Introductions

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What We Do

**VISION:** A vibrant and prosperous Municipality of Anchorage facilitated by innovative community development and public parking.

**MISSION:** We deliver quality development and public parking services within the Municipality of Anchorage.

How We Do It

**DEVELOPMENT**
ACDA brings together resources to create development using innovation, partnerships and sound planning.

ACDA is working to expand the tools available to encourage development in Anchorage.

**REVITALIZATION**
We're "bookending" downtown with vibrant spaces - K Street Eats and The Rooftop. This is just one way we are revitalizing the community.

**COMMUNITY**
We view community development as more than just new construction of buildings, it also means adding value to our community with services and partnerships.
Why Are We Here?

• Illustrate why it matters
• Share the math
• Propose some solutions
ECONOMIC DEVELOPMENT

Why it Matters?
Mixed Use & Housing is Economic Development

“Housing is the foundation on which Anchorage can build a stronger economic future. Lack of affordable, available and livable housing has been cited by many local businesses as a challenge to attracting and retaining employees in Anchorage.” – AEDC

Source: Most recent AEDC Employer Survey
Housing is Economic Development

Throughout Alaska
Our Housing Stock was Built Over 20 Years Ago

The majority of Alaska’s existing housing units were built over 20 year ago and housing development has slowed significantly over the last 10 years. This is true throughout Alaska and our communities.
Financial Feasibility

LET’S LOOK AT THE MATH
6 Housing Sites Across Anchorage
All Face Feasibility Gap

- **Parcel 002-167-46-000**
  - E 15th Ave + A St
  - 31 Units / 1 acre

- **Parcel 008-031-66-000**
  - E Tudor Rd + Piper St
  - 112 units / 4 acres

- **Parcel 014-131-41-000**
  - E 74th Ave + Zurich St
  - 10 Units / 2.73 acres
  - Skip – rezone required

- **Parcel 010-244-28-000**
  - Spenard & Northwood Dr
  - 180 units / 10 acres

- **Parcel 012-351-88-000**
  - W Dimond Blvd + Arlene St
  - 130 units / 6.2 acres

Hypothetical market rate downtown project
<table>
<thead>
<tr>
<th>Site Name</th>
<th>E 15th Ave/A St</th>
<th>E Tudor Rd/Piper St</th>
<th>Downtown Example</th>
<th>W 44th/Northwood Dr</th>
<th>W Dimond Blvd/Arlene St</th>
</tr>
</thead>
<tbody>
<tr>
<td>Census Tract</td>
<td>West Fairview</td>
<td>Campbell Park East</td>
<td>Downtown (Tract 11)</td>
<td>Northwood</td>
<td>Dimond/Jewel Lake</td>
</tr>
<tr>
<td>Lot Size (acres)</td>
<td>1.03</td>
<td>3.98</td>
<td>0.50</td>
<td>9.96</td>
<td>6.21</td>
</tr>
<tr>
<td>Housing Units</td>
<td>31</td>
<td>112</td>
<td>40</td>
<td>180</td>
<td>130</td>
</tr>
<tr>
<td>Total Development Costs (TDC)</td>
<td>$7,653,541</td>
<td>$27,014,814</td>
<td>$10,025,347</td>
<td>$48,255,178</td>
<td>$32,278,705</td>
</tr>
<tr>
<td>per sqft</td>
<td>$243</td>
<td>$239</td>
<td>$251</td>
<td>$250</td>
<td>$248</td>
</tr>
<tr>
<td>per unit</td>
<td>$243,489</td>
<td>$242,232</td>
<td>$250,634</td>
<td>$268,084</td>
<td>$247,637</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>$250,186</td>
<td>$906,070</td>
<td>$352,385</td>
<td>$1,485,283</td>
<td>$1,030,308</td>
</tr>
<tr>
<td>Property Tax Payment</td>
<td>$82,083</td>
<td>$289,859</td>
<td>$98,511</td>
<td>$512,465</td>
<td>$343,905</td>
</tr>
<tr>
<td>Value of Income Stream (discounted cash flow, 8%)</td>
<td>$2,881,018</td>
<td>$10,479,645</td>
<td>$4,164,155</td>
<td>$16,945,963</td>
<td>$11,826,266</td>
</tr>
<tr>
<td>Gap as % of TDC</td>
<td>62%</td>
<td>59%</td>
<td>58%</td>
<td>65%</td>
<td>63%</td>
</tr>
</tbody>
</table>
Returns are Too Low for Residential Rental Projects that are Larger in Scale

