

MEMORANDUM

January 19, 2017

TO: Planning, Housing, and Economic Development (PHED) Committee

FROM: Marlene Michaelson, Senior Legislative Analyst

SUBJECT: Bethesda Downtown Sector Plan

This is the Planning, Housing, and Economic Development (PHED) Committee's first worksession on the Bethesda Downtown Sector Plan. At this meeting, the Committee will receive a more detailed briefing on the Sector Plan, be introduced to some of the key concepts and strategies recommended in the Sector Plan, and have an opportunity to raise questions and request any further analysis it believes will be helpful in reviewing this Sector Plan. Staff anticipates that the Committee will make few, if any, decisions at this first meeting.

Councilmembers should bring their copy of the Plan to the meeting.

BACKGROUND

Bethesda, located in southern Montgomery County, is a 451-acre thriving urban area with 10,000 residents and some of the County's largest employers. With numerous restaurants, shops, art galleries and entertainment choices, it is an arts and entertainment destination and center of the nightlife economy. This Sector Plan defines the context, purpose, and recommendations for development in Downtown Bethesda for the next 20 years.

Page 6 of the Sector Plan describes its **4 overarching goals**:

- **Parks and open spaces** – the Plan recommends the creation of several new parks in the planning area.
- **Affordable housing** – the Plan includes recommendations to preserve some of the existing market rate affordable housing and create an increased percentage of Moderately Priced Dwelling Units (MPDUs) on certain properties.

- **Environmental innovation** – the Plan would result in improved stormwater management and sidewalks and bicycle routes. It also includes significant new requirements for energy-efficient buildings in an area designated as the “high-performance” area.
- **Economic competitiveness** – the combination of new development, public amenities, and proximity to transit is expected to attract businesses and visitors from throughout the region.

The Planning Objectives are presented on pages 8-9 and include specific objectives related Economic Growth, Housing, Retail, Public Facilities, Sustainability, and Performance Areas. While the Council received significant testimony opposing recommendations for height on specific properties, there was strong support for the overarching goals and objectives in the Sector Plan, particularly its recommendations related to new parks. Staff believes that the Sector Plan includes several new and innovative ideas to achieve these objectives.

Summary of New Development

The following chart indicates the existing development in Bethesda and the development allowed under existing and recommended zoning.¹ Although it is typically assumed that most commercial properties will not build to the full potential allowed by zoning, this Plan is unique in its recommendation to limit and sell additional density, which would be forfeited if the property owner does not develop within a certain amount of time. Given the development market in Bethesda and the potential competition for limited additional floor area ratio (FAR), Staff believes the full FAR will be used, although the time period for new development is unclear and could extend beyond the life of the Sector Plan.

BETHESDA DEVELOPMENT			
	Existing Development	Maximum Under Existing Zoning (including existing)	Maximum Allowed Under Proposed Development (including existing)
Commercial (sf)	14,019,451	13,789,135	16,485,550
Residential Total (DU)	9,603	14,028	17,957
Residential, Single-Family (DU)	707	606	606
Residential, Multi-Family (DU)	8,896	13,422	17,351
Total Square Footage (millions)	23.6	27.8	32.4

¹ Additional information regarding development trends since 1976 appears on © 1.

AMOUNT OF NEW DENSITY

The Sector Plan would allow an additional 8.8 million square feet in new density over the 23.6 million square feet that exists today and 4.6 million square feet more than what is allowed by existing zoning.² Planning Department staff explained to Council Staff that this amount would allow additional growth and economic development in Bethesda, while keeping the area in balance for schools and transportation. They believe that a significant increase above this amount could not be supported by the proposed transportation network. Since the modeling for this Plan already assumed all the transportation improvements planned for the area, it is very unlikely that there will be additional opportunities to increase development potential once this cap is reached.³

