Item WS03

CITY COUNCIL REPORT

Meeting Date: January 24, 2023
General Plan Element: ***Community Involvement***
General Plan Goal: ***Seek early and ongoing community involvement.***

NON-ACTION

Old Town Character Plan and Zoning Ordinance Update
5-GP-2021, 1-TA-2021, 1-II-2010#3

Presentation and discussion regarding the legislative draft of the Old Town Scottsdale Character Area Plan and downtown Zoning Ordinance.

APPLICANT CONTACTS

Adam Yaron, Principal Planner, & Brad Carr, AICP, LEED-AP, Planning Area Manager
City of Scottsdale, Long Range and Current Planning Services

LOCATION

Old Town Scottsdale

BACKGROUND

Scottsdale City Council adopted the most-recent iteration of the Old Town Scottsdale Character Area Plan (OTSCAP) in July 2018. The Old Town Scottsdale Character Area Plan (formerly Downtown Plan) has served as the comprehensive policy document to guide development decisions for Old Town Scottsdale for over 35 years. As an adopted Character Area Plan within the Scottsdale General Plan 2035, the OTSCAP incorporates community goals and policies consistent with, but not duplicative of, both the General Plan and other master-planning efforts, specific to Old Town.

After 20+ years, the Downtown Plan went through an extensive update in 2009 largely because the implementation items identified with the 1984 Downtown Plan had been accomplished, as well as to align the Downtown Plan with other Council-adopted plans enacted since 1984. Additionally, the 2009 update made modifications to account for recent changes in the downtown business, residential, and retail markets, as well as newer development construction practices and standards. To ensure the Downtown Plan update would reflect the community's vision and goals for downtown, a two-year public outreach process was conducted, culminating in an updated, community-based, and City Council adopted plan in 2009. Similar to the 1984 Plan, in 2018 the Downtown Plan was again updated because the vast majority of implementation items found in the 2009 Plan had been accomplished. The name of the plan was changed at this time from Downtown Plan to the current OTSCAP. The public outreach for updating the Plan in

2018 occurred over a period of six months, and it was unanimously adopted by the City Council in July 2018.

At the June 22, 2021 work study session and August 24, 2021 meeting (Attachment 1), City Council discussed and ultimately directed staff to begin a public outreach effort to reexamine Old Town Scottsdale plans, policies, and guidelines.

PUBLIC PARTICIPATION

In accordance with the Old Town Policy and Regulatory Public Participation Plan (Attachment 2) the following timeline represents a summation of public outreach opportunities that have been conducted since City Council initiated the update process to the Old Town Character Area Plan and applicable sections of the Scottsdale Zoning Ordinance:

- One (1) City Council Work Study Session (September 21, 2021) – City Council reviewed and discussed infrastructure, sustainability, tourism and economic development, as well as the naming of "Downtown" and "Old Town" and how to keep consistency with the Old Town Scottsdale Character Area Plan, Zoning Ordinance, and Tourism marketing/branding efforts for this area of the community (Attachment 3);
- One (1) Planning Commission Non-Action Meeting (October 6, 2021) – Planning Commission reviewed and discussed the Old Town Scottsdale Policy, Regulatory, and Guideline Update as initiated by City Council (Attachment 4);
- In the fall of 2021, nine (9) in-person open house events were offered over three separate dates - October 18th and 25th, and November 15th - resulting in six (6) total events (based on registration and attendance) conducted regarding Downtown Development Types and Development Flexibility (Attachment 5). 167 stakeholders registered while 117 participated (102 Registered with 15 Walk-Ins);
- One (1) Planning Commission Non-Action Meeting (December 15, 2021) – Planning Commission reviewed and discussed public outreach efforts associated with the Old Town Scottsdale Character Area Plan and downtown zoning ordinance update process (Attachment 6);
- In the Spring of 2022, three (3) in-person open houses were offered on March 7th to receive input from the general public, one (1) open house was offered on March 9th to receive input from Old Town property and business owners, and one (1) open house was offered on March 11th to receive input from the development community - resulting in five (5) total events (based on registration and attendance) conducted regarding the definition of Mixed Use Development, Bonus Height, Bonus Provisions, and the provision of Open Space (Attachment 7). In terms of attendance, a total of 59 people attended the sessions; 37 people attended the three (3) open houses on March 7th, 14 people attended the Business/Property Owner Focus Group on March 9th, and eight (8) people attended the Development Community Focus Group on March 11th; and

- Old Town Updates Self-Guided Open House (October 2021 – October 2022) was developed to enable participants to provide input regarding topics such as Vision and Values, the provision of quality development, mixed-use development, building height, bonus provisions, and public open space. There was a total of 68 persons that participated in the Self-Guided Open House (Attachment 8).
- January 2023, six (6) in-person open houses were offered to the public (January 10th and 12th) to receive input on the legislatively drafted changes to both the Character Area Plan and Zoning Ordinance.

  Public comments gathered at these events will be provided to City Council in a supplemental packet ahead of the January 24, 2023, work-study session.

ANALYSIS & ASSESSMENT

City Council requested staff to seek focused citizen input regarding the topics of vision and values, development types, building height and development standards, the provision of mixed-use, development flexibility, bonus provisions, open space, and quality development. Efforts to engage the public resulted in heightened public awareness of what existing public policy and regulatory oversight the city has specific to Old Town. The public outreach conducted, as directed by City Council, generated a broad range of opinions, perceptions, and suggestions from participants.

Staff utilized the major themes collected from public outreach as well as input from Planning Commission and City Council, to draft legislative amendments to the Old Town Scottsdale Character Area Plan (Attachment 9) and applicable sections of the Zoning Ordinance (Attachment 10). The following summarizes draft amendments categorized by the topics that were specified at the initiation of this process by City Council:

Old Town Scottsdale Vision and Values

Summary of input received: Participants generally supported for Vision and Values as written; however, there was support to revise the Vision Statement to remove the word "metropolitan".

Proposed draft amendments:

- Amend the Vision Statement to remove the word "metropolitan".

This proposed change can be found within the legislative draft of Old Town Character Area Plan, Page 5.

Development Types: Designations, locations, and transitions

Summary of input received: Participants supported continuing the use of Development Types to guide development in Old Town. Both the Downtown Core and Historic Old Town were acknowledged to be important areas in this part of the community that should not be changed so as to preserve their character. Participants expressed interest in providing more sensitive building transitions between Development Types – specifically, building transitions to the Type 1 Development Type. Additionally, some participants suggested that Type 2.5 be removed because the creation of the Type 2.5 seemed arbitrary and would seemingly benefit only one particular property owner's interest. The location currently designated as Development Type 2.5 in Old Town remains an area of high redevelopment need.

Summary of draft amendments:

- Introduction of a Sensitive Edge Buffer where development transitions in scale, height, and intensity away from the Type 1 Development Type and removing the ability for Type 2 or 3 Development Types to request amendments to the stepback transitions when adjacent to Type 1.

  The Sensitive Edge Buffer is discussed, depicted, and defined on pages 14, 15, 19, and 53 of the legislative draft of the Old Town Scottsdale Character Area Plan as well as Sections 6.1304.A.2.d and 6.1304.A.3.d of the legislative draft of the updates to the Zoning Ordinance.

- Remove all areas of the Type 2.5 Development Type and replace with the Type 2 Development Type.

  The proposed removal of Type 2.5 is depicted on pages 8, 14, 15, and 55 of the legislative draft of the Old Town Scottsdale Character Area Plan as well throughout the legislative draft of the updates to the Zoning Ordinance.

- Amend the Type 3 Development Type area located north of the Type 1 area, south of the Arizona Canal, east of Goldwater Boulevard, and west of Scottsdale Road to the Type 2 Development Type.

  This proposed change is depicted on page 15 of the legislative draft of the Old Town Scottsdale Character Area Plan.

- Amend the Type 2 Development Type area located at the southeast corner of Scottsdale and Indian School Roads to the Type 1 Development Type

This proposed change is depicted on page 15 of the legislative draft of the Old Town Scottsdale Character Area Plan.

Maintaining, adding, restricting, reducing, or removing Zoning Ordinance base development standards:

Summary of input received: Participants supported the current base height maximums; Type 1 at 40 feet within Historic Old Town and 48 feet within all other areas of Type 1, Type 2 and Type 2.5 at 66 feet, and Type 3 at 84 feet. Some participants expressed support to maintain existing bonus maximum height standards – while others expressed that current bonus maximum height standards are too tall for the community. The current bonus maximum standards for height include, Type 2 at 90 feet, Type 2.5 at 120 feet, and Type 3 at 150 feet. Old Town property owners that participated voiced their concern for the diminishment of their property's redevelopment potential if an amendment reduced the current discretionary maximum bonus height standards.

Summary of draft amendments:

- Remove all areas of the Type 2.5 Development Type and replace with the Type 2 Development Type.

The proposed removal of Type 2.5 is depicted on pages 8, 14, 15, and 55 of the legislative draft of the Old Town Scottsdale Character Area Plan as well throughout the legislative draft of the updates to the Zoning Ordinance.

- Reduce the discretionary bonus maximum building height that can be requested within the Type 3 Development Type areas. Consequently, for Type 3 development sites between 100,000 and 200,000 square feet in lot size, the maximum building height that may be requested has been reduced from 120' to 102'. For Type 3 development sites larger than 200,000 square feet in lot size, the maximum building height for the discretionary bonus that may be requested has been reduced from 150' to 115'.

The proposal to reduce the maximum building height that may be requested in Type 3 areas is depicted in Table 6.1310.C of the legislative draft of the updates to the Zoning Ordinance.

The provision and implementation of Mixed-Use Development

Summary of input received: Participants supported non-residential land uses to activate the ground level, including utilizing percentages to regulate ground floor uses to establish mixed-use development. Further, participants supported regulating such for areas within the Goldwater/Drinkwater Couplet, south of the Arizona Canal.

Summary of draft amendments:

- Maintain an Active Pedestrian Area that limits the amount of residential space and associated uses (amenity spaces, not publicly accessible, leasing office, parking areas) permitted at the ground floor for those areas of Old Town generally located within the Goldwater/Drinkwater Couplet, south of the Arizona Canal (not including the HonorHealth Campus). This proposal maintains the existing requirement in Type 1 Areas that limits residential uses to no more that 35% of the first floor. This proposal would also provide a new requirement to limit residential uses to no more than 80% of the first floor area in Type 2 and 3 Areas within the Active Pedestrian Area. The boundaries of the Active Pedestrian Area are generally described as south of the Arizona Canal, between the Gold Water and Drinkwater Couplets, and excluding the HonorHealth medical campus site located at the southeast corner of East Second Street and North Scottsdale Road; this area is cross hatched on page 32 of the Old Town Scottsdale Character Area Plan.

The proposal for an Active Pedestrian Area is discussed and depicted on pages 32 and 35 of the legislative draft of the Old Town Scottsdale Character Area Plan as well as Table 5.3004.D., Section 6.1205.D., and Section 6.1308.K. of the legislative draft of the updates to the Zoning Ordinance.

The consideration of development flexibility in the Plan, Zoning Ordinance, and Guidelines:

Summary of input received: Participants supported maintaining development flexibility provided within the Old Town Character Area Plan and the Zoning Ordinance. Participants expressed continued support for development flexibility for smaller parcels (parcels less than 20,000 square feet in area) within Old Town. Participants also expressed that noncontiguous parcels should not be considered for a Planned Block Development (PBD) request that allows for development flexibility.

Summary of draft amendments:

- Expand the flexibility afforded to small parcels (less than 20,000 square feet in size) within the Zoning Ordinance to allow the Development Review Board to amend setbacks and stepbacks from 10% to 20% without necessitating City Council approval. However, this would not preclude City Council's ability to initiate an appeal of a Development Review Board decision, as permitted by the Zoning Ordinance.

  The proposed expansion of the Development Review Board's authority to approve up to a 20% amended development standards on parcels that are less than 20,000 square feet is depicted in Section 5.3007 of the legislative draft of the updates to the Zoning Ordinance.

- Planned Block Development (PBD) requests must now come from development sites that are contiguous.

The proposed amendment to Planned Block Development District Qualifying Parcels can be reviewed in Section 6.1303.B of the legislative draft of the updates to the Zoning Ordinance.

Ensuring that bonus provisions within the Zoning Ordinance, if maintained, provide greater and better-defined public benefits, and re-examining bonus payment calculations:

Summary of input received: Public outreach participants generally supported the provision of public benefits as a consideration of bonus development standards and flexibility. In review of the existing 8 listed public benefits outlined in the Zoning Ordinance that may be exchanged for bonus development standards, participants favored public open space, major infrastructure improvements, and pedestrian amenities. For reference, the current list of public benefits within the Zoning Ordinance include:

- Major Infrastructure Improvements,
- Public Parking Areas,
- Public Open Spaces (Minimum 18,000 Square Feet),
- Cultural Improvements Program Contribution,
- Enhanced Transit Amenities,
- Pedestrian Amenities,
- Workforce Housing, and
- Uncategorized improvements and/or other community benefits that are subject to City Council approval

Participants also suggested including an expanded definition of public improvements within the Zoning Ordinance, as well as adding new listed public benefits that would contribute to the provision of public safety in Old Town, renewable energy, and elevated quality design.

Based on the community conversations concerning the current Bonus Program, staff contracted with Gruen + Gruen and Associates to conduct a study examining the bonus payment calculations (Attachment 11) in early 2022 to:

1. Evaluate feasibility of Old Town Development (multifamily, hotel, and office) with-and-without bonuses to identify the amount of available public benefit (contribution) a development could provide (if any), as well as

2. Evaluate/calibrate discrepancies in equity between the requested bonus value and the provided community enhancement contribution.

Summary of draft amendments:

- Require development sites between 100,000 and 200,000 square feet in size (mid-tier development sites) and development sites 200,000 square feet or more in size (largest development sites) to provide open space as a base requirement when asking for bonus development standards. The proposed amount of open space that would be required is 2.5% of the net lot area for the mid-tier development sites, and 5% of the net lot area for the largest development sites.

  The proposed minimum requirements for open space can be reviewed on Table 6.1310.C of the legislative draft of the updates to the Zoning Ordinance.

- Double the existing fees of the bonus program – allowing City Council to update bonus fee amounts on a annual basis to account for current market conditions

Category	Existing fee	Proposed Fee
▪ Bonus Floor Area	$13.63 per sq. ft.	$27.26 per sq. ft.
▪ Bonus Building Height	$13,629 per ft.	$27,258 per ft.
▪ Bonus Density	$13,629 per unit	$27,258 per unit

The proposed increase to the bonus fee structure can be reviewed in Section 7.1200 of the legislative draft of the updates to the Zoning Ordinance.

The provision of more interconnected, public open space areas in Old Town:

Summary of input received: Participants supported open space as an amenity in Old Town and agreed that it should be a priority of redevelopment efforts, particularly when bonus provisions are sought. Participants emphasized that when bonus maximum heights are requested, open space at the street/pedestrian level should be an expected and provided public benefit.

Summary of draft amendments:

- Require development sites between 100,000 and 200,000 square feet in lot size (mid-tier development sites) and development sites 200,000 square feet or more in lot size (largest development sites) to provide open space as a base requirement when asking for bonus development standards. The proposed amount of open space that would be required is 2.5% of the net lot area for the mid-tier development sites, and 5% of the net lot area for the largest development sites.

  The proposed minimum requirements for open space can be reviewed on Table 6.1310.C of the legislative draft of the updates to the Zoning Ordinance.

- If additional open space is to be considered beyond the above described base requirement when bonus development standards are sought, the size of the special public improvement relating to public open spaces has been reduced from 18,000 square foot minimum to 10,000 square feet so as to encourage expansion of open space areas.

The proposed update to the Special Public Improvements can be reviewed on Section 7.1200.B.3 of the legislative draft of the updates to the Zoning Ordinance

- Update Public Space and Open Space Masterplan Map within the Old Town Scottsdale Character Area Plan to reflect open space and connectivity through Old Town – emphasizing connections within and between open space areas and includes entitlement and desired open space areas.

The Public Spaces and Connectivity graphic is depicted on page 21 of the legislative draft of the Old Town Scottsdale Character Area Plan.

The provision of quality new development and redevelopment:

Summary of input received: Participants stated that quality development within Old Town is a priority; however, their focus was on building setbacks, open space, streetscapes, and streetspace continuity as a means to enhance the pedestrian environment. Further, participants expressed support regarding the importance of quality design and design within surrounding context.

Summary of draft amendments:

- As previously mentioned above, the legislative drafts include the introduction of a Sensitive Edge Buffer, an Active Pedestrian Area, and the new requirement of open space as a base requirement when requesting bonus development standards
- Update the Pedestrian Places Map and associated definitions within the Old Town Scottsdale Character Area Plan to reflect a hierarchy of pedestrian areas that appropriately describe expected levels of activity along specified streets.

The Pedestrian Connectivity map is depicted on page 32 and the proposed update to the Pedestrian hierarchy is described on page 33 of the legislative draft of the Old Town Scottsdale Character Area Plan.

Examination of the Downtown Infill Incentive Plan:

Summary of input received: City Council has had continued discussion regarding the Downtown Infill Incentive District since removing references to the Infill Incentive District within the ratified Scottsdale General Plan 2035. The Downtown Infill Incentive Plan was established as a redevelopment tool for the City to allow for development standard amendments, waiving of fees, and other applicant requests that were not provided within the Zoning Ordinance at the time of its establishment. Since the establishment of the Downtown Infill Incentive Plan in 2010, changes have been made to provisions of the Zoning Ordinance in 2012 and 2018 that functionally accomplish much of the original intent behind the Downtown Infill Incentive Plan.

Summary of draft amendments:

- Repeal the Downtown Infill Incentive District

This action will occur by Resolution concurrently with the update effort.

Non-Categorized Proposed Amendments to the Old Town Scottsdale Character Area Plan include:

- Assessed and aligned goals, policies, and glossary definitions with other plans that have been reviewed and/or adopted by the Council and/or other related agencies since 2018
- Goals and policies have been reviewed and amended as necessary to provide clear, understandable, and direct intent
- Updated the Old Town Future Land Use Map (page 11) and Old Town Districts Map (page 13) commensurate with Downtown Development Types Map (page 15) amendments described above
- Added a policy to the Character & Design Chapter (page 18) to address development transitions
- Updated the Old Town Bikeways Map (page 36) to align with the Old Town Scottsdale Bicycle Master Plan (2022)
- Updated the listing of Related Plans, Ordinances, and Documents (pages 58 – 59)
- Updated the Implementation Program to remove completed projects, to align with recently completed plans and policy documents, and to establish new downtown investment programs for the next ten years (pages 60 – 69)

Non-Categorized Proposed Amendments to the Zoning Ordinance include:

Gross Floor Area Ratio

Background: Gross floor area ratio is typically the measurement of a building's floor area in relation to the gross or net lot area of the property. The downtown sections of the Zoning Ordinance do not currently count residential space towards a project's gross floor area ratio calculation. The legislative draft of the updates to the Zoning Ordinance proposes to amend the definition of Gross Floor Area Ratio to include all building space – including residential floor area. Further, the downtown sections of the Zoning Ordinance are proposed to be amended to account for this building space that previously was not included in the calculation.

