

PIERCE COUNTY HOUSING MARKET STUDY

|| APRIL 2020

BERK
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Introduction

PROJECT DESCRIPTION

Pierce County is proposing a set of community plan updates for its unincorporated urban growth areas. This proposal includes a Center and Corridors strategy with several changes to zoning that allow for denser and taller residential building styles. To support its evaluation of the potential impacts of this proposal, Pierce County asked BERK Consulting to conduct an independent housing market study designed to answer two questions:

- **Would the proposed zoning changes likely result in an increase in high-density (25+ units/acre) residential development?**
- **How much high-density residential development would be likely to occur over the next 20 years?**

This report summarizes BERK’s approach to answering these questions and our findings. See Appendix A: Data Sources & Assumptions for a more detailed discussion of the data sources we relied upon to conduct this analysis.

Coronavirus and Economic Impacts

The analysis for this study was conducted in late 2019 and early 2020, before the subsequent economic impacts caused by measures to control the spread of Coronavirus. The findings reflect market conditions before those impact occurred. The uncertainty regarding the timing and rate of recovery are also not considered in our forecast for high-density residential construction.

STUDY AREA

The Study Area includes four Pierce County communities: Parkland-Spanaway-Midland, Frederickson, South Hill, and Mid-County. These communities are located south of Tacoma and west of Puyallup, with residential corridors surrounding 112th Street East, Meridian Avenue (SR-161), and 176th Street. These corridors are the focus of proposed zoning changes, and in certain proposed zones existing residential density limits would be removed. The Pacific Avenue and Meridian corridors are included with Pierce County Transit’s proposed Bus Rapid Transit (BRT) alignments. This housing market study will focus specifically on the Urban Corridor and Towne Center areas within these corridors where proposed zoning allows for high-density (25+ units per acre) residential construction. Further details on these proposed zones can be found on page 18.

Approach

Our study evaluates the potential for high density residential construction in the Study Area under current market conditions, as well as under potential future market conditions within the 20-year planning period. The analysis is broken into four phases: Phase 1- Evaluating growth trends, Phase 2- Assessing market conditions, Phase 3- Pro forma analysis, and Phase 4- Forecasting high-density residential growth.

We began by evaluating recent growth trends in unincorporated Pierce County and Pierce County cities. This included evaluating the characteristics of places where high-density residential development styles are currently being built. Based on this analysis, we identified several styles of new construction that meet Pierce County's threshold for high-density residential development.

Next, we assessed housing market conditions within each of the four Study Area communities as well as nearby jurisdictions where opportunities for high-density residential construction exist. This included zoning and development regulations, market rents, built environment characteristics, incentives, and typical development styles. We also considered how these conditions may change with the proposed upzones within the Study Area and proposed Pierce Transit Bus Rapid Transit Service along Study Area corridors.

We then conducted analysis to assess the feasibility of high-density residential development in each of the four Study Area communities as well as three comparison areas in neighboring jurisdictions. To do this, we used pro forma modeling to estimate the internal rate of return (IRR) for three different development styles on a typical sized parcel. One building style is allowed under current zoning, and two styles are only allowed under proposed zoning. This analysis was designed to answer two questions:

1. Does the proposed upzone create opportunities for a developer in the Study Area to increase IRR for residential development above what is expected with existing development styles?
2. Does the proposed upzone make the Study Area a more attractive place for high density multifamily development when compared to similar opportunities in neighboring jurisdictions?

Finally, we considered the results of the feasibility analysis as well as potential future changes in market conditions to determine a range of possible outcomes with regard to how much high-density residential development could occur with the Study Area during the next 20 years.

A preliminary draft of this approach was presented to key project stakeholders for review and comment. We engaged these stakeholders again for a second round of review and comment. We also interviewed local area developers to obtain qualitative insights into market conditions that shape where high-density development occurs in Pierce County. These interviews also provided feedback on pro forma assumptions used in development feasibility analysis.

PROPOSED BRT SERVICE

Implementation of the proposed bus rapid transit (BRT) service in the Pacific and Meridian Avenue corridors have the potential to impact market characteristics and demand for high-density residential construction. To support our evaluation of these potential impacts we reviewed national research as well as regional development trends along similar BRT corridors in Washington.

In 2015, the National Institute for Transportation and Communities in Portland, Oregon released a national survey of BRT systems which attempts to quantify their impacts on development. **Key findings from this study indicate an increase in development along BRT corridors, both for multifamily and office construction.** The report emphasizes that results are strongest for corridors connecting to employment centers, where opportunities for redevelopment exist, and when paired with economic development incentives. Analysis suggests a rent premium for office space; **however, findings are inconclusive for BRT corridor impacts to residential rental rates.** (Nelson & Ganning, 2015)

Our study also analyzed construction trends along the Swift Blue corridor in Snohomish County (implemented 2009), the RapidRide A corridor in South King County (2010), and the Vine corridor in Vancouver (2017). All three corridors show substantial levels of multifamily development, as shown in Exhibit 2. The Snohomish County corridor shows more growth prior to BRT than post BRT by unit counts, while King County demonstrates an opposite trend. Rates of increase for rental units in both corridors are high but reflective of regional fluctuation. The Vine corridor shows impressive development growth in a short period of time, although it is important to note that its launch coupled with land use policy change promoting multifamily development. Local reporting and agency staff interviews suggest that the integration of tax incentives was a major attraction for many new developments along the corridor, which tend to cluster near the BRT stations. (Hastings, 2017)

Exhibit 2: Development along Regional BRT Corridors

	Swift Blue	RapidRide A	Vine
Year Started	2009	2010	2017
Multifamily Units Prior to BRT	2,953 1998-2008	186 2000-2009	No data
Multifamily Units Since BRT	2,230 2009-2019	1,212 2010-2019	1,151* 2016-2019
Rent Growth Since Service Began	48% Corridor 46% Region	55% Corridor 52% Region	No data

Access to transportation is an important factor when locating residential development. However, it is challenging to isolate the impacts of BRT service specifically on growth patterns. Investments in bus service both respond to growth and increase a location's desirability. Factors such as land use policy and employment growth are also influential drivers of development.

*Projects that appear on MFTE tracking sheet
Sources: CoStar, 2020; [City of Vancouver](#), 2019.

Growth Trends in Pierce County

POPULATION GROWTH TRENDS

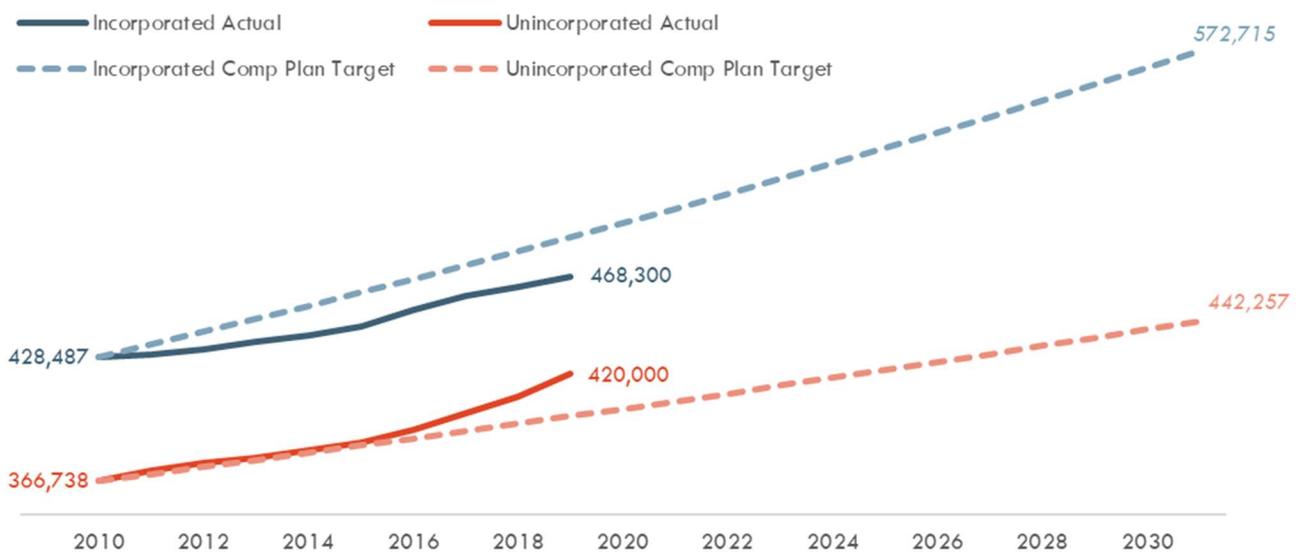
Unincorporated Pierce County has experienced high rates of population growth over the past two decades. Growth rates have consistently surpassed those of the County’s incorporated areas. As shown in Exhibit 3, unincorporated areas of Pierce County have increased their population by 30% over 20 years, while incorporated cities in the County have increased by 20%. Exhibit 4 highlights the current pace of growth in Unincorporated and Incorporated Pierce County compared to Comprehensive Plan targets for 2035.

Exhibit 3: Population Trends in Pierce County, 2000-2019

	2000	2010	2019	Total Growth 2000-2010	Percent Growth 2000-2010	Total Growth 2010-2019	Percent Growth 2010-2019
Pierce County	706,000	795,225	888,300	89,225	13%	93,075	12%
Unincorporated	319,945	366,738	420,000	46,793	15%	53,262	15%
Cities	386,055	428,487	468,300	42,432	11%	39,813	9%

Source: OFM, 2019; BERK, 2020.

