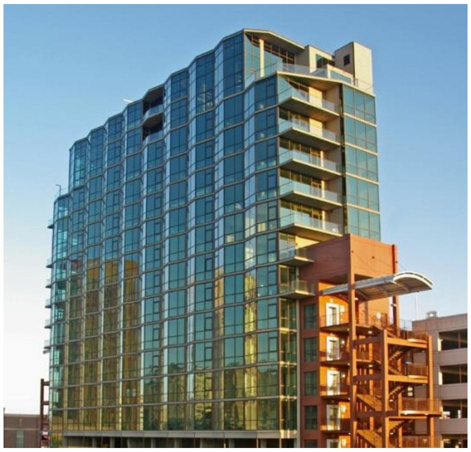

BOISE DOWNTOWN HOUSING STRATEGY

PREPARED FOR

CAPITAL CITY DEVELOPMENT CORP

PREPARED BY

LELAND CONSULTING GROUP

ECONorthwest
ECONOMICS · FINANCE · PLANNING

May 2015

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EXECUTIVE SUMMARY

Boise's civic and community leaders have long identified downtown housing as an important policy goal for the city. Housing brings needed vitality to downtown, supports the development of a strong retail core, provides housing options to attract and retain downtown workers, reduces auto-dependent commute trips, and increases the tax base. In support of these goals, ULI Idaho convened a group of civic leaders and developers in spring and summer 2014 to explore opportunities to increase downtown housing and to identify the barriers that have prevented more housing from being built. Following on this effort, the Capital City Development Corporation (CCDC), Boise's urban renewal agency, contracted with Leland Consulting Group and ECONorthwest to:

- Better understand the market for downtown housing and the rental rates that could be realized in downtown;
- Identify barriers to development;
- Identify best practices for encouraging downtown housing development; and
- Provide specific strategic recommendations to guide CCDC housing initiatives over the next five years.

This executive summary presents the key findings from these research efforts. It is followed by the housing strategy report, which presents in more detail the findings of the team's research and recommends actions and policies to increase housing. The appendix includes more detailed information from case studies as well as a detailed technical report of the market analysis.

Boise is not approaching a downtown housing strategy from scratch. Indeed, there is already housing in downtown Boise, most of which was built prior to the recession that began in 2009. While over 1,200 units are in the conceptual planning stage or under permit review, only 128 units have recently been completed and only 26 units are under construction (all numbers as of April 2015).

While this strategy identifies opportunities, policies, and tools that can incentivize the development of new downtown housing, it recognizes and describes several initiatives that that the City of Boise and CCDC are leading and that are targeted to increasing the supply of downtown housing.

BARRIERS AND OPPORTUNITIES

The housing strategy identified the barriers to housing development in downtown Boise as well as the opportunities to increase development opportunities. Several existing barriers to development were identified through the team's research, including:

- A lack of recent developments (comparables), particularly for rental housing. Without a track record of previous projects, it is difficult for new development to demonstrate achievable rent and absorption levels to meet underwriting and investor criteria.

- High cost of structured parking. There is a large mismatch between the cost of delivering structured parking (upwards of $20,000 or more per stall) compared to what the market currently pays for downtown parking (typically about $100 per month, far below what it would take to amortize the construction cost). Until this gap is narrowed, structured parking will negatively affect the feasibility of new residential construction.

- Lack of a unified vision for downtown housing that clearly shows where housing should be clustered and where public investments will be focused to support housing. There are many policies and initiatives that support downtown housing, ranging from Blueprint Boise to the LIV Boise initiative, but there is no overarching vision that unifies transportation, parking, land use, financial tools, marketing, and developer recruitment. Developers indicated that they would like such a unified vision in order to know where public investments will be focused so that they can likewise target their investments. This housing strategy can be a start to that process.

Meanwhile, there are several indicators that there is a significant opportunity to increase housing and generate more vitality downtown:

- Low supply and vacancy. As a region, Boise has the smallest multifamily unit inventory relative to its population of peer cities studied for this project (Spokane, Chattanooga, Reno, and Colorado Springs). The apartment vacancy rate is also extremely low in Boise (and is the lowest of the peer cities), at 2.9 percent for the region and just 1.1 percent downtown.

- Demographics support growth. Much has been written about the emergence of Millenials and their impact on housing. Coupled with retiring Baby Boomers and local population growth, there is strong demand for new housing overall and a greater preference for urban housing in downtowns. Likewise, many employers are increasingly being drawn back to downtowns in order to stay competitive by providing their employees with the urban amenities that they desire.

- Development momentum is increasing. Downtown Boise is seeing significant interest from the development community for both residential and commercial projects. Several projects have been completed and many more are under construction or in the planning stages. In the past 12 months, CCDC has conducted developer solicitation processes for two properties (1401/1413 W. Idaho St. property and 9th and River project), both of which attracted interest from developers that plan on building housing.

- Market economics appear supportive. While there a very limited track record for rental housing in downtown, the market analysis detailed in this report's appendix indicates that achievable rents in downtown would be high enough to support new rental development.

- Downtown Boise is on the rise. Simplot's headquarters office building and JUMP project, the recent opening of Trader Joe's, the Multimodal Center, BSU's City Center Plaza, expansion plans at St. Luke's, new business growth and relocations (Clearwater Analytics, Cradlepoint), and other projects are combining to further solidify downtown Boise as the cultural, employment, and civic heart of the region. This will further strengthen the attractiveness of downtown Boise as a residential address.

KEY FINDINGS

In order to quantify the market potential for downtown housing, ECONorthwest conducted a market analysis that included a peer city market and demographic comparison to understand how downtown housing in Boise compares to similar cities. The four peer cities (Reno, Spokane, Colorado Springs, and Chattanooga) were selected based on their statistical similarity to Boise in terms of economy and demographics. As detailed in the appendix, it presents a predictive rent model to estimate achievable rents and significant amenities and provides an assessment of the overall demand for multifamily rental housing in Boise. In many ways, the analysis confirmed Boise is doing a better job at attracting downtown housing than its peer cities. For that reason Leland Consulting Group analyzed five other cities that we're calling "aspirational." These cities include Salt Lake City, Denver, Austin, Nashville, and Kansas City, Missouri, and were selected in conjunction with other City of Boise studies.

The key findings are discussed below:

- The market for rental housing is strong. While downtown is a suitable location for both ownership and rental housing, there is considerable pent-up demand for rental housing specifically. Coupled with easier access to capital and demographic shifts that favor rental housing, the short-term market for housing in downtown Boise is heavily weighted to apartments. For these reasons, much of this report focuses on strategies to increase the supply of rental housing in Boise.

- While the rent premium model found that there is not a premium for proximity to downtown specifically, it did find that other neighborhood attributes and amenities associated with the downtown, such as close proximity to retail, were attractive to renters, resulting in a rent premium. That is, renters are willing to pay more for apartments that are well-located in proximity to shopping, parks, and employment.
- The rent model predicted rents of $1.75 per square foot for a 1-bedroom apartment with high-quality amenities downtown. This equates to a 700 square foot 1-bedroom apartment renting for $1,225 per month.
- Recent trend data, which suggest that just 300 – 600 units could be built downtown over the next 10 years, probably do not tell the full story of demand for downtown development. Approximately 8,700 householders in the Boise region could rent and fit within the target market for downtown housing. This is a significant pool from which downtown could attract residents and implies that the ULI housing study's target of 1,000 units over just the next five years could be achievable.
- The predictive rent model indicates that new rental units downtown could realize rents high enough to support new construction, while the evaluation of target market suggests substantial market depth. This is an important finding that indicates that downtown Boise suffers from a *supply* problem rather than a *demand* one.
- As the projects in the pipeline are completed and begin operations and can thus serve as comparables, CCDC will need to track the performance of these buildings (rents, absorption) in order to update and calibrate the model with actual project data. There are currently approximately 961 units in the planning stages (conceptual, but with some pre-application discussion with the City), 241 units under review (in permitting or getting entitlements), 26 units under construction, and 128 units recently completed downtown, not including 541 units of student housing under construction near BSU.[1]

Together, these positive findings from the market study emphasize the important role that CCDC's strategic investments can play in attracting downtown development. Its place making and development supportive activities, when coordinated through the City of Boise's planning and implementation efforts, will increase achievable rents and downtown's ability to successfully attract new development. In short, a *strategy* is needed to bridge the gap between market opportunity and development reality. Based on the case studies, interviews with developers, and the project team's assessment of Boise's existing policies and tools, the following strategic recommendations are made:

- **Clarify the vision for housing downtown.** Develop a coordinated vision for the types and locations of housing desired throughout downtown that bridges the policy and regulatory roles of the City of Boise with CCDC's role as a facilitator of public-private partnerships and implementer of redevelopment projects.
- **Focus on place making.** As mentioned above, one of CCDC's core functions is to provide public infrastructure, which includes place making elements such as parks, trails, and streetscapes. This should continue to be a focus of their efforts, as greater place making by its nature creates a destination and value for properties, which in turn will allow rents to rise to the point that projects become feasible without subsidy.
- **Parking strategy.** Providing parking is one of the core services that CCDC provides to downtown businesses and property owners. With a renewed focus on housing, a comprehensive parking strategy is needed to ensure that public parking is provided in the quantities and locations that will serve not only commercial development but also residential development.
- **Revise zoning within the urban renewal districts.** The planning department in conjunction with CCDC, needs to determine which entity will take the lead on coordinating efforts to confirm and revise the zoning within the Urban Renewal Districts to ensure that it matches the URD Plans and the City's plans for the area, especially in Westside and 30th Street.

Additionally the following tools are being recommended to help reduce the cost of development and increase the supply of downtown housing:

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[1] Source: City of Boise.

- **Amortize Impact Fees.** Allow developers to pay impact fees over time, for example ten years, in annual payments rather than as a single fee up front.
- **Parking Impact Fee Structure.** Together with ACHD, study the impact fee structure and look for ways to reduce it by preparing a downtown-wide parking impact study that would result in lower impact fees for downtown development.
- **Fee Waivers.** Fee waivers for other impact fees at the city level can serve as a financial incentive for developers. Impact fees, especially for parks, can be waived or exchanged for a project, such as a park or public plaza, that is constructed by the developer in lieu of paying the required fee.
- **Expedited permitting.** Accelerate the permitting process. Expedited permitting or the provision of a single point of contact for downtown projects can save developers a lot of time and increase their confidence that permitting a project will be feasible and timely, in turn increasing the amount of projects that get successfully built.
- **Explore tax abatement.** Tax abatements have been very successful in other states and provide a direct financial benefit to developers, particularly for apartments. However, the assumption is that legislative action would be needed for this to be possible in Boise, and it may not ultimately be feasible.

In conclusion, between the City of Boise and CCDC, many of the right actions are being taken to address barriers to development and attract housing investment. Indeed, the large number of housing units at the conceptual stage is testament to the fact that the development community sees great opportunity in downtown. This opportunity can be maximized through the above recommendations, which are focused on providing greater and more unified coordination between the different entities that play a role in facilitating development and by solidifying a downtown-wide housing vision that articulates housing targets (numbers, types, and phasing) for downtown's distinct districts.

DOWNTOWN HOUSING IN BOISE – VISION AND CONTEXT

Most major cities across the country are experiencing significant amounts of urban housing development. Whereas development prior to the 2009-2013 recession largely focused on suburban markets and was dominated by single-family housing, urban housing, especially apartments, accounts for a significant share of new housing development today.

A demographic shift in housing preference is taking place across the nation. Both Generation Y and retiring Baby Boomers are demonstrating a growing acceptance of renting over homeownership and there is a pronounced increase in preferences for urban rather than suburban living. The best locations for new apartments are urban areas in or near city centers, neighborhood centers, and public transportation. In many markets, almost all newly formed households are going into apartments, and most prefer apartments located in urban environments rather than the suburbs.

Financing for home ownership has become much more difficult which is exacerbating the shift to apartments, particularly among newly formed Generation Y households. Nationally, weak employment growth has resulted in more part-time jobs and declining income among the middle class, which has also created more renters.

Downtown housing is about more than just capturing market share or meeting the preferences of changing demographic groups. It can play an important role in attracting and retaining key employers and retail. More so now than ever, employers must compete for the most talented workers, particularly in the technology, healthcare, and creative industries which will make up much of the future employment growth. These workers, in turn, are more and more mobile and are choosing to live in communities with a high quality of life and urban amenities. A vibrant downtown with diverse housing options can, therefore, play an important role in keeping Boise competitive in attracting and retaining this workforce, which, in turn, can help attract and grow employers. Whether it is attracting top doctors to St. Luke's or academic professionals to Boise State University, a downtown with a variety of housing options can be an important recruitment tool that allows Boise to compete among bigger, more cosmopolitan cities.

Downtown Retail Support

Downtown residents provide additional buying power to support local merchants. While exact numbers are difficult to come by, it is estimated that every downtown household can support up to 20 square feet of retail space, particularly for boutiques and restaurants that provide a unique shopping and dining experience that can't be found in a mall or shopping center. Similarly, downtown residents provide vitality and eyes on the street seven days a week.

DOWNTOWN HOUSING TYPES

Downtown housing can come in many different formats to meet the different needs of demographic groups, market conditions, and affordability levels. This can range from luxury highrise condominiums in the heart of the downtown core to more affordable townhouses in walkable neighborhoods on the edge of downtown.

Downtown housing can take the form of either ownership or rental units. Because the propensity to own rather than rent correlates to household income, ownership housing tends to be comprised of larger units with higher quality amenities and finishes. However, this is not an absolute rule, as the increasing preferences to rent at all income levels mean that many new apartments are being built with luxurious amenities that rival those found in ownership units.

Building upon research prepared by ULI Idaho, potential product types and the market segments they could serve include:

Figure 1. Urban Housing Locations and Types

	POTENTIAL PARCELS	DENSITY/ UNITS	PRODUCT TYPES	BUILT EXAMPLES	MARKET DEMOGRAPHIC	NOTES
DOWNTOWN CORE 	10th & Bannock 9th & Grove Old Boise CBD	60 +	Mid Rise High Rise Mixed Use	Aspen Lofts Pearl District (Portland) Brewery Block (Portland) Belltown (Seattle)	Millenniums Empty Nester's Students Workforce	Walkable or in CBD For Sale and Rent
OUTER CORE 	11th & Idaho Idaho Power Land Library Blocks 15th & Idaho Linen District West State Street	40-60	Mid Rise Mid-rise/Mixed Use Row House/Brownstone	The Jefferson Royal Plaza	Millenniums Empty Nester's Students Workforce	Walkable to city services For Sale and Rent
DOWNTOWN PERIPHERY 	Armory Area Lusk Street Fort Boise St. Luke's/East End	30-40	Low Rise Duplex Row House/Brownstone	Crescent Rim Hyde Park Place	Creative Class Students	For Sale and Rent Proximity to Retail
WEST END AREA 	West End	10-30	Low Rise 3 Story Apartments Row House/Brownstone Duplex	Hyde Park Place Harris Ranch Mill District Bown Crossing	Empty Nester's Creative Class Millenniums Workforce	For Sale and Rent Proximity to Retail

Duplex housing allows for more occupants, doubling the density of single family housing. This style of housing usually found in downtown periphery.

Duplex

Row houses are attached urban living buildings. Individual footprints are typically long and narrow with the opportunity of building vertical. This gives this housing type a higher density per lot. Row houses are typically located in the downtown periphery.

Row House / Brownstone

Low rise buildings create opportunities for higher densities in the outer periphery. Low rise buildings typically consist of 1-2 bedroom apartments and appeal to the creative class and students.

Low Rise

Mixed use buildings integrate both housing units and commercial occupants. Retail and other commercial spaces are usually provided at the ground level while housing starts at the second floor. Housing units range in size and consist of both condos and apartments. Mixed use structures are typically found in the downtown and outer core.

Mixed Use

Mid rise buildings allow for higher density living areas. These structures are typically 4-10 stories tall and consist of various sized units. Mid rise buildings are found in both the outer and downtown cores.

Mid Rise

High rise buildings are designed to provide a large amount of units per lot. Units usually consists of lofts and multiple bedroom apartments and condos. These buildings are typically located in or around the downtown core and usually features street level retail.

High Rise

Source: The Next 1000, Stimulating Housing in Downtown Boise, ULI Idaho

- **Different market segments.** As established in CCDC's 2007 Workforce Housing Policy (WHP) different housing types can be correlated to incomes. The WHP defined the following four sectors in the downtown housing market based on the area median income (AMI), which is $61,300 for the fiscal year 2015 in Ada County. Boise, as is the case with many cities, tends to have affordable housing and luxury housing, but is missing housing that is affordable to households in the middle in the workforce or market rate income brackets, often referred to as the "missing middle." Downtown development strategies and implementation recommendations such as those listed in this report are often targeted at increasing the supply of housing overall and specifically at these middle-income segments.

Table 1. Household Types by Income Categories

Sector	Percent of Median Income Earned by HHs in Category	1 Person HH	2 Person HH	3 Person HH	4 Person HH
2015 Ada County Median Income		**$42,910**	**$49,040**	**$55,170**	**$61,300**
Affordable*	80% or less	$33,800 or less	$38,600 or less	$43,450 or less	$48,250 or less
Workforce	80% to 140%	$33,800 to $60,074	$38,600 to $68,656	$43,350 to $77,238	$48,250 to $85,820
Market Rate	140% to 260%	$60,074 to $111,566	$68,656 to $127,504	$77,238 to $143,442	$85,820 to $159,380
Luxury	260% or more	$111,566 +	$127,504 +	$143,442 +	$159,380 +

**Based on HUD FY 2015 Income Limits for Ada County*

Source: HUD, Workforce Housing Policy Memo, Leland Consulting Group

- **Ownership and rental types.** Urban ownership housing, primarily condominiums, appeals to retirees, baby boomers, and older working professionals with higher incomes. Nationally, there is a growing contingency of baby boomers that are willing to rent instead of own, but most urban rental housing continues to be occupied by millennials and working households with lower to moderate incomes, generally with incomes below 140% of the area median income.

- **Relationship to close-in neighborhoods and single-family residential costs.** While the predictive rent model did not find a premium for a downtown location, it does suggest that new construction in downtown would yield a rent premium over similar units located farther away due to the neighborhood amenities located downtown. Single-family homes located in nearby neighborhoods (within a mile of downtown) will compete with urban housing downtown for some market segments. If a nearby single-family home with private outdoor space is available for the same price as condo or apartment some people will choose the house while others will be ambivalent or will prefer the proximity to amenities.

COMMON BARRIERS TO DOWNTOWN HOUSING DEVELOPMENT

- **Parking.** Many downtowns suffer from a lack of available parking, or expensive parking which adds to the cost of urban housing. While there is ample public parking available in downtown, the parking is managed by different agencies which can create a barrier. A parking summit involving all affected agencies took place in April 2015 to initiate a discussion between the City, CCDC, and downtown stakeholders regarding a consolidated approach for managing downtown parking including the fee structure.

- **Lack of Amenities.** Commercial services such as grocers, pharmacies, dry cleaners, and restaurants are a key part of what makes urban housing an attractive option for many. The lack of or limited supply of these services is often a barrier to housing in downtowns. Other amenities include public transit options, healthcare facilities, and high quality public spaces. Boise is fortunate to be well-served with many of these amenities, including several grocery stores (Trader Joe's, Whole Foods, WinCo), many restaurants, and healthcare facilities within walking distance of the core.

- **Pricing.** As mentioned in the market analysis, most new housing in Boise has been built more than five miles from downtown which means that there are a lack of comparable products on which to base rental rates, absorption and other important metrics. It will be important to educate lenders and local developers about the potential for downtown housing. The findings from the predictive rent model included in the market analysis, projecting rents of $1.75 per square foot for one-bedroom apartments and $1.60 per square foot for two-bedrooms is valuable information to share with both lenders and developers in lieu of existing comparable products.