Proposed Amendment: Update to re-define Gross Floor Area Ratio (GFAR) consistent with other references within the Zoning Ordinance.

These changes can be seen within the legislative draft of the Zoning Ordinance updates, Sections 3.100 and Tables 5.3006.B and 6.1308.B.

Unify Setback Requirements for Scottsdale Road

Background: In review of the downtown sections of the Zoning Ordinance it was found that N. Scottsdale Road has varying setback requirements, which could result in a less consistent development pattern along the roadway. The legislative draft of the updates to the Zoning Ordinance propose to amend the setbacks and prevailing setbacks along N. Scottsdale Road to insure the east and west sides of the street have the same setback and prevailing setback requirements.

Proposed Amendment: Update to setback and prevailing setback standards.

These changes can be seen within the legislative draft of the Zoning Ordinance updates, Table 5.3006. and Section 5.3006.F.3.

Shading of public sidewalks

Background: The provision of shade has been a consistent theme since the inception of the Downtown Plan. Every iteration of the Downtown Plan/OTSCAP has emphasized the need to shade walkways in the Old Town Area to enhance the pedestrian experience and extend the use of Old Town throughout the year. That emphasis is currently incorporated into the Zoning Ordinance with requirements for development to provide shading over sidewalks adjacent to a development site. The legislative draft of the updates to the Zoning Ordinance emphasizes that for Type 1 Areas in Old Town, a continuous covered sidewalk is to be provided for such shading.

Proposed Amendment: Amended language to ensure structured and continuous shading of sidewalks are provided within the Downtown Core – or Type 1 areas of Old Town.

These changes can be seen within the legislative draft of the Zoning Ordinance Sections 5.3006.J., 6.1205., and 6.1308.J.

Building Stepbacks

Background: The building stepback provisions of the Zoning Ordinance provide requirements for taller buildings to locate upper portions of the building farther away from a street or property line. In this way, the taller portions of a building are stepped-back from the street or property line, which helps reduce visual mass along roadways and property lines. The Zoning Ordinance outlines varying requirements for building stepbacks depending on the Development Type and surrounding context. Proposed updates to the Zoning Ordinance will unify the building stepback provision and strengthen the stepback requirements where properties with varying Development Types abut one-another. Further, the proposed updates clarify the application of building setbacks at shared property lines and along alleyways.

Proposed Amendment: Amended language to unify the application of building stepbacks at side and rear property lines, alleys, as well as where a Type 2 or 3 Area abuts a Type 1 Area.

These changes can be seen within the legislative draft of the Zoning Ordinance Sections 5.3006.H., 6.1205., and 6.1308.E.3.

STAFF RECOMMENDATION & NEXT STEPS

RECOMMENDED APPROACH

Review and discuss the legislative drafts of the Old Town Scottsdale Character Area Plan (Attachment 9) and associated updates to the Zoning Ordinance (Attachment 10). If specific direction is provided by City Council, city staff will mockup the suggested plan and Zoning Ordinance changes ahead of future Planning Commission and City Council hearing dates.

PROPOSED NEXT STEPS

To promote best practices with public outreach, the Old Town Policy and Regulatory Public Participation Plan includes ongoing opportunities for community involvement. The following timeline represents a summation of future opportunities:

- At least one (1) – City Council Work Study Session meeting scheduled to occur in January 2023 (This meeting);
- At least one (1) – Planning Commission Non-Action Meeting scheduled to occur in February 2023 (Scheduled for February 8, 2023);
- At least one (1) – City Council Work Study Session meeting scheduled to occur in February of 2023 (Scheduled for February 21, 2023);
- At least one (1) public Planning Commission hearing to provide recommendation to City Council regarding draft updates in March 2023; and,
- At least one (1) public hearing of City Council to consider taking action on updates in March 2023.

RESPONSIBLE DEPARTMENTS & STAFF CONTACTS

Community & Economic Development Division
Planning and Development Services Department – Long Range & Current Planning Services

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ATTACHMENTS

1. August 24, 2021, Old Town Scottsdale Character Area Plan, City Council Marked Agenda
2. 2021/22 Public Participation Plan – Old Town Scottsdale Policy and Regulatory Updates
3. September 21, 2021, City Council Marked Agenda
4. October 6, 2021, Planning Commission Marked Agenda
5. Aggregate In-Person Open House Report – including results of October 18th, and 25th, and November 15th in-person open house sessions
6. December 15, 2021, Planning Commission Marked Agenda
7. Aggregate In-Person Open House Report – including results of March 7th, 9th, and 11th, in-person open house sessions
8. Aggregate Self-Guided Virtual Open House Report: October 2021 to October 2022
9. Legislative Draft – Old Town Scottsdale Character Area Plan
10. Legislative Draft – Downtown Sections of the Zoning Ordinance
11. Old Town Bonus Program Study – Gruen + Gruen and Associates

Staff Contact(s): Randy Grant, Planning, Economic Development, and Tourism Executive Director, 480-312-2664, rgrant@scottsdaleaz.gov
– To facilitate a request for a second continuance, Mayor Ortega moved Item 29 to the beginning of the Regular Council Meeting agenda. Councilwoman Whitehead made a motion to continue Item 29 (District at 9400 Shea Non-Major General Plan Amendment and Rezoning) to October 19, 2021. Councilman Durham seconded the motion, which carried 7/0, with Mayor Ortega; Vice Mayor Janik; and Councilmembers Caputi, Durham, Littlefield, Milhaven, and Whitehead voting in the affirmative.

30. Old Town Bicycle Master Plan
Request: Presentation, discussion, and possible direction to staff regarding the findings and recommendations of the Old Town Bicycle Master Plan.
Presenter(s): Mark Melnychenko, Transportation and Streets Director
Staff Contact(s): Dan Worth, Public Works Director, 480-312-5555, daworth@scottsdaleaz.gov
– Transportation and Streets Director Mark Melnychenko gave the PowerPoint presentation.

– Council made the following suggestions:

- **Use plastic barriers to separate bicycle lanes from the roadway.**
- **Use bright green colors to designate bicycle lanes.**
- **Investigate the use of phased crossing signals to provide bicyclists and pedestrians a head start going through traffic signals.**
- **Use of scramble concepts at intersections such as Camelback and Scottsdale roads.**
- **Use of way finding signage and share lane markings to denote motorists are sharing the road with cyclists.**
- **Installation of bicycle stations with access to tools and instructions via QR codes to assist bicyclists with repairs.**
- **Ensure safety is the highest priority.**
- **Bicycle improvements should be advertised in the Downtown Ambassadors' informational pamphlets.**
- **Shared lanes on 5th Avenue to put bicyclists in the middle of the lane enabling motorists who are backing up to see them.**
- **Post reduced speed signs in the Downtown area.**

– Mayor Ortega made a motion that Council is in agreement with the Old Town Bicycle Master Plan as presented. Councilwoman Whitehead seconded the motion, which carried 7/0, with Mayor Ortega; Vice Mayor Janik; and Councilmembers Caputi, Durham, Littlefield, Milhaven, and Whitehead voting in the affirmative.

31. Old Town Scottsdale Policy, Regulatory, and Guideline Update
Request to initiate the following:

1. A Non-Major General Plan Amendment to the 2018 Old Town Scottsdale Character Area Plan.
2. A text amendment to the City of Scottsdale Zoning Ordinance (No. 455), to the Downtown (D), Downtown Overlay (DO), and Planned Block Development (PBD) zoning districts and other affected sections, as applicable.
3. An amendment to the Downtown Infill Incentive District.
4. Staff direction to update the Old Town Scottsdale Urban Design & Agricultural Guidelines as necessary by any corresponding amendments to the Old Town Scottsdale Character Area Plan, associated portions of the city's Zoning Ordinance, or the Downtown Infill Incentive District.

Presenter(s): Adam Yaron, Principal Planner and Brad Carr, Planning and Development Area Manager
Staff Contact(s): Randy Grant, Planning, Economic Development, and Tourism Executive Director, 480-312-2664, rgrant@scottsdaleaz.gov

Attachment 1

– Planning and Development Area Manager Brad Carr gave the PowerPoint presentation.

– Council made the following suggestions:

- **Focus on areas of transportation, infrastructure, sustainability, and identity of Scottsdale, which includes tourism.**
- **Focus on open space by including a canal-level park on the only remaining public parcel located on the Arizona Canal at Fifth Avenue and Goldwater Boulevard while retaining public parking.**
- **Include references to pedestrian connectivity, the tree canopy plan, and the Emerald Necklace.**
- **Add a section related to alleys that make better use of open space.**
- **Eliminate the word "metropolitan" from documents.**
- **Eliminate emphasis on "vertical" development.**
- **Include provisions for developers to put public art and rock coverage on empty lots prior to construction to eliminate large open dirt lots.**
- **Council should review existing rules and follow those rules.**
- **Integrate bikeways into plan.**
- **Emphasize ways to invigorate and encourage more public participation in Old Town, such as street fairs and similar events.**
- **Look at event ordinance and see if it can be utilized to invigorate Old Town.**
- **Ensure community input is received on possible revisions to the plan.**
- **Verify the question of appropriateness of Type 1 going to Type 3, and the necessity of Type 2.5.**
- **Test the applicability of Planned Block Development (PBD) Overlay District requirement of mixed use to have at least 20% retail/commercial.**
- **Increase Type 1 classification from 36 feet to 40 feet; Type 2 classification to be accomplished at 52 feet; and Type 3 classification to be 60 feet with a bonus of 12 feet.**

– Councilmember Milhaven made a motion to place the initiation of amendments to the Old Town Scottsdale policies and regulations on hold until after the November 2, 2021 General Plan Election. Councilwoman Caputi seconded the motion, which failed 2/5, with Councilmembers Caputi and Milhaven voting in the affirmative and Mayor Ortega; Vice Mayor Janik; and Councilmembers Durham, Littlefield, and Whitehead dissenting.

– Mayor Ortega made a motion to:

- **Initiate a non-major General Plan amendment to update the 2018 Old Town Character Area Plan; and**
- **Initiate a text amendment to update the Zoning Ordinance Downtown (D), Downtown Overlay (DO), and Planned Block Development (PBD) districts and other affected sections, as applicable; and**
- **Initiate an amendment to the Downtown Infill Incentive District; and**
- **Direct staff to update the Old Town Scottsdale Urban Design & Architectural Guidelines as necessary.**

Councilwoman Whitehead seconded the motion, which carried 5/2, with Mayor Ortega; Vice Mayor Janik; and Councilmembers Durham, Littlefield, and Whitehead voting in the affirmative and Councilmembers Caputi and Milhaven dissenting.

32. **Public Hearing on Proposed Water and Wastewater Development Fees**
Request: Conduct a public hearing on proposed changes to water and wastewater development fees to be effective January 1, 2022.
Presenter(s): Brian Biesemeyer, Water Resources Executive Director
Staff Contact(s): Brian Biesemeyer, Water Resources Executive Director, 480-312-5683, bbiesemeyer@scottsdaleaz.gov

Public Participation Plan
Old Town Scottsdale Policy, Regulatory, and Guideline Updates
2021/22

Introduction

Scottsdale City Council unanimously adopted the existing Old Town Character Area Plan in 2018. The Plan was an update to the 2009 Downtown Plan and serves as the long-range, guiding, policy document for growth and development in Old Town Scottsdale. As an adopted Character Area Plan, it incorporates community goals and policies consistent with the 2001 General Plan. Old Town, along with the Airpark and McDowell Road Corridor, are designated Growth Areas in the General Plan. These Growth Areas are considered to be primary economic engines for the community, as they contain some of the largest employers and employment centers in Scottsdale. Growth Areas are locations identified by the community as areas best suited to accommodate future growth. Growth Areas are intended to discourage sprawl, and protect lower density residential neighborhoods from increased growth and development, by focusing new development into these targeted areas that are most appropriate for accommodating a variety of land uses, enhanced infrastructure and oriented to multi-modal activity. Since 2001, the citizens of Scottsdale have identified Old Town (downtown) as a community Growth Area. In addition to the Old Town policy document, development in Old Town is also guided by the Downtown (D), Downtown Overlay (DO) and Planned Block PBD sections of the Scottsdale Zoning Ordinance – as well as the Infill Incentive District as approved by Resolution No. 8370 - in conjunction with the Old Town Scottsdale Urban Design & Architectural Guidelines.

City Council has expressed interest examining and potentially making updates to Old Town Scottsdale policies and guidelines, as well as regulatory tools to improve quality and consistency of proposed development downtown. This document is a public participation plan for Old Town Scottsdale policy and regulatory updates.

Process Overview

The public participation process provides an opportunity to understand and identify community priorities, and address opportunities and challenges facing Old Town Scottsdale. The purpose of the process is to define how the public will be involved throughout the comprehensive planning effort. Consequently, this update process will include various opportunities for public participation including web-based elements, small meetings, open house(s), focus groups and public hearings. These methods will allow for multiple opportunities for public input from community members, business owners, and property owners. Opportunities for written comment, one-on-one conversations with project staff, comments as part of a discussion, and the opportunity to speak and provide written comments at public hearings will all be part of the planning process.

Project Team

The Project Team is composed of both Long Range and Current Planning Services staff. Representatives from various other city departments will also provide expert review and input into the plan and planning process, but the Project Team will manage the project. Communication is critical to the successful execution of the project and the development of a cohesive policy document that speaks to both a broad range of issues and one shared vision. The Project Team includes:

- Adam Yaron, Long Range Planning, Co-Update Project Manager
- Brad Carr, Current Planning, Co-Update Project Manager
- Taylor Reynolds, Long Range Planning, Update Project Support
- Brian Biesemeyer, Scottsdale Water, Update Project Support
- Mark Melnychenko, Scottsdale Transportation, Update Project Support
- Daniel Worth, Scottsdale Public Works, Update Project Support

Project Timing/Phasing

To incorporate best practices for public participation, the project is comprised of three phases over an approximate 6-month period. During the first phase, Update Preparation, initial input, and refined guidance from City Council will be collected. The second phase, Draft Review, includes review of the proposed draft plan, ordinance, and guidelines updates by the community. The final phase, Plan Adoption, consists of final input from the community, Planning Commission and City Council in public hearings. Additionally, the formal recommendation and adoption process for the Old Town Scottsdale Character Area Plan and the Downtown sections of the Zoning Ordinance will also be completed.

Phase 1

Update Preparation: September 2021

The project team will schedule a Work Study Session with City Council to report back on the City Council direction already received at the June 22, 2021 Work Study Session, as well as review existing Old Town Scottsdale policies and regulatory tools, collecting additional, refined direction from City Council to inform the update process. Direction collected will be utilized to inform public outreach in Phase 2. Public participation techniques associated with this particular phase of the Participation Plan include the following:

City Website/Public Information

Project staff will place information regarding the update process and timeline on the City's Old Town Scottsdale Character Area Plan webpage. The webpage will include information regarding the upcoming City Council Work Study session and provide opportunities for the public to provide written comment.

City Council Work Study Session

Project staff will schedule at least one (1) Work Study Session with City Council to report back on the City Council direction already received at the June 22, 2021 Work Study Session, as well as review and collect refined feedback regarding the Old Town Scottsdale Character Area Plan, Urban Design & Architectural Guidelines, and Downtown sections of the Zoning Ordinance. The Work Study Session will be scheduled to occur in September of 2021. This forum permits the public to follow discussion and direction given by City Council, while allowing for the provision of written, and limited spoken comment to City Council.

Planning Commission Non-Action Meeting

Project staff will schedule at least one (1) Non-Action Meeting with Planning Commission to report to Planning Commission direction received by City Council regarding draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. This Non-Action Meeting will be scheduled to occur in September of 2021. This forum permits the public to follow discussion and input provided by Planning Commission, while allowing for the provision of written and spoken comment.

Phase 2

Draft Review: October to December 2021

The project team will utilize several public participation techniques to review and collect public feedback regarding City Council direction and proposed draft updates to the Old Town Scottsdale Character Area Plan, Urban Design & Architectural Guidelines, and Downtown sections of the Zoning Ordinance. The project team will schedule a Non-Action Meeting with Planning Commission and a Work Study Session with City Council to review draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. Public participation techniques associated with this particular phase of the Participation Plan include the following:

Old Town Planning + Development Technical Advisory Team

Project staff will conduct ongoing internalized meetings with the existing, interdepartmental Old Town Scottsdale Planning + Development Group. This group includes staff from Long Range Planning, Current Planning, Tourism, Community Services, Transportation, Capital Projects, Real Estate, Economic Development, Fire, and Police – all with expertise specific to Old Town.

City Website/Public Information

Project staff will provide information regarding the update process and timeline on the City's Old Town Scottsdale Character Area Plan webpage. The webpage will provide opportunities for online community input, links to self-guided virtual open house events, summary results of community input events, and staff contact information.

In-Person Open House Events

Project staff will schedule at least three (3) in-person open house events with citizens, stakeholders, and community groups regarding City Council direction and proposed draft updates to the Old Town Scottsdale Character Area Plan and the Downtown sections of the Zoning Ordinance. Open house events will be scheduled to occur in October and November of 2021. The open house format will provide an opportunity for attendees to review draft updates, discuss directly with staff, and provide feedback.

Self-guided Virtual Open House Events

Project staff will create a series of self-guided virtual open house events with the same information provided at the in-person open houses so as to offer an opportunity for citizens, stakeholders, and community groups to provide input regarding City Council direction and possible proposed draft updates to the Old Town Scottsdale Character Area Plan and the Downtown sections of the Zoning Ordinance, that could not attend in person. The self-guided, virtual format will allow attendees the opportunity to review, at their own pace, a series of video presentations and provide feedback via polling to garner input specific to City Council direction and proposed updates.

Old Town Property/Business Owner Focus Groups
Project staff will schedule at least two (2) focus group events with Old Town Scottsdale property owners and businesses regarding City Council direction and proposed draft updates to the Old Town Scottsdale Character Area Plan and the Downtown sections of the Zoning Ordinance. Focus group events will be scheduled to occur in mid-November and early December of 2021. Focus group events will provide an opportunity for Old Town Scottsdale property and business owners to a have a forum to provide feedback regarding City Council direction and proposed draft updates.

Planning Commission Non-Action Meeting
Project staff will schedule at least one (1) Non-Action Meeting with Planning Commission to review community input from Phase 2 and collect feedback and direction regarding draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. This Non-Action Meeting will be scheduled to occur in December of 2021. This forum permits the public to follow discussion and input provided by Planning Commission, while allowing for the provision of written and spoken comment.

City Council Work Study Session
Project staff will schedule at least one (1) Work Study Session with City Council to review community input from Phase 2 and collect feedback and direction regarding draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. This Work Study Session will be scheduled to occur in December of 2021. This forum permits the public to follow discussion and direction provided by City Council, while allowing for the provision of written and limited spoken comment.

Phase 3
Plan Adoption: January to March 2022
The project team will schedule a Non-Action Meeting with Planning Commission and a Work Study Session with City Council to review draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. Phase 3 will culminate with possible recommendation by Planning Commission and adoption by City Council. Public participation techniques associated with this particular phase of the Participation Plan include the following:

City Website/Public Information
Project staff will place information regarding the update process and timeline on the City's Old Town Scottsdale Character Area Plan webpage. The webpage will include information regarding upcoming Planning Commission and City Council meetings. The webpage will continue to provide opportunities for online community input, links to self-guided virtual open house events, summary results of community input events, and staff contact information.