Location of density/height

Prior Bethesda Sector Plans and other master plans have generally identified one or two central points where the greatest height and density should be located, decreasing with distance from that central point. In Bethesda, the greatest densities were placed directly above the Metro stop, decreasing as distance from Metro increased. The Sector Plan takes a very different approach, creating multiple points of increased height where property owners have the opportunity to purchase additional density or FAR. The Planning Board identified several areas within Bethesda as emerging and expanding centers of activity and recommended additional heights at those locations to allow for additional development. The emerging centers include Wisconsin Avenue North, the Pearl District, and Arlington South. Expanding centers include Bethesda Row, Woodmont Triangle, and the Wisconsin Avenue Core.

If the FAR allowed by this plan is unlikely to increase in the future, Staff questions whether there will be sufficient capacity to create multiple centers of increased density. This does not mean that there cannot be several emerging centers of new development that become a focal point for new businesses and homes, but it may mean that they cannot all rely on increased FAR as the basis for the development. Staff notes that some of the most successful areas in Bethesda today – particularly Bethesda Row – do not have significant height or FAR.

Heights

The Sector Plan recommends significant increases in height for many of the properties across Bethesda without commensurate increases in FAR. Property owners would be required to

² If the Council agrees with the caps recommended in the Sector Plan, Staff recommends clarifying the language in the Sector Plan and Overlay zone that describe these caps. On page 145, the Sector Plan indicates that the Overlay zone will “set a cap on development to ensure that total density in the Plan Area, including mapped CR density, does not exceed approximately 32.4 million square feet.” The Overlay zone caps the “bonus density” at 3,289,000 square feet without reference to the increased density allowed by the sending areas or the 32.4 million intended total density cap for existing and new development.

³ At some future point, a significant change in technology not available today (such as widescale use of driverless cars) could change capacity, but until that happens, the planned road infrastructure and transit network would not allow more density than allowed in this Plan.

purchase this additional FAR via one of three methods described below – there are no limits on the amount of FAR that can be purchased, other than what can be accommodated by the height. **The Sector Plan provides increased height for far more properties than will be able to purchase FAR, given the limits in the Plan.** Since the 4.6 million in new available FAR will be purchased on a first come, first served basis, there is no way to know which buildings will take advantage of the additional height. It is entirely possible, as asserted by several civic groups, that the properties closest to the residential neighborhoods at the periphery of the Sector Plan could develop first and use all available capacity before owners closest to Metro, or at one of the emerging centers, can purchase density. The heights are likely to create an expectation of development. Even if the cap recommended by the Planning Board creates a limit on new development, Staff suspects there are many who believe that cap will be increased once the density is used up. But based on transportation analysis, both Planning Department staff and Council Staff do not believe that additional development beyond the cap will be feasible.

As noted by several of those who submitted testimony, there are significant increases in heights in areas where heights were previously capped due to their proximity to low-density residential development. Staffs believe that the Committee will need to review these recommendations very carefully and explore opportunities to reduce heights, particularly since it's clear that far more properties were assigned additional height than will be given the opportunity to take advantage of it.

Methods to Purchase Additional Density

Properties in the Sector Plan were capped at their existing FARs and must purchase density. The County has existing costs associate with new density, most notably the requirement to purchase transferable development rights (TDRs) and pay impact fees. Staff believes it is very appropriate to have a fee associated with increases in density that will be extremely valuable for its recipients.

Options to purchase density include one of three methods illustrated on © 3. Under one method property owners can obtain additional density if they follow the provisions in the Bethesda Overlay Zone and do the following:

- Pay a \$10 per square foot park impact payment (PIP).
- Provide 15% MPDUs.
- Have designs reviewed by a Design Advisory Panel.

The Overlay zone allows up to 3.29 million square feet of “bonus density” to be purchased by this method.

