



**MONTGOMERY COUNTY PLANNING DEPARTMENT**  
THE MARYLAND-NATIONAL CAPITAL PARK AND PLANNING COMMISSION

**MCPB**  
**Item #**  
**9/17/09**

September 11, 2009

**MEMORANDUM**

**TO:** Montgomery County Planning Board

**VIA:** Glenn Kreger, Acting Chief *GK*  
Vision Division

**FROM:** Jacob Sesker, Planner Coordinator (301.650.5619) *JS*  
Vision Division

**SUBJECT:** Economic Analysis of Proposed CR Zone in White Flint

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**Staff Recommendation**

- 1) Discuss and provide direction to staff.
- 2) Retain structure of the zone as proposed, including standard method maximum density, standard/optional method dichotomy, transit proximity incentive density, and affordable housing incentive density.
- 3) Direct staff to clarify or simplify the Building Lot Termination (BLT) incentive.

**INTRODUCTION**

This memo provides summary, synthesis, and analysis of the key findings of two attached reports, both of which were prepared by Partners for Economic Solutions (PES), economic consultants working for the Montgomery County Planning Department. The consultants were tasked with analyzing the economic issues related with the proposed CR zone, which has been recommended in two plans currently before the Council (the White Flint Sector Plan and Gaithersburg West Master Plan), as well as other plans currently before the Planning Board (the Takoma/Langley Crossroads Sector Plan and the Kensington and Vicinity Sector Plan).

The two reports are:

- Attachment 1: *Financial Modeling under Existing and CR Zoning*
- Attachment 2: *Incremental Costs to Achieve Incentive Density under Commercial/Residential Zoning*

*Financial Modeling under Existing and CR Zoning* first examines the economics of developing in three existing zones: CBD-2, TMX-2, and C-2. Each zone represents a distinct zoning regime, and each of these zones might be appropriate for some of the locations for which the CR zone is currently contemplated. The report then compares the economics of developing in the existing zones to developing in the CR zone.

*Incremental Costs to Achieve Incentive Density under Commercial/Residential Zoning* examines the economics of each of the potential incentives set forth in the proposed CR zone. For most of those incentives, the report estimates a cost associated with providing the public benefit that buys that increment of density.

This cover memo addresses each attachment in turn, though individual topics are not necessarily addressed in the same order, and in some cases this memorandum synthesizes information from both attachments in order to address a specific point.

## **FINDINGS**

An objective of the CR zone is to facilitate the redevelopment of malls and strip shopping centers. Many of those malls and strip shopping centers in White Flint are currently zoned C-2. The CR zone was developed as an improvement upon existing mixed-use zones (such as the TMX-2 and CBD-2 zones) and as an economically viable alternative to continuation under existing single-use zoning.

The following key findings will be highlighted in the discussion of the zone:

- 1) *Parking reductions under CR zoning result in increased land value at redevelopment.*
- 2) *Land values under the CR Zone standard method compare favorably to land values in other zones at FAR 0.5, but cannot achieve the same land value as can be achieved under the CBD-2 standard method, which has a maximum density of FAR 2.0.*
- 3) *The CR zone would provide site plan review at FAR 0.5 but, as applied in White Flint, would not require costly public benefits until FARs well in excess of the optional method minimum have been reached.*
- 4) *The CR zoning produces higher land values than C-2 zone at levels of density achievable in C-2 which makes the CR zone a good choice for achieving the redevelopment of transit-accessible strip centers currently zoned C-2.*
- 5) *The CR zone produces higher land values than TMX-2 at both the standard method maximum and at FAR 2.0 (2.0 is the optional method maximum under TMX-2).*
- 6) *The CR zone produces comparable land values to the CBD-2 zone at FAR 4.0.*

Taken together, these findings indicate that the CR zone is likely to be an effective tool for achieving the redevelopment of White Flint, provides greater incentive to redevelop transit-served shopping centers than the existing zoning, and is likely to be comparable or superior to other existing mixed-use zones that could be used to implement the Sector Plan vision.

## **NOTES AND CAVEATS**

The following notes and caveats deserve brief mention before beginning:

- Both attached reports examine the economics of the zones in the context of White Flint. The economics of the zones in other sector or master plan areas may be different. This was necessary to narrow the scope of the consultant's work to fit our budget.
- A purpose of the CR zone is to fundamentally change the type of real estate products that are developed in areas proximate to transit. As a result, some of the comparisons are more "apples-to-pears" than "apples-to-apples."

- This memo and the accompanying consultant’s reports should be read as describing economic relationships, rather than as reflecting true and accurate costs or values. What is significant is whether A is greater than or less than B, or that C is many times greater than D.
- In estimating the costs of each individual CR zone incentive, a few defied cost estimation, and in other cases it was only possible to estimate the cost of meeting the minimum standard.
- In general, the attached consultant’s reports, and this memo, compare alternative scenarios on the basis of “residual land value.” Residual land value is the money that is left over to pay for land when development costs and a reasonable rate of return have been subtracted from revenues. In order for an owner of an income-producing property to redevelop, the residual land value must be in excess of the value of the income stream generated by the uses on the property. As between redevelopment alternatives for the property, the alternative which produces the highest residual land value will be preferred.
- Costs and values estimated in the abstract can vary significantly in reality. For example, meeting the requirements for design-related incentive density in the CR zone could present significant additional costs for a medical office building, whereas a trophy-class high-rise office building might meet those same requirements at no additional cost (i.e., no cost above what they would have included in the project anyway).
- This analysis was based on the July 13 draft of the CR zone. Changes to the text of the zone that have occurred since that time may not be reflected in the analysis.

