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# Overlake Incentive Updates

August 2, 2023

Redmond
WASHINGTON

# Workshop Agenda

- Goals for incentive program update
- Development Standards Proposed Updates
- What we asked EcoNorthwest to study
- Key Findings
- Next Steps
- Q&A

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# Goals for incentive program update

- Key goals
- Feedback incorporated into options studied

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# Why Updating?

- Implement an incentive packages that will encourage development that also advances community goals in **affordable housing**, **sustainability**, **inclusive design**, and **community amenities** as we transition from a suburb to a city and thus from **suburban to urban** form.
- Accommodate growth and new urban forms as a means to accommodate that growth (facilitate transition to towers).
- Old incentive programs scattered – consolidate all incentives into one place, make progress on multiple priorities
- Improve flexibility from a first tier/second tier to a program with a broader menu of options.

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# Testing Phase Input Summary

- Set clear priorities and consider streamlining
- Ensure incentive program is financially feasible
- Define items clearly – some are new to Redmond

# Changes Being Made Based on Feedback

- Consolidated to make one less category
- Moved Green Building minimums to Overlake minimums (removed from incentive package)
- Moved affordable commercial to use based category and moved amenities related uses to the open space and amenities categories
- Moved large items to a bonus category that can be used to meet any minimum category points except affordable housing or green building
- Removed some items (like underground parking)
- Preliminary priority points assigned based on feedback

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# Development Standards Proposed Updates

- What's proposed (allowed with and without the incentives)

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# PROPOSED FAR ADJUSTMENTS

| | CURRENT BASE (w/o Incentives) | CURRENT MAX (w/ Incentives) | PROPOSED BASE FAR (w/o Incentives) | PROPOSED MAX for TOD Focus Area (w/ Incentives) |
|---|---|---|---|---|
| **Overlake Village (OV)** | 2.9 – 3.7 | 5.2 – 5.35 | 5 | No FAR restriction (height and other restrictions apply) |
| **Overlake Business and Advanced Technology (OBAT)** | 1.55 | 1.62 | 3 | |
| **Overlake Multifamily (OVMF)** | Density varies based on zoning, up to 30 du/acre | | 3 FAR | |

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# PROPOSED HEIGHT ADJUSTMENTS

| | CURRENT BASE (w/o Incentives) | CURRENT MAX (w/ Incentives) | PROPOSED MINIMUM | PROPOSED BASE MAX (w/o Incentives) | PROPOSED MAX for TOD Focus Area (w/ Incentives) |
|---|---|---|---|---|---|
| **Overlake Village (OV)** | 5 stories | 9 – 12 stories | 4 stories in TOD Focus Area<br><br>3 stories elsewhere | 14 stories mixed-use, 8 stories for non-residential | 240 ft. (approx. 20 stories) with max incentives |
| **Overlake Business and Advanced Technology (OBAT)** | 4 – 9 stories | 5 to 10 max | | | |
| **Overlake Multifamily (OVMF)** | n/a | 35 ft | 3 stories | 8 stories | |

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# Summary of Changes

## Increased Allowances

- FAR and Building Height Increasing
  - Potential for no FAR caps
- Parking decreasing (in some cases to zero)
- Most podium type development would no longer need to use incentive program (new standard)
- Overlake Village to 100% lot coverage
- More flexibility / options to choose from for incentives

## Changing Requirements

- Changes in affordability levels (AMI) and percentages
- Some Green Building requirements for Overlake
- Minimum building heights (3 or 4 stories)

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# Summary of Study

- Central Questions
- Pro-Forma Approach
- What was Analyzed

- EcoNorthwest and DCW

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# Central Questions

- Are the draft incentive packages feasible for the types of development the City is looking to incentivize?
- What are the various costs and considerations for developers associated with each incentive requirement?
- Do development outcomes from the incentive packages help the City meet their policy goals?
- What are the various costs and considerations for the City in implementing and managing the various incentive programs?

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# Analysis – Pro Forma Approach

- **How do prototypes perform** under:
  - Base entitlements
  - Proposed incentive entitlements (without any costs associated with accessing those entitlements)?
- What are the **costs** of each incentive?
- How many **points** should be awarded to that incentive given the impact to development feasibility and policy priorities?

Prototypes Identified:

- 7 story podium
- 11 story mass timber
- Two towers different sizes

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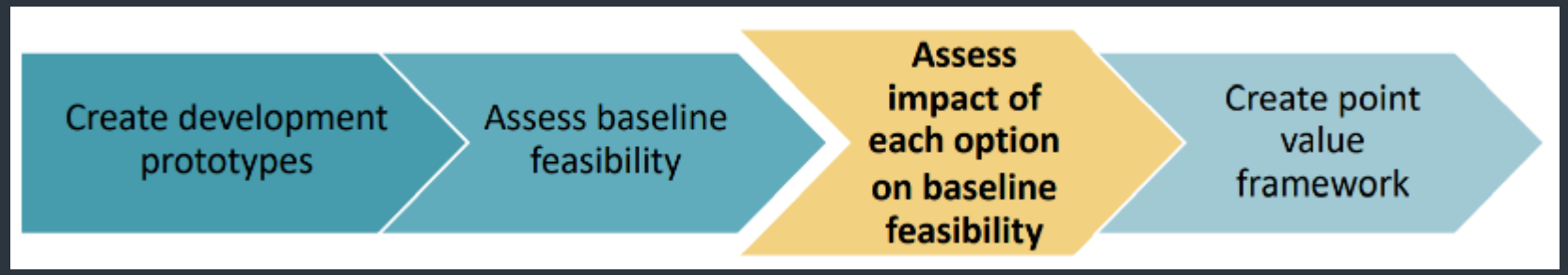
# Approach

- **Baseline Feasibility (w/o incentives)**

- **Then Analyze Incentives Impact on Baseline (proforma approach)**

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# Proforma Approach Assumptions

Source: ECONorthwest

| | Podium | Mass Timber | Low Tower | High Tower | Office | Retail Space |
|---|---|---|---|---|---|---|
| Market rent per sf | $3.60 | $4.00 | $4.36 | $4.57 | $3.75 | $2.42 |
| Vacancy expense – market rate units | 5% | 5% | 5% | 5% | 25% | 15% |
| Vacancy expense – affordable units | 2% | 2% | 2% | 2% | 0% | 0% |
| Operating expenses per unit | $5,000 | $5,000 | $5,000 | $5,000 | $0 | $1,500 |
| Property taxes per unit | $3,500 | $3,750 | $4,000 | $4,250 | $0 | $2,500 |
| Construction cost per sf | $290 | $340 | $390 | $400 | $350 | $290 |
| Landscaping costs per sf | $2 | $2 | $2 | $2 | $2 | $2 |
| Open space baseline costs per sf | $5 | $5 | $5 | $5 | $5 | $5 |
| Return on cost (ROC) target threshold | 5.25% | 5.50% | 5.50% | 5.50% | 7.00% | 7.00% |

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# Proforma Approach Assumptions

Source: ECONorthwest

| City Priority | Public Amenity | Cost per unit | Total area | Total cost |
|---|---|---|---|---|
| Low | Urban foraging | $20 per sf | 2,000 sf | $133,300 |
| Low | Shade structures | $5,000 per structure | 2,200 sf (includes four structures) | $66,700 |
| Medium | Covered seating | $8,000 per covered area | 2,200 sf (includes four covered areas, twelve tables) | $106,700 |
| Medium | Public art | $6.00 per sf | 2,000 sf | $40,000 |
| High | Play space | $15,000 per play structure | 4,600 sf (includes two play structures) | $100,000 |
| High | Community Gardens | $500 per garden bed | 800 sf (includes ten garden beds) | $16,700 |

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# Looked at Costs and Revenue Impacts

Source: ECONorthwest, DCW

| | | Additional Costs | | | | | Impact on Annual Revenue | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | High Tower | Low Tower | Mass Timber | Podium | Office | High Tower | Low Tower | Mass Timber | Podium | Office |
| A1a | Affordable Units <30% AMI (1%) | $0 | $0 | $0 | $0 | $0 | ($350,556) | ($275,437) | ($200,318) | ($156,498) | $0 |
| A1b | Affordable Units <30% AMI (2%) | $0 | $0 | $0 | $0 | $0 | ($424,358) | ($333,424) | ($242,490) | ($189,445) | $0 |
| A1c | Affordable Units <30% AMI (4%) | $0 | $0 | $0 | $0 | $0 | ($571,960) | ($449,397) | ($326,835) | ($255,339) | $0 |
| A1d | Affordable Units <30% AMI (6%) | $0 | $0 | $0 | $0 | $0 | ($719,563) | ($565,371) | ($411,179) | ($321,234) | $0 |
| A2a | Affordable Units 30-50% AMI (5%) | $0 | $0 | $0 | $0 | $0 | ($461,258) | ($362,417) | ($263,576) | ($205,919) | $0 |
| A2b | Affordable Units 30-50% AMI (10%) | $0 | $0 | $0 | $0 | $0 | ($645,762) | ($507,384) | ($369,007) | ($288,286) | $0 |
| A2c | Affordable Units 30-50% AMI (16%) | $0 | $0 | $0 | $0 | $0 | ($963,970) | ($749,332) | ($535,184) | ($409,703) | $0 |
| B1a | ADA Housing Units (5%) | ($405,055) | ($318,258) | ($231,460) | ($180,828) | $0 | $0 | $0 | $0 | $0 | $0 |
| B1b | ADA Housing Units (10%) | ($810,110) | ($636,515) | ($462,920) | ($361,656) | $0 | $0 | $0 | $0 | $0 | $0 |
| B1c | ADA Housing Units (16%) | ($2,106,287) | ($1,654,940) | ($1,203,593) | ($940,307) | $0 | $0 | $0 | $0 | $0 | $0 |
| B2a | Visitable Housing Units (5%) | ($90,655) | ($71,229) | ($51,803) | ($40,471) | $0 | $0 | $0 | $0 | $0 | $0 |
| B2b | Visitable Housing Units (10%) | ($181,310) | ($142,458) | ($103,606) | ($80,942) | $0 | $0 | $0 | $0 | $0 | $0 |
| B2c | Visitable Housing Units (25%) | ($453,276) | ($356,145) | ($259,015) | ($202,355) | $0 | $0 | $0 | $0 | $0 | $0 |
| B2d | Visitable Housing Units (51%) | ($924,683) | ($726,537) | ($528,390) | ($412,805) | $0 | $0 | $0 | $0 | $0 | $0 |
| B3 | Inclusive Design | ($727,869) | ($580,989) | ($434,109) | ($347,709) | ($142,333) | $0 | $0 | $0 | $0 | $0 |
| B4 | Inclusive Design | ($131,750) | ($131,750) | ($131,750) | ($145,618) | ($131,750) | $0 | $0 | $0 | $0 | $0 |
| B5 | Inclusive Design | ($123,567) | ($101,933) | ($80,298) | ($58,663) | ($85,707) | $0 | $0 | $0 | $0 | $0 |

