

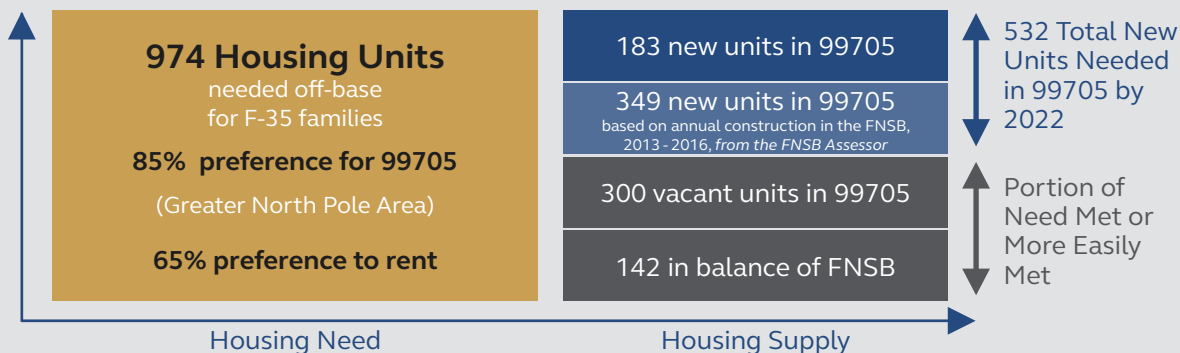


Housing

KEY TAKEAWAYS

BOROUGH-WIDE SUPPLY WILL MEET NEED

GAP IN 99705 AREA, WHERE 85% OF F-35 FAMILIES WILL PREFER TO LIVE



- **Housing Demand.** The F-35 Beddown at Eielson Air Force Base will bring 1,474 new personnel and their families who will need 974 housing units off-base.
- **Housing Supply Compared to Demand Borough-wide.** Borough-wide, the combination of vacant rental housing and the continued pace of new construction, is anticipated to be sufficient to meet the housing demand from the F-35 Beddown.
- **Preference for Housing in the North Pole Zip Code (99705).** Currently, 85 percent of Air Force personnel who live off base opt to live in the Greater North Pole area, or 99705 zip code. That trend is expected to continue for the new personnel.
- **Housing Gap is Anticipated in Greater North Pole (99705).** Unlike the borough-wide estimates, vacant rental units alone are not sufficient to meet the demand for housing in 99705. If the pace of construction in 99705 continues at a rate of 70 units per year, as has been the case over the past five years (2013-2016), an additional 183 units will need to be constructed to meet the off-base housing demand for the F-35 Beddown personnel. This is a total of 532 new units in 99705.
- **Air Force Partnership is Necessary for a Large Military Housing Project.** Stakeholders, investors, and developers indicate that large scale (100 to 200 units) of speculative rental housing development to serve military personnel is not feasible without some type of non-compete clause, master lease agreement, or base closure guarantee. Some certainty associated with the Air Force presence and housing development decision is necessary to mitigate the potential for changes in Air Force personnel plans; this is necessary to secure financing for such large projects.
- **Locally-driven Private Sector Approach with Incentives.** Absent an Air Force partnership to support the development of a larger scale military housing project, a more incremental locally-driven approach is recommended and is already happening in the 99705 zip code. The private sector is currently developing subdivisions, building custom homes, and creating new models of detached four-plex projects near EAFB.

KEY TAKEAWAYS

- **Establishing a Housing Task Force and Shared Knowledge Base a Critical First Step in Addressing Existing and Future Housing Needs.** The projected housing need, supply and gap summarized in the RGP is based on the best and most comprehensive information available during the project period, but also assumptions regarding historical and existing trends grounded in multiple and robust conversations with Borough staff, local builders and developers, property owners, real estate brokers and lenders. To better understand and respond to current and future housing needs, the community needs a tool, a body and a process for assessing, monitoring and addressing housing needs and development projects in the Fairbanks North Star Borough. A comprehensive tool that summarizes details on and status of existing and newly approved subdivisions, including: location and overall goal for the development; number and type of newly constructed and/or rehabilitated units; quality of existing units; proposed construction; and population data such as in/outmigration patterns, would assist the community in addressing both short-term (incoming F-35 population) and longer-term planning (anticipated growth resulting from planned and/or potential economic development projects). In the short-term, a comprehensive picture of the pace of new construction, and the rate at which new units are (or are not) being absorbed by existing residents, and what is happening to the homes they leave behind, will provide the community a more accurate picture for strategically addressing anticipated gaps. A representative body, like a Housing Task Force, could develop and update the tool, and then work together, with other public, private and non-profit sector partners, to create and implement targeted strategies that will meet the community's housing goals and vision.