Planning Commission Non-Action Meeting
Project staff will schedule at least one (1) Non-Action Meeting with Planning Commission to review community input from Phase 2 and collect feedback and direction regarding draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. This Non-Action Meeting will be scheduled to occur in January/February of 2022. This forum permits the public to follow discussion and input provided by Planning Commission, while allowing for the provision of written and spoken comment.

City Council Work Study Session
Project staff will schedule at least one (1) Work Study Session with City Council to review community input from Phase 2 and collect feedback and direction regarding draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance. This Work Study Session will be scheduled to occur in January/February of 2022. This forum permits the public to follow discussion and direction provided by City Council, while allowing for the provision of written and limited spoken comment.

Recommendation + Adoption
Following review by the community, Planning Commission, and City Council, draft updates to the Old Town Scottsdale Character Area Plan and Downtown sections of the Zoning Ordinance will be finalized by staff and go through a review and adoption process. The review and adoption process will include a minimum of two (2) public hearings – Planning Commission (possible recommendation) and City Council (possible adoption). Both meetings will permit the public to provide written and verbal comment. The Planning Commission Recommendation Hearing is tentatively scheduled to occur in February of 2022, while the City Council hearing to possibly adopt such updates is tentatively scheduled to occur in March of 2022.

If you have thoughts or suggestions on the work study session item(s) you would like the Council to consider, you are encouraged to submit your written comment(s) electronically by clicking **here.** Written comments that are submitted electronically at least 90 minutes before the meeting will be emailed to the Council and posted online prior to the meeting.

1. **Housing Affordability Working Group**
Request: Presentation, discussion, and possible direction to staff regarding the formation of a Housing Affordability Working Group.
Presenter(s): Shane Stone, Management Associate to the City Manager
Staff Contact(s): Jim Thompson, City Manager, 480-312-2800, jthompson@scottsdsaleaz.gov
– Community Assistance Manager Irma Hollamby gave the PowerPoint presentation on the possible formation of a Housing Affordability Working Group.

– Councilmembers requested staff research the following topics and provide follow-up information to the Council:

- **Identification on the number of apartments versus condominiums in various zip codes and if we have a higher percentage of second homeowners that are filling these multi-family housing units, whether they are apartments or condominiums.**
- **Impacts of short-term rentals, and long-term rental incentives, on housing to reduce rent pressures.**
- **Determine other municipalities that have implemented similar programs that we can use for modelling and best practices purposes.**
- **Identification of multi-housing locations to serve the workforce where they can go to work, attend school, and shop conveniently in non-congested areas.**
- **Information on the percent of salary spent on housing.**
- **Explore build-to-rent residential housing options using federal grant funds.**
- **Data that would assist the Council in focusing on the issues to better identify solutions.**
- **Examine current housing supply and demand.**
- **Identify broader market forces that make residential housing expensive to assist the Council in providing an adequate supply of affordable housing for all income levels.**
- **Look at legal implications of local government-subsidized housing.**
- **Apply housing continuum terminology and guidelines to salaries to determine how many people can qualify for various categories.**
- **Look at legal implications of local governments mandating developers offered discounted rental rates to those living and working in Scottsdale.**
- **Research how the eviction process is impacting affordable housing.**
- **Explore building co-op apartments with government funding.**
- **Ensure sufficient infrastructure is in place for new housing.**
- **Work with regional partners to identify and provide solutions for affordable housing.**

2. **Old Town Character Infrastructure and Naming Discussion**
Request: Review and discuss:
1. The water, wastewater, and transportation infrastructure, sustainability, tourism, and economic development aspects of Old Town Scottsdale.
2. The naming of Downtown or Old Town as a means to provide consistency with the Tourism marketing/branding efforts for this area of the community.

Presenter(s): Randy Grant, Planning, Economic Development, and Tourism Executive Director
Staff Contact(s): Randy Grant, Planning, Economic Development, and Tourism Executive Director, 480-312-2664, rgrant@scottsdaleaz.gov, Brian Biesemeyer, Water Resources Executive Director, 480-312-5683, bbiesemeyer@scottsdaleaz.gov, and Karen Churchard, Tourism and Events Director, 480-312-2890, kchurchard@scottsdaleaz.gov

– Planning, Economic Development, and Tourism Executive Director Randy Grant and Tourism and Events Director Karen Churchard gave PowerPoint presentations on the Old Town Character infrastructure and naming possibilities.

– Councilmembers made the following suggestions:

- **Provide further information on questions related to benefits and costs of development, infrastructure needs in the Downtown area, and identification of the improvements paid for by developers.**
- **Analyze impact fees to determine if the City is being reimbursed sufficiently, implement consistent structure for the fees, and be flexible in adjusting the fee schedule.**
- **Continue to use the Downtown 2.0 plan as a guiding document.**
- **Preserve the existing charm of Old Town, promote tourism, and protect merchants and galleries.**

There was Council consensus to retain the name "Old Town".

Adjournment **– 7:43 P.M.**
– Vice Mayor Janik made a motion to adjourn. Councilwoman Whitehead seconded the motion, which carried 7/0, with Mayor Ortega; Vice Mayor Janik; and Councilmembers Caputi, Durham, Littlefield, Milhaven, and Whitehead voting in the affirmative.

SCOTTSDALE
PLANNING COMMISSION MEETING
MEETING NOTICE AND AGENDA

PLANNING COMMISSION
Renee Higgs, Chair
Joe Young, Vice Chair
George Ertel
William Scarbrough
Barney Gonzales
Christian Serena
Barry Graham

Wednesday, October 6, 2021

The City Hall Kiva Forum (Kiva) is open to the public during Planning Commission meetings at a reduced capacity. Seating in the Kiva will be available on a first come, first served basis. Planning Commission meetings are also televised on Cox Cable Channel 11 and streamed online at ScottsdaleAZ.gov (search "live stream") to allow the public to virtually attend, participate telephonically, and listen/view the meeting in progress.

5:00 P.M. **MARKED**
PLANNING COMMISSION MEETING
City Hall Kiva Forum, 3939 N. Drinkwater Boulevard

Call to Order - 5:00 P.M.

Roll Call - All Present

Public Comment
Public Comment time is reserved for citizens to comment on non-agendized items that are within the Planning Commission's jurisdiction and is limited to a total of 15 minutes. No official Planning Commission action can be taken on these items. **Speakers may submit a comment card to address the Planning Commission and are limited to three minutes.**

NON-ACTION ITEM

Persons interested in speaking on any agenda item may **submit a blue "Request to Speak" card in person prior to the beginning of public testimony or may sign up to speak telephonically** here **no later than 90 minutes prior to the meeting.** Those wishing to speak are customarily given three minutes to speak on each item. Additional time may be granted to a designated speaker representing two or more persons (please submit cards together). Persons interested in submitting a written comment on any item may **submit a yellow "Written Comments" card in person prior to the beginning of public testimony or may submit digitally** here **no later than 90 minutes prior to the meeting.**

1. Old Town Scottsdale Policy, Regulatory, and Guideline Update
   Presentation to Planning Commission for review and discussion regarding City Council's August 24, 2021, initiation of:
   - A non-major General Plan amendment to update the Old Town Scottsdale Character Area Plan (Case 5-GP-2021);
   - A text amendment to the City's Zoning Ordinance for the Downtown (D), Downtown Overlay (DO), and Planned Block Development (PBD) zoning districts – and other affected

sections of the ordinance – as well as the Downtown Infill Incentive District (Cases 1-TA-2021 and 1-II-2010#3); and

- An update to the Old Town Scottsdale Urban Design & Architectural Guidelines.

  - **Long Range Planning Principle Planner Adam Yaron and Planning and Development Area Manager Brad Carr gave a presentation regarding the Old Town Scottsdale Policy, Regulatory, and Guideline Update.**

  - **Discussion among Commissioners went as follows:**
    - **Commissioner Gonzales requested consistent updates regarding the public outreach efforts and events from Long Range Planning staff including dates of outreach events and summaries of what was discussed.**
    - **Commissioner Ertel noted the timing of previous outreach efforts and questioned whether the timeline for public outreach as planned would allow for enough feedback, especially over the holidays. Commissioner Scarbrough echoed Commissioner Ertel's concern about the timing over the upcoming holiday months.**
    - **Commissioner Ertel also questioned if notification should also be extended to people outside of the Downtown boundary line. He also asked how property value changes would be accommodated with the proposed policy revisions.**
    - **Commissioner Serena questioned the parking requirements for those property owners taking advantage of the bonus system and whether those requirements specified above or below ground parking.**
    - **Commissioner Graham questioned the necessity of the 2.5 development type. He also inquired about any future plans for potential street closures in the downtown area. He also expressed concern about the term "flexibility" and what is allowed within that terminology. He concurred with Council's direction to remove the terms "metropolitan" and "vertical".**
    - **Commissioner Serena asked about the removal of Type 1 designation areas between 1984 and 2009, indicating the choice may be deemed controversial.**
    - **Vice Chair Young asked about where the bonus payments end up.**
    - **Commissioner Scarbrough also expressed concern about the proposed outreach timeline – emphasizing that he could only make a recommendation to Council with a significant amount of public input. He was also interested in how the proposal will be impacted by Prop. 207.**

Adjournment - 6:22 P.M.

ATTACHMENT 5

Aggregate In-Person Open House Report – including results of October 18th, and 25th, and November 15th in-person open house sessions

SCOTTSDALE
PLANNING COMMISSION MEETING
MEETING NOTICE AND AGENDA

PLANNING COMMISSION
Renee Higgs, Chair
Joe Young, Vice Chair
George Ertel
William Scarbrough
Barney Gonzales
Christian Serena
Barry Graham

Wednesday, December 15, 2021

5:00 P.M. MARKED
PLANNING COMMISSION MEETING
City Hall Kiva Forum, 3939 N. Drinkwater Boulevard

Call to Order 5:00 PM

Roll Call – Six Present, Commissioner Scarbrough absent from hearing.

Administrative Report - Tim Curtis

Public Comment
Public Comment time is reserved for citizens to comment on non-agendized items that are within the Planning Commission's jurisdiction and is limited to a total of 15 minutes. No official Planning Commission action can be taken on these items. **Speakers may submit a comment card to address the Planning Commission and are limited to three minutes.**

Minutes

1. Approval of November 17, 2021 Regular Meeting Minutes

Vice Chair Young moved to approve the November 17, 2021 regular meeting minutes. Seconded by Commissioner Ertel, the motion carried unanimously with a vote of six (6) to zero (0) with Commissioner Scarbrough being absent.

ACTION ITEMS

How the Action Agenda Works: The Planning Commission may take one vote to act on all items on the Continuance Agenda and one vote on all items on the Consent Agenda, or may remove items for further discussion as appropriate. The Planning Commission takes separate action on each item on the Regular Agenda. Persons interested in commenting on any item may complete a Comment Card for each item and submit it to Staff. Those wishing to speak are customarily given three minutes to speak on each item. Additional time may be granted to a designated speaker representing two or more persons (please submit cards together). **Comment cards must be submitted before public testimony has begun on any item.**

CONSENT AGENDA

2. Approval of the Planning Commission 2022 Calendar.

3. 14-UP-2021 (Churchill's Fine Cigars)
Request by owner for a Conditional Use Permit for a bar use within an approximately +/- 2,000 sq. ft. retail store (Churchill's Fine Cigars) at Crossroads East with Planned Regional Center, Planned Community District, Planned Shared Development Overlay (PRC PCD PSD) zoning located at 18529 North Scottsdale Road Suite 127A.
Staff contact person is Katie Posler, 480-312-2703.
Applicant contact person is Bart Gerber, (602) 369-4256.

4. 3-AB-2021 (Abandonment of GLO and ROW)
Request by owner to abandon the GLO roadway easement and Right of Way along the east property line (N. 106th Street alignment) and portions of the GLO roadway easement along the south property line (E. Paradise Drive alignment) for a parcel located at 10595 E. Cactus Road with Single-family Residential zoning (R1-43).
Staff contact person is Katie Posler, 480-312-2703.
Applicant contact person is Scott Lewandowski, (480) 440-1010.

Items No. 2, 3&4; Motion to approve the Planning Commission Calendar for 2022 and recommended City Council approve cases 14-UP-2021 and 3-AB-2021 by a vote of 6-0 per the staff recommended stipulations, based upon the finding that the Conditional Use Permit criteria have been met and after determining that the Abandonment is consistent and conforms with the adopted General Plan. Motion by Commissioner Serena, 2nd by Commissioner Graham.

REGULAR AGENDA

5. 8-UP-2012#3 (MedMen Enterprises - Scottsdale)
Request by owner for renewal of a Conditional Use Permit (8-UP-2012#2) for an existing marijuana dispensary, including amendments to the stipulations to extend the hours of operation, eliminate the 5-year timing stipulation, and change the floor plan on a +/- 0.24-acre property with Commercial Office, Planned Community District (C-O P-C) zoning, located at 8729 E. Manzanita Drive. Staff contact person is Greg Bloemberg, 480-312-4306.
Applicant contact person is Carolyn Oberholtzer, 602-888-7860.

Item No. 5; Recommended City Council approve case 8-UP-2012#3 by a vote of 5-1 per the staff recommended stipulations, based upon the finding that the Conditional Use Permit criteria have been met. Motion by Commissioner Serena, 2nd by Commissioner Ertel.

NON-ACTION ITEM

6. Old Town Character Area Plan and Zoning Ordinance Update (5-GP-2021, 1-TA-2021, 1-II-2010#3)
   Request: Presentation and discussion regarding public outreach efforts associated with the Old Town Scottsdale Character Area Plan and downtown zoning ordinance update process.
   Staff Contact(s): Adam Yaron, Principal Planner 480-312-2761 and Brad Carr, Planning and Development Area Manager 480-312-7713

Adjournment - 6:41 PM

ATTACHMENT 7

Aggregate In-Person Open House Report – including results of March 7th, 9th, and 11th, in-person open house sessions

ITEM WS03

ATTACHMENT 8

Aggregate Self-Guided Virtual Open House Report: October 2021 to October 2022

ATTACHMENT 9

Legislative Draft – Old Town Scottsdale Character Area Plan

ITEM WS03

ATTACHMENT 10

Legislative Draft – Downtown Sections of the Zoning Ordinance

Attachment 11

DOWNTOWN (OLD TOWN) BONUS STANDARD POLICY STUDY

A Report to

CITY OF SCOTTSDALE

From

Gruen Gruen + Associates
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

July 2022

C1600

Gruen Gruen + Associates

Attachment 11

DOWNTOWN (OLD TOWN) BONUS STANDARD POLICY STUDY

A Report to

CITY OF SCOTTSDALE

From

Gruen Gruen + Associates
Urban Economists, Market Strategists & Land Use/Public Policy Analysts

APPLYING KNOWLEDGE
CREATING RESULTS
ADDING VALUE SINCE 1970

July 2022

C1600

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CHAPTER I

INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

INTRODUCTION

This report summarizes the principal findings, conclusions, and recommendations of Gruen Gruen + Associates ("GG+A") of the Downtown (Old Town) bonus standards policy study conducted with the city of Scottsdale Planning and Development Department. Since 2012, the city has tied bonus standards to the provision of public benefits. The incentives program is voluntary and is complementary to impact fees and other funding sources for capital infrastructure improvements, community facilities, and amenities. In essence, the Scottsdale Zoning ordinance provides a base zoning density generally applicable to particular zones (districts) and additional bonus standards available if certain conditions are met related to the provision of workforce housing, extraordinary amenities, and infrastructure (sometimes collectively referred to below as "community enhancements").

A density bonus program is intended to implement community planning and urban design goals and objectives that would not otherwise be achieved for locations within which the additional density may be appropriately placed and physically fit on the relevant sites. Developers must perceive that the additional density granted in exchange for the provision of community enhancements increases the return on equity investment (because the costs of the contribution of community enhancements are less than the value of the density bonus) and that the additional building space or housing units can be absorbed in a reasonable time and at prices that more than offset any increased construction and other costs.

In addition, transactions for redevelopment sites must be for prices for projects consistent with the base density but not so high as what the additional density would support as otherwise it would not be feasible for the contribution costs to be absorbed. If the landowner obtains all of the value increase, the developer will not be able to feasibly pay the costs of the community enhancement contribution.

Given the changes in market conditions since the original bonus standards policy was adopted, it is appropriate to conduct an analysis to be able to "calibrate" the value of the bonus standards to the cost of providing the required community enhancements. An updated calibration should promote the use of the bonus standards program while providing appropriate incentives but not a windfall to developer participants.

REPORT ORGANIZATION

Chapter II summarizes the study area districts in which incentives in the forms of added height, floor area, and amount of building space or dwelling units or hotel rooms (collectively referred to as "bonus") above the "base" development or zoning standards are available in exchange for "contributions" of extraordinary physical improvements/public benefits not required to be provided under prevailing base development and zoning standards. Chapter II also summarizes the primary current bonus and contribution policies that apply to the districts. Examples of development projects which applied for and obtained bonuses are described.

Chapter III describes the analytical approach used to evaluate the bonus standards program and the economic analysis completed to conduct the evaluation. An example of a hypothetical development project is described and the economics of an existing property, economics of development in accord with base development or zoning standards, and the economics of a development with bonus incentives, are reviewed to illustrate the analytical approach. The key generalizations drawn from the hypothetical example and economics model are described.

Chapter IV reviews the residential prototypical development alternatives under base zoning and bonus standards identified as representative of the types of developments proposed in Downtown (Old Town) Scottsdale. Chapter IV presents the simulation of the real estate investment results of prototypical residential development options based on estimates of revenues (income-producing rents and proceeds from sales of built and occupied developments), operating expenses, development costs and financing costs and return on equity requirements.

Chapter V reviews the office prototypical development alternatives under base zoning and bonus standards. Chapter V presents the results of the real estate economics analysis of the office prototypical development alternatives and the underlying revenue, expense, development cost, and financial estimates.

Chapter VI reviews the hotel prototypical development alternatives under base zoning and bonus standards. Chapter VI presents the results of the real estate economics analysis of the hotel prototypical development alternatives and the underlying revenue, expense, development cost, and financial estimates.

PRINCIPAL FINDINGS AND CONCLUSIONS

1. Given required contribution of community enhancements for bonus zoning incentives, investor-developers cannot pay as much to the landowners as would be the case without costs of community enhancement contributions. The cost of the required contributions of community enhancements must be less than the additional value created by the bonus standards policy to create incentives or motivations for landowners and investor-developers to enter into voluntary transactions that result in redevelopment projects.

2. The provision of community enhancements does not necessarily change the obtainable prices or values of housing units, office space, or hotel rooms.

3. A bonus standards program can add value by making redevelopment of an existing use feasible, providing for community enhancements that would not otherwise be produced; and encouraging an existing property owner to sell or participate in redevelopment, provided the cost of the contribution of community enhancements is less than the net value that can be expected to be created.

4. Some of the additional positive residual land value or added property value associated with the application of bonus standards for Type 2 and Type 3 districts' development may often need to be shared with the land seller/existing property owner to induce the seller/owner to convey the property and/or participate in the redevelopment.

