

## Development Services Forecast 2025-2026 Budget

### ***Executive Summary:***

- Development Services supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services forecast reflects moderate development activity in the near future and in subsequent years. Current major projects are expected to move through the review and construction phases of the development cycle at a slower pace. Activity is anticipated to show moderate growth through the forecast period.
- This forecast assumes economic uncertainty in the future, however, permit volume has returned to pre-pandemic levels and interest in development in Bellevue remains high.
- Staff are developing workplans for process and reporting changes related to recent legislation adopted by the State of Washington, additional Bellevue code updates, and process improvements to streamline permitting.

### **Background**

In the early forecast years, development activity continues at a slower pace compared to recent years of high development, and a moderate pace is anticipated for office, retail, and housing construction projects that are in the review and construction phases. Two permit extensions were granted consecutively to help alleviate pressure to complete the projects amidst economic pressures of high inflation, high interest rates and workforce adjustments that created uncertainty for office space. Although interest in construction projects remains strong, economic impacts have tempered the pace of development. Activity for commercial reinvestment is anticipated to be at more moderate levels through the remaining forecast period.

Commercial tenant improvement projects are anticipated to continue for existing commercial investments as they move toward completion and deliver new Class A office space. Projects are currently planned or under construction in all areas of the City including office, mixed-use and multi-family development. However, new office development, driven by Amazon's plans to bring 25,000 employees to Bellevue, has slowed as companies are now re-evaluating their in-office work strategies and news of layoffs at several companies based in the area has had an impact on market confidence. The delayed completion of the Eastlink Light Rail project will also temper additional long-term commercial and residential Transit Oriented Development near light rails stations. In addition, developers are facing challenging market financing conditions which is expected to contribute to more moderate levels of development activity throughout the forecast period.

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Single-family applications continue to reach peak level as new single family and reinvestment remains at high levels in the early forecast period. The high demand and low inventory for housing continues, but new single-family projects are impacted by high interest and costs due to high inflation which are expected to contribute to lower application volumes in the forecast period.

The timing of construction for these projects plays a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of several major large projects expected to be in concurrent construction phases and increase the demand for inspection services. In the 2025-2026 budget, FTE levels are anticipated to remain constant in anticipation of demand for review/inspection work if projects move forward.

### **Development Outlook**

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q2 2024 was 10.6%, up by 2.0% from Q2 2023. Several new office buildings were pre-leased prior to completion, and while construction of additional office buildings during this development cycle is in response to prior low vacancy, there is uncertainty around future demands for office space as companies vacate their leases and evaluate more expansive, long-term teleworking options for their employees.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to decline to a moderate level. Valuation in prior years is mainly a result of the volume and high valuation of projects. Construction investment for major projects will decline for office development, however, strong demand continues for single family and multi-family housing, and single-family alterations.

The land use design review application activity has declined slightly in recent years, however, interest in future development in Bellevue continues. The pace of development is anticipated to increase somewhat in the latter years of the forecast as economic conditions improve and Bellevue moves to a growth phase in the development cycle.

Recent adoption of City Council policy direction for affordable housing and State Legislation for permits related to land use decision timelines will likely impact process and reporting efforts. Staff are conducting analysis and developing workplans to address and implement the new requirements.

### **Drivers and Assumptions**

1. The consideration of need for office space in the future, is a significant driver for the slower pace of office development and additional amenities in the downtown.
2. Several major mixed-use and nonresidential development projects are under construction. Residential and senior housing development continues with construction of apartment, townhome and senior living projects.

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3. New project activity continues as projects currently in the review process have the potential to begin construction. Tenant improvements of new office buildings will also continue; however, activity is anticipated to be at a more moderate rate.
4. Council continues to review land use codes that are pertinent to the future growth in Bellevue, including areas such as Wilburton. Affordable housing continues to be an area of focus and priority for the Council.
5. Development Services anticipates maintaining the current level of staffing to address the current and continuing workload. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload and maintain service levels, and to maintain budget alignment.
6. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by the Council. Rates are anticipated to grow at levels near the average rate of inflation.
7. The General Fund supports programs that have been designated as general funded activities including Code Compliance, public information, and code and policy development. General fund support will grow for additional staff in code and policy development.

### **Development Services Reserves**

The Development Services reserves are for prepaid fees, core staffing, technology and facility replacement and projects, and for future rate-smoothing. Reserve levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services reserves reflect the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows through the forecast years, reserve levels decline and will be drawn upon to maintain sufficient staff to complete the review and inspection of projects in construction and continue process improvement work. Development activity and reserve levels are closely monitored, and corrective measures will be taken if market conditions warrant doing so.

## **Summary of Proposed Changes to the Development Services Consolidated Fee Ordinance**

The proposed changes to Ordinance No. 6762 reflect the:

- Results of the Cost-of-Service Study (COSS) performed for Land Use, Fire, Transportation, and Utilities hourly rates.
- Updated building valuation data (BVD) table published by the International Code Council (ICC) to reflect the change in construction valuation from August 2023 to August 2024.
- No change to the Washington State modifier of 1.13 from July 2023 to July 2024 as published by Marshall & Swift to align with Washington State construction costs.
- Adjust building review and inspection fees, including permits for electrical, mechanical, and plumbing systems, by CPI-W (3.49%).

### **Section 2. Administration**

Amend to establish the Affordable Housing Permit Review and Inspection Fee Reduction Program.

### **Section 10. Clearing & Grading Fees**

Clearing & Grading Inspection Fees

- Tree Removal – new inspection fee \$148

### **Section 11. Fire Prevention Fees**

Increase the Fire Review and Fire Inspection hourly rate from \$200 to \$212 reflecting the results of the Cost-of-Service Study.

Fire Inspection Fees

- Building Radio Coverage - adjust fee from \$822 to \$954
- Fire Alarm No Plan Review - adjust fee from \$200 to \$318
- Fire Sprinkler System Residential (1-50) – adjust fee from \$200 to \$318

### **Section 12. Land Use Fees**

Increase the Land Use review hourly rate from \$272 to \$281 to reflecting the results of the Cost-of-Service Study. Adjustments to the following fees are proposed to reflect the results of the annual fee analysis which sets the fees based on the average number of review and inspection hours required to complete the permit.

Land Use Review Fees

- Single Family Addition – adjust fee from \$897 to \$955
- Tree Removal – new review fee \$141

### **Section 13. Transportation Department Fees**

Increase the Transportation Review, Right-of-Way Review and Transportation Inspection hourly rate from \$225 to \$243 reflecting the results of the Cost-of-Service Study. Adjustments to the following fees are proposed to reflect the results of the annual fee analysis which sets the fees based on the average number of review and inspection hours required to complete the permit.

Transportation Review Fees

- Tenant Improvement (New Use) – adjust fee from \$563 to \$680
- Minor Commercial Project – adjust fee from \$450 to \$583

**Section 14. Utility Department Fees**

Increase the Utility Review and Inspection hourly rate from \$187 to \$197 to reflect the results of the Cost-of-Service Study. Adjustments to the following fees are proposed to reflect the results of the annual fee analysis which sets the fees based on the average number of review and inspection hours required to complete the permit.

Utility Review Fees

- Storm connection -- adjust fee from \$374 to \$493
- Shoreline Exempt with SEPA -- adjust fee from \$95 to \$148
- Fire Sprinkler Systems - adjust fee from \$150 to \$197

Water Meter Installation – adjust meter fees to cover labor, material, and equipment costs associated with city-installed water meter and full-service installation.