New Military Housing Project: Requires Air Force Partnership

Produce a 100 to 200-unit rental housing community located within the 99705 zip code, developed to serve Air Force personnel, with homes ranging from two to four bedrooms. To do this, a partnership with the Air Force is necessary. Stakeholders, investors, and developers indicate that speculative housing development of that size to serve military personnel is not feasible without some type of non-compete clause, master lease agreement, or base closure guarantee. Some certainty associated with the Air Force presence and housing development decision is necessary to mitigate the potential for changes in Air Force personnel plans; this is necessary to secure financing for such a large project.

Incremental Approach

The second solution is more incremental and is already happening. Developers, including local entities, and others from Anchorage and the Matanuska-Susitna Borough, are developing subdivisions, building custom homes, and creating new models of detached four-plex projects near EAFB. There are ways the FNSB can foster high quality development projects and improve financial feasibility to allow a range of housing projects to be part of the housing solution associated with the F-35 Beddown. For example, according to FNSB Assessor raw data, 89 housing units were built in the Greater North Pole area during calendar year 2017, of which 72 were single family. This category of solutions also includes implementing incentives to improve the feasibility of multi-family rental housing, and rehabilitating older multi-family properties throughout the FNSB and in areas close to downtown Fairbanks.

The following sections provide additional detail on housing demand, supply, and potential strategies to support the F-35 Beddown.



HOUSING DEMAND

This section characterizes the demand for housing by modeling housing preference for location, cost and type based on the projected number, rank, marital status and presence of children in the personnel who will be stationed at EAFB as part of the F-35 Beddown.

Housing Demand from New F-35 Related Personnel

Based on current estimates, the F-35 Beddown includes 1,343 active duty Air Force and 121 civilian employees and technical consultants, creating a demand for 974 off-base housing units. To estimate the demand for housing, the consultant team applied national percentages of married and single Air Force personnel, and dependent status by rank, to the projected ranks who will be stationed at EAFB as part of the F-35 Beddown.¹ Key factors that went into the housing forecast are listed below, shown on the following graphic, and detailed in Appendix A.

- Percent of personnel who are married by rank (54% married)
- Percent of personnel with children both married and single (10% of singles have children)

- Split between married to civilian versus married to other military personnel (81% of married personnel are married to a civilian). This is important because military-to-military married couples who are stationed together only need one housing unit. Additionally, the model accounts for married but unaccompanied; this can include personnel whose spouse cannot travel or who are married to other military personnel stationed at a different installation.
- At the time of orders, unaccompanied active duty personnel who rank E-1 to E-3 and E-4 with under three years of service are required to live in EAFB dorms.
- All unaccompanied personnel are assumed to share one unit. Actual preferences could include a single individual living on his/her own, or as many as four or five individuals sharing a house.