5. In Type 2 and Type 3 districts' development locations under current market conditions, the bonus standards policy generates increased supportable land values for multi-family uses and makes investor-developers better off. With the required contribution of community enhancements, the bonus standards policy is still financially attractive to investor-developers for wood frame multi-family development in Type 2 and Type 3 district development locations. Under the case study of prototypical residential development alternatives for the Type 2 district, the added value per additional unit after considering the current costs of community enhancements is estimated at nearly $93,000. This equates to added value of $114 per square foot of additional rentable space associated with the bonus standards.

6. As indicated above, while the contribution of community enhancements for Type 2 district residential developments is currently estimated to cost about $30,000 per additional unit or $37 per additional square foot of rentable area, a typical additional unit of development supports approximately $93,000 of additional value or profit after accounting for development costs including the current required community enhancement contribution and required return or profit on the associated equity investment.

   A typical additional unit of development in the Type 3 district supports approximately $103,000 of additional value or profit after accounting for development costs including the current required community enhancement contribution and required return or profit on the associated equity investment.

These findings suggest the potential for increasing the fee for community enhancements without discouraging investor-developers from applying for bonus incentives for Type 2 and Type 3 district residential developments.

Prior to implementing any increase, it would be appropriate to give property owners and the development community notice of any contemplated increase and give them opportunities to provide input.

7. A higher cost of community enhancements will tend to reduce the number of properties that are susceptible to financially feasible redevelopment. Sites of vacant land or improved with older, obsolete improvements are most likely to be susceptible to redevelopment. A meaningful portion of the value created by the provision of bonus standards needs to accrue to the investor-developer.

8. For properties consisting of nearly one acre of land to nearly two acres of land, land prices tend to range from about $105 per square foot to $155 per square foot of land. The comparison of the pricing for existing properties to the residual land values estimated to apply to the prototypical residential development alternatives suggest that under the base zoning and bonus standards for Type 2 and Type 3 prototypical multi-family development alternatives, the existing properties are viable to purchase for feasible redevelopment. The provision of bonus standards even with the costs of community enhancement contributions tend to improve the viability of redevelopment.

9. Under present conditions, the results of the analysis indicate that the development of office buildings of five to six stories are more profitable and support higher land values than office buildings of 11-stories which cost more to build. Even without the cost of community enhancement contributions, the residual land values supported by office space development, while positive, are not higher than typical reservation prices or minimum prices for existing land uses or vacant land. The costs of community enhancements fee under the current formula comprise approximately 78 to 79 percent of the incremental or marginal increase in value associated with the bonus program. Accordingly, under the current conditions, an investor-developer is unlikely to seek to take advantage of bonus standards for Type 2 or Type 3 district office developments.

10. Under present conditions, the results of the analysis indicate that the development of Type 2 and Type 3 district office buildings will support higher land values with bonus zoning standards than with base zoning if community enhancement contribution costs are excluded. Because the current contribution costs offset most of the increase in supportable land values, and given office uses tend to support lower land values than for what owners of existing property would tend to be willing to sell the properties for redevelopment, it may be best to negotiate on a case-by-case basis applications that do arise for bonus zoning for office developments.

11. Under present conditions, the results of the analysis indicate that the development of hotel uses under bonus standards would not be feasible even without including the costs of required contributions of community enhancements. Accordingly, it may be best to negotiate on a case-by-case basis applications that do arise for bonus zoning for hotel developments.

TABLE I-1

Summary of Findings

	Residential	**Office**	**Hotel**
Type 2			
Base Zoning Residual Land Value *Per Unit/Square Foot/Room* *Per Square Foot of Land*	$10,433,000 *$124,000* *$142*	$2,284,000 *$19* *$26*	$336,000 *$2,211* *$6*
Density Bonus Residual Land Value After Community Enhancement Contribution ("CEC") *Per Unit/Square Foot/Room* *Per Square Foot of Land*	 $16,374,900 *$110,600* *$222*	 $2,677,800 *$12* *$31*	 ($27,800) *($1,096)* *($0.50)*
Community Enhancement Contribution *Per Additional Unit/Per Square Foot/Per Room*	$1,908,000 *$30,000*	$1,445,200 *$15*	$1,099,800 *$9,320*
Estimated Value of Typical Existing Land Use @ $100 to $175 Per Square Foot of Land	$7,362,000 - $12,883,000	$8,712,000 - $15,246,000	$5,227,000 - $9,148,000
Increase (Decrease) Over Existing Land Value	$3,071,000- $3,492,000	($6,428,000)- ($12,568,200)	($4,189,000)- ($9,175,800)
Susceptible to Redevelopment?	Yes	No	No
Type 3			
Base Zoning Residual Land Value *Per Unit/Square Foot/Room* *Per Square Foot of Land*	$10,433,000 *$124,000* *$142*	$2,284,000 *$19* *$26*	N/A
Density Bonus Residual Land Value After Community Enhancement Contribution ("CEC") *Per Unit/Square Foot/Room* *Per Square Foot of Land*	 $22,511,000 *$102,800* *$306*	 $2,826,000 *$11* *$32*	
Community Enhancement Contribution *Per Additional Unit/Per Square Foot/Per Room*	$4,679,000 *$35,000*	$2,064,000 *$21*	
Estimated Value of Typical Existing Land Use @ $100 to $175 Per Square Foot of Land	$7,362,000 - $12,883,000	$8,712,000 - $15,246,000	
Increase (Decrease) Over Existing Land Value	$3,071,000 – $9,628,000	($6,428,000)- ($12,420,000)	
Susceptible to Redevelopment?	Yes	No	

Source: Gruen Gruen + Associates

RECOMMENDATIONS

Consider having the community enhancements contribution fees vary by use as the real estate economics of differing uses vary. One simplifying approach compared to the current system is to adopt a flat rate fee on a per square foot of additional square feet (additional density) associated with the provision of bonus standards.

We recommend an increase in bonus standard fees for residential developments in Type 2 and Type 3 districts. However, the increase should not be so much to remove opportunities for developers to offer incentives to existing property owners if they make property available for redevelopment or to not leave financial room for developers to absorb unforeseen development and operating cost increases or lower prices and absorption than anticipated.

For example, Table I-2 summarizes for the Type 2 district development an example of a community enhancement contribution fee based on the capture of the additional value increase under receipt of bonus standards under the assumption of the contribution at 50 percent of the increase in value and at 75 percent of the increase in value.

TABLE I-2

Example of Community Enhancement Contribution Fee Based on Capture of Additional Value Increase under Receipt of Bonus Standards

	Residential – Type 2	
	Contribution at 50% Increase of Additional Value	Contribution at 75% Increase of Additional Value
Land Value of Base Zoning	$10,433,000	$10,433,000
Land Value of Bonus Zoning	$18,283,000	$18,283,000
Incremental Value Increase	$7,850,000	$7,850,000
Portion of Incremental Value Toward Community Enhancement Contribution	50%	75%
Community Enhancement Contribution Fee in Total Dollars	$3,925,000	$5,887,500
Additional Square Feet of Gross Floor Area under Bonus Zoning	66,000	66,000
Estimated Community Enhancement Contribution Fee Per Square Foot of Additional Gross Floor Area Under Bonus Zoning	$59	$89
Source: Gruen Gruen + Associates		

The fee is derived based on the incremental or marginal increase in residual land value from the base zoning to the bonus zoning, which for Type 2 district residential use is estimated at $7,850,000. If the community enhancement contribution fee is set based on 50 percent of the incremental or marginal increase in value, in nominal dollars the fee would total $3,925,000. The additional floor area permitted under the provision of bonus zoning is estimated to total 66,000 square feet of space. Dividing the fee in total nominal dollars of $3,925,000 by 66,000 square feet of additional floor area produces an estimated fee per square foot of additional floor area under the provision of bonus zoning of $59. This compares to a current estimate fee per bonus square foot of $29.

At 75 percent of the increase in incremental value, the fee per bonus square foot would be $89. Given the fee increase to $59 per square foot would already be a significant increase and that the fee derived is based on limited prototypes and could vary as additional prototypes (in terms of land area and type of building product) are tested, we recommend any fee increase be based on capture of 50 percent of the incremental or marginal value increase. To encourage eligible sites to be redeveloped and the provision of community amenities and other enhancements, it is appropriate that a fixed fee be toward the low end of range of value capture recommendation because of variations in property value by site and the types and forms of developments that will be most remunerative will vary over time

Table I-3 summarizes for the Type 3 district residential development an example of a community enhancement contribution fee based on the capture of the additional value increase under receipt of bonus standards under the assumption of the contribution at 50 percent of the increase in value and at 75 percent of the increase in value.

TABLE I-3

Example of Community Enhancement Contribution Fee
Based on Capture of Additional Value Increase under Receipt of Bonus Standards

	Residential – Type 3	
	Contribution at 50% Increase of Additional Value	Contribution at 75% Increase of Additional Value
Land Value of Base Zoning	$10,433,000	$10,433,000
Land Value of Bonus Zoning	$27,190,000	$27,190,000
Incremental Value Increase	$16,757,000	$16,757,000
Portion of Incremental Value Toward Community Enhancement Contribution	50%	75%
Community Enhancement Contribution Fee in Total Dollars	$8,378,500	$12,567,800
Additional Square Feet of Gross Floor Area under Bonus Zoning	190,300	190,300
Estimated Community Enhancement Contribution Fee Per Square Foot of Additional Gross Floor Area Under Bonus Zoning	$44	$66

Source: Gruen Gruen + Associates

The fee is derived based on the incremental or marginal increase in residual land value from the base zoning to the bonus zoning, which for Type 3 residential use is estimated at $16,757,000. If the community enhancement contribution fee is set based on 50 percent of the incremental or marginal increase in value, in nominal dollars the fee would total $8,378,000. The additional floor area permitted under the provision of bonus zoning is estimated to total 190,300 square feet of space. Dividing the fee in total nominal dollars of $8,378,000 by 190,300 square feet of additional floor area produces an estimated fee per square foot of additional floor area under the provision of bonus zoning of $44. This compares to a current estimate fee per bonus square foot of $25.

Fixed rate formulas such as the example presented above for the costs of community enhancement contributions have the advantage of relative predictability and transparency and ease of administration and uniformity of application. For relatively smaller or single use projects, the fixed rate cost approach is advantageous.

For large, complex mixed-use projects for which discretionary rezoning-related changes are required and which may warrant consideration of the potential specific impacts and unique scale or type of amenities that could be provided, a case-by case negotiated approach may be worthwhile to consider. The disadvantage to a negotiated approach is the relatively less predictable and potentially more costly and time-consuming process. The advantages include more flexibility and ability to custom design the provision of community enhancements to reflect civic priorities and the unique programming opportunities and the specific contemporary real estate economics that apply to the redevelopment project.

For site-specific, case-by-case determination of community enhancement contributions, it would be necessary to follow the approach laid out in this report:

- Estimate the value of the applicable property under existing use and exiting base zoning (and other applicable policies and regulations);
- Estimate the value of the applicable property under the bonus zoning provisions in the absence of a community enhancement contribution. This suggests the applicant should be required to submit a proforma for the project for review by municipal staff or an external consultant, the inputs of which would include the categories and variables described in this report;
- Compare the residual land value of the base zoning to the bonus zoning to identify the increase in property value supported by the bonus over the base zoning and therefore the potential for a contribution of specific community enhancements or an in-lieu fee;
- Meet with the applicant to review the results of the analysis and to discuss any comments or concerns and make any revisions the analysis and write up of the analysis;
- Negotiate with the applicant to seek a community enhancement contribution package or fee that achieves the city's specific goals and objectives for the applicable site(s) considering the results of the financial analysis that indicates the amount of contribution that can be supported before the project becomes financially infeasible; and
- Document the details about the specific community enhancements or fee to be provided by the applicant and the estimated value/cost of each enhancement.
- Typically, the costs associated with the analysis and negotiation process would be required to be funded by the applicant.

Periodically review the density bonus program provisions every three to five years to reflect changes in market- and real estate economics- conditions so that contributions to obtain greater density are appropriately reflective of the value added by the greater density. If the City increases impact or other fees that could affect the economics of providing community enhancement contributions, the cost of community enhancement contributions may warrant revision.

Monitor the number, location, type of projects and performance of the projects that receive zoning bonus incentives.

CHAPTER II

STUDY AREA DEFINITION AND OVERVIEW OF CURRENT BONUS AND CONTRIBUTION POLICIES

INTRODUCTION

This chapter summarizes the study area districts in which incentives in the forms of added height, floor area, and amount of building space or dwelling units or hotel rooms (collectively referred to as "bonus") above the "base" development or zoning standards are available in exchange for "contributions" of extraordinary physical improvements/public benefits not required to be provided under prevailing base development and zoning standards. Improvements/public benefits include the provision of the following:

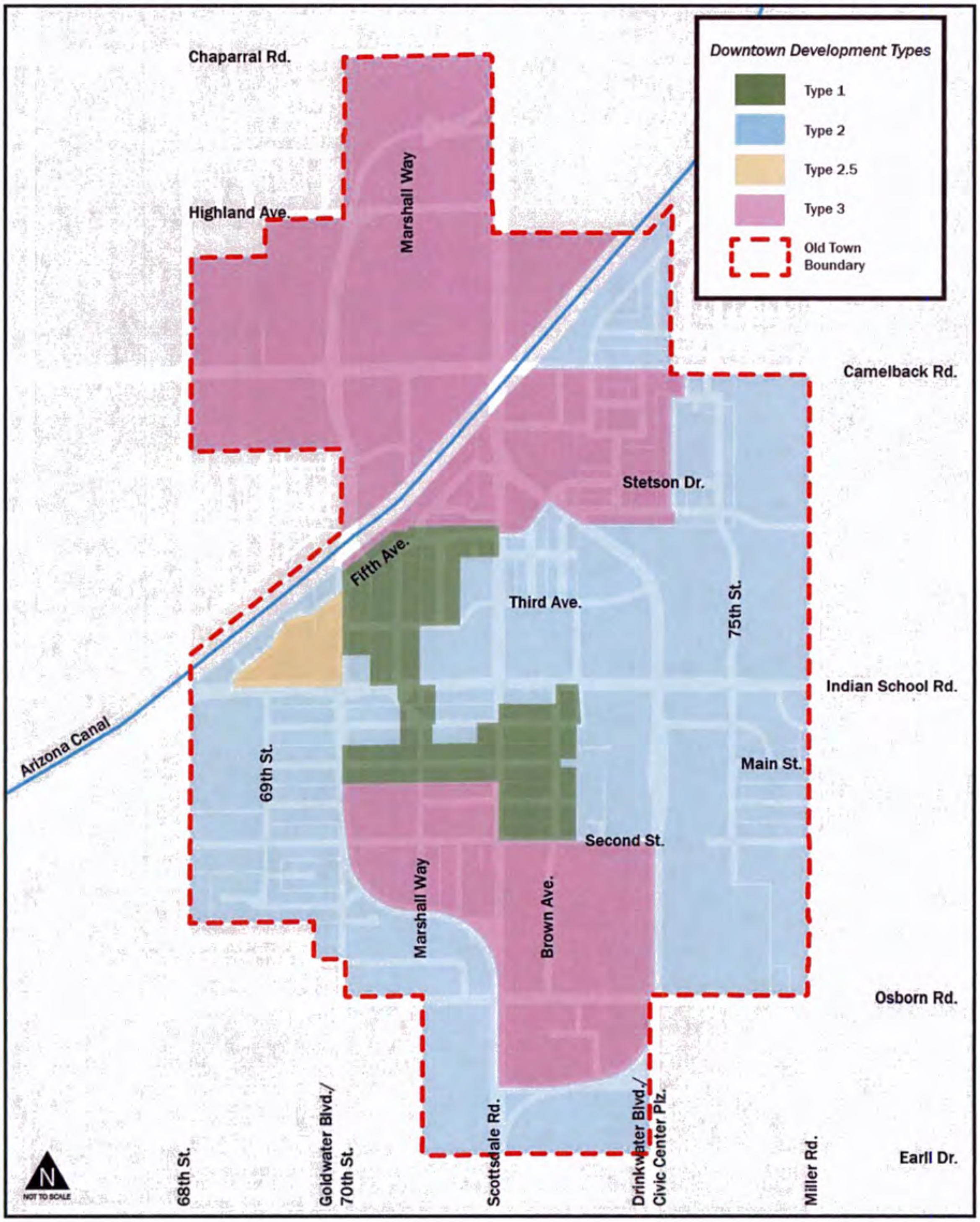
- major infrastructure enhancements;
- public parking;
- public open space;
- cultural improvement program contributions;
- transit amenities;
- pedestrian amenities; and
- workforce housing.

This chapter also summarizes the primary current bonus and contribution policies that apply to the districts in which various bonus incentives are available in exchange for contributions of physical improvements/public benefits exceeding those required under base or standard development and zoning provisions.

STUDY AREA DISTRICTS

Map II-1 shows the Type 1, 2, 2.5, and 3 development type areas within the Downtown District.

MAP II-1: Study Area Districts



Type 1 Development

Type 1 development supports lower scale development in the Downtown Core and Historic Old Town. The Downtown Core is located west of Scottsdale Road, along Main Street south of Indian School, and also north of Indian School Road, including the 5th Avenue and Marshall Way areas. The Historic Old Town is located south of Indian School, east of Scottsdale Road between Second Street and Indian School.

Type 2 Development

Type 2 development supports a higher scale of development and includes most existing uses surrounding the Downtown Core. Type 2 development is allowed south of the Arizona Canal.

Type 2.5 development is generally located west of Goldwater Boulevard and north of Indian School Road.

