

# City of Bellevue: Wilburton Land Use Code Amendment (LUCA) Economic Analysis

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## EXECUTIVE SUMMARY

New land use policies under consideration for Bellevue’s Wilburton neighborhood are intended to catalyze growth in the city’s newest, dynamic, mixed-use urban neighborhood. Qualitative and quantitative analyses inform City land use and policy considerations for Wilburton and provide a snapshot of market conditions and development economics. The analysis includes data models and a synthesis of perspectives from real estate and development professionals expert in development conditions throughout Bellevue, including Wilburton. Essential findings from this analysis include:

- Current real estate development and financing metrics across the country indicate that many development typologies of great interest to Wilburton are not currently feasible.
- Land use code updates in Wilburton will need to be future-looking and incentivize high-need development – including workforce and affordable housing – while staying adaptive to future land use demands.
- Wilburton will be instrumental in helping the City meet requirements to plan for affordable housing, and is likely to absorb a large share of the future residential growth in Bellevue.
- The vision for Wilburton will require policy reform in the neighborhood to incentivize and prioritize the desired development without prohibiting development.
- Nearby neighborhoods Downtown Bellevue and the BelRed area have gone through comparable land use policy reforms that can inform land use code amendment decisions.

Pro forma feasibility modeling quantifies the impacts on development feasibility of potential land use changes. Where possible, pro forma analysis in this report uses current data from Wilburton or comparable sites and neighborhoods; where those data are not available, assumptions are made with the best available information and data from third-party sources, local developers, and the City of Bellevue.

The goal of the modeling conducted for this study is to understand the impact of the land use changes and amenity requirements on a development’s return metrics rather than assessing the feasibility of each prototype. Aligned with this goal, the model uses generalized prototypes in an aim to understand policy impacts on a range of development types.

The primary limitations of the modeling are the current uncertainties in the commercial real estate market, and the inability to test all of the

combinations of amenities included in the potential policy modeled for this study. However, the model created for this analysis will be provided to the city and will be able to be used for continued and ongoing analysis.

The analysis uses residual land value per square foot of land (RLV) and yield on cost (YOC) as output metrics to assess the impact of the affordable housing requirements and bonus density associated with the various upzone scenarios. There are a range of output metrics used in development pro forma analysis, each achieving a similar goal while factoring in differing information that may better suit an end user. RLV is concerned with the **difference** between a potential sale price, also known as the cap value, and total development costs while YOC is concerned with what **share** net operating income (NOI) represents of total development costs.

## Findings

RLV analysis suggests the bonus density associated with the maximum upzone scenario does not benefit any of the prototypes, but the mixed-use residential mid-rise prototype saw the smallest negative impact on RLV as a result of the maximum upzone scenario requirements and density bonus. This is likely attributable to poor market conditions characterized by high construction and lending costs paired with rents too low to support these costs, as the cost of building a marginal unit (or square foot) is greater than the returns associated with that unit.

The yield on cost outputs show similar results, suggesting that the base and maximum upzone scenarios have a negative impact on project yield compared to the baseline. The decrease from baseline to base scenario is minimal, suggesting the base requirements are less impacting than the maximum upzone requirements needed to achieve the density bonus.

The poor market conditions appear to be playing a role in the negative impact of the maximum upzone scenario amenity requirements despite receiving a large density bonus. As the density of the project increases, and the corresponding cost per unit also increases, the negative impacts of the base scenario affordable housing requirements are amplified. This trend is alleviated for RLV when higher rents are tested but yield on cost outputs suggests the marginal increase in revenues is lower than the marginal increase in costs under the program assumptions used for the analysis.

The analysis suggests that requiring 10% of units at 80% of AMI has a small impact on the mid-rise mixed-use residential prototypes RLV, ranging from \$26 to \$29 depending on the cap rate used. However, the

negative impact on the RLV is not insignificant and while it may not hinder all projects from proceeding as market conditions begin to improve, it could require the market to improve slightly more for some developments compared to if they were able to proceed with a mark-rate only development.

The modeling suggests that market conditions will need to improve significantly to justify higher density development, and that few projects are likely to undertake providing additional amenities to gain the full bonus density allowed under the maximum upzone scenario in the short-term. To help provide continued support regarding a potential program in Wilburton, the model will be provided to the City of Bellevue so program parameters and amenity incentives can continue to be tested as market conditions begin to improve.

## Implications

- Current outputs suggest the maximum upzone scenario density bonus **does not** incentivize providing 25% to 29% of units affordable at 80% AMI.
- The required 10% of units affordable at 80% AMI for the base scenario has a **smaller negative impact** on output metrics for the lowest density prototype (mixed-use residential mid-rise) compared to the two residential high-rise prototypes.
- Cap rate sensitivity testing shows that the **difference between baseline and base scenarios** stay similar across each cap rate.
- Cap rate sensitivity shows the **maximum upzone scenario outputs are sensitive to cap rate changes**, with the maximum upzone scenario showing a smaller difference in RLV compared to the baseline when cap rates decrease (lower cap rates suggest a stronger market).
- Beyond output metrics, the **required levels of affordable housing to earn the maximum upzone density bonus are high** (25% to 29% of total units) for units at 80% AMI, the City may want to consider increasing the current bonus ratio to reduce the number units needed to earn the maximum upzone scenario density bonus if affordable housing is a major focus of the program.
- The maximum upzone density bonus largely increases the total development costs of a project, **50% to 80% before land**, greatly changing the scope of a potential project.
- An **increase in RLV and a decrease in YOC** from the baseline to the maximum upzone scenario suggest that costs are increasing at a higher rate than incomes and therefore the bonus density could be considered not incentivizing by some builders.

- High parking ratios can significantly increase the cost of construction and decrease output metrics.

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# INTRODUCTION

## Background and Purpose

In 2018, a 15-member Citizen Advisory Committee delivered its report on the vision for the land use, transportation, and urban design for the Wilburton Commercial Area, a planning process that began three years earlier with the Bellevue City Council, entitled Wilburton Vision. The resulting report articulated a preferred alternative that establishes a framework for a vibrant urban neighborhood that promotes multi-modal transportation options, capitalizes on the investment in light rail, increases opportunities for housing and workspace options, and creates a defining urban environment with the Eastside Rail Corridor Trail.<sup>1</sup>

Following this effort to identify a preferred alternative to guide growth and policy in Wilburton, City Council authorized implementation of this vision beginning in 2022. Economic analysis for the land use code amendment (LUCA) for the Wilburton Transit Oriented Development (TOD) area will support a rezoning in the study area to catalyze development of Wilburton into a dynamic and vibrant transit-oriented urban neighborhood in Bellevue.

This report is supported by a technical and economic analysis, which conducted an existing conditions analysis, determined prototypes and development scenarios using a variety of building forms, uses, and other development assumptions, and built a pro forma model to test the development scenarios. Stakeholder interviews, focus groups, and workshops directed approaches and informed assumptions. This report summarizes all analysis and outreach conducted, describes market data, land use assumptions, and other methods that informed the development scenarios, and outlines policy implications determined throughout this project.

## Methods and Approach

Economic analysis in support of the LUCA included quantitative analysis of market data and outreach to Wilburton stakeholders. These efforts informed pro forma modeling of a base and maximum amenity incentive system across six development prototypes.

Analysis began with a summary of existing policy in Wilburton as well as planning efforts undertaken in support of the Wilburton Vision and

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<sup>1</sup> NBBJ & City of Bellevue, Wilburton Commercial Area Study, July 2018.



transportation planning. Among others, the following plans were summarized:

- 2018 Wilburton Commercial Area Study
- Environmental Impact Statement (EIS) for 2044 Comprehensive Plan Update & Wilburton Vision Implementation
- 2044 Comprehensive Plan Update
- Wilburton and N.E. 8<sup>th</sup> Street Subarea Plan
- Wilburton Commercial Area Study

Community outreach included interviews and a focus group with property owners, developers, affordable housing experts, and other stakeholders in Wilburton. These interviews were completed in January 2024.

Interview questions surrounded the topics of:

- Local land use patterns and trends.
- Experiences with existing density and height policies outlined in Bellevue, Wilburton, and local transportation plans.
- Developers' and property owners' perspective on market demand and preferences for certain development types and other factors impacting development potential in Wilburton.
- Development assumptions and model inputs.

Qualitative analysis utilized national and regional data sources. Real estate and socio-economic data sources utilized in analysis include:

- CoStar
- ESRI Business Analyst
- City of Bellevue Open Data Portal
- City of Bellevue Municipal Code

To conduct the feasibility analysis, CAI worked with the City of Bellevue to create five hypothetical development prototypes that could be built in the Wilburton area following the LUCA. The hypothetical development prototypes include:

- Mixed-use Residential Tower (Urban Core)
- Mixed-use Residential High-rise
- Mixed-use Residential Mid-rise
- Medical Office High-rise
- Mixed-use Office Mid-rise

Following the creation of the development prototypes, pro forma models were built to test a base and maximum upzone scenario. The base case assumes amenity requirements provided by the City of Bellevue with no bonus density granted, while the maximum upzone scenario tests the

prototypes with the required mandatory amenities in addition a maximum upzone density bonus granted through the addition of additional amenities desired by the City of Bellevue. Amenity inputs and granted bonuses were informed by the City of Bellevue. The outcome variants for each prototype are presented for a base and maximum upzone scenario and show the residual land value per square foot achieved for each alongside recently observed land prices in Bellevue.

## PLANNING AND POLICY CONTEXT

The vision identified for Wilburton is that of an **urban mixed-use community** that enhances livability, promotes healthy living, supports economic vitality, and serves the needs of a diverse and growing population. The building blocks of this vision are encouragement of **transit and trail-oriented development** (TOD), especially in the Wilburton Study Area, preference for **dense setting** with a **mix of residential dwellings**, a mix of daytime and nighttime activities, and a suite of **unique urban assets** and **recreation opportunities**.

The study area is the **nexus of planned major transportation projects** and systems, including (**Exhibit 1**):

- The opening of the **EastRail Corridor**. This multi-modal trail running parallel to 116<sup>th</sup> Avenue will offer a separated bike and pedestrian connection from Woodinville to Renton. It will include recreation opportunities as well as trail-oriented development.
- The opening of the **East Link** light rail and associated stations. This will be the region's second light rail line, and it is set to open for riders in 2024. Stations that are in or near Wilburton include the Wilburton Station, Downtown Station, and Spring District Station.
- Completion of the **Grand Connection** corridor. This multi-modal pathway will serve, locally, to connect Wilburton to Downtown and will act as a mixed-use destination of its own. Further, the Grand Connection continues through Old Bellevue to the waterfront of Lake Washington at Meydenbauer Bay Park.<sup>2</sup>
- Continuation or improvement of existing **bus routes** in Wilburton. Bus routes currently run along 116<sup>th</sup> Avenue and NE 8<sup>th</sup> Street. The 116<sup>th</sup> Avenue routes are planned to expand into Bus Rapid Transit routes in the near future.

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<sup>2</sup> Bellevue Grand Connection, the Grand Connection Experience.

## Exhibit 1. Wilburton Study Area Infrastructure Improvements Map



Sourced from *Engaging Bellevue, Wilburton Vision Implementation*, accessed December 12, 2023.

Updated **affordable housing requirements** in the study area will help the city fulfill state-mandated housing growth targets at a variety of income levels. In response to initial community engagement, the most critical area for increased housing supply in Wilburton is identified as **workforce housing**. This is closely followed by the need to strike a balance between rental and ownership opportunities, and to address the housing needs of diverse family types, including multi-generational households, single-parent households, and households with no children. While new housing development is considered an important part of Wilburton’s future, community members prioritize housing solutions

that address the “missing middle” crisis and provide housing options for lower-income households, seniors and families.<sup>3</sup>

The 2024 Final Environmental Impact Statement, completed in support of the comprehensive plan update and Wilburton Vision Implementation, outlines the preferred growth alternative for the Wilburton study area, describing the preferred capacity of the area to accommodate housing and job growth through 2044 (**Exhibit 2**).<sup>4</sup> The preferred alternative accommodates an additional 12.0 million square feet of commercial development in the Wilburton study area, along with 14,800 housing units and space for 35,500 jobs. Higher intensity development is proposed alongside Interstate 405 and the Grand Connection between Interstate 405 and Eastrail, gradually transitioning to lower high-rise and mid-rise buildings towards the eastern and southeastern edges of the study area. The preferred alternative plans for high-rise office buildings on the west side of 116th Avenue NE, a mix of high-rise residential, office, and commercial spaces on the east side of 116th Avenue NE and NE 8th Street, high-rise and mid-rise residential buildings on 120th Avenue NE, and primarily mid-rise residential development towards the eastern and southeastern boundaries of the Wilburton study area and around Lake Bellevue.

