

A POLICY GUIDE

**ASSESSMENT OF THE
DEVELOPMENT ENVIRONMENT**

presented by
Economic Development Council
of Seattle/King County

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Background

The Economic Development Council of Seattle and King County initiated a review and assessment of the development environment in King County because of concern that the competitiveness of the region for job creation and the required housing development continues to erode. Political fragmentation and the lack of regional institutions with overarching authorities make it difficult to enact regional strategies, and there are no chains of accountability for outcomes (or the lack thereof).

This report is based on findings from three studies conducted in the latter part of 2002 and first part of 2003. (While there are 40 separate jurisdictions in King County, the studies focused on suburban cities* that have substantial development potential and the possibility of evolving in a number of directions.)

King County Development Environment: City Perspectives.

Berk and Associates

Appendix A

A series of group interviews to: (a) understand the overall development environment from the local government perspective; and (b) catalog and analyze the actions being undertaken by jurisdictions in the County aimed at improving the environment for commercial and residential development.

Residential Market Trends

RealVision Research

Appendix B and C

Analysis of the market areas around 13 cities to describe factors driving market trends and to identify underserved markets for residential real estate. Appendix C provides a comparison of the market demand trends identified in the RealVision study with the capacity estimates from the King County Buildable Lands study.

King County Development Environment: Commercial and Residential Builder Perspectives

Michael Luis & Associates

A series of group interviews with commercial and residential builders and developers to gain the perspectives on the development environment and the usefulness of various strategies to improve it. Follow up interviews combining local planning officials and commercial and residential builders to review findings of all studies.

The results of these studies and interviews were used to plot concerns and issues on a “map” of the development environment. This analysis yielded 38 distinct “opportunities to improve the development environment.” These, in turn, fed into a set of distinct themes and a smaller number of priority recommendations which can be addressed immediately.

(The substantive findings and recommendations are all based on analysis of the three studies. To make the report easy to read, however, the studies themselves are not routinely cited.)

Note that this project did not attempt to identify all the deficiencies in the overall business climate, such as infrastructure and education. Those have been amply dealt with elsewhere. Nor did it attempt to address the many outside contextual factors, such as regional and national economics, state and federal regulatory issues and liability and insurance issues. Rather, the project examines the local and regional political, regulatory and process environments that govern the construction of the commercial facilities and housing necessary for a growing economy. The aim is to address factors over which local governments have control and which they can work, along with the industry, to improve.

The three studies and this report are, of necessity, a snapshot in time. Markets and policies evolve continually, and the window of opportunity to address any given issue will open or close based on many factors. This is not a report to be implemented, as such, but a guide to a wide range of issues that must be addressed if we want our economy to prosper in the decades ahead.

In a county with 40 jurisdictions, dozens of special districts and numerous distinct market areas, improvements in the development environment will happen incrementally. And they will happen through a shared interest in improving the economy and providing housing opportunities. A central theme of the studies, as reflected in the report, is the need for improved communication.

This project should be the beginning of a concerted effort by local governments, commercial and residential developers, civic and business interests to improve our positioning for economic development. Persistent softness across the economy and growing uncertainty about the future of our largest employer, as well as the continued increase in housing costs, should give these issues the attention they need.

Themes from Local Planner Interviews

The public affairs firm of Berk and Associates conducted group interviews with city planners from the 13 subject cities. Interviews were conducted by sub-area: Eastside, Southwest King County, Southeast King County. Following are general themes that emerged from those interviews. City-by-city themes and findings are found in Appendix A.

Eastside

- Transportation concurrency is of great concern
- Cities often have a sense of what a neighborhood wants, what there is demand for, but it is often difficult to convince developers that this is the case. In the past, some developers have claimed that no one wants to live in an urban downtown area, in multifamily dwellings, in mid-rises – all of which are now popular products. Cities can model pioneering projects to show their successful implementation
- It may take developers a while to realize the potential of new markets created by zoning or regulation changes
- Innovative development often has to be driven by planners and by the community. Developers are often more conservative than they might think, as they are often married to a successful product with a constant and known rate of return. The community must often push innovation because developers say “That isn’t our product” or “The markets won’t support it”
- Magnets such as a waterfront, park, or library can be important drivers of development, particularly in attracting residential development. Development of magnets allows effective leveraging: uses public investment in infrastructure to strengthen housing market
- The Eastside has been fortunate in that cities haven’t had to engage in economic development in the same way that South County cities have had to
- The split between multifamily and single family housing capacity being explored by the Housing Partnership is particularly interesting for Eastside cities, as they don’t have the same reservoir of single family housing capacity that the South County has. Potential capacity for additional housing exists in mixed use and multifamily zones
- It is very difficult to find developers who can do mixed use well. An individual developer often understands residential, commercial, or retail markets, but few understand all of these. Mixed use development often requires an alliance of multiple developers. Financing is also often segmented as most investors want to work with only one type of development. Real estate trusts, for example, often specialize in residential development only
- One thing planners need to do better is to understand real estate economics: the factors which make a project feasible for developers to undertake

Southwest King County

- South County is often used as a dumping ground for the rest of the County.
- Cities feel they are doing all they can with regard to policy and procedural reform: low barriers, least restrictive requirements in the County. Slower development than North County and Eastside is because South County market is maturing. Cities are laying groundwork for future development: they are working on a 20+ year time horizon. There is a general sense of frustration that cities have done all they can – “What more can we do?” – and now must wait for the local market to mature. There is an anticipation that a stronger market is ahead, sweeping down the eastern side of Lake Washington, now into Southeastern King County, and coming to cities in the southwestern portion of the county.
- Many factors are beyond City control, requiring regional governance, e.g. transportation infrastructure. Would like to see an effort made to slow growth in the East and shift it towards the South