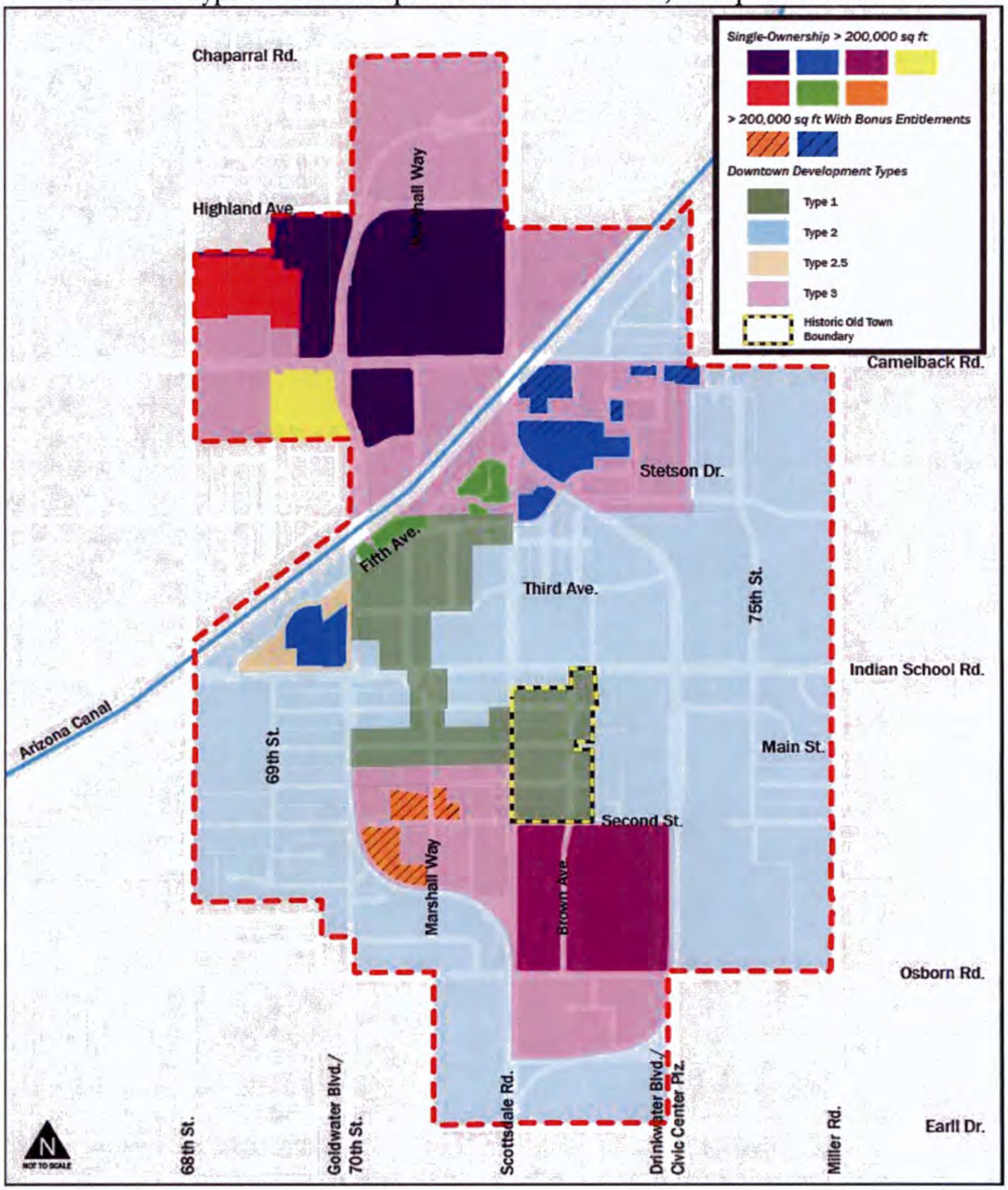
Type 3 Development

Type 3 development, the highest scale of development, is generally: (1) north of the Arizona Canal centered around the major regional mall Scottsdale Fashion Square; (2) south of Main and Second Streets along both the Goldwater and Drinkwater Boulevards' southern curves; and (3) east and west of the intersection of Scottsdale Road and Drinkwater Boulevard, proximate to the Honor Health Osborn Medical Campus.

The larger potential "bonuses" are associated with Type 2 and Type 3 development properties encompassing sites of five or more acres of land. For these types, building heights could almost double up to as much as 12 to 15 stories.

Map II-2 shows available sites of greater than 200,000-square-foot in size within Type 3 development districts potentially susceptible to redevelopment

MAP II-2: Type 3 District Properties Greater Than 200,000 Square-Feet of Land



Type 3 areas with single-ownership greater than 200,000 square feet of land area are generally located: (1) north of the Arizona Canal, on the west side of Scottsdale Road around Fashion Square; (2) east of Scottsdale Road and north of Osborn Road around the Honor Health Medical Campus; and (3) more central locations in the study area both around Indian School Boulevard and Goldwater Boulevard and south of the canal and east of Scottsdale Road.

BONUS PROVISIONS FOR THE DOWNTOWN DISTRICT AND PLANNED BLOCK DEVELOPMENT

The bonus provisions (Section 5.3008.B of the Zoning Ordinance) for the Downtown District excerpted below – in comparison to the Bonus Provisions of the Planned Block Development (Section 6.1310 of the Zoning Ordinance) – can occur anywhere in Old Town and provide the option for specific gross floor area ratio ("GFAR") bonuses in exchange for specified line items such as above-ground and/or underground parking, incorporation of dwelling units, or historic preservation. No monetary cost or rubric is associated with the GFAR Downtown District Bonuses. Notably, however, no projects within Old Town have requested and/or utilized GFAR Downtown District Bonuses.

Table II-1 summarizes Downtown District GFAR bonuses under Section 5.3008.B. of the Zoning Ordinance.

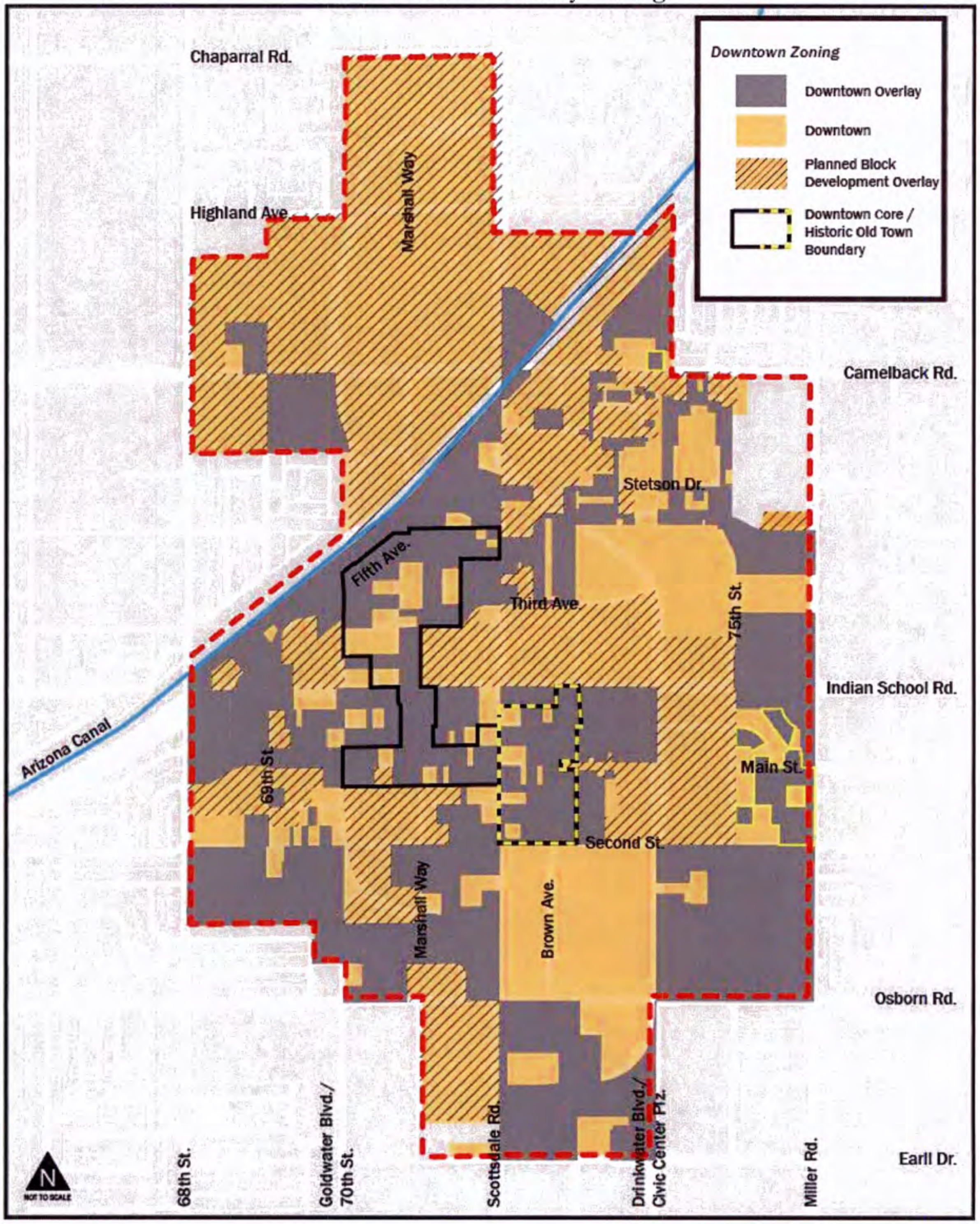
TABLE II-1: Downtown District Gross Floor Area Ratio (GFAR) Bonuses under Table 5 Section 5.3008.B. of Zoning Ordinance		
Mechanism	Bonus	Regulations
Underground parking structure	0.4 GFAR	Section 5.3008.C.1.
Incorporation of dwelling units	One square foot of nonresidential floor area for each square foot of dwelling floor area, up to 0.5 additional GFAR	Section 5.3008.C.2.
Above-ground parking structure	0.1 GFAR	Section 5.3008.C.3.
Downtown historic preservation	0.2 GFAR	Section 5.3008.C.4.
Source: City of Scottsdale		

Table II-2 summarizes the Planned Block Development ("PBD") bonuses under Section 6.1310.C. of the Zoning Ordinance. Map II-3 summarizes properties located within the PBD overlay.

TABLE II-2: Planned Block Development Gross Floor Area Ratio (GFAR) and Building Height Maximums with Bonuses under Table 6 Section 6.1310.C. of Zoning Ordinance				
Development Type	Building Height Maximum (1) by PBD Gross Lot Area			GFAR Maximum
	20,000 and less than 100,000 square feet	100,000 and less than 200,000 square feet	200,000 square feet or more	
Type 1	No additional height above the Base Building Height Maximum	No additional height above the Base Building Height Maximum	No additional height above the Base Building Height Maximum	2.5
Type 2	78 feet	90 feet	90 feet	3
Type 2.5	78 feet	90 feet	120 feet	3
Type 3	90 feet	120 feet	150 feet	4
Note: 1. Excludes rooftop appurtenances. a. Maximum heigh for rooftop appurtenances: 6 feet. b. Maximum coverage for rooftop appurtenances: 20% of the rooftop. c. Minimum setback for rooftop appurtenances: 15 feet from all sides of the building.				
Source: City of Scottsdale				

Any project that meets the minimum of 20,000 square feet in lot size may request bonus development standard consideration. No building height or GFAR may exceed the maximums outlined in Table 6.1310.C of the Zoning ordinance excerpted above. Building setbacks and stepbacks are dictated in the Development Plan specific to the project – and may amend the base setbacks and stepbacks of the Downtown District (as provided under Section 6.130.D and Section 6.1308.E of the Zoning Ordinances). Stepbacks specific to the Downtown Boundary, however, may not be amended (as dictated by Section 6.1308.E.2. of the Zoning ordinance). There is no maximum limit for density.

MAP II-3: PBD Overlay Zoning



CONTRIBUTION VALUES FOR QUALIFYING PROJECTS

The developer of any project site that meets the minimum gross lot area of 20,000 square feet may request bonus development standard consideration (including increased height, density, and/or floor area). As indicated above to qualify, special public improvements must be provided to offset the impacts of the proposed bonus development standards. For increased height, the formula/rubric (per Section 7.1200.D.1.c of the Zoning Ordinance) currently equates to approximately $13,628 per foot requested above the base height maximum. For a density bonus, the formula/rubric (per Section 7.1200.D.1.c of the Zoning Ordinance) currently equates to approximately $13,628 per residential unit requested above the 50-dwelling unit per acre maximum. For increased floor area bonus, the formula/rubric (Section 7.1200.D.1.c of the Zoning Ordinance) currently equates to about $13.63 per square foot requested above the base gross floor area ratio of 1.4.

Open space, as a consideration for bonus development standards, is the only public benefit that has a predetermined value. To be considered as a public benefit to offset a bonus development standard, the open space area must be a minimum of 18,000 square feet in size. To date, no applicant has tried to provide this open space as tradeoff for a density bonus. Notably, two projects Museum Square and The Collection have significant open space, but open space provisions were not leveraged in the pursuit of entitlements for the projects.

Cultural Improvements Program requirements:

For property zoned PBD after 2012, property owners are required to provide artwork, or pay an in-lieu fee, equal to at least one percent of the building valuation for all floor area. In lieu fees shall be paid into the Downtown Cultural Trust Fund.

Exemptions from this requirement include the following:

a. Interior tenant improvements;
b. Residential uses in a PBD Overlay District rezoned before January 1, 2013;
c. Dwellings, single-family and two-family uses; and.
d. Properties zoned Special Campus in which cultural improvement program elements have been included in the development plan.

ADDITIONAL BACKGROUND

The density, height, and floor area bonuses were established with a late-2012 Zoning Ordinance text amendment. Since adoption, approximately 17 applications have been submitted for bonus development standards which are either approved or in-process with the city.

One recent project, The Miller, has provided eight Workforce Housing units for a term of five years. Tenants may have household income of between 80 and 120 percent of the average median income (AMI) in the Phoenix metro area. Other types of community enhancements created through the bonus density program include upsizing of water and sewer infrastructure, undergrounding of overhead powerlines, public sidewalk/amenities upgrades, and additional public art contributions.

Developers of multi-family residential projects typically seek to utilize density bonuses. Developers of non-residential uses typically seek height and floor-area ratio (FAR) density bonuses.

Projects that have utilized the bonus development provisions have been distributed throughout the Old Town area, with the exception of the Type 1 subareas of Old Town. Type 1 areas do not allow for bonus height and have not yet ben subject to bonus development applications. Generally, the submittal of density bonus applications has been utilized on larger sites in the Old Town area.

Two examples of projects that qualified for bonuses, and the contributions provided, in order to obtain bonuses, included the following:

Optima Sonoran Village (1-ZN-2010#2)

Sought 63' of bonus height ($630,000), increased density by 288 dwelling units ($2,880,000), and increased floor area by 141,380 square feet ($1,927,000) for total contribution fees of approximately $5,437,000 in exchange for contributions of:

- $250,000 to Downtown improvements (Goldwater Blvd pedestrian improvements and Arizona Canal shared use path improvements);
- $796,000 to install underground what would otherwise have been overhead powerlines;
- $75,000 to resurface and landscape alley; and
- Public Park/Plaza open space (given the contribution fees total suggested to be valued at approximately $4,316,000).

Waterview (19-ZN-2015)

Sought 24' of bonus height ($257,094) and increased density of 33 dwelling units ($353,504) for total contribution fees of approximately $610,598 in exchange for contributions of:

- $632,000 to install underground what would have otherwise been overhead powerlines;
- Arizona Canal Improvement Stipulations;
- Pedestrian path, landscaping, and lighting;
- Bridge Crossing;
- Walkway Ramp; and
- Plaza Open Space.

To date, developers have not requested any revisions to the density bonus program other than to maintain maximum flexibility in a "menu of options" currently afforded by the options within the Zoning Ordinance. Developers have not challenged or requested changes to the value of contributions required in exchange for the density bonuses.

CHAPTER III

SUMMARY OF ANALYTICAL APPROACH AND REAL ESTATE ECONOMIC ANALYSIS TO ILLUSTRATE APPROACH

INTRODUCTION

This chapter describes the analytical approach used to evaluate the bonus standard program and the economic analysis completed to illustrate the analytical approach. An example of a hypothetical development project is described and the economics of an existing property, economics of development in accord with base development zoning standards, and the economics of a development with bonus incentives are reviewed to illustrate the analytical approach. The key generalizations drawn from the hypothetical example and economics model are described.

ANALYTICAL APPROACH

The forces of demand and supply, land use policy/zoning regulations, and development costs interact to form the real estate economics that affect property development and redevelopment of owners and would-be developers. The most significant determinants of land use value are the potential income (rents or sales prices) that can be earned by alternative land uses, the costs associated with the construction, operation, and maintenance of alternative land uses, and the regulations that govern the right to develop or alter land uses and the physical characteristics of how they can be developed.

Developers will tend to seek the right to create additional income-producing building space or housing units in exchange for the contribution of community enhancements when they anticipate being made financially better off from the voluntary exchange. The analytical approach we use to evaluate whether the bonus standard policy makes would-be developers better off and if so, whether the current market and real estate conditions that apply could support additional costs of community enhancements in exchange for bonus incentives is summarized as follows:

1. Identify "As Is" use value if an existing building is assumed to be or is on representative site(s);

2. Identify if under the base zoning, development can be expected to be financially viable to support the purchase and provide for profit without the contribution of community enhancements. That is, identify if the site likely to be subject to redevelopment under the base zoning;

3. Identify if additional income-producing building space or housing units (sometimes referred to as "upzoning") <u>without</u> a required contribution of community enhancements would increase the supportable land value to permit the purchase of the property at or above the "As Is" use value so that redevelopment is feasible (a higher value than existing use value provides an incentive for the existing owner to sell the property or cooperate in the redevelopment); and

4. Identify if with additional building space or housing units (upzoning) and the required contribution of community enhancements whether supportable value (or investment returns) that can be expected still exceed the "As Is" use value and make the developer better off than

under three above. Identify at what level (cost) of contribution would the bonus incentives no longer be attractive.

The cost of the contribution of community enhancements the developer makes in exchange for the bonus incentives must be less than the increase in property value associated with the additional development rights created by the bonus incentives/upzoning.

SIMPLE EXAMPLE OF HYPOTHETICAL DEVELOPMENT PROJECT TO ILLUSTRATE ANALYTICAL APPROACH

Table III-1 summarizes the financial results including residual or supportable land value of a hypothetical development project to illustrate the analytical approach used to evaluate the bonus program. A basic land residual method is shown which illustrates the land value from the completed development minus the development costs (including developer's profit).

TABLE III-1

Example of Hypothetical Development Project to Illustrate Analytical Approach

	ALTERNATIVE 1	ALTERNATIVE 2	ALTERNATIVE 3
Basic Land Residual Method, (i.e., not-Discounted Cashflow Residual Method) with Illustrative/Broad Assumptions	Site Zoned for 20-Unit Apartment Development	Site Up-Zoned (Density Bonus Provided) to 40-Unit Apartment Development **Without** Contribution of Community Enhancements	Site Up-Zoned (Density Bonus Provided) to 40 Unit Apartment Development **With** Contribution of Community Enhancements
Value Per Unit @ $250,000	$5,000,000	$10,000,000	$10,000,000
Development Costs Including Profit Allowance @ $220,000 Per Unit	$4,400,000	$8,800,000	$8,800,000
Contribution of Community Enhancements @ $13,600 Per Additional Unit	$0	$0	$272,000
Residual (Supportable) Land Value	$600,000	$1,200,000	$928,000
Value of Existing Land Use	$800,000	$800,000	$800,000
Increase (Decrease) Over Existing Land Value	($200,000)	$400,000	$128,000
Susceptible to Redevelopment	No	Yes	Yes
Source: Gruen Gruen + Associates			

For purposes of this hypothetical example, the site is assumed to be improved with an existing commercial building generating net income sufficient to support a market value of $800,000. (An investor would pay $800,000 to derive income from holding the property and having the option in the future to sell the building).

Alternative 1 assumes the property is zoned and would be permitted for 20 apartment units. Alternative 2 assumes a bonus incentive of 20 additional units for a total of 40 apartment units without a requirement of contribution for community enhancements. Alternative 3 assumes a bonus incentive of 20 additional units for a total of 40 apartment units with a required contribution of community enhancements of $13,600 per additional unit for a total cost of $272,000. For simplicity, we assume for each alternative the unit sizes, net income and value per unit, and development costs per unit remain the same.

Under the stipulated existing zoning for Alternative 1, assuming a value of $250,000 per unit, the 20-unit apartment development would yield a total value of $5,000,000. Assuming development costs including an appropriate profit margin of $220,000 per unit, the 20-unit apartment development would have total costs, excluding land costs of $4,400,000. The residual (supportable) land value or what the developer could afford to pay for the land would total $600,000. Given the existing use value supports a value of $800,000, the site is not likely to susceptible to viable redevelopment. An investor-developer would not be made better off by the expenditure of entrepreneurial resources (time and money) to purchase the property and redevelop it for an apartment use.