**Exhibit 2. Final Environmental Impact Statement (FEIS) Preferred Growth Alternative for 2044, Wilburton Study Area, 2024**

	<b>Existing Conditions</b>	<b>No Action Alternative</b>	<b>Preferred Alternative</b>
<b>Housing Units</b>	~412	300	14,800
<b>Jobs</b>	9,400	3,900	35,500
<b>Commercial Dev. (sq ft)</b>		1.3 Million	12.0 Million

*Source: 2024-2044 Comprehensive Plan Periodic Update and Wilburton Vision Implementation Final Environmental Impact Statement, February 2024; CAI, 2024.*

The preferred alternative in the FEIS aligns well with the goals and findings in the 2018 Wilburton Commercial Area Study. In reimagining the area around the Grand Connection and Eastside Rail Corridor Trail, this study **envisioned Wilburton as a vibrant, mixed-use urban neighborhood** in which context areas define unique zones. **Flexibility for developers** in land use and development standards is identified as crucial to achieving this vision.

<sup>3</sup> Engaging Bellevue, Wilburton Vision Implementation and Frequently Asked Questions.

<sup>4</sup> City of Bellevue, Bellevue Comprehensive Plan Facts.

The study also suggests that development should include a number of **public benefits**, including civic, open, and green spaces. Integration of an **Amenity Incentive System** into Wilburton’s Land Use Code, such as those that are in effect in Downtown Bellevue and in BelRed, may be an effective way to incentivize urban amenities in exchange for increased height and density increases.

There are several areas within Bellevue’s existing municipal code where the types of development that are envisioned for Wilburton are allowed or encouraged. The BelRed FAR amenity incentive system currently affects some parcels within Wilburton. Both this and the Downtown amenity incentive system are relevant examples for how Bellevue’s code has adjusted to support desirable development, as Wilburton sits as a junction point between these two influential spaces:

### **BelRed FAR Amenity Incentive System Summary**

- Developments in BelRed may exceed base FAR and base building height if they include amenities.
- Amenities include affordable housing, park dedications, park improvements, trail dedications, and easements, stream restoration, or regional TDRs.
- Bonus amenities include childcare, nonprofit space, public restrooms, public art, public access to outdoor plaza, LEED gold or platinum certification, active recreation area, natural drainage practices.

### **Downtown Amenity Incentive System Summary**

- FAR Exemption for both Ground-Level and Upper-Level (0.5) Active Uses. Active uses support pedestrian activity, promote visual and physical interaction between the building interior and the adjacent public realm, and it meets design criteria / guidelines.
- A maximum of 1.0 FAR of floor area may be exempted to support the provision of affordable housing, minimum parking may be reduced, and additional development flexibility may be allowed.
- Developments can provide amenities in exchange for greater FAR allowance. Amenities include; Grand connection and major public open spaces, outdoor plaza, donation of park or property, improvement of public park, enhanced streetscape, active recreation area, enclosed plaza, alleys with addresses, freestanding canopies at street corners and transit stops, pedestrian bridges, performing arts space, public art, water feature, historic preservation, historic/cultural resources documentation, neighborhood serving uses, sustainability certification, flexible amenity space.

## COMMUNITY OUTREACH

Five interviews were completed in the month of January with key stakeholders identified by the City. Four small group or individual interviews were completed with local developers and architects, Bellevue Chamber of Commerce representatives, affordable housing experts, and other key stakeholders. One large group interview was completed with members of the Wilburton Property Owners Group.

### Key Findings

#### Wilburton Vision and Opportunity

**Stakeholders are enthusiastic about Wilburton's future**, seeing it as a "generational" opportunity to shape the region's growth through infrastructure and increased density. Across all activities associated with the LUCA process, there is alignment around the vision of a mixed-use, vibrant, and flourishing community that is complementary to Downtown Bellevue and **facilitates live-work access** between the two areas.

With the confluence of the light rail station, Eastrail corridor trail, and Grand Connection, **Wilburton's location at the nexus of infrastructure and transit** positions it to be one of the most multi-modal neighborhoods in the city. Most stakeholders believe this to be an asset, although the likelihood of high density, transit-oriented development, and prioritization of pedestrian pathways create questions and concerns for some interviewees about the **role of local roads** within the subarea and responsibility for provisioning them.

#### Affordable Housing Context

Affordable housing strategies may encompass a range of policies and initiatives aimed at ensuring access to adequate housing for individuals and families with low to moderate incomes. These strategies often involve both mandatory and voluntary programs implemented by governmental bodies or private entities.

Mandatory programs typically require developers to allocate a certain percentage of units in new developments to affordable housing, often in exchange for incentives or concessions. **Successful implementation of mandatory programs relies on factors such as a strong market demand for housing, supportive regulatory frameworks, and sufficient economic feasibility for developers to comply without significant financial strain.**

On the other hand, voluntary programs encourage developers to participate in affordable housing initiatives through incentives like

density bonuses or expedited permitting processes. **The success of voluntary programs hinges on creating appealing incentives that outweigh potential costs or risks for developers, as well as fostering collaboration between public and private stakeholders.** Both approaches play crucial roles in addressing the complex challenges of housing affordability, with their effectiveness influenced by local market dynamics, regulatory environments, and community needs.

Stakeholders in the development world often argue for voluntary programs, however, the Wilburton Study Area is likely to take a combined approach.

### **Approach to Public Benefits and Amenities**

The City of Bellevue has **adopted in other neighborhoods public amenities incentive structures that encourage developers to include a variety of public benefits in developments**, including green and open space, public art, and affordable and workforce housing. Several stakeholders have worked previously within this incentive schema in place throughout Bellevue. Developers in particular note that land use policy in Wilburton will benefit from the insights and amendments to these regulations and finds commonalities between anticipated development conditions in Wilburton and those seen in downtown and BelRed. Developers, housing experts, and other stakeholders also acknowledge the opportunity for Wilburton to advance and innovate on land use policy and stand as a bellwether to potential incentives and regulations for the city as a whole.

In addition, Bellevue must meet state-mandated planning requirements around affordable housing as set forth by the Growth Management Act and its recent amendments. Stakeholders know that Wilburton will be a part of meeting these requirements and affordable housing will be a part of future development. Concerns from developers and property owners hinge on the **potential feasibility and impact of mandatory affordable housing** requirements on development.

Stakeholders emphasize the **dichotomy between affordable housing goals and the limitations of the private sector** alone to meet them. Provisioning housing at the deepest levels of affordability (less than 50% of area median income or AMI) typically requires funding mechanisms in addition to any incentives offered by the city. Without these mechanisms in place to support private investment in



affordable housing, regulations requiring deeply affordable housing may ultimately hinder growth and development.

Stakeholders note the **tension between incentivizing affordable housing development and meeting the established vision for Wilburton’s development typologies**. Integrating affordable housing into high-rise developments is seen as particularly difficult, while mid-rise developments may be more conducive to incorporating affordable units. However, conflicts with the vision for Wilburton as an ideal location for dense, urban, high-rise development.

Additional discussion on public benefits centered on the unique opportunity for **private sector investment in green space and urban trails** along Eastrail and the Grand Connection.

### **Regulatory Approach and Market Challenges**

In line with national trends, Bellevue’s market has seen **significant volatility**, with rapid fluctuations observed over the past five years. Economic analysis of current market data that informs future policy decisions must take this into account.

The debate between **intentionality and flexibility** lies at the heart of development trends, market data, and the Wilburton Vision. Stakeholders advocate for **flexibility in the land use code** to allow adaptation to changing market conditions as well as the importance of **incentivizing urban design** priorities to achieve the dynamic and community-oriented vision for Wilburton.

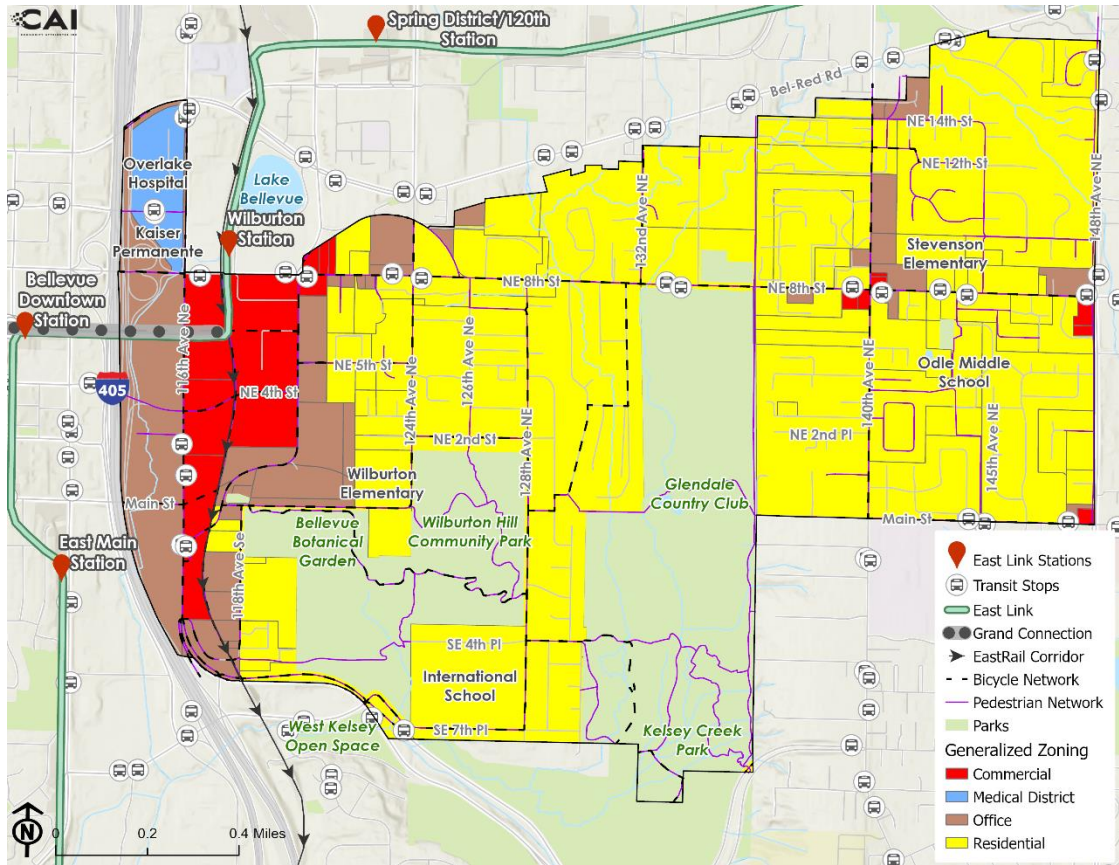
## MARKET AND ECONOMIC ANALYSIS

This technical and economic analysis, conducted for the Wilburton Transit Oriented Development (TOD) area, outlines the existing standards and conditions surrounding development in Wilburton, give a snapshot of employment and existing industry in the subarea, and details Wilburton's real estate market's development and use trends.

### **Land Use and Zoning**

**Exhibit 3** shows a generalized version of the actual zoning usages in Wilburton. While the existing RapidRide B Line, a bus line along NE 8th Street, runs mostly through parcels that are zoned for residential uses, most planned transportation improvements and routes shown in are surrounded by existing commercial or office land uses. Much of the current zoning in the Wilburton Study Area makes mixed use development unattractive and may effectively discourage residential development near the upcoming Wilburton Station, ERC, or BRT routes.

### Exhibit 3. Wilburton / NE 8<sup>th</sup> Street Subarea, Land Uses and Transportation Investments, 2024

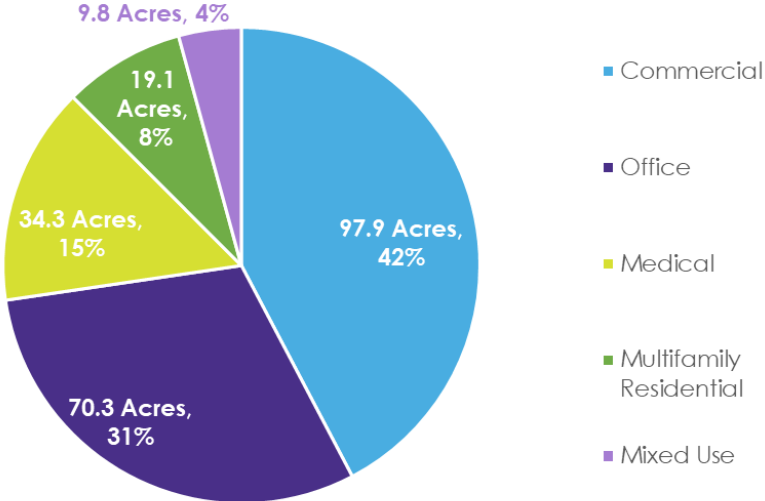


Source: City of Bellevue, 2024; CAI, 2024.  
 Note: This map uses simplified zoning categories.