Southeast King County

- Cities see themselves as part of South King County. Describe the South County area as providing affordable residential and commercial development. South County is often devalued, seen as a place for blue collar workers and warehouses.
- The Valley is undervalued and often overlooked. There is an element of snobbery at play: retail prefers the Eastside and ignores the Valley even though the Valley represents a larger market. It is not commonly understood that there are 200,00-300,000 jobs in the Valley: the Valley is a net importer of workers
- Cities are hamstrung in their ability to spark economic development by lack of funding and support from County and State. Need for regional governance and planning – if not from County then from cities working collaboratively.
- Cited a disincentive to grow with passage of I-747 and a disincentive to annex due to the poor quality of the infrastructure in unincorporated King County
- Locating needy populations and non-profits in South County has placed a burden on the region. Cities are now resisting further placement of such populations. Under current economic downturn, coupled with budget cuts in State and County service programs, cities have been called on to provide more social support services which detracts from ability to focus on planning and economic development.
- Cities have done all they can regarding policy and regulation changes to encourage and remove barriers to growth: now up to the market.
- All cities expressed optimism that GMA targets will be met

Relationships within the Development Environment

Forces that define the development environment

The assessment of the development environment in King County will be built around a series of influences and relationships that come to bear on a development project. These are mapped out in Figure 1. These influences operate at three levels:

Macro forces (W, X, Y, Z)

These are the larger forces at work which shape the policy and market environment. Few changes can be made at the policy or micro level without noticeable (but perhaps not easily measurable) changes in these macro forces. The macro forces change slowly, and not always in a consistent fashion.

Policy Direction (J, K, L, M, N)

Administrators receive code changes and policy direction from elected officials, through the mayor or city manager. This is usually an iterative, interactive process, with administrators providing recommendations and guidance to elected officials. In many cases, local elected officials receive mandates from state or federal agencies.

Micro forces: (A, B, C, D)

These are the day-to-day regulatory activities that implement local government codes. The primary variables from the project point of view are:

Timing. How long does it take to process permits and get inspections?

Interpretation. Where code language is not clear, how will agency administrators interpret that code?

Flexibility. To what degree do administrators have the authority and willingness to approve exceptions to codes?

Cost. To what degree do agencies attempt to recover operating costs and infrastructure costs through development?

Macro influences

Market influence on builders/developers (W)

The development process begins with the identification of market opportunities. Commercial and residential real estate projects cannot get off the ground until concrete demand is identified. In many cases construction does not begin until actual home buyers, commercial investors and/or tenants have committed to the project.

“Build it and they will come” does not work in real estate development. Since most development is financed with a large debt component, and financial institutions have both legal and practical reasons to worry about the quality of collateral, projects that do not meet an identified market need will simply not get financing. Or, in the case of some well-known stalled commercial projects, if demand disappears, so does financing.

A market study of residential real estate[†] was conducted for this project to determine trends in demand for various housing types and market segments in King County. This was designed to point to market opportunities that builders and jurisdictions should prepare themselves to take advantage of, and to point to alternative ways for jurisdictions to meet their housing targets. The full summary of the study is in Appendix B. Three key findings that have significant policy implications concern:

Small lot detached housing. The market for single family detached housing on small lots (under 5000 square feet) has definitely arrived. This is being driven both by the cost of large-lot housing and by the growing empty-nester/retiree/singles market. Most jurisdictions, however, do not have sufficient zoning in place or other regulatory processes to embrace this growing demand.

Large lot detached housing. The combination of high land prices and high development costs is pushing the price of finished large (over 6000 square feet) building lots to very high levels. Only luxury housing will be built on these lots, and there is a limited market at these price points. Demand for large-lot detached housing will tend to fall in King County, and that demand will be satisfied increasingly in adjacent counties where reasonably-priced large lot housing is still available.

Mixed use development in urban centers. Plans for most of the urban centers in the county call for residential projects with multi-family housing above ground floor retail and underground parking. While the study shows some demand for this kind of development in certain markets, the projections show limited rental demand and no for-sale demand for this product in most of those urban centers.

Attached housing. Projections show that 40 percent of new housing demand will be in attached rental housing. Most of that demand will be for townhouse or walk-up style buildings, as opposed to stacked-flats. Projections also show strong demand for for-sale attached housing, both townhouses and small condominium buildings. Liability and insurance issues surrounding condominium construction will, however, limit condominiums construction to the high end of the market for the foreseeable future. The industry will likely shift toward fee-simple townhouses.

The residential market analysis shows a shift away from what has been the standard detached product toward more small lot development, especially in infill situations. As confirmed by the buildable lands studies, the parcels available will be relatively small and may involve redeveloping from an existing use. Builders who have worked with these remaining parcels note that many of them have significant constraints.

Although the market analysis shows real opportunity in small lot infill development, this kind of development will not attract the large, high-volume, low-cost builders. Smaller, local builders will be better suited to this market. The irony of this is that smaller, less sophisticated and less-capitalized builders will be expected to take on complex projects with a higher level of risk.

Therefore, a key part of creating success in this new residential development environment will be looking at planning, regulations and services from the point of view of the smaller builder. Many smaller builders have left the local market, and they need to be lured back.

Opportunities to improve the development environment:

- *Re-evaluate mixed use requirements and expectations*
- *Use mid-density attached housing to meet urban center housing goals*
- *Recognize the demand for small lot housing*
- *Understand the business constraints of small builders*
- *Require market analysis as part of the housing target process*

Residential Market Trends for 13 cities in King County
Prepared by RealVision Research
December 2002

Executive Summary

There are two distinct homebuyer groups in the market:

1. Families with children under 12 that want a large yard and more value for their money. Their major priority is price/value. These people are willing to give up family time for commute time. These buyers will either move out to the far suburbs or buy a resale home.

2. Singles, elderly, empty nesters, immigrant families and some couples with no children who want to be close to jobs, services, entertainment and transit. Having a large yard and home is not their main priority; location is number one for these buyers. These buyers will buy condominiums, townhomes, small lot detached developments or resale condos and homes if the location is right for them.