Exhibit 4: Population Growth, Actual, Projected and Comprehensive Plan Targets



Sources: Pierce County Comprehensive Plan, 2019; OFM, 2020.

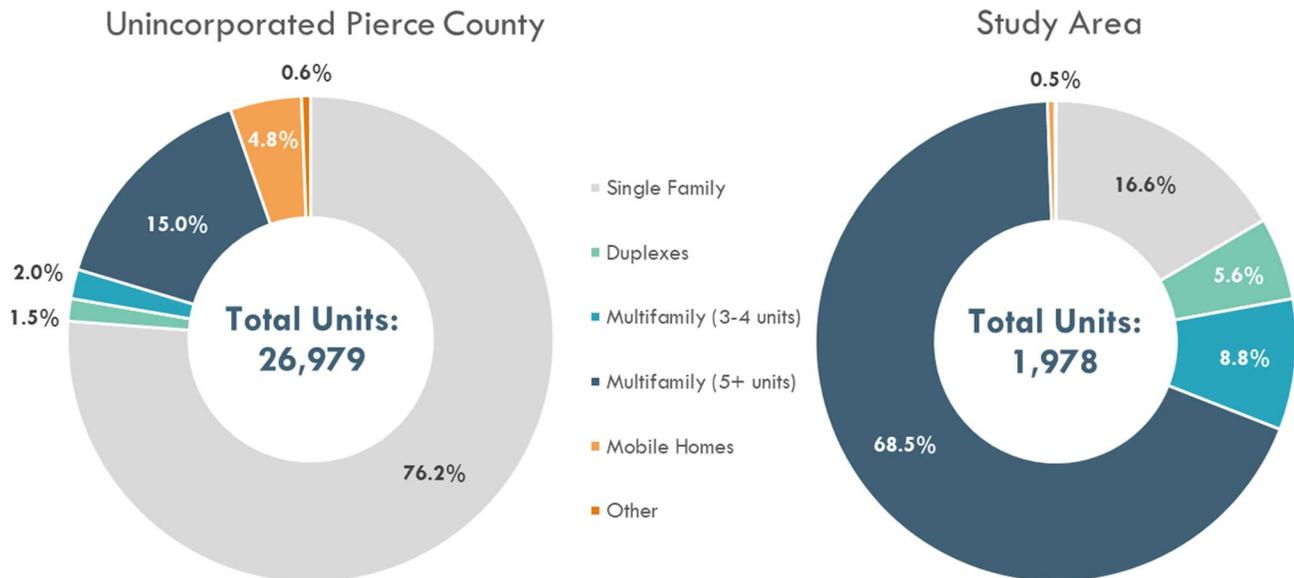
RESIDENTIAL CONSTRUCTION TRENDS

The Study Area has been the focus of multifamily residential growth for unincorporated Pierce County in recent years. Three-quarters of new units developed between 2012-2018 in the Study Area are in multifamily buildings of 3 or more units, as shown in Exhibit 5. A large portion of the nearly 2,000 units developed in the Study Area during this period occurred in the last three years, as shown in Exhibit 6.

Exhibit 5: Pierce County Construction Permits, 2012-2018

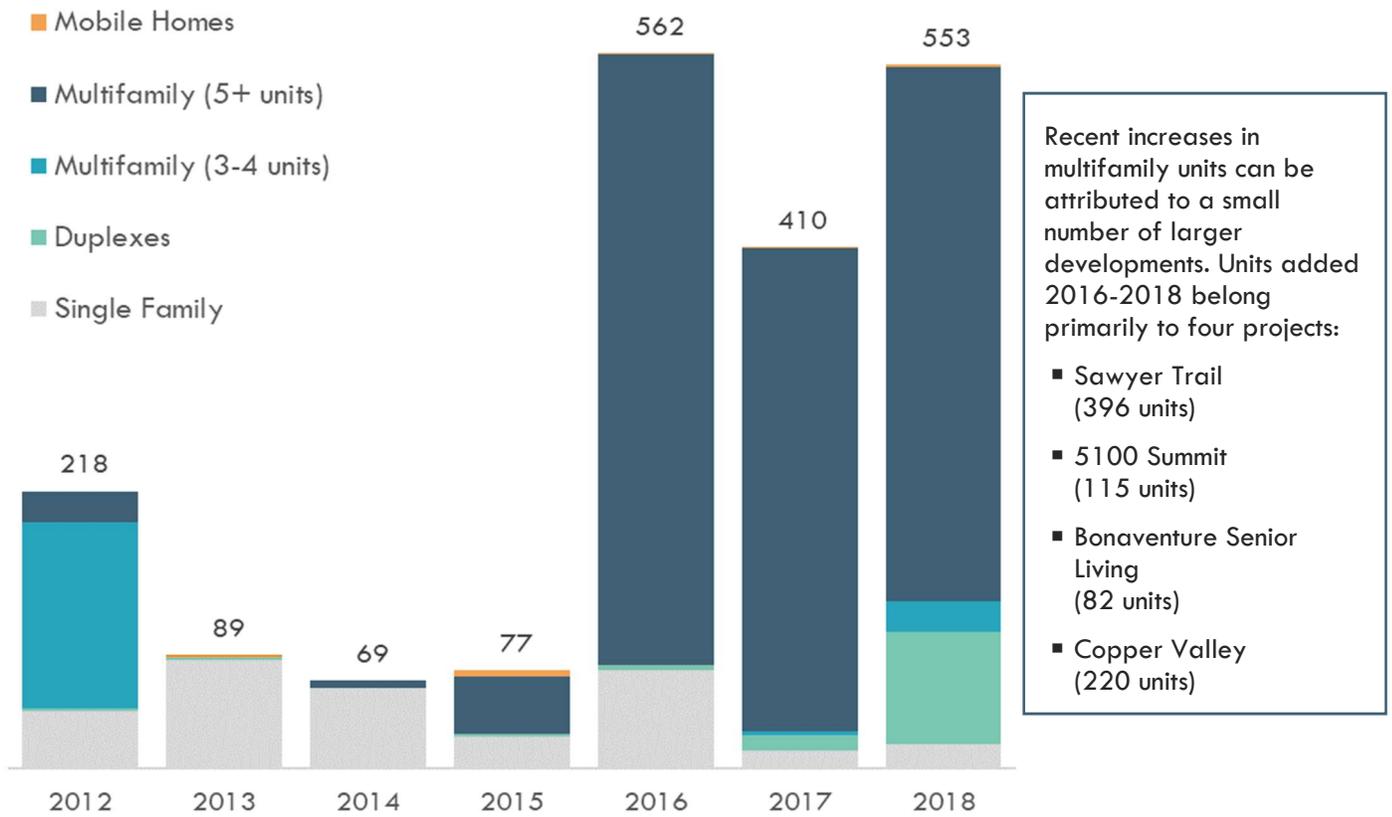
Recent development in the Study Area:

- 1,978 total residential units permitted
- 83% of these are multifamily (2+ units per building)
- Study Area development represents 15% of all residential units and 67% of multifamily units developed in Unincorporated Pierce County



Sources: Pierce County, 2019; BERK, 2020.

Exhibit 6: Units Permitted in the Study Area, 2012-2018



Sources: Pierce County, 2019; BERK, 2020.

Despite the prevalence of new multifamily housing in the Study Area, few developments are achieving the maximum densities allowed by current zoning. Common multifamily development types, such as townhome communities, tend to realize densities between 10-15 units per acre in unincorporated Pierce County. Small lot single family developments are popular as well, with new subdivisions such as Meridian Greens adding 81 single-family units to the South Hill corridor. Exhibit 7 shows residential permits by Study Area community, as well as the overall average permitted units per acre in each area.

Exhibit 7: Residential Permits by Study Area Community, 2012-2018

Neighborhood	Building Permits	% Multifamily Permits	Total Units Permitted	Average MF Project Density (units/acre)
Parkland-Spanaway-Midland	50	26%	264	15.2
Mid-County	13	92%	116	18.3
Frederickson	184	31%	753	22.0
South Hill	84	29%	604	19.4

Sources: Pierce County, 2019; BERK, 2020.