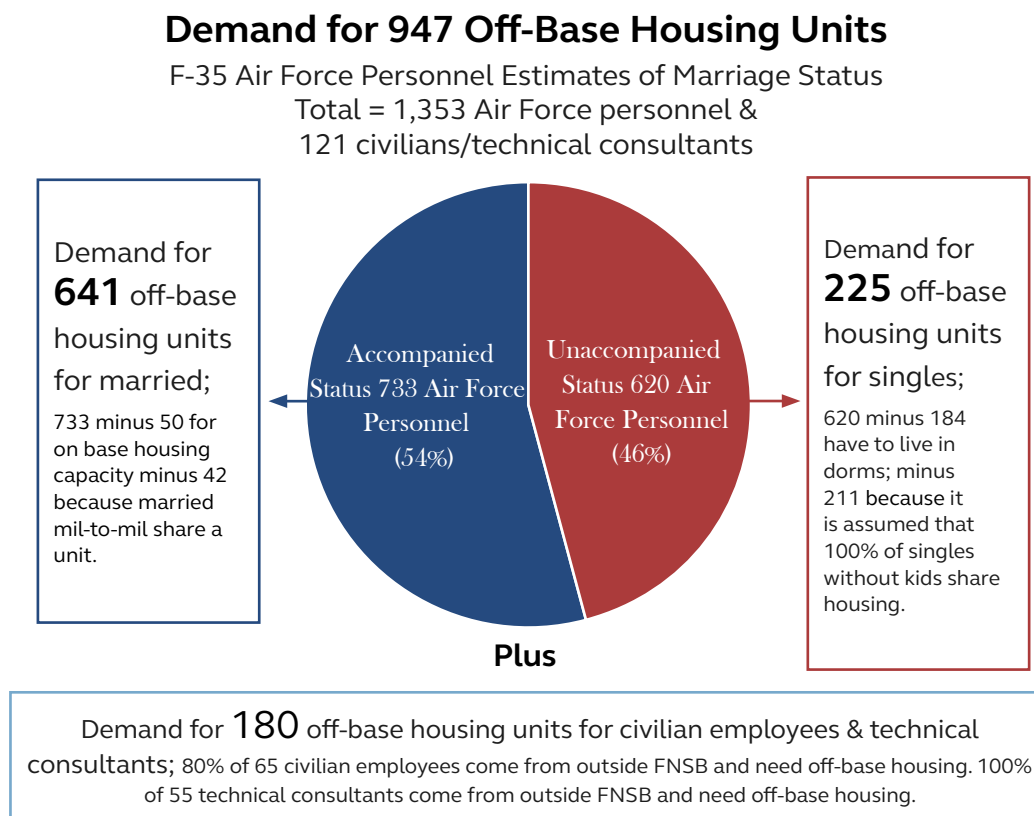
Basic Allowance for Housing

Military service members receive a basic allowance for housing (BAH). Understanding the BAH

¹ National demographics from 2015 Demographics Profile of the Military Community



FIGURE 1: DEMAND FOR OFF-BASE HOUSING UNITS

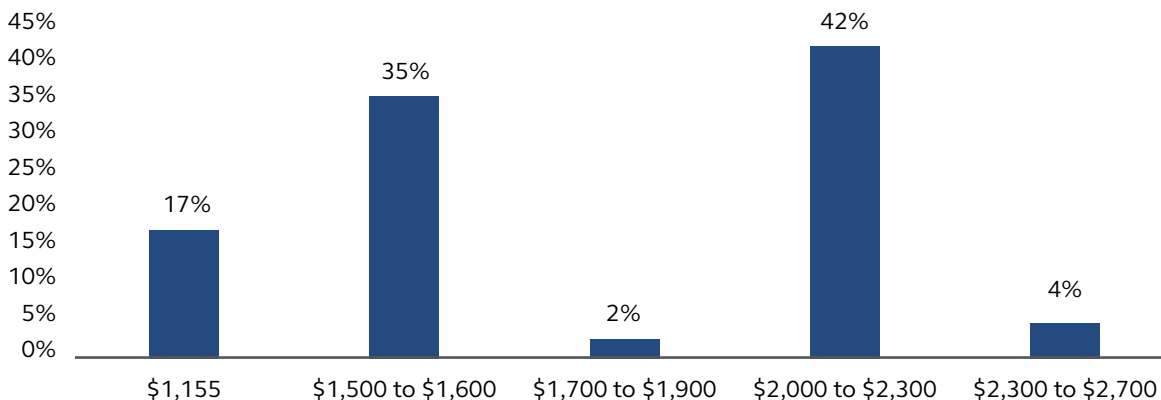


amount helps estimate the potential rents or monthly mortgages of the new F-35 personnel. The BAH can be used for private sector housing off-base or privatized housing on base. If the service member chooses to live off-base, they receive their BAH - any amount they do not spend can be kept. Military personnel living in privatized housing on-base, such as at the Corvias development, authorize the use of their BAH to go directly to the developer. If utilities are not included in the rent, the tenant can utilize what is left of the BAH to pay the utilities. If unaccompanied individuals share a housing unit, both receive BAH that can be used for mortgage or rent. If a married couple who are both Air Force rent a house or apartment, both personnel receive a BAH to use for the cost of housing. Similar to singles, if a married couple receives more BAH than their rent, of the extra BAH is kept to use at their discretion.