- **Experienced developers.** Many pioneering housing projects are built by local and regional developers who may not have a lot of experience, or who may not understand the potential for downtown housing. The City and CCDC can provide support to developers or act as ombudsmen to help them navigate the regulatory process and understand the market potential.
- **Development code.** Oftentimes, the building code can present barriers to development by not allowing certain forms of development. One common model is mid-rise wood-frame housing, typically three to five stories of wood-frame housing built over a ground-floor concrete podium (often called "three-over-one" or "five-over-one"). Even with fully sprinklered units, local fire codes sometimes prohibit this type of development. When hard construction for this construction type typically costs around $110 per square foot of building compared to $140 or higher per square foot for steel and concrete development, the prohibition can create barriers to providing housing that is affordable at moderate price points.
- **Financing.** With a limited track record of comparable projects, it is often difficult for proposed projects to meet loan underwriting standards and get appraisals that support traditional loan to value ratios. Therefore, developers need to provide greater amounts of equity or find secondary financing sources to bridge the gap (gap financing).
- **Limited tools in Idaho.** State regulations in Idaho limit the financial tools available to the City and CCDC to directly incentivize downtown housing. Therefore an important strategy for encouraging downtown housing is a place making strategy. Setting the stage with a quality urban environment through a great streetscape program, public parks, and other amenities will create the conditions needed to support private investment in urban housing.
- **Multiple layers of government.** Development in Boise requires working with multiple departments within the City of Boise, potentially also with CCDC, as well as with the Ada County Highway Department (ACHD). This can create perceived and real costs to projects by adding time and complexity to development.

REGULATORY CONTEXT

Boise has strong plans and policies that support the development of housing in downtown. Blueprint Boise, the city's comprehensive plan, includes Goal DT-CCN 2, which is to "Create in-town residential neighborhoods and increase the amount and range of housing choices available in Downtown and adjacent neighborhoods." The zoning throughout downtown allows residential uses outright or as a conditional use in almost all areas, although some rezoning within the Westside and 30th Street Districts is needed in order to allow for higher residential development densities and in some areas residential development at all. Additionally, more flexibility in allowable construction types (e.g., multi levels of parking, wood-frame construction) may help bring urban development and housing to the 30th Street District.

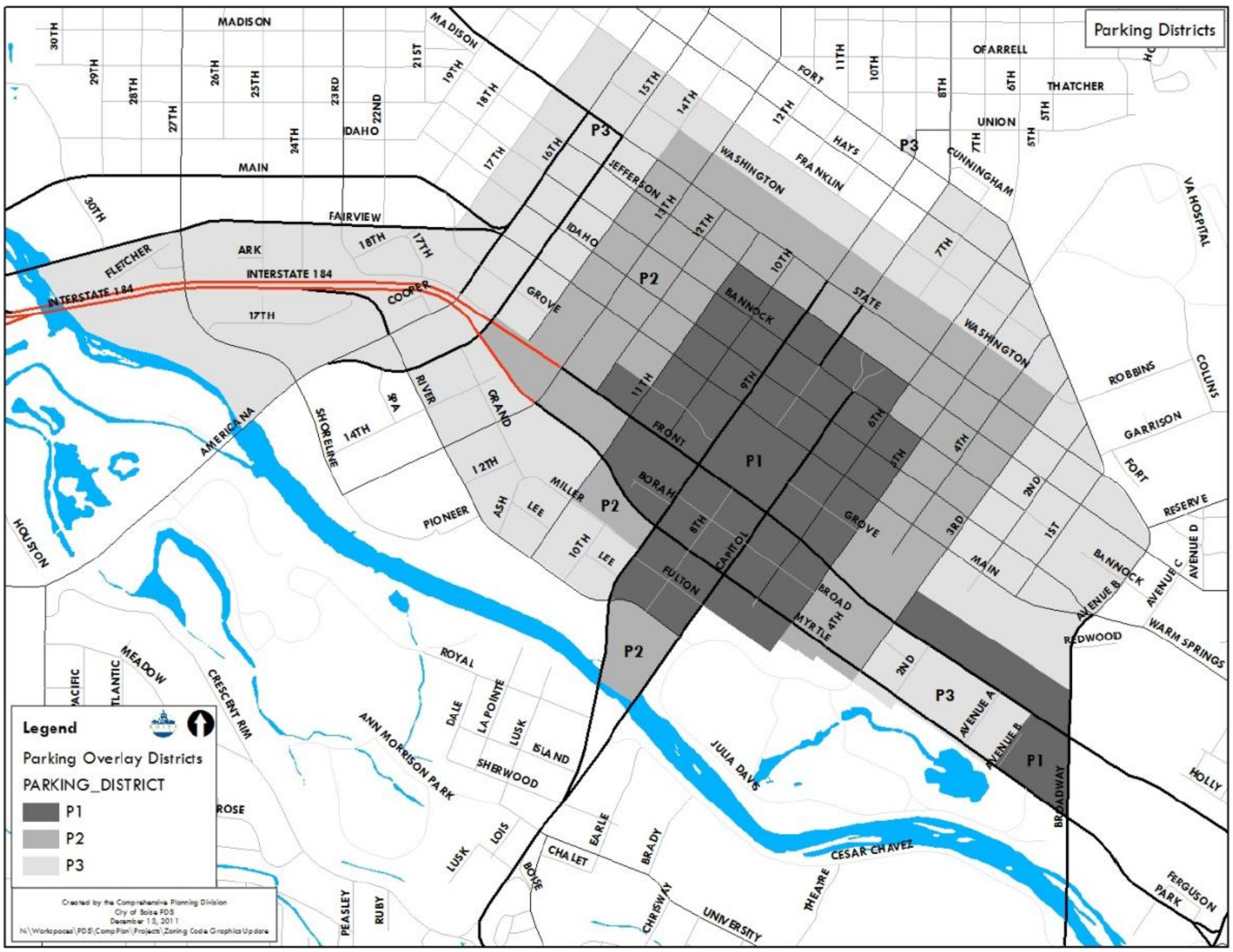
PARKING

While an accessory use to the residential unit itself, parking is a major factor in the feasibility of downtown housing. Trends in other cities such as Portland and Seattle show a growing acceptance in the marketplace of housing that does not include parking (neighborhood complaints notwithstanding). When above-ground structured parking costs upwards of $20,000 per stall, this can have significant affordability implications on the apartment units themselves.

Much of downtown Boise is covered by the Parking Overlay Reduction District, which reduces or eliminates required off-street parking for residential uses. Parking in these zones can also be reduced further through a range of parking reduction credits noted in Boise Zoning Code Section 11-06-03 (2). In the P-1 zone, there is no minimum parking required for multifamily housing and the minimum required in other zones can be well below one space per unit after accounting for credits. The amount of parking that “needs” to be built in a new housing project will be restricted by code, but should really be driven by market needs. A development that does not have enough parking to meet the desires of its tenants will be slower to lease up, while a project that has built too much parking may find that achievable rents are not enough to cover the high cost of construction. Therefore, developers have a strong financial incentive to get parking right—neither overbuilding nor underbuilding. Fortunately, Boise’s parking code appears quite flexible in this regard.

However, the parking needs to be coordinated between multiple jurisdictions, and will be the focus of an upcoming Parking Summit. For example, CCDC controls the public parking garages downtown, while ACHD controls the right-of-way and the City controls the on-street parking. It is important to have all of the parking types (on- and off-street) work together in order to better understand the parking needs and manage parking rates in order to effectively use parking as a development incentive to increase housing downtown.

Figure 2. Parking Overlay Districts



Source: City of Boise, Development Code

DEVELOPER INTERVIEWS

As part of the research for this project, the consultant team met with several developers active in downtown Boise to better understand existing conditions, barriers to development, and opportunities for new housing. The input and insights from those with first-hand experience building housing in Boise is essential to understanding the history of development, the barriers that make downtown development challenging, and the opportunities that could be exploited to maximize downtown's potential. The interviews covered a lot of topics, including:

- Market fundamentals in Boise today and trends in the economy;
- Regulatory and other barriers to developing housing;
- Target demographic groups for downtown housing;
- Housing types and locations;
- Amenities and services needed to support housing

Through the developer interviews, we learned:

- There is great enthusiasm for downtown housing in Boise and that there is a very real unmet demand for such housing. Boise's downtown is strong and getting stronger. This makes it a very appealing place for people to live.
- There is a growing interest from outside developers to invest in downtown Boise. It is getting noticed on the national scene and its reputation for having a high quality of life supports this.
- Developing structured parking for housing is not economically feasible without assistance due to the low prevailing rates in downtown for parking. There is a feeling that the city does not have a coordinated parking strategy for downtown that matches supply with demand and that provides direction on where parking resources are going to be focused in the future. District parking strategies are needed.
- The market is ripe for housing in the east and central areas of downtown now. The western areas are longer-term opportunities. However, recent successes like the Owyhee redevelopment and the construction of JUMP and Simplot's headquarters could shift momentum to the west. Momentum is already taking hold with the RFQ for development of CCDC's property at 1401 W. Idaho and the recent announcement of the acquisition of a site for the permanent home of the College of Western Idaho.
- Many developers suggested that assistance with parking costs would be a good incentive and help them overcome the high cost of structured parking. Developers suggested that this could be done in many different ways, from direct cash subsidies to low interest loans to publicly-owned parking. However, CCDC's ability to lend or grant money to development is limited by state statutes and public parking associated with residential uses is more challenging to make work than it is when partnered with a commercial project.
- CCDC's Participation Program provides for offsite infrastructure assistance in the public right of way and is helpful, but offsite improvements usually make up only a very small portion of a project's total costs and therefore there is often a considerable feasibility gap. Bigger tools are desired.
- The office market is more able to absorb the high cost of parking than the residential market. Without assistance, Boise is likely to see more office development than housing.
- Housing options can play a role in recruiting top-tier employees to Boise, particularly for St. Luke's and BSU.
- The city and ACHD could review its fee structure to look for ways to reduce development costs.
- Developers are eager for more market information since there are few comparables today to inform investment decisions.

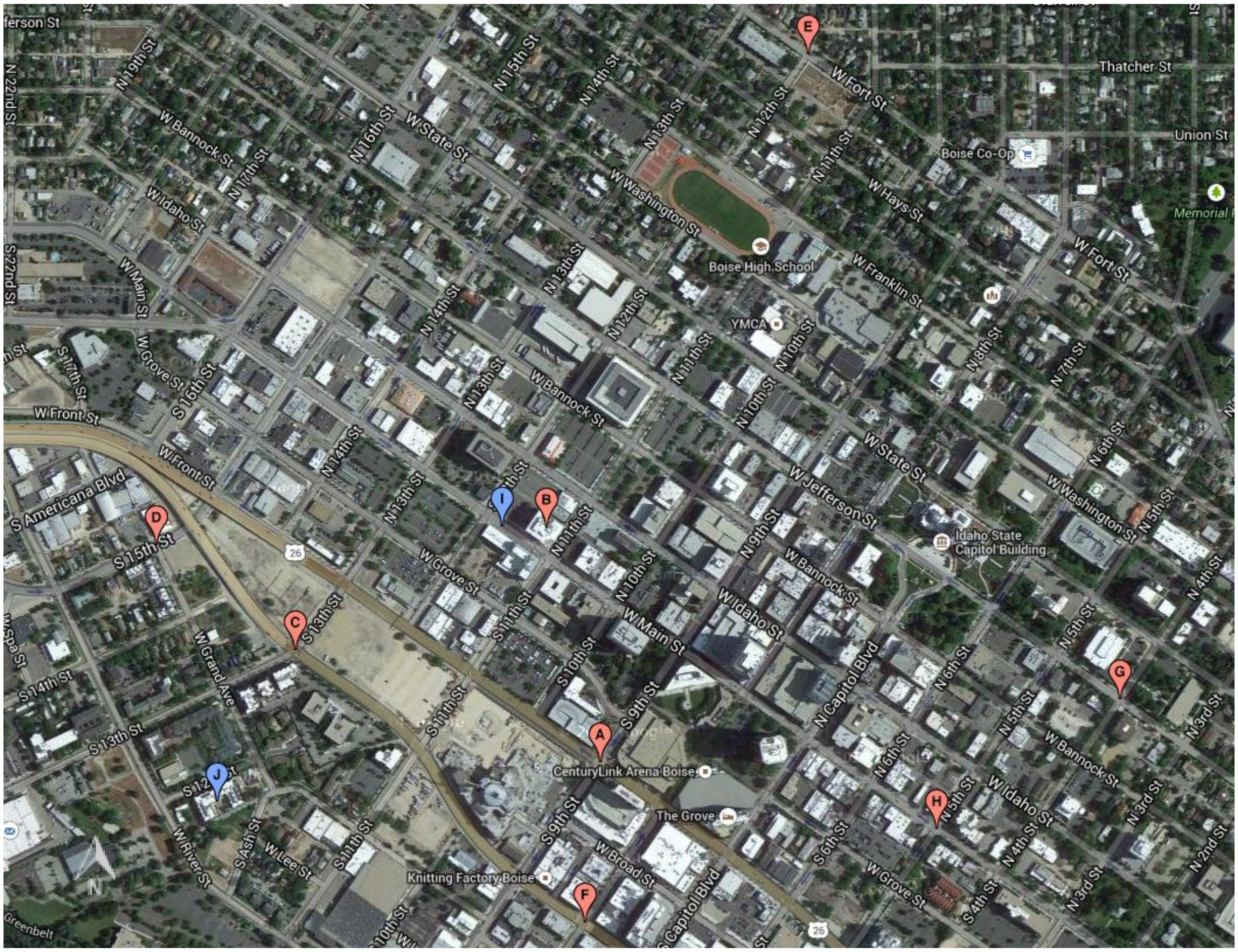
PAST AND CURRENT HOUSING STRATEGIES

CCDC HOUSING STRATEGIES

CCDC's role as the City of Boise's urban renewal agency puts it in the important position of being the primary agency in charge of downtown development and revitalization. In this role, CCDC is responsible for forming public-private partnerships with developers, for planning for its redevelopment areas, and for developing financial incentives that support this mission. Increasing the supply of downtown housing has long been a part of CCDC's mission. In 2003, CCDC conducted a series of developer outreach events in support of the Downtown Housing Study and later in 2007 a Workforce Housing Policy, which laid out the rationale for more housing downtown and set aggressive yet achievable targets for development. That strategy helped inform strategic planning at the agency to direct its programs and investments throughout downtown. Since that time, the country has gone through a boom cycle, which was followed by a recession. The strategy was effective and much housing was built in downtown, as detailed in the table below. Most of this development was in the form of market-rate condominiums and relatively little affordable or workforce housing was built. A summary of residential development since 2004 is below:

	Project	Location	Description	Year Built
A	The Aspen	9th and Front	70 condominiums over parking	2009
B	Royal Plaza	1112 W Main St.	26 luxury condominiums over ground-floor retail	2008
C	CitySide Lofts	13th and Myrtle	77 condominiums, underground parking	2007
D	Grand Avenue Condos	15th and Grand	20 condominiums	2008
E	Hyde Park Place	12th and Fort	39 condominiums	2004
F	R Grey Lofts	8th and Myrtle	16 loft condominiums	2009
G	The Jefferson	4th and Jefferson	43 condominiums, underground parking	2009
H	Veltex Building	5th and Main	5 condominiums above office	2004
I	Owyhee Flats	1161 W Main St.	36 apartments in renovated hotel	2014
J	12th and River Senior Apartments	520 S 12th St.	53 affordable senior apartments	2012

Figure 3. Downtown Boise Housing Development Since 2007 (apartments in blue)



Source: CCDC, Leland Consulting Group

Notably, until 2014, no new market-rate apartments had opened downtown since 2003 (the next newest apartment building was the Riverwalk on Shoreline Drive, which opened in 2002.

LIV BOISE

LIV Boise is an initiative of the Office of the Mayor to promote Boise as a community of:

- Lasting environments
- Innovative enterprises
- Vibrant communities

The initiative provides an umbrella strategy to coordinate efforts of economic development, planning, the arts, and other aspects of the community. One initial project under LIV Boise has been to plan and coordinate development strategies in the Central Addition area, located between Front and Myrtle, from Capitol to Broadway. Through this effort, the City is coordinating public investments and facilitating public-private partnerships that will capitalize on recent development activity in the area to improve connections, create a sustainable geothermal network, improve streetscapes, and enhance public spaces. Through this initiative, the

City is providing pre-development assistance to developers in the area and is ensuring that capital projects and policy actions in the area are coordinated and phased to maximize their impact on private investment.

ULI IDAHO NEXT 1,000 INITIATIVE

In the fall of 2012, the ULI Idaho District Council received an Urban Innovation Grant from the ULI Foundation to pursue the opportunities for a partnership with other organizations. The objective of the effort was to mobilize action in support of developing a healthy community. To build capacity within the District Council, a Healthy Community Initiative Council was formed. “The Next 1,000” is a summary done by the Council over a six-month period to examine the opportunities and challenges of creating 1,000 new housing units in Boise within five years, and recommends collaborative action steps for success.

The project included extensive research of demographic trends and outreach to the development community. It culminated with a report, The Next 1,000: Stimulating Housing in Downtown Boise, that was released in spring 2014 and outlined initial strategies to remove barriers to development and encourage housing development in downtown.

HOW DOES CCDC CURRENTLY SUPPORT HOUSING DEVELOPMENT?

Currently CCDC participates financially in all types of projects (including housing) one of five ways as per their adopted Participation Program. Eligible projects must fulfill the primary goals of the Participation Program, which are to improve conditions, promote development, and fuel economic growth consistent with CCDC’s strategic plan.

1. **Type 1. Streetscape Grant:** This is intended to pay for a portion a development’s required streetscape improvements and assists developers in meeting the City’s Streetscape Standards. CCDC pays for the first $25,000 of the costs of ROW improvements and 50 percent of any additional costs with a not-to-exceed total contribution of $150,000. This is paid out in one lump sum. The program’s relatively small funding cap and limited applicability (not every project has a significant need for streetscape improvements) means that it is most useful for smaller scaled developments or in combination with other incentive programs.
2. **Type 2. General Assistance (non-CCDC property):** This program is oriented towards larger projects and includes a broader definition of eligible costs. It is entirely based off of how much tax increment the specific project will generate and a percentage of that will be paid back over a four year period. Eligible project expenses may include streetscapes, infrastructure in the right-of-way (streets, utilities, domestic water, geothermal water, sewer, power, phone, fiber optics), some façade improvements, and some site remediation improvements. The percentage of taxes that goes back to the project is determined by a scorecard that intends to reward more urban-oriented developments. This is a conservative approach for CCDC that can be quite useful for a housing developer especially if there are substantial ROW or public utility improvements. It has been used, for example, by the Owyhee project. CCDC may want to consider more flexibility on this program especially in how long it takes to pay a developer back since the long payback period still does not solve short-term financing challenges.
3. **Type 3. Special assistance (non-CCDC property):** This program is for larger, more transformative projects and allows for CCDC contribution to a range of public elements of a project such as public parking, infrastructure, public plazas, trails, and other public components. While flexible, CCDC seeks a minimum 6:1 leverage ratio – that is, the private developer should contribute at least six dollars of private investment for every dollar of public investment. This is a more needs-based program that has

built-in flexibility in regards to eligible costs and payback. Reimbursement typically occurs after a certificate of occupancy is issued.

4. **Type 4. Public Private Project Coordination:** This is program allows CCDC to pay for improvements on a project that are slated to be completed by CCDC as part of their approved capital improvement program (CIP). It supports the coordination of public projects with other public agencies and funding sources as well. Essentially, a developer can take on the capital improvement and get fully reimbursed if the CCDC was intending on doing the particular improvements as part of their CIP anyway. This is not really an incentive to housing developers besides that they can better control the improvement to their ROW using this program. The Owyhee used this program in conjunction with at Type 2 program.