High Density Residential Construction in Pierce County

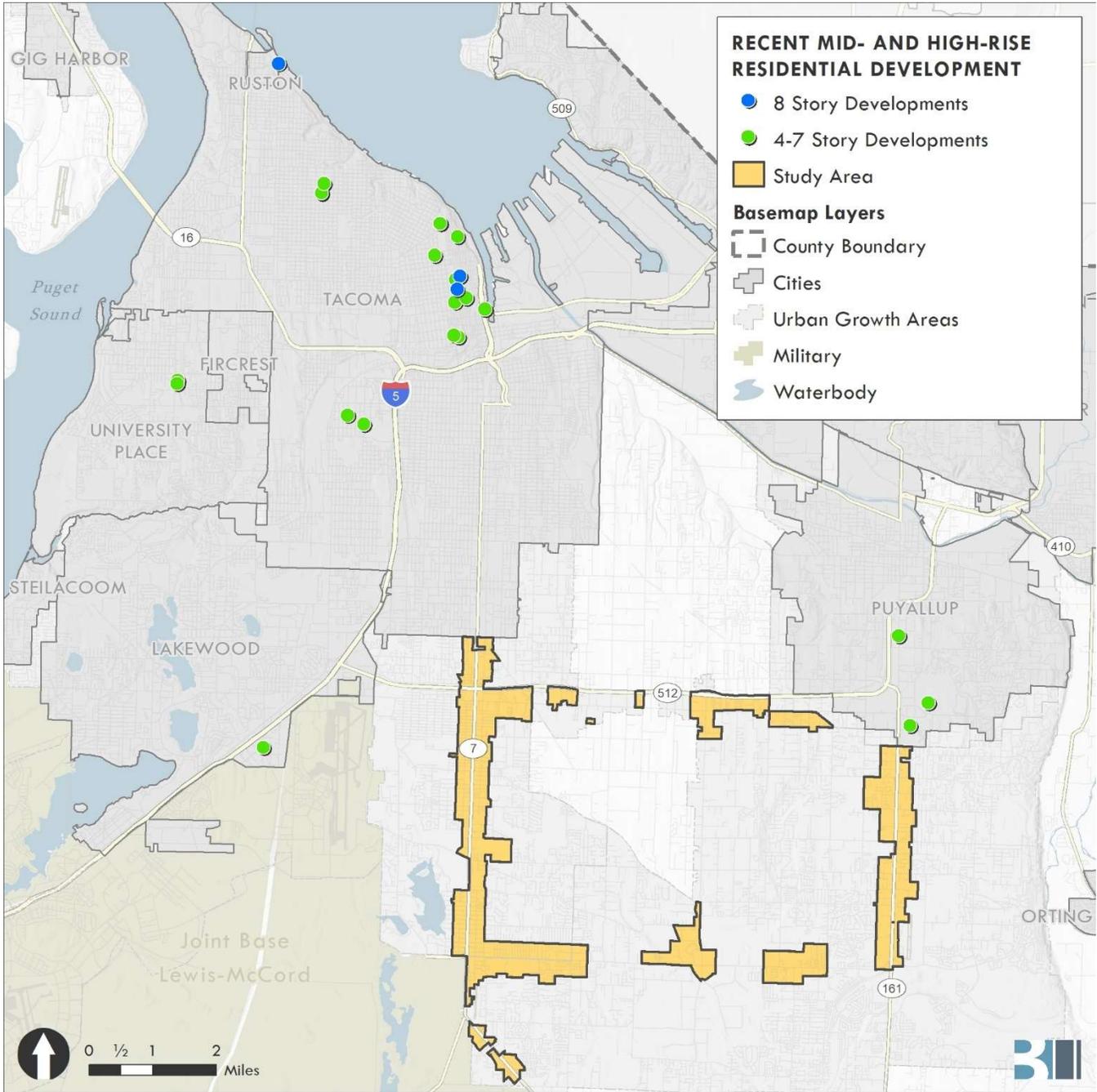
This study defines high-density construction as developments built at 25 units per acre or higher. This level of density can be achieved in building with only three to four stories. However other development regulations, such as minimum parking standards and setbacks, can have a significant impact on achieved densities. While the Study Area has seen several low-rise apartment projects with three stories, very few have exceeded 20 units per acre. A primary reason for this is the relatively high minimum parking standards required in Pierce County (See Exhibit 20). When more land must be set aside for parking, less land is available for housing.

Market-rate developers may choose to develop high-density residential projects when available infrastructure, land use regulations, incentives, and market demand align to promote financial feasibility, or an adequate return on investment. High-density development requires infrastructure to support increased demand for utilities and transportation networks. Zoning and development regulations must allow for taller buildings and/or greater floor area ratios. Jurisdictions can provide incentives through tax and fee reductions. Neighborhood amenities, such as walkability, transit access, proximity to job centers, schools, and other amenities can influence market demand and rents. Tenants must be able to afford higher rental rates to compensate for more expensive construction costs and larger capital investments associated with higher-density construction. Available parcels should be of a size and orientation to support desirable building styles and accommodate parking requirements. Qualitative factors can impact development choices as well, such as established neighborhood character, community resistance to high density development styles, or perceived pushback from design review processes.

In most cases, achieving a development density of 25 units per acre or more in Pierce County requires development styles that are at least four or five stories. Exhibit 8 shows the location of these developments built over the past decade. It shows these development styles are most common in downtown Tacoma, with some more isolated examples in other neighborhoods and jurisdictions. There have been no projects of this size in the Study Area. This trend aligns with several factors that promote project feasibility: downtown Tacoma is a walkable environment (WalkScore of 93 - Study Area WalkScores can be referenced in Exhibit 18), it has effective rents that are 37% higher than in the Study Area and a downtown district with no parking minimums.¹

¹ www.walkscore.com; Costar, 2019; TMC [13.06A.065](#)

Exhibit 8: Mid- and High-Rise Developments in Pierce County, 2010-2020



Sources: Costar, 2020; BERK, 2020.

High-Density Development Styles

We reviewed recent multifamily development projects in Pierce County and similar markets to identify typical building styles that have achieved 25 units per acre or greater. These styles can be organized into three categories.

▪ 3 to 4 Story Buildings with Surface Parking

Multifamily buildings of lower heights can achieve densities over 25 units/acre with the right combination of parking spaces, unit sizes, and lot coverage. These styles feature wood frame construction, a lower-cost building material. These developments typically feature surface parking, which is less expensive than garages or structured lots.

Example 1: The Main Apartments, Sumner (2017)

Height: 3 stories

Units: 108

Parking Ratio: 1.7*

Site Acreage: 3.3

Units/Acre: 32.7

Unit Sizes: 1 and 2 bedrooms



Image Sources: TheMainApts.com, Apartments.com.

Example 2: Vintage at Tacoma, Tacoma Mall (2012)

Height: 4 stories

Units: 231

Parking Ratio: 0.5*

Site Acreage: 3.8

Units/Acre: 61

Unit Sizes: 1 and 2 bedrooms



Image Sources: VintageatTacoma.com, Google.

*Parking ratios for these two developments are approximate (based on site images), as Costar data is not provided.

▪ **5-7 Story Buildings with Structured and/or Surface Parking**

Developments in this size range typically have wood frame construction on the top 4 or 5 floors and masonry or concrete below. These development types are most popular in areas with lower parking requirements, as more expensive structured parking on lower levels can allow for efficient site configuration and higher unit counts. **This style of product will be difficult to achieve in the Study Area with current minimum parking requirements.**

Example 1: The Pacifica Apartments, Tacoma Mall (2013)

Height: 7 stories

Units: 177

Parking Ratio: 0.4 per unit

Site Acreage: 2.9

Units/Acre: 60

Unit Sizes: Studio to 2-bedroom



Image Sources: Costar, Google Maps.

Example 2: Latitude 47, University Place (2015)

Height: 6 stories

Units: 170

Parking Ratio: 0.7 per unit

Site Acreage: 1.03

Units/Acre: 165

Unit Sizes: 90% Studio and 1-bedroom



Image Sources: Costar, Google Maps.

▪ **7+ stories with underground, structured, and/or surface parking**

Buildings achieve taller heights by utilizing concrete and steel frame construction. These materials are more expensive, so developers may offset this cost by building smaller units and/or building more units by incorporating underground parking structures. Lower parking requirements and reduced setbacks help to make these projects financially feasible. Within Pierce County, most projects in this category are clustered in downtown Tacoma where higher rent levels are achieved.

Example 1: Apex Apartments, Tacoma Mall (2009)

Height: 7 stories

Units: 209

Parking Ratio: 0.6/unit

Site Acreage: 2.6

Units/Acre: 80

Unit Sizes: Studio to 3 bedrooms

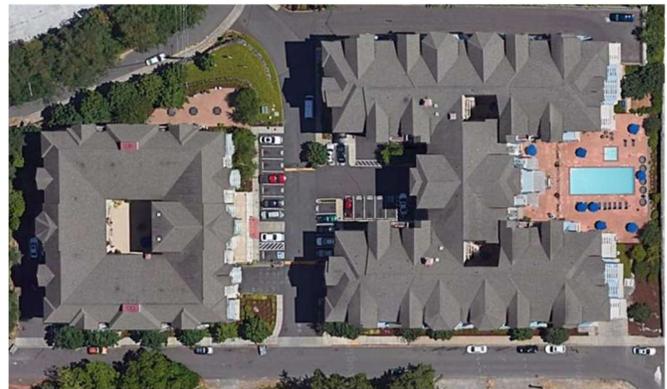


Image Sources: Costar, Google Maps.

Example 2: Midtown Lofts, Downtown Tacoma (2011)

Height: 8 stories

Units: 51

Parking Ratio: 0.7/unit

Site Acreage: 0.65

Units/Acre: 78

Unit Sizes: 1 - to 3-bedrooms



Image Sources: Costar, Google Maps.

Market Assessment

This section evaluates real estate market conditions in the Study Area and identifies comparison market areas for analysis.