#### **A. Financial modeling under existing and CR zoning**

##### *1. Parking reductions under CR zoning result in increased land value at redevelopment.*

Reduced parking requirements can result in increased land value for those projects which can take advantage of the opportunity. Holding constant certain variable factors—such as rate of absorption, rents, financing costs—reduction of parking requirements improves land values. The CR zone as proposed would be the first zone in Montgomery County to include parking maximums, and would reduce the minimum required parking ratios for all land uses.

Impact of Reduced Parking (Residual Land Value of Non-Residential Development)							
Zone	Non-Residential FAR	Parking Ratio Parking Spaces per 1,000 SF		Above-ground parking Residual Land Value		Below-ground parking Residual Land Value	
		Office	Retail	Dirt SF	FAR SF	Dirt SF	FAR SF
CR 2.5 C 1.5 R 2.0	1.5	2.4	4.9	\$98	\$65	\$20	\$14
CR 2.5 C 1.5 R 2.0	1.5	2.3	4.8	\$102	\$68	\$27	\$18
CR 2.5 C 1.5 R 2.0	1.5	2.2	4.7	\$106	\$71	\$34	\$22
CR 2.5 C 1.5 R 2.0	1.5	2.1	4.6	\$111	\$74	\$41	\$27
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.5	\$115	\$77	\$48	\$32
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.4	\$116	\$78	\$49	\$33
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.3	\$118	\$78	\$52	\$34
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.2	\$119	\$79	\$53	\$36
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.1	\$120	\$80	\$55	\$37
CR 2.5 C 1.5 R 2.0	1.5	2.0	4.0	\$121	\$81	\$57	\$38
CR 2.5 C 1.5 R 2.0	1.5	2.0	3.9	\$122	\$82	\$59	\$39
CR 2.5 C 1.5 R 2.0	1.5	2.0	3.8	\$123	\$82	\$61	\$40
CR 2.5 C 1.5 R 2.0	1.5	2.0	3.7	\$125	\$83	\$63	\$42
CR 2.5 C 1.5 R 2.0	1.5	2.0	3.6	\$126	\$84	\$65	\$43
CR 2.5 C 1.5 R 2.0	1.5	2.0	3.5	\$127	\$85	\$67	\$44
CR 2.5 C 1.5 R 2.0	1.5	1.9	3.4	\$132	\$88	\$74	\$49
CR 2.5 C 1.5 R 2.0	1.5	1.8	3.3	\$136	\$91	\$80	\$54
CR 2.5 C 1.5 R 2.0	1.5	1.7	3.2	\$140	\$94	\$88	\$58
CR 2.5 C 1.5 R 2.0	1.5	1.6	3.1	\$145	\$96	\$94	\$63
CR 2.5 C 1.5 R 2.0	1.5	1.5	3.0	\$149	\$99	\$101	\$67

As the table above illustrates, small reductions in commercial parking ratios can have a significant impact on values, expressed both as value per land or “dirt” square foot, or as value per improved or “FAR” square foot<sup>1</sup>. Under Chapter 59-E of the County’s zoning code, office development in White Flint would need to provide 2.4 spaces per 1,000 square feet for any development between 800 feet and 1,600 feet from a Metro Station (see top line). Each subsequent line represents a scenario possible under the CR with fewer parking spaces and resulting increases in land value.

For illustrative purposes, the following represents a comparison of the land value under C-2 zoning and the land values under the proposed CR zone.

Impact of Reduced Parking (Residual Land Value of Non-Residential Development)						
Zone	Above or Below Ground	Non-Residential FAR	Parking Ratio Parking Spaces per 1,000 SF		Residual Land Value	
			Office	Retail	Dirt SF	FAR SF
C-2	Above	1.5	2.4	4.9	\$92	\$61
CR 2.5 C 1.5 R 2.0	Above	1.5	2.4	4.9	\$98	\$65
CR 2.5 C 1.5 R 2.0	Below	1.5	1.6	3.1	\$94	\$63

Redevelopment under the CR zone with reduced parking in underground structures could outperform redevelopment under the C-2 zone with above-ground parking.

<sup>1</sup> This table does not address reductions in residential parking, which are more difficult to achieve. It is much easier to influence the decision about how one gets to work or play destinations than it is to influence whether or not one should own a car at all.

2. *Land values under the CR Zone standard method compare favorably to land values in other zones at FAR 0.5, but cannot achieve the same land value as can be achieved under the CBD-2 standard method, which has a maximum density of FAR 2.0.*

Some zones have both a standard and optional method of development. The maximum density under the standard method varies by zone (e.g. the maximum standard method density in the CR zone and the TMX-2 zone is 0.5, whereas the maximum standard method density in the CBD-2 zone is 2.0). The requirements that apply to all development, including standard method development, also vary by zone.