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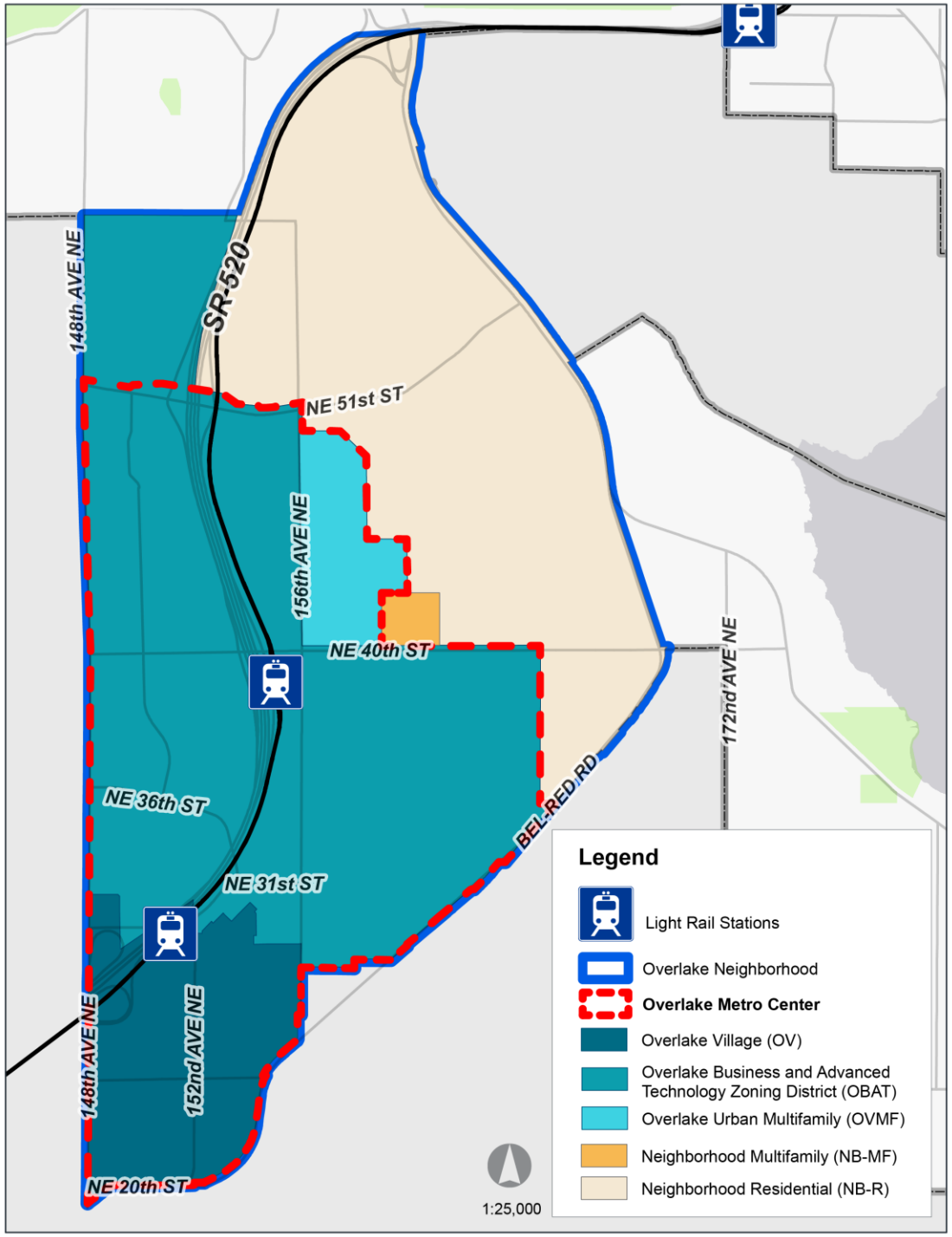
