HEARTLAND

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DATE: July 22, 2013

RE: Skagit County TDR Economic and Market Analysis Findings - DRAFT

SUMMARY OF FINDINGS

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

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

BAYVIEW RIDGE CRA

- **Residential:** In the baseline scenario, the Bayview Ridge CRA is expected to have adequate residential capacity to meet anticipated demand through 2033. In our most aggressive scenario, the Bayview Ridge CRA meets its residential capacity in 2023. Most of this growth will occur in the relatively dense Bayview Ridge Residential ("BR-R") zone, while the Bayview Ridge Urban Reserve ("BR-UR") zone is assumed to remain a low-density zone. These findings suggest that there may be an opportunity to implement a TDR program that allows developers to achieve increased density in the BR-UR zone by purchasing TDR credits.

- **Commercial:** In the baseline scenario, the Bayview Ridge CRA has adequate heavy industrial "(BR-HI") capacity until 2046 and light industrial capacity until beyond 2060. Even in Heartlands most aggressive scenario, the area does not meet capacity until 2039 for heavy industrial uses and 2055 for light industrial uses. Additionally, current zoning does not have density limits for commercial development that are conducive of a TDR program. Therefore, Phase II findings do not support further analysis of the Bayview Ridge CRA for a commercial TDR program.

BURLINGTON CRA

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

RURAL UPZONE CRA

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

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

Burlington CRA: Buildable Acres and Demand Projections[1]

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

Bayview Ridge CRA: Buildable Acres and Demand Projections

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

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

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

CRA Capacity Modeling: Year Capacity is Met

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

- The Aggressive Scenario contains residential growth assumptions that are in-line with historical annual growth in the County. The Washington State Office of Financial Management ("OFM") currently projects the County's future growth to be substantially lower than what the county has seen in the past.

- While the Burlington CRA and Bayview Ridge Residential CRA both have Aggressive Scenarios that indicate capacity will be reached within a mid-term planning horizon, the Bayview Ridge commercial CRA does not face near to mid-term capacity constraints and is unlikely to be source for TDR credit utilization.
    - These calculations are based on historical delivery of commercial square footage in Bayview Ridge and do not incorporate the potential for future capture of excess County demand for commercial land.
        - In order to better understand the reasonableness of the commercial projection it is advised that an analysis be undertaken which looks at the CRA's potential capture of future demand relative to the County's overall demand projections.
    - Under Heartland's parameters, annual commercial demand would need to increase to approximately 2 times historical levels for the Bayview Ridge commercial CRA to face heavy industrial capacity constraint by 2030 and over 3 times to face a light industrial capacity constraint by 2030.

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

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

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

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

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

- The 15% (residential) and 30% (commercial) "Fee as Percent of Value" is a figure that TLA/Mundy determined to be appropriate for a density bonus program. This assumption has a large impact on the ultimate exchange ratio and therefore will need to be further analyzed in Phase III.
- Heartland reviewed two appraisals by John Suttles and the TLA/Mundy report for an indication of sending site value for Ag-NRL land. Heartland believes that Suttles' determination of sending site value at between $85,000 to $100,000 range to be the most up-to-date and useful data point.

- Using these data points, the exchange rate necessary to align a landowner's ability to pay for urban residential development rights with the value of extinguished rural development rights is very high and not compatible with a program where the goal is large-scale conservation of rural lands. However, as noted later in this memo, we believe there are instances where exchange ratios would likely be more favorable, including when evaluating sending site values for timber lands.

BAYVIEW RIDGE CRA DETAILED ANALYSIS

RESIDENTIAL

1. **Macro-Capacity Growth Projections (Task 2.1)**
   a. **Methodology**
      - Heartland used the OFM's 2012 projections for 2015 through 2040 in this analysis. Heartland extrapolated the OFM projections to 2060 using Mark Personius' methodology (Envision Skagit Report Update). The OFM "Medium Series" was used as the baseline assumption in Heartland's Moderate Scenario. The methodology that Skagit County used in its 2007 Comprehensive Plan population projections, which essentially averaged the Low and Medium Series estimates, was used in Heartland's Conservative Scenario, while the OFM High series was used for the Aggressive Scenario.
      - Allocation of growth to the Bayview Ridge CRA: Heartland assumed that the allocation of growth to Bayview Ridge would be consistent with the growth allocation used to develop the 2025 population projections used in the 2007 Skagit County Comprehensive Plan. Bayview Ridge was expected to capture close to **8.5% of the County's total growth**.
      - To determine expected population for the CRAs, Heartland applied these allocations to the most recent 2012 OFM projections. To convert the population projection to a residential unit demand projection we used the OFM's current people per household figure for Bayview Ridge of **2.4 people per household**.

