

Real Estate Financing and Economic Development

Challenges and Opportunities in Today's Economy

The Economics of Land Use



presented to

The Sonoran Institute

presented by

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Economic & Planning Systems

- Full service urban economics consulting firm
- Offices: Denver, Berkeley, Los Angeles, Sacramento
- Expertise:
 - Real estate economics
 - Market analysis
 - Feasibility and public finance
 - Public-Private-Partnerships
- Focus:
 - 50/50 split by public and private sector clients
 - Geographic focus:
 - 1/3 Front Range, Western Slope, and Rocky Mountain West
 - Provide data to inform policy decisions



Overview of Presentation

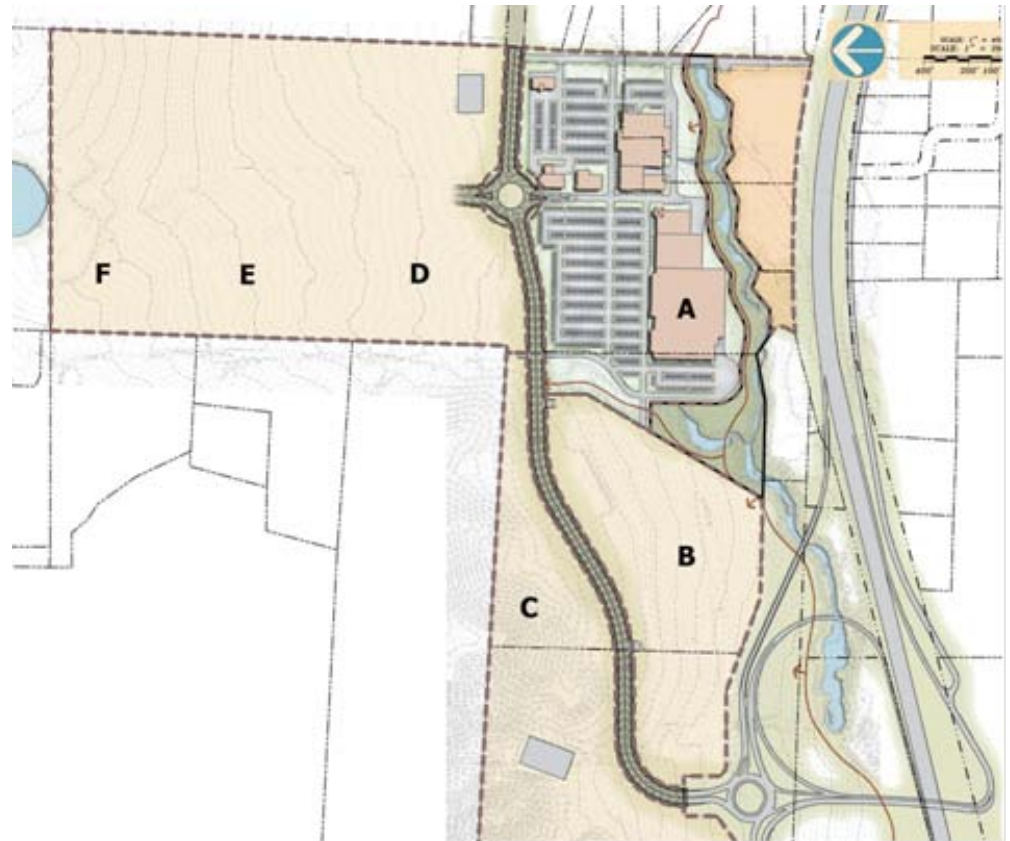
- What is the “new norm” for lending terms as we emerge from the recession?
 - Emerging trends for lenders and developers
- What are the current challenges related to financing development?
 - Public Sector – City of Durango
 - Private Sector – Mixed-use Developers
 - Consumers – Home buyers and renters
- How do cities partner with private developers to catalyze projects?
 - Project Example – City of Boulder