Comparison of Land Values at Standard Method Density for Condo/Retail Development		
Zone	Standard Method FAR	Residual Land Value (Per Df/Sf)
CR	0.50	\$89.00
C-2 Mixed Use	1.00	\$123.00
C-2 Mixed Use	1.50	\$129.00
TMX-2	0.50	\$65.00
CBD-2	0.50	\$64.00
CBD-2	1.00	\$123.00
CBD-2	1.50	\$129.00
CBD-2	2.00	\$183.00

The report found that the residual land value at FAR 0.5 in the CR zone compares favorably to the land values under both TMX-2 and CBD-2 at FAR 0.5. Development under the CBD-2 can achieve substantially higher density under the standard method, and can achieve higher land values before moving to optional method of development.

The CBD-2 zone allows standard method density up to FAR 2.0. Both the CBD-2 and C-2 zone are able to achieve higher residual land values before the optional method requirements for site plan and additional public benefits apply.

3. *The CR zone would provide site plan review at FAR 0.5 but, as applied in White Flint, would not require costly public benefits until FARs well in excess of the optional method minimum have been reached.*

Optional method of development in existing zones (CBD-2 and TMX-2) requires project plan and site plan review by the Planning Board. The optional method of development in the CR zone does not include a project plan requirement. Optional method of development in existing zones also requires additional public benefits from the developer. The required public benefits tend to increase the cost of development.

The density above the standard method requires the provision of additional public benefit and additional Planning Board review. As such, it is sometimes said that standard method density is “by right” density and optional method density is “negotiated” density. Developers and property owners within the CBDs have developed a comfort level with this zone over the years, though many were originally uncomfortable with the perceived time and uncertainty associated with negotiated density.

The optional method of development has the potential to provide the community greater control over the design of a development through the site plan review, and also to require that the developer provide public benefits.

Some zones, such as the C-2 zone, have no optional method. In the C-2 zone there are three possible sets of rules under which development can occur, two of which generally do not require site plan. The third is only available to a very narrow subset of properties<sup>2</sup>.

Issues involving the standard/optional method dichotomy include:

- Owners of properties currently zoned C-2, have previously expressed reservations about being rezoned to TMX-2, a change which they perceive to be equivalent to a “downzoning.”
- The cost of optional method density may lead some property owners to decide not to redevelop or to redevelop at standard method only.
- In the C-2 zone, or any other zone permitting moderate density with no optional method, substantial developments can be built without site plan review.

In all CR zones, the standard method maximum density is FAR 0.5. In a CR 4.0 zone, a property within ¼ mile of a Metrorail stop would receive a transit proximity incentive equal to 40% of the total potential incentive density.

- Optional method maximum: 4.0
- Standard method maximum: 0.5
- Total incentive density:  $4.0 - 0.5 = 3.5$
- Transit proximity incentive available within ¼ mile from Metrorail:  $40\% \times 3.5 = 1.4$
- Standard method density plus transit incentive density:  $0.5 + 1.4 = 1.9$

In addition, incentive density is available for providing workforce housing, even in locations currently subject to the workforce housing requirement (i.e. Metro Station Policy Areas). As a result, a property that is zoned CR 4.0 and is located within ¼ mile from Metrorail and within a Metro Station Policy Area would essentially not be subjected to additional optional method costs for any development improved to an FAR of 2.6 or below.

- Required workforce housing, as percentage of market rate units: 10%
- Total incentive density:  $4.0 - 0.5 = 3.5$
- Incentive density for workforce housing:  $2 \times 10\% = 20\%$
- Affordable housing incentive density:  $20\% \times 3.5 = 0.7$
- Standard method density plus transit incentive plus affordable housing incentive:  $0.5 + 1.4 + 0.7 = 2.6$

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<sup>2</sup> See 59-C-4.358.2 (Special Development Procedure for Transit Oriented Mixed Use). The property must be located within a Metro Station Policy Area that is not a Central Business District. The property must be zoned C-2 and must not be recommended for TS-M, however the property must abut another property that is recommended for TS-M. The Special Development Procedure requires that at least 60% of the development must be for residential use and the ground floor must be for commercial use.

There is an additional incentive that may be entirely determined by characteristics specific to the land, rather than to the new development itself. The Community Connectivity incentive density is available to properties that are in proximity to a number of pedestrian accessible retail uses, many of which must be small to mid-size retailers. The total incentive density available in the Community Connectivity category is 10% to 20%. If the location of the property, perhaps in combination with elements of the planned development, would qualify it for the Community Connectivity incentive density, then it is conceivable that the development could achieve an FAR of 2.95 or even 3.30 without incurring any costs associated with required public benefits which were not otherwise required.<sup>3</sup>