5. **Type 5. Property Disposition (CCDC-owned property):** This program sets out the process for the disposition of CCDC land for for-profit, nonprofit, and public development use. Through a development and disposition agreement (DDA) process, CCDC negotiates a development schedule and pricing terms with the selected developer. These terms can be flexible and can adjust land acquisition costs for the developer so that the project maintains financial feasibility while meeting the public objectives of the project. CCDC is working on two dispositions currently. The first has been in progress for about a year on land at 9th and River; the disposition is expected to be complete in summer of 2015 and is slated to bring up to 67 condominium units to downtown Boise. The second disposition was recently advertised and is also expected to fetch proposals that will incorporate additional housing for downtown. This program seems to be the most direct way of incentivizing additional downtown housing but may prove costly for CCDC.

CASE STUDY AND STRATEGIC KEY FINDINGS

The history and experience of downtown housing development from other cities can provide valuable lessons learned about the tools and strategies that have led to successful downtown housing. Six cities (Denver, Salt Lake City, Nashville, Austin, Portland, Kansas City) that are considered model or peer cities to Boise were studied to identify how downtown housing evolved in each community, the public tools and incentives that were used to incentivize housing development, identification of any strategies related to workforce housing, and to identify lessons learned that would be applicable to Boise. While many of these cities are larger than Boise, the intent is that the lessons learned would still be relevant at Boise's smaller scale.

Detailed information about each of the case study cities is found in the appendix. Notably, there were few, if any, themes or strategies common to every city evaluated. The experience in each place was truly unique and reflected local economic conditions, local developers, and development opportunities. Indeed, if there was a major take-away from the case study research it is that there was no single formula for success – each city followed a unique path with different players, tools, and outcomes. Key findings from the case studies that are applicable to Boise include:

- **Boise does indeed have more limited tools than elsewhere:** Idaho law greatly limits the ways that Idaho cities can provide financial incentives to developers. Several other cities utilized financial incentive programs including loans and TIF reimbursements that are much more flexible that what CCDC is legally able to offer.
- **Local developers led the way:** In almost every example, the downtown housing boom was led by local developers, not out-of-towners. These local developers tended to own significant assemblages of land, had a passion for their communities, and had a long-term investment view that allowed for investments to go forward that might not meet traditional standards for investment return. Boise is well-positioned in this respect.
- **Strong political support.** Several cities noted strong political support for downtown revitalization, often associated with mayors (or a series of mayors) that served for a decade or more, who were able to champion key projects and initiatives. Both CCDC's and the City of Boise's leadership have focused on downtown as a priority for housing.
- **Downtown advocacy group.** Both Nashville and Austin had a downtown advocacy group financially supported by a business/public improvement district that reached beyond the typical duties of B/PID (marketing, enhanced safety and cleaning, etc.) to encourage downtown housing and other amenities critical to supporting downtown housing. While the Boise Downtown Association does fulfill some of the business marketing duties, it does not specifically have a housing development function.
- **Place making played a big role:** Each city's downtown is notable for one or more catalytic place making efforts. In some cases the catalyst projects are parks or open space focused while in others they are retail or entertainment focused. In either case, there was a clear connection between non-housing investments that created a destination and the development of housing. CCDC has historically played a key role in this regard through the master plans that it has championed such as the Westside, River Myrtle, Old Boise, and 30th Street master plans.
- **Evolution over time:** The scale and market for downtown housing in each community changed over time. This typically started with smaller-scale renovations and adaptive reuse projects and later evolved into larger scale and higher rise developments. The early projects, however, were critical in proving the concept that there was a market for downtown housing. Boise appears to be at a midpoint in this process, where mid-rise projects are now the norm, at least in the urban core.
- **Affordable/workforce strategies:** Several cities had specific strategies for affordable housing. This was typically focused on low and very low incomes where housing units are restricted to those earning

below certain income thresholds. We did not discover any examples where cities had a specific strategy for workforce housing, which is market-rate housing that is delivered at price points affordable to households earning 80 to 140 percent of area median income. It was not clear why these cities did not have such a strategy – their efforts were simply focused on housing development overall or specifically on lower-income affordable housing.

- **Large land holdings:** Several of the case study cities had a catalytic development resulting from a large land holding that was developed by one or more developers. In some cases this was from a public land assembly, while in other cases it was through private land assembly or the reuse of a large industrial site. These large sites provided opportunities for housing development to take place over many phases under a master plan, a process that would not be possible through small, one-off infill projects.
- **Parking:** None of the case studies provided an example of the municipality enticing housing development through the provision of public parking.

STRATEGIC RECOMMENDATIONS

Currently, Idaho law prevents CCDC from being able to provide direct financial assistance to developers and CCDC has largely focused its efforts on planning, land acquisition and disposition, providing infrastructure, and developing parking. In the long run, greater flexibility would come from legislative changes that will enable CCDC (and other urban renewal agencies in Idaho) to provide more direct financial assistance to development. Key areas where such flexibility would be beneficial include:

- Project subsidies: Providing developers with capital to reduce feasibility gaps, either through TIF reimbursements (rebating back to them the TIF that the property generates over time) or through grants (direct subsidies, usually tied to a specific purpose such as seismically retrofitting a historic building).
- Project gap financing: Providing low-interest and even forgivable loans to developers to assist in gap financing.

As with CCDC's Participation Program today, these incentives would be provided for projects that meet certain guidelines such as removing blight, creating new housing, and creating jobs.

However, recognizing that changes to Idaho urban renewal law is a long-term prospect, if not politically impossible, other more immediate strategies are appropriate. This means building upon CCDC's existing housing tools, expanding where necessary and focusing where appropriate. This section identifies specific strategies to guide CCDC's housing efforts over the next five years. It begins with an outline of strategies for its three core urban renewal areas (Old Boise, West Side, 30th Street) and then continues with recommendations for financial incentives that could be pursued to incentivize development. Note the fourth district, the Central District, is not included as it will be sunsetting in 2018.

DOWNTOWN TOOLKIT

Providing direct or indirect financial assistance to developers is one of the easiest ways to support qualifying developments. CCDC currently provides assistance through its Participation Program and those programs should be continued since they are established already and they do provide benefits to developers, albeit not always enough.

Strategies that are not in place, but that could be put into place and should be explored, include:

- **Clarify the vision for housing downtown**: Develop a coordinated vision for the types and locations of housing desired throughout downtown that bridges the policy and regulatory roles of the City of Boise with CCDC's role as a facilitator of public-private partnerships and implementer of redevelopment projects. Define the appropriate role of each agency and assign responsibilities for all aspects of downtown housing development. Incorporate benchmarks and performance metrics.
- **Engage with the housing development community on an ongoing basis**: Conduct ongoing outreach to the development community through forums, workshops, studies, and other means. For example, build upon the work of ULI Idaho to continue to research market conditions, provide education, explore policy changes, and other topics. A key part of this outreach should include the assembly of an ongoing database of housing comparables to support research efforts and forecasting.

- **Focus on place making**: As mentioned above, one of CCDC's core functions is to provide public infrastructure, which includes place making elements such as parks, trails, and streetscapes. This should continue to be a focus of their efforts, as greater place making by its nature creates a destination and value for properties, which in turn will allow rents to rise to the point that projects become feasible without subsidy. Currently CCDC is working with the City of Boise on a couple of initiatives that include investment in strategies to provide interesting places in order to increase private investment, notably in the LIV District.

- **Parking strategy:** Providing parking is one of the core services that CCDC provides to downtown businesses and property owners. This parking has historically been provided largely for downtown visitors and employees, with only a few examples such as The Aspen and the 8th and Main Building of working with residential and commercial developers. With a renewed focus on housing, a comprehensive parking strategy is needed to ensure that public parking is provided in the quantities and locations that will serve not only commercial development but also residential development. Since residents typically will want to have parking within the same building or very close nearby, making sure that parking supplies are built in locations that will serve planned residential development is essential. A parking strategy would provide a clear path for the development of new parking supplies and would signal to the private sector where CCDC plans on increasing supply so that developers can anticipate that and plan their housing developments accordingly. The development of this strategy should begin as soon as possible. A parking summit involving all affected agencies is planned for later this year to create a consolidate approach for managing downtown parking including the fee structure.

- **Revise zoning within the urban renewal districts.** The planning department in conjunction with CCDC, needs to determine which entity will take the lead on coordinating efforts to confirm and revise the zoning within the Urban Renewal Districts to ensure that it matches the URD Plans and the City's plans for the area, especially in Westside and 30th Street. The City is assisting downtown housing by supporting zoning changes that allow first-floor residential uses, enabling live-work uses in areas where there may not be a market for retail or commercial uses.

- **Explore preleasing and gap financing strategies.** The inability for proposed projects to get appraisals that support loan underwriting is a significant challenge in a market that has not yet seen much new development. Without adequate appraisal support, developers must raise more equity for projects or find gap financing, which usually comes with significant strings attached such as

Incentives Case Study: Platform District at Orenco Station. Hillsboro, Oregon

Holland Partners is currently developing 894 residential units and approximately 25,000 square feet of retail space in three six-story podium-style buildings and one "wrapper" building with a central parking structure and a new public plaza in the new Platform District at Orenco Station in Hillsboro, Oregon. The developer used a variety of financial tools to make the project feasible. The wrapper building used Oregon's Vertical Housing Tax Abatement program, giving it 80 percent tax abatement over 10 years. The project is expected to bring in an estimated $300,000 per year in property taxes even with the abatement, after which it will increase to an estimated $2 million per year. In interviews, the developer indicated that the tax abatement made the additional cost of structured parking feasible.

Another financial incentive making the project feasible is the City's willingness to allow the developers to amortize the systems development charges (or impact fees). Rather than paying them in full at the beginning of the project, the developer paid a five percent down payment (as opposed to the typical 15 percent down payment) and will pay the rest over a 10-year period starting six months after the certificate of occupancy is issued. Additionally, Holland has agreed to build the central plaza for an estimated $2.6 million and will apply the construction costs to the $2.4 million parks impact fee that it owes for the project.

Incentives used:

- Tax abatement
- Amortize impact fees
- Parks impact fee offset by on-site amenities

high interest rates. Several strategies could be effective at solving this problem.

- **Gap Financing:** CCDC and other urban renewal agencies in Idaho are not able to provide loans to development. However, there are many sources of gap financing from state, federal, and nonprofit organizations for affordable housing. CCDC could play a catalytic role in working with partners (local, state, and nonprofit agencies as well as private banks) to explore the creation of lending pools or resources that would be available to market-rate housing. There are few examples of such programs nationally, but local leadership could prove effective at establishing a program in Boise.

- **Preleasing:** An alternative to gap financing that would help in loan underwriting is to secure preleasing commitments prior to construction. By preleasing units, the developer can show the lender a guaranteed revenue stream and accelerated absorption, thereby improving the project's financial performance and reducing or eliminating the need for gap financing. Preleasing commitments might be appealing to major employers and institutions that have a need for quality housing to serve visiting employees or to help in recruiting employees. Major employers such as St. Luke's or BSU could find value in such a program by demonstrating the availability of high quality and affordable urban housing to prospective faculty and doctors. Brown University and Stanford University have preleased housing for faculty as did the Mayo Clinic in order to attract and retain employees.

- **Crowdfunding:** An emerging financing model for real estate is crowdfunding, where developers can use the power of social media and the internet to find and attract investors to projects. Crowdfunding tools such as FundRise, CrowdStreet, and others usually enable smaller investors to participate in real estate development and could provide a new avenue for developers to find equity partners. Many states limit investment to accredited investors (high net worth with high minimum investment thresholds), but some states such as Oregon and Washington have amended laws to reduce minimum investments and to enable nonaccredited investors to participate.

In addition to the above five key actions, several other strategies and incentives that could further remove barriers to housing development should be studied, as discussed below. New pioneering urban housing developments often require a package of financial tools and incentives in order to be feasible, until the market has proven its viability.

Incentives that should be explored that would directly address financial feasibility challenges for development include:

AMORTIZE IMPACT FEES

- **Description.** Allow developers to pay impact fees over time, for example ten years, in annual payments rather than as a single fee up front.
- **Rationale.** This reduces development costs, moving the fees from the capital construction side (and thus a part of construction financing) to operations. This can have a beneficial impact on financing projects. It also allows incremental rent increases to help cover the cost over time as the downtown housing market proves itself, instead of requiring a higher rent upon initial occupancy.
- **Benefit.** This could tip the balance for projects that are marginally feasible, allow for a higher quality product, or incorporate additional amenities that would help attract residents and add value.

PARKING IMPACT FEE STRUCTURE

- **Description.** Together with ACHD study the impact fee structure and look for ways to reduce it by preparing a downtown-wide parking and traffic impact study that would result in lower impact fees for downtown development. A more aggressive fee reduction could be applied to workforce housing projects.
- **Rationale.** Lower impact fees in downtown acknowledge the lower cost to the City to provide services because of the existing infrastructure that is already in place downtown. Lowering the fees will reduce development costs for downtown projects. This can help address the need for parking that is available to downtown residents, not only employees and retail customers.

- **Benefit.** This could tip the balance for projects that are marginally feasible, allow for a higher quality product, or additional amenities that would help attract residents.

FEE WAIVERS

- **Description.** Fee waivers for other impact fees at the city level can serve as a financial incentive for developers. Impact fees, especially for parks, can be waived or exchanged for a project, such as a park or public plaza, that is constructed by the developer in lieu of paying the required fee.
- **Rationale.** CCDC has a limited ability to offer direct financial incentives to developers to help offset development costs. CCDC and the City can work together to minimize the City's fees for downtown development. It typically costs the City less to provide services in a developed area than it does to provide services to a new greenfield development on the fringe. Therefore it is reasonable to charge downtown developers less or give them a credit for public amenities that they are providing with the development.
- **Benefit.** This is one more tool in a financial package that could tip the balance for projects that are marginally feasible, allow for a higher quality product, or additional amenities that would help attract residents.

EXPEDITED PERMITTING

- **Description.** Accelerate the permitting process. This has not necessarily been a problem in Boise, but something other cities do that should be explored here. Indeed, the City already has a Project Manager program to provide assistance to developers building affordable or workforce housing and provides similar assistance for businesses seeking to locate downtown.
- **Rationale.** Expedited permitting or the provision of a single point of contact for downtown projects can save developers a lot of time and increase their confidence that permitting a project will be feasible and timely, in turn increasing the amount of projects that get successfully built. This is especially useful for developers that do not have a lot of experience getting developing complex projects that may require additional permits or design review, etc.
- **Benefit.** The local development community will build confidence that the City is open for business and begins to pursue projects that may be outside of their comfort zone, knowing that they will have an advocate/partner to help them navigate the permitting process and that it will be done quickly, saving them time and money exploring new investments.

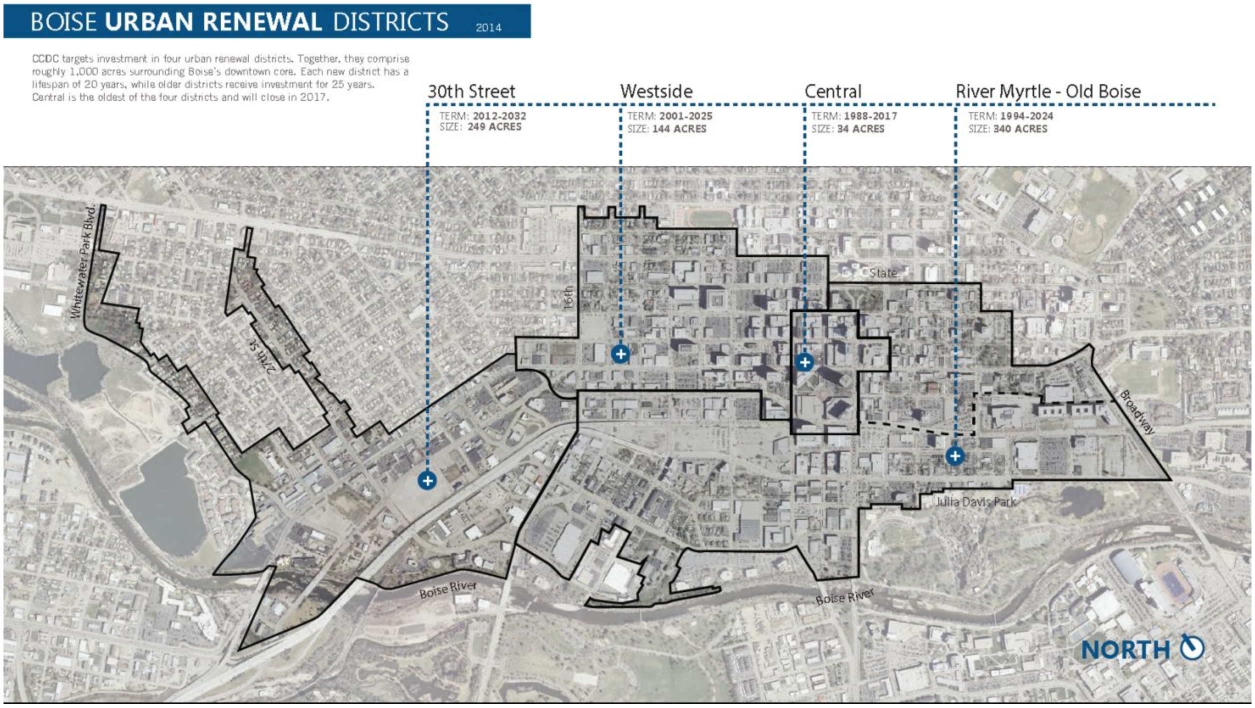
EXPLORE TAX ABATEMENT OPTION

- **Description.** Tax abatements have been very successful in other states and provide a direct financial benefit to developers, particularly for apartments. However, the assumption is that legislative action would be needed for this to be possible in Boise. Oregon, for example, has a vertical housing tax abatement program that allows cities to designate areas in which mixed-use housing developments meeting the requirements can receive a 10-year tax abatement on the improvement portion of their property taxes. A developer interviewed about the tax abatement for a recent apartment project in Orenco Station in Hillsboro noted that the abatement made the additional cost associated with structured parking possible for that particular project.
- **Rationale.** A tax abatement reduces the operating cost of a housing project, allowing the property owner to charge lower rents initially or the developer to spend money on other amenities that will help attract residents. Given the limited ability of CCDC to directly contribute funds to private development, this would be a way to reduce development costs over an initial period of time without direct financial subsidy.
- **Benefit.** This is one more tool in a financial package that could tip the balance for projects that are marginally feasible and will eventually increase the tax revenue without an up-front financial investment in the project from the City or CCDC.

DISTRICT STRATEGIES

In addition to the strategic recommendations and toolkit mentioned above, this section addresses distinct strategies for each of the downtown urban renewal districts, shown in Figure 4.

Figure 4. Boise Urban Renewal Districts



Source: CCDC Boise

Central District: This district will be closed out soon. Remaining investments are focused on the Grove, Boise Multimodal Center, 8th street, City Hall, mobility/ bike lanes, and a wayfinding project.

River Myrtle/Old Boise District: In the short term (next five years), market momentum is likely to remain strong in the east side of downtown. This includes both the Old Boise area as well as the LIV District, also known as the Central Addition, where developers have made several proposals for new housing. With existing housing grocery stores, parks, and other amenities already in place, these neighborhoods are strong housing locations. They will continue to evolve and pricing is likely to support new development here with less need for assistance than in other emerging parts of downtown.