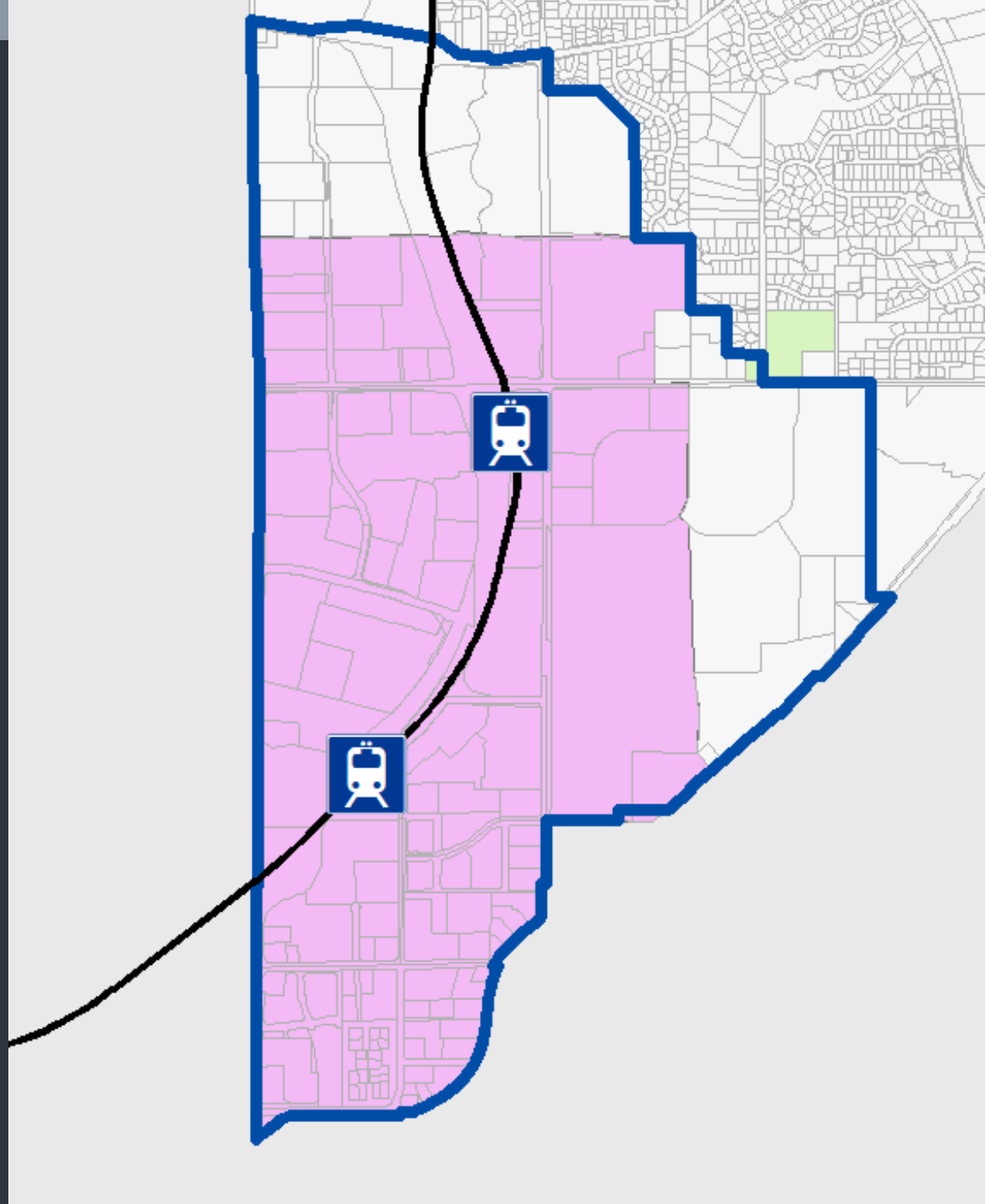
# Metro Center