Much of the Wilburton Study Area’s 231 acres is made up of zones that primarily support commercial uses (42%) (**Exhibit 4**). Another 31% of land is dedicated to zones that primarily support office and business uses. The next most significant category is land zoned for medical uses, including Overlake Hospital and surrounding parcels (15%). Only 8% of land in the Wilburton Study Area primarily supports multifamily residential uses and only 4% encourages mixed-uses. The existing land use mix in Wilburton is restrictive in terms of density allowances – this represented in the Final Environmental Impact Statement’s no action alternative shared in **Exhibit 2**, which forecasts that with no change the estimated growth in the Wilburton Study Area is only 300 housing units and less than 4,000 jobs by 2044 (In contrast, the preferred growth alternative estimate potential for 14,800 new units and up to 35,500 new jobs for the same timeframe). Zones which allow and encourage mixed uses are much more common in Downtown Bellevue and in BelRed, with example zones such as the Downtown Mixed-Use District and BelRed Commercial/Residential. In contrast, the existing

land use conditions in the Wilburton Study Area only minimally allows for and encourages mixed uses.

**Exhibit 4. Zoning Mix and Acreage, Wilburton Study Area, 2024**

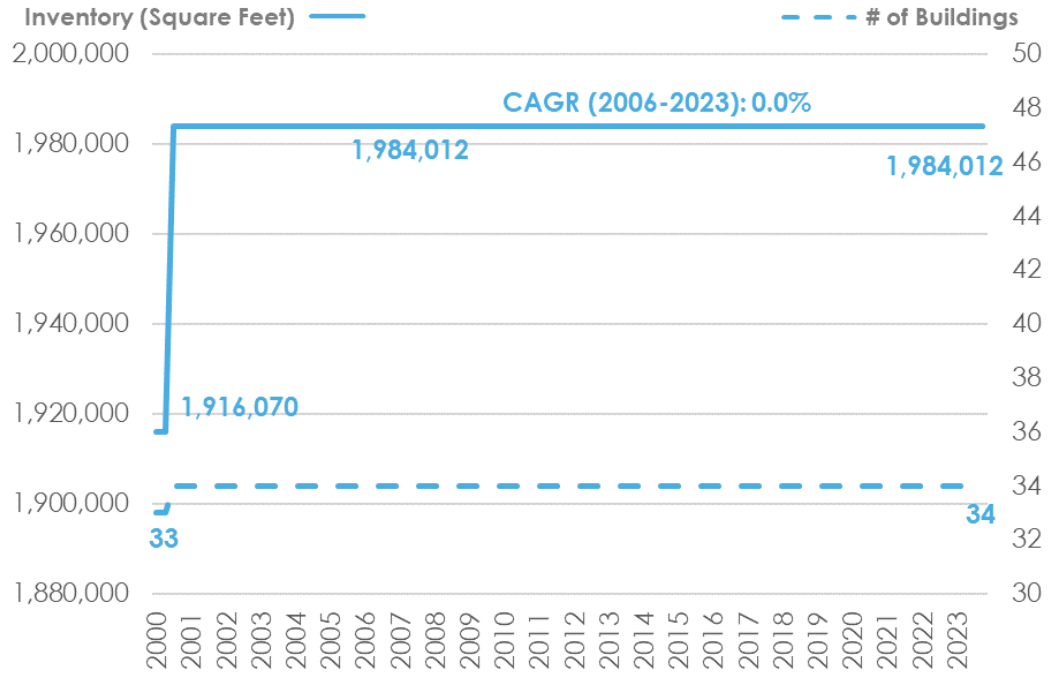


*Source: City of Bellevue, 2024; CAI, 2024.*  
*Note: Industrial and Single Family Residential land types are not present within the Wilburton Study Area.*

**Residential Data and Market**

Between 2002 and 2023, multifamily development has been stagnant in Wilburton. After the delivery of a new multifamily building in Wilburton in 2001, multifamily inventory has since remained unchanged at just under 2 million square feet of inventory, or 2,252 housing units (**Exhibit 5**).

**Exhibit 5. Multifamily Inventory and Number of Buildings,  
Wilburton, 2000 to 2023**

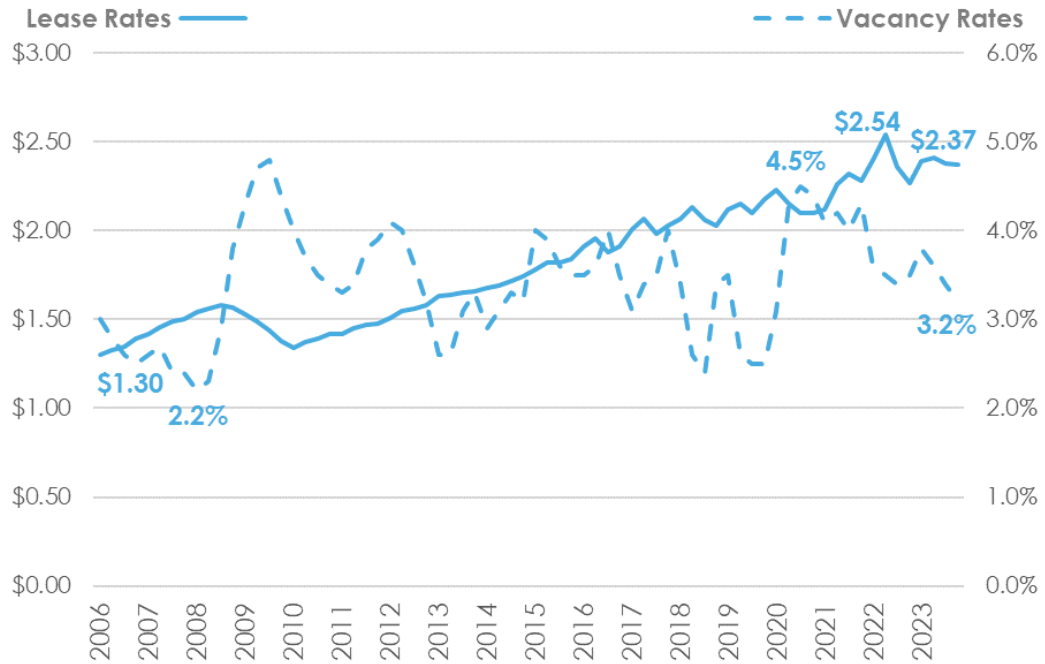


Source: CoStar, 2023; CAI, 2024.

**Exhibit 6** shows the lease and vacancy rates for multifamily inventory in Wilburton from 2006 to 2023. Overall, multifamily lease rates have grown steadily with a few disturbances in growth coinciding with the 2008 market crash and the 2020 global pandemic. With a compound annual growth rate (CAGR) of 3.6% from 2006 to 2023, Wilburton’s multifamily lease rates grew slightly more quickly than multifamily lease rates in Bellevue overall, which grew at an average annual rate of 3.1% during the same time period.

Vacancy rates during this period have been more volatile but have stayed between 2% to 4% from 2006 to 2023. Residential vacancy rates lower than 5%, such as those found in Wilburton, suggest a tight market and a limited supply for the housing stock to meet the existing demand for housing.

**Exhibit 6. Multifamily Lease and Vacancy Rates, Wilburton, 2006 to 2023**



Source: CoStar, 2023; CAI, 2024.

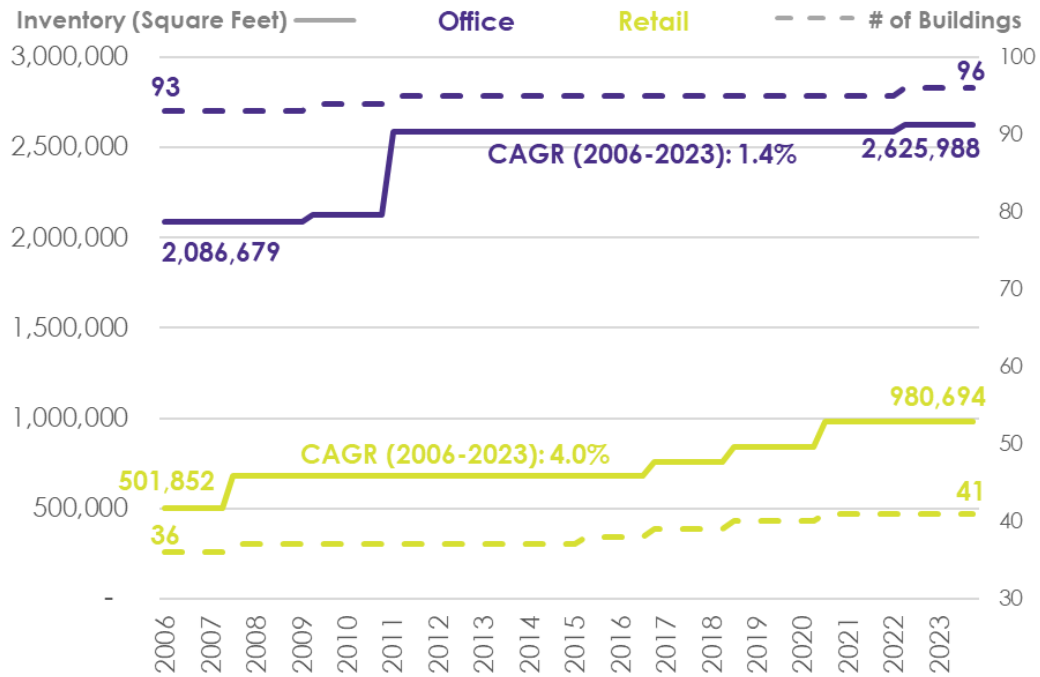
Note: Multifamily lease rates represent asking rent pr month per square foot.

While Wilburton’s multifamily inventory has not changed since 2000, lease and vacancy rates suggest that there is significant demand for multifamily development in Wilburton. Therefore, lack of multifamily deliveries in Wilburton is likely not due to low demand, but instead may be related to land use, development code, or other policy issues.

## Commercial and Office Market Trends

**Exhibit 7** shows office and retail inventory along with number of buildings in Wilburton from 2006 to 2023. In contrast to multifamily inventory, office and retail inventory have both increased during the same period (**Exhibit 5**). Office inventory increased from roughly 2.1 million square feet to 2.6 million square feet of inventory, with the majority of development occurring from 2010 to 2012. In 2023, there were 96 office buildings in Wilburton, an increase of three buildings since 2006. The CAGR for office inventory from 2006-2023 is 1.4%. Retail inventory displays a higher growth rate, with a CAGR of 4.0% from 2006-2023, but it also grew more incrementally, with smaller developments and five new buildings scattered over many different years. Retail inventory grew from 502K square feet in 2006 to almost 1M square feet by 2023.