Return Ratios: Static Pro Forma Stage 1 Analysis

Net Operating Income (NOI) $415,767
Total Project Cost $8,672,635
Less: Development Subsidies 0
Project Cost after Subsidies $8,672,635

Return on Cost: Overall Cap Rate (NOI/Total Cost after Subsidies) 4.8%

Net Operating Income $415,767
Annual Debt Service \(^a\) $230,099
Cash Throw-Off (Before Tax Cash Flow: BTCF) $185,668

Total Adjusted Cost $8,672,635
Permanent Mortgage $3,897,820
Equity Including Gap Financing Necessary $4,774,816

Cash-on-Cash Return (BTCF/Equity) 3.9%
Low returns = gaps in the financing

- Debt: $3,897,820 (45%)
- Equity: $2,168,159 (25%)
- Gap: $2,606,657 (30%)

$10,000,000 $9,000,000 $8,000,000 $7,000,000 $6,000,000 $5,000,000 $4,000,000 $3,000,000 $2,000,000 $1,000,000 $0
Financial Feasibility
Limitations for Downtown

• Mixed-use residential hard to make “pencil.”
  • Construction costs are 20% to 47% higher in Alaska than in other areas in the country.
  • Residential rents are not high enough to cover costs.

• Office, hotel and retail projects often “pencil” but market demand is limited.
Development Feasibility Comparison

Alaskan Communities
• Hard costs are substantial
• Rents are not high enough to cover costs
• Fewer partnership tools for redevelopment

L48 Urban Centers
• Rents in some markets are high enough to cover costs
• Public costs can limit feasibility
• Construction costs are not as high as in Alaska
• More tools to partner.
  • Tax increment is often used
  • Mezzanine funds are more readily available
What is Working

SOLUTIONS
While the gap is large, we shouldn’t be discouraged. Let’s remember that development is both an art and a science. Many factors influence project feasibility.

Municipal Tools: Tax incentives (SB100), land, parking

Patient Private Sector Capital & Long Term Investors (mezzanine fund needed)

Matching financial “Winners” & “Losers”

Successful mixed-use residential project

Example: hotels and office tend to pencil and when paired with residential can improve feasibility.

What is Working in Anchorage
Investing Through Land

5 Request for Proposals by MOA/ACDA

• Muni health building: Development agreement signed
• 7th and I: Agreements executed & project complete
• Transit Center: Development agreement signed & design in process
• 8th and K: In negotiation
• Block 102: RFP cancelled – feasibility gap too large
Role of SB 100: Anchorage’s Downtown Housing Tax Incentive

72 units approved
39 units upcoming
What is Still Needed

SOLUTIONS
### Pro Forma by Site – Still a Gap with 20 Year Incentive

**Downtown Anchorage Example – TDC at $10 million**

<table>
<thead>
<tr>
<th>Incentives</th>
<th>No Incentives</th>
<th>12 Year Tax Incentive</th>
<th>20 Year Tax Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rents</strong></td>
<td>Market Rents*</td>
<td>Market Rents*</td>
<td>Restricted to 60% AMI</td>
</tr>
<tr>
<td><strong>Net Operating Income</strong></td>
<td>$352,385</td>
<td>$450,896</td>
<td>$400,739</td>
</tr>
<tr>
<td><strong>Property Tax Payment</strong></td>
<td>$98,511</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Value of Income Stream</strong> (discounted cash flow, 8%)</td>
<td>$4,164,155</td>
<td>$5,374,499</td>
<td>$4,690,474</td>
</tr>
<tr>
<td><strong>Amount of Debt Project can Support</strong></td>
<td>$3,303,611</td>
<td>$4,227,150</td>
<td>$3,756,928</td>
</tr>
<tr>
<td><strong>Equity Required</strong></td>
<td>$6,721,736</td>
<td>$5,788,192</td>
<td>$6,242,018</td>
</tr>
<tr>
<td><strong>Cash Throw Off</strong></td>
<td>$155,496</td>
<td>$198,965</td>
<td>$176,833</td>
</tr>
<tr>
<td><strong>Cash on Cash Return</strong></td>
<td>2.3%</td>
<td>3.4%</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Project Gap</strong>**</td>
<td>($5,861,192)</td>
<td>($4,640,842)</td>
<td>($5,308,471)</td>
</tr>
<tr>
<td><strong>NPV of Tax Incentive</strong></td>
<td>$0</td>
<td>$1,613,405</td>
<td>$1,610,441</td>
</tr>
<tr>
<td><strong>Remaining Gap</strong></td>
<td>($5,861,192)</td>
<td>($3,027,438)</td>
<td>($3,698,030)</td>
</tr>
</tbody>
</table>

*includes premium for new construction

** Project gap is the difference between the Total Development Cost and the capitalized value of the net operating income at an 8% cap rate
### Pro Forma by Site – What Does Pencil?