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

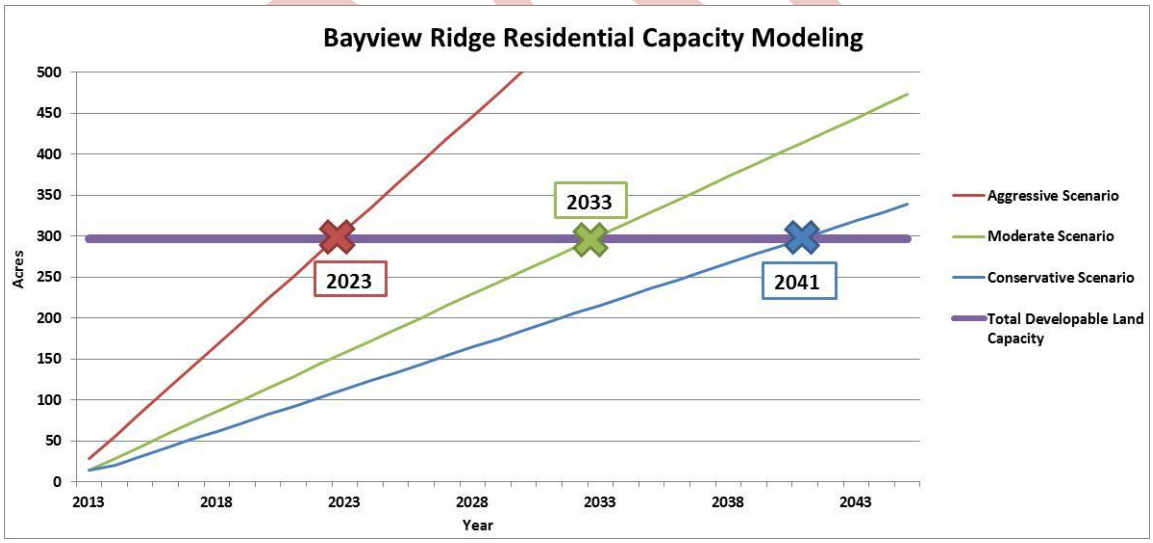
2. **Macro-Capacity Land Supply Analysis (Task 2.2)**
   a. **Methodology** - Heartland relied on buildable land capacity inputs provided by the County for the Bayview Ridge CRA. These estimates were originally made for the Bayview Ridge Sub-Area Plan (SAP) in 2008 and were updated for this analysis.

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

Bayview Ridge Buildable Lands Table (in Acres)				
Zone	**Developable per 2008 SAP**	**Developed 2008-2013**	**Remaining Developable**	**Buildable**
Bayview Ridge Residential	297	Minimal	297	**297**
Bayview Ridge Urban Reserve	230	Minimal	230	**230**
			Total	**527**

3. **Macro-Capacity Bonus Increment (Task 2.3)**
   a. **Methodology**
      - Heartland developed a model that projects expected demand (utilization) of land for residential uses in the Bayview Ridge CRA relative to existing supply of buildable land.
      - It was assumed that the expected annual demand for residential units (**58 units**) would be allocated to the BR-R zone at the base density of **4 units per acre**. If Farmland Density Credits begin to be regularly utilized and this density increases to somewhere between 4 and 6 units per acre, each of the years of capacity will be pushed out to some extent. The BR-UR zone was allocated units at a density of **1 unit per 5 acres**, assuming CaRD utilization. Only 1 unit per year, of the total of 58 units per year, was allocated to the BR-UR zone.

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



4. **CRA Ability to Pay (Task 2.4)**
   a. **Methodology**
      - In Phase II, Heartland's analysis of the CRA ability to pay for TDR credits was limited to a review of the "Demand for & Value of Density Credits" report by Thomas/Lane & Associates and Bill Mundy & Associates. This report provides an order-of-magnitude indication of the ability of developers to pay for density credits.
      - TLA/Mundy uses a statistical regression analysis based on 12 Skagit County land sales from 2006 – 2009 to derive the portion of the land sale value that can be attributed to the

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

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

b. Findings

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

TLA/Mundy Bayview Ridge Value of Incremental Residential Density

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

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

COMMERCIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

- Historic Bayview Ridge commercial demand was determined through the analysis of assessor building data from 2000 - 2013[2]. This analysis approximated that 100K SF of commercial space delivered annually during that period.

