

Pierce County Buildable Lands Program: Evaluation of Assumptions About Underdeveloped Lands

Prepared for

Pierce County

by

ECONorthwest

99 W. Tenth, Suite 400
Eugene, OR 97401
(541) 687-0051

Final Report

June 2005

Funds for this report were made available through the
Washington State Department of Community, Trade and
Economic Development

Table of Contents

	<u>Page</u>
CHAPTER 1: INTRODUCTION	1-1
Background	1-1
Purpose	1-2
Methods	1-2
Organization of this report	1-3
CHAPTER 2: FRAMEWORK FOR EVALUATING UNDERDEVELOPMENT ASSUMPTIONS.....	2-1
Land needs assessments.....	2-1
The land development process.....	2-5
Definitions.....	2-7
Methods for classifying and estimating capacity on underdeveloped lands ...	2-9
Observations	2-12
CHAPTER 3: DATA ANALYSIS	3-1
Buildable lands inventory – 2000.....	3-1
Analysis of plat activity – 2001-2004	3-4
Analysis of building permit activity – 2001-2003.....	3-11
Codes, covenants and restrictions (CC&Rs).....	3-14
Demolition activity	3-15
Implications for this analysis	3-16
CHAPTER 4: DESCRIPTION OF POTENTIAL ASSUMPTIONS AND METHODS	4-1
Evaluation of the County method	4-1
Alternative methods.....	4-7
Implications for this analysis	4-13
CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS	5-1

Conclusions.....	5-1
Recommendations	5-3
Summary	5-4
APPENDIX A: BUILDABLE LANDS PROGRAM LEGISLATION	A-1
APPENDIX B: CODES, COVENANTS AND RESTRICTIONS ANALYSIS	B-1
APPENDIX C: DEMOLITION ANALYSIS.....	C-1
APPENDIX D: SUMMARY OF STAKEHOLDER MEETINGS.....	D-1
APPENDIX E: SUMMARY OF LOCAL ASSUMPTIONS	E-1
APPENDIX F: SAMPLE ASSUMPTION TABLES	F-1

Executive Summary

This project is an assessment of assumptions related to the inventory and capacity of underdeveloped lands in Pierce County. Underdeveloped land includes large parcels within residential districts that have an existing single-family residence that may be further subdivided and existing single-family residences that are located within commercial districts.

Specifically, this report presents an assessment of (1) the accuracy of existing assumptions related to underdeveloped lands, and (2) a series of options the County can consider to refine the assumptions associated with underdeveloped residential property. The Executive Summary presents ECO's key conclusions and recommendations based on our research.

CONCLUSIONS

ECO developed the following conclusions based on the research presented in this report:

- *A variety of approaches are possible.* ECO's evaluation concludes that many potential approaches are possible to develop the capacity estimates. A review of methods applied by other Puget Sound counties indicates each uses a slightly different set of definitions for land classification, but the overall approaches have many similarities.
- *Documentation of the methods is limited.* The 2002 *Buildable Lands Report* provides a general discussion of how underdeveloped lands are defined and identified, but offers little in terms about the process of going from all underdeveloped land to capacity estimates for underdeveloped land (pg. 13).

The 2002 report is clear that the capacity estimates are conservative—the capacity estimates are not maximum capacity estimates. It also describes the various deductions (pg 17-20). Where it stops short is describing how the assumptions are applied. A close review of the report shows that readers can decipher how the methods are applied—Table 6 in the report describes the assumptions used by each jurisdiction, and Table 8 shows the actual acreage and capacity figures (see Appendix F for sample tables from the 2002 *Buildable Lands Report*).

- *The undeveloped capacity methods are sound.* ECO's review of the methods used by Pierce County to estimate capacity of underdeveloped lands are consistent with the theory on buildable lands inventories and capacity analysis. Moreover, the steps in the method are sound and incorporate appropriate deductions for constraints, infrastructure, other uses, and the market. Moreover, ECO's evaluation of the assumptions

applied by Pierce County for the 2002 analysis suggests they are defensible.

- *Development is occurring on underdeveloped lands.* The data analyzed in Chapter 3 shows that considerable development activity is occurring on lands classified as underdeveloped. Development activity is higher within the County UGA than within city municipal boundaries. In some instances development on underdeveloped lands within the County UGA occurred at rates higher than the ratio of underdeveloped to vacant land would suggest. One implication of this trend is that the County may observe a slowing of the rate as underdeveloped lands get developed because of the decreased inventory of land. The rate of development provides an empirical basis for many of the assumptions.
- *Better data means better assumptions.* This is a relatively obvious point: more data would provide a better basis for some of the assumptions. This report provides a considerable amount of information and analysis; despite that analysis it is still difficult to arrive at definitive conclusions regarding the underdeveloped assumptions. Continued monitoring and analysis will allow the County to review and refine the assumptions.
- *The methods are conservative.* By conservative we mean that the method and the assumptions may *underestimate capacity*. This is appropriate—in our assessment underestimating capacity is probably more desirable than overestimating capacity. Overestimating capacity means that less land will be needed to accommodate housing and could lead to land supply shortages with corresponding market impacts (e.g., increased land values).¹