**Exhibit 7. Office and Retail Inventory, Wilburton, 2006 to 2023**

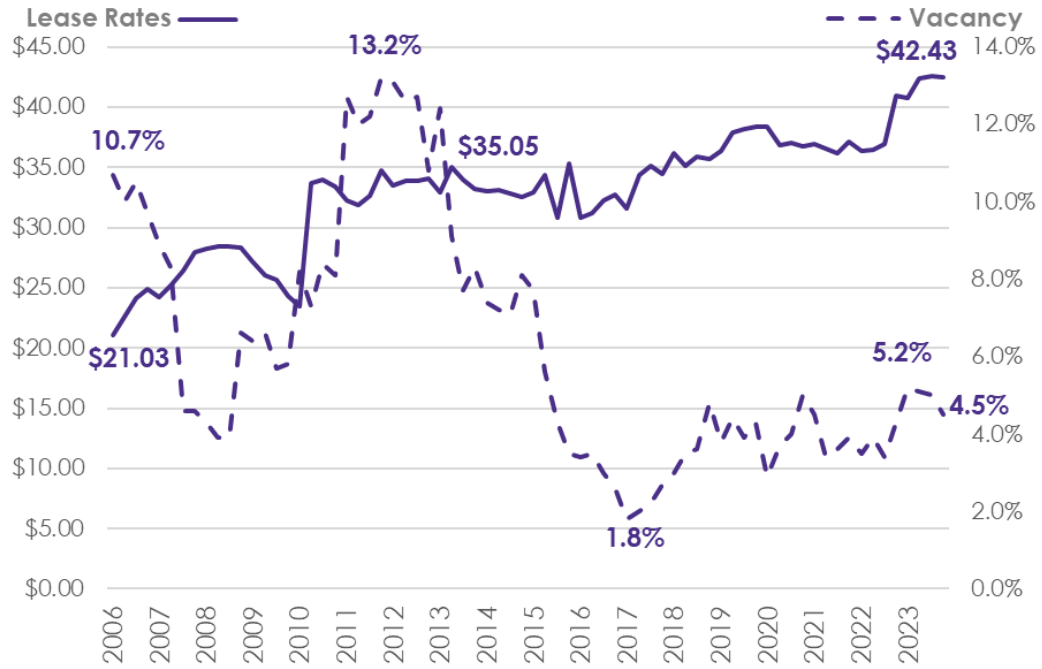


Source: CoStar, 2023; CAI, 2024.

**Exhibit 8** shows the lease and vacancy rates for office inventory in Wilburton from 2006 to 2023. Overall, office lease rates (gross rent per square foot per year) have increased steadily in this time period, with office lease rates growing slightly more quickly in Wilburton (CAGR of 4.2%) than in Bellevue (CAGR of 3.7%). In 2006, Wilburton’s office lease rate was \$21.03 per square foot per year and Bellevue’s was \$22.94. By 2023, Wilburton’s office lease rate had reached \$42.43, surpassing that of Bellevue, \$40.27.

Office vacancy rates in Wilburton spiked to 13.2% in 2012 which then gradually declined to about 1.8% by 2017 – the lowest recorded office vacancy rate in Wilburton since 2006. Wilburton’s office vacancies have since increased slightly, including a small vacancy spike in 2020, likely due to the pandemic, and another in 2022, landing at roughly 4.5% in late 2023. In 2006, Bellevue’s office vacancy rate (7.4%) was lower than that of Wilburton (10.7%), but following 2020, Bellevue’s office vacancy rates spiked and have since continued to grow, reaching 15.4% in late 2023.

**Exhibit 8. Office Lease and Vacancy Rates, Wilburton, 2006 to 2023**



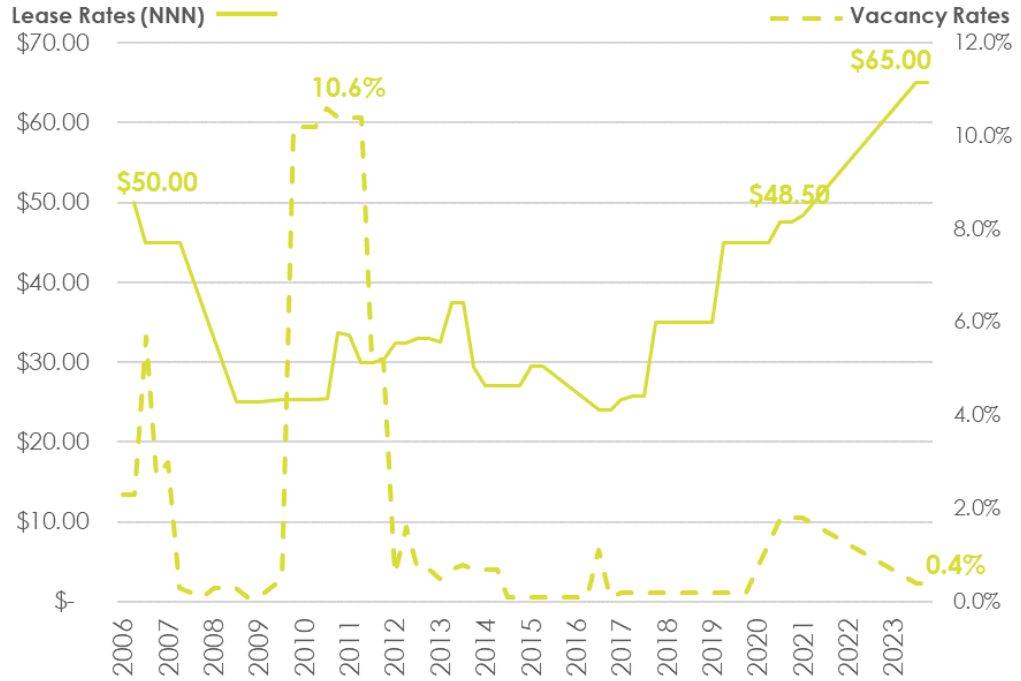
Source: CoStar, 2023; CAI, 2024.

Retail lease and vacancy rates in Wilburton are variable from 2006-2023 (**Exhibit 9**). Excluding gaps in data, Wilburton’s lease rates follow a similar story to trends seen in Bellevue, though Wilburton’s retail lease rates tend to be higher and values tend to fluctuate more intensely. Wilburton’s retail lease rates (NNN rent per square foot per year) experienced a downward curve from 2006 which begins to invert around 2017. Since then, retail lease rate in Wilburton has risen steadily, landing at \$65.00 per square foot in 2023. Overall, retail lease in Wilburton shows a CAGR of 2.2% while Bellevue’s is 1.4%.

Conversely, retail vacancy rates for both Bellevue and Wilburton peaked somewhere between 2009-2011, reaching 7.4% and 10.6% respectively, before retail vacancy rates trended downwards, with Bellevue hovering around 1% and Wilburton remaining near zero following 2015. Both geographies also saw a small spike in retail vacancy following 2020, likely due to the pandemic, and have since returned to lower values. Wilburton’s vacancy rate ends at 0.4% in the fourth quarter of 2023.



**Exhibit 9. Retail Lease and Vacancy Rates,  
Wilburton and Bellevue, 2006 to 2023**



Source: CoStar, 2023; CAI, 2024.

Note: Data limitations for retail lease and vacancy rates in Wilburton leave some years without measured values, which displays as gaps in the above line graphs.

## PRO FORMA FEASIBILITY ANALYSIS

The following section presents the development prototypes and modelling assumptions utilized in the feasibility models created for this study. Development prototypes include three mixed-use residential developments and two mixed-use office developments. All residential prototypes are assumed to be rental projects. The development prototypes include a mixed-use residential mid-rise, mixed-use high-rise, and urban core, a tower construction type that utilizes the highest height and density allowances. Key defining features of each development type include:

- Mid-rise: Buildings typically include 5-7 stories, at approximately 75 feet high. This level of development is the smallest footprint and can be accommodated on smaller site sizes than the other prototypes. Mid-rise residential buildings can accommodate in the range of 100-150 housing units.
- High-rise: Buildings are typically 10-15 stories and upwards of 159 feet. High-rise residential can accommodate upwards of 800 housing units, dependent on the site and development assumptions.
- Urban core: Buildings can be in the range of 20 or more stories and accommodate upwards of 900 housing units. This is the largest development type in footprint and site size requirements.

### **Goals and Limitations of Modeling and Analysis**

The goal of the modeling and analysis conducted for this study is to provide an understanding of how amenity requirements and an earned bonus density impact the return metrics of a range of development types. A static, residual land value has been chosen for this study. The model is static in the sense that it compares the expected returns of a development during a stabilized year of operations to the expected total development costs associated with a project, rather than cash flows and expenses over multiple years.

Static models are simpler than dynamic models, which model the annual cash flows and expenses for a defined number of years and arrives at a return metric which considers returns across the desired timeline of the analysis. While static models will not be able to provide the precision for true feasibility analysis that dynamic models can, they work well for comparing the impact of policy on return metrics and benefit from fewer assumptions that could incorrectly skew the metrics. Additionally, the simpler model is ideal when the model and results need to be understood by a diverse audience and to professionals falling outside of the real estate development community.

The primary return metric used for this study is residual land value (RLV), which represents the maximum value a developer could pay for land after considering the potential gross development value and total development costs (excluding the purchase of land) and still break even. In this study, if the RLV is negative, this implies the project will not generate a great enough value to offset development costs enough to allow for a land purchase to support the project. This metric is a useful tool that can help inform what a reasonable market value for land may be and also allows for a feasibility analysis that does not rely on land value estimates, which are currently difficult to assess as land has not been transacting as of late in the City of Bellevue.

Yield on cost (YOC), which considers the annual net operating income (NOI) compared to the total development costs including land purchase, has also been included in the modelling for this study to show how different metrics react to the scenarios tested and different market inputs. Yield on cost was not chosen as the primary metric for this study as it requires a land price assumption, which was difficult to inform given the current market.

The major limitations of this analysis lie in the complexity of the amenity program proposed, a need to generalize prototypes, and the poor market conditions currently experienced in real estate development. Due to the complexity of the amenity program proposed and this study is unable to capture all possible scenarios or combinations of amenities that can be used to gain a density bonus by providing additional but voluntary public amenities. However, the model developed for this study will be provided to the City of Bellevue, and continued analysis will be able to be conducted to better understand the impact of each public amenity on a project's potential returns versus the benefit they receive from a density bonus. Using generalized prototypes is ideal to help inform the potential impacts a program would have on a range of development but will properly capture all projects given the unique nature of development. Depending on the site and proposed project, a developer may not benefit from a density bonus as it could require a switch in construction type therefore driving up construction costs. Unique cases such as this are unable to be captured by the more generalized analysis presented in this study. Lastly, the poor market conditions that are currently making development very difficult makes policy implications hard to test as return metrics are generally very poor. This required the analysis to use inputs not always aligned with current market conditions in order to gain a better understanding of the impact of the program on developments showing positive returns.

## Development Prototypes

**Exhibit 10** and **Exhibit 11** present the development assumption for the base scenario prototypes. The models are generalized to not specify the number of buildings to be built on the designated site size and could represent multiple buildings given the large site sizes.<sup>5</sup> Under the base scenario, each prototype nears or reaches the maximum density allowed per the City of Bellevue’s guidance (**Exhibit 12**). Each of the residential prototypes is assumed to be a mixed-use development with ground floor retail. Current parking requirements were informed by King County’s Multifamily Residential Parking Calculator for higher density areas in BelRed and Downtown Bellevue for residential parking requirements, in addition to current BelRed parking requirements for retail space.<sup>6</sup>

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<sup>5</sup> The pro forma models do not assume a phased built out; this reduces the number of assumptions required and keeps the model flexible to test a range of additional amenities to incentivize higher density building.

<sup>6</sup> Right Size Parking: King County Multi-Family Residential Parking Calculator.

### Exhibit 10. Base Scenario Residential Development Prototypes

Inputs	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Notes
<b>Development Inputs</b>				
Building Footprint	36,750	21,700	50,750	square feet
Site Size	105,000	62,000	145,000	square feet
Gross Building Area (excluding parking)	735,000	130,200	659,750	square feet
Gross Building Area (with parking)	888,075	158,150	798,200	square feet
Net Floor Area	624,750	110,670	560,788	square feet
Residential	593,513	92,225	517,650	square feet
Commercial	31,238	18,445	43,138	square feet
Floor Area Ratio (FAR)	7.00	2.10	4.55	square feet
Building Height	243	75	159	feet
Above Grade Floor Count	20	6	13	floors
Below Grade Floor Count (parking)	5	2	3	floors
Total Units	879	136	766	units
<b>Unit Mix</b>				
Studio	30%	30%	30%	of total units
1-Bedroom	60%	60%	60%	of total units
2-Bedroom	10%	10%	10%	of total units
3-Bedroom	0%	0%	0%	of total units
<b>Parking Requirements</b>				
Residential	0.5	0.5	0.5	per unit
Retail	1.00	1.00	1.00	units per 1,000 sf
Office	n/a	n/a	n/a	units per 1,000 sf

*Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.*

The office prototypes assume mixed-use office developments with ground floor retail. Current parking requirements were informed by current BelRed requirements for retail and office space.