Emerging Trends for Lending and Developing

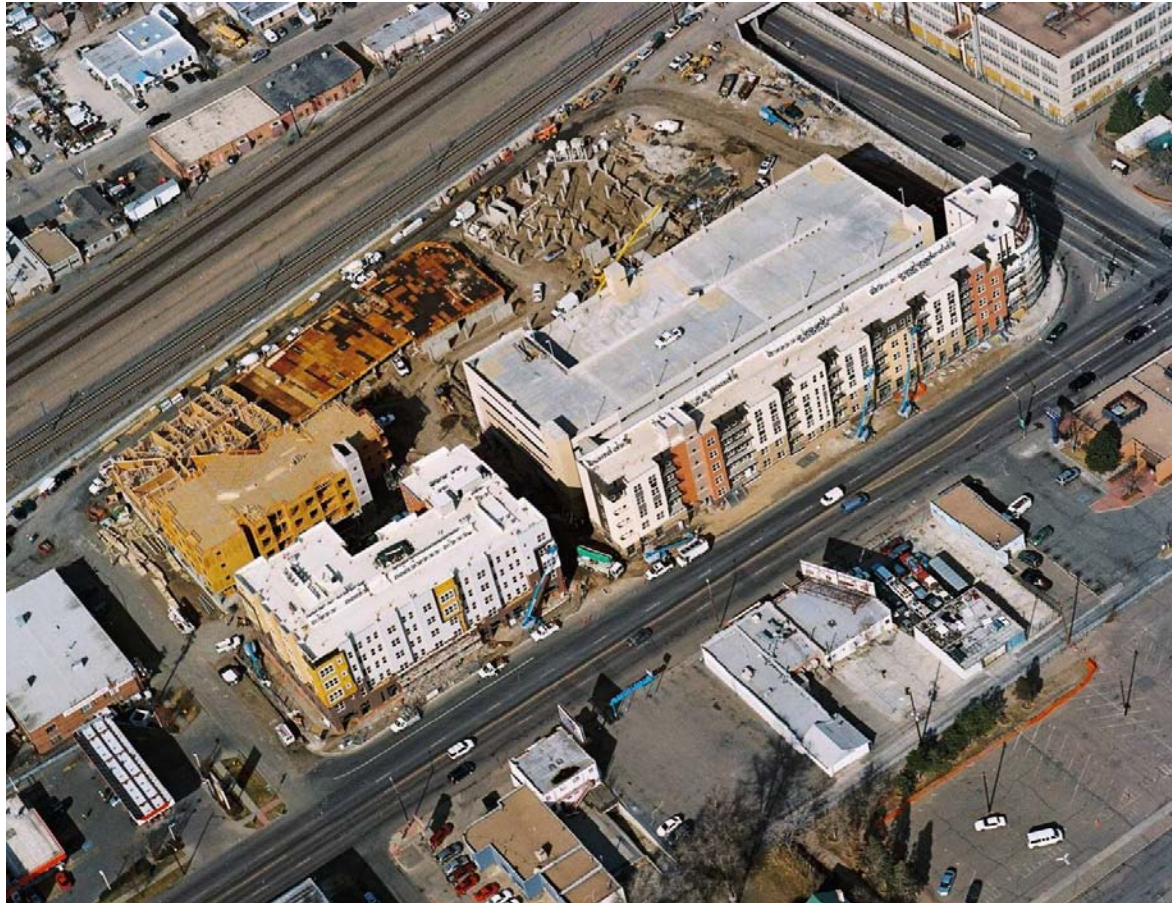
- Lending Overview
 - Banks are recapitalized
 - Assets are high, even low cost assets such as checking and savings
 - Banks seeking to find yield, yet also seeking to minimize risk
 - Selective regarding the projects they will take on
- Development Trends
 - Residential
 - Sense of place is central to any residential play
 - Applies to the most conventional suburban developers in ways it hasn't historically
 - End buyers difficult to find, default is the rental market
 - 16,000 rental units in metro-area development pipeline, equivalency of Class A rental levels
 - Growth in market
 - Migration, Boomers, Gen Y
 - Retail
 - Income, inventory, internet, returns/NOI
 - Mixed use components require "equity underwriting"
 - Office
 - Walkability, mix of uses, 24-hour activity, transit
 - Investors seeking Labor Force with greatest aptitude