As can be seen from the permit data, the demand for housing is continuing to move both north and south from King County. This demand shift for new housing is being created by two basic factors, namely rising housing prices and changing demographics. These two issues will be the driving force for new housing demand and higher densities in suburban cities within King County over the next 10 years.

Key Findings from Study:

- New home prices continue to rise faster than incomes, forcing people to move further and further out. With 6,000-square foot lot prices at \$125,000 in South King County and \$190,000 in East King County, new housing will be out of reach for roughly 60% of all the households.
- With the new lot prices, homes on 6,000-square foot lots will start at roughly \$400,000 in South King County and \$700,000 in East King County within the next 18 to 24 months.
- With one-half of all new construction sales in King County being attached for-sale product (roughly 2,500 sales a year since 1995), the demand for this type of housing remains very high. Location and price are the basic reasons behind the popularity of attached for-sale housing. With the advent of the lawsuit and insurance issues surrounding attached for-sale housing, King County could lose one-third of its housing supply. Some of this housing loss could be made up with smaller zero-lot-line, cluster or other types of small lot development. The higher the single-family home prices become, the more attached housing will be needed for these same buyers.
- The majority of people buying resale single-family homes in the cities are young families with and without children. We are hearing, however, that as the price of resale single-family homes goes over \$250,000, people are starting to be more discriminating regarding the condition and size of the home. Many are opting to move further out (to Pierce and Snohomish counties) to get a newer home on a larger lot with fewer fix-up costs.
- The majority of people buying into new and resale attached developments (condominium and townhome) and small lot developments (2,500- to 3,500-square foot lot sizes) where allowed, are:
 1. Singles, some buying their first home, some buying their first home alone.
 2. Young couples with no children buying their first home.
 3. Empty nester couples, downsizing.

All three of these groups are growing at a faster rate than families with children.

- Of the 13 cities surveyed, only four have more married couples with children, while the remaining nine cities having more married couples without children.
- People with young children want more space and are willing to trade commute time for more home and yard.
- The households that make the most money already own homes. The majority of people looking to buy single-family homes in these cities are currently renting. They are buying their first or second home.
- The majority of people looking for new and resale homes are looking at price first. In South King County the price threshold is \$275,000, and in East King County the price threshold is \$450,000.
- Many ethnic groups will buy only new construction for cultural reasons and are willing to move further out from the city to buy what they can afford.
- There is a very limited quantity of new single-family homes in the cities priced under the threshold most people can afford to spend.
- Based on current demand for attached for-sale housing, 10 of the 13 cities surveyed have a shortage.
- In South King County, a household must make over \$50,000 to afford a new single-family home at \$200,000.
- In East King County, a household must make at least \$75,000 to afford a new single-family home at \$300,000.
- The sale of new homes in formal subdivisions provides roughly 50% to 60% of all the new housing in the county.
- The larger spec builders cannot find enough larger parcels of land within the city limits to build as they have been doing in the past. Most larger builders must have 50+ lots in a subdivision to make the numbers work and get the absorption rates they need to make a profit. These are the builders who are moving to the outlying counties, some looking as far as Skagit County for larger parcels of land.
- Many of the smaller builders who used to build on infill properties within the cities have now either left the building business or moved on to new areas where it is easier to find land and faster to obtain permits.

Increasing Demand for Small Lot Housing

A significant finding of the market study performed by RealVision Research concerns the growing demand throughout the county for small lot housing. This type of housing, defined as detached homes under 2500 square feet on lots under 5000 square feet, will grow in popularity for two primary reasons.

Cost. The bulk of demand for new construction housing is still in the \$300,000 range, but increasingly this price range cannot be met with large-lot housing in King County. It can, however, be met with small lot housing in most areas. Increasingly, large lot housing in King County will be a luxury product, with demand for more affordable large lot housing being satisfied in adjacent counties.

Lifestyle. Increasingly, households without children are choosing small lot housing. It offers the space and privacy of detached housing, without the landscape maintenance requirements of larger lots. Some immigrant groups also place a low priority on lot size, and look for affordability in close-in communities.

Public influence on elected officials (X)

The public has an enormous influence over the development environment, mostly filtered through elected officials. Land use issues typically provide the spark for incorporation movements, and they tend to dominate local politics over time. Citizens are elected to office based on their expressed willingness to protect and enhance the existing city and serve the needs of the existing voters. Only rarely does anyone successfully run for office on a prodevelopment platform. Once in office, however, councilmembers must respond to proposals to build housing, commercial and industrial space for people who have not voted for them.

Issues within the development environment that the public tends to have strong feelings on include:

Traffic. With nearly all areas of the county experiencing traffic congestion, this is probably the biggest issue. The public will assume that any new development will have traffic impacts, and those will be expected to be prevented or mitigated.

Parking. In dense neighborhoods with on-street parking, current residents fear that new commercial and residential development will generate spill-over parking in their neighborhood.

Property values. This concern can work both ways, with some homeowners fearing that their property values will fall due to unattractive new development, and some fearing that new development will bring higher values, and therefore, higher taxes.

Environmental impacts. New commercial or residential development can bring or intensify light, noise, air pollution and other realities of urban living.

Social change. These fears are usually unspoken, but are very real, reflecting people's discomfort with changes to the composition of their homogeneous neighborhood. Like property values, this too can cut both ways, with some neighborhoods fearing lower income housing or transient workforces, while other neighborhoods fearing gentrification and the loss of local employers and old-fashioned business districts.

To some degree, public sentiment that is anti-development can be offset politically by some benefits to the community. New retail development provides more convenient services, and most kinds of commercial development will be viewed as having a positive fiscal impact on a jurisdiction. On the contrary, residential development is usually seen as a net fiscal loser. But in any case, it takes political courage in most jurisdictions for elected officials to be prodevelopment.