STUDY AREA ZONING: EXISTING AND PROPOSED

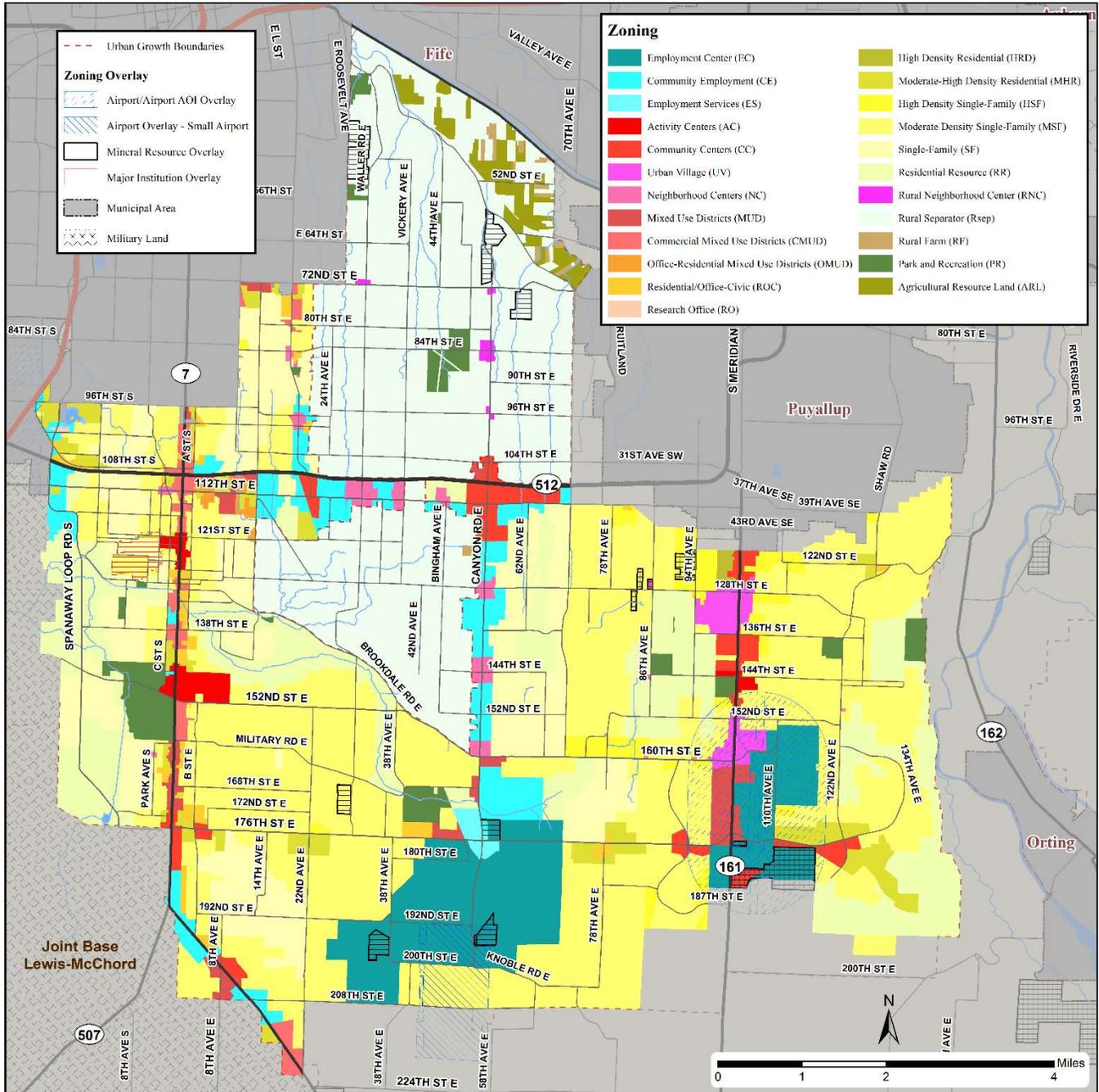
Within the Study Area, there are 16 current zones, 8 of which allow for multifamily residential development and 7 of which allow for densities up to 25 units per acre. Parking requirements are consistent across all residential zones in the Study Area.

Exhibit 9: Existing Zones Located within Study Area

Current Zone - Short	Current Zone - Long	Allows Multifamily	Min Density	Max Density	Max Height	# MF Units 2012-2018
AC	Activity Center	Yes	8	25	60	82
CC	Community Center	Yes	8	25	60	551
CE	Community Employment	No	n/a	n/a	60	
CMUD	Commercial Mixed Use District	Yes	8	25	60	
HRD	High Density Residential	Yes	6	25	40	223
HSF	High Density Single Family	No	6	12	40	
MHR	Moderate-High Density Residential	Yes	8	25	45	141
MSF	Moderate Density Single Family	No	4	6	35	
MUD	Mixed Use District	Yes	12	25	60	219
NC	Neighborhood Center	Yes	4	16	60	1
ROC	Residential/Office-Civic	Yes	8	25	60	467
RR	Residential Resource	No	1	3	35	
SF	Single Family	No	4	4	35	
UV	Urban Village	Yes	12	30	70	53

Sources: Pierce County Zoning Code [18A.15](#), 2020; BERK, 2020.

Exhibit 10: Existing Zoning in and around the Study Area



Source: Pierce County Community Plan Updates DEIS, 2019.

Exhibit 11: Proposed Zones for Study Area

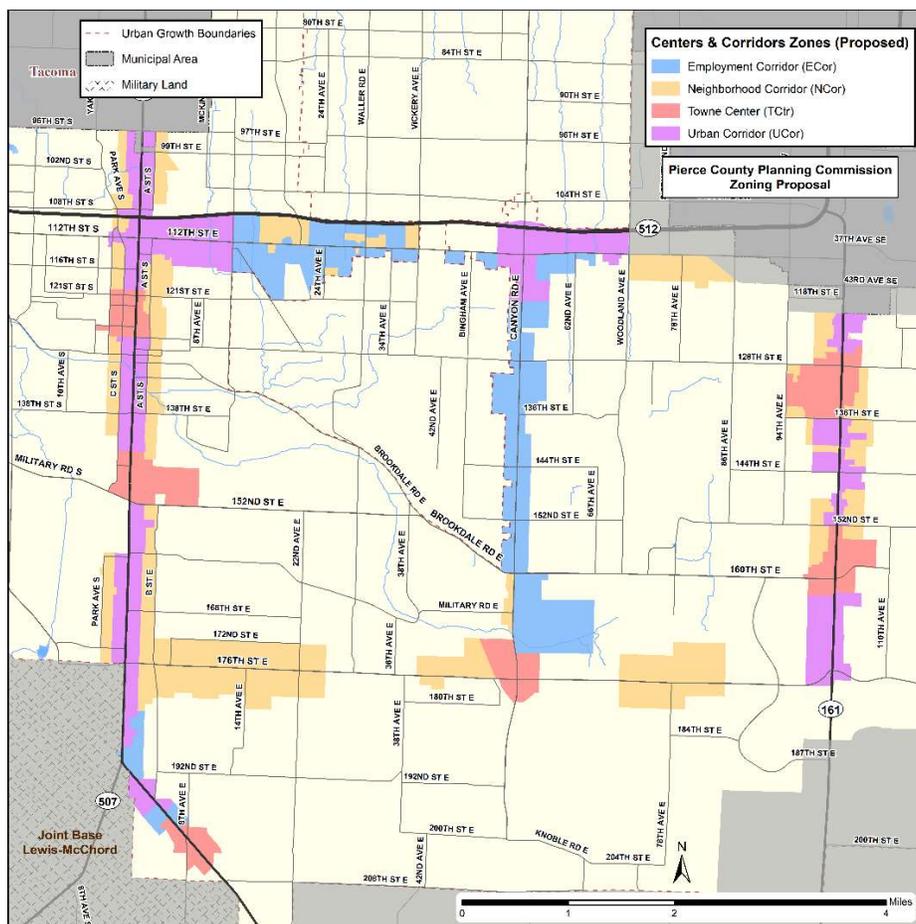
Zone Name	Allows Multifamily	Minimum Density	Maximum Density	Height
Employment Corridor	No	n/a	n/a	65
Neighborhood Corridor	Yes	6	25	45
Neighborhood Mixed Use	Yes	6	16	45
Towne Center	Yes	20	None	65/75/85*
Urban Corridor	Yes	12	None	45/55/65*

*Permitted outright/10% income-restricted units/20% income-restricted units

Sources: Pierce County, 2019; BERK, 2020.

The proposed zones eliminate current density limits in Towne Center and Urban Corridor areas. Minimum densities and height limits are raised for many areas as well, particularly in towne centers. These revisions rely on height restrictions, parking requirements, and landscaping requirements to moderate the density of site design rather than set a fixed density limit.

Exhibit 12: Map of Study Area, Proposed Zoning



Source: Pierce County, 2020.

STUDY AREA COMMUNITY PROFILES

The Study Area includes parts of four different Pierce County communities: Parkland-Spanaway-Midland, Frederickson, Mid-County, and South Hill. Proposed zoning changes affect each of these four communities, with most of the high-density residential uses proposed in Parkland-Spanaway-Midland and South Hill along the corridors of Pacific Avenue and Meridian Avenue, respectively, as shown in Exhibit 12. We used real estate market data and development trends to characterize the differences between these four communities, focusing on factors most relevant for project feasibility analysis. The results are shown in Exhibit 13 and the following community profiles.

- On average, higher rents per square foot can be found in Frederickson and South Hill and lower rents per square foot found in Mid-County and Parkland-Spanaway-Midland.
- South Hill and Frederickson have seen the most multifamily units developed since 2012 by a wide margin. Both neighborhoods achieve higher densities with multifamily projects.
- Parkland-Spanaway-Midland is a future BRT corridor, increasing its likelihood for residential development in coming years (See discussion on page 20).

Exhibit 13: Residential Market Characteristics by Community

	Parkland-Spanaway-Midland	South Hill	Frederickson	Mid-County
Rent/SF, 1-bedroom	\$1.65	\$1.89	\$1.91	\$1.60
Cap Rates	5.3%	4.9%	4.7%	4.8%
Units permitted 2012-2018	264	604	753	116
Average density of new construction 2012-2018	10.4 units/acre	17.3 units/acre	17.4 units/acre	17.8 units/acre*
Average parcel size	0.49 acres	0.70 acres	0.75 acres	1.03 acres

*Based on one multifamily project of 115 units.