Alternative 2 illustrates the financial results for the hypothetical development if bonus incentives are provided without the requirement of a contribution of community enhancements. The additional 20 apartment units for a total of 40 apartment units results in a total value assumption of $10,000,000 ($250,000 per unit multiplied by 40 units). The total costs are assumed to increase to $8,800,000 ($220,000 per unit multiplied by 40 units). This results in an increase in the residual or supportable land value or the amount the developer can afford to pay for the existing property of twice the base case Alternative 1 of $1,200,000. Given the residual (supportable) land value exceeds the existing use value of $800,000 by $400,000, the site is susceptible to redevelopment because both the existing landowner and prospective purchaser-developer will be made better off if a transaction occurs between $800,000 and $1,200,000. Alternative 2 shows without the requirement of a contribution of community enhancements in exchange for bonus incentives, the bonus incentives or upzoning creates added land value.

Alternative 3 illustrates the financial results for the hypothetical development if bonus incentives are provided with the requirement of a contribution of community enhancements assumed to total $13,600 per unit or $272,000 for the additional 20 apartment units. As the project has the same number of units as alternative 2, the value and development costs assumptions remain the same. The only difference is the municipality would receive $272,000 for the right to the bonus incentives which reduces the residual (supportable) land value to $928,000 from $1,200,000 under Alternative 2. The project is still potentially financially viable to the investor-developer because the residual (supportable) land value after the costs of the community enhancement contribution exceeds the existing use value by $128,000. The positive residual land value means the developer can offer the landowner a price above the existing use value as an incentive or inducement to agree to the sell the property. Compared to the Alternative 2 without a required community enhancement contribution, however, less dollars are available to be allocated to the seller.

CONCLUSIONS DRAWN FROM HYPOTHETICAL DEVELOPMENT PROJECT TO ILLUSTRATE ANALYTICAL APPROACH

The simplified example described above illustrates the following conclusions about bonus standards in exchange for community enhancements above that required under base zoning:

1. With the required contribution, the bonus standard is still financially attractive to the investor-developer which earns the same profit under Alternative 2 and Alternative 3;

2. With the required contribution, however, the investor-developer cannot pay as much to the landowner. The cost of the required contributions must be less than the additional value created by the bonus incentives to create incentives or motivations for the landowner and investor-developer to enter into a voluntary transaction that results in redevelopment;

3. The provision of the community enhancements does not necessarily change the price or value of housing units (or office space or hotel rooms); and

4. A bonus standard program can add value by making redevelopment of an existing use feasible, providing for community enhancements that would not otherwise be produced; and encouraging an existing owner to sell or participate in redevelopment, provided the cost of the contribution is less than the net value that can be expected to be created from the exchange of community enhancements for the bonus incentives.

CHAPTER IV

RESIDUAL LAND VALUE ANALYSIS OF PROTOTYPICAL RESIDENTIAL DEVELOPMENT ALTERNATIVES

INTRODUCTION

Following a brief review of the residual land value methodology and development types evaluated, Chapter IV summarizes the prototypical residential development alternatives for which the analysis of real estate economics has been completed. The estimated costs of development associated with the prototypical residential development alternatives are presented. Chapter IV also presents the financial terms such as equity investment and debt financing as well as market parameters (revenue and operating expense estimates) underlying the financial analysis of the prototypical residential development alternatives. This chapter then reviews the results of the real estate economics analysis of each of the prototypical residential development alternatives.

METHODOLOGY AND DEVELOPMENT ASSUMPTIONS

Residual Land Value

In order to identify whether it will likely be feasible to develop the prototypical development alternatives under the present real estate economics, GG+A simulated the real estate investment of prototypical development options. We estimated the investment results of the prototypical development options identified by city of Scottsdale planning staff based on the estimated cash flows produced from cost and revenue forecasts and stipulated financial terms from the viewpoint of a prospective developer.

We analyzed the likely feasibility of development, or the need for a subsidy (incentive) in order to bridge a feasibility gap, based on a financial yardstick or measure referred to as a residual land value assuming a required internal rate of return ("IRR") on the equity investment from the cash flow and the resale value of the development.[1] We used this methodology of estimating the land values that would be supported by the investment returns of the forecast revenues and costs, assuming a hurdle rate or return requirement of a 18 percent IRR. A project is feasible if a developer can achieve a return on the developer/investor equity that meets a hurdle rate commensurate with the associated risk. If the residual land value from the investment is zero or less, than the likely cost of the land makes the investment infeasible. In essence, we asked the following question: How much could a prospective developer pay for the land needed to site the postulated development and earn an IRR of 18 percent, or alternatively, how many dollars of subsidy incentive would be required to provide the developer with the specific rate of return?

[1] As described in more detail in Appendix A, a residual land value refers to the amount a would-be developer could afford to pay for the land needed to site a development, given the cash flow that results from a specified set of cost and revenue forecasts and stipulated financial terms. An IRR means the rate of return at which the discounted future cash flows from an investment equal the initial cash outlay. In the jargon of finance theory, the IRR is the discount rate at which the net present value is zero. If the IRR exceeds the desired rate of return, the investment is financially feasible; if the IRR is lower than the desired rate of return, the investment is not financially feasible.

Note that the residual land value estimate is best used for comparing alternatives and obtaining insight on the "ability to pay" by the owner or developer. Actual market value is also affected by the price of competing entitled land supply. For example, even if a developer could afford to pay $150 per square foot for the land and still obtain a minimum threshold return, the developer will not do so if other equally or more desirable development locations are available for less. Actual market prices are influenced by the buyer's perception of use value, expectations about the timing and risk of development, and the price of the other available locations.

Development Types Tested

Scottsdale Long Range Planning staff identified prototypical development alternatives that could be reasonably developed on representative sites in Type 2 and Type 3 development locations. The prototypical residential development alternatives reflect physical site constraints, height, floor-area ratio, setback, parking, and other requirements and characteristics.

DESCRIPTION OF PROTOTYPICAL APARTMENT DEVELOPMENT ALTERNATIVES

Base Zoning Standards

Tables IV-1 summarizes the physical parameters of the postulated prototypical apartment development alternative consistent with base zoning, without a bonus. Under base zoning, the maximum number of units attainable regardless of development type is 84 dwelling units (or 50 dwelling units per acre) for both Type 2 and Type 3 development.

TABLE IV-1

Prototypical Apartment Development Alternative Under Base Zoning, Without a Bonus

	Type 2 and Type 3 Development
Land Use	Apartment
Site Area in Square Feet	73,616
Floor-area Ratio	1.20
Total Dwelling Units	84
Average Unit Size in Square Feet[1]	813
Density in Units Per Acre	50
Building Height(s)	5 stories – 66'
Gross Floor Area in Square Feet	88,000
Net Floor Area in Square Feet	68,300
Parking Spaces and Arrangement	130 spaces podium & below grade
Parking Ratio (Spaces Per Unit)	1.55

[1]Average unit size assumes the multi-family building has a net-to-gross loss factor of approximately 22 percent for Type 2.

Sources: City of Scottsdale; Gruen Gruen + Associates.

For the base zoning standards, without a bonus program, based on input from city of Scottsdale staff we postulated the following apartment development prototype for development district Types 2 and 3:

- 5-story building on a site of 73,616 square feet of land with a total of 84 apartment units for a density per acre of 50. The gross floor area is estimated to total 88,000 square feet for a floor area ratio of approximately 1.2. Parking of 130 podium and below grade spaces would be provided for a parking ratio of 1.55 spaces per unit. The average unit size would approximate 813 square feet assuming a net-to-gross loss factor about 22 percent. This means some of the building area would be devoted to common area resident amenities rather than units (e.g., fitness center, lounge, pet washing stations, bike storage, etc.).

Bonus Development Standard

Tables IV-2 summarizes the physical parameters of the prototypical apartment development alternatives city staff postulated consistent with a bonus.

TABLE IV-2

Prototypical Apartment Development Alternative With a Bonus

	Development Type 2	Development Type 3
Land Use	Apartment	Apartment
Site Area in Square Feet	73,616	73,616
Floor-area Ratio	2.09	3.78
Total Dwelling Units	148	219
Average Unit Size in Square Feet[1]	813	912
Density in Units Per Acre	87	130
Building Height(s)	5 stories -76'	6 stories - 84'
Gross Floor Area in Square Feet	153,700	278,300
Net Floor Area in Square Feet	120,300	200,400
Parking Spaces and Arrangement	232 stalls podium & below grade	339 stalls podium & below grade
Parking Ratio (Spaces Per Unit)	1.55	1.55

[1] Average unit size assumes the multi-family building has a net-to-gross loss factor of approximately 22 percent for Type 2 and 28 percent for Type 3.

Sources: City of Scottsdale; Gruen Gruen + Associates.

For the bonus zoning standards program, city of Scottsdale staff postulated the following apartment development prototypes for development district Types 2 and 3:

- Type 2 - 5-story building on a site of 73,616 square feet of land with a total of 148 apartment units for a density per acre of 87. The gross floor area is estimated to total 153,7000 square feet for a floor area ratio of approximately 2.0. Parking of 229 podium and below grade spaces would be provided for a parking ratio of 1.55 spaces per unit. The average unit size would approximate 813 square feet assuming a net-to-gross loss factor about 28 percent; and

- Type 3 - 6-story building on a site of 73,616 square feet of land with a total of 219 units for a density per acre of 130. The gross floor area is estimated to total 278,300 square feet for a floor area ratio of approximately 3.78. Parking of 339 podium and below grade spaces would be provided for a parking ratio of 1.55 spaces per unit. The average unit size would approximately 912 square feet assuming a net-to-gross loss factor of about 28 percent applied to the apartment building.

  The average unit sizes may be slightly smaller than typical but they are adequate for purposes of the real estate economic analysis.

ESTIMATED DEVELOPMENT COSTS

Base Zoning

Table IV-3 summarizes the estimated development costs for the postulated prototypical apartment development alternatives. Under the base zoning, both Type 2 and Type 3 district development areas would utilize Type V wood-frame construction for five stories residential building height. The parking would be parked either entirely below grade (if two parking levels) or one level below grade and one level at grade with precast construction. The construction Type V for wood frame is lower cost than alternative Type I construction consisting of concrete and steel frame for building heights of eight stories or higher. Precast garage parking is also less costly to build than multiple levels of underground parking.

TABLE IV-3

Summary of Key Cost Inputs Under Base Zoning, Excluding Land Purchase and Financing[1]

	Base Zoning Type 2 and Type 3 Development	
	Total $	Per Unit $
Construction (Hard) Costs Per Square Foot @ $165 - Type 2 & Type 3[2]	14,500,000	173,000
Parking Costs @ $30,000 per Space	3,900,000	46,000
Soft Costs (e.g., Architecture, Engineering) @ $46 Per Foot/ 22% of Hard Costs incl. Parking	4,100,000	48,000
Total Costs Excluding Land Purchase & Financing Costs[3]	22,500,000	268,000

[1]Figures are rounded.
[2]Costs based on gross square feet and include sitework costs.
[3]Total costs equate to $329 per net rentable square foot for Type 2 and Type 3 district development areas.

Sources: Developer Interviews; Gruen Gruen + Associates.

Based on the interviews with developers, we assume total development costs, excluding land and financing, of $256 per gross square foot ($329 per net rentable square foot) or $268,000 per unit for the base zoning Type 2 and Type 3 prototypical apartment development alternative. Construction hard costs are estimated at $165 per gross square foot for a total of approximately $14,500,000. This equates to a per unit cost of $173,000. Parking costs for below grade parking are estimated at $30,000 per stall for a total of $3,900,000. Soft costs equate to 22 percent of hard costs (including parking) or $48,000 per unit ($46 per gross square foot).

Bonus Development Standard

Table IV-4 summarizes the estimated development costs for the postulated prototypical apartment development alternatives with a bonus standard.

TABLE IV-4

Summary of Key Cost Inputs Under Bonus Standard, Excluding Land Purchase and Financing[1]

	Bonus Standard Type 2 Development		Bonus Standard Type 3 Development	
	Total $	Per Unit $	Total $	Per Unit $
Construction (Hard) Costs Per Square Foot @ $166 - Type 2 & Type 3[2]	25,600,000	173,000	46,362,000	212,000
Parking Costs @ $30,000 per Space	7,000,000	47,000	10,170,000	47,000
Soft Costs (e.g., Architecture, Engineering) @ $47 Per Foot (Type 2) & $45 Per Foot (Type 3)/ 22% of Hard Costs including Parking	7,200,000	48,000	12,437,000	57,000
Total Costs Excluding Land Purchase & Financing Costs[3]	39,700,000	268,000	68,969,000	316,000

[1]Figures are rounded.
[2] Costs based on gross square feet and include sitework costs.
[3] Total costs equate to $330 per net rentable square foot for Type 2 development and $344 per net rentable square foot for Type 3 development.

Sources: Developer Interviews; Gruen Gruen + Associates.

Based on the interviews with developers, we assume total development costs, excluding land and financing, of $39,700,000 or $258 per gross square foot and $268,000 per unit for the bonus standard Type 2 district prototypical development alternative. Construction hard costs are estimated at $166 per square foot for a total of $25,600,000. This equates to a per unit cost of approximately $173,000. Parking costs are estimated at $30,000 per stall for a total of $7,000,000. Soft costs equate to 22 percent of hard costs (including parking) or $48,000 per unit ($47 per gross square foot).

We assume total development costs, excluding land and financing of $68,969,000 or $247 per gross square foot and $315,000 per unit for the bonus standard Type 3 district prototypical development alternative. Construction hard costs are estimated at $166 per square foot for a total of $46,362,000. This equates to a per unit cost of $212,000. Parking costs are estimated at $30,000 per stall for a total of $10,170,000. Soft costs equate to 22 percent of hard costs (including parking) or $56,800 per unit ($45 per gross square foot).

FINANCIAL PARAMETERS

Table IV-5 summarizes the financial terms stipulated for the discounted cash flow analysis of the base zoning and bonus standard prototypical development alternatives.

TABLE IV-5

Investment and Financing Assumptions for Prototypical Base Zoning and Bonus Standards Apartment Development Alternatives

Equity as Percent of Project Total	40%
Internal Rate of Return (IRR)	18%
Sale Year for IRR Calculation	5
Mortgage Rate	5.00%
Mortgage Amortization Term in Years	25
Year Mortgage Taken Out	3
Construction Loan Financing Costs – Annual Interest Rate	5.25%
Construction Loan Fee	½ of One Percent
Capitalization Rate for Sale Year	4.25%
Sales Expenses as Percent of Sales Price	2%

Sources: Gruen Gruen + Associates Developer and Lender Interviews.

Financial parameters include equity and debt terms, construction and permanent loan arrangements, IRR and capitalization rates. Based on the interviews, we assume an equity requirement of 40 percent of project costs and a hurdle rate or IRR target threshold of 18 percent[2] and a holding period of five years. We assume a two-year construction period and a resulting construction loan period of two years. The construction and permanent loan term assumptions are drawn from interviews with local financing sources and developers. We estimate a construction loan interest rate of 5.25 percent for an apartment use and a loan fee of 0.5 percent. We assume a permanent mortgage loan is obtained in year three to take out or retire the construction loan. We estimate an annual interest rate of 5.0 percent for the permanent mortgage under a loan amortization schedule of 25 years. We estimate a capitalization rate, or buyer's required yield on the purchase of the property of 4.25 percent. This assumption is higher than some recent transactions, but we use a higher than prevailing rate to account for the potential of capitalization rates to increase with a rise in interest rates and changes in economic and financial market conditions. We assume expenses associated with the sale of the property are two percent of the transaction value.

[2] Note for a higher story Type 1 construction product, given the higher costs and risks, often the return-on-investment thresholds would increase. We estimate under current market conditions a 22 percent return threshold would be typical. As Type 1 construction type is not assumed we use an 18 percent return threshold.

MARKET PARAMETERS

Table IV-6 summarizes the market or revenue parameters for the postulated base zoning and bonus standard prototypical residential development alternatives.

TABLE IV-6

Market Parameters for Prototypical Base Zoning and Bonus Standards Apartment Development Alternatives

Average Unit Size in Square Feet	813 - 912
Average Monthly Base Rent Per Square Foot	\$3.40 for 5 & 6-story product
Average Monthly Base Rent Per Unit	\$2,625 - \$3,100
Annual Operating Expenses Per Unit @ 30% of Revenue	\$10,200 - \$11,500
Annual Rent Escalation	3%
Annual Expense Escalation	3%
Occupancy Rate Operating Year 1 Operating Year 2 and thereafter	 70% 95%

Source: Gruen Gruen + Associates Developer Interviews and Review of Apartment Leasing Websites

We estimate average monthly rents of \$3.40 per square foot, or about \$2,600 to \$3,100 per unit depending on average unit size for Type 2 and Type 3 developments which are 5- and 6-story product. This estimate is based upon developer interviews and review of asking rents at newer apartment supply in Scottsdale. Appendix B provides a summary of rents for new apartment projects in Downtown (Old Town) Scottsdale. Based upon our developer interviews, and review of recent development proformas available to GG+A and annual reports on publicly traded apartment REITs we assume monthly operating costs, including insurance and property taxes of 30 percent of revenues or about \$10,200 to \$11,500 (annually) per unit. We assume that rents and expenses will escalate at three percent annually.

RESULTS OF INVESTMENT ANALYSIS

GG+A simulated the real estate investment results of constructing, marketing, and operating the postulated apartment development alternatives using GG+A's real estate cash flow model REALISM™. As indicated above, we calculated a land residual value that would permit an investor in the project which contributed 40 percent equity to earn an 18 percent IRR if the investor held the development for five years. The simulation projects the financial results, including the residual land value of the apartment development alternative specified for the representative sites and development types.

Table IV-7 summarizes the results of the simulations of the postulated prototypical apartment developments under base zoning standards and bonus standards.

TABLE IV-7

Residual Land Value Estimate for Prototypical Base Zoning and Bonus Standards Apartment Development Alternatives[1]

	Base Zoning Standards	**Bonus Standards**	
	Type 2 and Type 3 Development **$**	**Type 2 Development** **$**	**Type 3 Development** **$**
Residual Land Value	**10,433,000**	**18,283,000**	**27,190,000**
Residual Land Value Per Unit	**124,000**	**123,500**	**124,000**
Residual Land Value Per Square Foot of Land	**142**	**248**	**369**
Total Project Value	33,576,000	59,170,000	98,171,000
Equity Investment	13,430,000	23,668,000	39,269,000
Permanent Debt	20,146,000	35,502,000	58,903,000
Internal Rate of Return in Year 5	18%	18%	18%

[1] Figures are rounded. Does not include community enhancement contributions made for bonus density.

Source: Gruen Gruen + Associates

These figures present a perspective for evaluation rather than a cardinal array of hard forecasts. The results are limited by the development potential, market, financial, and other underlying assumptions outlined above and do not reflect the use of property specific sitework costs and exclude any potential extraordinary existing conditions.