**Exhibit 11. Base Scenario Office Development Prototypes**

<b>Inputs</b>	<b>Mixed-Use Office Mid-rise</b>	<b>Medical Office High-rise</b>	<b>Notes</b>
<b>Development Inputs</b>			
Building Footprint	21,700	50,750	square feet
Site Size	62,000	145,000	square feet
Gross Building Area (excluding parking)	130,200	659,750	square feet
Gross Building Area (with parking)	195,850	1,010,100	square feet
Net Floor Area	110,670	560,788	square feet
Residential	0	0	square feet
Commercial	110,670	560,788	square feet
Floor Area Ratio (FAR)	2.10	4.55	square feet
Building Height	75	159	feet
Above Grade Floor Count	6	13	floors
Below Grade Floor Count (parking)	4	7	floors
Total Units	n/a	n/a	units
<b>Unit Mix</b>			
Studio	n/a	n/a	of total units
1-Bedroom	n/a	n/a	of total units
2-Bedroom	n/a	n/a	of total units
3-Bedroom	n/a	n/a	of total units
<b>Parking</b>			
Residential	n/a	n/a	per unit
Retail	1.00	1.00	units per 1,000 sf
Office	2.00	2.00	units per 1,000 sf

*Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.*

Maximum densities are portrayed as height and FAR limits (**Exhibit 12**). Height limits for the urban core prototype increase from 250 feet to 450 feet under the base and maximum upzone scenarios with no FAR limit under the maximum upzone scenario. The two high-rise prototypes see a 90-foot increase in the height limits from the base to the maximum upzone scenario. The residential high-rise prototype has no FAR limit under the maximum upzone scenario, while the office high-rise has an assumed FAR limit of 8. The two mid-rise prototypes see no height bonuses but do receive a 1.5 FAR bonus from the base to the maximum upzone scenario.

**Exhibit 12. Base and Maximum Upzone Scenario Maximum Densities**

Prototype	Height (feet)		FAR	
	Base	Max	Base	Max
Urban Core	250	450	8.0	Unlimited
Mixed-Use Residential Mid-rise	100	100	2.5	4.0
Mixed-use High-rise	160	250	6.0	Unlimited
Mixed-Use Office Mid-rise	100	100	2.5	4.0
Medical Office High-rise	160	250	6.0	8.0

Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

The analysis assumes that each development prototype will be built to or near the maximum density under the maximum upzone scenario.

**Exhibit 13. Maximum Upzone Scenario Residential Development Prototypes**

Inputs	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Notes
<b>Development Inputs</b>				
Building Footprint	36,750	34,100	50,750	square feet
Site Size	105,000	62,000	145,000	square feet
Gross Building Area (excluding parking)	1,359,750	204,600	1,015,000	square feet
Gross Building Area (with parking)	1,640,550	248,800	1,226,250	square feet
Net Floor Area	1,155,788	173,910	862,750	square feet
Residential	1,124,550	144,925	819,613	square feet
Commercial	31,238	28,985	43,138	square feet
Floor Area Ratio (FAR)	12.95	3.30	7.00	square feet
Building Height	447	75	243	feet
Above Grade Floor Count	37	6	20	floors
Below Grade Floor Count (parking)	8	2	5	floors
Total Units	1,666	214	1,214	units
<b>Unit Mix</b>				
Studio	30%	30%	30%	of total units
1-Bedroom	60%	60%	60%	of total units
2-Bedroom	10%	10%	10%	of total units
3-Bedroom	0%	0%	0%	of total units
<b>Parking Requirements</b>				
Residential	0.50	0.50	0.50	per unit
Retail	1.00	1.00	1.00	units per 1,000 sf
Office	n/a	n/a	n/a	units per 1,000 sf

Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

## Exhibit 14. Maximum Upzone Scenario Office Development Prototypes

Inputs	Mixed-Use Office Mid-rise	Medical Office High-rise	Notes
<b>Development Inputs</b>			
Building Footprint	34,100	50,750	square feet
Site Size	62,000	145,000	square feet
Gross Building Area (excluding parking)	204,600	1,015,000	square feet
Gross Building Area (with parking)	308,275	1,561,650	square feet
Net Floor Area	173,910	862,750	square feet
Residential	0	0	square feet
Commercial	173,910	862,751	square feet
Floor Area Ratio (FAR)	3.30	7.00	square feet
Building Height	75	243	feet
Above Grade Floor Count	6	20	floors
Below Grade Floor Count (parking)	4	11	floors
Total Units	n/a	n/a	units
<b>Unit Mix</b>			
Studio	n/a	n/a	of total units
1-Bedroom	n/a	n/a	of total units
2-Bedroom	n/a	n/a	of total units
3-Bedroom	n/a	n/a	of total units
<b>Parking Requirements</b>			
Residential	n/a	n/a	per unit
Retail	1.00	1.00	units per 1,000 sf
Office	2.00	2.00	units per 1,000 sf

Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

### Model Inputs and Assumptions

This section presents the inputs and assumptions used in the pro forma models. Current market conditions have put a strain on the feasibility of multifamily and commercial development, especially for higher density projects with higher construction costs. This analysis is forward looking and informs a long-term planning process for Wilburton. As such, certain assumptions reflect market trends and anticipated shifts in key inputs to the model, such as interest rates.

Market rate residential rents are informed by average rents and comparable properties in Downtown Bellevue for the higher density prototypes and Downtown Bellevue and Bellevue's Spring District for the medium density prototype. Depending on bedroom count and



development density, market rate rents are assumed to range from \$3.45 to \$4.50 per square foot per month (**Exhibit 15**).

**Exhibit 15. Market Rate Residential Rents by Prototype**

Unit Size	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Notes
Studio	\$4.50	\$4.20	\$4.50	/sf/month
1-Bedroom	\$4.20	\$3.85	\$4.20	/sf/month
2-Bedroom	\$3.85	\$3.65	\$3.85	/sf/month
3-Bedroom	\$3.65	\$3.45	\$3.65	/sf/month

Sources: CoStar, 2024; Zillow, 2024; Community Attributes Inc., 2024.

Monthly affordable rent limits are informed by the latest ARCH guidance, which was released in 2023 (**Exhibit 16**). In the pro forma model, affordable rents consider parking and utility allowances for each affordable unit (**Exhibit 17**).

**Exhibit 16. Monthly Affordable Rent Limits by Area Median Income (AMI) Level**

AMI	Studio	1-Bedroom	2-Bedroom	3-Bedroom
30%	\$769	\$824	\$989	\$1,143
35%	\$897	\$961	\$1,154	\$1,333
40%	\$1,026	\$1,099	\$1,319	\$1,524
45%	\$1,154	\$1,236	\$1,483	\$1,714
50%	\$1,282	\$1,373	\$1,648	\$1,905
55%	\$1,410	\$1,511	\$1,813	\$2,095
60%	\$1,538	\$1,648	\$1,978	\$2,285
65%	\$1,666	\$1,785	\$2,143	\$2,476
70%	\$1,795	\$1,923	\$2,307	\$2,666
75%	\$1,923	\$2,060	\$2,472	\$2,857
80%	\$2,051	\$2,198	\$2,637	\$3,047
85%	\$2,179	\$2,335	\$2,802	\$3,238
90%	\$2,307	\$2,472	\$2,967	\$3,428
95%	\$2,436	\$2,610	\$3,131	\$3,619
100%	\$2,564	\$2,747	\$3,296	\$3,809
105%	\$2,692	\$2,884	\$3,461	\$3,999
110%	\$2,820	\$3,022	\$3,626	\$4,190
120%	\$3,077	\$3,296	\$3,956	\$4,571

Source: ARCH, 2023; Community Attributes Inc., 2024.

**Exhibit 17. Affordable Housing Utility and Parking Allowances (per month per unit)**

<b>Allowance</b>	<b>Studio</b>	<b>1-Bedroom</b>	<b>2-Bedroom</b>	<b>3-Bedroom</b>
Utilities	\$161	\$191	\$235	\$288
Parking	\$99	\$99	\$99	\$99
<b>Total</b>	<b>\$260</b>	<b>\$290</b>	<b>\$334</b>	<b>\$387</b>

Source: ARCH, 2023; Community Attributes Inc., 2024.

Downtown Bellevue’s office rents for buildings currently under construction helped informed commercial rental inputs for the mid-rise and medical office prototypes. CoStar indicates that tenants in Class A office buildings currently under construction are expected to pay lease rates between \$50 to \$56 per square foot per year. These tenants are mostly big tech companies and are able to pay rates not necessarily achievable by all tenants. However, given the vision for Wilburton as an additional economic hub and higher density zone for Bellevue, the analysis allows for higher office rents compared to the rents suggested by Bellevue’s aggregate office space data in CoStar. Retail rents are assumed to align with average rents per CoStar’s aggregate data for the City of Bellevue for early 2024. Residential parking rental rates represent the monthly rent for a structured parking stall and were informed by the King County Multi-Family Parking Calculator for higher density areas in BelRed and Downtown Bellevue (**Exhibit 18**).

**Exhibit 18. Commercial and Parking Rents**

	<b>Urban Core</b>	<b>Mixed-Use Residential Mid-rise</b>	<b>Mixed-use High-rise</b>	<b>Mixed-Use Office Mid-rise</b>	<b>Medical Office High-rise</b>	<b>Notes</b>
<b>Market Rate Commercial Rents</b>						
Office	n/a	n/a	n/a	\$48	\$45	/sf/year (gross)
Retail	\$40	\$40	\$40	\$40	\$40	/sf/year (NNN)
<b>Subsidized Commercial Rents</b>						
Retail	n/a	n/a	n/a	n/a	n/a	/sf/year (gross)
Office	\$20	\$20	\$20	\$20	\$20	/sf/year (NNN)
<b>Parking Rents</b>						
Residential	\$235	\$235	\$235	n/a	n/a	/stall/month
Office	n/a	n/a	n/a	\$200	\$200	/stall/month
Retail	\$0	\$0	\$0	\$0	\$0	/stall/month

Source: City of Bellevue, 2024; CoStar, 2024; Community Attributes Inc., 2024.

**Exhibit 19** presents vacancy rate and operating expense assumptions used in the analysis. Vacancy rates were informed by CoStar market data for Bellevue and best practices assumptions.

## Exhibit 19. Vacancy Rates and Operating Expenses

	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Mixed-Use Office Mid- rise	Medical Office High-rise	Notes
<b>Financing</b>						
Construction Timeline	30	30	30	30	30	months
Construction Interest Rate	7.5%	7.5%	7.5%	7.5%	7.5%	
Loan-to-Cost	55%	55%	55%	55%	55%	
<b>Construction Costs</b>						
Hard Costs	\$385	\$265	\$385	\$340	\$400	per sf
Parking Costs	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	per stall
Soft Costs	25%	25%	25%	25%	25%	of hard costs
Contingency	5%	5%	5%	5%	5%	of hard costs
<b>Tenant Improvements</b>						
Office	n/a	n/a	n/a	\$100	\$100	per net sf
Retail	\$100	\$100	\$100	\$100	\$100	per net sf
Site Prep	\$10	\$10	\$10	\$10	\$10	per sf
Open Space Development	\$5	\$5	\$5	\$5	\$5	per sf
<b>Capitalization Rates</b>						
Cap Rate	4.75%	4.75%	4.75%	7.00%	7.00%	

*Source: City of Bellevue, 2024; CoStar, 2024; Community Attributes Inc., 2024.*

*Note: EGI = Effective Gross Income.*

**Exhibit 20** presents inputs pertaining to construction costs in addition to capitalization rates (cap rates). Hard costs are informed by Rider, Levett, and Bucknall’s quarterly construction cost report. Hard costs range from \$265 per square foot for mid-density development to \$400 per square foot for high density development. Parking costs were informed by stakeholder feedback. Cap rates were informed by CBRE’s Cap Rate Survey H2 2023. CBRE’s Cap Rate Survey suggests that many investors and industry professionals feel cap rates have peaked in H2 2023 and expect market cap rates to begin declining.<sup>7</sup> Aligning with this positive market sentiment, the modelling assumptions use estimates from the lower end of the estimated H2 2023 cap rate ranges.