Opportunities to improve the development environment:

- *Publicize the tax benefits of development*
- *Publicize transportation improvements made by developers and ensure they are completed in a timely way*
- *Identify and mobilize those who benefit from development*

- *Debunk fears about property values and social change*

Local government influence on markets (Y)

Outside of their role in establishing and maintaining regulatory systems that define the development environment, local governments can influence market demand for residential and commercial properties in their jurisdiction. This can happen through:

Transportation investments. Improving the accessibility of a community enhances its attractiveness, and conversely, allowing traffic congestion to mount makes an area less attractive to potential residents and employers. While improved transit service can enhance an area, it is unclear how big an impact it can make on the market.

Utility investments. On-site stormwater detention is a major cost for land development, so any public investments that reduce on-site requirements will make an area more price-competitive for development. Many areas that could accommodate infill development still do not have sewer service, or that service is inadequate. Local property owners often have little reason to join together to form local improvement districts, so city leadership is needed to provide utility service extensions to attract new development.

Amenities. In some cases amenities like parks, recreation facilities, libraries etc. can attract development. It is unlikely, however, that they will create demand on their own. More likely, they will allow an area that already has market potential to move more upscale. They will not drive a residential or business location decision, but they may tilt a decision in a case where there are several options. In other words, amenities help justify a decision to pursue an option, but will not get that option on the table.

Schools have long been an influential factor in residential development. School districts thought to be of high quality will attract family-oriented development, and poor-performing districts will discourage such development.

Political environment. Less tangible than roads or utilities, but perhaps as important, is the general political environment in a community. If a city is seen as “developer friendly,” commercial and residential builders will seek out opportunities, knowing that the city will help them as they try to convert those opportunities. In a city that is seen as unfriendly, developers will pass opportunities by, not wanting to deal with unpredictability and potentially high costs.

Opportunities to improve the development environment:

- *Place a higher priority on transportation improvements that support development*
- *Make utility service plans consistent with growth plans. Extend sewer service to areas with growth potential*
- *Site new public amenities in areas with good development potential*
- *Partner with school districts to make education a magnet for development*

Interaction of the Public and the Market (Z)

This crucial relationship is also the most mysterious. Although commercial and residential developers can exercise property rights and pursue developments that conform with existing plans and codes, they will always find it easier to operate in a community where their activities are at least tolerated, if not embraced.

The relationship is mysterious because the measurement tools are so crude. Attitudes about development and the evolution of the local market are usually gauged from public forums where primarily those objecting to development make their voices heard. People who attend public meetings and actively participate in public processes are, however, a very small sample of public opinion, and their views cannot be extrapolated to determine the views of the larger population. Yet, significant weight is often given to publicly-expressed sentiments.

The problem is that the benefit stream of an expanding market is broad and shallow, while the stream of negative impacts tends to be narrow and deep. New commercial development may provide jobs to some local residents or services that will be a bit more convenient, and some local residents may move into new housing. But project proponents can rarely mobilize the weight of these benefits in the face of opposition with very direct concerns that the project will have a perceived or real negative impact on their homes or businesses.

New development, by definition, benefits the broader community over time (it would not get built if it did not) and yet the development environment is far more often hostile than friendly. This is even the case in communities that, at a glance, desperately need new development.

Just as an unfriendly city council may keep developers from pursuing market opportunities, a hostile public can do the same. In spite of the fact that most people live in homes built by developers and work in buildings built by commercial real estate ventures, the development industry is not held in high regard. At a purely human level, no one likes to get berated in public, and such treatment seems quite unfair to a developer trying to create much needed jobs, services or housing.

Opportunities to improve the development environment:

- *Promote commercial development that meets the service needs of current residents*
- *Promote elements of economic development strategies that include job opportunities for current residents*
- *Promote residential development that provides move-up or move-down opportunities for current residents*
- *Design public input programs to get the views of citizens not normally engaged in public processes*

Policy Direction

(NB: It is understood that departments interface with a city council through a mayor or city manager, but for clarity that step is not always noted)

City Council and Public Works departments (J)

A city council charges the public works departments with providing and maintaining the basic infrastructure of the city. Policy directions to these departments, which will have an impact on the development environment include:

System performance. Public works systems must, first and foremost, perform their functions consistently for current residents. This means that maintenance of existing systems tends to be a higher priority than increasing capacity or extending service to new development.

High standards. National, and or international standards exist for the construction and operation of infrastructure, and elected officials will generally expect their public works departments to maintain those standards for new construction, so as to ensure long term system performance and integrity.

Minimizing impacts of new development. New construction can have an impact on existing residents and businesses, and public works departments will be instructed to minimize those impacts. This can include traffic, stormwater runoff, water pressure, and sewer capacity.

Fiscal restraints. Maintenance and capital budgets are always limited, so public works departments will try to get the most for their money, and get as much non-city funding as possible. Cities often try to recover all of the costs of new service extensions through hook-up or impact or mitigation fees.

The standards enforced by public works departments have tended to become more elaborate over time, resulting in requirements for larger rights-of-way, larger pipes, thicker paving, more stormwater detention. These standards raise costs and can be at odds with the objectives of planning departments which emphasize the efficient use of land and de-emphasize the automobile. Elected officials have the task of balancing these competing objectives.

Opportunities to improve the development environment:

- *Evaluate public works standards to see if they are really cost-effective*
- *Bring all players together to revamp road and right-of-way standards*
- *Create uniform standards throughout the region*

City Council and Planning/Building Department (K)

Land use issues will, over time, provide more controversy for local elected officials than any other policy area, and the planning/building departments are on the front lines of these issues. Urban planning operates within accepted standards and principles, but these are subject to much wider local variation than public works standards, forcing substantial give-and-take between planning departments and elected officials. Policy areas which generate differences between planning departments and elected officials include:

Road standards. “Smart growth” and “new urbanism” principles emphasize reduction in the size of roads and public rights-of-way. This is intended to create more pedestrian-friendly

neighborhoods, reduce stormwater runoff and foster a more efficient use of land. Planners can encounter resistance from public works and fire departments which often want to maintain current wide road and right-of-way standards.

Lot size. The efficient use of land means reducing the size of individual building lots. Elected officials often resist reduction in lot sizes, especially when the prevailing lot sizes in existing neighborhoods are relatively large.