The BAH amounts are set based on rent and utility costs in each location each year. Amounts vary based on rank and whether personnel are unaccompanied or accompanied by a spouse or child. For example, an EAFB Junior Enlisted Rank E-3 with no dependents receives \$1,155 per month in 2017. A top ranked officer (O-6) with dependents receives \$2,688. Figure 2 shows the estimated BAH amounts for the incoming F-35 personnel.²

² Due to budget reductions, the Department of Defense considering reducing the BAH rates for married military couples with children. <https://federalnewsradio.com/defense/2017/07/senate-considering-cuts-to-military-housing-allowance-for-second-year-in-a-row/>

FIGURE 2: ESTIMATED BASIC HOUSING ALLOWANCE (MONTHLY) BREAKDOWN FOR F-35 BEDDOWN PERSONNEL

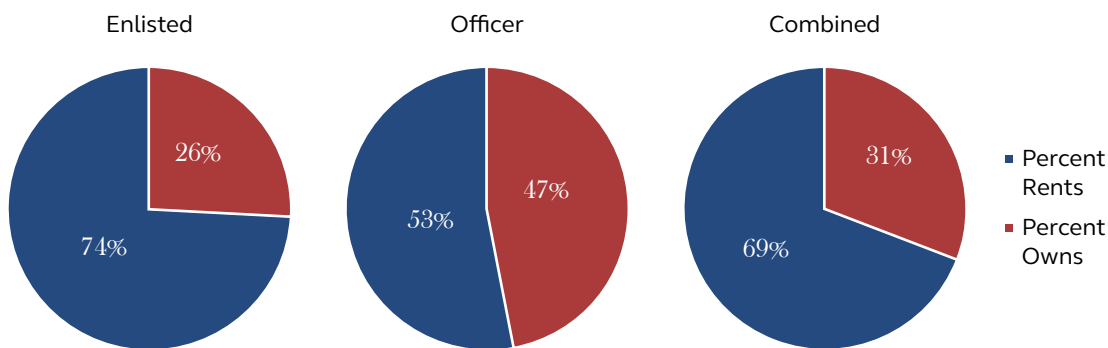


Renting Vs. Owning Preference

In contrast to the public, most military personnel prefer to rent (69 percent) rather than own. In 2015, the Air Force conducted a housing preference survey at EAFB as part of the Housing Requirements Market Analysis (HRMA). When those survey results are applied to the projected

F-35 Beddown personnel by rank, 53 percent of officers, and 74 percent of enlisted personnel, prefer to rent rather than own. Combined, almost 70 percent of all Active Duty personnel at EAFB prefer to rent.

FIGURE 3: ESTIMATED BASIC HOUSING ALLOWANCE (MONTHLY) BREAKDOWN FOR F-35 BEDDOWN PERSONNEL

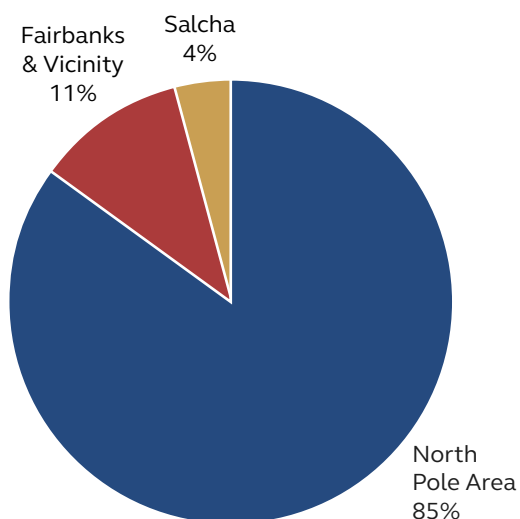


Source: EAFB 2015 Housing Preference Survey as part of HRMA

Location Preference

A substantial share of off-base Air Force personnel (85%) currently choose to live in the Greater North Pole area (99705 zip code). Another four percent opt to live in 99714, or the Salcha area, and about 11 percent live closer to Fairbanks. This data is based on a zip code sample of approximately 60 percent of current off-base personnel provided to the consulting team by the Air Force in October 2017. The consulting team also conducted four focus group sessions that same month with current EAFB active duty personnel and their families to better understand needs, issues and potential strategies on housing and other RGP topics. Most of the off-base focus group participants lived in the 99705 zip code, with one participant living in Salcha. As presented in the education chapter of the RGP, data from the Fairbanks North Star Borough School District confirms the location patterns of off-base EAFB households, with an average of approximately 85 percent of Air Force-connected students living within the 99705 zip code.