Comparing Zones: FAR at which site plan review and additional public benefits are required (CR 4.0, located within 1/4 mile of metrorail)							
	CR 4.0	CBD-2	TMX-2	C-2 Commercial	C-2 Mixed Use	C-2 Transit Oriented Mixed Use	
FAR above which site plan or equivalent occurs	0.50	2.00	0.50	1.50	2.50	0.00	
Maximum FAR under optional method of development	4.00	4.00	2.00	N/A	N/A	2.50	
Maximum FAR without imposition of additional public benefits	w/o transit proximity	0.50	2.00	0.50	1.50	2.50	N/A
	w/ transit proximity (assume & workforce housing	1.90	2.00	0.50	1.50	2.50	N/A
	& community connectivity	2.60	2.00	0.50	1.50	2.50	N/A
		2.95-3.30	2.00	0.50	1.50	2.50	N/A

For a property located within ¼ mile of a Metrorail station and within an established Metro Station Policy Area, the CR zone compares favorably to the C-2 zone, the TMX-2 zone, and the CBD-2 zone. The zone provides site plan review at a low level of density, but does not require costly public benefits until much higher levels of density are achieved. In this example, development under the CR zone could achieve density of FAR 2.6 to 3.3 without incurring costs in addition to the land premium associated with the location, the provision of MPDU and workforce housing as already required under County law, and meeting the minimum requirements of the CR zone.

- The CR zoning produces higher land values than C-2 zone at levels of density achievable in C-2 which makes the CR zone a good choice for achieving the redevelopment of transit-accessible strip centers currently zoned C-2.*

A primary objective of the CR zone is to facilitate the redevelopment of existing suburban commercial shopping centers. Such shopping centers represent a significant opportunity for the County because of their locations, transportation access, and significant supply of serviced land currently dedicated to surface parking. Many of these shopping centers are currently zoned either C-1 or C-2 (with C-2 being the more intense of the two zones). As such, in comparing the CR zone to existing zones, C-2 is a logical starting place.

Unlike some newer zones, the C-2 zone does not provide for an optional method of development. As described above, there are currently 3 alternative sets of rules nested within the zone, one of which applies only to a small subset of properties. The two remaining alternatives are:

- 100% non-residential development, maximum FAR 1.5, height limited to 42', 75% site coverage, generally no site plan.

<sup>3</sup> Providing the affordable housing required under the County's existing inclusionary zoning laws may still have a cost, and those requirements are not altered by the CR zone. However, there are no additional or new costs associated with affordable housing under the CR zone.

- Mixed use development, maximum total FAR of 2.5 where non-residential FAR does not exceed 1.0 and ground floor is all commercial, generally no site plan.

The CR and the C-2 zone are so different that they do not lend themselves to easy apples-to-apples comparison, and because it was not possible to model every possibility, it is not possible to compare the zones at every level of density.

Residual Land Value Per Dirt Square Foot, CR vs. C-2, Condo/Retail, Selected Densities			
0.50		\$89.00	
1.00		-	\$123.00
1.25	Transit Access btwn 1/4 and 1/2 mile	\$150.00	\$123.00-\$129.00
1.50	↓↓	-	\$129.00
1.75	Community Connectivity	\$206.00	-
2.00	↓↓	-	-
2.25	Affordable Housing (WFHU)	\$260.00	-
2.50	Care Center	\$268.00	-
2.92	LEED Gold	\$249.00	NA

At FAR 1.50, the C-2 zone produces a residual land value of \$129 per square foot of land. At that same FAR, the CR zone produces a residual land value of between \$150 and \$206.<sup>4</sup>

5. *The CR zone produces higher land values than TMX-2 at both the standard method maximum and at FAR 2.0 (2.0 is the optional method maximum under TMX-2).*

The TMX-2 zone is similar to the CBD family of zones in that it includes both a standard and optional method of development. However, the TMX-2 is intended to be applied in locations which are transit served but which are not in a CBD. As such, the zone would be appropriate in many locations which might also be appropriate for a CR zone.

The TMX-2 zone requires site plan review above the standard method maximum of FAR 0.5, providing Planning Board site plan review at the same level of density as does the CR. In the TMX-2 zone, development under the optional method is required to provide public benefits, to wit, a portion of the optional method density must be purchased with Building Lot Terminations.<sup>5</sup>

Residual Land Value Per Dirt Square Foot, CR vs. TMX-2, Condo/Retail, Selected Densities			
0.50		\$89.00	\$65.00
1.00		-	-
1.25	Transit Access btwn 1/4 and 1/2 mile	\$150.00	-
1.50	↓↓	-	-
1.75	Community Connectivity	\$206.00	-
2.00	↓↓	-	\$176.00
2.25	Affordable Housing (WFHU)	\$260.00	NA
2.50	Care Center	\$268.00	NA
2.92	LEED Gold	\$249.00	NA

<sup>4</sup> The C-2 Special Development Procedure for Transit-Oriented Mixed Use, which is available for a small subset of properties, produces a residual land value of \$223 per dirt square foot at FAR 2.0 in a condo/retail mix.

<sup>5</sup> The actual economics of developing in the TMX-2 zone are still unknown, given the still unresolved issue of Executive Regulations setting prices and establishing procedures for the transfer of Building Lot Terminations and payments to the Agricultural Land Preservation Fund.