Rent/SF taken from most recent market rate multifamily projects in each community

Sources: Costar, 2020; Pierce County permit data, 2019; BERK, 2020.

Frederickson

- Frederickson covers the 176th Street corridor of the Study Area.
- Recent residential development in Frederickson features Sawyer Trail Apartments (pictured below) as well as dense single family and townhome developments on either side of the commercial development centered on Canyon Road.
- This neighborhood reports the highest multifamily rental rates of the four in the Study Area.
- Only one area of Frederickson, at the intersection of 176th Street and Canyon Road, will be eligible for high-density residential construction.

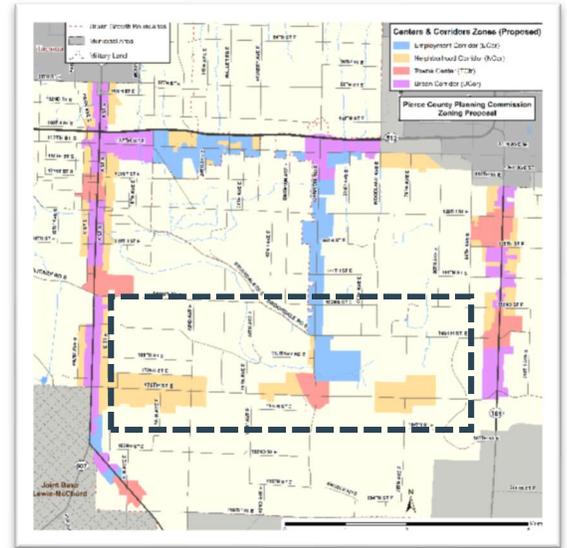
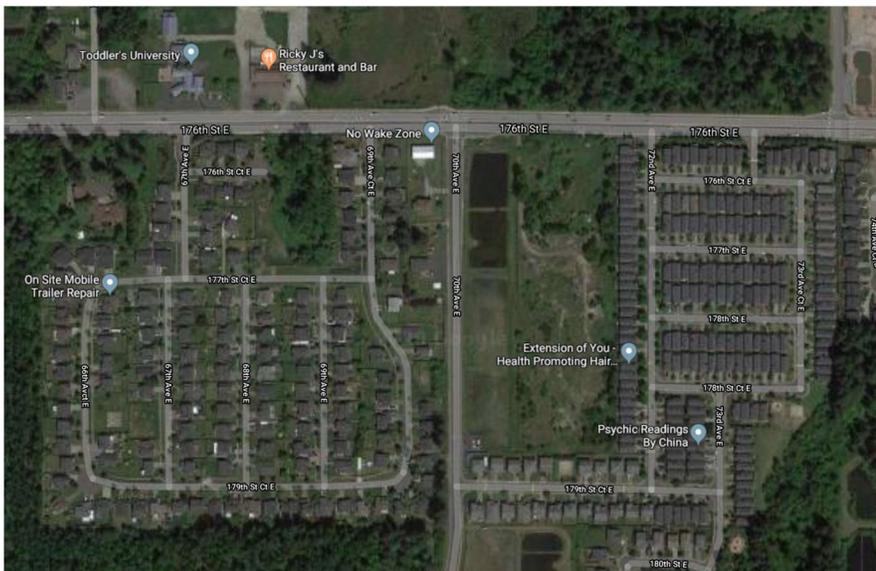


Exhibit 15: Development Patterns from the Study Area in Frederickson



Left: Sawyer Trail Apartments is a 50-acre development including 396 apartment units in 3-story buildings, 90 duplex units, and two currently undeveloped parcels on either side.



Beneath: Single family homes are a common residential development style in Frederickson, with varying lot sizes.

Image Sources: Google Maps, 2020

Mid-County

- Mid-County includes the 112th Street East corridor of the Study Area, as well as the northern half of the Canyon Park commercial north-south corridor.
- This corridor has experienced the least amount of multifamily development over the 2012-2018 period. 5100 Summit, shown below, is its newest apartment development with twelve buildings containing 115 apartment units.
- The character of existing development in Mid-County includes larger lot single family homes, low density commercial development, and low-rise multifamily.
- Rental rates are the lowest among the Study Area corridors.

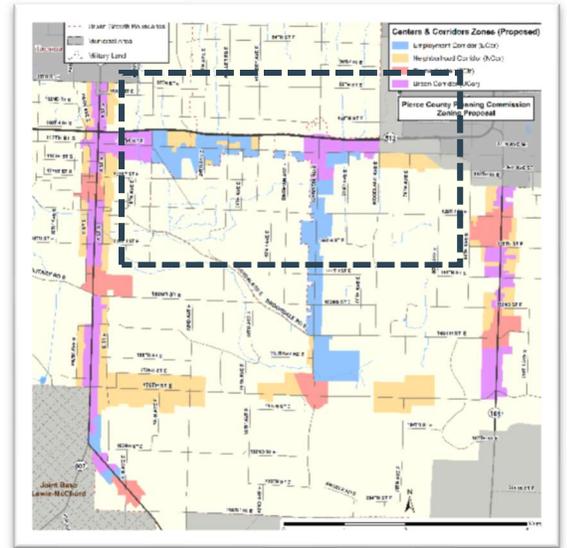


Exhibit 16: Development Patterns from the Study Area in Mid-County



Left: 5100 Summit is an apartment development of low-rise (2 and 3 story) buildings adjacent to the commercial corridor along Canyon Road.



Beneath: Single family homes on larger lots are common in Mid-County as well.

Image Sources: Google Maps, 2020

South Hill

- South Hill includes the eastern portion of the Study Area, along the Meridian Avenue corridor.
- This neighborhood has by far experienced the most multifamily development in the Study Area in recent years.
- The Meridian Avenue corridor is home to the two densest developments since 2012, Copper Valley (220 units) and South Hill by Vintage (216 units). These mid-rise developments achieve very close to 25 units/acre density and are both income-restricted affordable housing developments.
- Development character along Meridian features primarily low-density commercial development and mid-rise multifamily.

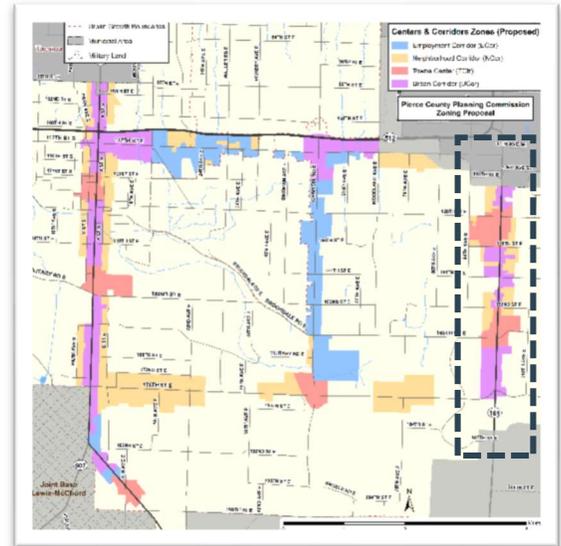
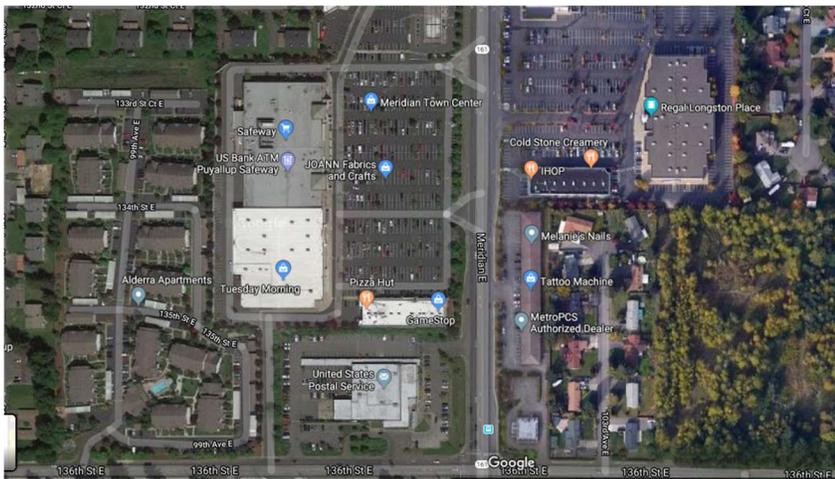


Exhibit 17: Development Patterns from the Study Area in South Hill



Left: Commercial development and multifamily units are often adjacent in South Hill.

Beneath: South Hill by Vintage is an eight building, 216-unit affordable housing development achieving one of the highest densities in the Study Area.

