of select environmentally sensitive areas is a laudable goal of Bainbridge Island's TDR program. However, since the TDR program's inception in 1996, several factors have emerged that limit the program's effectiveness at meeting this objective:

- The wetlands and recharge areas identified in 1996 are not likely an accurate inventory of these areas today. A "Critical Area Overlay" (not related to the City's Critical Area Ordinance) was established to identify wetlands and recharge areas eligible to participate in the TDR program. This overlay does not appear to accurately identify wetlands and high recharge areas on the island.
- There are more effective protection measures in place today. The City's Critical Areas chapter of the Municipal Code limits impacts on environmentally sensitive areas, including wetlands and their protected buffers and aquifer recharge areas. In addition, the chapter protects frequently flooded areas, geologically hazardous areas, and streams with protected buffers.
  - Regarding wetlands, the code limits development in wetlands and the protected buffer zones but allows property owners to transfer lost development right(s)—or portions of these rights—to unencumbered portions of the site. The Critical Areas chapter addresses streams and stream buffers similarly.
  - Regarding high-vulnerability recharge areas, the ordinance stipulates that developers of these areas must study and mitigate impacts the proposed land use will have on both the quality and quantity of water transmitted to the aquifer. As this does not directly limit ability to develop; it is difficult to quantify how this may affect development rights on any particular site. Further, transferring development rights out of recharge zones may not be aligned with Comprehensive Plan and Winslow Tomorrow efforts. (The Water Resource Element of the Comprehensive Plan indicates that high recharge areas are located within Winslow).

### Preserve Agricultural / Farm Land

Protecting agricultural and farm land on Bainbridge Island is currently identified as a primary objective of the TDR program. However, two basic issues affect the program's ability to effectively meet this goal.

- Thirty percent of farm or agricultural parcels are too small to contain development rights to sell.
- It is difficult to ensure farmland remains as such. Though a bonus (the ability to sell the market equivalent of three development rights for each actual development right) is offered in exchange for maintaining agricultural use on the land, no one has taken advantage of this incentive.

Additionally, 60 percent of the funds generated by the City's existing program that allows developers to purchase additional FAR (discussed in more detail in the Findings and Recommendations sections) are used to purchase farmland and open space or the associated development rights. The City has acquired six agricultural parcels thus far, and the sale of FAR is seen by many stakeholders as a more effective, efficient means of protection than the existing TDR Program can provide.

## Preserve Open Space

There are several issues associated with the program's goal of protecting open space. These include:

- Open space sending areas are not specifically identified; there is no clarification of how open space differs from agricultural space or critical areas.
- Open space is protected traditionally as a community asset, either visible or accessible to the public. However, under the TDR program, development rights are sold while the land remains in private ownership. Further, open space protected through development right transfer is not located or sized to maximize public benefit. The program does not target specific parcels in an organized way to create a visible open space network.

Additionally, using funds from a recent Open Space Bond, the Open Space Commission has successfully purchased and preserved 238 acres of open space on priority parcels. It has been reported that many of these purchases were at less than market values. Many stakeholders consider this method of targeting open space purchase with bond funds to maximize public benefit a more effective way to preserve open space.



*Figure D-1. The Open Space Commission has preserved high-priority open space parcels by purchasing the land with funds from an Open Space Bond.*

## Target Growth toward Receiving Areas

Bainbridge Island's TDR program identifies the Mixed-Use Town Center (MUTC), High School Road (HSR), and Neighborhood Service Center (NSC) zones and the Single Family Residential-8 (SF R-8) Overlay District as receiving areas, implicitly targeting increased density and growth toward these zones. These areas are set up with base allowed densities and increased, or bonus, densities through direct purchase of TDRs or through the inclusion of targeted amenities (discussed further below). Given the strong demand for residential, commercial, and office growth on the island, this bonus density allowed with purchased development rights should create demand for TDRs. However, the following issues constrain this dynamic:

- Current parking and FAR requirements limit project size, even on the relatively ideal configurations assumed in the feasibility analysis. This removes the incentive to purchase TDRs.
- There are several easier methods to obtain the ability to build to bonus densities, including providing ferry terminal parking, community open space, and affordable housing. Developers may also purchase from the City the ability to develop additional square footage up to the allowed bonus FAR. Square footage is sold at current rates ranging from \$18 to \$32 per square foot, depending on the use.
- The City is considering reducing parking requirements and increasing the bonus FAR allowed in the Mixed Use Town Center Core. This is part of an ongoing effort to implement recommendations from Winslow Tomorrow, a recently completed planning effort focused on establishing a vision for downtown Winslow.
- There are more effective programs that target growth while allocating resources to community priorities. The City allocates sixty percent of the revenue earned from the purchase of additional FAR toward the purchase of open space and farmland or associated development rights and forty percent toward community priorities; namely, downtown amenities.
- Availability of utilities in some receiving areas, such as the NSCs, also constrains the level of development that these areas can support without incurring significant development costs.