Perspective on Conventional Public Financing

- The bond market today is not funding 'dirt districts'
- Markets require proven records of cash flow
- Some investors require 10 to 20 percent of buildings to be complete
- Recourse to the land is no longer a consideration
- Cities face similar challenges
- In recent transactions, Debt Coverage Ratio (DCR) requirements have been as high as 2.0
- Historically, DCRs have ranged from 1.3 to 1.4
- The new levels reflect the extent to which investors want to mitigate risk
- Given the challenges of the current bond market, COPs provide an alternative



Multi-Family and Condominium Perspective



- Capital constraints for multifamily are easing
- Substantial increase in demand, yet substantial increase in supply
- Lending terms for condominiums are tough – the exit requires buyers
- Lenders require presales, some at 50%
- Volatility of markets and elimination of investors make presale threshold challenging
- Even with FHA lending terms, 2+ years employment and 700+ credit scores and down payment threshold eliminate many buyers
- While banks are recapitalized, terms are tougher
- Mixed-use very challenging, as commercial elements are not eligible for debt financing

Perspective on Transit



Transit is an amenity

- Successful residential creates a lifestyle value proposition

The amenity has to be convenient

- It's not the distance, it's the walk

TOD Retail is an amenity

- It takes a village
- The only thing worse than no retail is empty retail
- Subsidize the retailer not only the space