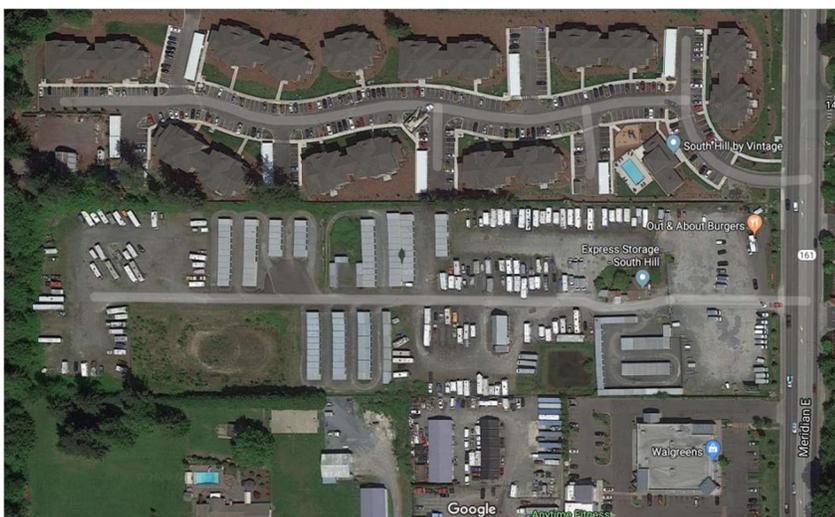


Image Sources: Google Maps, 2020

COMPARISON AREAS

Developers considering whether to build a mid-rise residential building in Pierce County may consider alternative opportunities in neighboring jurisdictions. Therefore, it is helpful to compare project feasibility across neighboring jurisdictions. Even if a project appears feasible within the Study Area, if there are similar opportunities 10 miles up the road that offer substantially better return on investment, the alternative location may see significantly more development.

We compared opportunities for 25+ units per acre development across Pierce County and selected Tacoma Mall, Downtown Puyallup, and University Place Town Center as comparison districts for pro forma modeling purposes. These three areas allow high-density construction, are regionally situated near the employment hubs of Downtown Tacoma and Joint Base Lewis-McChord, and have similar market conditions to the Study Area in terms of rent per square foot, rental growth rates, and neighborhood WalkScores. Market conditions are reflected in pro forma assumptions and summarized below.

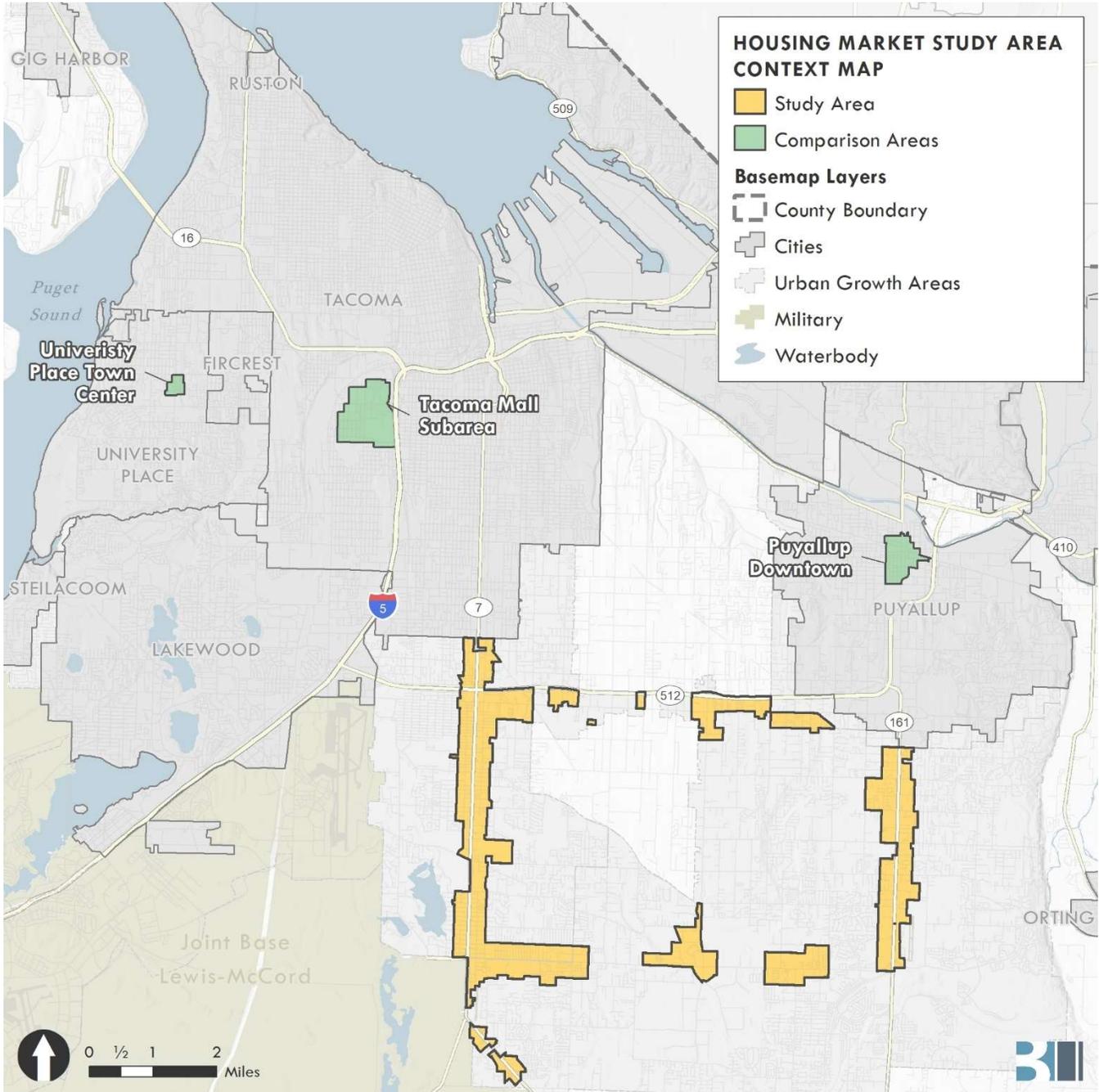
Exhibit 18: Market Conditions in Comparison Areas, 2019

	Parkland-Spanaway-Midland	South Hill	Frederickson	Mid-County	Tacoma Mall	University Place	Puyallup
Rent/SF, 1-bedroom	\$1.65	\$1.89	\$1.91	\$1.60	\$1.76	\$1.74	\$1.52
Rental growth rate	4.4%	4.4%	4.4%	4.4%	3.9%	4.8%	4.8%
Cap Rates	5.3%	4.9%	4.7%	4.8%	6.1%	5.1%	5.4%
Multifamily units to market 2012-2019	104	880	647	255	576	270	217
Walkscore*	71	54	37	60	64	79	68

*See Appendix A for methodology detail

Sources: Costar, 2020; WalkScore, 2020; BERK, 2020.

Exhibit 19: Context Map, Study Area and Comparison Districts



Sources: Costar, 2020; Pierce County, 2019; City of Tacoma, 2020; University Place, 2020; Puyallup, 2020; BERK, 2020.

Zoning and Development Regulations

Each comparison district varies with zoning regulations and affordable housing incentives, which impact the finances of potential development projects. Parking minimums range for 0.5 per dwelling unit in the Tacoma Mall district to 1.5 per dwelling unit for multi-bedroom apartments in Puyallup. Each comparison area has lower parking standards than those found in the Study Area, impacting project site design and achieved densities.

Another major difference between comparison areas and the Study Area is the presence of Multifamily Tax Exemption (MFTE) benefits. MFTE provides 8 to 12-year property tax relief for project improvements on buildings of four or more units, typically with longer time periods associated with the provision of income-restricted affordable housing.

Other differences reflected in our analysis include: property tax rates, land values, and impact fees. These variables impact project finances, particularly upfront capital costs. Land values and tax rates both tend to be higher for incorporated cities, although tax rates are less consequential with MFTE in place.

Exhibit 20: Zoning in Comparison Areas

	Parking Requirements	Affordable Housing	Minimum Density	Max Height	Other Notes
Study Area Towne Center Zoning	1.5 – 2.25 per dwelling unit	<ul style="list-style-type: none"> ▪ Parking reductions 	20 units/acre	65' or 85' with affordable units	
Study Area Urban Corridor Zoning		<ul style="list-style-type: none"> ▪ Additional building height ▪ Fee waivers 	12 units/acre	45' or 65' with affordable units	
Tacoma Mall	0.5 per dwelling unit	<ul style="list-style-type: none"> ▪ Mandatory inclusionary zoning ▪ No parking minimums 	40 units/acre	75' – 120' depending on location	12-year MFTE with affordable units
University Place Town Center	1 – 1.5 per dwelling unit	<ul style="list-style-type: none"> ▪ Parking reductions ▪ Density bonus 	20 units/acre	55' – 120' depending on location	8-year MFTE for market rate and 12-year MFTE with affordable units
Puyallup Downtown	1.5 - 2 per dwelling unit	Legislation pending	Most zones do not have a minimum density	55' – 125' depending on zone	8-year MFTE for market rate and 12-year MFTE with affordable units

Sources: Pierce County Code [Title 18A](#), Tacoma Municipal Code [Title 13](#), University Place Municipal Code [Title 19](#), and Puyallup Municipal Code [Title 20](#).

Development Feasibility Analysis

To evaluate feasibility and likelihood of high-density construction in the Study Area, we conduct pro forma analysis on three development types: one allowed under current zoning and two new styles allowed under proposed zoning. Pro forma analysis models the cost to build and finance a new development, expected revenues from rental units once the building is open for occupancy, and expected gains upon sale after a multiyear hold period. Internal Rate of Return (IRR) is a metric that takes all these expenses and gains into account and estimates the overall financial benefit of a project to the investor. This metric is commonly used as one indicator of project feasibility, or the likelihood that a developer would choose to move forward with it.