### Allocation of Growth

During the development of program review recommendations, the team considered re-focusing the program to assist with implementing overall population allocation goals by designating *all* zones outside receiving areas as eligible sending areas. However, several associated issues were identified, including:

- Designating all areas as sending areas would allow a greater number of land owners, including those with no intention to develop, to sell development rights for personal gain with limited community benefit.
- The designated receiving areas could not accommodate the substantial increase in the number of transferable development rights.
- Such a large sending area would inhibit the program's ability to achieve specific goals; rights would likely be transferred from scattered lots throughout the island, diluting the program's impact.



## Appendix E

# Bainbridge Island TDR Program Review Survey Results

Participants at a public open house filled out a survey rating preliminary recommendations to improve Bainbridge Islands TDR program. The following sheet summarizes survey results. The number next to the Rating (Good Idea, Neutral, Bad Idea) indicates the number of votes the rating received. Written comments from open house attendees are summarized in the Comments column.

	Rating	Comments
<b>Overarching DRAFT Recommendations</b>		
<i>Simplify Program</i>		
Streamline language & description	15 Good Idea 1 Neutral Bad Idea	<ul style="list-style-type: none"> <li>Important to show sending areas this may be used to target and measure outcomes.</li> </ul>
Set up a bank to manage transactions	14 Good Idea 1 Neutral 1 Bad Idea	<ul style="list-style-type: none"> <li>Important, as this will facilitate purchase/transfer/ extinguishment of PDR.</li> <li>I see this and the following two items as being together.</li> <li>Should be open market once the ratios are set.</li> <li>Okay if open market transactions allowed.</li> <li>Hard to convince Council to tie up any funds in a bank.</li> </ul>
Allocate city staff or contractor to manage	10 Good Idea 3 Neutral 2 Bad Idea	<ul style="list-style-type: none"> <li>(Circled "contractor" and wrote "yes.")</li> <li>No City staff; use a contractor.</li> <li>City staff, then re-evaluate later based on demand.</li> </ul>
Market the program / develop informational brochure	15 Good Idea 1 Neutral Bad Idea	<ul style="list-style-type: none"> <li>Essential, if you are to bring the developers on board.</li> <li>Very important.</li> </ul>
Set value of development right to harness market forces (review annually)	12 Good Idea 2 Neutral 1 Bad Idea	<ul style="list-style-type: none"> <li>Let the buyer and seller determine the value; use ratio to make it good for both (i.e., 1:4).</li> <li>Value set by appraiser; adjust.</li> </ul>
Consider allowing purchase of DR to replace TDR program	6 Good Idea 6 Neutral 3 Bad Idea	<ul style="list-style-type: none"> <li>Not sure. I think we need a way to reduce development pressure on outlying areas in a <u>significant</u> way, and I think there would be too many other demands (i.e., in Winslow) for the money.</li> <li>Eliminate FARs. (2 responses)</li> <li>Very bad.</li> <li>Both programs have value, depending on circumstances. Do both.</li> <li>How much money has been/would be in this bank?</li> </ul>
<b>Draft Recommendations for Preservation of Wetlands and Recharge Zones</b>		
Refocus program to compensate owners who can't develop	1 Good Idea 8 Neutral 6 Bad Idea	<ul style="list-style-type: none"> <li>No, but I would support compensating owners who could but maybe should not.</li> <li>Need more info.</li> <li>Should not compensate owners of undevelopable land. Compensate only for limit of allowable development.</li> </ul>