A second option allows them to purchase density from one of several designated “**priority sending**” areas at a price to be negotiated between the seller and buyer. The Zoning Ordinance allows density transfers for properties zoned Commercial/Residential (CR) or Commercial/Residential Town (CRT) that are located within ¼ mile of each other. Pages 147-149 of the Sector Plan describe its recommendations for a new density transfer program that identifies

specific priority sending sites that fall into one of three categories: existing affordable housing, public open spaces, and historic/community resources. The Sector Plan recommends a total increase of 1.3 million square feet of new FAR for sending areas that can be transferred to other properties. Property owners who purchase density from a priority sending area are **not** required to purchase Building Lot Termination (BLT) rights, provide 15% affordable housing on the transferred density, or pay the park impact payment.

The appendix estimates a cost of \$35-\$41 per square foot to purchase density from a sending area, although the value will be linked to value of development in Bethesda, which could be significantly higher. Since the Plan exempts properties that purchase density from the requirements to provide 15% MPDUs and the purchase of BLTs, they estimate that the cost of additional density will be discounted as compared to density transfers currently allowed under the Zoning Ordinance.

Staff has several concerns with this option which the Committee may want to discuss at this worksession or a future meeting:

1. The need to find and negotiate with senders, the uncertainty regarding finding a willing seller and price, and the cost differential between this option and paying the park impact payment lead Staff to conclude that any property seeking additional density will opt to pay the \$10 park impact payment, rather than negotiate and purchase density from a sending area at a price very likely to exceed \$35 per square foot. Staff does not believe those wishing to acquire new density will turn to sending areas until all of their existing zoned capacity and the bonus density (3.3 million square feet) have been used up.
2. Sending sites are not required to sell their density, so any owner contemplating redevelopment is likely to retain their property and redevelop at a far greater value or may redevelop before receiving a purchase offer.
3. Staff questions the recommendation to have any site transferring density from a sending area exempt from 15% affordable housing and BLTs.
4. For properties that are not likely to redevelop (or cannot), such as the Women's Farm Market or St. John's Church, the transfer of density will not change their development potential, but will provide a cash infusion to these organizations. While they are indeed worthy organizations, Staff questions whether the master plan process should be used to provide funding for these organizations, while not providing similar opportunities to other equally deserving organizations throughout the County.

The final option for purchasing density identified on © 3 is the existing transfer of density provisions in the Zoning Ordinance. Since this is the least flexible and most expensive of the three options, Staff believes it is unlikely to be used – at least until all other options to increase density are exhausted.

A related issue raised in testimony that the Committee will need to address is whether transfers of density that occurred prior to this Sector Plan – or will be allowed by the recommendations in this Sector Plan – are meant to last in perpetuity or are only valid until the Council considers the next Sector Plan.

New Parkland

One of the Sector Plan recommendations that has strong support is its efforts to create new parks in Bethesda. The Committee will have a more detailed review of these recommendations at a future worksession, but Staff believes that this overview session should acknowledge the importance of these recommendations. Staff also believes that further work should be done to identify options for funding parks. The Sector Plan appendix identifies the cost of acquisition **and** development of new parks identified in the Sector Plan as ranging from \$61 million to \$165 million.⁴ The park impact payment, which would only apply to development above that allowed by existing zoning, not all new development, is estimated to generate approximately \$34 million over an unknown period of time. Staff plans to explore options to provide near-term funding that could cover an increased portion of the costs of new parks.

High Performance Areas

Pages 66-69 of the Sector Plan describe the High Performance Area, an area covering most of the core of the planning area. While page 9 of the Sector Plan describes 6 performance areas of focus, the primary emphasis, as discussed on pages 66-69, is on energy efficiency. An optional method project in the High Performance Area “should be approved only if it achieves the maximum amount of public benefit points allowed for constructing buildings that exceed energy-efficiency standards for the building type”. The Plan’s recommendations not only ensure greater energy efficiency for Bethesda, but provide a unique branding that may attract future businesses and residents. Staff has some concerns with specific energy standards referenced in the Sector Plan, but overall supports this new and innovative approach.