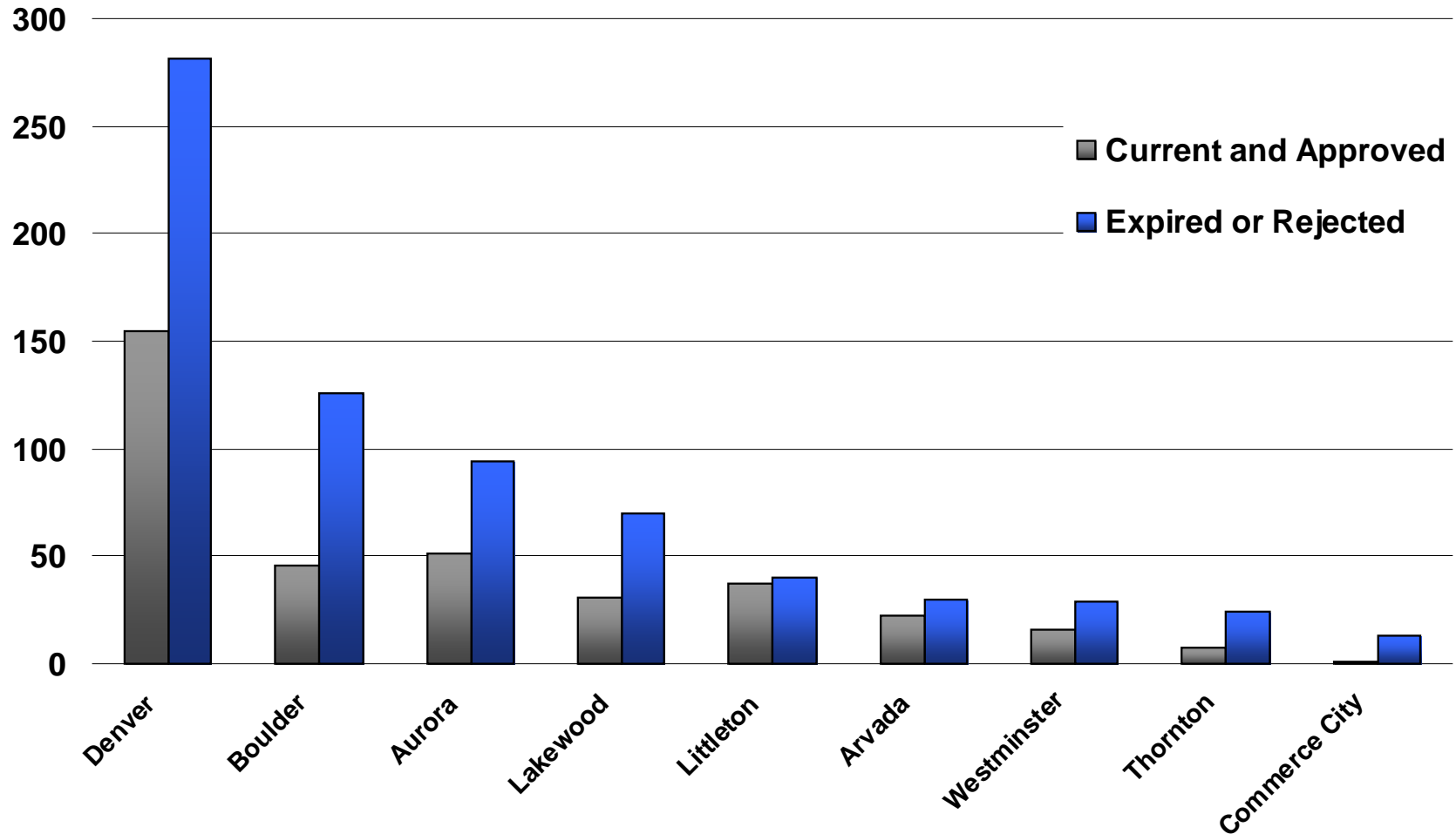
Be brave on parking

- The only thing worse than less parking