Base Zoning Standards Residual Land Value

Type 2 and Type 3 Development

Under the development cost, revenue, expense, investment, and financial parameters estimated above, the residual land value for the base zoning standards prototypical residential development alternative Type 2 development is estimated at an approximately $10.4 million or $124,000 per unit. This equates to a residual land value of approximately $142 per square foot of land. The total project value, including construction costs, financing costs, and land value, totals about $33.6 million. Equity investment in the project would total $13.4 million and permanent debt would total nearly $20.1 million. The Internal Rate of Return on equity investment in Year 5, when the property is assumed to be sold, would be 18 percent.

Bonus Standard Residual Land Value

Type 2 Development

Under the development cost, revenue, expense, investment, and financial parameters estimated above, the residual land value for the density bonus prototypical development alternative Type 2 district development without the requirement of a contribution for community enhancements is estimated at approximately $18.3 million or $123,500 per unit. This equates to a residual land value of approximately $248 per square foot of land, which is 1.75 times higher the per square foot of the base zoning Type 2 district development. The total project value, including construction costs, financing costs, and land value, totals about $59.2 million. Equity investment in the project would total $23.7 million and permanent debt would total nearly $35.5 million. The Internal Rate of Return on equity investment in Year 5, when the property is assumed to be sold, would be 18 percent.

Type 3 Development

Under the development cost, revenue, expense, investment and financial parameters estimated above, the residual land value for the bonus standard prototypical residential development alternative Type 3 development without the contribution of community enhancements is estimated at an approximately $27.2 million or $124,000 per unit. This equates to a residual land value of approximately $369 per square foot of land, which is 2.6 times higher the per square foot of the base zoning Type 3 development. The total project value, including construction costs, financing costs, and land value, totals about $98.2 million. Equity investment in the project would total $39.3 million and permanent debt would total nearly $58.9 million. The Internal Rate of Return on equity investment in Year 5, when the property is assumed to be sold, would be 18 percent.

The reader is cautioned to note that the estimated residual land values presented exclude the effect of state and federal income taxes that would have to be paid. In effect, this simplifying assumption increases the residual value over what it might be under the more realistic assumption that taxes on income would be paid. We used the before-tax case, however, so as to avoid the distortions created by taxes and the need to consider whether owners would have off-setting gains and losses from other sources, which is frequently the case.

RESULTS OF INVESTMENT ANALYSIS AFTER INCORPORATING COSTS OF COMMUNITY ENHANCEMENT CONTRIBUTION UNDER BONUS STANDARDS

Estimated Costs of Community Enhancement Contributions Under Existing Formula

Table IV-8 shows the community enhancement contribution or bonus standard contribution for Type 2 and Type 3 district development prototypes described above.

TABLE IV-8

Estimated Costs of Community Enhancement Contributions Under Bonus Standards[1]

	TYPE 2 DEVELOPMENT			
Bonus	Base Zoning	Bonus Standards	Difference	Community Enhancement Contribution[2] $
Height	66	76	10	136,300
Gross Floor Area	88,000	154,000	66,000	899,600
Total Dwelling Units	84	148	64	872,200
Total				1,908,100
Total Per Additional Unit				29,800
	TYPE 3 DEVELOPMENT			
Bonus	Base Zoning	Bonus Standards	Difference	Community Enhancement Contribution[2] $
Height	66	84	18	245,300
Gross Floor Area	88,000	278,300	190,300	2,593,800
Total Dwelling Units	84	219	135	1,839,800
Total				4,678,900
Total Per Additional Unit				34,700

[1] Figures are rounded.
[2] Contribution for fiscal year 2022: Height - $13,628 per foot; Gross Floor Area - $13.63 per square foot; Units - $13,628 per unit.

Sources: City of Scottsdale; Gruen Gruen + Associates.

Based on current cost figures for the prototypical residential development alternative Type 2 development described above, the estimated costs of community enhancement contributions total $1,908,100. This equates to $29,800 per unit for the additional 64 residential units associated with the provision of the bonus standards.

For the prototypical residential development alternative Type 3 development described above, the estimated costs of community enhancement contributions total $4,678,900. This equates to approximately $34,700 per unit for the additional 135 residential units associated with the provision of the bonus standards.

The examples of previous projects which have applied for and received bonus incentives entailed community enhancement contribution costs of approximately $18,500 to $18,900 per additional unit resulting from the provision of bonus incentives.

Residual Land Value After Community Enhancement Contribution Under Bonus Standards

Table IV-9 summarizes the residual land value estimates after considering the costs of community enhancement contributions under the bonus standards for Type 2 and Type 3 prototypical residential development alternatives. The pre-community enhancement contributions residual land values for the residential development alternatives under the bonus standards from Table IV-7 and the base zoning residual land values for the residential development alternatives from Table IV-7 are shown.

TABLE IV-9

Residual Land Value Estimate After Community Enhancement Contribution for Prototypical Base Zoning and Bonus Standards Apartment Development Alternatives[1]

	TYPE 2 DEVELOPMENT	
	Base Zoning $	Bonus Standards $
Residual Land Value	10,433,000	18,283,000
Community Enhancement Contribution[2]	-	1,908,100
Residual Land Value After Contribution		16,374,900
Residual Land Value After Contribution Per Unit		110,600
Residual Land Value After Contribution Per Square Foot		222
Added Value Per Additional Unit (64 Units)	92,800	
Added Value Per Additional Net Rentable Square Foot (52,000 Square Feet)	114	
	TYPE 3 DEVELOPMENT	
Residual Land Value	10,433,000	27,190,000
Community Enhancement Contribution[2]	-	4,678,900
Residual Land Value After Contribution		22,511,100
Residual Land Value After Contribution Per Unit		102,800
Residual Land Value After Contribution Per Square Foot		306
Added Value (Loss) Per Additional Unit (135 Units)	166,700	
Added Value (Loss) Per Additional Net Rentable Square Foot (132,100 Square Feet)	170	

[1] Figures are rounded.
[2]Community enhancement contribution equates to approximately $30,000 per additional unit for Type 2 development and $34,700 per additional unit for Type 3 development.

Source: Gruen Gruen + Associates

Incorporating the estimated $1,908,100 in community enhancement costs into the investment analysis reduces the estimated residual land value under bonus standards for the Type 2 district residential prototypical development alternative from $18,283,000 to $16,364,900. The residual land value per unit after the costs of the community enhancement contributions is estimated at $110,600. The residual land value per square foot of land after the costs of the community enhancement contributions is estimated at $222. The increase in value per additional unit is estimated at $92,800. The increase in value per additional net rentable square foot is estimated at $114.

Incorporating the estimated $4,678,900 in community enhancement costs into the investment analysis reduces the estimated residual land value under bonus standards for the Type 3 district residential prototypical development alternative from $27,190,000 to $22,511,100. The residual land value per unit after the costs of the community enhancement contributions is estimated at $102,800. The residual land value per square foot of land after the costs of the community enhancement contributions is estimated at $306. The increase in value per additional unit is estimated at $166,700. The increase in value per additional net rentable square foot is estimated at $170.

COMPARISON OF RESIDUAL LAND VALUES TO EXISTING PROPERTY VALUES

As indicated above, transactions for redevelopment sites must be for prices for projects consistent with the base zoning but not so high as what the additional bonus standards would support as otherwise it would not be feasible for the contribution costs to be absorbed.

Type 2 and Type 3 district prototypical residential development alternatives are estimated to support residual land values of about $124,000 per unit to $142 per square foot under base zoning standards to $248 to $369 per square foot of land under bonus zoning standards (before factoring in the costs of contributions for community enhancements). After considering the costs of community enhancement contributions, the estimated increase in value attributable to the bonus standards is estimated at $222 to $306 per square foot.

Land sites in Downtown (Old Town) Scottsdale have sold at prices ranging from $100 to $175 per square foot except for one property for sale at $234 per square foot. Examples of sites that have sold recently or are for sale include:

- 7000 E. 4th Street, sold January 15, 2020, 1.2 acres, $6,040,000 or $115 per square foot;
- Indian School Road site, sold December 15, 2020, 0.811 acres, $3,725,000 or $105 per square foot;
- Marshall Way site, sold December 14, 2020, 0.811 acres, $3,725,000 or $105 per square foot;
- 7245, 7314, and 7321 E. Osborn Road, for sale, 1.78 acres, asking $9,669,875 or $125 per square foot (7245 E. Osborn is for sale at 0.9 acres without assemblage, asking $117 per square foot; other two properties are also available singularly and have office properties on sites, asking prices based on land area ranges from $155 to $174 per square foot);
- SWC Bishop Lane and East 2nd Street, for sale, 1.13 acres, asking $7,600,000 or $154 per square foot.[3];
- 4443 N. Scottsdale, for sale, 25,601-square-foot lot, $6,000,000 or $234 per square foot; and
- 4260 N. Drinkwater Boulevard, for sale, 33,977-square-foot lot (with 6,582-square-foot building), asking $5,750,000 or $169 per square foot of land area.[4]

For properties consisting of nearly one acre of land to nearly two acres of land, land prices tend to range from about $105 per square foot to $155 per square foot of land. The comparison of the pricing for existing properties to the residual land values estimated to apply to the prototypical residential

[3] Newmark Knight Frank Offering Memorandum for 7245, 7314, and 7321 E. Osborn, Scottsdale
[4] Sale Brochure.pdf (loopnet.com)

development alternatives suggest that under the base zoning and bonus standards for Type 2 and Type 3 district prototypical residential development alternatives, the existing properties are viable to purchase for feasible redevelopment. The provision of bonus standards even with the costs of community enhancement contributions tend to improve the viability of redevelopment.

CHAPTER V

RESIDUAL LAND VALUE ANALYSIS OF PROTOTYPICAL OFFICE DEVELOPMENT ALTERNATIVES

INTRODUCTION

Chapter V summarizes the prototypical office development alternatives for which the analysis of real estate economics has been completed. The estimated costs of development associated with the prototypical office development alternatives are presented. Chapter V also presents the financial terms such as equity investment and debt financing as well as market parameters (revenue and operating expense estimates) underlying the financial analysis of the prototypical office development alternatives. This chapter then reviews the results of the real estate economics analysis of each of the prototypical office development alternatives.

DESCRIPTION OF PROTOTYPICAL OFFICE DEVELOPMENT ALTERNATIVES

Base Zoning Standards

Tables V-1 summarizes the physical parameters of the postulated prototypical office development alternative consistent with base zoning, without a bonus.

TABLE V-1

Base Zoning Prototypical Office Development Alternatives

	TYPE 2	TYPE 3
Physical Parameters	Base Development Standards	Base Development Standards
Site Area in Square Feet	87,120	87,120
Building:		
Building Height	5 Stories/66 Feet	6 Stories/84 Feet
Gross Building Area	121,968 Square Feet	121,968 Square Feet
Net Building Area	103,673 Square Feet	103,673 Square Feet
Gross Floor Area Ratio	1.4	1.4
Parking:		
Surface	27 stalls	27 stalls
Above-Grade	380 stalls	380 stalls
Total Parking	407 stalls	407 stalls
Source: City of Scottsdale Type 3 Bonus Marquee (7-ZN-2015#2), Type 2 Base/Bonus is extrapolated from Type 3 Marquee		

For the base zoning standards, without a bonus program, city of Scottsdale staff postulated an office building of approximately 122,000 gross square feet of space on two acres of land for a floor-area ratio of 1.4. A loss factor of 15 percent is assumed so that the net rentable area of the prototypical building would be 103,673 square feet of office space. Parking of 37 surface spaces and 380 above grade spaces for a total of 407 parking spaces are assumed. For the Type 2 development the height of the building would be five stories, while for the Type 3 development the height of the building would be six stories.

(We recognize that unless more income-producing space is associated with the greater height, most often developers may not opt to build the additional floor permitted under the Type 3 district bonus standards).

Bonus Development Standard

Tables V-2 summarizes the physical parameters of the prototypical office development alternatives city staff postulated consistent with a zoning bonus.

TABLE V-2

Bonus Zoning Prototypical Office Development Alternatives

	TYPE 2	TYPE 3
Physical Parameters	Density Bonus Development Standards	Density Bonus Development Standards
Site Area in Square Feet	87,120	87,120
Building:		
Building Height	6 Stories/72 Feet	6 Stories/84 Feet
Gross Building Area	220,000 Square Feet	261,400 Square Feet
Net Building Area	187,000 Square Feet	222,200 Square Feet
Gross Floor Area Ratio	2.5	3.0
Parking:		
Surface		
Above-Grade	291 stalls	431 stalls
Below-Grade	457 stalls	457 stalls
Total Parking	748 stalls	888 stalls

Source: City of Scottsdale; Type 3 Bonus Marquee (7-ZN-2015#2), Type 2 Base/Bonus is extrapolated from Type 3 Marquee

For the bonus zoning standards, city of Scottsdale staff postulated for Type 2 development an office building of approximately 220,000 gross square feet of space on two acres of land for a floor-area ratio of 2.5. A loss factor of 15 percent is assumed so that the net rentable area of the prototypical six-story building would be 187,000 square feet of office space. Parking of spaces 748 above-grade and below-grade spaces are assumed.

For the Type 3 district development we assume a six story-building containing approximately 261,400 gross square feet of space and 222,200 square feet of net rentable area for a higher floor area ratio of 3.5. This prototype includes parking of 888 above-grade and below-grade spaces.

ESTIMATED DEVELOPMENT COSTS

Base Zoning

Table V-3 summarizes the estimated development costs for the postulated prototypical office development alternatives.

TABLE V-3

Summary of Key Cost Inputs Under Base Zoning, Excluding Land Purchase and Financing[1]

	Base Zoning Type 2 Development		Base Zoning Type 3 Development	
	Total $	Per Square Foot $	Total $	Per Square Foot $
Construction (Hard), Sitework, Parking and Tenant Improvement Costs Per Square Foot @ $305 Type 2 & $305 Type 3[2]	37,200,000	305	37,200,000	305
Soft Costs (e.g., Architecture, Engineering) @ 20% of Hard Costs including Sitework/Parking	7,514,000	61	7,514,000	61
Total Costs Excluding Land Purchase & Financing Costs	44,714,000	366	44,714,000	366

[1]Figures are rounded.
[2] Costs based on gross square feet

Sources: Gruen Gruen + Associates Developer Interviews/Proformas

Based on information obtained from developers, we assume total development costs, excluding land and financing, of $366 per gross square foot for a total of $44,714,000 for the base zoning Type 2 and Type 3 district prototypical office development alternatives. Construction hard costs (including sitework and parking costs as well as tenant improvement costs) are estimated at $305 per gross square foot for a total of approximately $37,200,000. Soft costs are assumed to total 20 percent of hard costs (including sitework and parking costs) or $61 per square foot. This equates to a total of $7,514,000.

Bonus Development Standard

Table V-4 summarizes the estimated development costs for the postulated prototypical office development alternatives with a bonus standard.

TABLE V-4

Summary of Key Cost Inputs Under Bonus Standard, Excluding Land Purchase and Financing[1]

	Bonus Standard Type 2 Development		Bonus Standard Type 3 Development	
	Total $	Per Square Foot $	Total $	Per Square Foot $
Construction (Hard), Sitework, and Parking Costs Per Square Foot @ $305 Type 2 & $305 Type 3[2]	67,100,000	305	79,727,000	305
Soft Costs (e.g., Architecture, Engineering) @ 20% of Hard Costs including Sitework/Parking	13,420,000	61	15,945,000	61
Total Costs Excluding Land Purchase & Financing Costs[3]	80,520,000	366	95,672,000	366

[1]Figures are rounded.
[2] Costs based on gross square feet.

Sources: Gruen Gruen + Associates Developer Interviews/Proformas.

Based on information obtained from developers, we assume total development costs, excluding land and financing, of $366 per gross square foot for a total of $80,520,000 for the bonus zoning standards Type 2 district office development alternative. For the Type 3 district prototypical office development alternative, we assume the same cost of $366 per square foot or a total of $95,672,000. Construction hard costs (including sitework and parking costs) are estimated at $305 per gross square foot for a total of approximately $67,100,000 for the Type 2 district alternative and $79,727,000 for the Type 3 district development. Soft costs are assumed to total 20 percent of hard costs (including sitework and parking costs) or $61 per square foot for the Type 2 alternative and Type 3 alternative. This equates to a total of $13,420,000 for the Type 2 alternative and $15,945,000 for the Type 3 alternative.

FINANCIAL PARAMETERS

Table V-5 summarizes the financial terms stipulated for the discounted cash flow analysis of the base zoning and bonus standard prototypical office development alternatives.

TABLE V-5

Investment and Financing Assumptions for Prototypical Base Zoning and Bonus Standards Office Development Alternatives

Equity as Percent of Project Total	40%
Internal Rate of Return (IRR)	18%
Sale Year for IRR Calculation	5
Mortgage Rate	5.00%
Mortgage Amortization Term in Years	25
Year Mortgage Taken Out	2
Construction Loan Financing Costs – Annual Interest Rate	5.25%
Construction Loan Fee	1.0%
Capitalization Rate for Sale Year	6.5%
Sales Expenses as Percent of Sales Price	2%

Source: Gruen Gruen + Associates.

Based on the interviews, we assume an equity requirement of 40 percent of project costs and a hurdle rate or IRR target threshold of 18 percent and a holding period of five years. We assume a one-year construction period (which is likely optimistic under the supply constraints) and a resulting construction loan period of one year. The construction and permanent loan term assumptions are drawn from interviews and reviews of proformas. We estimate a construction loan interest rate of 5.25 percent for an office use and a loan fee of 1.0 percent. We assume a permanent mortgage loan is obtained in year two to take out or retire the construction loan. We estimate an annual interest rate of 5.0 percent for the permanent mortgage under a loan amortization schedule of 25 years. We estimate a capitalization rate, or buyer's required yield on the purchase of the property of 6.5 percent. We assume expenses associated with the sale of the property are two percent of the transaction value.

MARKET PARAMETERS

Table V-6 summarizes the market or revenue parameters for the postulated of the base zoning and bonus standard prototypical office development alternatives.

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TABLE V-6

Market Parameters for Prototypical Base Zoning and Bonus Standards Office Development Alternatives

Annual Net Rent Per Square Foot	$39.00
Annual Operating Expenses Per Square Foot Not Recovered from Tenants/Reserves	$2.00
Annual Rent Escalation	1%
Annual Expense Escalation	2%
Occupancy Rate	
Operating Year 1	70%
Operating Year 2	90%
Operating Year 3 and Thereafter	95%

Source: Gruen Gruen + Associates

We estimate above prevailing office space rents for existing building with average annual rents of $39 per square foot for the five- and six-story office buildings. Based upon review of development proformas available to GG+A we assume expenses not recovered from tenants and reserves of $2.00 per square foot. We assume annual rent escalation of one percent and expense escalation of two percent. We assume the buildings ae 70 percent leased in the first operating year, 90 percent leased in the second operating year, and 95 percent leased in the third operating year and thereafter.

RESULTS OF INVESTMENT ANALYSIS OF PROTOTYPICAL OFFICE DEVELOPMENT ALTERNATIVES

Type 2 Base and Bonus Zoning

Table V-7 summarizes the results of the investment simulation of the development and operation of the prototypical office development alternatives under Type 2 district base and bonus zoning standards (without incorporating into the bonus standards alternative the costs of community enhancements).