FIGURE 4: LOCATION PATTERNS FOR CURRENT EAFB PERSONNEL LIVING OFF-BASE



Housing Type vs. Tenure

It is important to distinguish between housing product type (single family detached, duplex, multi family, etc.) and tenure (renting versus owning). People who own their homes do so predominately in single family detached housing, but not always. Appendix F provides a breakdown of tenure by housing type for Alaska, the FNSB, and each of the subareas in the borough. Borough-wide, 89 percent of owner occupied households are living in single family detached housing; this is closer to 94 percent in the 99705 zip code. In contrast, for renter occupied households, only 27 percent rent single family detached housing borough-wide. In 99705, 45 percent of renter occupied homes are single family detached.

Housing Type Preference

As is the case for the general population, there are no explicit data sources that identify the preferred housing type for the F-35 personnel or existing EAFB Air Force personnel. Real estate developers integrate a range of data sources to identify preferred housing types that buyers will purchase and renters will move into. With regard to the F-35 Beddown population, existing trends indicate that single family detached homes are preferred. This estimate is based on earlier data showing approximately 85 percent of EAFB active duty personnel that live off-base chose to live in 99705. Adding to that - approximately 74 percent of the housing in the 99705 zip code is single-family detached. Additionally, the majority of the current EAFB Air Force personnel who participated in the focus groups indicated they preferred single family detached when given the choice. However, this does not mean that single family detached housing

is the only housing type to consider for Air Force personnel.

For the military, attached housing and is a viable option along with single family detached. Apartments are also part of the solution, particularly for personnel who are unaccompanied or married without children. Throughout the FNSB, housing specifically for military personnel often includes attached product mixed with single family homes in planned communities that also include walking trails, playgrounds, community centers, and dog parks as neighborhood amenities. A good example is the Birchwood Homes project adjacent to Ft. Wainwright. This project was developed and is owned by Fischer Properties. It offers 400 rental units that are mostly attached; 3, 4 and 5 bedroom-attached townhomes. There are a few detached units. In comparison, the Corvias on-base housing at EAFB is 910 units of attached 3, 4, and 5-bedroom housing for Air Force families. Focus group results also indicated a preference for housing with more bedrooms.

Looking forward, better understanding the demographics, ranks, and overall household types of the incoming F-35 population will help define projected housing types needed. As outlined below, this can be achieved through an analysis of national Air Force demographic trends, and through EAFB F-35 population-specific data.

Unaccompanied Personnel (253 households)

Single personnel who share housing will likely want to live in a house, townhouse or apartment. An estimated 620 active duty personnel will arrive unaccompanied with approximately 184 required to live in the dorms. The remaining will often choose to share a housing unit; this could be a single family detached house, townhouse, or apartment for approximately 253 housing units (including

civilian employees and technical consultants). For the housing forecast, it is assumed that 100 percent of unaccompanied personnel will share a house with one other person. Eighty-five percent will have a BAH of \$1,100 or \$1,500; combined with a roommate, between \$2,200 to \$3,000 per month in BAH would be available (or more if single individuals choose to live with more than one other person).

Married Personnel without Kids (210 households)

Married personnel without kids might desire a two-bedroom house, townhouse or apartment; but a three-bedroom home may be preferred to allow more space for visitors. Approximately 210 households are expected to arrive at EAFB married without kids (including civilian employees and technical consultants). Sixty-five percent of the married personnel are forecast to have BAH of around \$2,100; 23 percent are forecast to have BAH of around \$1,500. Approximately 34 households are dual military couples traveling to EAFB together, with no kids and two BAHs.

Households with Kids (511 households)

Households with kids likely prefer three-bedrooms or more in a house or large townhouse. A little over 500 F-35 households are expected to arrive at EAFB with kids, 61 percent are forecast to have BAH of around \$2,100; 29 percent are forecast to have BAH of approximately \$1,500. Twenty-four of these households are dual military households with kids and have two BAHs. Nationally, the average number of kids in Air Force households is two and the estimates calculated for the EAFB RGP based on the estimated Air Force personnel by rank indicate an average of 2.3 kids for those households with kids.



