Summary Memo

To: City and Borough of Juneau and NW Douglas Sub Area Planning Team

From: Shanna Zuspan and Michelle Bowlds, Agnew::Beck Consulting

Date: January 2024 Revised July 2024

Re: **NW Douglas Sub Area Study Housing Need and Residential Financial Feasibility Findings**

As part of the DOWL team under contract to the City and Borough of Juneau (CBJ), Agnew::Beck Consulting supported the planning efforts related to the Northwest Douglas Sub Area Study by estimating housing need in the CBJ. Additionally, Agnew::Beck assessed the financial feasibility of workforce housing using a private sector-based financial pro forma. The housing need estimate and the financial feasibility analysis are intended to support the North and west Douglas Sub Area Study to better inform land use policy and strategies necessary to help the CBJ meet housing need in Juneau and on Douglas Island. This housing need and residential financial feasibility analysis addresses the following research questions.

1) **Housing Need**. What is the overall level of housing need within the CBJ given? Is the lack of affordable housing stifling population growth? What are the factors driving that need?
2) **Housing Affordability**. How much housing is needed within different income groups and what are the affordable housing prices within those income groups?
3) **Financial Feasibility**. Is it financially feasible to build new affordable and attainable[1] rental housing for low-income and middle-income households?
4) **Northwest Douglas Island**. How does a north crossing to Douglas Island and the development of the Northwest Douglas Sub Area Plan improve opportunities for new housing within the CBJ?

To follow are key findings that address these research questions supported by two attachments, including a PowerPoint with detailed housing data and a set of detailed pro forma tables.

Housing Need

Since 2010, the CBJ has seen flat and/or declining population trends, yet there continues to be a need for quality affordable and attainable housing in Juneau to serve a range of incomes and households.

The housing market in Juneau is tight given low vacancy rates. The 2023 Alaska Housing Finance Corporation (AHFC) rental market survey of 1,115 units within the CBJ indicates a rental vacancy rate of four percent. Recent data from the American Community Survey (ACS), indicates a similar rental vacancy rate at 3.6 percent in the CBJ. The ACS reports the ownership vacancy rate in the CBJ has ranged from 1.2 percent in 2020 down to 0.6 percent in 2022. Anything lower than a five percent vacancy rate indicates that housing supply is tight, and demand is outpacing available units. Five percent is considered a "normal" vacancy rate allowing households to move in and out of units due to normal relocation patterns. In Juneau, a lower than 5 percent vacancy rate indicates that meeting future demand for new housing will require additional housing construction; there is no extra supply within the existing housing market to absorb this demand.

[1] Affordable housing often refers to housing that is affordable (no more than 30% of household income) for households making 80 percent of area median income or less. Attainable housing often refers to housing that is affordable for those in the middle-income group or between 80 and 120 percent of area median income. Attainable housing is often also called workforce housing.

There is an immediate need for at least 400 new housing units in Juneau due to overcrowding conditions, despite anticipated declines in population. The Department of Labor is forecasting a decline in CBJ population between 2022 and 2032 yet three percent of households in Juneau are living in overcrowded conditions as defined by the Department of Housing and Urban Development (HUD)[2] Population trends do not tell a complete story of housing need; households often double and triple up in homes if there is inadequate housing at affordable price points. Overcrowding tends to impact households who are lower income or lower middle income who are often forced to live in conditions that are cramped given the lack of affordable options.

There is likely an additional need for new housing that is not documented by secondary data sources but still exists, specifically non-overcrowded households who are living with family or friends, as well as housing necessary to support the workforce. Through primary survey data in several Alaska communities, we find many households are living with other family members or friends but would prefer their own housing unit if affordable options are available. These households may not be technically overcrowded as defined by HUD but are still seeking their own units and their housing need is not documented within the CBJ. Another category that may be missed is housing needed to support the workforce and help fill open job positions in the CBJ. For example, the Southeast Alaska Regional Health Consortium (SEARHC) currently has 106 open positions in Juneau many of which are highly skilled health care jobs, as well as administrative positions and social service opportunities. It is likely that a barrier to filling some of these positions is the lack of available housing at the right price points and quality levels.