Based on the results of the analysis, the CR zone produces higher land value at the standard method maximum (\$89 per square foot of land as compared to \$65 per square foot of land). The CR zone also produces higher land value in the optional method. At FAR 2.0 (the optional method maximum in the zone), the TMX-2 produces a residual land value of \$176 per dirt square foot, whereas the CR produces a land value of between \$206 and \$260 per dirt square foot.

6. *The CR zone produces comparable land values to the CBD-2 zone at FAR 4.0.*

The CBD-2 and other CBD zones are used in the County's four Central Business Districts: Friendship Heights, Bethesda, Silver Spring, and Wheaton. The CBD-2 zone has a standard method maximum density of FAR 2.0. The optional method maximum in the zone is FAR 4.0. Development at the optional method requires site plan and public use space equal to at least 20% of the gross site.

The existing CBD zones allow for a range of density options, some of which are most appropriate for low/transitional density. The CBD-2 is among the CBD zones that could be appropriate for portions of the White Flint area.

The comparison with CBD-2 is better illustrated by using a CR zone with a higher optional method ceiling (CR 4.0 C 3.5 R3.5 H300). Because condos generate the highest land values, the comparison is again between condos above retail under both zones.

In both the CR 4.0 and CBD-2, the maximum optional method density is FAR 4.00. However, in the CBD zones the maximum optional method FAR can be exceeded for affordable housing bonus density as provided in Chapter 25A and 25B. In the CR zone, maximum FAR cannot be exceeded for affordable housing; rather, the provision of either (a) any workforce housing, or (b) MPDU above the 12.5% required under Chapter 25A, can be converted into incentive density that gets the developer closer to the optional method maximum density limit. As such, though the scenarios modeled in each zone had a standard method maximum of FAR 4.00, the CR zone development built only to FAR 3.90 while the CBD-2 development built to FAR 4.35.

Residual Land Value Per Dirt Square Foot, CR vs. CBD-2, Condo/Retail		
CR FAR	CR Residual Land Value	CBD-2 Residual Land Value
3.90/4.00	\$286.00	-
4.35/4.00	-	\$294.00

At this level of density, the CR zone produces virtually an equal land value to the CBD-2 zone.

**B. Incremental costs to achieve incentive density in the CR zone**

The proposed Commercial/Residential zoning amendment is intended to create zones which are defined as combinations of the following factors: maximum total floor area ratio (FAR), maximum non-residential FAR, maximum residential FAR, and maximum building height. Among the intents of the zone are facilitating mixed-use redevelopment of single-use areas and surface parking lots, reducing automobile dependency, and encouraging appropriate balance between jobs and housing.

Two methods of development are possible in the CR zone: standard method and optional method. Certain requirements apply to all development under either method. By providing a combination of public benefits selected from the menu of incentive density opportunities, a developer choosing the optional method of development can achieve greater density than would be possible under the standard method, up to the maximum FAR in that specific CR zone.

The public benefits which comprise the universe of incentive density opportunities are generally divided into four categories: connectivity, design, diversity, and environment. In addition to those four categories, incentive density can be granted for transit proximity and for purchasing building lot terminations (BLTs). The proposed CR zone would limit the amount of incentive density that could be granted out of each category<sup>6</sup>, thereby ensuring that any developer seeking the maximum FAR under the optional method would provide public benefits out of more than one category.

A range of incentive density can be granted by the Planning Board in exchange for the public benefits provided by the development. Many of the public benefits have quantifiable or objective standards at both the minimum and maximum; other public benefits have standards that are quantifiable or objective only at the minimum.

#### *Comparing Costs of Incentive Density Opportunities*

The costs of providing the public benefits for which incentive density can be awarded can vary significantly; some may cost less than \$0.25 per square foot of incentive density, whereas others may cost in excess of \$100 per square foot of incentive density.

For details about the assumptions and methods used in estimating the costs of each incentive density opportunity/public benefit, see Attachment 2.