- **Type of housing:** Condominiums and apartments. Primarily high density development with structured parking, but some surface parked or tuck-under parked densities also possible.
- **Target markets:** All markets. Empty nesters, downtown employees, other working singles and couples.
- **Key actions:**
    - Parking assistance: Work with developers to identify shared parking opportunities or provide financial assistance to overcome structured parking costs. With generally smaller sites in this district, accommodating parking within each project will be challenging.
    - LIV District place making: CCDC is currently contributing to a number of the place making initiatives in the LIV District. This includes providing a 50% local match for a $1,000,000 geothermal system expansion that has the ability to serve several hundred thousand additional square feet of development in the LIV District. Also, the CCDC plans to develop and implement a new vision for Broad Street that prioritizes pedestrians alongside automobiles. Broad Street will become the center of the neighborhood, a place where people interact. The street will also include sustainable stormwater treatment techniques allowing developments to handle significant portions of their stormwater in the ROW in a sustainable manner. CCDC is

30TH STREET MOVES FORWARD

A year after the 30th Street Master Plan was adopted, which called for a project coordinator to help implement the Master Plan, the City and CCDC devised a budget and a business plan to attempt to spur development in the 30th Street Urban Renewal District. The project coordinator's initial task was to communicate with various stakeholders to try to determine the largest barriers to development envisioned by the Master Plan. Although the focus was not entirely on housing it surely incorporated housing in the mix. The area was rebranded as the West End to help communicate its unique identity and what the area has to offer.

Next, the City led a rezone of ~80 acres in the Main/Fairview corridor to allow for the urban type of development envisioned for the area. As a part of this rezone, high density multifamily development became an allowed use, thus removing another hurdle for its development. In addition to the rezone, the P3 parking overlay was extended throughout the commercial areas to give developers more flexibility on how to park their residential or commercial projects. Both of these measures were crucial to helping pave the way to higher density future development.

Since the rezone, the work in the West End has continued by supporting measures to help the area become more connected, as well as, pedestrian and bicycle friendly. The City and CCDC worked with ACHD to help design and complete the reconfiguration of 27th Street, which allows on-street parking, implements bike lanes, and helps bring a feeling a safety to pedestrians on the sidewalks. In addition, the City and CCDC continue their efforts with ACHD by investigating increased connectivity in the Main/Fairview corridor as well as a possible lane reduction along those streets to help bicycle safety and improve the street scene for potential redevelopment.

The solicitation of the developer to develop the City-owned 6.5 acres site is an exciting opportunity to create additional downtown housing units. Although development of the site is likely several years off, it has great potential to generate significant tax increment to support CCDC's capital project plans for the area.

also participating in neighborhood improvements to create a safer, more appealing urban place to live. The agency is funding a signalized pedestrian crossing at 5th Street and Myrtle Street to connect residents with Julia Davis Regional Park and 25 miles of greenbelt river pathways. The conversion of 5th Street and 6th Street to two-way streets is also in CCDC's capital improvement plan which should assist in increasing retail activity, slowing traffic, and providing more pedestrian friendly connections. This place making effort will link residents to BoDo and the heart of downtown and is already attracting housing development on parcels fronting Broad Street.

Westside Downtown District: This area will see some housing development in the short term, but will see more in the medium to long term (5-10 years) as more employment and housing emerges here to create a complete neighborhood. Currently, the large amount of surface parking lots creates voids that inhibit a sense of place or neighborhood. CCDC's recent RFQ for development at 1401 W. Idaho will serve as a catalyst for future development in the area.

- **Type of housing:** Primarily apartments in the short term, including adaptive reuse of existing buildings in addition to lower-cost new construction. Development in the short term is likely to be at lower densities, but will increase over time as the market matures and more amenities are developed. With housing that appeals to more modest incomes, lower parking ratios are likely to be more feasible here than in other submarkets of downtown, as not all residents may need or own a car. Unit sizes may also be smaller than elsewhere in downtown.

- **Target markets:** As an emerging district, initial housing development is likely to be at workforce price points and may include subsidized affordable housing projects that appeal to service workers and others with smaller incomes.

- **Key actions:**
    - Place making: This neighborhood lacks many of the streetscape and retail amenities that the east side has. By focusing investments in the public realm, CCDC can help focus private development around amenities and begin to create a sense of place that drives up land values and makes development more feasible. The urban renewal plan identifies substantial improvements to select rights of way.

30th Street District: This area is primarily a long-term housing opportunity, but it also has the greatest amount of redevelopable land and is the only place in downtown where large tracts of property can be assembled under single ownership. This creates the opportunity for a large master planned development to take place, where many different product types can be combined with urban amenities to create a new neighborhood and destination within walking distance of the downtown core. Further, the City of Boise has several large landholdings here that could be leveraged in a public-private partnership to incentivize development.

- **Type of housing:** In a master planned development, almost all housing types could be viable here, from row houses to more vertically mixed apartments and condominiums. With a range of densities, parking could be accommodated efficiently in surface lots or in shared structures.
- **Target markets:** All types and price points.
- **Key actions:**
    - Master planning: With approximately nine acres of land under City ownership, this is a unique opportunity to create a development offering that would allow a master developer to build a project of significant scale. Such an offering should be guided by a conceptual plan that outlines the vision for the area, identifies development targets and a desired product mix, and identifies the catalytic public investments that will begin momentum. This master planning should happen in the next three years. The City is already pursuing such a strategy, having retained a project manager for the area to coordinate the recruitment of a project for the area. As part of this process, the area has been branded as the West End and a website and other communications materials are available.
    - Developer solicitation: Once a conceptual plan is in place, the City should recruit a developer to serve as master developer of the area. This developer may also participate in vertical development, but may also partner with other developers in the build out of the site. Developer recruitment should take place in 3-5 years.
    - Public infrastructure: Based on the master plan, infrastructure will need to be constructed. As appropriate, CCDC may assist in the funding of such improvements.

SUMMARY

The following chart provides a snapshot of how each of the strategies above could be arrayed over time to provide a comprehensive housing implementation strategy. Many of the initial actions identified in Year 1 are already underway, being carried out by either CCDC or the City. In some cases, more coordination is needed to effectively leverage these activities, but there is a clear momentum of focusing resources, both human and capital, on removing barriers and working with the private sector to attract housing investment downtown.

	Immediate	Near term	Mid term	Long term
	Year 1	Years 2-3	Years 4-6	Years 7-10
Urban Renewal District-specific Strategies				
Central				
Will be closed soon				
River Myrtle - Old Boise				
Parking assistance				
Central Addition place making				
Westside				
Place making				
30th Street				
IGA between CCDC & City				
Master planning				
Developer solicitation				
Public infrastructure				
Downtown-wide Strategies and Tools				
Clarify the vision for downtown housing	Develop coordinated vision. Clarify City & CCDC roles & responsibilities			
Focus on place making			Provide parks, trails, streetscapes, pedestrian-friendly spaces, public art, social spaces	
Parking strategy	Use parking summit to develop coordinated strategy & make parking available for housing projects			
Revise zoning within the urban renewal districts		Coordinate zoning with URD and City plans		
Amortize Impact Fees		Allow developers to pay impact fees over time		
Parking Impact Fee Structure	With ACHD study parking impact fee structure & reduce for downtown projects			
Fee Waivers		Offer impact fee waivers to developers as an incentive		
Expedited Permitting	Accelerate permitting process & designate single point of contact for downtown projects			
Explore Tax Abatement Option			Explore tax abatement program through state legislation	

APPENDIX A

CASE STUDIES

Salt Lake City, Utah

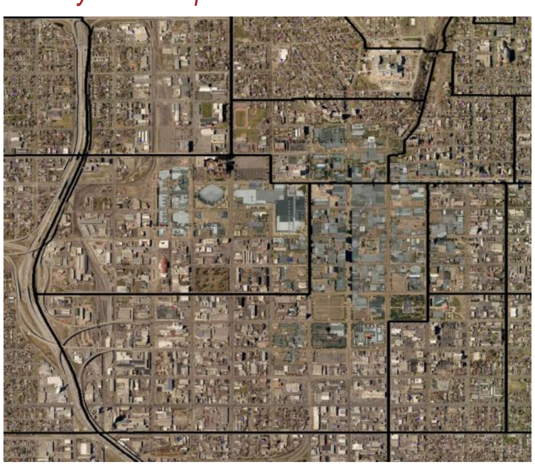
Assets and Amenities

- **Transit.** Downtown Salt Lake City is a hub of transportation, with regional commuter rail, light rail, and buses all converging and networking throughout the downtown core. A downtown streetcar is also being planned.
- **Culture.** Downtown Salt Lake City is the global headquarters of the Church of Jesus Christ of Latter Day Saints, which is a major tourism and cultural draw. The investments of the LDS Church are a major influence on downtown, including the high-end City Creek retail and mixed-use project that opened in Downtown is also home to Energy Solutions Arena and several performing arts venues, museums, and libraries.
- **Retail.** Downtown Salt Lake City has two major retail centers (Gateway and City Creek), which provide a diverse range of retail and dining at all price points.

Tools and Incentives

- **Redevelopment agency.** The Redevelopment Agency of Salt Lake City (RDA) provides TIF reimbursements to qualifying developments for offsite infrastructure, structured parking, and housing. The RDA also provides low interest loans for land acquisition and project development. Major TIF investments have included streetscape infrastructure, light rail (TRAX) funding, public parking, and loans for housing and mixed-use developments. Through the redevelopment areas and the associated projects, the RDA has been able to target development in parts of downtown where private investment is desired and where it can leverage other public investments in transit, street beautification, and public spaces.

Study Area Map



Sugarhouse Apartments

Salt Lake's Housing Story

Despite the Salt Lake region's reputation as a largely suburban sprawling area, downtown Salt Lake City has seen significant housing development over the past 10 years, with much more on the horizon. In preparation for the 2002 Winter Olympic Games, Salt Lake City began a strong initiative to improve transportation and transit and the downtown now benefits from transportation options including commuter rail (Front Runner), bus, and light rail. A downtown streetcar system is currently being planned and, if built, will open sometime between 2018 and 2020.

Salt Lake City's downtown housing boom has only really taken off in the current real estate cycle beginning in 2012. While many projects were supported in part by the Redevelopment Agency of Salt Lake City (the RDA, their urban renewal agency), not all projects were and there was no single developer or policy initiative that spearheaded the growth – it has been more organic. In fact, the largest concentration of urban housing in Salt Lake City is not being developed downtown at all. Instead, it is located in the Sugar House district, several miles to the southeast of downtown. This urban neighborhood is the location of Salt Lake City's first modern streetcar line and has seen over 1,000 units planned or built since the streetcar began construction. It opened in 2013 and future extensions are already being planned.

Quick Housing Facts:

MSA

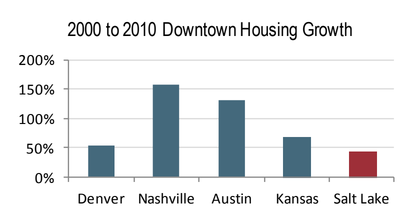
- All Units = 386,245
- MF Units = 103,515
- MF Share = 26.8%

Downtown

- Total Units = 5,992
- MF Units = 5,626
- MF Share = 93.9%

Downtown Compared to MSA

- DT MF share of all MSA units = 1.5%
- DT MF Share of MSA MF Units = 5.4%
- DT Housing Density = 42.1 units per acre



DENVER, COLORADO

Assets and Amenities

- **Sports.** Downtown Denver is home to Coors Field, home of the Colorado Rockies baseball team. With just over 50,000 seats, it was one of the first modern-era baseball-only stadiums built in a downtown location. It has been credited with catalyzing the revitalization of the LoDo district.
- **Parks.** The Platte River rings downtown on the north and west sides and has numerous parks and trails associated with it, including Commons Park. Cherry Creek also is located on the west edge of downtown and has additional trails that link it to other parts of the city. The state capitol grounds are located on the south edge of downtown.
- **Transit.** Downtown Denver is well served by several modes of transit, including bus and light rail. The MallRide provides frequent and free service up and down 16th Street, connecting Union Station with the heart of the office district.

Tools and Incentives

- **Inclusionary housing ordinance.** Denver has a citywide inclusionary housing ordinance that requires 10% of units in owner-occupied housing projects of more than 30 units be kept affordable for households between 50% and 95% of AMI for downtown urban housing. Standard housing has thresholds of 50% to 80% AMI. Rental housing is voluntary and has an affordability threshold of 65% AMI. The requirement is coupled with a density bonus program, relaxed parking requirements, and an expedited permitting program. Approximately 1,600 units have been built under this program, most of which were in large-scale developments outside of downtown such as Stapleton and Lowry.
- **Denver Urban Renewal Authority.** DURA has provided a wide range of investments in downtown projects through its tax increment financing tool that the agency administers. Colorado law allows for urban renewal authorities to provide gap financing for purposes including environmental remediation, site-wide improvements, utilities, publicly accessible parking, and life/safety measures. Depending on the urban renewal district, TIF revenues can include both property taxes and sales taxes generated within the district.

Study Area Map

Larimer Square

Denver's Housing Story

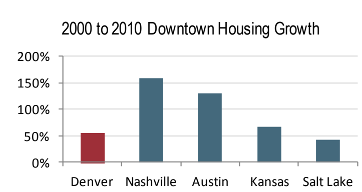
Through the 1980s, downtown Denver was struggling, with little in the way of new investment in either housing or offices. Revitalization began with the Larimer Square district, a block of historic buildings that have been repurposed into a retail and entertainment destination. Larimer Square was pioneered by Dana Crawford, who helped form the historic district and championed the reuse of historic buildings. The current owner completed the transformation into the retail and entertainment venue that it is today.

Lower Downtown (LoDo) took hold in the late 1990s and grew rapidly after the construction of Coors Field in 1995. As with Larimer Square, Dana Crawford played a large role in introducing catalyst projects and housing into an untested area. Indeed, much of downtown Denver's resurgence can be tied back to the catalytic impact of Dana Crawford's redevelopment efforts.

The Denver Urban Renewal Authority (DURA) played a catalytic role in many projects, particularly from the mid-1990s onward. Major investments included $1.4 million towards a parking garage at Larimer Square, $1.5 million towards the redevelopment of the Rio Grande Lofts building, and $6.2 million in sales tax TIF for the renovation of the Denver Tramway Powerhouse building into a new REI retail store.

Quick Housing Facts:

MSA	Downtown	Downtown Compared to MSA
• All Units = 1,078,391 • MF Units = 322,350 • MF Share = 30.8%	• Total Units = 14,270 • MF Units = 13,923 • MF Share = 97.6%	• DT MF share of all MSA units = 1.3% • DT MF Share of MSA MF Units = 4.2% • DT Housing Density = 150.3 units per acre



Austin, Texas

Assets and Amenities

- **Music.** South by Southwest (SXW) Music festival and live music venues
- **Parks.** Lady Bird Lake and a 10-mile Butler Hike and Bike Trail running through downtown. Republic Square hosts a farmer's market and movies in the park.
- **Art and culture.** Several museums, art galleries and theaters can be found downtown.

Tools and Incentives

- **Public Improvement District.** Austin has a Public Improvement District (PID) managed by the Downtown Austin Alliance (DAA), a nonprofit organization created in 1993 to provide direct services to support safety and cleanliness as well as several place making and economic development initiatives to increase downtown's value and vitality. The DAA's advocacy and support for denser development, more mobility options, and improvements to public amenities downtown, set the stage for successful private investment.
- **Density bonus.** The City created a downtown density bonus program, officially adopted in 2014 after a five-year interim period, granting developers additional square footage if the project includes a community benefit or pays into an affordable housing fund. At least two projects used the program in its first year of operation.
- **Comprehensive plan update.** The City's Imagine Austin recent comprehensive plan update identified regulatory barriers that can be changed to help encourage downtown housing and better align housing with other goals such as transit. It recommended strategies such as encouraging more compact development to promote more housing, such as a TOD program and catalyst fund.

Study Area Map

Seaholm District rendering

Austin's Housing Story

In the early 1990's, Austin held a Regional Urban Design Assistance Team (R/UDAT) workshop to help it overcome the economic decline resulting from the crash of the savings and loan industry in the 1980's. The strong backing of a series of Mayors moved forward the implementation of those recommendations, most importantly the creation of a management organization to advocate for downtown.

The Downtown Austin Alliance (DAA) provided advocacy and support for denser development, more mobility options, and improvements to public amenities downtown, setting the stage for successful private investment, along with redevelopment of City Hall and Second Street which served as a catalyst projects. The City was then able to take advantage of market forces as Austin quickly became a highly desirable place to live in one of the fastest growing states in the nation. Tech companies poured in and the music industry became popular with the growth of the South by Southwest (SXSW) set of music, film, and interactive festival and conferences.

Many housing developments are currently under construction in an effort to catch up to the housing shortage that has resulted from its rapid growth, such as the Seaholm District, an adaptive re-use of a former city-owned electric utility site, currently under construction including a public plaza, grocery store, new library, and greenbelt connection.

Quick Housing Facts:

MSA

- All Units = 717,898
- MF Units = 228,572
- MF Share = 31.8%

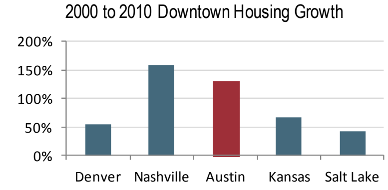
Downtown

- Total Units = 4,796
- MF Units = 4,515
- MF Share = 94.1%

Downtown Compared to MSA

- DT MF share of all MSA units = 0.6%
- DT MF Share of MSA MF Units = 2.0%
- DT Housing Density = 51.5 units per acre

2000 to 2010 Downtown Housing Growth



NASHVILLE, TENNESSEE

Assets and Amenities

- **Food and music.** Nashville has a very active food and music scene, as the host of the Country Music Awards and the star of several television series highlighting local chefs.
- **Parks and greenways.** John Seigenthaler Pedestrian Bridge, a local landmark reopened in 2003 as a non-motor vehicle bridge, that is part of a multi-use greenway system connecting to downtown and providing access across the Cumberland River. West Riverfront Park (opening summer 2015), is an 11-acre park located on a former thermal transfer plant at the south end of the pedestrian bridge, that will host downtown's first dog park, an event lawn, and an amphitheater.

Tools and Incentives

- **Public-Private Partnerships.** The Gulch is a 60-acre LEED certified mixed-use neighborhood, redeveloped from old industrial rail yards. The development is a public-private partnership between the developer, MarketStreet Enterprises, and Davidson County's Metropolitan Development and Housing Agency (MDHA) which spent approximately $7 million on infrastructure improvements.
- **Tax increment financing.** The MDHA has partnered with developers on other projects, offering incentives such as low interest financing and construction of a parking structure through tax increment financing.
- **PILOT.** A Payment in lieu of taxes (PILOT) program was created in 2003, as a 7-year tax abatement to incentivize developments in the urban core providing a minimum 20% set aside for affordable housing. So far it has not been very successful. Only one developer has used the program. Issues cited with the program's lack of success include a lengthy application and approval process and the need for a longer tax abatement period to make it financially worthwhile.
- **Height bonuses.** In 2010 the City changed the Downtown Code to offer a height bonus to developers who include workforce housing in their projects, recognizing a need for downtown housing products affordable to households with incomes in the range of 80% to 150% of AMI.

Study Area Map

Icon in The Gulch (Condos)

Nashville's Housing Story

Up until the mid-1990's, Nashville did not even have residential zoning downtown! In the mid-1990's local developers pressed the City to tackle the issue, convening a residential summit. Later, in 2003 a task force comprised of multiple public agencies created a plan to develop and enhance housing in the downtown urban core called the Downtown Living Initiative (DLI). The DLI offered several recommendations including making zoning and other policy changes, identifying areas for redevelopment such as the Gulch (a former railroad yard), the rehabilitation of empty upper floors in existing buildings, creation of a downtown development guidebook and ombudsman to assist developers, and financial incentives among others.

The Downtown Partnership, a private sector non-profit organized in 1994 to manage the Central Business Improvement District (CBID), successfully took on the ombudsman role to assist developers in navigating downtown (re)development. The Partnership also recruits retailers, restaurants, and employers; manages the public realm; and handles communications and marketing. A proactive Mayor and dedicated local developers also played an important role in the growth of housing downtown.