- The Overlake incentives program will be for all development inside the Metro Center boundary
- Outside center the citywide incentives apply



# TOD Focus Area

- Two Tiers, based on TOD Focus Areas
- Inside TOD Focus Area will have higher points and can potentially use incentive program to lift all FAR requirements and go to 240 ft in height



# Key Findings

- **Podium developments that we see today won't typically need to use the new incentive program**
- Incentives looking towards mass-timber and tower construction (future looking)
- Flexibility is key

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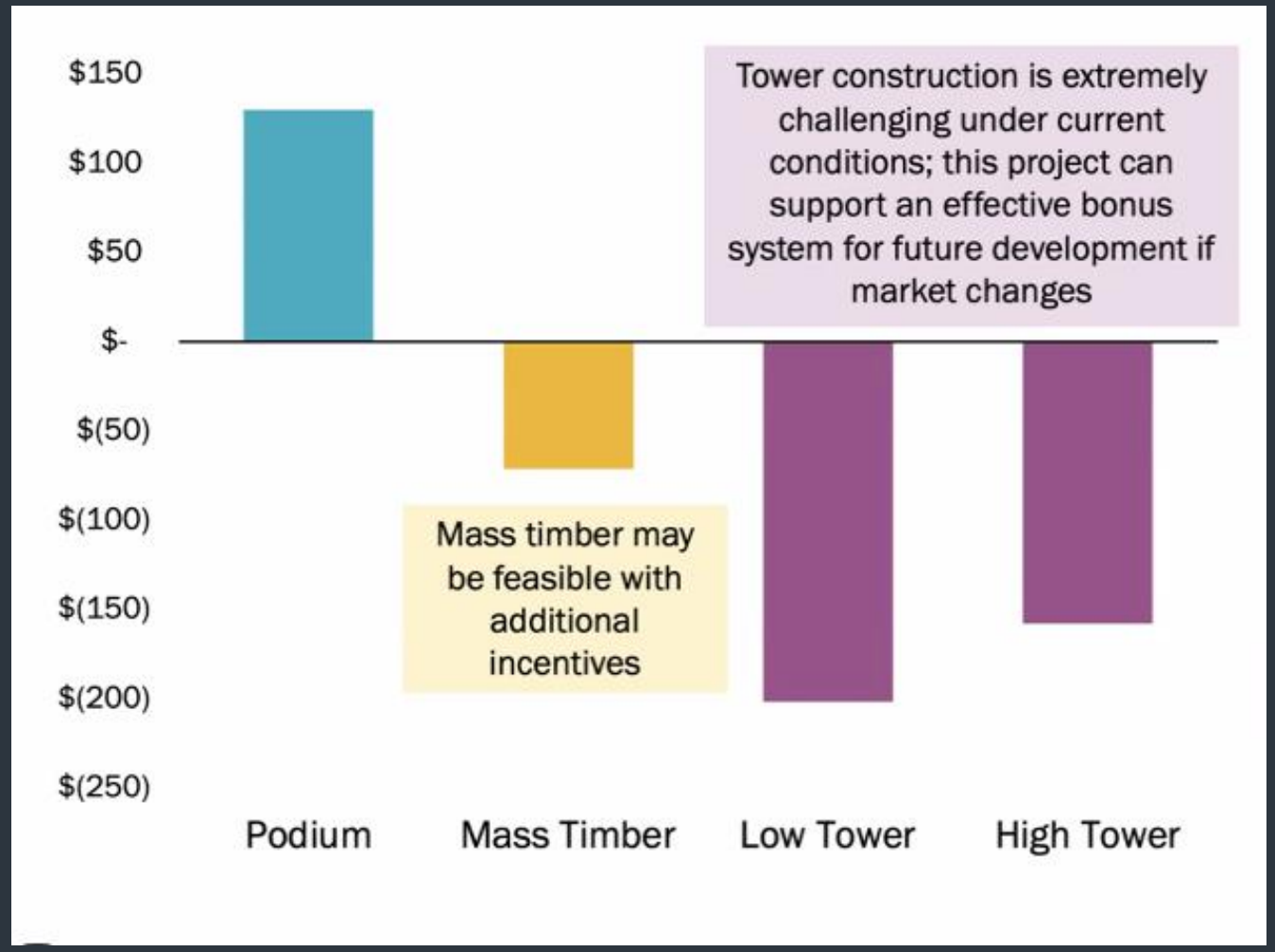
# Baseline Costs & Feasibility




- Podium will not typically need incentive program
- Mass timber is a potential near to mid-term opportunity
- Tower construction (steel) is not feasible in today's market

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# Future Oriented

- This incentive structure puts in place a mechanism under which the City can capture public benefit if/when tower-scale development becomes more feasible in the future.
- Not needed for most podium developments, so not likely to be used regularly in the near-term (under current market conditions).

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# Categories

- **Affordable Housing**
- **Green Building**
  - New proposed requirements and incentive options
- **Inclusive Design**
- **Open Space, Art, Public Amenities**
- **Building Site, Form, and Uses**

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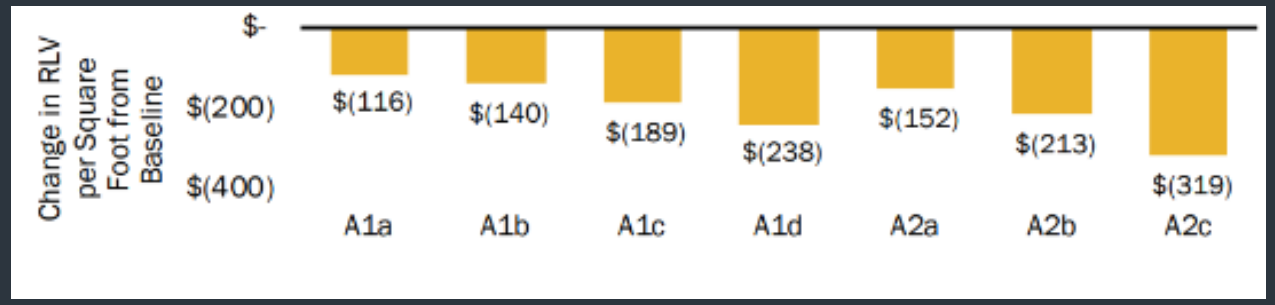
# Affordable Housing