Possibility of the United States Coast Guard Ice Breaker in Juneau. Reports of Juneau as the home port for the Aiviq ice breaker could yield additional housing need in the CBJ. Assuming 190 enlisted personnel and 400 dependents arrive with a new ice break, it is possible there will be a need for 240 to 280 additional new housing units.[3] Given the low vacancy rates in Juneau, should the ice breaker materialize the total need for new housing could jump to more than 600 units.

Short term rental market. Despite adding more housing units in recent years, demand for housing has been increasing faster than new housing units are being added to the market. One of the multiple factors that may have contributed to this is the conversion of full-time dwelling units to short term rentals (STR). Since 2010, 616 housing units in Juneau have been used as a STR at some point.[4] While STR conversions may be contributing to the overall housing shortage, it is among multiple factors, including changing demographics and household size, that continue to strain the housing market in Juneau.

Housing Affordability

Housing affordability is a critical element of understanding and planning for housing needs.

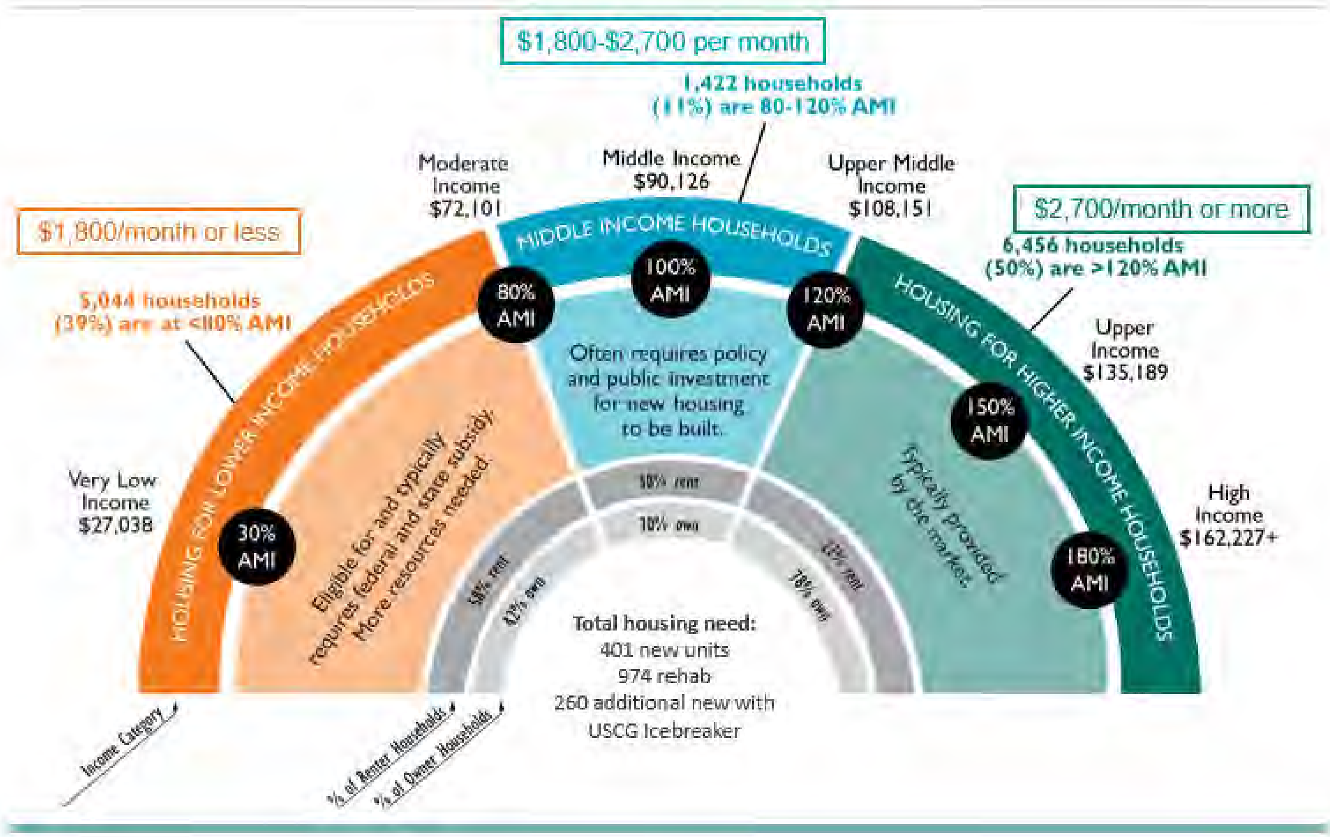
[2]Overcrowded is defined as more than 1.0 occupant per room. Severely overcrowded is defined as more than 1.5 occupants per room. A "room" includes bedrooms, kitchens and living rooms, but not bathrooms, hallways or unfinished basements. For example, a two-bedroom apartment with a living room and a kitchen would be considered overcrowded if there were five or more people living in the apartment. The same apartment would be considered severely overcrowded if six people were living in the apartment.