Although Nashville's own 2014 Residential Report states that downtown Nashville continues to trail peer cities such as Charlotte and Austin, it has made great strides over the past 20 years and is seen nationally as a thriving and vibrant downtown.

Quick Housing Facts:

MSA

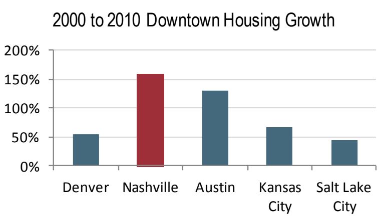
- All Units = 708,192
- MF Units = 164,088
- MF Share = 23.2%

Downtown

- Total Units = 3,878
- MF Units = 3,761
- MF Share = 97.0%

Downtown Compared to MSA

- DT MF share of all MSA units = 0.5%
- DT MF Share of MSA MF Units = 2.3%
- DT Housing Density = 78.8 units per acre



Kansas City, Missouri

Assets and Amenities

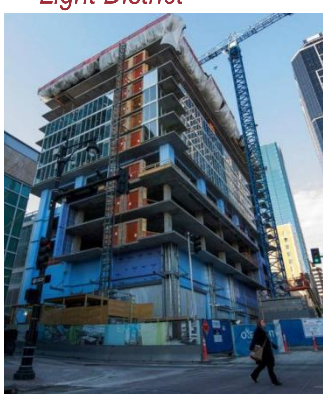
- **Arts, culture, and entertainment.** Kansas City has many internationally recognized museums, public art displays, and local galleries like those found in the Crossroads Arts District. Downtown hosts the Kauffman Center for the Performing Arts as well as the Sprint Center and the Power & Light District as well as other performance venues.
- **Food scene.** Kansas City is famous for its barbecue and has been proclaimed as an up and coming culinary destination by food magazines and the feature of several cooking shows.

Tools and Incentives

- **Public-Private Partnerships.** The Power & Light District developed by The Cordish Company as part of a public-private partnership with the Economic Development Corporation of Kansas City and the State of Missouri. The first housing development of the district, a 315-unit housing tower called One Light is currently under construction.
- **Tax Increment Financing (TIF).** The KCEDC has several small TIF districts Downtown, including the Power & Light TIF.
- **Capital Improvement Management Office (CIMO).** A unique public-private management team comprised of City employees as well as private sector engineering project managers, empowered with the authority and responsibility enabling them to make decisions on the City's behalf. The team was co-located within City Hall and tasked with fast tracking the management and delivery of capital projects traditionally under the purview of the public works department. This innovative approach earned a Best Practices award from the US Conference of Mayors.

Study Area Map

One Light, Power & Light District



Kansas City's Housing Story

Kansas City focused its downtown revitalization efforts on building a premier entertainment district as well as converting vacant buildings into downtown housing. The Power & Light District is a master planned mixed-use entertainment district located near the new Sprint Center multi-use stadium. It hosts the one block Kansas City Live!, a covered outdoor plaza with a stage surrounded by two stories of bars, restaurants, and entertainment venues.

In 2004 the City created a unique entity, the Capital Improvements Management Office (CIMO) using a public private partnership, in order to "re-engineer the City's inefficient, outdated project delivery process and re-invigorate its backlogged capital improvement project portfolio." This fast track capital project system takes credit for the Power & Light District, Sprint Center Arena, Bartle Hall Convention Center and another $190 million in neighborhood and public service projects that has leveraged at least 3 dollars of private investment for every dollar spent on construction. Kay Barnes, Mayor from 1999 to 2007 championed the early revitalization of downtown by supporting these projects and many others. The current mayor, Sly James, has been a champion of the downtown streetcar which is under construction, expected to open in early 2016.

Quick Housing Facts:

MSA

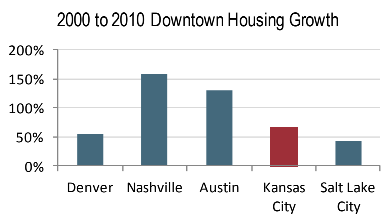
- All Units = 873,250
- MF Units = 188,386
- MF Share = 21.6%

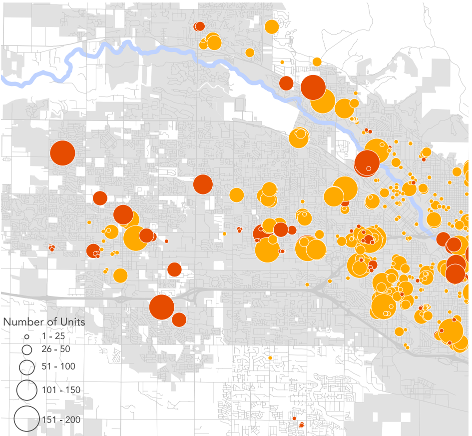
Downtown

- Total Units = 4,652
- MF Units = 4,379
- MF Share = 94.1%

Downtown Compared to MSA

- DT MF share of all MSA units = 0.5%
- DT MF Share of MSA MF Units = 2.3%
- DT Housing Density = 43.0 units per acre





APPENDIX B

MARKET STUDY

ECONorthwest
ECONOMICS • FINANCE • PLANNING

DATE: April 27, 2015
TO: Shellan Rodriguez, Capital City Development Corporation (CCDC)
FROM: Lorelei Juntunen, Erik Rundell, and Mike Wilkerson
SUBJECT: DOWNTOWN BOISE HOUSING STUDY: MARKET ANALYSIS

The Capital City Development Corporation (CCDC) asked ECONorthwest (ECO) to evaluate the market for rental housing in Boise's downtown. The analysis is part of a larger evaluation that also considers tools and strategies for encouraging more rental housing downtown, and which includes a concurrent study of peer cities' downtown housing strategies and approaches to implementation. This memorandum provides detailed findings for the market analysis portion of the study, and serves as an appendix to a summary document that provides an overview of all key findings for the Downtown Boise Housing Study: key market analysis findings (pulled from this appendix) and recommendations regarding CCDC's approach to implementation of its goal for a more vibrant and complete downtown (pulled from the concurrent study of tools and strategies).

This memorandum has six sections:

- **Introduction** provides an overview of context and geography for the market analysis.
- **Peer City Market and Demographic Comparison** provides an overview of the housing market and demographics for the region and downtown Boise and how they compare to other peer cities, particularly in the context of new apartment development.
- **Predictive Rent Model** provides the findings of a predictive statistical model on potential achievable rents and significant amenities.
- **Multi-Family Housing Demand Assessment** provides an assessment of overall demand for multi-family housing regionally and downtown and the number of projects in the development pipeline.
- **Findings and Implications** summarizes key findings and implications for housing development downtown and CCDC's strategy.

1. Introduction

Downtown Boise has realized little new housing development since the recession starting in 2008, and most of that has been condominiums, with little rental housing. CCDC commissioned this study to support implementation of its goal for a downtown that includes a range of housing types, particularly housing affordable to middle-income households known as workforce housing. The study focuses specifically on rental multi-family housing, which the city has not realized downtown recently but desires.

The analysis provides data and interpretation to improve CCDC's understanding of opportunities and barriers to urban rental housing in downtown Boise. Specifically, the study assesses the current market, potential achievable rents, and market demand. Exhibit 1 shows the boundaries of the Census tract used as the boundary of downtown for the study. Census geography provides a consistent boundary for the data analysis, especially over time.

Exhibit 1. Downtown Boise

Source: ESRI, US Census

The lack of recent development and comparable projects is a known challenge for analysis of potential new housing development in downtown Boise. As a result, for the market analysis and to determine achievable rent, this study conducts a statistical analysis on a wide array of factors impacting housing value for the Boise region, which differs from the traditional comparable, or "comp" approach. The findings from this study will help CCDC clarify its strategies to support housing development in downtown Boise as well as to inform developers' and lenders' underwriting decisions on future housing developments downtown.

The Downtown Boise Housing Study is one of a number of studies taking place around the Boise region. The City of Boise is also conducting an economic development study, called Boise Competes, assessing how the City compares to others, and is in the process of conducting a citywide Housing Needs Analysis. Each study has made efforts to coordinate findings and methodologies, specifically for the peer and comparable cities being evaluated in each study.

2. Peer City Market and Demographic Comparison

This section provides an overview of market and demographic trends that drive the supply and demand for multi-family housing in the Boise region and four other statistically-similar metropolitan areas: Colorado Springs, Colorado; Reno, Nevada; Spokane, Washington; and Chattanooga, Tennessee. The analysis highlights those trends that may support or create challenges for new multi-family housing in downtown Boise. Exhibit 2 shows the Boise metropolitan statistical area.

Exhibit 2. Boise Metropolitan Statistical Area

Source: ESRI, US Census

Overall, in Boise, the trend data presented in this section suggest that population growth and demographic trends will create growing demand for multi-family rental housing in the future, both regionally and downtown. Specifically:

- Average rents and occupancy rates in Boise and all the peer cities increased since 2009, while vacancy rates decreased.
- Only about one percent of units in downtown Boise are vacant and multi-family rental rates have increased faster downtown than in the Boise region as a whole.
- Over roughly the past decade, the Boise region's population grew by 45 percent, or 196,000 people, and is projected to grow by over 120,000 more in the next ten years. This growth was considerably higher than other peer cities.
- Currently about 15 percent of all households in the region are housed in multi-family units, and downtown has 6.5 percent of the region's multi-family housing.
- A larger share of people living downtown are aged between 20 and 34 years and a larger share of people living downtown also have a college degree than in the region as a whole.

In comparison to its peer cities Boise was faster growing, had fewer multi-family units, lower vacancy rates, lower unemployment, comparable household income, and younger and more-educated residents. In other words, the conditions supporting multi-family development in downtown are generally stronger in Boise than in its peer cities.

More details on these findings follow.

2.1 Peer Cities

To determine Boise's peer cities, ECONorthwest selected 16 metropolitan areas to compare economically and demographically to Boise. These 16 cities were based on the Knowledge in Cities report completed by the Federal Reserve Bank of New York[1] and prior research at ECONorthwest[2]. They were used as the sample for comparison because they have the most similar industry profile to Boise, suggesting that they will be affected by similar economic trends. The analysis used data from the U.S. Census Bureau and the Bureau of Economic Analysis (BEA). Census variables included population, median household income, race, and educational attainment, all based on 5-year estimates from the American Community Survey. Median household income was adjusted by regional price parities, provided by the BEA, to create an estimate of real household income. BEA data included per capita personal income, per capita employment, and per capita GDP for each metropolitan area. Exhibit 3 compares the peer regions with regard to their demographic and economic variables for the year 2012.

Exhibit 3: Overview of Demographic and Economic Characteristics, 2012

	Demographic					Economic		
2012	Population	Median Household Income	RPP Adjusted MHI	Percent Bachelor's or Higher	Percent White	Per Capita GMP	Per Capita Personal Income	Per Capita Employment
Bend-Redmond, OR	158,884	$51,468	$53,280	31%	93%	$36,160	$39,011	58%
Billings, MT	158,248	$50,415	$52,791	29%	91%	$47,775	$42,155	66%
Boise, ID	619,618	$50,619	$53,452	29%	92%	$40,226	$35,872	57%
Boulder, CO	297,218	$67,403	$61,894	58%	88%	$64,448	$54,560	80%
Chattanooga, TN-GA	379,380	$45,463	$50,235	26%	77%	$39,276	$37,773	57%
Cincinnati, OH-KY-IN	1,624,734	$54,590	$59,661	31%	80%	$51,194	$44,090	59%
Colorado Springs, CO	645,979	$57,549	$58,366	35%	82%	$40,031	$41,580	57%
Des Moines-West Des Moines, IA	571,592	$59,898	$63,384	34%	88%	$65,837	$47,438	70%
North Port-Sarasota-Bradenton, FL	705,313	$48,450	$49,038	28%	88%	$32,388	$50,425	54%
Portland-Vancouver-Hillsboro, OR-WA	1,794,570	$57,682	$57,395	36%	81%	$67,717	$43,734	59%
Provo-Orem, UT	526,804	$59,594	$61,501	35%	91%	$30,580	$27,992	50%
Reno, NV	426,020	$54,077	$54,349	27%	82%	$43,371	$43,951	58%
Sacramento--Roseville--Arden-Arcade, CA	2,153,736	$59,829	$58,427	30%	67%	$44,957	$45,295	54%
Salt Lake City, UT	1,126,982	$60,329	$60,877	31%	87%	$61,374	$41,016	71%
Seattle-Tacoma-Bellevue, WA	3,453,748	$67,437	$63,025	38%	73%	$74,108	$54,109	63%
Spokane-Spokane Valley, WA	470,375	$49,615	$51,736	29%	89%	$36,990	$37,459	54%
St. Louis, MO-IL	2,108,634	$54,585	$61,400	32%	75%	$48,802	$45,279	60%

Source: U.S. Census Bureau, American Community Survey, 2008 – 2012; Bureau of Economic Analysis (BEA), Employment and Personal Income Summary; BEA, Real GDP by Metropolitan Area; BEA, Regional Price Parities

To identify the cities most demographically and economically comparable to Boise, ECONorthwest took the average deviation from Boise for each of the measures in each of the

[1] http://www.newyorkfed.org/research/staff_reports/sr470.pdf

[2] http://www.econw.com/media/ap_files/ECONorthwest-Issue-Brief_Boise-Over-Under-Performing_2012.pdf

comparison cities[3]. The cities with the lowest average deviation across measures provided the best statistical match.

The four cities that provide the closest match are Spokane, Colorado Springs, Chattanooga, and Reno. Exhibit 4 ranks those cities by their similarity to Boise. The rest of the analysis uses the top four peer cities for comparison.

Exhibit 4: Ranking Based on Overall Average Deviation from Boise

Rank	Metropolitan Area
	Boise, ID
1	Spokane-Spokane Valley, WA
2	Colorado Springs, CO
3	Chattanooga, TN-GA
4	Reno, NV
5	North Port-Sarasota-Bradenton, FL
6	Bend-Redmond, OR
7	Provo-Orem, UT
8	Billings, MT
9	Des Moines-West Des Moines, IA
10	Salt Lake City, UT
11	Cincinnati, OH-KY-IN
12	Boulder, CO
13	Portland-Vancouver-Hillsboro, OR-WA
14	Sacramento--Roseville--Arden-Arcade, CA
15	St. Louis, MO-IL
16	Seattle-Tacoma-Bellevue, WA

2.2 Multi-family Housing Trends

Boise's metropolitan area grew faster than that of any other peer city, at 2.9 percent per year from 2000 to the most recent 2013 Census data. The share of metro-area residents that live in Boise's downtown is similar to its peer cities. About 0.7 percent, or 4,146 people, live in Boise's downtown.

Exhibit 5. Regional and Downtown Population, 2009-2013 Average

	MSA Population	MSA Annual Growth Rate	Downtown Population	Downtown Pop/Acre	Downtown Share of MSA
Colorado Springs	657,699	1.9%	4,448	39.6	0.7%
Boise	**628,966**	**2.9%**	**4,146**	**43.6**	**0.7%**
Chattanooga	533,187	1.1%	4,863	27.4	0.9%
Spokane	530,301	1.8%	2,230	59.6	0.4%
Reno	429,476	1.8%	5,581	61.5	1.3%

Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

Boise has the fewest multi-family units of any peer city (about 36,000), compared to the next-lowest amount of about 44,500 in Chattanooga. Furthermore, Boise's MSA has a low share of multi-family units. Only about 14.5 percent of Boise's housing units are multi-family, compared

[3] Median household income (MHI) was excluded from this analysis, as including it alongside RPP adjusted MHI would have unequally weighted household income in our statistical analysis.

to 18.9 percent in Chattanooga. In contrast to its MSA, Boise's downtown has a comparable share of multi-family units. In downtown Boise, 6.5 percent of units are multi-family, compared to 2.0 percent in Colorado Springs and 7.7 percent in Reno. **Exhibit 6** shows the share of multi-family units in downtown and the MSA for Boise and its peer cities.

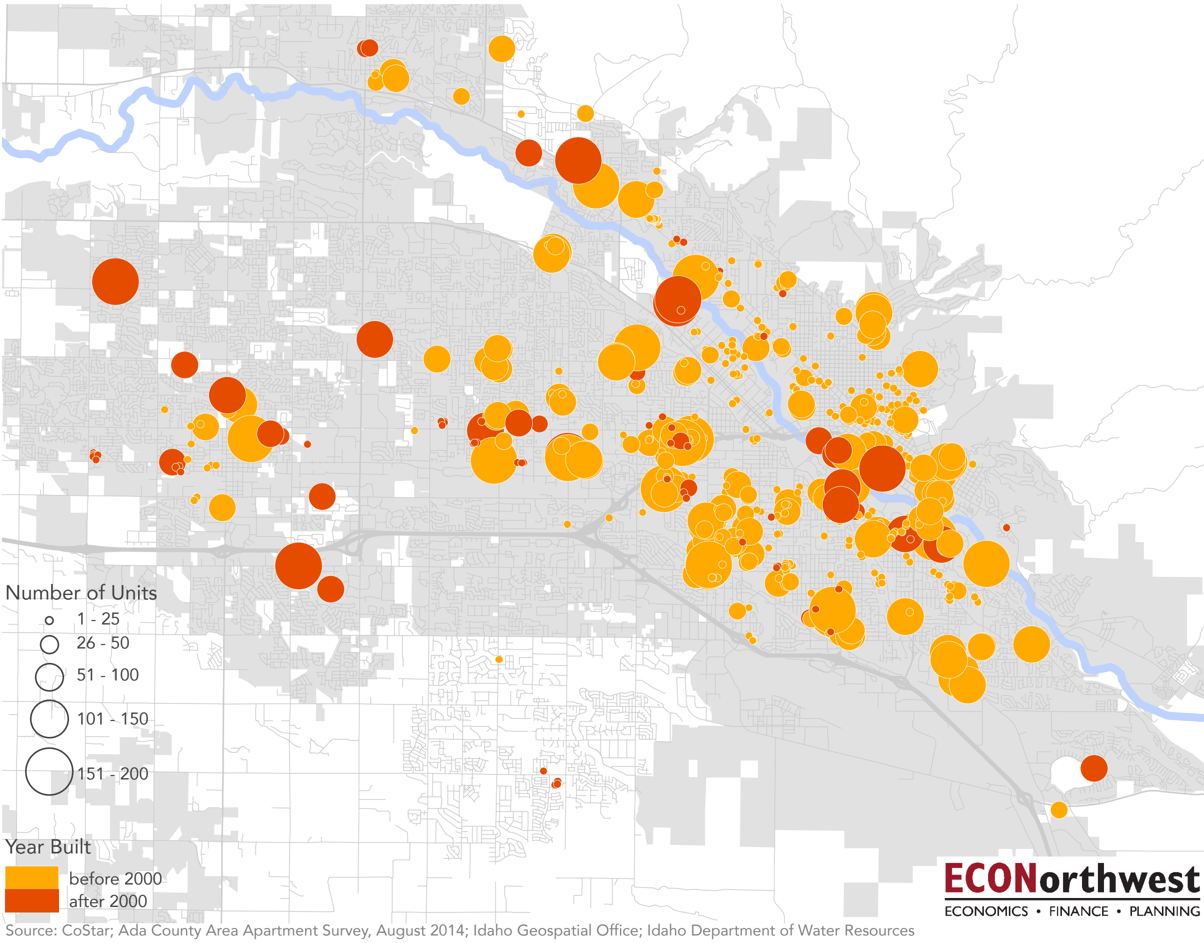
Exhibit 6. Regional and Downtown Multi-Family Units, 2009-2013 Average