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<sup>6</sup> The Planning Board may grant no more than 30% of the total incentive density for the connectivity, design, diversity or environment incentive categories. Up to 50% of the total incentive density can be granted for both transit proximity and for purchasing BLTs.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
<b>Transit proximity</b>							
Adjacent or fronting transit access	25%	50%					
Transit access within 1/4 mile	20%	40%					
Transit access between 1/4 and 1/2 mile	15%	30%					
Transit access between 1/2 and 1 mile	10%	20%					
<b>Connectivity and mobility</b>							
Community connectivity	10%	20%					
Community garden	5%	10%	\$0.10	\$0.26	\$0.02	\$0.02	\$0.02
Parking at the minimum	10%	20%					
Pedestrian through-block connection (500 lf)	5%	10%	\$6.03		\$0.15	\$0.20	\$0.24
Public parking	20%	30%		\$24.49	\$3.67	\$5.89	\$9.38
Transit access improvement	10%	20%					
<b>Diversity</b>							
Adaptive buildings	15%	30%	\$79.17		\$11.88	\$11.88	\$11.88
MPDU increase of 1% (apartments)	10%	20%		-\$27.04			-\$2.25
MPDU increase of 1% (condos)	10%	20%		-\$79.07			-\$6.59
Workforce housing increase of 1% (apartments)	20%	30%		-\$9.89			-\$0.18
Workforce housing increase of 1% (condos)	20%	30%		-\$35.35			-\$0.63
Care center (2,000 sf at \$10 triple net psf)	10%	20%	\$34.91				\$2.89
Community facility (2,000 sf at \$0 rent)	10%	20%	\$43.59				\$3.60
Local retail preservation	10%	20%					
Unit size and mix	5%	10%	-\$44.26	-\$29.50			
<b>Design</b>							
Floor plate size	10%	20%	\$25.00		\$2.00	\$2.00	\$2.00
Historic resource protection	10%	20%					
Parking below grade vs. above grade w/ liner							
Office/Retail	10%	20%		\$236.00	\$32.00	\$40.00	\$47.00
Residential Retail	10%	20%		\$140.00	\$22.00	\$25.00	\$28.00
Podium/tower setback	5%	10%	\$15.00	\$15.00	\$0.75	\$0.75	\$0.75
Public art @ 1% to 4% of hard costs	5%	20%	\$27.50	\$27.50	\$1.10	\$1.10	\$1.10
Public plaza/ open space (2,500 sf)	5%	10%	\$11.48		\$0.29	\$0.38	\$0.46
Streetscape off-site (18% of net lot)	5%	10%	\$60.48	\$60.48	\$1.51	\$1.73	\$2.42
Wow factor	10%	20%					
<b>Environment</b>							
Bio-retention and stormwater recharge (25% run)	5%	10%	\$66.60		\$1.67	\$2.22	\$2.66
Bio-retention and stormwater recharge (50% run)	5%	10%		\$54.00	\$2.70	\$3.60	\$4.32
Conveyed parkland (30% of gross lot area)	10%	20%	\$37.50	\$37.50	\$3.75	\$5.00	\$6.00
Dark skies (5 fixtures per 1,000 sf)	5%	10%		\$0.23	\$0.01	\$0.02	\$0.02
Energy efficiency and generation (6-17 kW)	10%	20%	\$2.20	\$1.84	\$0.39	\$0.37	\$0.37
Green wall (100' wall, 3 stories)	5%	10%	\$2.64		\$0.07	\$0.09	\$0.11
LEED Silver	10%		\$20.00		\$1.60	\$1.60	\$1.60
LEED Gold	20%		\$79.88		\$12.78	\$12.78	\$12.78
LEED Platinum		30%		\$133.17	\$31.96	\$31.96	\$31.96
Rainwater reuse (25% runoff)	5%	10%	\$43.20		\$1.08	\$1.44	\$1.73
Rainwater reuse (50% runoff)	5%	10%		\$32.63	\$1.63	\$2.18	\$2.61
TDR (10 TDRs for 20 units or 25,000 sf)	10%	30%	\$9.18	\$9.18	\$0.46	\$0.61	\$0.73
Tree canopy (50% coverage)	10%	20%	\$0.03	\$0.03	\$0.004	\$0.006	\$0.007
Vegetated area (5,000 sf)	5%	10%	\$2.63		\$0.07	\$0.09	\$0.11
Vegetated roof-60% of roof area (52,300 sf)	10%	20%	\$9.24	\$8.40	\$0.84	\$1.12	\$1.34
<b>Building Lot Terminations</b>							
BLTs (3.12 BLTs)		50%		\$5.73	\$2.48	\$2.38	\$2.29

As the table above illustrates, the cost of each square foot of incentive density associated with the incentive opportunities/public benefits varies significantly. In fact, some of the public benefits actually have a negative cost, i.e. economic benefits accrue to the project as a consequence of providing certain public benefits. In the case of the transit proximity incentive density, the cost of that incentive is internal to the land value, i.e. land closer to transit is presumably more expensive than the same land would be if it were farther from transit.

*Transit proximity incentive density*

Transit proximity incentive density is available to properties that are in locations where the County currently wants to encourage density. As proposed, greater incentive density is awarded based on proximity to transit, and a premium is awarded for proximity to Metrorail over other forms of transit.

The transit proximity incentive does not lend itself to estimating the associated marginal costs. Property owners pay more for land that is close to transit. Once the land is paid for, there is no additional or marginal cost associated with this incentive density.

*Connectivity and Mobility*

A development can achieve up to 30% of the total incentive density from the Connectivity and Mobility category.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
<b>Connectivity and mobility</b>							
Community connectivity	10%	20%					
Community garden	5%	10%	\$0.10	\$0.26	\$0.02	\$0.02	\$0.02
Parking at the minimum	10%	20%					
Pedestrian through-block connection	5%	10%	\$6.03		\$0.15	\$0.20	\$0.24
Public parking	20%	30%		\$24.49	\$3.67	\$5.89	\$9.38
Transit access improvement	10%	20%					

**Community connectivity** is largely a function of location and thus the cost is internal to the cost of the land. In White Flint, many properties are within ½ mile from at least ten different existing or proposed retail uses, but meeting the direct pedestrian access requirement (however defined) may be a challenge for some. Between 10% and 20% of total incentive density can be awarded for community connectivity. Many properties in infill locations may qualify for this incentive.