- Affordable Housing is one of largest cost impacts, but the larger the project the higher the costs due to being based on % of units
  - Affordable housing in podium development is about half of the impact the same option has on a high tower development
- Developers typically prefer fewer units at deeper affordability
  - Same feedback received through other studies completed in the last year

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| Preliminary Findings | Podium | Mass Timber | Low Tower | High Tower |
|---|---|---|---|---|
| Affordable Units <30% AMI (4%) | $ (88) | $ (108) | $ (149) | $ (189) |
| Affordable Units <30% AMI (6%) | $ (111) | $ (136) | $ (187) | $ (238) |
| Affordable Units 30-50% AMI (5%) | $ (71) | $ (87) | $ (120) | $ (152) |
| Affordable Units 30-50% AMI (10%) | $ (100) | $ (122) | $ (168) | $ (213) |

# Green Building

- Current and planned construction projects within the northwest region are starting to include higher building performance standards, compliance with energy code measures, and greater energy management compared to historical construction projects. This trend is expected to continue, and even accelerate.
- Of the nine green building options, four are assumed to be either a minimum development requirement or standard construction and thus were included in the baseline development feasibility analysis.

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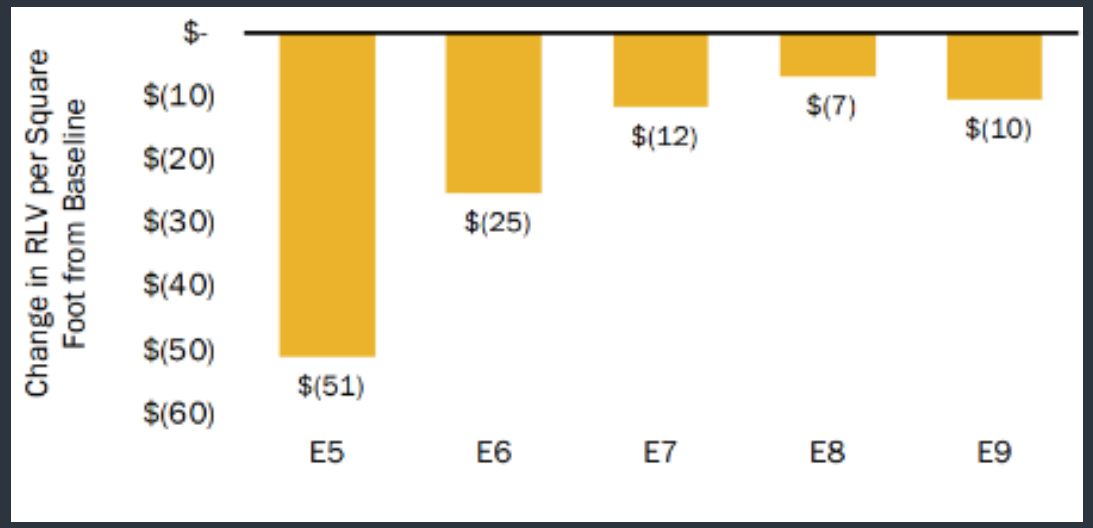
# Impacts Vary Considerably

- E5 Energy Storage) and E6 (Renewable Energy) have a larger impact to the residual land value per square foot than most incentive options.
- E7 (Electric Vehicle Charging), E8 (Stormwater Management), and E9 (Water Conservation) have a small impact.

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| **Preliminary Findings** | Podium | Mass Timber | Low Tower | High Tower | Office |
|---|---|---|---|---|---|
| Energy Storage | $ (23) | $ (29) | $ (40) | $ (51) | $ (30) |
| Renewable Energy | $ (11) | $ (14) | $ (20) | $ (25) | $ (15) |
| EV Charging | $ (4) | $ (7) | $ (9) | $ (12) | $ (10) |
| Stormwater Management | $ (7) | $ (7) | $ (7) | $ (7) | $ (7) |
| Water Conservation | $ (5) | $ (6) | $ (8) | $ (10) | $ (1) |