[3] See slide 23 of Appendix B for assumptions and calculations related to housing that could be attributed to the ice breaker.

[4] JEDC Research Note: Juneau Housing Stock and Short-Term Rentals, August 2022

Income distribution in Juneau reflects a shrinking middle class. Currently, in Juneau, 39 percent of households make incomes less than 80 percent of area median income (or less than $72,000 annually), while another 50 percent of households have incomes that put them at 120 percent of area median income or higher ($108,000 or above). Only 11 percent of Juneau households fall into the middle-income category, making between $72,000 and $108,000 annually or between 80 percent and 120 percent of area median income.

Figure 1 CBJ Housing Bridge Graphic



The majority of new housing need in Juneau is for low- or middle-income households. Roughly 312 new units are needed for those at 80 percent of area median income or lower. We estimate that overcrowded households make up the largest share of quantifiable housing need for new units in Juneau and are likely distributed to low- and middle-income households. The reason for this assumption is that households with higher incomes would typically opt for other housing options as opposed to remaining in overcrowded conditions.

New housing that costs under $2,000 per month is needed in Juneau. Assuming that households pay roughly 30 percent or less of their household income for housing, building new housing with price points at or below $2,000 per month will serve the largest share of the market. Households who spend more than 30 percent of their total income on housing costs are considered to be cost burdened. Spending a larger portion of household income on housing limits the amount of income available for other non-discretionary spending, such as food, child care, clothing and transportation.

Rental and ownership products are both needed. Roughly 55 percent of low-income households and 70 percent of middle-income households in Juneau own their housing, while the remainder of households rent their homes. Given these trends, we anticipate a need for about 193 ownership units and another 208 rental units in the CBJ, excluding the potential housing need for the ice breaker.

Figure 2 CBJ Housing Need and Affordability by Income Group

Item	Low Income	Middle Income	High Income
Annual Household Income	Less than $72K	Between $72K and $108K	Greater than $108K
Housing Need: New Units [1]	312	88	[2]
Affordable Monthly Housing Costs [2]	$1,800 or less	$1,800-$2,700	More than $2,700
Ownership/Rental	131/181 units or 55%/45%	62/27 units or 70%/30%	Note 1 or 78%/22%

[1] Excludes icebreaker
[2] With no published growth in population, no new housing is quantitatively forecasted for the higher income household group. However, given available and open positions in Juneau, especially in the medical field, it is likely that unmet need for housing at higher income levels is needed in order to fill key vacancies at employers in Juneau.
[2] Assuming housing is 30% of gross income

Rental Housing Financial Feasibility

Given the need for affordable and attainable housing within the CBJ, particularly for low income and middle-income households, we prepared a "floating" pro forma to test the financial feasibility of rental housing priced for the workforce. The term floating is used because this real estate pro forma is not meant to reflect or compare one specific site but is meant to evaluate the extent to which there is a financial feasibility gap to build new rental housing in Juneau, overall. To follow are key findings and assumptions from the pro forma analysis.