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

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

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

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

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

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

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

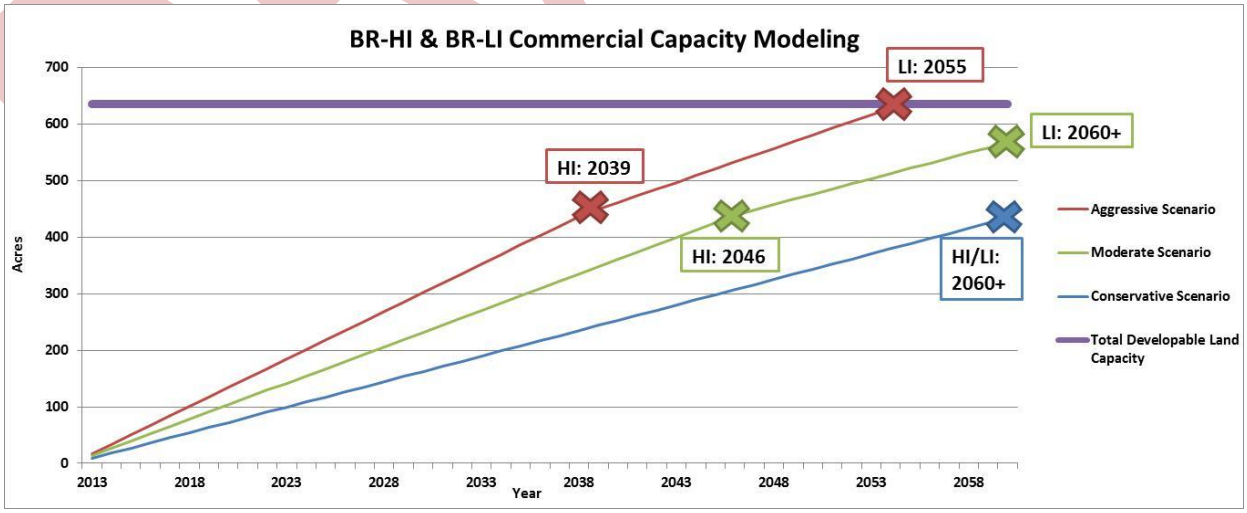
3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

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

b. Findings

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



4. CRA Ability to Pay (Task 2.4)

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

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

BURLINGTON CRA

RESIDENTIAL

1. **Macro-Capacity Growth Projections (Task 2.1)**
   a. **Methodology**
      - Heartland used the OFM 2012 projections for 2015 - 2040 in this analysis. The OFM 2040 projections were extrapolated to 2060 using Mark Personius' methodology (Envision Skagit Report Update). The OFM "Medium Series" was used as the baseline assumption in Heartland's Moderate Scenario. The methodology that Skagit County used in its 2007 Comprehensive Plan population projections, which essentially averaged the Low and Medium Series estimates, was used in Heartland's Conservative Scenario.
      - Allocation of growth to the Burlington CRA: Heartland assumed that the allocation of growth to the Burlington would be consistent with the growth allocation used to develop the 2025 population projections used in the 2007 Skagit County Comprehensive Plan. Burlington was expected to capture close to **7.0% of the County's total growth**. The Burlington CRA is expected to capture some portion of this total allocation to the jurisdiction. In this analysis, we assume that the CRA will capture 80% of Burlington's residential growth.
      - To determine expected population for the Burlington CRA, Heartland applied these allocations to the most recent 2012 OFM projections. To convert the population projection to a residential unit demand projection we used the OFM's current people per household figure for Burlington of **2.5 people per household**.

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

2. **Macro-Capacity Land Supply Analysis (Task 2.2)**
   a. **Methodology** - Heartland utilized the buildable lands analysis developed by the City of Burlington. This analysis provided a parcel-by-parcel categorization of potentially redevelopable land.

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

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

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3. **Macro-Capacity Bonus Increment (Task 2.3)**
   a. **Methodology**
      - Heartland developed a model that projects expected demand (utilization) of land for residential uses in the Burlington CRA relative to the existing supply of buildable land.
      - It was assumed that the expected annual demand for residential units (**37 units**) would be allocated to the C-1 and C-2 zones in proportion to the amount of land currently available in each zone—meaning that the C-1 zone will capture approximately 56% of the demand and the C-2 zone will capture 44% of the demand.
      - It was assumed that residential development will be built out at the base density level of **14 units per acre**.
      - The proportion of the C-1 and C-2 zones that will be built as residential is driven by the demand for residential land relative to commercial land. Rather than specifying a specific quota of land for residential uses, we let this ratio be determined by our demand and density inputs. This resulted in approximately 20% of the land in these zones being dedicated to residential development in the model.