	MSA			Downtown		
	All Units	MF Units	Share of All Units	MF Units	Share of All Units	Share of MF Units
Reno	186,886	52,683	28.2%	4,063	2.2%	7.7%
Chattanooga	234,966	44,457	18.9%	2,893	1.2%	6.5%
Boise	**247,594**	**35,894**	**14.5%**	**2,333**	**0.9%**	**6.5%**
Spokane	231,562	50,145	21.7%	1,771	0.8%	3.5%
Colorado Springs	267,321	57,531	21.5%	1,137	0.4%	2.0%

Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

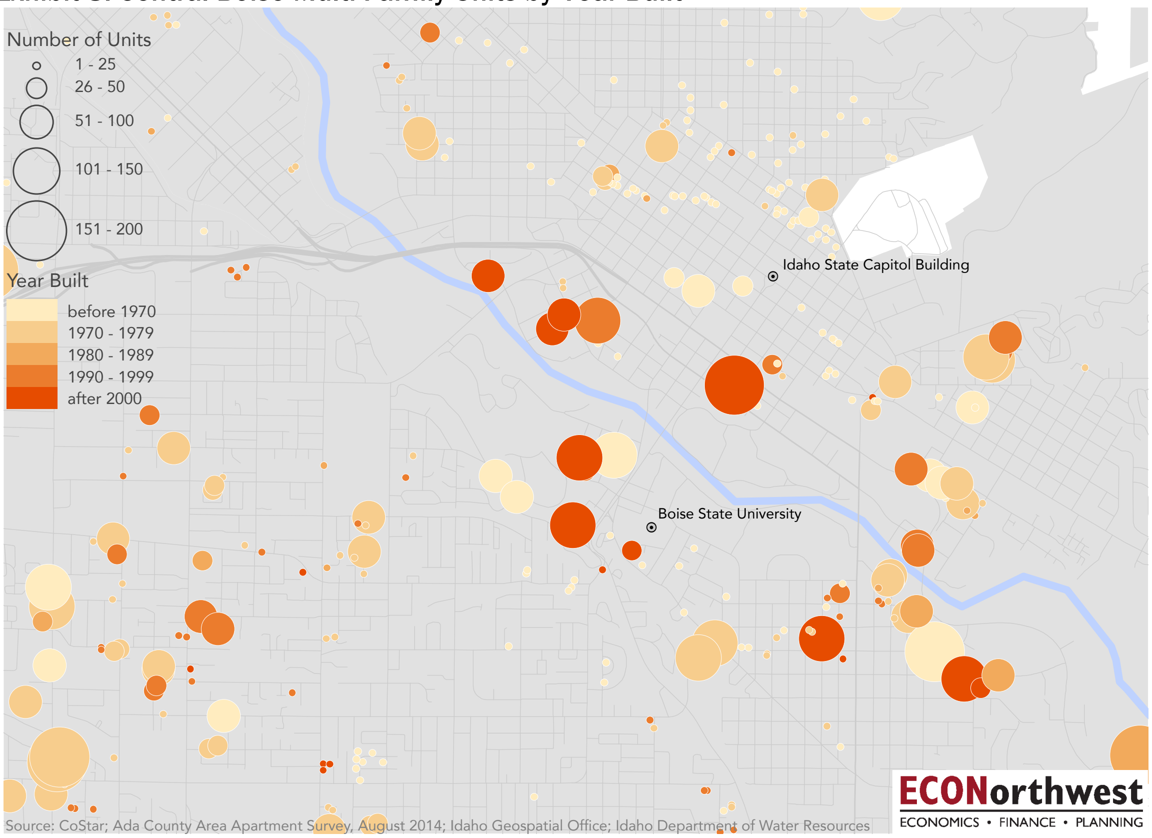
The development of multi-family housing in Boise has occurred throughout the region. As shown in **Exhibit 7**, there is little pattern evident with regard to proximity to downtown, size of unit, or time of construction. Exhibit 8 shows a zoomed-in look at the downtown core.

Exhibit 7. Multi-Family Units by Year Built, Before 2000 and After 2000



Source: CoStar and Ada County Area Apartment Survey, August 2014; Idaho Geospatial Office; Idaho Department of Water Resources; analysis by ECONorthwest.

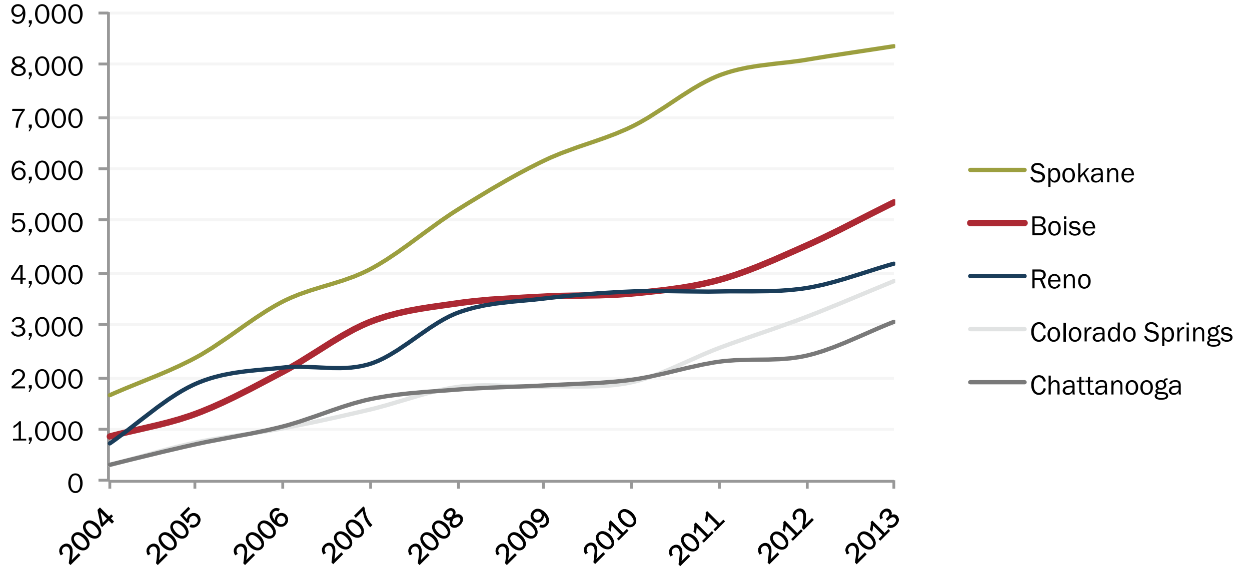
Exhibit 8. Central Boise Multi-Family Units by Year Built



Source: CoStar and Ada County Area Apartment Survey, August 2014; Idaho Geospatial Office; Idaho Department of Water Resources, analysis by ECONorthwest.

Boise permitted few multi-family units from 2007 to 2011, but experienced an uptick in the number of units permitted since then. This trend is consistent for other peer cities except Spokane, which experienced steady growth in multi-family units permitted from 2004 to 2011, and has experienced a decline in the rate since 2011. **Exhibit 9** shows these trends in the number of multi-family units permitted in the peer cities from 2004 to 2013.

Exhibit 9. Multi-Family Units Permitted, 2004-2013



Source: US Census Bureau, Building Permit Survey

2.3 Demand Factors Supporting Downtown Housing

A number of market and demographic factors are supportive of multi-family housing development in downtown Boise. The following section reviews these factors, comparing Boise to its peer cities.

Vacancy Rates and Rent Growth

Boise has the lowest vacancy rates of comparable cities. In the Boise metropolitan area, only 2.9 percent of units are vacant and only 1.1 percent downtown. **Exhibit 10** compares the multi-family vacancy rate for Boise with its peer cities.

Exhibit 10. Multi-Family Vacancy Rate

	MSA		Downtown	
	2013	5-Year Change (Basis Points)	2013	5-Year Change (Basis Points)
Boise	**2.9%**	**-4.80**	**1.1%**	**-5.40**
Spokane	3.5%	-4.00	2.1%	-
Reno	4.1%	-4.42	-	-
Chattanooga	4.6%	*-4.00	-	-
Colorado Springs	5.5%	-4.30	**6.8%	-6.50

* 3-Year Averge for Chattanooga

** Central Submarket covers areas outside the Downtown

Source: Boise: CoStar; Chattanooga: Colliers, Multi-family Market Report; Colorado Springs: Colorado Department of Local Affairs; Reno: Johnson-Perkins & Associates, Apartment Survey; Spokane: CoStar

Rents in the Boise metro area are lower than in most comparable regions and the lowest among comparable downtowns. This may be due to the lack of recent apartment development downtown and an older building stock. Average rent for the Boise MSA is $736, compared to $725 in Spokane and $861 in Reno. Downtown, average rents were $709, compared to $725 in

Spokane and $848 in Colorado Springs. **Exhibit 11** shows average rent for multi-family units in Boise.

Exhibit 11. Multi-Family Average Rent

	MSA		Downtown	
	2013	5-Year Change (Annual Avg.)	2013	5-Year Change (Annual Avg.)
Boise	**$736**	**2.5%**	**$709**	**3.1%**
Chattanooga	$681	2.0%	-	-
Colorado Springs	$861	3.7%	**$848	8.0%
Reno	$860	0.3%	-	-
Spokane	$725	1.6%	*$725	-

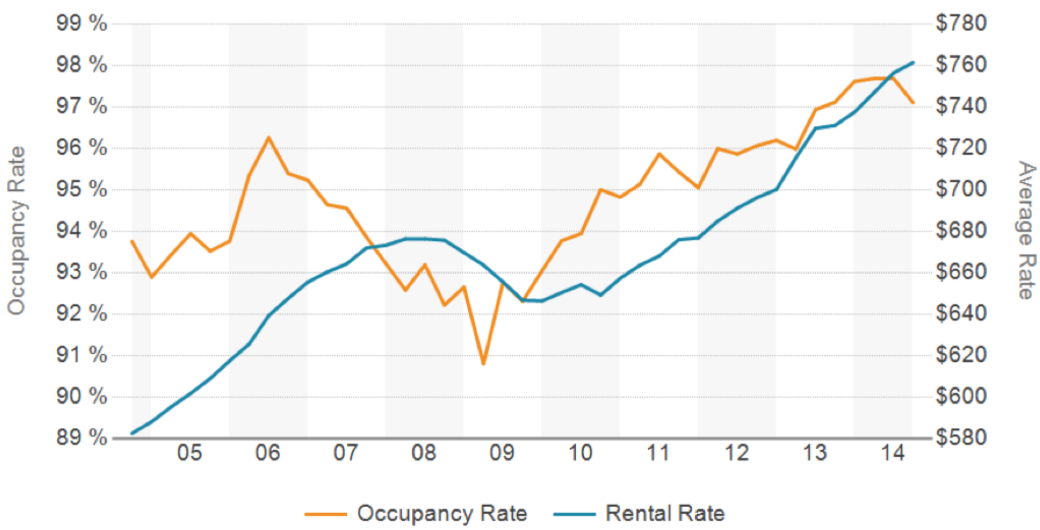
* 2014 Average

** Central Submarket covers areas outside the Downtown

Source: Boise: CoStar; Chattanooga: Colliers, Multi-family Market Report; Colorado Springs: Colorado Department of Local Affairs; Reno: Johnson-Perkins & Associates, Apartment Survey; Spokane: CoStar

Since 2009, both occupancy and rental rates have increased steadily in the Boise region. Rents increased from roughly $650 in 2009 to over $760 in 2014. Occupancy rates grew from about 92 percent to 98 percent over the same period. **Exhibit 12** shows average rent and occupancy rates for Boise from 2005 to 2014.

Exhibit 12. Boise Region Average Rent and Occupancy Rates, 2005-2014



Source: CoStar

Strong Downtown Employment

The unemployment rate in Boise's metro area of 3.1 percent is lower than that of any other peer. Boise also has strong downtown employment, with 12.8 percent of its regional employees working downtown. **Exhibit 13** shows employment in the metro area and downtown for Boise and its peer cities.

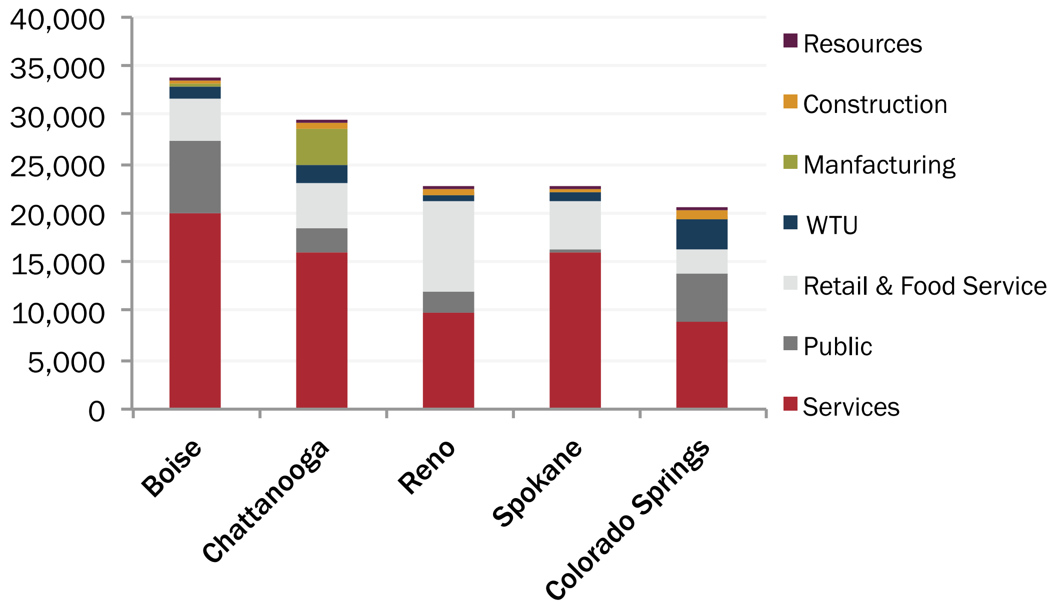
Exhibit 13. Total Jobs, 2011

	MSA		Downtown	
	Jobs	Unemployment Rate	Jobs	Share of MSA
Boise	**261,028**	**3.1%**	**33,526**	**12.8%**
Colorado Springs	228,138	4.7%	20,360	8.9%
Chattanooga	219,688	6.2%	29,369	13.4%
Spokane	213,356	6.7%	22,358	10.5%
Reno	188,208	6.1%	22,469	11.9%

Source: US Census Bureau, Longitudinal Employer-Household Dynamics

All peer cities' downtowns have a large share of service sector employees. Boise also has a large amount of public and retail and food employees. Together, service, public, and retail and food amount to over 30,000 jobs in downtown Boise. Exhibit 14 shows downtown employment by sector for Boise and its peer cities.

Exhibit 14. Downtown Jobs by Sector, 2011



Source: US Census Bureau, Longitudinal Employer-Household Dynamics

Income Levels and Educational Attainment

Boise's median income is similar to its peers' and that of the nation overall. The median income throughout Boise's metro area is $50,619. The national median income is $53,046. Exhibit 15 shows median income and per capita personal income for nation and the metro areas of Boise and its peers.

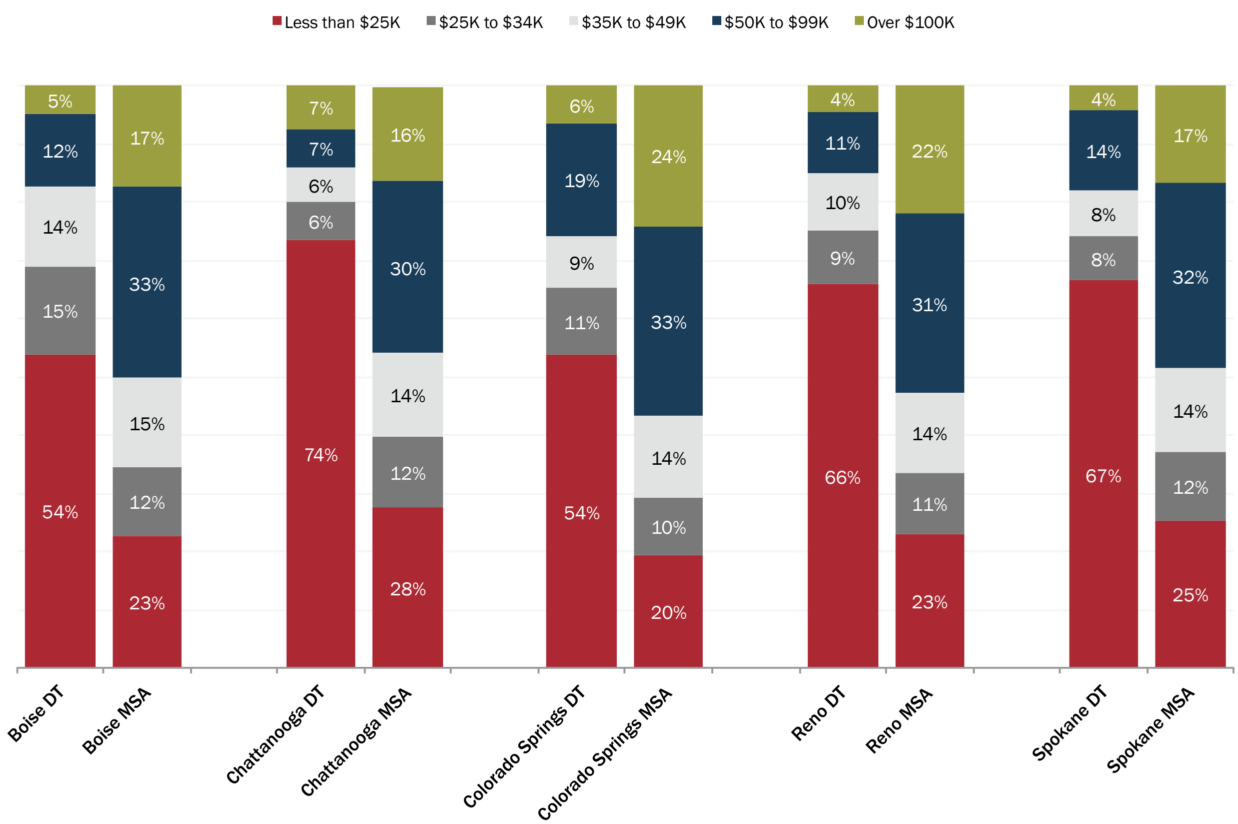
Exhibit 15. Regional Median Income

	Median Income (2008-2012)	Per Capita Personal Income (2012)
Colorado Springs MSA	$57,549	$40,031
Reno MSA	$54,077	$43,371
U.S.	$53,046	$42,693
Boise MSA	**$50,619**	**$40,226**
Spokane MSA	$49,615	$36,990
Chattanooga MSA	$45,463	$39,276

Source: Median Income comes from 2008-2012 American Community Survey; MSA Per Capita Personal Income comes from the Bureau of Economic Analysis, National Per Capita Personal income comes from the University of New Mexico's Bureau of Business & Economic Research at https://bber.unm.edu/econ/us-pci.htm

Most households living in the downtowns of Boise and its peer cities earn less than $25,000, which is generally less than the comparable cities. About 54 percent of Boise's downtown residents earn less than $25,000, 15 percent earn between $25,000 and $34,000, 14 percent earn between $35,000 and $49,000, 12 percent earn $50,000 to $90,000, and only five percent earn more than $100,000. Exhibit 16 shows household incomes by income group for Boise and its peer cities.