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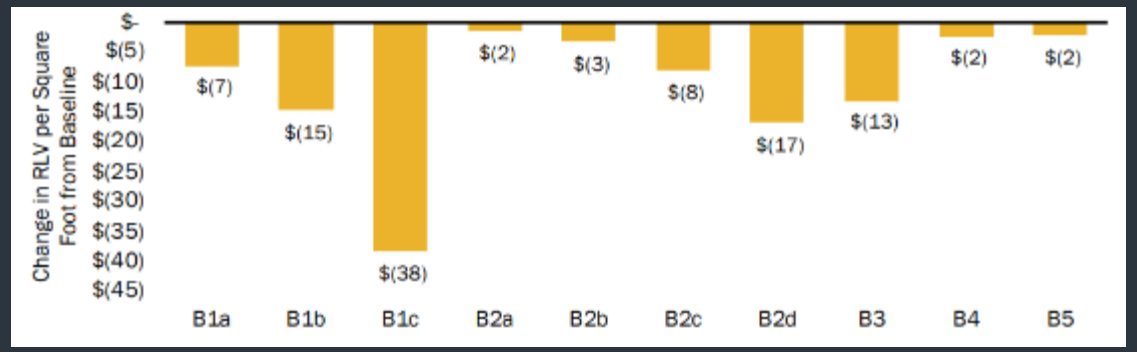
# Inclusive Design

- B1c (ADA Housing Units) has the highest impact among all options due to the costs for each unit.
- B2 (Visitable Housing Units) varies by percentage chosen, with some very low cost to a mid-range cost option.
- Options B4 and B5 (Inclusive Design) have a low impact on feasibility and B3 (Inclusive Design) has a medium impact

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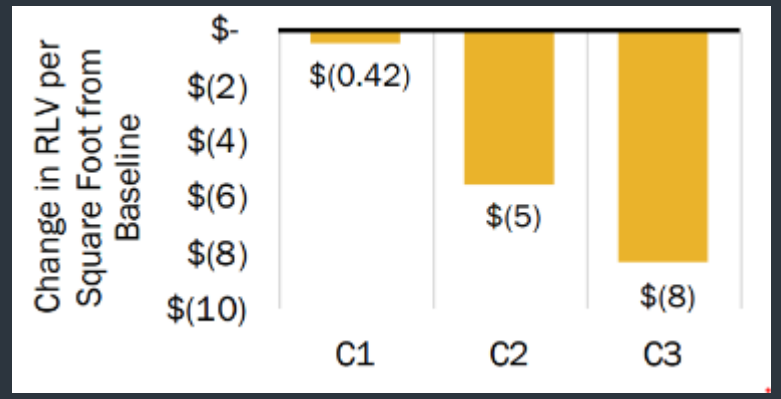
# Preliminary Findings

| | Podium | Mass Timber | Low Tower | High Tower |
|---|---|---|---|---|
| ADA Housing Units (5%) | $ (3) | $ (4) | $ (6) | $ (7) |
| ADA Housing Units (10%) | $ (7) | $ (8) | $ (12) | $ (15) |
| ADA Housing Units (16%) | $ (17) | $ (22) | $ (30) | $ (38) |
| Visitable Housing Units (5%) | $ (1) | $ (1) | $ (1) | $ (2) |
| Visitable Housing Units (10%) | $ (1) | $ (2) | $ (3) | $ (3) |
| Visitable Housing Units (25%) | $ (4) | $ (5) | $ (6) | $ (8) |
| Visitable Housing Units (51%) | $ (8) | $ (10) | $ (13) | $ (17) |
| Inclusive Design | $ (6) | $ (8) | $ (11) | $ (13) |
| Inclusive Design | $ (3) | $ (2) | $ (2) | $ (2) |
| Inclusive Design | $ (1) | $ (1) | $ (2) | $ (2) |

# Open Space, Art, Public Amenities

- Identified feasibly for inclusion in prototypes, considering space and cost restraints. Assumed developers would opt for the lowest cost options.
- Market demands may produce some of the amenities listed, so no incentive would be needed.
- Some concern about liability costs for publicly accessible spaces.
- Costs vary widely. Higher priority items aren't always higher cost.
- Some options will be infeasible for a typical development. For example, community center or publicly accessible gym. For these options would need city priority points and may be of limited use.

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# Preliminary Findings

| | Podium | Mass Timber | Low Tower | High Tower | Office |
|---|---|---|---|---|---|
| Open/ Amenity Space | $ (0) | $ (0) | $ (0) | $ (0) | $ (0) |
| Open/ Amenity Space | $ (5) | $ (5) | $ (5) | $ (5) | $ (5) |
| Open/ Amenity Space | $ - | $ - | $ (8) | $ (8) | $ - |

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# Building Site, Form, and Uses

- Considered that displaced businesses would need financial assistance, so modeled at discounted rents
- Different businesses and non-profits would need different spaces, so findings in this category are representative only
- Costs vary widely
- Retail space makes up a small share of each prototype, so changes to retail costs and revenues have a relatively low impact compared to residential or building-wide options