Key Findings: Pro Forma Analysis

Rental housing built with affordable rents do not pencil when compared to private developer returns. A $25 million rental project in Juneau that charges rents from $1,400 to $1,900 per month on units that range in size from 400 square feet to 1,000 square feet does not generate enough value to support the cost of construction. Total development costs exceed the capitalized value of net operating income by $11.2 million, a financial feasibility gap of $140,000 per unit remains. This gap assumes all major infrastructure, such as collector roads and water and sewer mainlines are stubbed to the site.

Equity investors in a project such as this would receive 3 percent returns by year 10 on a $15 million investment, which is substantially below mutual fund and stock market returns making the attraction of private capital unlikely. It is important to note that the net operating income of this type of project still produces positive cash flow but is unlikely to generate more than 40 percent of the project costs in debt financing nor attract private equity; social investors may be interested in a project such as this.

Figure 3 "Floating" CBJ Rental Pro Forma

<table>
<tr><th colspan="7">Pro Forma Model Assumptions & Results</th></tr>
<tr><td colspan="3">80 Units on 1.5 acres within CBJ</td><td colspan="2">$25 million TDC[1]. Stick built. No steel</td><td colspan="2">7% cap rate [2]</td></tr>
<tr><td colspan="3">33 units per acre density</td><td colspan="2">$368/SF TDC & $236/SF vertical construction</td><td colspan="2">7.5% perm loan interest rate</td></tr>
<tr><td colspan="3">Surface parking 1 space per unit</td><td colspan="2">$6/land square foot land costs</td><td colspan="2">30-year term</td></tr>
<tr><td colspan="7">Assumes all major infrastructure is stubbed to the site and includes a $3.00 per land SF budget for site work</td></tr>
<tr><td colspan="7">A project "pencils" if the TDC is at least equal to the capitalized value of the net operating income using a 7% cap rate. The feasibility gap is the difference between the capitalized value and the TDC.</td></tr>
<tr><th>Unit Type</th><th>Number</th><th>Size</th><th>Target Affordable Rent [3]</th><th>Rent Required to "Pencil" with No Incentives</th><th>Rent Required to "Pencil" with 12-Yr Property Tax Incentives</th><th>Rent Required to "Pencil" With Current 12-Yr Property Tax Incentives, Land Write 100% Down & $50K/unit housing incentive</th></tr>
<tr><td>Studios</td><td>8 units</td><td>400 SF/unit</td><td>$1,400/mth</td><td>$2,300/mth</td><td>$2,100/mth</td><td>$1,680/mth</td></tr>
<tr><td>1-Bedrms</td><td>32 units</td><td>600 SF/unit</td><td>$1,600/mth</td><td>$2,600/mth</td><td>$2,300/mth</td><td>$1,848/mth</td></tr>
<tr><td>2-Bedrms</td><td>32 units</td><td>800 SF/unit</td><td>$1,800/mth</td><td>$2,2900/mth</td><td>$2,600/mth</td><td>$2,100/mth</td></tr>
<tr><td>3-bdrms</td><td>8 units</td><td>1,000 SF/unit</td><td>$1,900/mth</td><td>$3,100/mth</td><td>$2,800/mth</td><td>$2,268/mth</td></tr>
<tr><td colspan="3">Feasibility Gap No Incentives</td><td>$140,000 gap / unit</td><td colspan="3"></td></tr>
<tr><td colspan="3">Feasibility Gap After Use of 12 Year Property Tax Incentive</td><td>$91,000 gap / unit</td><td colspan="3"></td></tr>
<tr><td colspan="3">Feasibility Gap After Use of 12 Year Property Tax Incentive & 100% Land Write Down</td><td>$83,000 gap / unit</td><td colspan="3"></td></tr>
<tr><td colspan="3">Feasibility Gap After Use of 12 Year Property Tax Incentive & 100% Land Write Down, plus existing $50,000 per unit Housing Incentive</td><td>$33,000 gap / unit</td><td colspan="3"></td></tr>
</table>

[1] TDC = Total development Costs
[2] A cap rate reflects the market for housing and the level of risk. Cap rates in Lower 48 communities for rental housing are often at 4 or 5%. Cap rates in Alaska are often in the 7 to 9 percent range due to the risk associated with the high cost of construction relative to rents. The lower the cap rate, the more capitalized value is derived in the pro forma.
[3] Affordable rent is targeted to those looking for workforce housing and are likely between 80 and 120 percent of Area Median Income. Rents less than $2,000 per month are targets for the pro forma to ensure housing is affordable to highest level of need in Juneau.