Affordable housing

The chart on © 4 and background on © 5-6 show the existing affordable housing units in Bethesda, including 826 income-restricted affordable housing units (MPDUs and Housing Opportunities Commission (HOC) income restricted units). They also indicate that there are 3,263 market-rate units. However, under the new definition of “market-rate affordable” housing reviewed by the Council in the context of the Lyttonsville Sector Plan, market-rate affordable units would be those that are affordable to families making less than 80% of area median income, so many of these units would no longer fit that definition.

While some of the identified market-rate affordable units are designated as priority sending areas to preserve affordable housing, others are not – most notably the housing along Battery Lane. In 2006, when the Council considered the Woodmont Triangle Amendment to the Bethesda Master Plan, it deferred action on these properties and asked the Planning Department to conduct a study to identify how to best protect market-rate affordable housing along Battery Lane. (The Rental Housing Study should be completed shortly.) The Planning Board decided to allow

⁴ Several groups and individuals have argued that the Sector Plan should have additional new parks beyond those identified in the Plan, which could significantly increase the estimated costs.

redevelopment along Battery Lane without recommending any strategies to preserve market-rate affordable housing at this location. When the Committee conducts its district-by-district review, it will have to determine whether it agrees with this decision.

The Sector Plan recommends 15% MPDUs as a priority public benefit on optional method projects, requires 15% for all projects that acquired additional density via the bonus pool (although it is unclear whether the 15% would be on the entire development or just the bonus density), and exempts projects that purchase density from priority sending areas from providing 15% MPDUs on bonus density. **Staff recommends that all optional method projects in Bethesda (including ones with undeveloped zoning capacity that do not require bonus density) be required to provide 15% MPDUs any time they develop under the optional method of development.**

Design Excellence

The Sector Plan has new requirements to foster design excellence in the Sector Plan. However, they are focused primarily on the 3.3 million square feet of new development that will be required to have designs reviewed by a Design Panel to enable them to purchase bonus density. This requirement does not apply to the remaining 5.5 million in additional density that can proceed based on existing zoning or by purchasing density from sending areas. Staff suggests the Committee explore options with the Planning Department to achieve design excellence on all new development in Bethesda.

Staging

The Sector Plan does not include a staging plan and the Council received testimony suggesting that one is needed. After completing its analysis of transportation and school capacity issues, Staff will consider the merits of adding staging to this Plan and report to the Committee on this issue at a future meeting.

Plan Analysis

	Existing on the Ground	Available + Additional Density	Total Plan Land Use Vision	Realized Development
1976 Plan	9.2M SF	11.7M SF	20.9M SF	7.1M SF
1994 Plan	16.3M SF	11.5M SF	27.8M SF	7.3M SF
2016 Plan	23.6M SF	8.8M SF	32.4M SF	TBD

1994 Plan Vision left undeveloped: 4.2M SF

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Additional Density Allocated through BOZ and PSS: 4.6M SF

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2016 Plan Available and Additional Density: 8.8M SF

Bethesda Overlay Zone

Requirements:

- Park Impact Payment
- 15% MPDUs
- Design Review Advisory Panel

Affordable Housing:

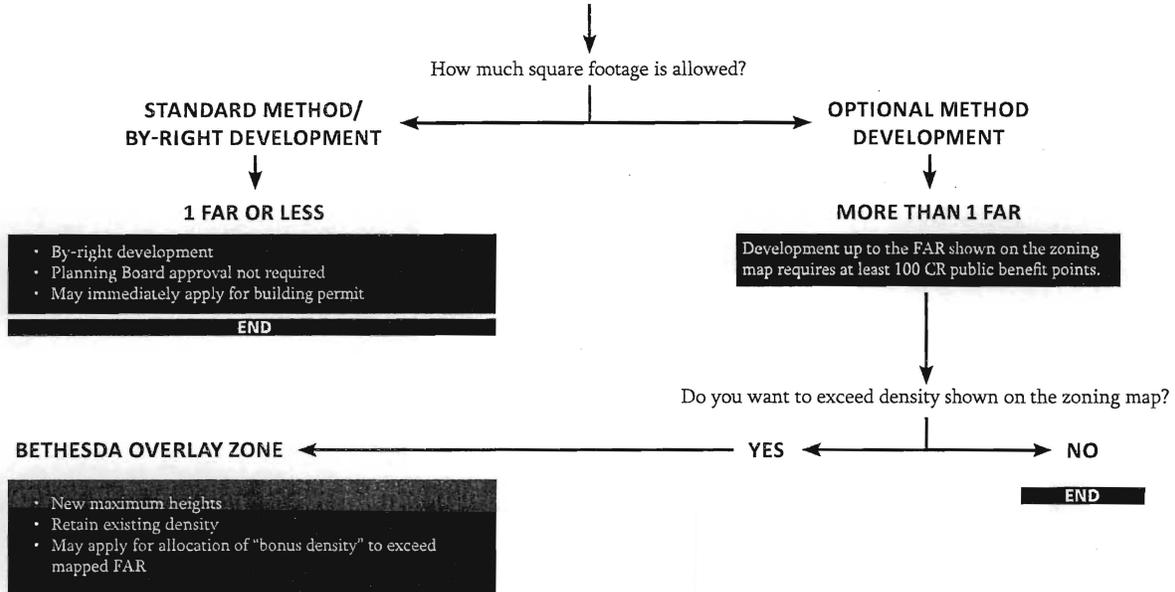
- MPDU SF does not count against FAR (same as today)
- No additional height given outside HPA boundary

Process:

- Board may approve project that exceeds mapped CR density
- For the Board to approve a project with add density it must find that no more than a total 32.4 million SF has been approved
- Project receiving add density must go to permit within 24 months of receiving site plan approval

Bethesda Overlay Zone

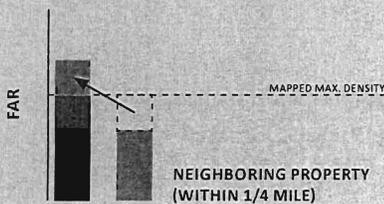
HOW ARE BUILDINGS APPROVED IN BETHESDA?



OPTIONS TO EXCEED MAPPED DENSITY

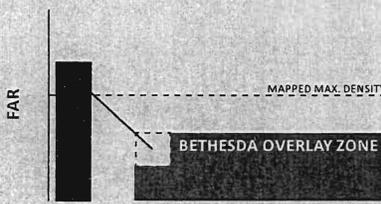
A DENSITY AVERAGING

Density may be averaged between properties within 1/4 mile of each other under the current zoning code. This may be done to acquire additional density to exceed the mapped FAR and reach mapped heights.



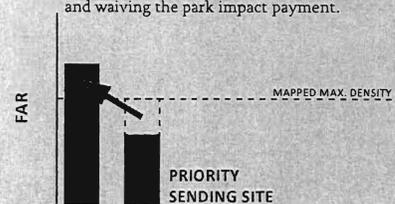
B BETHESDA OVERLAY ZONE

To acquire bonus density from this finite pool, developments must pay a Park Impact Payment, have 15% MPDUs, and are subject to a Design Review Panel.



C PRIORITY SENDING SITES

The priority sending sites option is density averaging with some additional incentives. These include lifting the 1/4 mile restriction, eliminating the requirement for sketch plan or site plan, removing the BLT requirement, eliminating the 15% MPDU requirement, and waiving the park impact payment.