Zoning standards. With shrinking lots sizes should come reductions in setbacks and separations, increases in heights and decreases in parking requirements. These too are often resisted.

The active participation of elected officials in crafting land use policy (as opposed to accepting the recommendations of the experts in the departments with few changes) means that developers seeking change to policies cannot simply convince the planning departments, since the planners may not be able to “sell” the idea as policy. Those seeking changes to plans, zoning and development regulations must work jointly with planning departments and elected officials.

Opportunities to improve the development environment:

- *Provide elected officials with opportunities to learn about new planning and development concepts.*
- *Include elected officials early in discussions about major developments*
- *Make private sector expertise available to elected officials so they can better understand the impact of their decisions on the market.*

City Council and Fire Department (L)

The paramount duty of local governments is to ensure public health and safety, and fire departments are generally charged with setting standards for those aspects of development that will affect fire safety and the ability of fire, rescue and emergency medical crews to access buildings. Fire departments are very influential in setting standards for road widths and turning radii. They will also review site plans for emergency access.

Like public works, fire departments operate with uniform national standards, supplemented by local variations which are often more stringent. Local elected officials are often reluctant to question these standards even when they conflict with planning and other objectives. No one wants to be in the position of taking the blame in the event of a tragedy.

Public and Fire District (M)

Whereas a city fire department must implement policy developed by a city council which also must consider the views of other city departments, an independent fire district has only one concern: responding to the public desire to maximize safety. A fire district does not have to worry about the concerns of a planning department that might want to change street standards, building setbacks, or other requirements placed on development. Within the usual process of

political accountability, it is doubtful that a local fire commissioner running for reelection will need to worry about the impact of fire district regulations on the development environment.

Opportunities to improve the development environment:

- *Consolidate fire districts into city fire departments in incorporated areas*

Public and Utility District (N)

Like fire districts, utility districts make decisions about service extensions, rates and fees independently of any other decisions being made about development. Water and sewer districts will operate within the same set of technical objectives as city public works departments: system performance, high standards, impact minimization.

They are, however, even more fiscally constrained than city departments since they must fund all their operations through rates and fees. And rates are the one area where voters of that district will hold commissioners accountable. So with the natural desire to look out for the needs of current voters, utility districts have an incentive to recover the maximum amount of their costs through hook up charges on new development. Builders interviewed for this study mentioned several districts that, in their view, charge exorbitant fees for water and/or sewer hook ups.

Opportunities to improve the development environment:

- *Consolidate utility districts into city public works departments in incorporated areas*

Micro Influences

Builder/developer and public works departments (A)

Public works departments review plans for compliance with established standards for roads, sewers, water (unless there are special districts), stormwater and other related infrastructure. Although standards for infrastructure are fairly rigid, there can be room for discretion, and the willingness of public works departments to exercise that discretion to facilitate a project is a key feature of the development environment. Many infrastructure standards were written with large, greenfield development in mind, and make less sense in infill situations. Creative design of roads and utility placement can help developers make the best use of awkward parcels. This can make the difference between a project penciling out and being abandoned.

One of the basic premises of growth management is that infill development takes advantage of existing infrastructure, rather than having to create it from scratch. The problem is, however, that in areas ripe for infill and redevelopment, existing infrastructure is often inadequate, degraded, or both. Because public works standards evolve over time to require more elaborate infrastructure, few areas have infrastructure that meets current standards. Most jurisdictions attempt to upgrade infrastructure as properties are redeveloped, but this can be a frustrating process, as seen in the isolated bits of sidewalk in front of new commercial development on older arterials.

Public works departments play a key role in determining the degree to which existing infrastructure must be brought up to current standards, what the timing will be, and how much of that upgrade will be paid for by the developer. Infrastructure upgrade requirements will have a major impact on the development environment, especially in the middle to lower end of the market.

Because most public works departments are under-funded, there is an incentive to get the “best deal” from developers for on- and off-site improvements. Some jurisdictions have developed a reputation for “gold plating,” requiring that developer-provided infrastructure meet the highest possible standards, even when that drives up costs significantly. In some cases, jurisdictions require developers to meet a higher standard than the city itself would.

Many jurisdictions have latecomer processes, whereby the first developer into an area can recover a portion of the costs of infrastructure improvements from subsequent developments that take advantage of them (e.g. road widening, sewer and water extensions). Some jurisdictions have resisted implementing latecomer processes, forcing early developers to subsidize later ones.

Jurisdictions with a friendly attitude toward development have in place mechanisms for developers and public works staff to work together on solutions that meet both the city’s need for system integrity and the developers need to control costs and maximize development potential.

Opportunities to improve the development environment:

- *Promote flexibility in standards and funding of public works to encourage development and re-development*
- *Institute latecomer processes to encourage early development or redevelopment*
- *Maximize public funding of off-site improvements to minimize the burden on new development*
- *Audit the expenditure of impact fees to ensure promised improvements are built*
- *Conduct an economic analysis of the impact of new public works standards and seek developer input*

Planning/Building Department and Builder (B)

Planning and building departments establish the fundamental development environment through structural actions (comprehensive planning, zoning, development standards) and review of specific projects for compliance.

Long range planning.

On the long-range planning side, the primary issue is the degree to which plans are consistent with, and complement, market demand. There was a strong sense among the builders interviewed that plans are too often developed in a vacuum, without sufficient input from commercial and residential builders who understand the market. At the same time, local planners are frustrated that builders tend to stick with the products they know and are reluctant to be part of jurisdictions’ plans to transform themselves.

The result of this stand-off is that development has been very slow in some areas. Few commercial or residential builders are tied to any specific jurisdiction, so they will gravitate to places where the plans, zoning and processes seem consistent with their approach to the market. Jurisdictions with slower development have had limited success in attracting developers who would not otherwise be in their market.

In interviews, both planners and builders suggested the need for better communication between the public and private sectors. The example cited was the city of Bellevue's downtown planning process during the 1980s, in which commercial developers were heavily involved, and which has resulted in a substantial amount of urban-style development.