Each development style incorporates a mix of studio, 1-bedroom, 2-bedroom, and 3-bedroom units. For consistency, a single parcel size was tested across development styles (3 acres). Unit counts and building sizes are relatively stable but adapt to fit the relevant zoning regulations. For example, a location with lower parking requirements will see a higher unit count accommodated within the same development style and parcel size. This is because less area needs to be set aside for surface parking or expensive structured parking.

The primary questions answered through this analysis are:

3. Does the proposed upzone create opportunities for a developer in the Study Area to increase IRR for residential development above what is expected with existing development styles?
4. Does the proposed upzone make the Study Area a more attractive place for high density multifamily development when compared to similar opportunities in neighboring jurisdictions?

DEVELOPMENT STYLES TESTED

Style A: Low-Rise Apartments



Sawyer Trail Apartments (Image Source: Google Maps)

STYLE A: Low-Rise Apartments

Height: 3 stories

Parking: Surface

Income-restricted affordable housing: No requirement

Units per acre with current Pierce County zoning regulations: 20

Notes: Represents highest density style currently found in Study Area

Style A represents the higher density styles which are currently being constructed within the Study Area. This low-rise development style keeps building costs lower than higher-density styles by using wood-frame construction and surface parking lots. Often, site design incorporates shared amenity spaces such as gyms, pools, or greenspace. In the Study Area, Style A includes 60 units and 115 parking spaces.

Style B: Mid-Rise Apartments



The Reserve at Everett (Image Source: CoStar)

Style B is a mid-rise apartment development, varying in height 4-7 stories based on zoning regulations. This development style maximizes site potential while keeping costs lower: parking is still in surface lots, and building frames are wood for the top 4 floors and concrete podium for anything below. Similar to Style A, site design will often incorporate outdoor shared amenity spaces. For Urban Corridor locations in the Study Area, Style B features 105 units and 205 parking spaces. Towne Center locations increase the unit count to 135 and parking spaces to 260.

Style C: Maximizing the Envelope



Apex Apartments at Tacoma Mall (Image Source: ApexApartments.com)

Style C maximizes the potential of a site within the Towne Center zone. This development style builds to the maximum height by incorporating 20% affordable units and opts to build garage parking in addition to surface spaces to increase the total number of units that can fit on a site. Steel frame construction and underground lots increase construction costs while building height maximizes the total unit count. In the Study Area, Style C accommodates 240 units and 415 parking spaces.

STYLE B: Mid-Rise Apartments

Height: 4-7 stories (depending on zone)

Parking: Surface

Income-restricted affordable housing: No requirement

Achieved units per acre with proposed zoning regulations in the Study Area: 35-45

Notes: Represents highest density style under new zoning without building a parking structure or incorporating affordable units

STYLE C: Maximizing the Envelope

Height: 8 stories

Parking: Surface + Garage

Income-Restricted Affordable Housing: 20%

Achieved units per acre with proposed zoning regulations in the Study Area: 80

Notes: Represents highest density style under new zoning, builds underground parking to accommodate more units

TEST SCENARIOS

We test pro formas across the Study Area and comparison districts for an evaluation of IRR across varying development and market conditions. Style A is only tested within the Study Area, as it is an existing style for the communities. Style C is not tested in Urban Corridor locations as height restrictions never allow for eight stories, where steel frame construction becomes relevant. These 16 pro formas shed light on the range of development feasibility for multifamily products within the Study Area and the three comparison areas.

Pro forma inputs consistent across geographies

- Lot size
- Cost of building materials
- Size and ratio of unit types
- Ratio of common space to residential space

Pro forma inputs that vary within Study Area

- Rental rates
- Building height (Style B, based on zone)

Pro forma inputs that vary between comparison districts

- Rental growth rates
- Cap rates
- Land costs and property tax rates
- Quantity of parking spaces and units
- Affordable housing incentives
- Impact fees and MFTE policy

Exhibit 21: Pro Forma Test Locations and Styles



	Style A	Style B	Style C
Park-Span-Mid <i>Sprinker Towne Center</i>	●	●	●
Frederickson <i>Towne Center</i>	●	●	●
South Hill <i>Urban Corridor</i>	●	●	-
Mid-County <i>Urban Corridor</i>	●	●	-
Tacoma Mall	-	●	●
Puyallup	-	●	●
University Place	-	●	●

PROJECT FEASIBILITY

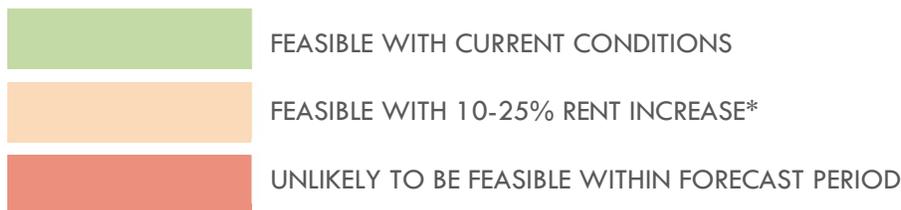
Study Area

- In the Study Area, Style A feasibility is confirmed in three of the four communities. Parkland-Spanaway-Midland shows lower returns, reflective of lower rental rates along this corridor. This could change with anticipated transit investments and increased population growth. But it is consistent with low rates of multifamily development in the community.
- The financial feasibility of Style B is not confirmed for any neighborhood in the corridor under current assumptions. Additional building costs outweigh the benefits of increased rental income for this product type, as modeled.
- Style C is the least feasible of the three development styles. Higher construction costs associated with steel frame buildings and garage parking dramatically impact building costs and expected gains in rental revenue, and the projected sale value does not balance out these capital investments.
 - This model incorporated 20% of units as income-restricted affordable housing. Even when all units are assumed to be market rate (not possible under current regulation) the style remains infeasible.

Key Takeaway: Feasibility decreases for taller, higher density project types.

Exhibit 22: Pro Forma Feasibility Results by Study Area Location

	STYLE A	STYLE B	STYLE C
Parkland-Spanaway-Midland Towne Center	Feasible with 10-25% rent increase*	Feasible with 10-25% rent increase*	Unlikely to be feasible within forecast period
Frederickson Towne Center	Feasible with current conditions	Feasible with 10-25% rent increase*	Unlikely to be feasible within forecast period
South Hill Urban Corridor	Feasible with current conditions	Feasible with 10-25% rent increase*	Exceeds proposed height limits
Mid-County Urban Corridor	Feasible with current conditions	Feasible with 10-25% rent increase*	Exceeds proposed height limits



*This represents a 10-25% increase in the year 1 rental rates, as shown in Exhibit 18, and assumes consistent annual rental growth rates

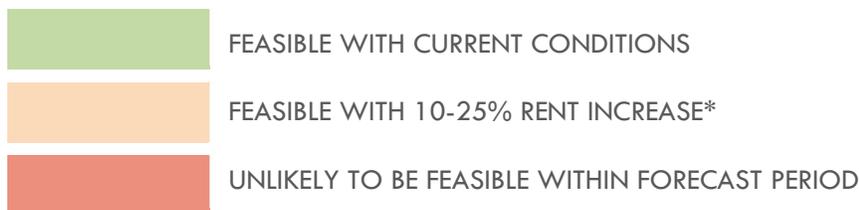
Comparison Areas

- Comparison area pro forma modeling yielded similar results for Styles B and C as the Study Area analysis.
- One notable difference is the feasibility of Style B for University Place. This aligns with observed development trends in these areas.
 - Compared to the Study Area communities, University Place has slightly higher rental rates and rental growth rates, slightly lower parking requirements, and an 8-year MFTE program. These factors combine to encourage project feasibility.
 - Tacoma Mall also shares slightly higher rental rates and much lower parking requirements than the Study Area, alongside a 12-year MFTE program. However, the 20% affordable unit requirement for this development, combined with higher land costs and slower rental growth rates, renders the project infeasible under current conditions.
- Style C remains infeasible across the board. This is consistent with observed development trends.²

Key Takeaway: Comparison area feasibility is generally similar to the Study Area locations. University Place shows favorable market conditions for Style B.

Exhibit 23: Pro Forma Feasibility Results by Comparison Area Locations

	STYLE A	STYLE B	STYLE C
Tacoma Mall	<i>Not included</i>		
University Place Town Center	<i>Not included</i>		
Puyallup	<i>Not included</i>		



**This represents a 10-25% increase in the year 1 rental rates, as shown in Exhibit 18, and assumes consistent annual rental growth rates*

² It is important to note that an example of Style C, Apex Apartments, exists in the Tacoma Mall neighborhood. This was built in 2009, however, and no similar style projects have been developed in the decade since. [Reporting](#) on this project includes documentation of financial losses by project investors, resulting in [legal dispute](#).

Forecast for High-Density Residential Construction

The final question posed in this study is “How much high-density residential development is likely to occur during the next 20 years?” As explained in the previous section, our findings indicate that it is very unlikely that Pierce County would see short-term changes in development styles following the proposed Centers and Corridors upzone and no other changes to development regulations. However, if demand for housing remains high and rents continue to increase, mid-rise development (Style B) could become financially feasible within the 20-year forecast period, and this development style would likely exceed the 25 unit per acre “high-density” threshold. Given the significant uncertainty over how market conditions, and demand for housing, will continue to evolve in Pierce County over the next 20 years, we developed a forecasting approach that includes a range of potential outcomes.