TABLE V-7

Investment Results of Prototypical Office Type 2 Development Alternatives[1]

	5 Stories/66 Feet 121,968 Square Foot $	6 Stories/72 Feet 220,000 Square Feet $
Land Value Residual	**2,284,000**	**4,123,000**
Residual Land Value per Square Foot	**26**	**47**
Total Project Value	47,674,000	85,995,000
Equity	19,069,000	34,398,000
Permanent Loan	28,604,000	51,597,000
IRR in Year 5	18%	18%

[1] Figures are rounded.

Source: Gruen Gruen + Associates

The results of the investment analysis indicate that the postulated prototypical Type 2 base zoning alternative would generate a residual land value of $2,284,000 or approximately $26 per square foot of land. Equity for the project would approximate $19.1 million and the permanent loan of about $28.6 million for a total project value of approximately $47.7 million. This equates to a value per square foot of building space of $391.

The results of the investment analysis indicate that the postulated prototypical Type 2 bonus zoning alternative would generate a residual land value of $4,123,000 or approximately $47 per square foot of land. Equity for the project would total about $34.4 million and the permanent loan of about $51.6 million for a total project value of nearly $86 million. This equates to a value per square foot of building space of $391.

Type 3 Base and Bonus Zoning

Table V-8 summarizes the results of the investment simulation of the development and operation of the prototypical office development alternatives under Type 3 district base and bonus zoning standards (without incorporating into the bonus standards alternative the costs of community enhancements).

TABLE V-8

Investment Results of Prototypical Office Type 3 Development Alternatives[1]

	6 Stories/72 Feet 121,968 Square Foot $	7 Stories/84 Feet 261,400 Square Feet $
Land Value Residual	**2,284,000**	**4,890,000**
Residual Land Value per Square Foot	**26**	**56**
Total Project Value	47,674,000	102,169,000
Equity	19,069,000	40,868,000
Permanent Loan	28,604,000	61,302,000
IRR in Year 5	18%	18%

[1] Figures are rounded.

Source: Gruen Gruen + Associates

The results of the investment analysis indicate that the postulated prototypical Type 3 base zoning alternative, which is essentially the same as the Type 2 alternative would generate a residual land value of $2,284,000 or approximately $26 per square foot of land. Equity for the project would total about $19.1 million and the permanent loan of about $28.6 million for a total project value of $47.7 million. This equates to a value per square foot of building space of $391.

The results of the investment analysis indicate that the postulated prototypical Type 3 bonus zoning alternative would generate a residual land value of $4,890,000 or approximately $56 per square foot of land. Equity for the project would approximate $40.9 million and the permanent loan of about $61.3 million for a total project value of approximately $102.2 million. This equates to a value per square foot of building space of $391.

According to Colliers, three large Class A office properties located in Scottsdale and Chandler were sold in the first quarter of 2022 for prices of $397 to $497 per square foot.[5] The estimated values per square foot of building space are broadly consistent with the reported sales.

The results of the real estate economic analysis indicate that the investor-developer would be better off building the larger rather than smaller office building. The larger building permitted by the bonus zoning supports a higher land value, before considering the costs of the contribution of community enhancements.

[5] Colliers, *2022 Q1 Greater Phoenix Office Market Report*: https://www.colliers.com/en/research/phoenix/2022-q1-greater-phoenix-office-market-report

Effects of Costs of Community Enhancement Contributions

Table V-9 presents an estimate of the costs of community enhancement contributions required to obtain the bonus zoning standards for the Type 2 district and Type 3 district prototypical office building alternatives.

TABLE V-9

Estimated Costs of Community Enhancement Contributions Under Bonus Standards[1]

Bonus	Base Zoning	Bonus Standards	Difference	Community Enhancement Contribution[2] $
TYPE 2 DEVELOPMENT				
Height	66	72	8	109,000
Gross Floor Area	121,968	220,000	98,032	1,336,200
Total				1,445,200
TYPE 3 DEVELOPMENT				
Height	72	84	12	163,500
Gross Floor Area	121,968	261,400	139,432	1,900,500
Total				2,064,000

[1] Figures are rounded.
[2] Contribution for fiscal year 2022: Height - $13,628 per foot; Gross Floor Area - $13.63 per square foot; Units - $13,628 per unit.

Sources: City of Scottsdale; Gruen Gruen + Associates.

For Type 2 development, the costs of community enhancement contributions required for the bonus standards for the prototypical office development are estimated at approximately $1,445,200. The costs approximate about 78 percent of the estimated increase in the residual land value of $1,839,000 the postulated Type 2 district bonus standards office development alternative would support.

The estimated costs of community enhancements for Type 3 district office space of $2,064,000 approximate about 79 percent of the estimated increase in the residual land value of $2,606,000 the postulated Type 3 office development alternative would support.

CHAPTER VI

RESIDUAL LAND VALUE ANALYSIS OF PROTOTYPICAL HOTEL DEVELOPMENT ALTERNATIVES

INTRODUCTION

Chapter VI summarizes the prototypical hotel development alternatives for which the analysis of real estate economics has been completed. The estimated costs of development associated with the prototypical hotel development alternatives are presented. Chapter VI also presents the financial terms such as equity investment and debt financing as well as market parameters (revenue and operating expense estimates) underlying the financial analysis of the prototypical hotel development alternatives. This chapter then reviews the results of the real estate economics analysis of each of the prototypical hotel development alternatives.

DESCRIPTION OF PROTOTYPICAL HOTEL DEVELOPMENT ALTERNATIVES

Base Zoning and Bonus Standards Type 2 District Hotel Use

Tables VI-1 summarizes the physical parameters of the postulated prototypical hotel development alternative consistent with base zoning and with bonus standards in Type 2 District locations.

TABLE VI-1

Prototypical Hotel Development Alternative Under Type 2 Base and Bonus Zoning Standards

	TYPE 2	
Physical Parameters	Base Development Standards	Bonus Development Standards
Total Land Area	1.2 Acres	1.2 Acres
Building:		
Building Height	5 Stories/66 Feet	8 Stories/90 Feet
Gross Building Area	73,180 Square Feet	129,873 Square Feet
Number of Keys	152 Keys	270 Keys
Gross Floor Area Ratio	1.4	2.49
Total Parking	200 stalls	357 stalls
Source: City of Scottsdale Type 2 Bonus Winfield (7-ZN-2017)		

The Type 2 district base zoning hotel prototype is assumed to total 152 rooms in a five-story structure with a gross building area of 73,180 square feet on 1.2 acres of land. Underground and surface parking with 200 parking spaces is provided. The gross floor area ratio under base zoning is 1.4.

Under the bonus development standards, the floor area ratio increases to 2.49. The hotel consists of an eight-story structure of nearly 130,000 square feet of space with 270 rooms and 357 parking spaces on 1.2 acres of land.

ESTIMATED DEVELOPMENT COSTS

Base Zoning

Table VI-2 summarizes the estimated development costs for the postulated prototypical hotel development alternatives (excluding the costs of contribution of community enhancements).

TABLE VI-2

Summary of Key Cost Inputs Under Type 2 Base and Bonus Zoning Standards, Excluding Land Purchase and Financing[1]

	Base Zoning Type 2 Development		Bonus Zoning Type 2 Development	
	Total $	Per Key $	Total $	Per Key $
Building, Sitework and Parking Construction (Hard) Costs	39,748,000	262,000	81,270,000	301,000
Furniture, Fixtures & Equipment	5,320,000	35,000	9,450,000	35,000
Soft Costs (e.g., Architecture, Engineering) @ 16% of Hard Costs	7,576,000	50,000	15,151,000	56,000
Other Costs/Reserves	2,280,000	15,000	4,050,000	15,000
Total Costs Excluding Land Purchase & Financing Costs[3]	54,924,000	362,000	109,890,000	407,000

[1]Figures are rounded.

Sources: HVS "U.S. Hotel Development Cost Survey"; Gruen Gruen + Associates.

Based primarily on review of developer proformas made available to GG+A and review of the most recent HVS "U.S. Hotel Development Cost Survey", we estimated total development costs, excluding land and financing, of approximately $362,000 per key or a total of $54,924, 000 for the base zoning Type 2 district hotel development alternative. Construction hard costs, sitework costs and parking development costs are estimated at $262,000 per room for a total of approximately $39,748,000. Furniture, fixtures and equipment are estimated at $35,000 per room for a total of $5,320,000. Soft costs are assumed to equate to 16 percent of hard costs (including sitework and parking) or $50,000 per key for a total of $7,576,000. Pre-opening and other costs and reserves/contingencies are assumed to total $15,000 per room for a total of $2,280,000.

For the bonus standards hotel prototype, we assume soft costs at the same proportion of hard costs and furniture, fixture, and equipment and other costs/reserves at the same per room costs as assumed for the base zoning prototypical hotel development alternative. We assume higher hard costs, sitework, and parking costs per room of 15 percent for a total of approximately $301,000 per room or $81,270,000 (which may understate the cost difference). The total costs of development excluding land and financing under the bonus standards is estimated at $407,000 per room or $109,890,000.

FINANCIAL PARAMETERS

Table VI-3 summarizes the financial terms stipulated for the discounted cash flow analysis of the base zoning and bonus standards prototypical hotel development alternatives.

TABLE VI-3

Investment and Financing Assumptions for Prototypical Base Zoning and Bonus Standards Hotel Development Alternatives

Equity as Percent of Project Total	40%
Internal Rate of Return (IRR)	18%
Sale Year for IRR Calculation	7
Mortgage Rate	5.00%
Mortgage Amortization Term in Years	25
Year Mortgage Taken Out	3
Construction Loan Financing Costs – Annual Interest Rate	5.25%
Construction Loan Fee	1.0%
Capitalization Rate for Sale Year	7.5%
Sales Expenses as Percent of Sales Price	3%

Sources: Gruen Gruen + Associates; CBRE Cap Rate Survey.

Financial parameters include equity and debt terms, construction and permanent loan arrangements, IRR and capitalization rates. We assume an equity requirement of 40 percent of project costs and a hurdle rate or IRR target threshold of 18 percent and a holding period of seven years. We assume a two-year construction period and a resulting construction loan period of two years. We estimate a construction loan interest rate of 5.25 percent for a hotel use and a loan fee of 1.0 percent. We assume a permanent mortgage loan is obtained in year three to take out or retire the construction loan. We estimate an annual interest rate of 5.0 percent for the permanent mortgage under a loan amortization schedule of 25 years. Based on a review of cap rate surveys and proformas for hotels in the Scottsdale/Tempe areas, we estimate a capitalization rate, or buyer's required yield on the purchase of the property of 7.5 percent. We assume expenses associated with the sale of the property are three percent of the transaction value.

MARKET REVENUE AND EXPENSE PARAMETERS

Table VI-4 summarizes the market revenue and expense parameters for the prototypical hotel development alternatives.

TABLE VI-4

Market Revenue and Expense Assumptions of Prototypical Hotel Developments

Average Daily Rate	\$385 Base; \$400 Bonus
Annual Occupancy Rate:	
Operating Year 1	66%
Operating Year 2	68%
Operating Year 3	70%
Operating Year 4 and Thereafter	72%
Variable Expense[1]	58% of annual room revenue
Fixed Expenses[2]	8% of annual room revenue
Growth in Average Daily Room Rate	4%
Growth in Expenses	3%

Notes:
[1]Variable expenses include distributed and undistributed costs, including administrative, marketing, department expenses and franchise fee.
[2]Fixed expenses include management fee, property taxes, and insurance.
Source: Gruen Gruen + Associates review of proformas, annual reports of hotel REITs

If we use average daily rates/total revenue of less than \$385 per room for the base zoning and \$425 per room for the bonus standards zoning, holding all inputs the same, none of the alternatives would be financially feasible (the supportable land values would be lower than reservation or minimum market prices). The average daily rate/revenue assumptions of \$385 to \$400 per room reflect potential future obtainable rates assuming business, group, and leisure travel demand recovers fully from the Covid-19 pandemic.

We assume an occupancy rate of 66 percent in the first operating year; 68 percent in the second operating year; 70 percent in the third operating year, and 72 percent in the fourth operating year and thereafter. We estimate that variable expenses will approximate 58 percent of revenues, while fixed expenses, or those that do not vary with changes in occupancy, will approximate eight percent of revenues. Based on a review of hotel REITS annual reports and several proformas for hotels planned in Tempe, while the mix of fixed and variable expenses could vary, the overall margin or net income as a percentage of revenue of 31 percent is estimated to be reasonable. For example, the margin or operating income reported by Pebblebrook Hotel Trust in 2019 (prior to the effects of Covid 19 pandemic on room night demand) was 30 percent.[6] We assume revenues increase at four percent and expenses at three percent.

[6] See page 61 of the most recent annual report: 0001474098-22-000035 (d18rn0p25nwr6d.cloudfront.net).

RESULTS OF INVESTMENT ANALYSIS OF PROTOTYPICAL HOTEL DEVELOPMENT ALTERNATIVES

Table VI-5 summarizes the results of the investment simulation of the development and operation of the prototypical Type 2 district hotel development alternatives under base and bonus zoning standards (without incorporating into the bonus standards alternative the costs of community enhancements).

TABLE VI-5

Investment Results of Prototypical Hotel Development Alternatives[1]

	152 Room Hotel	270 Room Hotel
Land Value Residual	**$336,000**	**$1,072,000**
Residual Land Value per Room	**$2,200**	**$4,000**
Residual Land Value per Square Foot	**$6.42**	**$20.51**
Total Project Value	$56,557,000	$113,500,000
Equity	$22,623,000	$45,400,000
Permanent Loan	$33,934,000	$68,100,000
Annual Debt Service	$2,408,000	$4,834,000
IRR in Year 7	18%	18%

[1] Figures are rounded.

Source: Gruen Gruen + Associates

The results of the investment analysis indicate that the postulated prototypical 152 room hotel under base zoning would need to obtain average daily rates/revenues of $385 per room to produce a small positive residual land value of $336,000 or $2,200 per room and $6.42 per square foot of land. Equity for the project would approximate $22.6 million and the permanent loan of about $33.9 million for a total project value of approximately $56.6 million. This equates to a value per room of $372,000 per room.[7]

The results of the investment analysis indicate that the postulated 270 room hotel under bonus zoning provisions would need to obtain average daily rates/revenues of approximately $425 per room to produce a small positive land value of approximately $1,072,000 or $4,000 per room and $20.51 per square foot of land. Equity for the project would total about $45.4 million and the permanent loan of about $68.1 million for a total project value of $113.5 million. This equates to a value per room of $420,000 per room.

[7] According to A Breakdown of the Major US Hotel Sales for Q1 | By Daniel H. Lesser (hospitalitynet.org) in the first quarter of 2022 the 326 room Scottsdale Resort at McCormick Ranch sold for $347,000 per room.

Effects of Costs of Community Enhancement Contributions

Table VI-6 presents an estimate of the costs of community enhancement contributions required to obtain the bonus zoning standards for Type 2 district hotel developments.

TABLE VI-6

Estimated Costs of Community Enhancement Contributions Under Bonus Standards[1]

	TYPE 2 DEVELOPMENT			
Bonus	Base Zoning	Bonus Standards	Difference	Community Enhancement Contribution[2] $
Height	66	90	24	327,100
Gross Floor Area	73,180	129,873	56,693	772,700
Total				1,099,800

[1] Figures are rounded.
[2] Contribution for fiscal year 2022: Height - $13,628 per foot; Gross Floor Area - $13.63 per square foot; Units - $13,628 per unit.

Sources: City of Scottsdale; Gruen Gruen + Associates.

The costs of community enhancement contributions required for the bonus standards are estimated at nearly $1.1 million. The costs would exceed the estimated residual land value the postulated hotel development alternative without such costs. Accordingly, the land would need to be contributed at no cost for the larger hotel development to be feasible. Given for profit landowners would not do this, hotel developments are unlikely under the present conditions to request bonus standards.

APPENDIX A

ANALYTICAL APPROACH TO FEASIBILITY TESTING AND LAND VALUE ESTIMATING

To a private developer, the value of property is determined by the return on the total investment in the property and additional construction required to create a development that makes the most remunerative possible use of the land. The value of the property is the "land residual" that can be supported by the highest and best marketable use of the site. A residual land value is estimated based on assuming the investment applicable to all components of a real estate project must earn a sufficient return to warrant the expenditure of capital on such components. The rate of return on the development project must be such that it produces a balance available for land purchase that will permit an investor to realize a reasonable rate of return on the total investment in land and real property. The residual land value is equal to the present value of a project's future income stream discounted at the threshold or feasibility rate minus the full costs of the improvements required to develop the project.

In essence, the calculation first establishes the total investment that could be supported with the estimated pre-tax cash flow and residual sale value of a property, given assumptions about what constitutes an acceptable return. It then subtracts out all costs (inclusive of a reasonable rate of return on investment) except land value from that total investment so as to indicate the amount that could be paid for land. For example, if we calculate that:

1.	The present value of the cash flow earned by a development project plus its sale in 12 years when both are discounted at 12 percent is equal to	$150,000
2.	And the total cost (including the developer's required rate of return) of the project exclusive of land equals	100,000
3.	Then the present investment worth of the project equals	50,000
4.	If the equity that the developer invested in the project equals	30,000
5.	Then the residual land value or what the developer can pay for the land and still earn a 12 percent rate of return on the equity equals	$20,000

APPENDIX B
APARTMENT RENTS IN DOWNTOWN SCOTTSDALE

TABLE B-1: Current Downtown Apartment Rents

	Stories #	Units #	Avg. Unit Size # Sq. Ft.	Effective Rents[1] Monthly $	Effective Rents[1] Per-Square-Foot $
The Clayton 7520 E. 2nd St. Built 2022 1.10 Acres	4	36	924	2,317	2.51
Gramercy Scottsdale 4735 N. Scottsdale Rd. Built 2021 2.06 Acres	5	160	959	2,907	3.03
The Griffin 3234 N. Scottsdale Rd. Built 2018 4.14 Acres	4	277	948	2,293	2.42
Carter 3300 N. Scottsdale Rd. Built 2018 4.53 Acres	5	365	902	1,765	1.95
The Standard 6811 E. Main St. Built 2016 3.02 Acres	3	134	841	2,568	3.05
Broadstone Waterfront 7025 E. Via Soleri Dr. Built 2015 3.35 Acres	4	259	807	3,086	3.81
Camden Old Town 7350 E. Stetson Dr. Built 2015 3.97 Acres	4	316	861	2,039	2.37
Optima Sonoran Village 6895 E. Camelback Rd. Built 2014 3.77 Acres	7	806	1,144	3,446	3.01
The Moderne 4848 N. Goldwater Blvd. Built 2014 10.32 Acres	3	369	959	2,639	2.75

[1] Effective rents include concessions.

Sources: CoStar, City of Scottsdale; Gruen Gruen + Associates.

Gruen Gruen + Associates (GG+A) is a firm of economists, sociologists, statisticians and market, financial and fiscal analysts. Developers, public agencies, attorneys and others involved in real estate asset management utilize GG+A research and consulting to make and implement investment, marketing, product, pricing and legal support decisions. The firm's staff has extensive experience and special training in the use of demographic analysis, survey research, econometrics, psychometrics and financial analysis to describe and forecast markets for a wide variety of real estate projects and economic activities.

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