Topics that would benefit from better dialog include:

Flexibility in standards. One-size-fits-all planning doesn't work well, especially in infill and redevelopment situations. For example, instead of rigid ground-floor retail requirements, developers of multi-family buildings in urban centers could be given a menu of possible ground floor treatments that enhance the streetscape, but do not create money-losing space.

Factoring in environmental requirements. Stormwater, tree preservation sensitive area setback and other requirements are decreasing the yield of land that is theoretically developable. Cooperation and creativity are needed to maximize the yield on the remaining land in the region, on an almost parcel-by-parcel basis.

Economic development. A better dialog between commercial builders and planners could result in economic development objectives that are realistic from a market perspective and also achieve local planning goals. Plans must have the flexibility to accommodate economic development opportunities that do not fit a precise mold.

Innovation. Local plans usually assume some level of innovation in development, and, at the same time, builders are innovating in response to market conditions and land supply. In too many cases, however, the innovation envisioned in plans is not quite the same as the innovation that the market will support.

Development quality. Builders want the maximum flexibility to make the best use of land, while planners want to ensure high quality development. Regulations which are often written in response to poor quality development force sub-optimal outcomes for the majority of builders who do high quality work.

Creating community. Redvelopments and infill developments will be most successful if they can create their own sense of community, rather than feeling like they were just dropped into an existing neighborhood. This is a marketing problem, since buyers are reluctant to pay new-construction prices for an isolated house in an older neighborhood. Similarly, commercial tenants will see no reason to pay newconstruction rents when older space is available, unless there are some enhancements to the area.

Defining success. From a planning perspective, a “successful” development is one that fits well into the community and meets planning goals. From a development perspective, success is financial. Not surprisingly, some developments that are successful from a planning perspective have been money-losers, and some moneymakers cause planners to cringe.

Improved communication on these and other topics is not a one-time event, but an ongoing process of understanding the evolution of the development environment and its political context. The ongoing dialog must extent up to elected officials who make policy decisions.

Opportunities to improve the development environment:

- *Institute regular dialog between commercial and residential builders and planning/building departments.*
- *Conduct market analysis of proposed plans to gauge demand for proposed development types*
- *Define “success” as the completion of development that is commercially successful, is seen as an asset to the community, and encourages similar high quality development*
- *Provide developers with maximum flexibility and ensure quality through administrative design standards*

Current planning

To the extent that the review and processing of permit applications for individual projects is an internal management problem, it is beyond the scope of this study. Most jurisdictions have made attempts to improve their permit processes, and those are described in the planner interviews. Builders will have different views of the success of these efforts, but since this study did not include a truly scientific sampling of builders, reporting individual views of permit processing would not be appropriate.

There are, however, a number of policy-level issues that affect permitting, and thereby have an important impact on the development environment. These include:

Agency culture. From the interviews with commercial and residential builders it is clear that some jurisdictions are easier to work in than others. Often this is not due to plans or regulations themselves, but rather due to the prevailing attitude within the agencies. Is the developer the “customer” or the enemy? Code rewrites and management changes will make a difference only if those individuals reviewing permits see themselves as facilitating development rather than just regulating it.

Flexibility vs. predictability. Discussions with any group of builders will usually include calls for, on the one hand, greater flexibility and discretion for agencies, and on the other hand, greater predictability and less opportunity for arbitrary or capricious behavior by agencies. Although seemingly contradictory, what this means is that builders want a firm baseline, so that if they follow the letter of the law, they can predict the outcome. Then, if they see a way to deviate from standards in a way that enhances the project with minimal negative impact, they would like an opportunity to pursue that alternative.

Flexibility on standards. As markets change and commercial and residential builders must deal with increasingly difficult sites, there will be a growing need for flexibility in standards. The process to seek changes to standards should be easy, clear, fair and administrative.

Informal communication. If builders and agencies can only lob paper back and forth, they are probably wasting time and money. There should be acceptable ways for builders and agencies to communicate informally about issues that arise without creating perceptions of unfairness or jeopardizing anyone's legal position. This will be particularly helpful for smaller, less experienced builders who submit incomplete or inadvertently flawed applications.

Avoiding unnecessary soft costs. Agencies should have a way to waive requirements for studies that are clearly not necessary. The feasibility and development study work for a project can get quite expensive and require studies that are redundant, or superfluous.

Opportunities to improve the development environment:

- *Promote an agency culture that sees as its goal “facilitating quality development that meets market demand”*
- *Place a high priority on communication between agency staff and developers in order to avoid unpleasant surprises, and make the lines of communication very clear*
- *Establish process that strike the right balance between flexibility and predictability*

Fire Departments/districts and Builder (C)

Fire department or fire district personnel review development applications for compliance with fire codes. Access needs for emergency equipment will determine acceptable designs for roads, and will determine where on-street parking is allowed. As lot sizes have begun to shrink and site plans are increasingly showing minimal building separations, fire departments have started taking a closer look at building access off the roads.

When trying to maximize the potential of small, infill sites, developers are frequently running into concerns from fire departments. In many jurisdictions fire departments will not consider narrow roads, hammerhead turnarounds and other space-saving features they believe may impede the movement of emergency vehicles.

Builders and planners report that in many jurisdictions there are no good mechanisms to reconcile the conflicts between creative site planning and fire access. Fire departments and districts have little incentive to allow flexibility, so these conflicts must be dealt with at the city council level. This is not possible, of course, with separately-elected fire commissions.

Opportunities to improve the development environment:

- *Make fire review a more integral part of the development review process, so fire officials can better understand the various goals of the project and try to accommodate them*

Utility District and Builder (D)

Obtaining water and sewer service in many incorporated areas still means going to a separate water or sewer district. In some of the newer cities there can be more than one district serving the city. Builders report widely-varying experiences with these districts, ranging from cooperation and reasonable fees, to a lack of cooperation and very high hook-up fees. Builders report that in some cases hook-up fees themselves make development uneconomical.

