



## **Memo on Sending-Area Development Rights Values**

Task 4-1

CTED TDR Regional Feasibility Study

April 25, 2008

Together, King, Pierce, Snohomish and Kitsap Counties have identified over 1.7 million acres of TDR sending areas. For the purposes of this study, we have confined our analysis to a smaller area of approximately 372,000 acres of TDR sending areas, which includes smaller areas in King and Pierce Counties and all of the Snohomish and Kitsap sending areas.<sup>1</sup> The analysis is based on assessed land values and recent undeveloped parcel sales but included a mix of zones with rural, agriculture and forest lands. Even though the overall area analyzed was reduced from the maximum, these sending areas contain a variety of topographies, typologies, and real estate markets spanning the Puget Sound region.<sup>2</sup>

The price of recent land sales in each sending area was distilled to determine the average market value per acre of each sending area zone class (Table 1). We also tried to separate out the underlying “use value” of the land (for agricultural or forest operations, for example) in those zones where there might be underlying value based on land-based economic activity. So there are two columns of land values:

1. The landowner plans to sell the remaining development rights of a sending area property and let the land lie fallow—see Average Mkt. Price/Dev. Right column.
2. The landowner plans to sell the remaining development rights of a sending area property but still harvest the land—see Use Price/Dev. Right column.

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<sup>1</sup> Both King and Pierce Counties note that the reduction in sending areas included in this analysis is not an indication that the counties have prioritized which sending areas to preserve. Rather, the areas were decreased solely for the purpose of providing examples and to conduct this analysis efficiently.

<sup>2</sup> There are two lines of thought on TDR sending area supplies that are illustrated in the county programs. One line of thought is that a high amount of sending areas increases the likelihood of a buyer easily finding a willing TDR seller: conversely some programs seek to balance sending area supply with receiving area demand, so as not to flood the market with product.

A “rural” land production value was not deducted since it is unlikely to produce significant revenue apart from the development right. The result of this calculation is displayed in the Use Price/Dev. Right column on the right side of the table. This represents our calculation of the value of development rights on a per-acre basis.

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**Table 1: Sending Area Values, Acre per Zone, Based on Unimproved Parcel Sales Between 2006-2008**

Study Area	Typology	Zone	Divisor	Use Value	Avg Mkt Price/Dev Right	Use Price/Dev. Right	Avg Market Price/Acre	Use Price/Acre
King-Red*	Agriculture	A-35	35	\$3,500	<b>\$108,125</b>	<b>-\$14,375</b>	\$3,089	\$3,500
Snohomish	Agriculture	A-10	10	\$3,500	<b>\$107,624</b>	<b>\$72,624</b>	\$10,762	\$7,262
King-Carn***	Rural	RA-5	5	\$0	<b>\$76,542</b>	<b>\$76,542</b>	\$15,308	\$15,308
King-Carn***	Rural	RA-5-SO****	5	\$0	<b>\$91,929</b>	<b>\$91,929</b>	\$18,386	\$18,386
Kitsap	Rural	RR	5	\$0	<b>\$94,200</b>	<b>\$94,200</b>	\$18,840	\$18,840
King-Red*	Rural	RA-5-P*****	5	\$0	<b>\$94,988</b>	<b>\$94,988</b>	\$18,998	\$18,998
Kitsap	Rural	UR	10	\$0	<b>\$99,000</b>	<b>\$99,000</b>	\$9,900	\$9,900
King-Tuk**	Rural	RA-5	5	\$0	<b>\$108,954</b>	<b>\$108,954</b>	\$21,791	\$21,791
Kitsap	Rural	RP	10	\$0	<b>\$114,952</b>	<b>\$114,952</b>	\$11,495	\$11,495
Pierce	Agriculture	ARL	10	\$3,500	<b>\$180,286</b>	<b>\$145,286</b>	\$18,029	\$14,529
King-Tuk**	Rural	RA-5-SO****	5	\$0	<b>\$150,000</b>	<b>\$150,000</b>	\$30,000	\$30,000
Kitsap	Rural	RW	20	\$500	<b>\$180,833</b>	<b>\$170,833</b>	\$9,042	\$8,542
King-Carn***	Agriculture	A-35	35	\$3,500	<b>\$299,250</b>	<b>\$176,750</b>	\$8,550	\$5,050
King-Carn***	Rural	RA-10	10	\$0	<b>\$188,313</b>	<b>\$188,313</b>	\$18,831	\$18,831
Pierce	Forest	FI	80	\$500	<b>\$280,807</b>	<b>\$240,807</b>	\$3,510	\$3,010
King-Red*	Rural	RA-5	5	\$0	<b>\$258,333</b>	<b>\$258,333</b>	\$51,667	\$51,667
King-Tuk**	Forest	F	80	\$500	<b>\$329,000</b>	<b>\$289,000</b>	\$4,113	\$3,613
Pierce	Rural	R-10	10	\$0	<b>\$418,167</b>	<b>\$418,167</b>	\$41,817	\$41,817