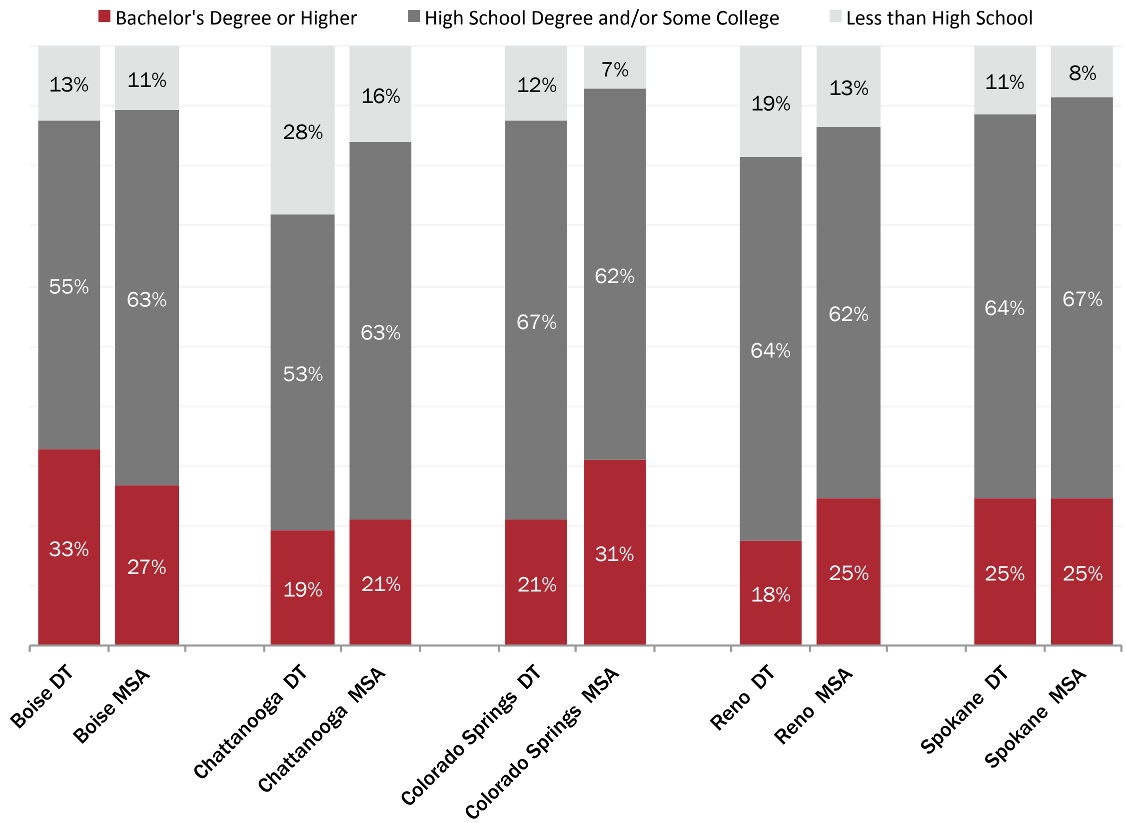
Exhibit 16. Downtown Household Income by Group, 2009-2013



Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

In Boise's downtown 33 percent of residents have earned a bachelor's degree or more, the highest share of any downtown. In Boise's metro area, a smaller share, only 27 percent has as much education. Exhibit 17 shows the educational attainment for the peer metro areas and downtowns.

Exhibit 17. Educational Attainment for Population over 17, 2009-2013 Average



Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

Younger Population

Boise has a relatively young population, with a median age at 35. The highest median age among peer cities is 40 years in Chattanooga; the lowest is 34 years in Colorado Springs. Exhibit 18 shows the regional median for the peer MSAs.

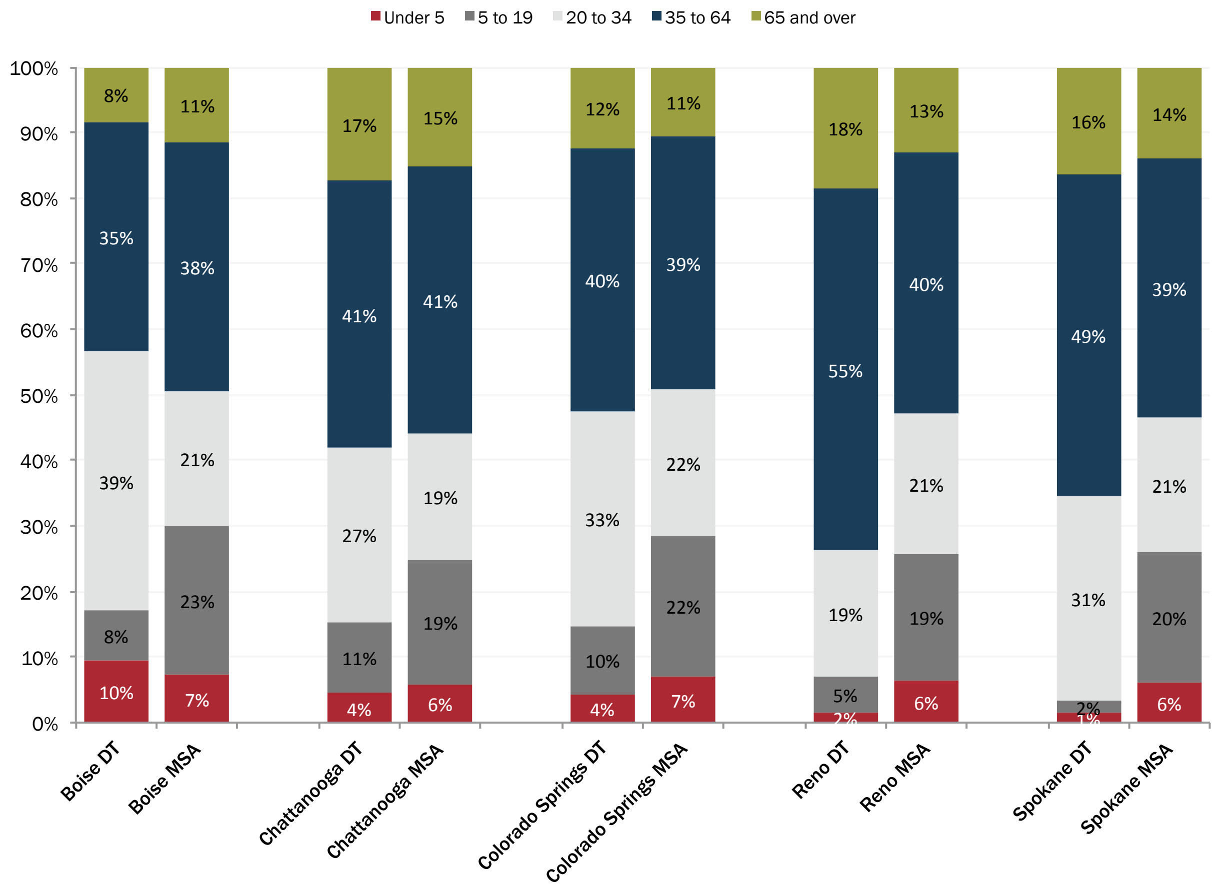
Exhibit 18. Regional Median Age 2009-2013 Average

	Median Age
Chattanooga MSA	40
Spokane	38
Reno MSA	37
Boise MSA	**35**
Colorado Springs MSA	34

Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

A relatively large share of Boise's downtown is aged between 20 and 30 years. Boise also has the largest share of residents younger than five years of age, compared to peer cities. Exhibit 19 shows the downtown population by age for the peer cities.

Exhibit 19. Downtown Population by Age, 2009-2013 Average



Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

2.4 Demand Factors Challenging for Downtown Housing

While in general, Boise compares favorably to its peers on factors that support downtown development, the region also has a number of market and demographic factors that create challenges for realizing a sizable amount of multi-family housing in downtown.

Larger Households and Fewer Renters

Boise's metro area has the largest average household size among its peer cities (2.7 persons per household), the largest share of households with children (70 percent), and the lowest share of renter-occupied homes (31 percent). Multi-family housing is typically less attractive to larger households, especially households with children, because of smaller unit sizes, fewer bedrooms, and lack of yard space. Comparing downtowns however, the average household size, share of households with children, and the share of renter-occupied households for downtown Boise is similar to peer cities.

Exhibit 20 shows the household composition for Boise and its peer cities.

Exhibit 20. Household Composition, 2009-2013 Average

	Average Size		Share with Children		Renter Occupied	
	MSA	Downtown	MSA	Downtown	MSA	Downtown
Boise	**2.7**	**1.7**	**70%**	**28%**	**31%**	**92%**
Chattanooga	2.5	4.5	67%	23%	32%	87%
Colorado Springs	2.6	3.6	68%	34%	36%	66%
Reno	2.6	2.8	63%	18%	42%	91%
Spokane	2.4	1.3	64%	13%	35%	98%

Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

Affordable Single-Family Home Prices

Single-family homes are relatively affordable in Boise, when compared to peer cities. Relatively affordable single-family homes reduce the demand for rental housing, as buying a home becomes a reasonable substitute for renting. The ratio of single-family home value to median income (an indicator of home "buying power") in Boise is 2.8, lower than in Spokane, Colorado Springs, and Reno. Exhibit 21 shows the relationship of single-family home values to incomes in Boise and its peer cities.

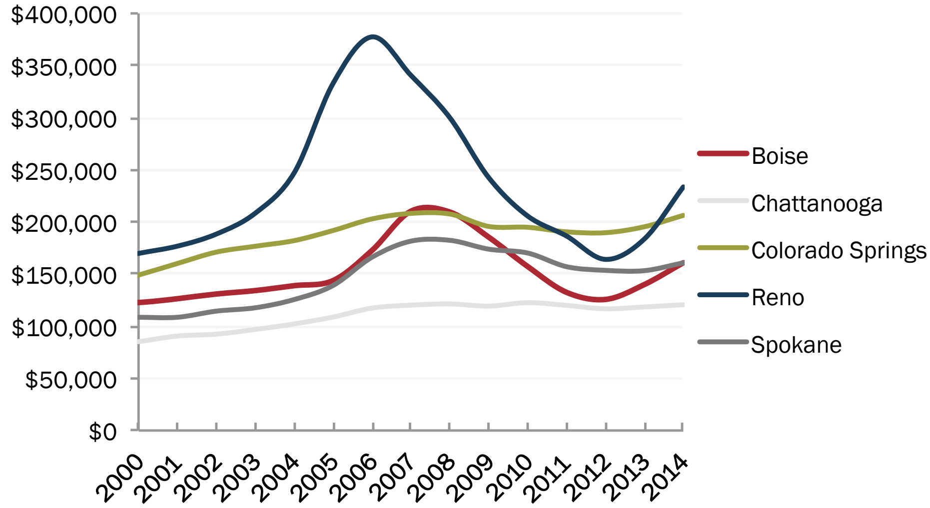
Exhibit 21. Single-Family Home Value to Median Income Ratio

	SF Home Value	Median Income	Ratio
Colorado Springs	$195,400	$57,549	3.4
Reno	$183,700	$54,077	3.4
Spokane	$153,300	$49,615	3.0
Boise	**$140,000**	**$50,619**	**2.8**
Chattanooga	$118,500	$45,463	2.6

Source: Zillow, US Census Bureau, American Community Survey, 2009-2013 5-Year Average

Single-family home prices in Boise rose sharply between 2005 and 2007, but declined after and currently stand roughly in the middle of that of its peer cities. In 2013, single-family home values in Boise stood around $140,000. Exhibit 22 shows single-family home prices in Boise and its peer cities from 2000 to 2014. House prices have been increasing in Boise since 2012. Only Reno has realized a larger increase in home prices.

Exhibit 22. Regional Single-Family Home Value Index, 2000-2014

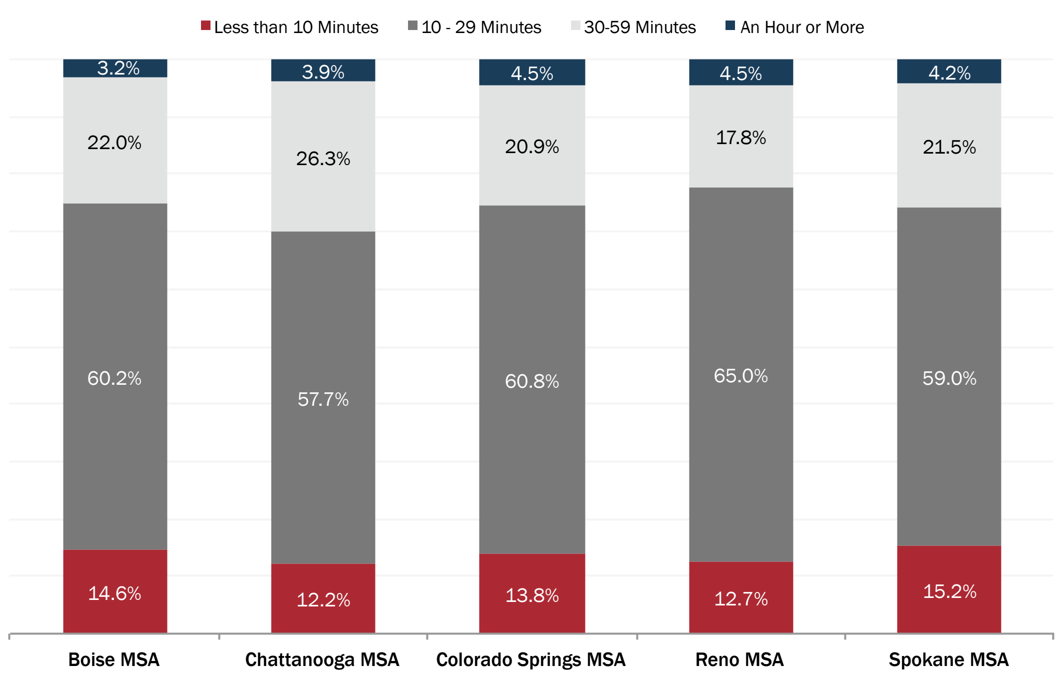


Source: Zillow

Short Commutes

Boise region commuters have a manageable commute. Relatively short commute and travel times lessen the importance of proximity to regional employment centers, such as downtown. Most commuters in the Boise region spend between 10 and 29 minutes getting to work, and 14.6 percent spend less than ten minutes. Throughout the peer cities, the large majority of residents have a commute of less than 30 minutes. Exhibit 23 shows commute times for the metro areas of Boise and its peer cities.

Exhibit 23. Regional Average Commute Time, 2009-2013 Average

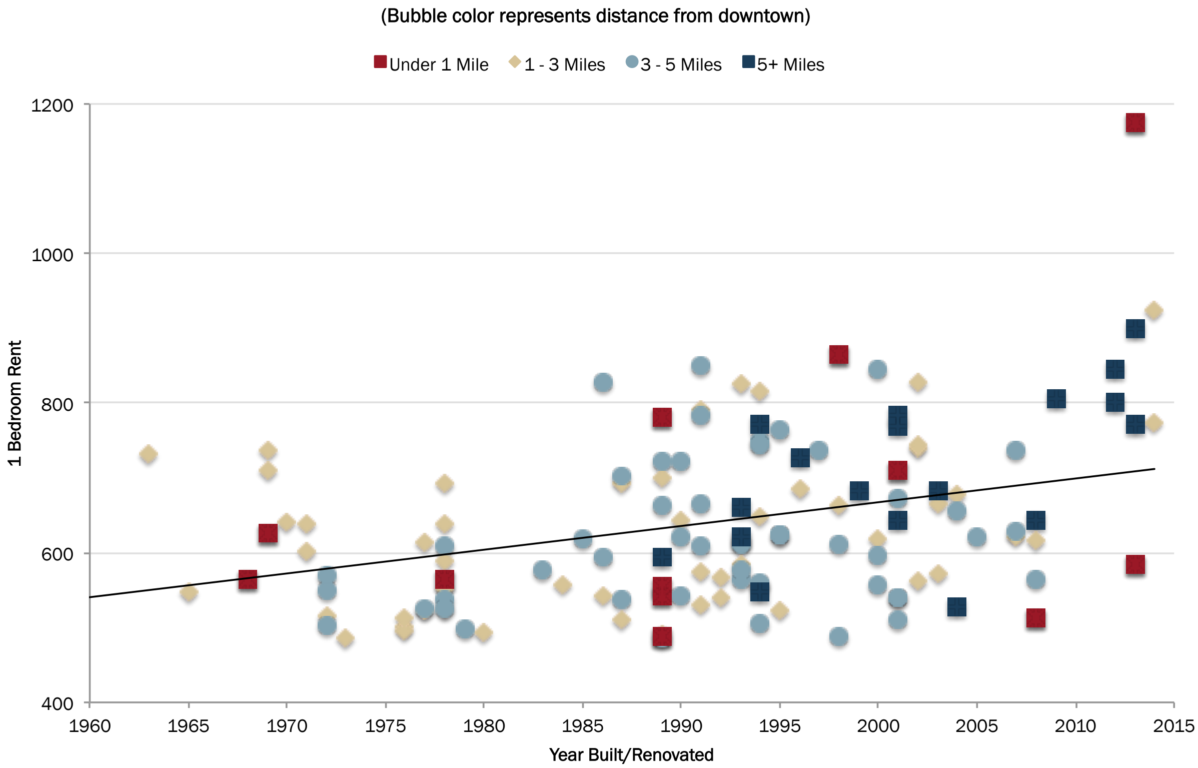


Source: US Census Bureau, American Community Survey, 2009-2013 5-Year Average

3. Predictive Rent Model

Typically, an analysis of comparable projects is used to determine achievable rents, unit mix, and amenities. However, downtown Boise has realized little multi-family development recently. Exhibit 24 demonstrates that the majority of new development has occurred more than five miles from downtown. There are two buildings in the 1-to-3 mile range with rents around $800, and the closest newly renovated building downtown has rent slightly less than $600.

Exhibit 24. One-Bedroom Apartment Rent by Distance from Downtown



Source: ARES, ECONorthwest

To provide a better estimate of achievable rent for new construction downtown given the lack of comparable projects, ECONorthwest created a predictive rent model. The modeling technique employed to predict apartment rents is called a hedonic regression analysis; this technique allows for the identification and contribution of a specific set of attributes to the rental rates at specific property locations. In order to conduct the analysis, ECO obtained data from the August 2014 ARES Ada County Area Apartment Survey, supplemented with additional research and calculations. The sample of apartment buildings contained 192 observations, with a detailed description of unit and building amenities for each observation. All of the subsidized or affordable units were removed from the sample so that only market rate units were used.

The model is a willingness to pay model, and does not answer questions about how many individuals might be willing (or able) to pay the predicted rents. Absorption, or depth of market and speed with which new units might be rented, is addressed in the next section.

3.1 Model Specifications

The model forecasts rates for different apartment development programs and locations based on an understanding of the contribution of individual unit and building amenities, as well as the spatial characteristics of locations to existing rental rates. The individual effect of each amenity is represented as a percentage (increase or decrease) of the total rent. The model was specified with the following objectives:

- The primary goal of the model is to explain the highest percentage of the variance in rent across the entire sample. The degree of explained variance is called the R^2 in statistics, and in this case our model was able to explain approximately 88 percent of the variance in rent in the Boise market (or an R^2 of 0.88), which is very strong.
- The secondary goal was to be able to accurately predict outliers, such as the Owyhee. The model predicted rent of $1,061 for a one-bedroom unit at the Owyhee, which represents 91 percent of the actual rent and also very strong, leaving a nine percent residual value (under-estimated rent).
- The third goal was to identify and measure the unit and building amenities that increase rental rates (presented below, as their respective contribution to rental rates).

Individual Unit Amenities

The following individual unit amenities were tested in the model:

- Square Footage: Effect was positive and statistically significant, increasing the price from four to five percent per 100 square feet of additional living area.
- Bathrooms (two-bedroom units only):
  - Positive and significant, up to 14 percent increase for adding an additional bathroom
  - 50 percent of the sample had one bathroom only, 12 percent had 1.5 bathrooms, and 16 percent had two bathrooms
- Fireplace: Not significant
- In-unit washer and dryer: Positive and significant, three percent to six percent increase for adding in-unit washer and dryer

Building Amenities

The following building amenities were tested in the model:

- Year Built or Renovated: Positive and significant, 2.2 percent for every 10 years of new construction or renovation
- Garages/Covered Parking: Positive but not significant[4], approximately two percent increase

[4] Parking may be considered standard and not an amenity in the Boise market limiting its incremental value.