Because utility commissioners are elected by current rate payers, they have little reason to worry about costs imposed on development, so builders have little leverage with them. Builders cannot turn to the city for help, since the city has no jurisdiction.

Opportunities to improve the development environment:

- *Consolidate utility districts into city public works departments*

Market Themes

Demand for small lot residential

Perhaps the most important finding of the market study was the identification of growing and unmet demand for small lot housing throughout the cities studied. Few jurisdictions have zoning for this housing type in place, necessitating the use of PUD or other techniques to gain higher densities. Bad experiences with a few small lot developments have made local governments wary, and there are few sets of model standards to help ensure that new small lot development fits well into existing neighborhoods.

Challenge of infill

One of the central premises of growth management is turning out to be problematic: infill is not necessarily less expensive than greenfield development. While there may be some savings for local government in infrastructure and services, most other costs are higher. Furthermore, the large developers who have the lowest costs tend not to work with small, infill sites. So while plans have envisioned job and housing growth in many close-in communities, the outcomes have been disappointing, and residential and commercial growth continues on the fringe.

Pioneering and transformation

Planning begins with vision, and many communities envision themselves as something different from what they are today. The development industry, by contrast, tends not to stray too far from what has worked in the past. (As a practical matter, financing is usually based on assessments that, in turn, are based on comparable existing properties.) Being a pioneer in a market and helping transform a community is very risky. As one experienced developer put it, “the first one in makes the donation.” The reluctance of developers to pioneer new markets is a source of frustration for many communities, but few seem willing to share the financial risk of transformation.

Process and Policy Themes

Dealing with the market

Planning and standard-setting suggest an orderly world, and yet the commercial and residential real estate market is hardly orderly. Nearly every community vision requires private investment, and yet there is often little understanding of the market forces that might drive that investment. The perception within the development community is that plans are being drawn up and development regulations written with little regard for fundamental market forces. The perception within local governments often is that the development business is too wedded to the past and unwilling to explore new markets.

The problem of fragmentation

The development environment of the region is really the combination of regulatory environments created by a patchwork of cities and counties, overlaid with another patchwork of special districts and a further patchwork of market areas. This leads to a bewildering array of regulations and development standards, and cost profiles that can vary widely within the same market. This has several negative impacts for the development environment:

Who is in charge? There is no accountability within the region for meeting our regional objectives: the whole is still not greater than the sum of the parts. Failure to meet housing targets just generates finger-pointing. Major economic development opportunities have to be shopped around for a hospitable location. Small jurisdictions become more concerned with meeting budgets and placating neighbors than with achieving larger goals.

Barriers to entry. The commercial and residential building industry has long consisted of a range of participants, from large to small, high end to low end, all trying to capture niches. The extreme complexity of the development environment makes it difficult for small players to enter the market or to move into new markets. This results in a less dynamic industry, less innovation and less attention paid to small development opportunities.

Inconsistency. Because each jurisdiction can set its own standards, regulations and processes, developers must learn the details of each jurisdiction they want to operate in. This is time consuming and a waste of resources.

The need for flexibility

An irony in the development environment is that we profess not to like cookie-cutter development, and yet jurisdictions often have rigid, proscriptive development regulations designed for exactly that. In the new world of high densities, mixed use, infill and redevelopment, each project will be unique. Optimal outcomes will not be reached through adherence to rigid standards, but through a performance-based approach that recognizes all the variables in a project.

Rigid standards often have their origins in the reaction to “bad” development. Jurisdictions will not want to give up their protections against poor quality development, but they may find that flexibility and a case-by-case approach get a better result.

Urban, suburban or rural?

The region seems confused about its identity. The expressed goal of growth management is to make the areas inside the urban growth boundary “urban.” Some areas are, indeed, transforming themselves from suburban to urban. But we also have:

- Suburban standards for streets
- Requirements for substantial on-site parking
- Suburban expectations for travel times, which drive concurrency
- Suburban-style minimum lot sizes in close-in communities
- Close in communities still without sewer service.
- A housing market that still demands three-car garages.

And at the same time, we have plans for high density, pedestrian-friendly urban centers that show little sign of emerging in most areas where they are envisioned. It seems that visions, comprehensive plans, zoning, public works and market expectations are all swirling around in their own orbits. This is especially the case when it comes to the treatment of cars. A development that is too auto-friendly is frowned on, but a developer who wants to build narrower streets and have less parking will run into objections.

Getting stuck half-way between urban and suburban ensures that we get the worst of both worlds: not enough density to get real urban living to work, but not enough accommodation for the automobile, resulting in frustrating congestion. We get the downsides of density but without a critical mass to provide the benefits.

Inconsistent goals

Many of our community goals directly contradict each other at the local level. For example:

Road and parking standards vs. stormwater. We retain very generous road, sidewalk and parking standards, but these wide rights-of-way and parking lots generate unwanted stormwater runoff.

Low-impact-development-standards vs. density. Jurisdictions are encouraging techniques to retain stormwater naturally on-site. But because of our very dense soils, these techniques require ample land, which is not available in high-density residential developments or in urban center commercial projects.

Infill vs. affordability. Infill development is expensive for a whole host of reasons. The most affordable new development continues to be on the fringe, where land is less expensive and easier to work with, homebuilders can get economies of scale, and commercial development can utilize surface parking.

Environmental protection vs. infill. Efforts to protect streams and wetlands have resulted in rural environmental standards being applied in urban areas. This makes a lot of already difficult land totally non-economic and reduces urban densities.

Need for improved communication

One thing just about everyone involved in these studies agreed on was the need for better communication and a willingness to understand different perspectives. There needs to be a better vehicle to foster this communication. Communication, however, takes time, patience and a willingness to back off from hard and fast positions.