\* representative of sending areas in proximity to Redmond receiving area

\*\*representative of sending areas in proximity to Tukwila receiving area

\*\*\*representative of sending areas in proximity to Carnation receiving area

\*\*\*\*special district overlay

\*\*\*\*\*parcel specific development condition

Our results suggest the following conclusions:

- Forest and low density agricultural lands have the lowest per-acre value. But low density farmland around Carnation and forest land have the highest market selling prices because the parcels are large.
- Including the “use value” in farmland and forest land development rights significantly reduces the WTS value. The use value for low density A-35 (one unit per 35 acres in the agriculture zone class) farmland near Redmond is greater than the market selling price.
- Low density agriculture is less valuable near Redmond than Carnation.
- A-10 (agriculture, one unit per 10 acres) lands in Snohomish are about half the value of the comparable the same density agriculture ARL zone lands in Pierce County.
- Forest land price per acre values indicate there is less demand to develop these areas than rural land. In Kitsap the rural wooded (RW) land is the closest example to forest lands in other counties. The higher value of RW in Kitsap compared to forest in King and Pierce can be explained by the higher permitted density--four times higher than Pierce and King forest lands.
- With some exceptions rural lands tend to generate lower-end of development right values, around \$100,000 per development right. However development right values are very high in some places, notably around Redmond and Carnation where rural parcels often consist of high-end estates. This also appears to be true in Pierce, where R-10 lands (rural, one unit per 10 acres) generate extremely high average selling prices, albeit based on a small number of sales.

When the sending area values are arranged by price per acre, as illustrated in Table 2, the values can be separated into four quartiles that are significant for determination of allocation rates:

***\$5,050 and below:*** Low density farm and forest land.

***\$7,000 to \$11,500:*** Higher-value farmlands and most rural land in Kitsap.

***\$14,500 to \$22,000:*** Most rural land in King County and the highest-density rural Kitsap lands. This range represents lands that are under development pressures yet still within a feasible value range to effectively allocate development right ratios.

***\$30,000 and up:*** Land selling for a premium under current market conditions, the highest of which is five acre lots outside the City of Redmond.

**Table 2: Sending Area Value Market Prices**

Study Area	Type	Zone	Mkt. Price/Acre	Use Price/Acre
King-Red*	Agriculture	A-35	\$ 3,089	\$ 3,500
Pierce	Forest	FI	\$ 3,510	\$ 3,010
King-Tuk**	Forest	F	\$ 4,113	\$ 3,613
King-Carn***	Agriculture	A-35	\$ 8,550	\$ 5,050
Snohomish	Agriculture	A-10	\$ 10,762	\$ 7,262
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King-Tuk**	Rural	RA-5	\$ 21,791	\$ 21,791
King-Tuk**	Rural	RA-5-SO****	\$ 30,000	\$ 30,000
Pierce	Rural	R-10	\$ 41,817	\$ 41,817
King-Red*	Rural	RA-5	\$ 51,667	\$ 51,667

\* representative of sending areas in proximity to Redmond receiving area  
 \*\*representative of sending areas in proximity to Tukwila receiving area  
 \*\*\*representative of sending areas in proximity to Carnation receiving area  
 \*\*\*\*special district overlay  
 \*\*\*\*\*parcel specific development condition

Because the values contained in this memo are based, in some cases, on a small number of transactions, we are currently double-checking these valuations with a different type of analysis. The transactional analysis we conducted allowed us to estimate a ratio in each county between assessed value and market value. We are currently seeking to apply that ratio to a large number of properties as a double-check on the above calculations to see if they pass “the small test” The ratios are listed below.

**Table 3: Average Index of Difference between Current Land Selling Prices and Assessed Land Value of Unimproved Parcels Sold in the Last Two Years.**

<b>King-Carn</b>	<b>77.46%</b>
<b>King-Red</b>	<b>80.92%</b>
<b>King-Tuk</b>	<b>74.80%</b>
<b>Pierce</b>	<b>67.43%</b>
<b>Snohomish</b>	<b>49.64%</b>
<b>Kitsap</b>	<b>59.01%</b>