Market sentiment regarding interest rates has also been positive in early 2024. After its December 2023 meeting, the U.S. Federal reserve has communicated publicly an intent to perform three interest rate cuts in 2024, with the first predicted as early as May. By Q2 of 2024, inflation has started to recede, however, the Federal Open Market Committee has signaled that it wants to see more positive data before

<sup>7</sup> “United State Cap Rate Survey H2 2023”, CBRE, March 2024.

pulling the trigger.<sup>8</sup> These positive sentiments have been reflected in the construction interest rates assumptions used in the modelling.<sup>9</sup>

### Exhibit 20. Development Cost Inputs and Capitalization Rates

	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Mixed-Use Office Mid-rise	Medical Office High-rise	Notes
<b>Financing</b>						
Construction Timeline	30	30	30	30	30	months
Construction Interest Rate	7.5%	7.5%	7.5%	7.5%	7.5%	
Loan-to-Cost	55%	55%	55%	55%	55%	
<b>Construction Costs</b>						
Hard Costs	\$400	\$240	\$385	\$340	\$450	per sf
Parking Costs	\$75,000	\$75,000	\$75,000	\$75,000	\$75,000	per stall
Soft Costs	25%	25%	25%	25%	25%	of hard costs
Contingency	5%	5%	5%	5%	5%	of hard costs
Tenant Improvements						
Office	n/a	n/a	n/a	\$100	\$100	per net sf
Retail	\$100	\$100	\$100	\$100	\$100	per net sf
Site Prep	\$10	\$10	\$10	\$10	\$10	per sf
Open Space Development	\$5	\$5	\$5	\$5	\$5	per sf
<b>Capitalization Rates</b>						
Cap Rate	4.75%	4.75%	4.75%	7.00%	7.00%	

Source: City of Bellevue, 2024; CoStar, 2024; CBRE, 2024; Rider, Levett, and Bucknall, 2024; Community Attributes Inc., 2024.

## Findings and Implications

### Model Outputs and Findings

Pro forma outputs are presented as residual land value per square foot for the hypothetical site sizes associated with each prototype and utilize a range of capitalization rates to show the sensitivity of output metrics to potential changes in market conditions. Residual land value is most sensitive to the cap rate variable, and therefore cap rates have been chosen as the variable with which sensitivity analysis was conducted. Residual land value per square foot for the base and maximum upzone scenarios are presented for each cap rate value ranging from 0.25% above and 0.25% below a chosen center point informed by market data.

The model created for this study aims to test a range of amenities which could not all be covered in this version of the analysis. The City of Bellevue noted an interested in promoting affordable housing development and incentivizing high density development, so the

<sup>8</sup> Neubauer & Avery (2024), "[When Will the Fed Cut Interest Rates in 2024?](https://www.cnbc.com)", CNBC. Web Address: [cnbc.com](https://www.cnbc.com)

<sup>9</sup> "Fed on track to cut rates this year with inflation slowing and the economy healthy, Powell says," Association Press, February 2024.

analysis focuses on the affordable housing and affordable housing in-lieu fee amenities and assumes the total density bonus available under the maximum upzone scenario would be used.

The base scenario captures residential developments required to provide 10% of units at 80% of area median income (AMI) and commercial developments required to pay an in-lieu fee of \$23.09 per square foot for 10% of the total commercial square footage. No density bonus is provided under the base scenario. Under the maximum upzone scenario, developments are assumed to earn density bonuses through a height increase, see **Exhibit 12**, by providing additional affordable housing or paying additional in-lieu fees. For every 1 additional square foot of affordable housing space provided at 80% AMI, the City of Bellevue would grant 2.5 square feet in additional market rate housing. For the commercial prototypes, \$23.09 in in-lieu fees must be paid for each additional square foot obtained under the maximum upzone scenario. The base and maximum upzone scenario are compared to a baseline, which represents a fully market-rate development with no affordable housing requirements.

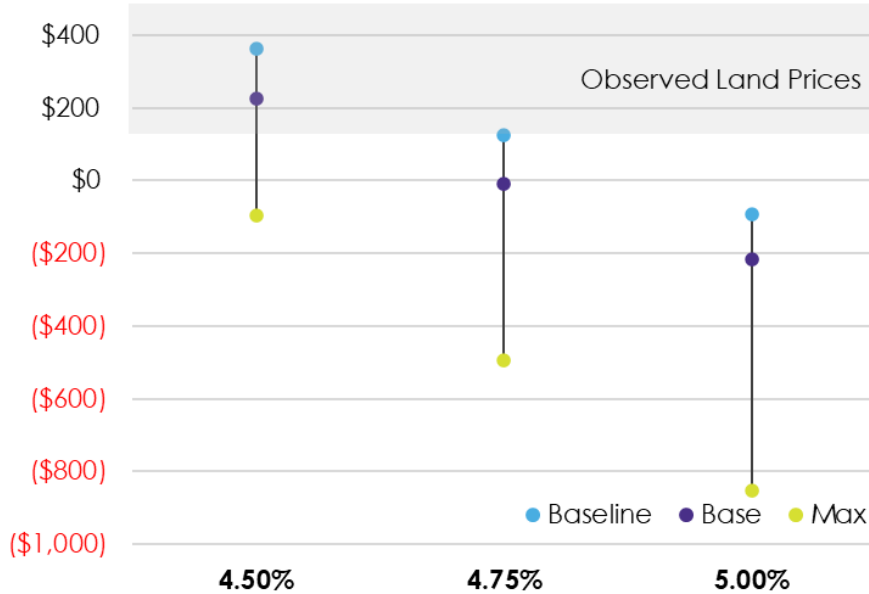
In terms of RLV per square foot, the density bonus associated with the maximum upzone scenario does not incentivize higher density development under the assumptions used and all. However, the gap between the base and maximum upzone scenario tightens from the highest cap rate to the lowest cap rate, suggesting the density bonus associated with the maximum upzone scenario could prove to be an appropriate incentive in more favorable market conditions. To help conceptualize feasibility, the range of observed land prices per square foot are included as a gray shaded area in each exhibit, where applicable. For land comps zoned for medium- to high-density residential development, land comps varied from around \$145 per square foot to as high as \$625 per square foot.

To earn the total density bonus awarded under the maximum upzone scenario, the Urban Core prototype would need to provide 29% of total units as affordable to incomes levels of 80% of AMI or lower. Compared to the baseline, the base and maximum upzone scenario show a negative impact on RLV, with the base scenario falling about \$150 lower, and the maximum upzone scenario falling about \$450 lower than the baseline.

**Exhibit 21. Urban Core Prototype  
Base and Maximum Upzone Scenario  
Requirements and RLV/sf by Cap Rate**

Affordable Housing	Baseline	Scenario	
		Base	Max
Units	0%	10%	29%
AMI	0%	80%	80%

**Residual Land Value per Square Foot**



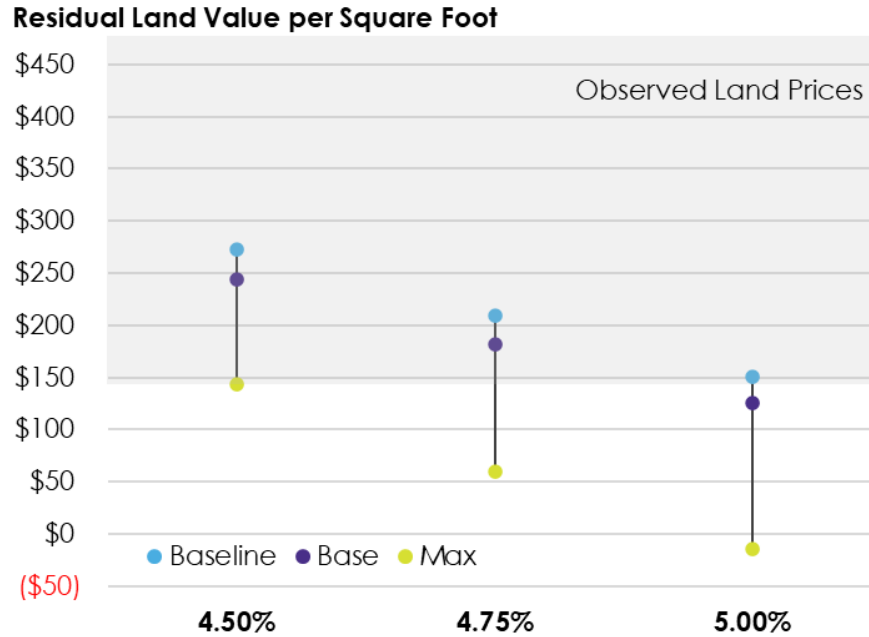
Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

Note: The range of observed land prices is included in exhibits, where applicable, and are indicated by the gray shaded area.

The mixed-use mid-rise prototype would need to provide 25% of total units as affordable to households earning 80% or less of the area median income to earn the bonus density associated with the maximum upzone scenario. Under the assumptions used for this analysis, the pro forma model suggests the density bonus associated with the maximum upzone scenario would not provide an incentive to provide additional amenities. The base scenario has a smaller impact on RLV, causing about a \$25 decrease in RLV compared to the baseline, while the maximum upzone scenario saw an RLV decrease from \$170 to \$200 depending on the cap rate.

**Exhibit 22. Residential Mixed-Use Mid-rise Prototype  
Base and Maximum Upzone Requirements and RLV/sf by Cap Rate**

Affordable Housing	Baseline	Scenario	
		Base	Max
Units	0%	10%	25%
AMI	0%	80%	80%

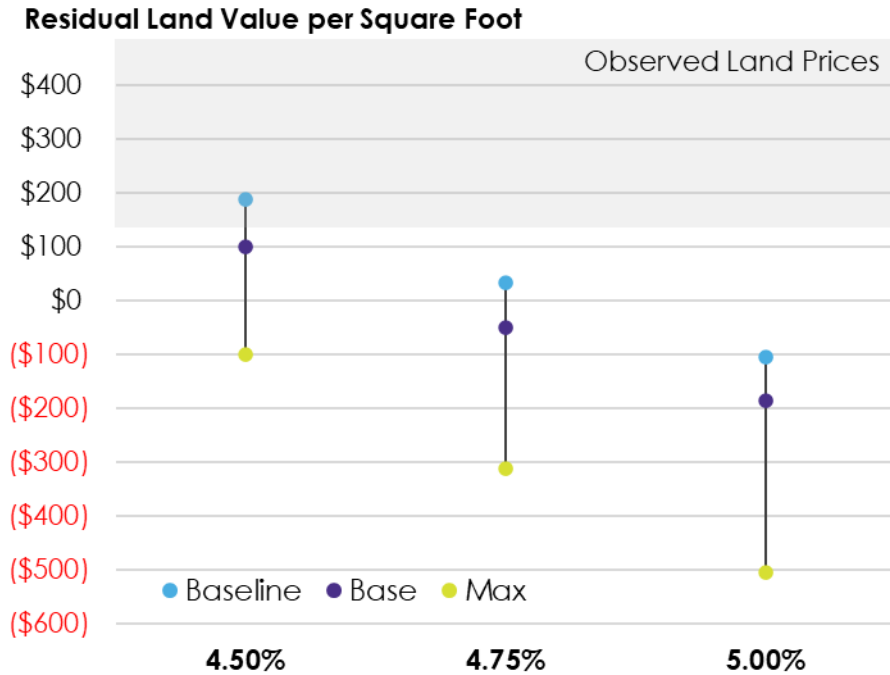


Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

Like the tower and mid-rise residential prototypes, the high-rise prototype shows a smaller impact on RLV for the base requirements with no density bonus compared to the baseline, than the impact of the maximum upzone scenario requirements with the density bonus. The base scenario shows a decrease in RLV of about \$85, while the maximum upzone scenario shows a decrease of roughly \$350 compared to the baseline.

**Exhibit 23. Mixed-Use Residential High-rise Prototype  
Base and Maximum Upzone Requirements and RLV/sf by Cap Rate**

Affordable Housing	Baseline	Scenario	
		Base	Max
Units	0%	10%	25%
AMI	0%	80%	80%



Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

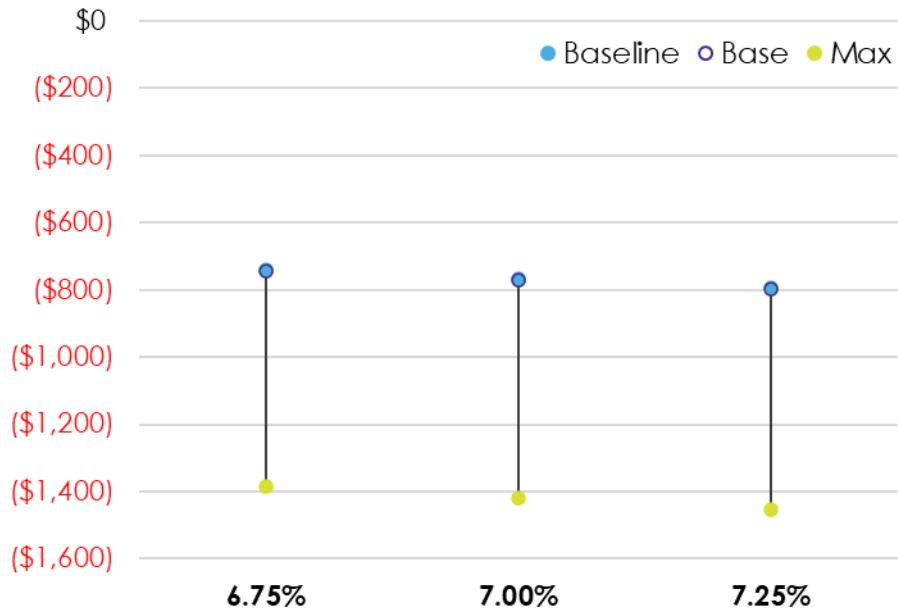
The in-lieu fee charged under the base scenario is small enough that it has a near-zero impact on the RLV from the base scenario to the baseline. The in-lieu fee needed to achieve the full density bonus associated with the maximum upzone scenario has a large negative impact on the RLV of the mid-rise office prototype.