A new development culture

A central thread runs through all the findings and themes of these studies: the political culture of our region does not foster a good development environment. We often hear about “partnership,” but real partnerships usually happen only on individual high profile projects or in response to an external threat. We need a sense of partnership that pervades the day-to-day workings of the development industry, local government and communities. A true partnership requires:

Shared goals. Too often it seems that local governments are indifferent to or even suspicious of the business success of developers, and developers are indifferent to the preferences and aspirations of communities. A partnership tries to further the goals of all members and strike appropriate balances where there is conflict.

Shared accountability. Missed opportunities unmet needs, or unsuccessful development usually results in finger-pointing between local governments and developers. In a true partnership, everyone shares accountability for outcomes.

Appreciation of constraints. Developers operate under strict market and financial constraints that dictate what they can and cannot build. Local governments operate under political constraints defined by the need to represent constituent interests. A partnership factors in both types of constraints and works to mitigate them.

Ongoing communication. Communication between developers and local governments cannot be limited to specific projects or events. Dialog must be consistent and ongoing, recognizing that new players arrive regularly and must be brought into the partnership, and that the context of the partnership evolves continually.

Problem-solving mechanisms. No project ever goes exactly according to plan, and mechanisms must be in place to resolve issues as soon as they arise.

The biggest challenge in creating stronger development environment partnerships comes from citizens. Those who will be affected by new development need to feel they can be a constructive part of the process. At the same time, it needs to be clear that they do not hold veto power. Developers and local governments need to focus on the benefits of a project, not just the impacts. Local governments need to engage a broad range of citizens, not just the activists. Developers and citizens need to approach each other with mutual respect.

Priority recommendations

The mapping of the relationships that make up the development environment suggests many ways to improve that environment for commercial and residential developers and to enhance economic development and housing opportunities. Within this longer list of possible actions, several areas emerge that could benefit from immediate and concerted attention, both within individual jurisdictions, and through cooperative action.

Leadership responsibility for each of these recommendations is not spelled out. These are major undertakings that will require resources and organizational commitment, so it is beyond the scope of this report to suggest how to get started. If however, this project has its intended effect of fostering closer dialog, action plans can be developed readily.

Consolidation of special districts

City representatives and developers all agreed that it makes little sense to have fire and utility districts operating within cities (no special district representatives participated). These districts, however, predate incorporation and have loyal followings within the community. In the past they were the only form of local government, and many areas derived their identity from them. Absorbing these districts into city government will not be easy, but would greatly improve the development environment by providing more coordinated planning and uniform service. Participants agreed that the problem of special districts is best dealt with at the state level, since individual cities will be reluctant to take on something so politically charged.

Market feasibility of comprehensive plans

The comprehensive plans of many jurisdictions in the region call for development that has proved to be very inconsistent with market demand in those areas. As jurisdictions update their comprehensive plans, they should include an analysis of the market potential for the kinds of development envisioned in the plans, as well as an assessment of unmet market demand. Having done that analysis, they should remove plan elements that have little likelihood of attracting developers, and accommodate identifiable but unmet demand.

Small lot housing codes

The market studies identified a large demand for small lot housing throughout the county, but few jurisdictions allow small lots outright, especially on infill sites. PUD or other processes are often cumbersome and politically charged. A cooperative effort of development, planning, local government and real estate interests should develop model standards for small lot housing development, including both codes and processes, that can be adapted to local circumstances. Ultimately, all jurisdictions with infill housing opportunities should adopt small lot codes that encourage higher density single family detached housing that meets local market needs.

Model two-track system

Various jurisdictions have attempted two-track permitting systems to provide opportunities for deviations from code while ensuring a baseline of predictable regulation. Within such a system a developer could opt to follow all zoning and development standards exactly, and have a

predictable outcome. Or, the developer could opt to request more of a performance-based approach, with the understanding that the review would take more time and the outcome would be less certain.

A cooperative effort with commercial and residential builders and planners could develop a model two-track approach that could be adopted by jurisdictions.

Joint legislative agenda

Many of the actions needed to improve the development environment require legislation at the state level. Jurisdictions and businesses in the county or region could develop a joint legislative agenda each year. This agenda should include those items that seem relatively minor and therefore have a hard time gaining attention, but that will make a real difference.

Common public works standards

While most local public works standards have their origins in national or international standards, they can vary significantly from one jurisdiction to another. This adds to the cost and complexity of development and adds little to the reliability, longevity or performance of infrastructure. Jurisdictions in the region should move toward common standards. In the process of doing so, they should adopt the most sensible standards, and not just seek the highest common denominator.

Updated road standards

Standards for public and private roads need to be updated to reflect a more urban feel of commercial areas and neighborhoods within the UGA. Since several important stakeholders – planning, public works, fire, police -- are involved in road standards, leadership must come from city councils. In keeping with recommendations for consistent standards, efforts in individual cities should be based on regionally-developed principles.

This could be undertaken with an effort similar to that suggested for developing common public works standards.

Conclusion

This report does not raise any issues that cannot be resolved relatively easily from a technical perspective. Despite our current worries, the Puget Sound region has sound economic fundamentals, and many of our problems continue to be the problems of success. Clogged roads and rising housing prices are far preferable to boarded up factories and homes worth less than their mortgage. Our challenges really lie in two areas.

First is our continued complacency. Lack of concern about our economic future may have been understandable ten years ago, or even five. But it is puzzling to see continuing inability to deal with basic issues in the face of the worst economy in a generation. Dramatic improvements in the development environment could be made if we had an appropriate sense of urgency. That urgency is, however, oddly lacking.

Second is the lingering feeling that the public and private sectors are on different planets. We talk about public-private cooperation, but the two sides have such deeply different sets of objectives and values that cooperation is always a struggle. Lack of understanding of objectives and constraints leads to suspicion and distrust and the sort of fortress mentality that makes compromise and cooperation impossible.

In the end, improvement of the development environment is not about technical fixes, although plenty of those are needed. Rather, technical fixes must rise out of a major cultural and political fix. We must have leadership committed to economic development and housing opportunities, development industries committed to quality and sensitivity, and both of those forces working closely together on a daily basis toward a common idea of success.

