JEDC Downtown Revitalization

Summary of Meeting of August 16, 2012

Dan Austin and Steve Sorensen spoke to the group about financing of residential buildings in downtown Juneau. It was an exceptionally lively and informative exchange which participants wanted to continue in the future. Below are some points made.

Question: people have trouble finding financing, are there local investment options that have potential for helping? Steve: traditionally, projects are put together by a partnership or LLC so that limited liability partnerships pool money and built apartments: this is still a viable option. Debt service is the responsibility of the LLC or LLP which takes profits above administrative expenses and other costs. Generally, investors are not interested the administration and maintenance issues with an apartment building and thus will shy away from investing unless some other viable alternative is available for the administration and maintenance that makes sense from a cost standpoint.

Question: what about a pool that could do long term financing, maybe not with a huge return like an REIT? Answer: to understand the likelihood you need a person who understands securities investments.

CBJ has a Trust Fund (Affordable Housing) available for workforce housing for those 60%--120% AMI and lower; this is gap financing, that is, the difference between cost and market financing; not the primary source of financing.

Question: what about private purpose bonds? Steve: Yes, neighborhood rehabilitation bonds have been used by municipalities to rebuild and revitalize the blight areas of their respective cities. Local government can use its powers of eminent domain to condemn the blighted property and offers low interest rate loans both of which are financed by the bonds, to attract new businesses to these blighted.

Question: is this a political issue? Steve: The assembly and voters would need to agree but beyond that nothing could stop this approach. With revenue bonds, a public vote may not be required, but there are still political concerns and the project would need a rate of return for bond payment. Can't the Permanent Fund invest in Juneau as well as in N.J.? (in NJ, they have an agent who buys foreclosed properties).

Question: is the cost of management a barrier? Steve: a project must have a management staff and that takes income from rentals. Dan: as a manager he believes it is not the cost of building or debt service but the risk in maintenance and utility costs and other management expenses. He cited rising costs in his projects.

Tax credits can be used for financing. They are designed for nonprofit organizations that are set up to handle the heavy IRS/HUD paper work that add 13-15% to management costs for reporting. But this is not or market rate housing.

Question: AHFC's role in market rate housing. Steve: Mostly AHFC underwrites mortgages for first time buyers or for renters/buyers who are in the 80-120% category. Why aren't people building here? Because it is both building and maintenance. Dan: look at the market for rentals and for "affordable" rentals. There are 3324 rentals in Juneau; 1020 of the total are subsidized, including the 352 of Section 8 rentals. There are no vacancies in "affordable" housing; all vacancies are in the other two-thirds of the market.

Steve: Administration and management costs are a barrier in building rental housing: renters are transients and some are non-payers. This means collection issues, utility costs; vacancies mean a loss of income. If you have high debt service, you need complete occupancy, no vacancies for your first 15-20 years. Your rent must include reserves for major maintenance, equipment replacement, appliances, carpet, paint, etc. You face none of these if you build and sell a house. Dan: Apartment buildings are more expensive to build than a house (a house costs $150/sq ft versus 225-300 /sq ft for an apartment building and 425 for LEED.

Question: would the situation be eased if building entity was separate from the management entity? Conversation seemed to indicate that this would be a help.

Dan asked Steve if private investors would have more interest in mixed income construction if there were no management worries. Steve thought they might. Real estate agencies in town have stepped into this role, but they are not keen on it. Maybe St. Vincent's could be hired for management for a building owned by a LLP or LLC?

Question: are condos less of a worry? Steve: lots of condos were built in the '80s. It is the best use of land to build townhouses or apartments and it is cheaper to build than houses: one road, etc. Private developers just aren't doing it.

Dan: only $3 million is available for all Alaska in tax credits each year. Is the idea of a local private development pool workable? Steve: is there enough interest in it, enough for developers to tap into as conventional financing but with a different interest rate? Dan: what if we could have this sort of pool plus CBJ capitalization also? This could be a program without high compliance costs and, therefore, more affordable.