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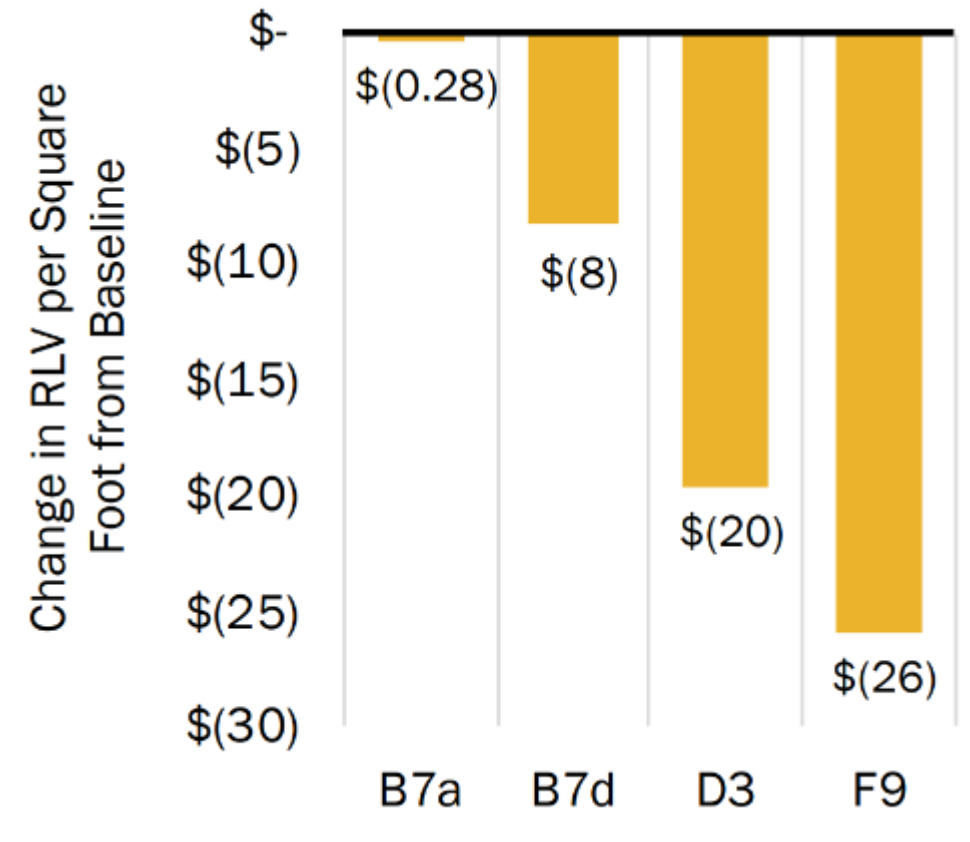
| Option | Analysis Assumptions |
|---|---|
| B7a. Small Commercial | 10% of retail space is rented at a 20% reduction of market rents, with no vacancy expense. |
| B7d. Displaced Retail Ground Floor | 50% of retail space is rented at a 20% reduction of market rents, with no vacancy expense. Cost assumptions include an additional tenant improvement cost and increased return threshold to account for increased risk. |
| D3. Social Services Onsite | 50% of retail space is rented at a 40% reduction of market rents, with no vacancy expense. Cost assumptions include an additional tenant improvement cost and increased return threshold to account for increased risk. |
| F9. Childcare Facilities | 50% of retail space is rented at a 10% reduction in market rents. Costs assumptions include an additional retrofit cost for a childcare facility as well as an increased return threshold to account for increased risk. |



# Next Steps

- Points system proposed
- Ensuring compatibility with Housing consultant work
- Adding in City priorities
- Community review

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# Points System Proposed

- EcoNorthwest provided a cost-based points system, based on high cost of the tallest tower – all other building types with lower costs would get a 'bonus' benefit by utilizing less expensive construction methods (lower tower, mass timber, or post-tension concrete construction)
- Based on goal of getting to an FAR bonus of 4.0 based on costs alone at a mid-point cost selection

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# Filling in the details

- EcoNorthwest and DCW did not analyze every single option, especially where cost wasn't the driver/impact, so staff is working to fill in the blanks
- Staff are working on how to add or otherwise incorporate points for City priorities
  - City priorities don't always map 1:1 with cost, some high needs are mid- to low-cost items but fill community needs
  - Working on how to balance cost to priorities (is it 50/50, are some high-priorities an automatic max bonus regardless of cost, etc.)

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# Baseline Assumption Compatibility

- CAI was hired to work on cost research (among other items) for the housing updates.
- Staff and both consultant teams will be meeting to ensure compatibility with baseline assumptions.

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# Next Step - Combined Point Values? Averaged? Other?

Feasibility Impact × Priority value = Weighted average point value

| Weight for feasibility values: | *Weighting decisions to be made with City staff* | Weight for priority values: |
|---|---|---|
| 50% | | 50% |

# Structure Finalized

- Categories – minimum points or other structure?
- Bonus for pilot projects, etc. and how that integrates into points system
- Staff to build incentive "calculator" – an excel spreadsheet that development community can use to test impacts of different options

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# Additional Engagement Opportunities

- Sept 12, 2 pm
- Sept 28, 4 pm

Events will be at City Hall in the conference center and will have an options to attend virtually via Teams Link.

Contact Redmond2050@redmond.gov to RSVP and for mtg links

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# Thank You

## Any Questions?

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