	Rating	Comments
		<ul style="list-style-type: none"> <li>• Only if the DR is removed from the compensated parcel.</li> </ul>
Refocus program to provide an economic incentive to transfer development rights to targeted sending areas rather than cluster development on their lot	9 Good Idea 5 Neutral Bad Idea	<ul style="list-style-type: none"> <li>• Need more info.</li> <li>• Not sure I understand.</li> <li>• Very tricky, not impossible.</li> </ul>
<b>Draft Recommendations for Preservation of Agricultural and Farm Land</b>		
Aggressively market program to qualifying sending area land owners	16 Good Idea Neutral Bad Idea	
Support efforts of non-profits and other agencies to preserve small farms	12 Good Idea 4 Neutral Bad Idea	
Reassess the existing 3 to 1 bonus	9 Good Idea 6 Neutral Bad Idea	<ul style="list-style-type: none"> <li>• Need more info, more discussion.</li> <li>• Needs to be higher ratio: 6-1.</li> <li>• Right now, the bonus is limited to Farmland Trust.</li> <li>• Extinguish DR.</li> </ul>
<b>Draft Recommendations for Preservation of Open Space</b>		
Coordinate with the Parks District and Open Space Committee to determine TDR role in island-wide open space plan	12 Good Idea 2 Neutral 1 Bad Idea	<ul style="list-style-type: none"> <li>• Yes!</li> </ul>
Consider public benefit criteria when identifying open space protection areas	10 Good Idea 3 Neutral 1 Bad Idea	<ul style="list-style-type: none"> <li>• But “public benefit” needs to include wildlife.</li> <li>• Any open space is good open space.</li> <li>• Provokes down-zone fear.</li> </ul>
<b>Draft Recommendations for Targeting Growth in Receiving Zones</b>		
<b><i>Remove Disincentives to Participate</i></b>		
Allow <b>additional</b> density bonus in Winslow and other targeted areas	9 Good Idea 4 Neutral Bad Idea	<ul style="list-style-type: none"> <li>• Maybe.</li> <li>• Depends</li> <li>• Yes!</li> <li>• Additional <u>only</u> through TDR?</li> </ul>
Reduce parking requirements to stimulate demand for additional FAR	5 Good Idea 7 Neutral 2 Bad Idea	<ul style="list-style-type: none"> <li>• Parking is already a problem.</li> <li>• Yes!</li> </ul>
Consider removing easier methods to obtain additional FAR	9 Good Idea 3 Neutral Bad Idea	<ul style="list-style-type: none"> <li>• Yes!</li> <li>• Coordinate with Winslow Tomorrow on <u>new</u> incentive plan which gives priority to affordable housing.</li> <li>• Good luck!</li> </ul>
Structure PDR / TDR program as the only way to reach maximum envelope	8 Good Idea 4 Neutral Bad Idea	<ul style="list-style-type: none"> <li>• Yes!</li> <li>• Coordinate with Winslow Tomorrow on <u>new</u> incentive plan which gives priority to affordable housing.</li> <li>• NSC properties are currently seeking Comp. Plan amendments for up-zones. Shouldn't allow up-zones unless all additional density comes from PDR.</li> <li>• Affordable housing should also be considered.</li> </ul>

	Rating	Comments
<b>Additional Draft Recommendation</b>		
<p><i>Re-assess program targets:</i> Rank the program goals below in order of importance (1= highest, 5=lowest) by circling the corresponding number *</p>	5	<ul style="list-style-type: none"> <li>• Comp. Plan's goal is to put 50% growth in Winslow and 5% in NSC. The Comp. Plan says TDRs are how this will happen.</li> </ul>
<ul style="list-style-type: none"> <li>• Protect farm and agricultural land</li> </ul>	1.6	
<ul style="list-style-type: none"> <li>• Protect critical areas (in addition to ranking the importance of critical areas at right, check the type of critical area that you feel the program should focus on (<i>the number below indicates the total number of votes each critical area element received</i>) <ul style="list-style-type: none"> <li>- Wetlands 4</li> <li>- Recharge areas 6</li> <li>- Streams 3</li> </ul> </li> </ul>	2.1	<ul style="list-style-type: none"> <li>• (Note beside "Recharge areas") I think development rules should do this.</li> <li>• Add shorelines to the list. What about fish and wildlife habitat, geologic hazard areas, etc.?</li> <li>• Some property rights enthusiasts would like to see development rights assigned to small portion of a lot, including wetland buffers. Not a sound idea in my opinion.</li> </ul>
<ul style="list-style-type: none"> <li>• Parcels adjacent to critical areas</li> </ul>	2.2	<ul style="list-style-type: none"> <li>• Buffers?</li> </ul>
<ul style="list-style-type: none"> <li>• Preserve open space</li> </ul>	2.2	
<ul style="list-style-type: none"> <li>• Use program to protect historic /significant buildings or districts</li> </ul>	2.9	

\* The number included in the rating column in the is section is an average of the number rating circled by participants

### Other Recommendations / Ideas

- Very confusing when you use FAR early in the discussion without explaining that it is different from TDR. Must have more clarification on this. Make it clear from the beginning that TDR and PDR programs extinguish the development right in the sending area.
- Affordable housing is a priority one.
- Align natural resource protection needs with this and other planning efforts. These efforts should run concurrently. Use current critical area data. The critical area overlay used for this analysis is outdated. Your assumptions about the CAO protecting wetlands and other critical areas are incorrect.
- Pencil out example for public. Establish data base ASAP on TDR transactions, establishing values of TDRs for appraisers and assessor's office usage.