is empty parking

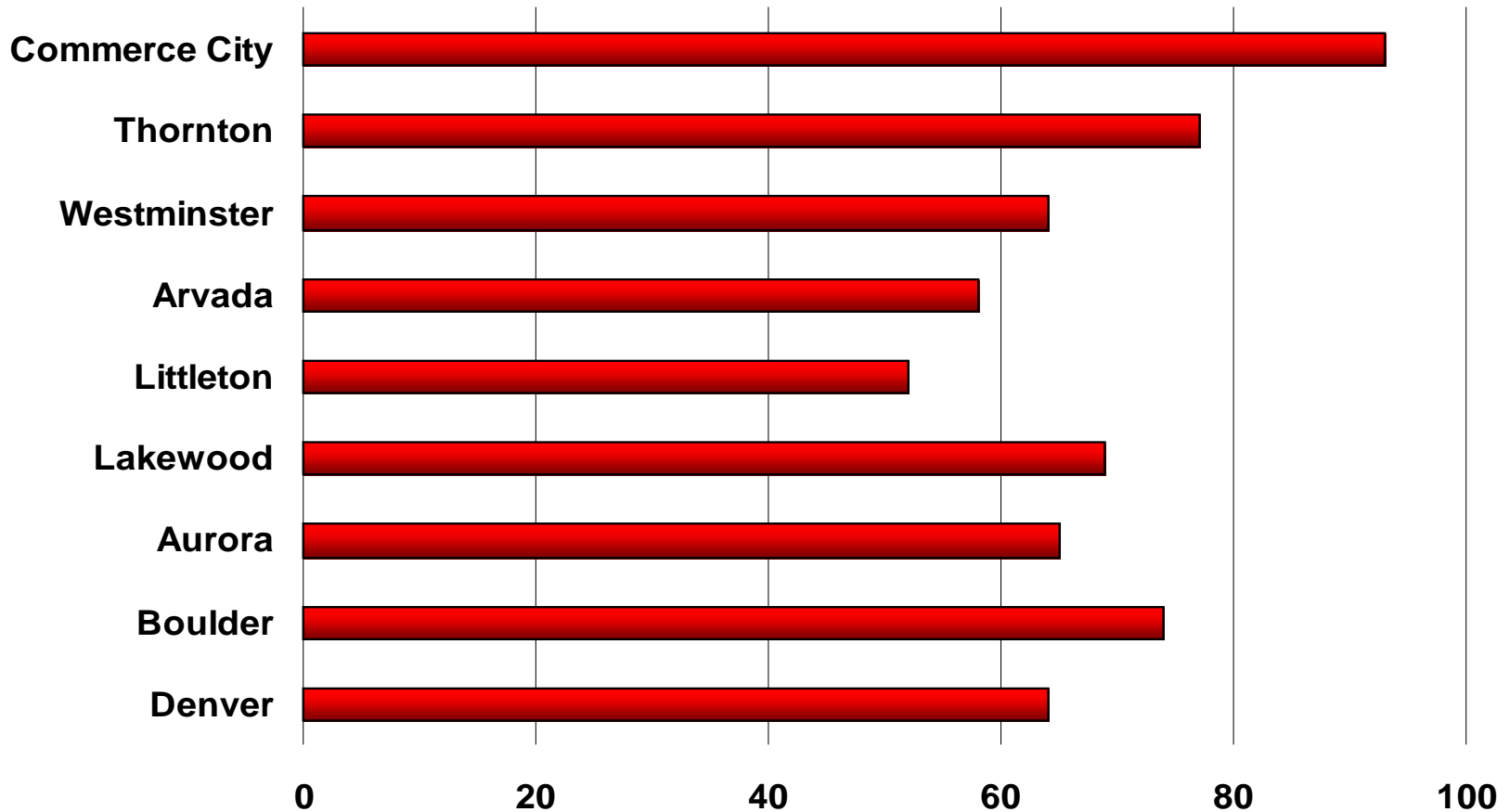
Lending and Construction of Condominiums

