

TDR's That Work in The Marketplace

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Basic alternatives:

1. Public funding to buy TDR's - unlikely to occur in light of competing needs.
2. Mandating TDR's for upzones or as part of new projects – basically an additional development extraction and less efficient than a fee that is used to buy TDR's
3. Market based – can generate new money from buyers at minimal public cost. This is the main reason to use the tool of TDR's. Therefore, this presentation addresses:

How do buyers view TDR's and what are the opportunities and obstacles?

From the view of a developer, a new project is like planning an expedition – predicting the risks and everything that will be needed to get to your destination is critical because it is difficult to go back for more supplies.

Starting point is the project proforma and projections for the highest and best use that is allowed. Exact numbers vary with many factors, but this example shows the main components and rough proportions:

Revenue	100%	Market studies
Land	-20%	Purchase price – usually fixed number
Development Costs	-60%	Predictions of actual costs that are variable
Mitigation		
Soft Costs – design, engineering		
Process – legal, studies		
Hard Construction Costs		
Project mgmt., overhead		
Financing costs, debt and equity		
Contingency	-10%	Insurance for uncertainty
Gross profit	10%	Prediction

A developer will pay for either increased revenue or reduced costs and risk.

RISK - Predictability is a tool to reduce costs because lack of predictability or “risk” is a quantifiable cost. It is embedded in many line items:

- Cost of equity
- Profit requirements
- Legal and studies
- Carrying costs – interest, taxes
- Overhead and operating costs
- Opportunity costs
- Contingency

How a developer values a TDR in the marketplace:

A developer will calculate what the revenue and costs impacts are of a TDR and decide what can be paid based on a set of assumptions. It would not make sense to buy a TDR unless the risk adjusted profit is projected to be the same or better than it would have been without the TDR. Ideally, the buyer would either have predictability on the assumptions or assurance that the price changes to the extent the assumptions change. If neither is available, then the contingency would be increased [and the price of the TDR reduced] to reflect the risk.

The value of more density equals the increased revenue minus the increased costs.

Revenue: is a function of the number of new units or sq. ft. of building that is feasible to build in increments, but is also subject to market factors such as demand for the product, size of unit or lot and views.

In some locations, the density is beyond what consumers are willing to buy. There would be not revenue increase.

Costs: Some costs do not simply increase proportionately to revenue and can significantly reduce the value of a TDR.

1. Parking is usually the biggest factor in valuing new density

- Surface parking stalls cost \$5,000 to \$6,000 without land, but parking in structures range from \$24,000 to \$28,000 in low rise buildings and much more in subsurface garages or other building configurations.

If a residence requires 2 structured parking stalls and they can be surface parking, costs go up about \$12,000. If they are in a garage, the increase is over \$50,000. In many markets, that is much more than the cost of land for the unit.

2. Construction type

Residential: Only 4 or 5 levels of wood frame allowed, then concrete and steel

Office: More than 6 stories triggers significant additional requirements

3. Mitigation triggers

Traffic can trip a concurrency requirement and either hold up the project or significantly increase costs. Water, sewer and storm water can also be issues.

4. Process

SEPA or other zoning thresholds can impose additional costs and delays

5. Predictability and risk

Some levels of increased density or change of use can provoke neighborhood or other opposition