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

4. **CRA Ability to Pay (Task 2.4)**
   a. **Methodology**
      - In Phase II, Heartland's analysis of the CRA ability to pay for TDR credits was limited to a review of the "Demand for & Value of Density Credits" report by Thomas/Lane & Associates and Bill Mundy & Associates ("TLA/Mundy"). This report provides an order-of-magnitude indication of the ability of developers to pay for density credits.
      - The TLA/Mundy Report's analysis looks at either a small lot (8,400 SF) or a large lot (1 acre), both with an assumed minimum lot size of 8,400 SF (5.2 DU/Acre). However, the zones that allow residential uses in the Burlington CRA have base densities of 14 DU/Acre (CC-2 density is through CUP). The report provides estimates for the incremental value added for each additional unit for a small lot property with a base density of 5.2 DU/Acre up to a max density

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

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

b. Findings

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

TLA/Mundy Burlington Small Lot Value of Incremental Residential Density

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

TLA/Mundy Burlington Large Lot Value of Incremental Residential Density

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

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

COMMERCIAL

1. Macro-Capacity Growth Projections (Task 2.1)

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

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

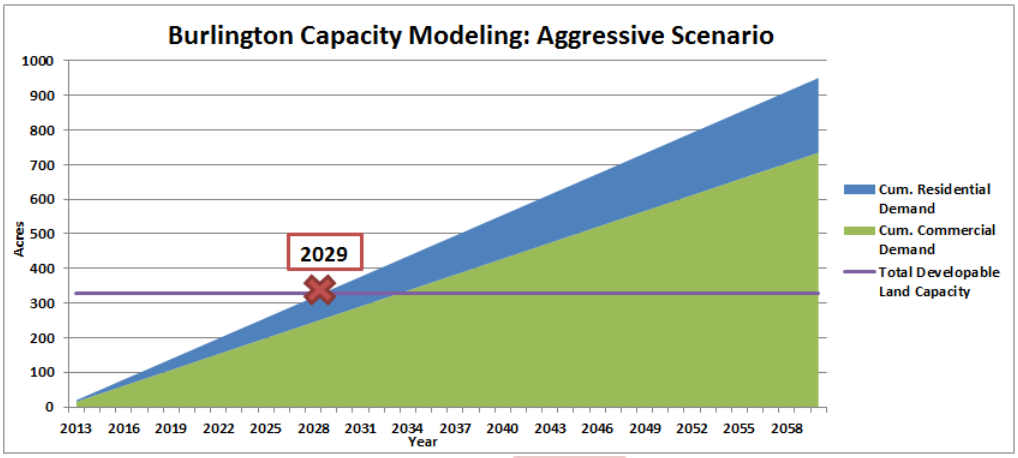
2. **Macro-Capacity Land Supply Analysis (Task 2.2)**
   a. **Methodology** - Heartland utilized the buildable lands analysis developed by the City of Burlington. This analysis provided a parcel-by-parcel categorization of potentially redevelopable land.

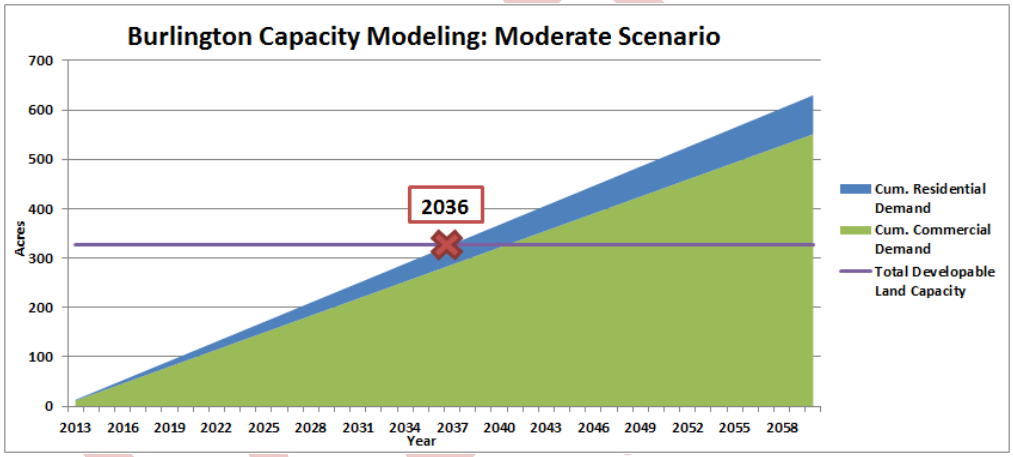
   b. **Findings** - The following table summarizes the current amount of buildable land in the Burlington CRA, aggregated by zone. Heartland made the assumption that future commercial growth would be distributed between the C-1, C-2, BP and M-1 zones:

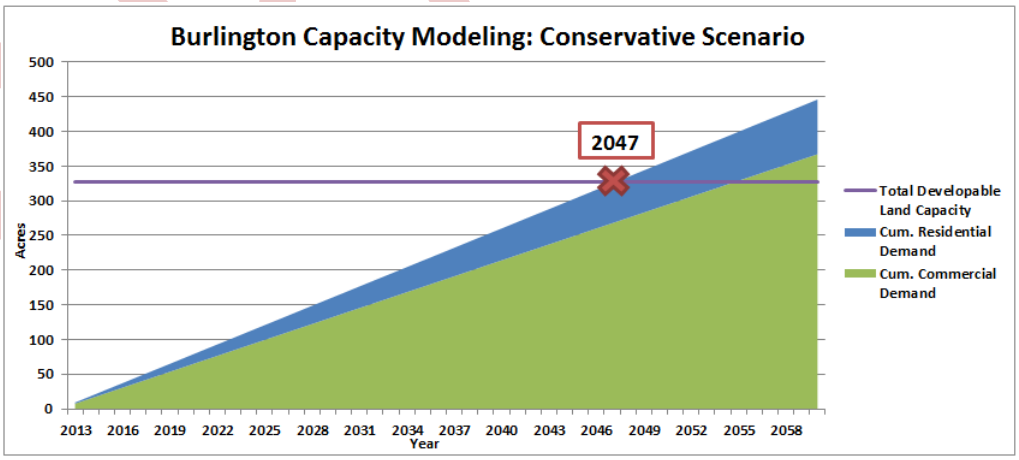
2012 BLA by City of Burlington (Acres)				
Zone	**Vacant**	**Underutilized**	**Buildable**	**Base Res. (DU/Acre)**
C-1	70	63	**133**	14
C-2	103	1	**104**	None established-through CUP
BP	15	2	**17**	14
M-1	45	28	**73**	N/A
		Total	**327**	

3. **Macro-Capacity Bonus Increment (Task 2.3)**
   a. **Methodology**
   - Heartland developed a model that projects expected demand (utilization) of land for commercial uses in the Burlington CRA relative to existing supply of buildable land.
   - It was assumed that the expected annual demand for commercial square footage (**150K SF**) would be allocated across the commercial zones in proportion to the amount of land currently available in each zone—meaning that the C-1 zone will capture approximately 41% of the demand; 32% in the C-2 zone; 5% in the BP zone and 22% in the M-1 zone.
   - It was assumed that commercial development will be built out at a **0.30 FAR**; this figure is a blend of the trend for commercial and industrial development over the past 10 years.

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







4. Receiving Area Ability to Pay (Task 2.4)

a. Methodology

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

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

b. Findings

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

TLA/Mundy Burlington Value of Incremental Commercial Density

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

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

RURAL UPZONE CRA

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

RESIDENTIAL

1. Macro-Capacity Growth Projections (Task 2.1)

a. Methodology

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

b. Findings

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

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

3. Macro-Capacity Bonus Increment (Task 2.3)

a. Methodology

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

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

4. **Receiving Area Ability to Pay (Task 2.4)**
   a. **Methodology**
      - The TLA/Mundy report did not provide ability to pay data for rural parcels. Based on the diminishing value of increased density (exemplified in the TLA/Mundy Bayview Ridge and Burlington analysis), it is expected that rural lands will achieve a higher value for increased density than that observed in Bayview Ridge. The incremental value for additional density on rural parcels will most likely be closer to the value attributed to agricultural sending site development rights which is discussed in the next section.
      - Heartland's recommended Phase III analysis would analyze recent sales of rural land to identify trends in the pricing of additional density. However, it is expected that scarcity of data will make this approach difficult. Therefore, Heartland would most likely augment this research with a residual land value analysis to determine the incremental value added to land with increased density.

SENDING SITE VALUATION (TASK 2.5)

a. Methodology

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

b. Findings

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

John Suttles Appraisal Reports

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

TLA/Mundy Report Findings

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

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

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

EXCHANGE RATE ANALYSIS (TASK 2.6)

a. Methodology

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

b. Findings

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

Exchange Rate Analysis by Valuation Report

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

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