- Lending on condominium projects
 - Qualified first-time buyers are eligible for loans with a 3.5 percent down payment on properties worth up to \$417,000.
 - Today, the FHA backs about one third of all purchase mortgages
 - This is up from less than five percent in 2005.
 - FHA loans account for 75 percent of all purchases on homes under \$200,000
 - In order to qualify for FHA financing, a condo development must pass the HUD approval process. A condo development will only receive approval if:
 - No more than 15 percent of units in the development are delinquent 30 days or more on their HOA fees,
 - More than half of the units are owner-occupied,
 - The condo association is not presently in litigation.
- Constructing condominium projects
 - Colorado construction defects legislation impacts developer interest

Condo Approvals by Municipality



Share of Condo Projects with Expired Registration by Municipality



Potential Solutions

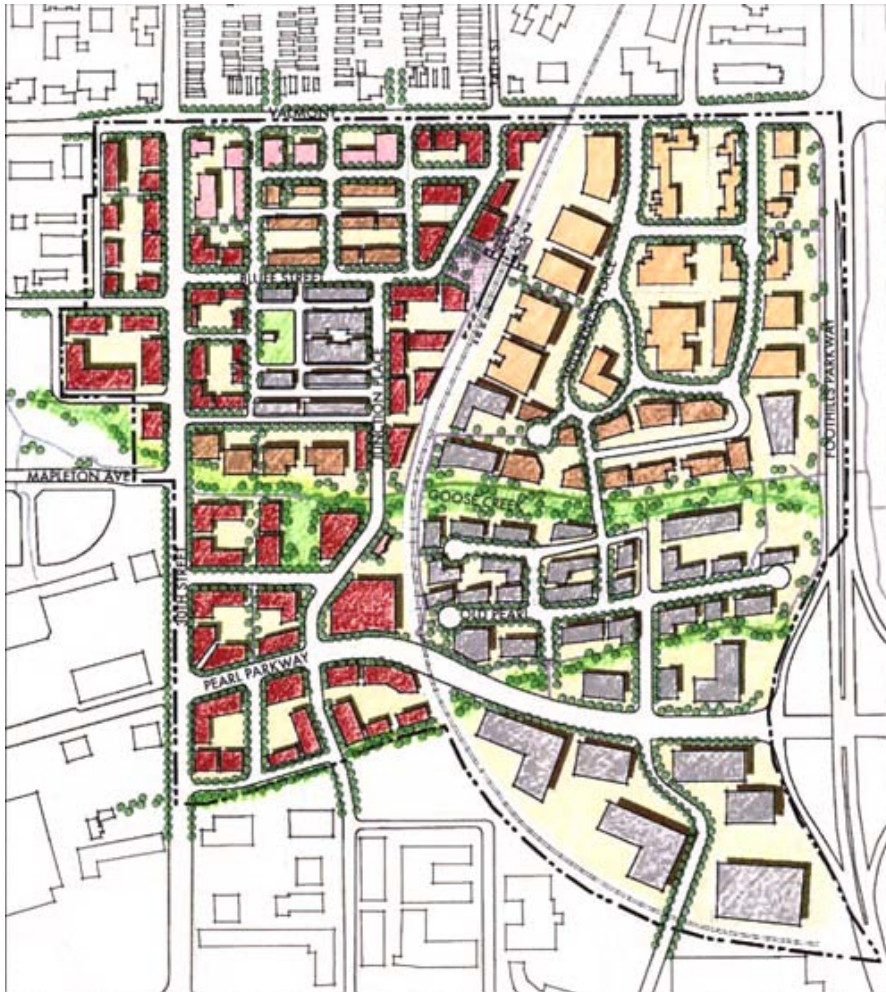
Federal Purview

- The Federal Reserve is calling for greater government action in addressing the housing market citing:
 - The ongoing weakness in the housing market has delayed a full economic recovery,
 - Additional housing policy interventions are necessary to improve economic conditions.
- The Federal Reserve also warns that current mortgage lending standards are too tight and appraisal standards too conservative.
 - While the lax lending policies of the housing boom years is undesirable, current lending standards have become overly restrictive.
 - Reported in the Wall Street Journal, January 7, 2012

Local Purview

- Partnerships between a City and Developer

Boulder Junction Access District

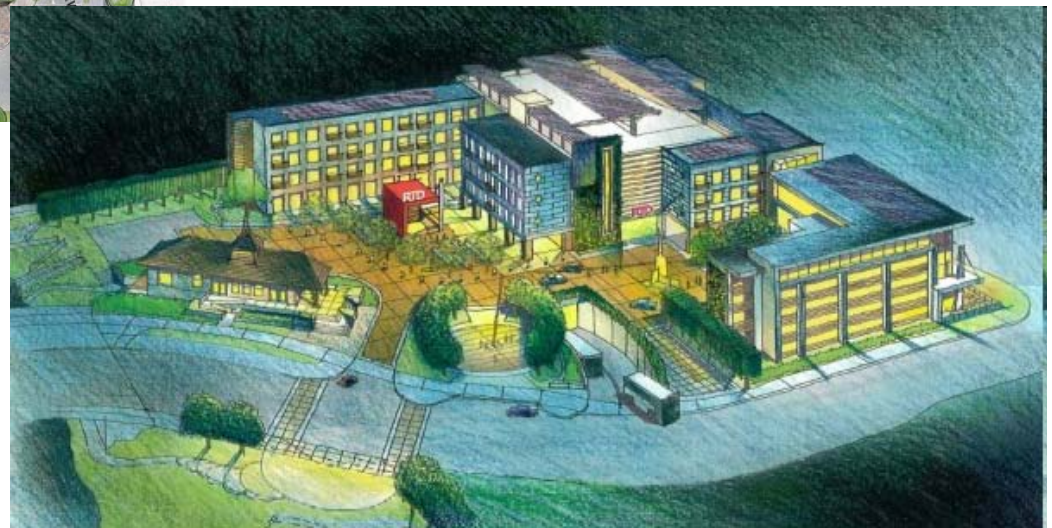


- 160-acre redevelopment area
 - Transit Village Area Plan (TVAP)
- Multi-modal transit hub
- Phase I long-term development projection
 - 1,100 residential units
 - 200,000 sq. of commercial (retail and office)
 - 136 hotel rooms

Boulder Junction Access District

- Goal
 - Create vibrant urban environment
 - Reduce Auto trip generation
 - Enhance Alt. Mode trip share
 - Allow for more density and encourage a mix of uses
- Program
 - Provide parking infrastructure and management services
- Carrot and Stick Approach
 - Join district in exchange for enhanced zoning, including greater density and fewer parking requirements (parking maximums)
 - Don't join district, annual Traffic Impact Assessment to demonstrate 55 percent alt. mode split