**Downtown Anchorage Example – TDC at $10 million**

<table>
<thead>
<tr>
<th>Incentives</th>
<th>32 Year Tax Incentive (Not Recommended)</th>
<th>11 Year Tax Incentive &amp; Favorable Mezzanine Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Rents*</td>
<td>Market Rents*</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>$450,896</td>
<td>$450,896</td>
</tr>
<tr>
<td>Property Tax Payment</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Value of Income Stream (discounted cash flow, 8%)</td>
<td>$6,162,183</td>
<td>$5,302,393</td>
</tr>
<tr>
<td>Amount of Debt Project can Support</td>
<td>$4,227,150</td>
<td>$4,227,150</td>
</tr>
<tr>
<td>Equity Required</td>
<td>$5,788,192</td>
<td>$2,503,835</td>
</tr>
<tr>
<td>Cash Throw Off</td>
<td>$198,965</td>
<td>$198,965</td>
</tr>
<tr>
<td>Cash on Cash Return</td>
<td>3.4%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Project Gap**</td>
<td>($3,853,159)</td>
<td>($4,712,949)</td>
</tr>
<tr>
<td>NPV of Tax Incentive</td>
<td>$3,916,118</td>
<td>$1,486,051</td>
</tr>
<tr>
<td>Mezzanine Loan</td>
<td>$0</td>
<td>$3,284,357</td>
</tr>
<tr>
<td>Remaining Gap</td>
<td>$62,959</td>
<td>$57,459</td>
</tr>
</tbody>
</table>

*Local & State Tools Combined to Create a Pro Forma that Pencils*

Repayment when cash-on-cash achieves 15% or after year 30.

*Includes premium for new construction

**Project gap is the difference between the Total Development Cost and the capitalized value of the net operating income at an 8% cap rate
Specific Recommendations

• Utilize SB 100 and implement property tax incentive
• Consider public land as an economic development tool
• Implement statewide financing options
  • Mezzanine fund
  • AIDEA ability to lend on residential
Proposed Mezzanine Fund

- 2 to 3% money
- Long terms
- Repayment structured on the pro forma
- Communities with SB 100 implemented or some “skin in the game”
- Requires developer equity of 25% minimum
- Located in a community defined area of focus (redevelopment or target area)
- Could be privately run
Community Development Initiative

P3 Summit
- Statewide Audience
- Development Strategies
- Introduce Work Plan
- October 2020

Legislative Branch
Sen. von Imhof

Communities
- Elected Officials
- Economic Development Agencies
- Chambers of Commerce

Executive Branch
- Alaska Development Team
  - AHFC, AEA, AIDEA

Industry
- Private Developers
- Commercial Developers
- Building/Trade Associations
- Alaska General Contractors
- Alaska Home Builders Assoc.
- Alaska Mortgage Bankers
- Real Estate Groups

Andrew Halcro - ACDA
Shanna Zuspan - Agnew Beck

More information at www.acda.net
**Tax Increment Financing**

*Estimated Flow of Property Tax Revenue*

*Municipality of Anchorage and TIF District*

- Property tax revenue from the incremental value of new redevelopment projects flows to the TIF District.
- MOA Taxing Entities receive increases in property taxes due to inflation while TIF District is in place.
- TIF District ends and all property tax revenue flows to MOA and
Legal Issues with Increment Financing?

• **Segregating Tax Increment? Not Likely.** Alaska Constitution prohibits dedication of “proceeds of any state tax or license,” but courts haven’t answered whether that applies to municipalities. But if allowed & TIF overlaps a municipal service area, it would be a misappropriation of service area taxes.

• **Can You Issue Debt with TIF? Yes but its likely not feasible to do so.** Article IX, sec 9 of the Alaska Constitution requires municipal debt be for public purpose (capital improvements) and must be ratified by a majority vote.
  • Projects require direct financing & not necessarily funding for capital improvements.
  • Projects won’t be able to secure majority votes EVERY time.