Our projections indicate that, in most cases, low-rise development styles will likely continue to offer the highest IRR for the foreseeable future. Nonetheless there will likely be instances where the characteristics of a development opportunity lend themselves to a higher density building format. To estimate the frequency with which this could occur, we chose to analyze at historic development activity in an area with similar market characteristics where higher-density residential construction has been allowed under existing zoning. The area we selected is the Tacoma Mall, where we examined recent development activity prior to passage of the inclusionary zoning ordinance in 2018. The result of this analysis is shown in Exhibit 24. It shows that among eight multifamily building projects, two were mid-rise buildings that accounted for over half of all multifamily units developed during the time period.

Exhibit 24 Multifamily Building Permits in the Tacoma Mall Subarea, 2012-2018

Project Type	Number of MF Projects	% of Total MF Projects	Total MF Units	% of Total MF Units
Townhome/Duplex	5	63%	48	10%
Low-Rise	1	13%	177	38%
Mid-Rise	2	25%	237	51%
TOTAL	8		462	

Source: CoStar, 2020; BERK, 2020.

Based on this finding, we will assume that 51% of all new multifamily units built in the Study Area over the next 20 years will be for mid-rise buildings. This assumption is likely higher than is realistic given the results of our development feasibility projections and analysis of historic building trends in the Study Area. However, using a more aggressive assumption like this will help to ensure our forecast does not under-estimate potential new high-density residential development.

Next we analyzed historic multifamily building permit activity in the Study Area to project the number of multifamily building permits that could be expected over the next 20 years. Unincorporated Pierce County has been growing at a rapid pace in recent years, as shown in Exhibit 3. Within the Study Area, the last three years have seen a boom in permit activity, as shown in Exhibit 6. Exhibit 25 shows average annual multifamily unit production in the Study Area over two periods of time. The longer period of

2001-2018 provides a reasonable basis for a longer-term projection, given that it includes periods of economic downturn that would be expected to occur a 20-year period. However, as comparison, we also include the more recent short-term (2012-2018) permit trends that show an acceleration of permit activity and larger building styles.

Exhibit 25: Average Annual Multifamily Unit Production in the Study Area

	Average Annual Units	% Townhomes/Duplex	% Low-Rise
2001-2018	170	<i>Breakdowns by development style unavailable prior to 2012.</i>	
2012-2018	234	9%	91%

Source: Pierce County, 2020; BERK, 2020.

To determine how many additional units would be produced in mid-rise buildings compared to their low-rise alternatives, we leveraged the sample pro forma work BERK conducted to develop the Style A (low-rise) and Style B (mid-rise) building format for the two Study Area zones examined: Towne Center and Urban Corridor. Our calculations indicated that a Style B building would produce, on average, about 175% of the units that a Style A building given the same parcel size and same parking requirements. It would produce an even bigger boost (280%) compared to the average townhome or duplex development. Based on historic permit trends in the Study Area, the average boost can be assumed to be about 184%.

Exhibit 26 shows how these forecasting assumptions are used to develop two separate growth forecasts with a range of potential outcomes. The Moderate Growth Forecast is based on longer-term historic permit activity (2001-2018). The Rapid Growth Forecast is based on much shorter-term permit activity (2012-2018). The bottom of this table shows the 20-year forecast for high-density residential production within the Study Area as well as the number of additional units produced compared to a scenario without the Centers and Corridors upzone. In total, we forecast that the Study Area would see between **3,217** and **4,422** new units in high-density residential development over the next twenty years if Pierce County moves forward with the proposed upzone. This forecast is based on a projection of continued market demand for multifamily housing and continued annual growth in rents. It assumes no other changes in development regulations such as parking requirements or incentives which can have a significant impact on project feasibility, particularly for mid-rise and high-rise development.

Exhibit 26: High-Density Housing Forecast for Study Area

	Moderate Growth Forecast	Rapid Growth Forecast
Average annual new multifamily units	170	234
Projected new multifamily units without upzone, 2020-2040	3,407	4,683
Centers and Corridors Upzone Scenario		
Assumed percentage of units that will be mid-rise	51%	51%
Multiplier for unit capacity in mid-rise projects compared to historic development styles	184%	184%
Average annual mid-rise unit production	161	221
Total mid-rise unit production, 2020-2040 (High-density housing forecast range)	3,217	4,422
Average annual total multifamily unit production	244	335
Total multifamily unit production, 2020-2040	4,876	6,703
Total additional units expected with upzone (compared to no upzone)	1,470	2,020

Source: BERK, 2020.

Conclusions

Our findings indicate that, in the short-term, the proposed zoning changes are not expected to have a significant impact on development styles built within the Study Area. Significant market changes and/or additional regulatory change are required to encourage high-density residential construction. High rates of growth in rents, improved walkability within neighborhoods, or decreased parking requirements could encourage denser styles. Regulatory incentives such as MFTE programs make a significant impact on IRR but are not allowed throughout most of the Study Area. Over time, however, rent inflation and population growth may encourage some market shifts in development products without dramatic regulatory change.

This analysis concludes the following key takeaways:

1. Significant short-term impacts are unlikely.

- Style A (low-rise) continues to offer the highest IRR in our models in all areas tested
- High-density building styles are not likely to be feasible in the short-term
- No significant change in the relative attractiveness of Study Area corridors for high-density development compared with comparison areas in nearby jurisdictions

2. There are several barriers to high-density development in Study Area.

- Minimum parking requirements
- High construction costs associated with high-density building styles
- Lower market rents compared to other parts of the region
- Affordable housing incentives are not strong enough to entice market rate development

3. Some potential, but limited, medium-term impacts.

- Style B (mid-rise) could become more feasible if rents continue to increase
- In most cases Style A (low-rise) is likely to continue being the more attractive option for apartment developers in the Study Area

4. Highest density styles are least likely to become feasible.

- Style C (highest density, with affordable housing) is not likely to be feasible for market-rate developers without significant changes to market conditions or development regulation

In the Rapid Growth Forecast we estimate the potential for **2,020 additional units** compared to a scenario without the Centers and Corridors upzone. This estimate is somewhat lower than the 2,646 estimate that appears in the Community Plan Updates Draft Environmental Impact Statement. In total, we forecast that the Study Area would see between **3,217** and **4,422** new units in high-density residential development over the next twenty years if Pierce County moves forward with the proposed upzone. This forecast is based on a projection of continued market demand for multifamily housing and continued annual growth in rents. It assumes no other changes in development regulations such as parking requirements or incentives which can have a significant impact on project feasibility, particularly for mid-rise and high-rise development.

Appendix A: Data Sources & Assumptions

Data Sources

Data used for this project includes:

- Pierce County permit data
 - Dates on this dataset are for permits, not for finished construction.
 - For larger developments, assumptions had to be made about which lots are included in the overall development for the DU/acre calculation. We do not have perfect information about future plans or building out parcels currently left open.
- Pierce County assessor data
 - Merged with permit data to include building features such as height and value into the analysis.
- CoStar development data
 - This is only available for Pierce and King Counties, we were unable to use in Vancouver.
 - CoStar market analytics estimate achieved rents by unit size, which was used to set rental rates by geographic location.
 - Co-Star may not pick up on all smaller multifamily developments.
- City of Tacoma permit data
- OFM housing unit data
- Pierce County Comprehensive Plan growth targets
- Pierce County DEIS housing forecast

Pro forma inputs

- Construction costs
 - Estimated by building style, based on developer feedback and regional industry reporting.
 - Annual increase for inflation estimated at 3% per year.
- Loan terms
 - Standard loan terms, based on current market conditions, were used across all pro formas. This includes a 60% LTV ratio, a 6.5% interest rate for construction loans, and a 5.0% interest rate on a 30-year fixed rate mortgage.
- Land values
 - Costar reporting for relevant multifamily projects was used to estimate land value per acre in comparison areas.
 - Study area land values were calculated by joining Pierce County permit data with assessor

data for parcels within the study area.

- Market conditions

- Rent per square foot, by number of bedrooms in unit, informed by Costar data. Newest and highest value multifamily units were considered when determining these rates to avoid depressed values from older or subsidized housing developments.
- Market cap rates taken from Costar. Assumed consistent across time.
- Rental growth rates taken from Costar, averaged annual from the 2012-2019 period.
- Vacancy rates considered consistent across project types and locations, with year 1 at 50% occupancy and 95% stabilized occupancy.

Appendix B: Stakeholder Engagement and Developer Interviews

Stakeholder Engagement

As a primary stakeholder, the City of Tacoma was engaged throughout the process of developing this study and reviewing document findings. Representatives were included at the scope refinement meeting on December 12, 2019; for a mid-project methodology review on January 28, 2020; and for a draft report review and comment released March 6.

Preliminary report findings were presented before the Pierce County Planning Commission at a public meeting on February 25th.

The draft report was reviewed by Pierce Transit, WSDOT, FutureWise, and Tacoma Audobon Society.

Developer Interviews

As part of this project, BERK Consulting spoke with regional real estate professionals to lend perspective on development feasibility and construction costs in Pierce County and the Study Area. This included real estate brokers active in marketing multifamily properties in the Study Area and multifamily developers with recent projects and current land holdings in the Study Area as well as in comparison districts. While the overall developer response rate was lower than desired, these conversations were influential to several project assumptions.

- Confirmed market cap rates in Study Area and comparison areas.
- Confirmed market barriers to construction in Study Area.
- Estimated construction costs for modeled building styles.
- Implications of planning policies such as parking minimums on project feasibility.
- Confirmed regional demand for multifamily housing units.

Appendix C: Bibliography

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