Juneau's High Density Property Tax Incentive (12 years) helps but does not fully fund the gap. Juneau offers a 12-year property tax incentive[5] within the urban service area (which does not include NW Douglas at this time). This tax incentive reduces the financial gap by 35 percent resulting in a gap of $91,000 per unit. The 12-year property tax incentive prohibits housing units receiving the incentive to be used as short-term rentals. One developer interview indicates that they may forgo the property tax incentive to allow for the use of short-term rentals to help cross subsidize the permanent housing portion of their project.

[5] CBJ Code 69.10.023. Property tax incentives for economic development property states that a high-density residential exemption of 12 years is allowed for at least four new residential units on one lot with densities that meet or exceed 75 percent of the maximum density for the lot with no ability to use the housing as short-term rentals during the property tax abatement period. Property must be within the urban service area. There is also a downtown multifamily tax incentive with similar requirements but no density threshold.

Land write downs help close the gap. A sampling of vacant land in the core of Juneau and interviews with developers indicated that assuming $6 per land square foot for a "floating" real estate pro forma is appropriate. Land values can vary dramatically depending on zoning, site remediation, site conditions, slope and access to infrastructure. This pro forma assumes all major infrastructure is stubbed to the site and no collector or regional serving roads must be constructed. A small $3 per land square foot budget (~$350,000) is allocated for site work. If this hypothetical project were built on land that could be provided at no cost, the financial gap would close by another six percent dropping the feasibility gap to $83,000 per unit.

Juneau's Affordable Housing Fund[6] incentive improves feasibility even more. The CBJ currently offers a $50,000 per unit housing incentive to create more housing for those at or below 120 percent of area median income. When this incentive is layered into the pro forma, the gap comes down to $33,000 per unit at rents lower than $2,000 per month. The housing incentive is offered as a grant to non-profits, Tribal governments and housing authorities who target households under 80% of area median income. Additionally, zero or low-interest loans are available for private developers targeting the under 120 percent of area median income household in return for at least 20% of the units being offered to households at 80% of area median income or lower. Projects can be located anywhere in the CBJ and can be for rental or ownership product.

What does it take for the project to pencil? The combination of infrastructure provided to the site, property tax incentives, a land write down, and the current Juneau affordable housing fund $50,000 per unit housing incentive moves the feasibility gap closer to being solved. With only a remaining $33,000 per unit gap, rents could increase slightly and/or a slightly higher housing incentive could easily close the gap. This pro forma estimates that an $80,000 per unit incentive combined with a 12 year property tax incentive, a land write down and publicly funded infrastructure could allow project to pencil with rents less than $2,000 per month. Additionally, the use of short-term rentals may counteract the financial feasibility limitations by improving financial performance.

Implications for Northwest Douglas Island Planning

What do these findings suggest for planning Northwest Douglas Island? We know housing needs continue in the CBJ despite flat or declining population trends and housing that costs less than $2,000 per month is most in need. The CBJ has already begun to implement incentives to improve housing feasibility. NW Douglas offers the following opportunities.

- Larger tracts of land that can result in improved site efficiencies, potentially reducing construction costs. More importantly,
- Larger tracts of land owned by the CBJ that can be put out to market at low or no cost in return for constructing housing that is affordable to low income and middle-income households, assuming all major infrastructure is at least partially, if not fully, funded by public funds, which could include federal dollars.

A new north crossing to Douglas Island will not automatically result in new affordable rental housing throughout NW Douglas. However, a north crossing will help open up more options for housing that is affordable and attainable for lower income and middle-income households, especially if infrastructure is provided and incentives, such as property tax abatements and land write downs are offered in return for rents that are affordable.

[6] More information is here [CDD – Services – Grants – Affordable Housing Fund – City and Borough of Juneau]