Within the Connectivity and Mobility category, **community gardens** appear likely to be most appealing to developers. To the extent that this benefit can be provided on land with no/low opportunity cost or on the roof, meeting the requirements can be done at very little cost per incentive density square foot. The hard costs are more expensive when the garden is on the roof, but on the roof the gardens require none of the gross lot area.

**Parking at the minimum** is an incentive which is distinct from the reduced parking requirements in the zone. The CR zone has both a minimum and maximum requirement for parking. Projects which park at the minimum are eligible for incentive density. This incentive will be infrequently used in the near-term. While the reduced parking requirements in the zone provide a very significant economic benefit to development in the CR zone where financing and the market will support reduced parking, parking at the minimum will be difficult to achieve for the great majority of projects. This incentive will likely be more often utilized when these areas transform and mature. **Public parking** is subject to the same problem—development would need to park at the minimum in order to qualify for this incentive.

*Diversity*

A development can achieve up to 30% of the total incentive density from the Diversity category.

Consistent with this County’s longstanding emphasis on housing affordability, the incentive density available for providing workforce housing and/or bonus MPDU are among the most cost effective bonuses available. Developments in White Flint which contain residential uses are likely to look to the diversity category for a portion of their total incentive density. Non-residential developments are less likely to favor the category, but there are still opportunities for non-residential development to achieve incentive density from this category.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
<b>Diversity</b>							
Adaptive buildings	15%	30%	\$79.17		\$11.88	\$11.88	\$11.88
MPDU increase of 1% (apartments)	10%	20%		-\$27.04			-\$2.25
MPDU increase of 1% (condos)	10%	20%		-\$79.07			-\$6.59
Workforce housing increase of 1% (apartments)	20%	30%		-\$9.89			-\$0.18
Workforce housing increase of 1% (condos)	20%	30%		-\$35.35			-\$0.63
Care center (2,000 sf at \$10 triple net psf)	10%	20%	\$34.91				\$2.89
Community facility (2,000 sf at \$0 rent)	10%	20%	\$43.59				\$3.60
Local retail preservation	10%	20%					
Unit size and mix	5%	10%	-\$44.26	-\$29.50			

**Affordable housing** provides incentive density for projects that include workforce housing units. The CR zone would provide sufficient density bonus that some developers not located in a Metro Station Policy Area (and thus not required to provide workforce housing) may choose to provide workforce housing. Making the incentive available to properties already required to provide workforce housing under Chapter 25B could have the effect of pushing additional development from outside of Metro Station Policy Areas into the Metro Station Policy Areas.

**Unit mix and size** provides incentive density for projects which include a range of unit types including both efficiencies and 3-bedroom units. Ultimately, no project will include units that the market will not absorb. This is true even where providing the units qualifies the project for incentive density. Efficiencies are typically not part of the mix in condominium projects in Montgomery County. Rental projects which identify a market for a range of unit types in a multi-family project may choose to take advantage of this incentive.

**Community facilities and care centers** can be integrated into either residential or non-residential projects. Because the affordable housing category will not be utilized by non-residential development, non-residential projects in need of density out of this category will likely look to these two possible bonuses. **Local retail preservation** is obviously another incentive that could be utilized by non-residential development.

*Design*

A development can achieve up to 30% of the total incentive density from the Design category. In general, the incentives associated with the Design category are more expensive than those in other categories. However, many developments are already including these elements in their projects. As such, an incentive that might increase the cost significantly for some projects, might add no cost to other projects. This is particularly true for projects such as trophy-class or Class A office buildings or luxury condominium projects.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
<b>Design</b>							
Floor plate size	10%	20%	\$25.00		\$2.00	\$2.00	\$2.00
Historic resource protection	10%	20%					
Parking below grade vs. above grade w/ liner							
Office/Retail	10%	20%		\$236.00	\$32.00	\$40.00	\$47.00
Residential Retail	10%	20%		\$140.00	\$22.00	\$25.00	\$28.00
Podium/tower setback	5%	10%	\$15.00	\$15.00	\$0.75	\$0.75	\$0.75
Public art @ 1% to 4% of hard costs	5%	20%	\$27.50	\$27.50	\$1.10	\$1.10	\$1.10
Public plaza/ open space (2,500 sf)	5%	10%	\$11.48		\$0.29	\$0.38	\$0.46
Streetscape off-site (18% of net lot)	5%	10%	\$60.48	\$60.48	\$1.51	\$1.73	\$2.42
Wow factor	10%	20%					

**Floor plate size and podium/tower setback** are public benefits that will generally be provided only where height limits permit tall buildings. Regardless of the relative cost-effectiveness of these incentive density opportunities, they will only be used in close proximity to Metrorail or other locations where the general character is amenable to taller buildings.

**Public plaza/open space**, like other categories involving land, presents challenges in estimating the cost. Using additional land beyond what is required for the public use space and for the building footprint, parking, access, and dedication can add significant opportunity costs to the development.

**Wow factor** is a category which does not contain objective standards and is thus impossible to estimate associated costs. While “wow factor” might be a very expensive public benefit for many developments, trophy class office buildings or luxury condominium residential buildings may be able to provide this level of design excellence at little or even no incremental cost.