Bethesda Downtown Plan Area

Table – Summary of Affordable Rental Housing Analysis

Existing Multi-Family Rental Units	Rent-Restricted for Low-income Households	Market-Rate Rentals Affordable To:		
		Low Income Households (Income < 65% AMI)	Low-to-Moderate Income Households (65% AMI < Income < 100% AMI)	Moderate Income Households (100% AMI < Income < 120% AMI)
4,669	826 (17.69%)	780 (16.71%)	1,992 (42.66%)	491 (10.52%)

Source: DHCA Rental Facilities Survey (2012); CoStar Group (2015)

- The table includes rental housing units located in multi-family structures with at least 2 dwellings.
- The Bethesda Study Area includes thirty-eight large multi-family developments that contain twelve or more rental units. Sixteen of these developments have at least 100 units.
- 826 units are rent-restricted by MPDU requirements, Low-income Housing Tax Credits, or public subsidies. These units are typically required to be affordable to households with income below 65% of AMI, and sometimes lower.
- Market-Rate rentals are defined as affordable if their rent price plus expected tenant-paid utility costs are no more than 30% of household income. Utility costs are estimated from HUD's Allowances for Tenant-Furnished Utilities and Other Services.
- Households are free to reside in market-rate housing that is affordable to lower income households. Housing that is affordable and available to low-income households is also available to moderate income households. Therefore the actual supply of affordable housing for moderate income households consists of units that are affordable to their own income category, as well as those affordable to lower-income categories.

(4)

Affordable Rental Housing Methodology

First, households are categorized by their income relative to the area median income (AMI). AMI is adjusted for household size. Low-to-moderate income households are those earning up to 65% AMI. The income limits in the table below are based on Montgomery County's MPDU income requirements and HUD.

Table - 2012 Income Limits

Household Size	65%	100%	120%
	AMI	AMI (Median)	AMI
1	49,000	75,000	90,000
2	56,000	86,000	103,000
3	63,000	97,000	116,000
4	70,000	107,500	129,000
5	75,500	116,000	139,000

Source: Montgomery County DHCA, HUD

Second, rather than just count the number of households, we need to count the number of rental units affordable to them. We therefore need to assume the number of bedrooms that a household of a particular size needs. Households of different sizes will have different needs with respect to bedrooms. And households of the same size will even have different bedroom needs. The following table provides the planning department's standard assumptions regarding the distribution of household-sizes by number of bedrooms.

Table -- Household-Size Distribution by Number of Bedrooms

Household Size	Efficiency	Number of Bedrooms			
		1	2	3	4
1	100%	30%			
2		70%	10%		
3			60%	20%	
4			30%	50%	40%
5				30%	60%

Third, based on the previous two tables of household income limits and our assumptions about the distribution of household sizes by the number of bedrooms, we estimate income limits by number of bedrooms. This calculation is a weighted average of household-income limits for each bedroom-size. For example, for one-bedrooms occupied by households up to 65% AMI, the maximum weighted income is $.3 \times \$49,000 + .7 \times \$56,000 = \$ 53,900$.

Table – Income Limits by Number of Bedrooms

# of Bedrooms	65% AMI	100% AMI	120% AMI
0	49,000	75,000	90,000
1	53,900	82,700	99,100
2	64,400	99,050	118,600
3	70,250	107,950	129,400
4	73,300	112,600	135,000

Fourth, affordable housing is defined as housing that costs no more than 30% of household income. Costs include rent and estimated tenant-paid utility expenses. The following table provides the maximum affordable housing cost, including utility expenses, by number of bedrooms. These costs are affordable to households at the upper threshold of their income category. For example, a one-bedroom that rents for \$1,125 is defined as affordable to low-income households (< 65% AMI), but is most affordable for those with income close to \$53,500.

Table – Affordable Limits at 30% of Income

# of Bedrooms	65% AMI	100% AMI	120% AMI
0	\$1,225	\$1,875	\$2,250
1	\$1,350	\$2,070	\$2,480
2	\$1,610	\$2,475	\$2,965
3	\$1,755	\$2,700	\$3,235
4	\$1,830	\$2,815	\$3,375