**Exhibit 24. Mixed-Use Office Mid-rise Prototype  
Base and Maximum Upzone Requirements and RLV/sf by Cap Rate**

In-lieu Fee	Baseline	Scenario	
		Base	Max
Per Bonus SF	\$23	\$23	\$23
Total Fee	\$0	\$253,782	\$1,534,330

**Residual Land Value per Square Foot**



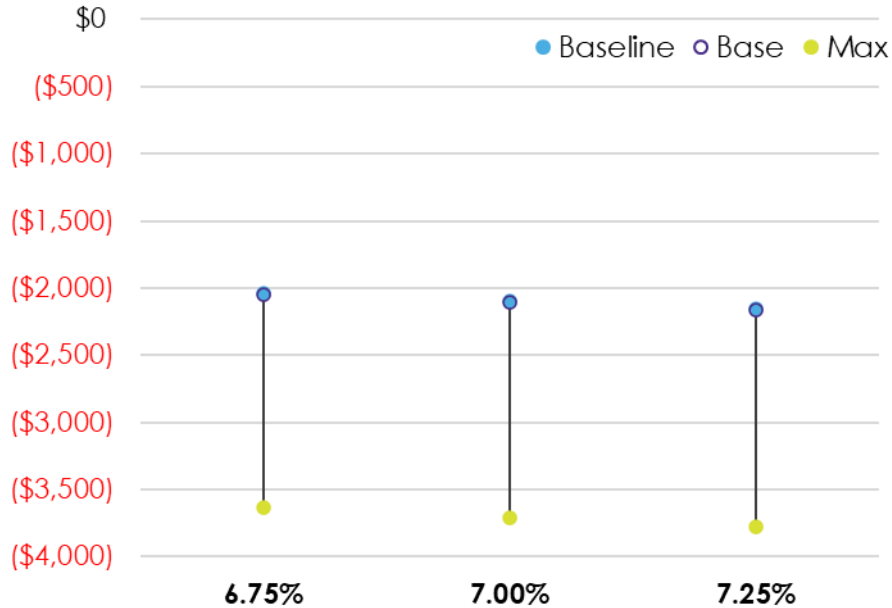
Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

Like the mid-rise office prototype, the in-lieu fee charged under the base scenario is small enough that it has a near-zero impact on the RLV from the base scenario to the baseline. The in-lieu fee charged for the maximum upzone scenario has a large negative impact on the RLV compared to the baseline and base scenario.

**Exhibit 25. Medical Office High-rise Prototype  
Base and Maximum Upzone Scenario Requirements and RLV/sf by  
Cap Rate**

In-lieu Fee	Base	Scenario	
		Base	Max
Per Bonus SF	\$23	\$23	\$23
Total Fee	\$0	\$1,424,451	\$8,677,291

**Residual Land Value per Square Foot**



Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

Residual land value is one output metric that is useful when analyzing affordable housing policy. There are a range of output metrics used in development pro forma analysis, each achieving a similar goal while factoring in differing information that may better suit an end user. For example, yield on cost (YOC) is a common metric used to determine the potential yield of a development that considers the net operating income and total project cost of a development. **Exhibit 26** presents the yield on cost for each prototype tested under the same assumptions laid out above. This approach requires an assumption of land acquisition costs (whereas the RLV models produce a theoretical willingness to pay to then compare to market land prices). Land prices were estimated using comps, but likely do not reflect current market conditions due to the limited number of recent land transactions in Bellevue.

The yield on cost outputs suggests the density bonus associated with the maximum upzone scenario, and the corresponding affordable housing requirements, had a small impact on the estimated project

return. The analysis supports the finding of a general lack of feasibility under current market conditions, especially for the higher density and commercial prototypes. Typically, developers like to see yields 1.25% to 2% above capitalization rates. This would suggest required yields of 6% to 6.75% using the cap rate assumption for this model, which is lower than current cap rate per stakeholder feedback.

**Exhibit 26. Yield on Cost by Prototype**

	Urban Core	Mixed-Use Residential Mid-rise	Mixed-use High-rise	Mixed-Use Office Mid-rise	Medical Office High-rise
<b>Land Price Assumption</b>	<b>\$300</b>	<b>\$150</b>	<b>\$240</b>	<b>\$150</b>	<b>\$240</b>
<b>Yield on Cost</b>					
<b>Baseline Scenario</b>	4.565%	5.005%	4.422%	3.138%	2.815%
Base	4.425%	4.886%	4.287%	3.130%	2.808%
Max	4.346%	4.481%	4.153%	2.683%	2.369%

*Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.*

### **Residential In-lieu Fees**

An in-lieu fee program for residential projects would raise funds for affordable units in off-site locations, rather than providing affordable units onsite in the urban core, mixed-use residential mid-rise, and mixed-use high-rise prototypes. The impact of the in-lieu fees on mid- and high-rise residential projects are analyzed assuming developer uptake of an in-lieu fee option. This analysis uses the current residential in-lieu fee rate of \$28.07 per bonus square foot from the BelRed Amenity Incentive program.<sup>10</sup>

The in-lieu fees included in this analysis are not recommendations for in-lieu fees in Wilburton. Rather, they are an assumption used to show the impact to project feasibility of paying an in-lieu fee rather than providing affordable housing on-site. When considering what fee levels should be chosen for affordable housing in-lieu fees, the City should consider conducting a nexus study to gain a more detailed understanding of supportable fee levels.

Similar to the commercial prototypes, the in-lieu fee under the base scenario had minimal impact on RLV/sf for each of the residential prototypes (**Exhibit 27 - Exhibit 29**). Additionally, the negative impact on the RLV/sf is less for the in-lieu fee options compared to providing affordable housing on-site (as seen across all model outputs). For the

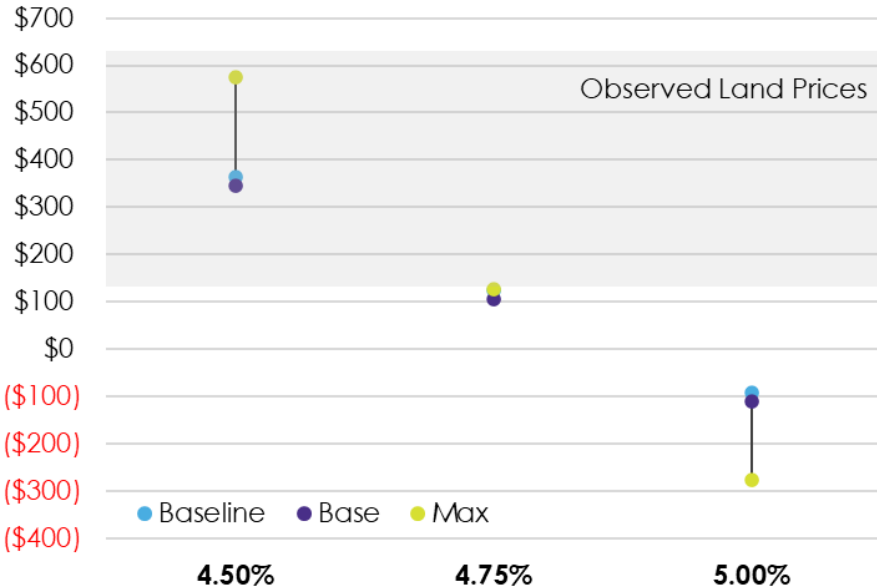
<sup>10</sup> Bel-Red FAR Amenity Standards: Fee in-Lieu, City of Bellevue.

urban core prototype, the analysis suggests the in-lieu fee under the maximum upzone scenario negatively impacts RLV/sf under the 5.00% cap rate compared to the baseline, but as cap rates decrease the impact reverses and an increase in RLV/sf is seen compared to the baseline RLV/sf (**Exhibit 27**).

**Exhibit 27. Urban Core Prototype  
Base and Maximum Upzone Scenario Requirements  
and RLV/sf by Cap Rate, In-lieu Fee Option**

In-lieu Fee	Baseline	Scenario	
		Base	Max
Per Bonus SF	\$28	\$28	\$28
Total Fee	\$0	\$1,961,598	\$21,555,283

**Residual Land Value per Square Foot**



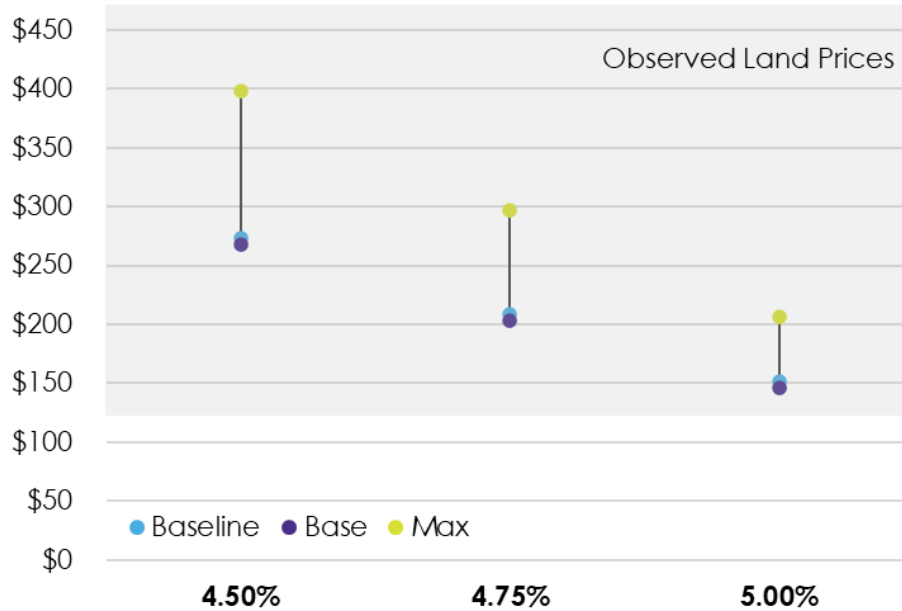
Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

The mid-rise prototype showed higher RLV/sf for the maximum upzone scenario earned through paying an affordable housing in-lieu fee for each cap rate analyzed compared to the baseline (**Exhibit 28**). This may be due to the fact that development conditions are more favorable for mid-rise construction compared to high-rise construction, primarily represented through cheaper construction costs.