### Environment

A development can achieve up to 30% of the total incentive density from the Environment category.

There is a great deal of cost disparity in the environment, which is to say that some of these incentives are very cheap, while others are very expensive. However, the two most expensive of these incentives are LEED Gold and LEED Platinum. Many developers are already choosing to pursue LEED Gold and LEED Platinum for other reasons, including reduced operating costs, tax credits, tenant demand and rent premiums, marketing and public relations considerations, and shareholder interest in green investment.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
<b>Environment</b>							
Bio-retention and stormwater recharge (25% runoff)	5%	10%	\$66.60		\$1.67	\$2.22	\$2.66
Bio-retention and stormwater recharge (50% runoff)	5%	10%		\$54.00	\$2.70	\$3.60	\$4.32
Conveyed parkland (30% of gross lot area)	10%	20%	\$37.50	\$37.50	\$3.75	\$5.00	\$6.00
Dark skies (5 fixtures per 1,000 sf)	5%	10%		\$0.23	\$0.01	\$0.02	\$0.02
Energy efficiency and generation (6-17 kW)	10%	20%	\$2.20	\$1.84	\$0.39	\$0.37	\$0.37
Green wall (100' wall, 3 stories)	5%	10%	\$2.64		\$0.07	\$0.09	\$0.11
LEED Silver	10%		\$20.00		\$1.60	\$1.60	\$1.60
LEED Gold	20%		\$79.88		\$12.78	\$12.78	\$12.78
LEED Platinum		30%		\$133.17	\$31.96	\$31.96	\$31.96
Rainwater reuse (25% runoff)	5%	10%	\$43.20		\$1.08	\$1.44	\$1.73
Rainwater reuse (50% runoff)	5%	10%		\$32.63	\$1.63	\$2.18	\$2.61
TDR (10 TDRs for 20 units or 25,000 sf)	10%	30%	\$9.18	\$9.18	\$0.46	\$0.61	\$0.73
Tree canopy (50% coverage)	10%	20%	\$0.03	\$0.03	\$0.004	\$0.006	\$0.007
Vegetated area (5,000 sf)	5%	10%	\$2.63		\$0.07	\$0.09	\$0.11
Vegetated roof-60% of roof area (52,300 sf)	10%	20%	\$9.24	\$8.40	\$0.84	\$1.12	\$1.34

**Dark skies** compliance adds negligible cost to “smart” buildings with centralized computer controls. This is among the “cheapest” incentive density opportunities available. However, dark skies compliance requires that tenants feel comfortable with reduced exterior lighting. As such, this incentive density opportunity is more likely to be utilized in office developments than in residential developments.

**LEED Silver/Gold/Platinum** incentive density opportunities range from moderate cost to very expensive. However, LEED certification or equivalent is already required of many buildings under the County’s green building law, and many developers are already targeting LEED Silver or higher both for marketing reasons as well as to take advantage of tax credits and reduced long-term operational expenses. In addition, many of the other incentive density opportunities in the CR zone will contribute to the LEED rating of the project, meaning that the cost of this incentive density opportunity will have been partially or wholly internalized in the cost of other categories.

*Building Lot Terminations (BLTs)*

Purchase of BLTs can result in total incentive density of up to 50%. As described in greater detail below, it is not entirely clear how to interpret this provision. One advantage that the BLT requirement has over many of the incentives in other categories is that it requires no architecture or engineering—it is pay-and-go density.

Comparing Costs of Incentive Density Opportunities/Public Benefits							
	Incentive Density		Cost per Incentive Sq. Ft.		Cost per FAR Sq. Ft.		
	Low	High	Low	High	4.0 FAR	3.0 FAR	2.5 FAR
Building Lot Terminations BLTs		50%		\$5.73	\$2.48	\$2.38	\$2.29

**Building lot terminations** prove difficult to understand, even for quantitatively-inclined individuals. This problem stems from the fact that there are multiple steps involved in the process. The following is a summary of the issues in a logical order rather than in the order in which the issues appear in the zone:

- The conversion rates in the CR zone should be the same as in the TMX zone. In the TMX zone one BLT is required for every 7,500 square feet of non-residential floor area and one for every 9,000 square feet of residential floor area. While the July 13 draft of the CR zone upon which this analysis is based is correct in that regard, subsequent drafts have not been consistent.
- As written, the BLT incentive includes multiple calculations. Only 12.5% of total incentive density is subject to the requirement to purchase BLT. To do so for 12.5% of total incentive density, at the conversion ratios stated above, buys up to 50% of the incentive density available. It should be possible to simplify or collapse these calculations and/or to add an example that better illustrates the intent of the zone and reduces confusion.
- The zone states that the maximum incentive density increase is 50%, but does not establish a minimum or describe any standard upon which less than the maximum might be granted. If the intent is that a landowner purchasing BLTs for 12.5% of incentive density can be awarded 50% of the potential incentive density, then the zone should either define a minimum standard or make clear that the only possibility is that the landowner purchase BLTs for 12.5% of incentive density and that the landowner will receive in exchange 50% of the incentive density.