Steve: this was done by CBJ in Orca Point and for private residences in the late '70s and early '80s where CBJ got $1 million from HUD and individuals made payments back to

CBJ (via banks). This could be done again. If this approach were mixed with private investment, there would need to be clear rules for allocation of profit.

Dan: These days a 3-5% return ought to be attractive to investors. A certain percentage would go to management fees. Steve: Yes. There are lots of opportunities, but no one is stepping up. CBJ might be interested in participating, but they haven't been asked. Dan: the Affordable Housing Trust Fund could be a vehicle, if more money were put into it.

Question regarding opportunities: Steve: like Dan said, private and public funds could be made to happen, but would it result in more housing?

Dan: multifamily housing needs the work of architects and engineers that are pre-development and whose costs are up front and may not come back to the developer, for example, soils analysis. AHFC used to have a $25,000 grant that could get you started on soils and other preliminary studies. Who owns the resulting studies if the project doesn't get built? If the funds came from AHFC or CBJ, they could own these studies so all would not be lost if the project is "no-go". Steve said a Seattle financial institution used to front a similar size grant for preliminary studies, but that is not available anymore.

Question: what did AHFC stop this grant program? Dan: most likely when HUD began contracting its support for state agencies and AHFC didn't have the manpower to evaluate the study results. It worked at AHFC took a soft second or made it a forgivable loan with decreasing payments over time on the original $25,000.

Question: REITs? Steve: these are specific for real estate property that is already developed. Investors' money is pooled and buys income producing properties, for example, office buildings, where rates of return are greater. It is a creature f the IRS and involves shares. Investments today generate 6-8% return for commercial real estate, such as shopping centers, where previously these brought 10-15%. This is why pensions, trusts, etc. went to these investments in the '81os and '90s. They have now fallen out of favor with the economic drop. Investors are now more cautious to join a REIT as generating adequate income and dividend payments.

Questions: what about REITs and residential (not private homes or condos). Steve: it might have an ownership interest with other investors in a new construction.

There was general discussion of the Permanent Fund and AHFC. Steve reminded us that AHFC's mission is to support safe and decent housing for all Alaskans, even market rate housing.

Dan: AHFC and AIDA have been interested in mixed commercial/residential and mixed market rate and subsidized housing. They require a market feasibility study. Low income housing needs a government subsidy and that has disappeared.

Steve spoke about getting the AHFC board of governors and legislators to give back to AHFC some of their unrestricted revenue that now goes into the general fund— Dan: The amount that AHFC sends to the General Fund…it has totaled $1.9 Billion since 1986. The amount varies annually. Dan guesses that is an average of $7.3 million per year, which is more than twice the amount that the feds allocate in Tax Credits. In other words, those funds would have built twice as many affordable housing units than were built with fed funds.

There are lots of housing needs but without state funds, AHFC has to rely on HUD and its more limited mission.

Dan: there are new market tax credits. He plans to learn more about them from his tax attorney.

Question: thoughts on what is needed to bring additional investment to downtown? Steve: it depends on what your vision is for downtown. For example, their work on the Gross building was to create a synergy in the arts that would cause other things to happen. Ke: need something that is a draw and makes being a neighbor more desirable. But the jump start needs to make it on its own. Maybe the cultural center will be enough—maybe enough to interest CBJ to get bonds.

Question: what small scale investment opportunities in downtown? Steve: renovations. Apartments, First National Bank has top floors unused that could be residences: the building could be condominimized with the bank owning the bank and sell the upstairs for 6-8 apartments. Miners Hall and other structures where the upstairs is not being used and could be condminimized. Young and old people would be interested. No one has gone to First National and asked. Condominimizing means having a condo association and maintenance fees beyond the purchase price.

Steve explained his involvement with the Juneau Housing Trust which focuses on home ownership where the land remains owned by the Trust which leases it to the owners. This brings down the cost of housing.