This conclusion, however, needs qualification. The performance of land markets is very complicated and depends on a variety of factors—some of which local government has control over (e.g., development policy and infrastructure investment) and some of which local government has very little control over (e.g., consumer preferences, interest rates, etc.). Thus, the functionality of any given parcel of underdeveloped land is fluid. What appears to be economically infeasible to develop now or five years from now could be attractive at some other point in the 20-year planning horizon.

Moreover, reasonable people can disagree on what policy response is most appropriate for local governments to take. Trade-offs are involved. A tight UGA will bind land supply which can create upward pressure on land prices (and housing prices). Conversely, if UGAs are too loose, they may encourage inefficient development patterns and increase infrastructure costs.

¹ Some stakeholders suggested that such trends are already evident; the analysis in this report was not intended to address that question.

RECOMMENDATIONS

ECO offers the following recommendations based on the research presented in this report:

- *Continue to refine the existing method.* The method applied by the County is flexible and simple enough that it does not require a lot of time or additional data collection and analysis. Moreover, Pierce County jurisdictions are already familiar with the methods. It is robust enough that jurisdictions that wish to conduct additional analysis can monitor development trends and factor new data into the assumptions. In short, ECO recommends the County continue with the existing methods and refine the assumptions as appropriate.

Specifically, ECO suggests that the County consider the following modifications to the methods: Land Classification – The County should consider a refined method that identifies lands by both parcel size and value. ECO suggests using the following thresholds based on the data in Table 3-9.

<u>Lot Size</u>	<u>Improvement Value</u>
1 – 2.5 ac	<\$250,000
2.5 – 9.99 ac	<\$500,000
10.00 or more	<\$750,000

- **Deductions for Infrastructure** – The aggregate assumption of 27% for all residential designations is a reasonable assumption. The County should modify the method to account for annexations and related boundary changes.
- **Subtract Land Needed for Non-Residential Uses** – ECO had no way of evaluating the 20% used by the County in the 2002 analysis. Conceptually, however, this figure probably overestimates the amount of non-residential uses that are locating on underdeveloped lands. We draw this conclusion because the majority of underdeveloped lands are in parcels less than 10 acres in size. Many non-residential uses such as schools or major parks will probably locate on vacant lands. The County should consider reducing this assumption to between 10% and 15%.
- **Land Unavailable for Development** – ECO recommends no changes to the County assumptions on this step.
- **Estimate Residential Capacity** – ECO recommends no changes to the County assumptions on this step.

- *Develop better documentation.* This applies to both the method and to the assumptions that factor into the method. ECO believes the discussion of the method and the sample calculations in Chapter 2 provide a good starting point for this effort. One of the problems we observed in the *2002 Buildable Lands Report* is that the discussion lumps vacant, redeveloped and underdeveloped lands into one section. The County should consider having a separate section that describes the methods and assumptions (with sample calculations) for underdeveloped lands.
- *Encourage ongoing data collection and monitoring.* ECO was surprised with some of the findings from the plat and building permit analysis. The results suggest that not only is development occurring on underdeveloped lands, it is occurring at rates higher than we expected given the ratio of underdeveloped to vacant lands. ECO suggests the follow activities for ongoing monitoring:
 1. Monitoring of plats and permits on underdeveloped lands.
 2. Monitoring of plat and other deductions.
 3. Monitoring of non-residential uses occurring on underdeveloped residential lands
 4. Evaluation of the proximity of key services (water, sewer, roads) to underdeveloped lands that develop.

This final issue (proximity of key services) is largely dependent on the time frame. In the short term, proximity of services will be much more of a constraint to development. If one takes a long-term view, however, it is reasonable to conclude that infrastructure may be less of a constraining factor. As the region develops and infrastructure gets extended to various areas, the proximity of any specific underdeveloped parcel can change making it more desirable for development.

SUMMARY

This report provides an objective evaluation of the methods Pierce County applied to estimate development capacity on underdeveloped lands in the *2002 Buildable Lands Report*. ECO's evaluation concluded that many potential approaches are possible to develop the capacity estimates. The methods used by Pierce County are consistent with the theory on buildable lands inventories and capacity analysis. Moreover, the steps in the method are sound and incorporate appropriate deductions for constraints, infrastructure, other uses, and the market. Moreover, ECO's evaluation of the assumptions applied by Pierce County for the 2002 analysis suggests they are defensible.