When is a TIF bond subject or not subject to Article IX, sec 9:
  • When secured by tax increment and full faith and credit IS subject to Article IX, sec 9
  • When secured by only the tax increment and not the full faith and credit **IS LIKELY STILL** subject to Article IX, sec 9 – the Constitution does not limit municipal debt to GO bonds.
  • When secured by special assessment which would be an additional “tax” burden **NOT** subject to Article IX, sec 9
  • When secured by the revenues of a TIF agency subject to appropriation from the municipality **IS NOT** subject to Article IX, sec 9 because it becomes a revenue bond and the agency has no obligation to pay. However, bond market will likely not support this. Private placement maybe.

Source: Division of Legal and Research Services, Legislative Affairs Agency, October 28, 2019 at request of Senator Natasha von Imhof
Extra More Detailed Slides to Follow
# Hard Costs Comparison to L48 Projects

<table>
<thead>
<tr>
<th>Item</th>
<th>Anchorage All Samples</th>
<th>Anchorage Stick Built</th>
<th>Anchorage Podium</th>
<th>L48 Podium</th>
<th>Difference: AK Minus L48</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Sqft</td>
<td>$227</td>
<td>$220</td>
<td>$236</td>
<td>$120</td>
<td>$108 / 47% / 49%</td>
</tr>
<tr>
<td>Per Unit</td>
<td>$215,000</td>
<td>$233,000</td>
<td>$180,000</td>
<td>$168,000</td>
<td>$47,000 / $12,000</td>
</tr>
</tbody>
</table>

Note: podium in Anchorage included micro units. Podium in L48 had larger units; this results in less of a cost differential on a per unit basis because Anchorage podium example has a lot of very small units.
COMPARISONS

TDC: $218,000 per unit
$213 per sqft in Seattle

TDC: $216,000 per unit
$185 per sqft in Portland

TDC: $255,000 per unit
$241 per sqft in Anchorage

Shared by Bill Reid with PNW Economics in Portland, Oregon
## Anchorage Compared to Other Places

<table>
<thead>
<tr>
<th>Item</th>
<th>TDC per Unit</th>
<th>TDC per Sqft</th>
<th>Hard Costs per Sqft</th>
<th>Rent Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle Mid-Rise 160 Unit Building</td>
<td>$218,000</td>
<td>$213</td>
<td>$180</td>
<td>$3.50 to $3.75 per sqft</td>
</tr>
<tr>
<td>Seattle 4 Stories Wood Frame</td>
<td>n/a</td>
<td>n/a</td>
<td>$160</td>
<td></td>
</tr>
<tr>
<td>Portland Area 3-Story Wood Frame</td>
<td>$216,449</td>
<td>$185</td>
<td>$140</td>
<td></td>
</tr>
<tr>
<td>Anchorage Project in this Model</td>
<td>$255,078</td>
<td>$241</td>
<td>$192</td>
<td>$2.00 per sqft</td>
</tr>
</tbody>
</table>

Compared to Anchorage: 17% 21% 20% -44%

Shared by Bill Reid with PNW Economics in Portland, Oregon
# Urban Land Institute Targets

## Figure 3: Return, Absorption, and Risk Characteristics of Real Estate Sectors

<table>
<thead>
<tr>
<th>Sector Category</th>
<th>Target Return (%)</th>
<th>Absorption</th>
<th>Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Development</td>
<td>20-30</td>
<td>Sale of project phases</td>
<td>High risk of not receiving entitlement</td>
</tr>
<tr>
<td>Single Family</td>
<td>8-15</td>
<td>Pre-orders for units by phase</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Multifamily For-Sale</td>
<td>8-15</td>
<td>Sales and occupancy upon completion</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Multifamily Apartments</td>
<td>7-12</td>
<td>Lease and occupancy upon completion</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Retail</td>
<td>7-12</td>
<td>Preleasing by major tenants usually required for financing Major tenants needed to ensure smaller tenant interest</td>
<td>Possible market change for small shops, although anchor tenants are committed</td>
</tr>
<tr>
<td>Office</td>
<td>7-12</td>
<td>Depending on market, may require leasing precommitments</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Industrial</td>
<td>7-12</td>
<td>Leasing precommitments required only for larger projects</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Lodging</td>
<td>10-15</td>
<td>Occupancy upon completion</td>
<td>Possible change in market from start of construction to occupancy</td>
</tr>
<tr>
<td>Mixed-Use</td>
<td>10-20</td>
<td>Sales, leasing, and occupancy upon completion</td>
<td>Possible weak market for some sectors. Operational risks from conflict of uses</td>
</tr>
</tbody>
</table>

Note: Return is annual unleveraged return on total project costs.