**Exhibit 28. Residential Mixed-Use Mid-rise Prototype  
Base and Maximum Upzone Requirements and  
RLV/sf by Cap Rate, In-lieu Fee Option**

In-lieu Fee	Baseline	Scenario	
		Base	Max
Per Bonus SF	\$28	\$28	\$28
Total Fee	\$0	\$312,072	\$2,229,088

**Residual Land Value per Square Foot**



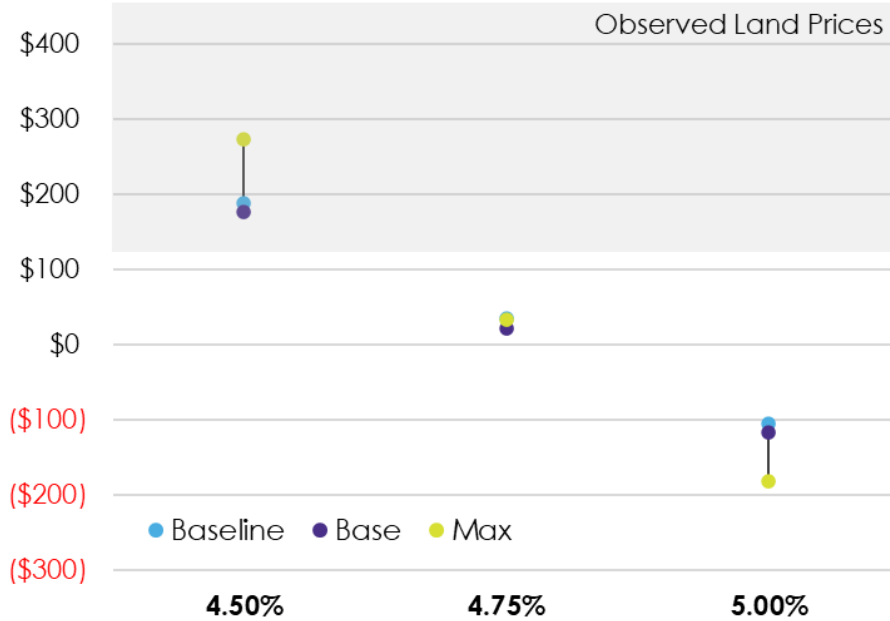
Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

Analysis of the mixed-use residential high-rise prototype aligned with the urban core prototype. The analysis suggests the in-lieu fee under the maximum upzone scenario negatively impacts RLV/sf under the highest cap rate compared to the baseline, but that RLV/sf begins to increase compared to the baseline as cap rates decrease (**Exhibit 27**).

**Exhibit 29. Mixed-Use Residential High-rise Prototype  
Base and Maximum Upzone Requirements and RLV/sf by Cap Rate,  
In-lieu Fee Option**

In-lieu Fee	Baseline	Scenario	
		Base	Max
Per Bonus SF	\$28	\$28	\$28
Total Fee	\$0	\$1,716,398	\$12,705,803

**Residual Land Value per Square Foot**



Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

**The Role of Rent Prices**

To understand the role of rent prices on RLV and YOC, current rents were compared to rent levels that developers suggested are necessary to see development’s obtain financial feasibility. RLV under the high rents scenario suggests that if rental rates are high enough, and all other inputs remain constant from the current rent scenario, that the bonus associated with the maximum upzone scenario begins to become incentivizing for higher density developments (**Exhibit 30**).

**Exhibit 30. Rent Price Analysis**

	Current Rents			Needed Rents		
	Baseline	Scenario		Baseline	Scenario	
		Base	Max		Base	Max
<b>Urban Core</b>						
Average Rent (market rate)		\$4.26			\$6.06	
RLV	\$125	(\$8)	(\$494)	\$1,853	\$1,549	\$1,943
Yield on Cost	4.626%	4.484%	4.310%	6.392%	6.070%	5.724%
<b>Mixed-Use Residential Mid-rise</b>						
Average Rent (market rate)		\$3.93			\$5.06	
RLV	\$209	\$181	\$60	\$492	\$436	\$396
Yield on Cost	5.005%	4.886%	4.481%	6.232%	5.988%	5.487%
<b>Mixed-use High-rise</b>						
Average Rent (market rate)		\$4.25			\$6.06	
RLV	\$34	(\$51)	(\$314)	\$1,125	\$930	\$984
Yield on Cost	4.422%	4.287%	4.153%	6.159%	5.849%	5.553%

*Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.*

**Residual Land Value and Yield on Cost Dynamics**

RLV does not show the same decrease as YOC because RLV is concerned with the **difference** between a potential sale price, also known as the cap value, and total development costs while YOC is concerned with what **share** income represents of total development costs.<sup>11</sup> As a result of the different calculations, RLV and YOC respond differently when revenues and costs increase.

To illustrate, imagine that net operating income (NOI), and by extension cap value, and total development costs (TDC)<sup>12</sup> are increasing at the same rate. As the cap value and TDCs increase at the same rate, the difference between these two metrics will grow.<sup>13</sup> The difference between the cap value and total development costs represents RLV, suggesting that if the marginal increase in revenues (NOI) and costs (total development costs) is the same, RLV will still increase as each value grows. Meanwhile, YOC is calculated by dividing NOI by the TDC. If NOI increases at the same rate as TDCs, the YOC will not

<sup>11</sup> Note: Because cap value is calculated using the cap rate, a constant variable, and net operating income, net operating income and cap value increase by the same percentage amount when rental revenues or other revenue inputs are manipulated.

<sup>12</sup> While RLV considers total development cost less the cost of land, for simplicity the example proceeds with referencing total development costs.

<sup>13</sup> The difference between 10 and 100 (90) is less than 11 and 110 (99).

change.<sup>14</sup> Thus, in a situation where the RLV grows, the YOC can remain unchanged.

## Implications

- Current outputs suggest the maximum upzone scenario density bonus **does not** incentivize providing 25% to 29% of units affordable at 80% AMI.
- If the current BelRed in-lieu fee were used, the residual land value analysis suggests the maximum upzone scenario **is incentivizing** for the mixed-use residential mid-rise prototype under the assumptions utilized in this analysis.
- The required 10% of units affordable at 80% AMI for the base scenario has a **smaller negative impact** on output metrics for the lowest density prototype (mixed-use residential mid-rise) compared to the two residential high-rise prototypes.
- Cap rate sensitivity testing shows that the **difference between baseline and base scenarios** stay similar across each cap rate.
- Cap rate sensitivity shows the **maximum upzone scenario outputs are most impacted by cap rate changes**, with the maximum upzone scenario showing a smaller difference in RLV compared to the baseline when cap rates decrease (lower cap rates suggest a stronger market).
- Beyond output metrics, the **required levels of affordable housing to earn the maximum upzone density bonus are high** (25% to 29% of total units) for units at 80% AMI, the City may want to consider increasing the current bonus ratio to reduce the number units needed to earn the maximum upzone scenario density bonus if affordable housing is a major focus of the program.
- The maximum upzone density bonus largely increases the total development costs of a project, **50% to 80% before land**, greatly changing the scope of a potential project.
- An **increase in RLV and a decrease in YOC** from the baseline to the maximum upzone scenario suggest that costs are increasing at a higher rate than incomes and therefore the bonus density could be considered not incentivizing by some builders.
- High parking ratios can significantly increase the cost of construction and decrease output metrics.

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<sup>14</sup> The share of 10/100 (10%) is the same as 11/110 (10%).



## ADDITIONAL CONSIDERATIONS AND CONCLUSION

Beyond the impact a program has on a project's return, cities should understand additional impacts a program will have on development projects. For example, whether the large density bonus associated with the maximum upzone scenario shows a positive impact on RLV or not, the bonus will likely not always be fully utilized given the large jump in total costs associated with such a large bonus and the constraints these additional costs may put on a developer's ability to secure equity and debt funding.

Additionally, utilizing an amenity incentive program will also come with additional administrative and potential time burdens that some developers may not want to undertake. This includes the ongoing administrative cost of managing affordable housing, which is often noted as a disincentive of affordable housing programs by regional stakeholders.

### **Conclusion**

The analysis conducted for this report generally suggests that higher density residential and office development are currently infeasible and would not benefit from the bonus densities proposed for the LUCA in exchange for public amenities. However, the poor market conditions currently experienced in residential and commercial development create limitations for the analysis. The mixed-use residential mid-rise prototype analysis suggests the density bonuses offered under the maximum upzone scenario incentivize the provision of public amenities. Current market conditions deter higher-density development market-wide, which creates uncertainty about whether high-rise and office prototypes would be feasible under the same incentive policies.

The analysis only considers providing affordable housing or paying an in-lieu fee to achieve bonus density. This leaves an opportunity for the City of Bellevue to analyze bonus density feasibility through the other amenities proposed. Additionally, the City could look consider smaller increments for bonus density, rather than assuming a developer will want to provide the required additional amenities in order to utilize the full bonus density available. Next steps for the City may include re-engaging developers to gain their perspective on future market conditions, in addition to the preferred amenities and bonuses among those selected by the City.

## APPENDIX: ACRONYMS AND DEFINITIONS

**AMI:** Area Median Income. The midpoint of a specific area's income distribution calculated on an annual basis by the Department of Housing and Urban Development.<sup>15</sup>

**ARCH:** A Regional Coalition for Housing. The King County and Eastside partnership working to preserve and increase the supply of affordable and moderate housing in the region.<sup>16</sup>

**CAGR:** Compound Annual Growth Rate. The mean annual growth rate over a specified period of time.<sup>17</sup>

**EIS/FEIS:** Environmental Impact Statement and Final Environmental Impact Statement. Required by the State Environmental Policy Act, Comprehensive Plan updates. The Wilburton study area has undergone an EIS; the FEIS was published in February 2024 and identifies a Preferred Alternative to distribute growth in the study area that aligns with regional requirements for equity, climate change, housing, as well as City Council priorities and vision.<sup>18</sup>

**FAR:** Floor Area Ratio. The measurements of a building's floor area in relation to the size of the lot or parcel that the building is located on.

**LUCA:** Land Use Code Amendment. The City process under which the Wilburton study area is undergoing zoning code changes to achieve the Wilburton Vision. This economic analysis will inform policy and decisionmakers overseeing this process.<sup>19</sup>

**NNN:** Triple Net Lease. Typically a commercial lease where the lessee pays rent and utilities as well as three other types of property expenses: insurance, maintenance, and taxes.<sup>20</sup>

**NOI:** Net Operating Income. A calculation used to determine the profitability of real estate investments that generate income.<sup>21</sup>

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<sup>15</sup> U.S. Department of Housing and Urban Affairs (HUD).

<sup>16</sup> A Regional Coalition for Housing (ARCH).

<sup>17</sup> CoStar Glossary.

<sup>18</sup> Wilburton Vision Implementation and Final Environmental Impact Statement, February 2024.

<sup>19</sup> Wilburton Vision Implementation.

<sup>20</sup> Legal Information Institute, Cornell.

<sup>21</sup> CoStar Glossary.

**RLV:** Residual Land Value. A metric used to determine the value of undeveloped land after development costs. One type of output of pro forma modeling.

**TDC:** Total Development Costs. This captures the total cost of construction for a development project, including the cost of land.

**TOD:** Transit-Oriented Development. The Federal Transit Administration defines transit-oriented development as dense, walkable, mixed-use development near transit, which allows transit systems to help people get to jobs, school, healthcare, and visit family and friends.<sup>22</sup>

**YOC:** Yield on Cost. A measure of dividend yield based on the overall project costs and projected returns.<sup>23</sup>

## APPENDIX: PARKING SENSITIVITY ANALYSIS

**Exhibit 31** presents RLV and Yield on Cost for the three residential prototypes and low, medium, and high parking requirement assumptions. The parking ratio plays a significant role on output metrics, with a decrease in the parking ratio of 0.5 increasing RLV by \$70 to \$500 depending on the density of the prototype. Yield on cost saw an increasing ranging from .20% to .30% when the parking ratio was reduced by roughly 0.5.

**Exhibit 31. Parking Ratio Analysis**

	High			Medium			Low		
	Baseline	Scenario		Baseline	Scenario		Baseline	Scenario	
		Base	Max		Base	Max		Base	Max
<b>Urban Core</b>									
Parking/Unit Ratio	1.54	1.54	1.52	1.04	1.04	1.02	0.54	0.54	0.52
RLV	(\$404)	(\$536)	(\$382)	(\$140)	(\$272)	(\$382)	\$125	(\$7)	(\$382)
Yield on Cost	4.125%	4.008%	4.346%	4.326%	4.198%	4.346%	4.565%	4.425%	4.346%
<b>Mixed-Use Residential Mid-rise</b>									
Parking/Unit Ratio	1.63	1.63	1.64	1.13	1.13	1.14	0.63	0.63	0.64
RLV	\$70	\$43	(\$158)	\$140	\$112	(\$49)	\$209	\$181	\$60
Yield on Cost	4.464%	4.365%	3.995%	4.709%	4.601%	4.213%	5.005%	4.886%	4.481%
<b>Mixed-use High-rise</b>									
Parking/Unit Ratio	1.56	1.56	1.54	1.06	1.06	1.04	0.56	0.56	0.54
RLV	(\$300)	(\$384)	(\$843)	(\$133)	(\$217)	(\$578)	\$34	(\$51)	(\$314)
Yield on Cost	4.022%	3.909%	3.772%	4.206%	4.082%	3.946%	4.422%	4.287%	4.153%

Sources: City of Bellevue, 2024; Community Attributes Inc., 2024.

<sup>22</sup> Federal Transit Administration.

<sup>23</sup> CoStar Glossary.