- Community Space[5]: Positive and marginally significant, 0.5 percent to four percent increase
- Pool or Spa: Positive and significant, nine percent to 11 percent increase

Neighborhood and Locational Amenities

- Proximity to downtown: Least significant variable of any included in the model
- High End Grocery Stores (within one mile): Positive but not significant, three percent to four percent per store
- Coffee Shops (serve as a retail proxy, within 0.5 miles): Positive and significant, two percent to four percent per store
- School Quality (public elementary test score proficiency):
  - Range in sample from 50 percent to 99 percent proficiency, mean is 75 percent for all schools in the sample
  - Positive and significant, one to four percent for every 10 percent increase in proficiency
- Neighborhood Proxy (by census block group):
  - Neighborhoods were measured using the 78 census block groups in the study area. The impacts varied drastically throughout the sample, ranging from positive to negative and with varied levels of statistical significance.
  - Of importance to this study is that downtown census tracts had a positive impact on rental rates.
  - The downtown premium was larger for one-bedroom units (16 percent) compared to two-bedroom units (three percent).

3.2 Interpreting the Model Results

The model results support the conclusion that new apartment development downtown could achieve relatively high rents given the right location and unit and building amenities. To assess specific rent levels, ECONorthwest ran a scenario with a hypothetical development downtown including the amenities listed above that positively contributed to rent yield. Findings include:

- New construction in the downtown core should yield a rent premium over similarly constructed units located further from downtown. This is primarily due to the neighborhood amenities.
- New high-quality apartment projects downtown could achieve rents of $1.75 per square foot for one-bedroom apartments and $1.60 per square foot for two-bedroom apartments.

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[5] Community space includes stand-alone clubhouse and/or in-building common spaces such as a gym.

- About 12 percent of the variance in rent is unexplained, meaning that it is derived from factors that were not measured in the model.
- Factors such as high-quality finish, views, streetscapes, and other intangibles are not included in the model, but could positively impact the achievable rents and contribute to the unexplained or additional variance.

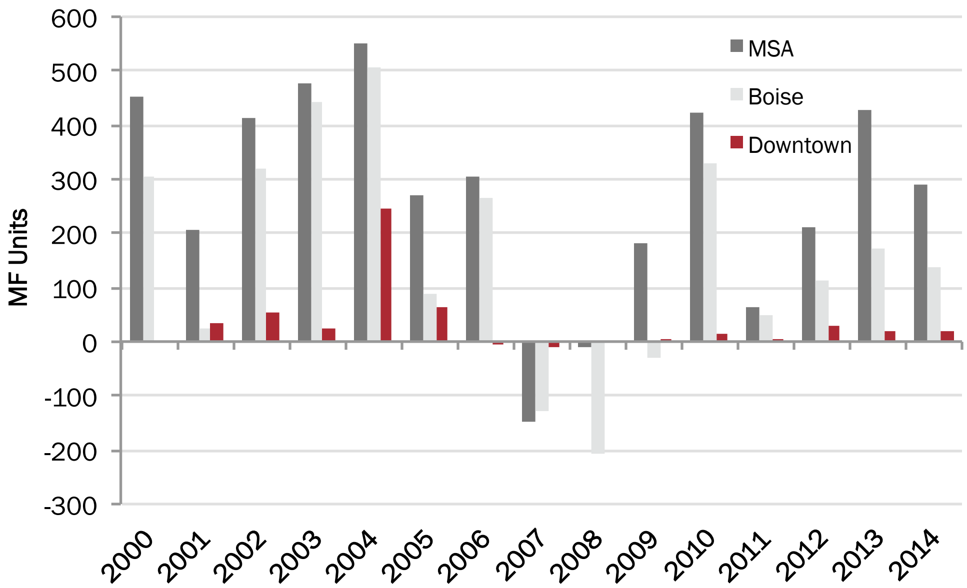
4. Multi-Family Housing Demand Assessment

The predictive rent model demonstrates how much people are willing to pay for multi-family units downtown, but it does not indicate the depth of that market. This section assesses the amount of potential demand for multi-family units (primarily apartments) in the region and in downtown Boise. The assessment evaluates past trends, projected growth, and projects currently in the development pipeline to estimate the range of units likely to be built over the next ten years.

4.1 Multi-Family Absorption Based on Trend

Overall, the regional absorption of multi-family units has averaged between 300 and 500 units per year during development growth cycles. Absorption is the net number of units occupied per year. Negative absorption numbers indicate increasing vacancy rates, as more units are vacated than occupied. Exhibit 25 shows the absorption of multi-family units in the Boise region since 2000.

Exhibit 26. Boise Region Multi-family Unit Absorption, 2000-2014



Source: CoStar

Since 2000, absorption has tracked with economic cycles, with the most absorption occurring in the mid-2000s and after 2010 when the economy was growing and creating jobs. The 15-year average for the region is 274 units per year.

Historically, Downtown Boise has realized a small share of the regional absorption, averaging 12 percent of total regional absorption since 2000. In the last five years, downtown Boise experienced an average annual absorption of just 16 units per year, due to the fact no new units have been built downtown to be absorbed and very low vacancy rates. Exhibit 27 shows the average absorption over different periods for the region and downtown.

Exhibit 27. Average Multi-family Unit Absorption

Method	Regional MF Units	Downtown MF Units	Downtown Share
CoStar 5-Year Average	2,836	160	5.6%
CoStar 10-Year Average	2,335	343	14.7%
CoStar 15-Year Average	2,741	326	11.9%
CoStar 2000-2006 Average	3,813	591	15.5%

Source: ECONorthwest, CoStar, Community Planning Association of Southwest Idaho (COMPASS)

One way to project downtown absorption is to use past trends to project future absorption. If regional multi-family development trends continue and if downtown continues to capture roughly the amount of development described in Exhibit 26, this suggests that about **300 – 600 additional units downtown over 10 years** are attainable.

Recent absorption trends may not be a good indicator of future demand, however. Few new multi-family housing (condos or rentals) units have been built downtown recently, and the two recent projects, the Owyhee and 951 Front Apartments, both realized rapid lease-up. The Owyhee was fully leased in four months. 951 Front was over 40 percent leased in less than one month. Vacancy rates downtown remained very low, even as these two projects came on-line.

The remainder of this section presents evidence that absorption projections based on trend data is probably too low. While this memorandum finds that 300 – 600 new units are attainable, the evidence strongly suggests that this is the bottom end of a range, with an upper end that may be over 1000. CCDC staff should continue to carefully watch trends, pipeline, vacancies, and the absorption of the next several new multi-family projects and re-evaluate the projected absorption.

4.2 Regional Demand Projections

Regional growth projections provide another data point to assess potential future demand for multi-family housing. COMPASS makes regional population and household projections through the year 2040. Regionally, COMPASS has projected over 48,000 new households from 2015 to 2025. COMPASS projected that just 271 of those will occur in downtown Boise.

COMPASS' 2014 Housing Report makes assumptions about the mix of the projected 48,000 households. Currently, 16 percent of all units are multi-family units, which is low compared to similar cities. COMPASS' conservative forecast assumes that 26 percent of those units are multi-family units in the future, and their moderate forecasts assumes 36 percent of future units are multi-family. Exhibit 28 shows the implied number of regional multi-family households for these scenarios. The scenarios project a broad range of additional multi-family households over the next 10 years ranging from 7,600 to 17,400.

Exhibit 28. 10-Year Multi-family Demand

Method	Total Additional HHs	Projected MF Share	Regional MF Units
COMPASS Current	48,405	16%	7,611
COMPASS Conservative	48,405	26%	12,585
COMPASS Moderate	48,405	36%	17,426

Source: Community Planning Association of Southwest Idaho

Again, COMPASS projected just 271 of all new units would occur in downtown. But, if we assume that absorption trends continue and that about 12% of all new multi-family units are absorbed downtown (see section above), it implies that between **900 and 2000 new units could be possible in downtown over the next 10 years**.[6] We bring include these calculations not to contradict COMPASS's estimates, but rather to provide additional reasonable evidence that future absorption downtown could be different that past trends.

4.3 Multi-Family Development Pipeline

The current development pipeline is another important data point in the consideration of likely future development trends. There are a sizable number of multi-family units in the pipeline in the Boise region. However, very few of these units are in downtown Boise. Exhibit 29 shows the number of units in the pipeline, including those under constructions and those at some stage of planning and/or permitting.

Exhibit 29. Ada County Apartment Construction Pipeline, December 2014

Status	Ada Co.	Downtown	Share
Under Construction	1,834*	0	0.0%
Construction Start by 06/2015	1,457	0	0.0%
Start Unknown	1,742	260	14.9%
Total Pipeline	**5,033**	**260**	**5.2%**

* 1,228 market rate units, 541 student housing, 65 affordable LIHTC

Source: Moe's IREM 12/2014 Update via Thornton Oliver and Keller

Overall, there are over 5,000 units in the pipeline in Ada County. As of December 2014 there were over 1,200 market rate units under construction. However, none of these units are in downtown Boise. There are 541 student- housing units under construction near downtown by the Boise State University campus. In addition, there are potential new apartment developments downtown that have been discussed in local media, but have not yet been permitted. Overall, if all 5,000 units were built and occupied, that would mean sizably more multi-family unit absorption than Boise realized over the last 10 years, but only very little of it occurring downtown.

[6] Range is from **COMPASS current** (7611 regional multi-family units) times 12% absorbed downtown (15 year average, as described in Exhibit 26) to COMPASS Moderate (17,426 multi-family units) times 12% absorbed downtown (15 year average, as described in Exhibit 26).

Given that vacancy rates are very low in downtown and the few developments that have come on line recently have absorbed very quickly, the small development pipeline suggests pent-up demand for multi-family housing downtown.

4.4 Target Market: Demographic Trends and Projections

Another approach to considering the likely future market for downtown development is to evaluate the depth of the population with demographics that suggest they are the target market for new downtown development. How many people are currently living in Boise or likely to be moving to Boise who might demand downtown multi-family housing?

The target market for multi-family apartment development downtown is young professional individuals and couples without children. The age range for this group includes people in their late 20s and 30s. Renters would need an individual income of at least $50,000 annually to be able to afford the achievable rents projected earlier in this memorandum. Nationally, many cities have experienced an increase in people living in the central city driven by similar younger individuals seeking more urban and walkable neighborhoods.

This target market recommendation is based primarily on occupant data from the Owyhee and 951 Front apartments. For both the Owyhee and 951 Front buildings, a large share of occupants are in their 20s and 30s; 80 percent of occupants in the Owyhee fit within this age range. Within the Boise region, people 20-35 years of age make up 20 percent of population, but they are 40 percent of the population living in downtown Boise.

Retirees or “empty-nesters” are less likely to provide a sizable target market. Only a small share of the occupants of the Owyhee and 951 Front are “empty-nesters”. In addition, based on Census data, people 65 and older are only 11 percent of the regional population, and just 18 percent of renters.

We use Census figures to assess the general size of this target market in Boise. Exhibit 30 and Exhibit 31 show the number of households renting by income and households in the appropriate age groups.

Exhibit 30. Boise Region Household Tenure by Income, 2009-2013 5-Year Average

Households	Number	Percent
All Households	228,270	100%
Owner Occupied, Income < $50,000	60,643	27%
Owner Occupied, Income > $50,000	96,164	42%
Renter Occupied, Income < $50,000	53,197	23%
Renter Occupied, Income > $50,000	18,266	8%

Source: US Census, American Community Survey, 2009-2013 5-Year Average

Exhibit 31. Boise Region Householders 25-44 in Age, 2009-2013 5-Year Average

Householder	Number	Percent
All Households	228,270	100%
Householder 25-44	85,269	37%
Householder 25-44 with Income > $50,000	45,683	20%

Source: US Census, American Community Survey, 2009-2013 5-Year Average

- 18,000 households, or eight percent of all households, in the Boise region rent and have an annual income greater than $50,000.
- Over 85,000 householders are between 25-44 years of age in the region.
- Over 45,000 householders aged 25-44 have an annual income greater than $50,000.

The number of householders aged 25-44 who rent and earn a household income of $50,000 or more (the target market) is not available through Census data. However, we can infer the depth of this market. The figures from Exhibit 30 indicate that just 19 percent of households with income above $50,000 also rent. If we assume that this share is similar for householders 25-44 who make $50,000 a year or more, then approximately 8,700 householders in the Boise region could rent and fit within the target market. If 15 percent of those households locate downtown (the historical trend) then over 1,000 would be in the target market for downtown.

Exhibit 32 shows the number of projected households by income over the next five years. The number of middle-income households is projected to grow more than any other income group. Specifically, households earning between $50,000 and $75,000 are projected to increase by almost 3,000 over the next five years. Assuming the current 19 percent of households making more than $50,000 a year rent, that would be over 2,000 new households in the next five years making more than $50,000 a year in the region.

Exhibit 32. Households by Income Group, 2015-2020

Income Group	2015	2020	Change 2015-2020	
			Number	Percent Change
Income Less than $15,000	29,686	30,805	1,119	4%
Income $15,000 - $24,999	28,341	29,581	1,240	4%
Income $25,000 - $34,999	29,651	31,079	1,428	5%
Income $35,000 - $49,999	37,662	40,294	2,632	7%
Income $50,000 - $74,999	50,499	53,431	2,932	6%
Income $75,000 - $99,999	27,709	30,396	2,687	10%
Income $100,000 - $124,999	17,214	19,095	1,881	11%
Income $125,000 - $149,999	8,784	10,084	1,300	15%
Income $150,000 - $199,999	8,908	9,968	1,060	12%
Income $200,000 or more	5,951	7,072	1,121	19%

Source: The Nielsen Company, 2015

These simple calculations and estimates indicate that in the **next five years over 1,200 households may want to live in downtown Boise and would have the income to pay rents estimated by the predictive rent model.** This level of demand is well above the historical average, providing further evidence that future absorption should be higher than past trends suggest.

5. Development Feasibility

The previous sections establish that the real estate fundamentals, achievable rents, and market depth are all supportive of new rental multi-family housing in downtown Boise. This section assesses the financial feasibility of apartment development with parking being a key variable in the form and feasibility of new residential development.

To assess financial feasibility of an apartment project downtown, ECONorthwest conducted a static financial analysis of the development of a hypothetical vacant parcel in downtown. The analysis assumes that a mixed-use apartment building is built on the parcel and analyzes the financial feasibility of this project with different parking configurations (surface parking, structured parking, and underground parking).

5.1 Assumptions

The analysis used a number of key common assumptions for each parking scenario:

- 20,000 square foot parcel (about one-quarter block)
- Land acquisition cost of $35.00 per square foot
- First floor concrete podium with retail, residential, and common area uses
- Thee floors of wood frame apartments above the podium
- Construction cost of $94 per square foot and $110 per square foot for the base podium
- Parking ratio of one space per unit
- Achievable rents from the predictive rent model
- Loan to value ratio of 65 percent debt and 35 percent equity
- Developer fee of three percent
- Permit, taxes and impact fees based on the City of Boise's current rates

The only assumption that differed between the scenarios was the type of parking constructed. The assumed construction cost for the different parking types were as follows:

- $6,500 per space for surface parking
- $20,000 per space for structured parking
- $45,000 per space for underground parking

The type of parking also changed how efficiently the site could be built out. Structured and underground parking allowed for a larger building because it could cover more of the site.

5.2 Findings

The analysis used two different metrics of financial return to evaluate the scenarios: value creation and a cash-on-cash percent return. Value creation measures the hypothetical value of building after construction (what it would sell for on the market) versus the cost to construct. A positive value indicates the building could be sold for a profit after it was constructed. The cash-on-cash return measures the percent of return of the net cash flow (net operating income less debt service) relative to the equity invested. A return of about ten percent or greater is required for the project to be considered viable.

Based on these assumptions and the potential site build-out, a mixed-use building with surface parking would be feasible while the structured parking and underground parking scenarios are not currently feasible. The table below summarizes the costs and returns for the three scenarios.

Exhibit 33. Pro Forma Analysis Summary

	Mix-Use Surface Parking		Mixed-Use Structured Parking		Mixed-Use Underground Parking	
Lot Size	20,000		20,000		20,000	
Total Building Area	32,000		72,000		72,000	
Floor Area Ratio	1.60		3.60		3.60	
Units	38		78		78	
Parking Spots	38		78		78	
Fianacial Summary	**Total**	**Per Unit**	**Total**	**Per Unit**	**Total**	**Per Unit**
Total Cost	$5,068,470	$158.39 sf	$11,422,658	$158.65 sf	$13,147,283	$182.60 sf
Building Cost	$4,121,470	$128.80 sf	$9,162,658	$127.26 sf	$9,387,283	$130.38 sf
Parking Costs	$247,000	$6,500 space	$1,560,000	$20,000 space	$3,060,000	$39,231 space
Property Cost	$700,000	$35.00 sf	$700,000	$35.00 sf	$700,000	$35.00 sf
NOI	$442,520	$15.63 sf	$870,740	$16.11 sf	$870,740	$16.11 sf
Value Less Cost	**$1,164,202**		**$841,288**		-$883,337	
Return (Cash-on-Cash)	**10.7%**		**7.5%**		**4.6%**	

Source: ECONorthwest

The structured parking scenario does generate a positive return, just not likely high enough to actually be contract at the current time. However, at a future point, the structured parking option may be a realistic scenario.

6. Implications and Conclusions

Despite the lack of recent residential development activity in the area, there is real potential for new rental multi-family development in downtown Boise. This finding is supported by the findings from market analysis, the predictive rent model, assessment of market depth, and financial feasibility analysis.

Boise shares many challenges in attracting downtown multi-family housing with other peer cities, but several local factors suggest that it is positioned for growth:

- Regionally, Boise has had strong growth in population and employment and has low unemployment relative to the other peer cities.
- Downtown Boise has a larger concentration of jobs than any of the peer cities.
- Boise's multi-family housing market has low vacancy rates, especially downtown, indicating that additional supply is needed given the city's growth.
- Recent apartment projects in or near downtown Boise, such as the Owyhee and 951 Front have realized rents above those typically seen in Boise and have leased quickly.
- The predictive rent model indicates that new rental units downtown could realize rents likely high enough to support new construction. This is based on fact they are higher than those at 951 Front. Even though land costs downtown may be somewhat higher other costs should be similar.

- While the model found that there is not a premium for proximity to downtown specifically, it did find that other neighborhood attributes associated with the downtown, such as close proximity to retail, were attractive to renters, resulting in a rent premium.
- The financial analysis found that these rents could support the construction of mixed-use development with surface parking.
- Approximately 1,200 householders at a minimum in the Boise region could rent and fit within the target market for downtown housing.

There are a number of ways CCDC can leverage these findings to support the development of more housing in downtown Boise and a more vibrant and complete downtown. The findings from this study along with the concurrent study of peer cities' downtown housing strategies and approaches will have a combined executive summary, which will include the strategy for CCDC moving forward. However, the findings specific to this study do suggest a few implications for the subsequent strategy, including:

- The need to educate local developers on the potential for housing downtown
- The need to work with lending institutions to explore the financial viability of housing downtown
- The need to continue placemaking activities that make the neighborhood amenities downtown an increasingly attractive place
- The need to track market depth and absorption as new projects are developed downtown and regionally
- The likely need to work with developers to provide urban form development with below-grade parking

Fundamentally, CCDC should recognize that its placemaking and development supportive activities, which are coordinated through the City of Boise's planning and implementation efforts, increase achievable rents and downtown's ability to successfully attract new development to downtown. CCDC's strategic investments will be critical to increasing future absorption beyond past trends.