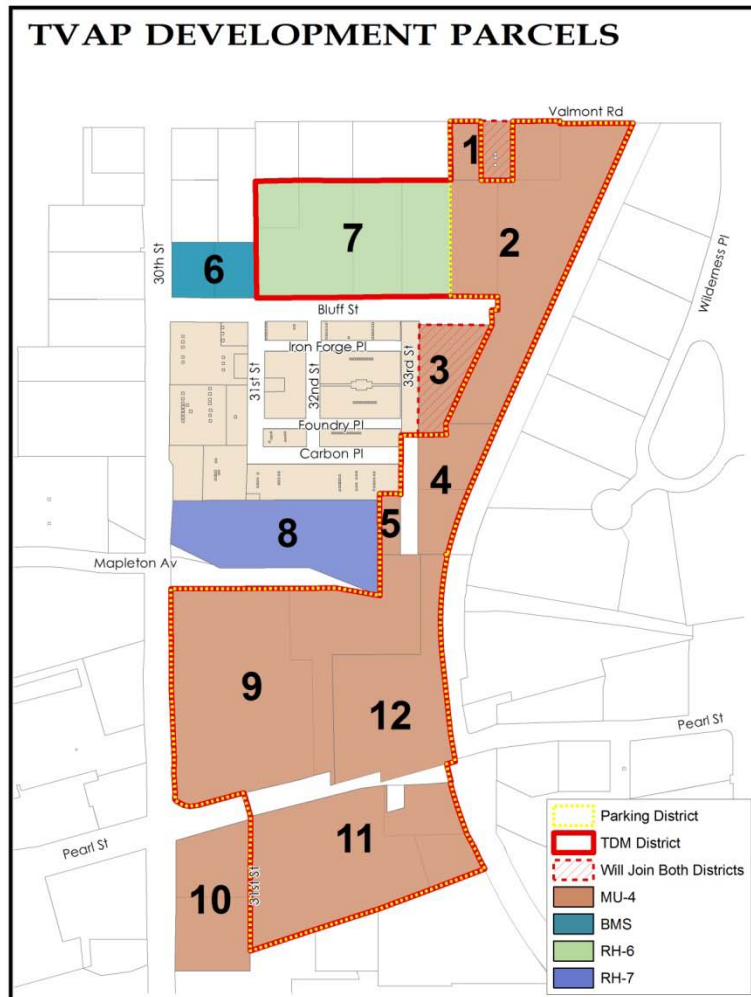
Boulder Junction Access District



Boulder Junction Access District

- Financing Mechanism
 - Two General Improvement Districts (GIDs)
 - Property-tax based financing districts initiated by property owners
- Parking District
 - Pays for shared parking infrastructure
 - Parking Garage(s)
 - Land Acquisition for surface parking
 - Can fluctuate based on annual costs
 - Maximum of 30.0 mills
- Transportation Demand Management (TDM) District
 - Pays for TDM services
 - Transit Passes
 - Subsidizes Car and Bike Share program
 - Can fluctuate based on annual costs
 - Maximum of 20.0 mills

Boulder Junction Access District



- Parking District and TDM District approved
- Assessment to begin in 2012
 - 5.0 mills each (10.0 mills total) on existing Assessed Value (AV)

Boulder Junction Access District

- Depot Square (initial development project)
 - RTD Pilot Program Joint Development site
 - Private developer to build development above RTD bus barn
 - 136 hotel rooms
 - 80 affordable residential units
 - 9,000 sq. ft commercial
- Shared Parking Structure
 - Private developer building 400 structured parking spaces
 - Parking District responsible for cost of 100 spaces (\$2.6 million)
 - Developer financing parking structure with private debt
 - Providing the District a 7-year repayment plan
 - **Problem:** Revenue timing gap with new AV from development and potential initial payments
 - **Potential Solution:** City loans the District initial financial shortfalls until repayment is achieved