HOUSING SUPPLY

This section characterizes the existing FNSB housing supply that could help meet incoming F-35 population demand. On-base, vacant housing and recent new construction are considered.

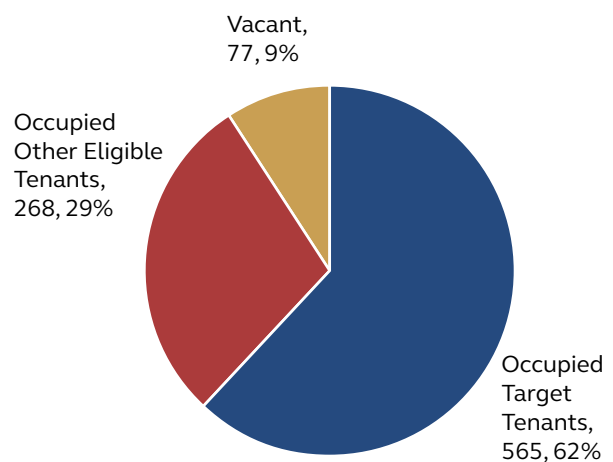
On-Base Housing Capacity

There are two options for on-base housing at EAFB; the dorms and Corvias family housing.

Dorms. Approximately 600 dorm spaces are available on-base and are owned and managed by the U.S. Air Force. Currently, about 400 dorm spaces are occupied. At EAFB, the dorms are required housing for unaccompanied personnel rank E-1 to E-3 and E-4 with under three years of service. At EAFB, there are no senior non-commissioned officer (NCO) dorms for rank E-7 and above, nor any officer dorms. Personnel with an E-4 rank, and more than three years of service, can technically live in EAFB dorms if space is available, but this is not typical; once they are able, personnel are typically looking for opportunities to move off-base.³

³ Email communication with EAFB personnel, October 2017.

FIGURE 5: PERCENT OF 910 CORVIAS ON-BASE HOUSING UNITS BY OCCUPANCY STATUS



Source: Corvias & EAFB data provided in October 2017

Family Housing. There are 910 housing units on-base in the Corvias privatized housing development; 833 units, or 91 percent, are occupied. The units were intended as Air Force family housing. At EAFB, the on-base family housing has a 45 percent capture rate; this means that 45 percent of those who have a choice about whether to live on-base or off-base, opt for housing in the Corvias units. The national Air Force trend is more like a 35 percent capture rate.⁴ Even with a slightly higher on-base capture rate, currently, there is not enough demand by Air Force families to fill the on-base family housing. If vacancies exist, operators may rent to “other eligible tenants” including unaccompanied personnel who have graduated from the dorms, other military affiliated groups such as the Air National Guard, Ft. Wainwright personnel, federal civil servants, retirees, Department of Defense contractors, and even the general public, if occupancy is still below 95 percent for over 90 days. Of the Corvias occupied units, 268 units are occupied by other eligible tenants, including unaccompanied Air Force personnel and non-Air Force tenants.

Figure 6 captures the existing configuration of other eligible tenants living on EAFB. As new Air Force personnel with families require housing, other eligible tenants will be removed, starting with the general public and moving up the category scale in Figure 6. This approach to populating on-base privatized housing is called “the waterfall” effect. Ideally, this will be done by not allowing lower priority categories to take new leases as the inbound Air Force personnel get closer to arrival. Regardless, the impact to the community in terms of overall housing needs will be the same in demand; a person who now rents from Corvias that is displaced by an F-35 personnel will need to live somewhere in the area. However, it is possible that those who are displaced will have different housing preferences than Air Force personnel.

⁴ Communication with Corvias personnel August 2017.

FIGURE 6: OTHER ELIGIBLE TENANT SUMMARY CURRENTLY LIVING IN CORVIAS ON-BASE HOUSING

Category 1	Unaccompanied Air Force (graduated from dorms)	88
	Other Armed Service (Ft. Wainwright)	74
Category 2	Air National Guard	13
Category 3	Federal Civil Service Employees	21
Category 4	Retired Military Members	14
Category 5	Retired Federal Civil Service	1
Category 6	DoD Contractor	53
Category 7	General Public	2
Total		268

Source: Corvias & EAFB data provided in October 2017.

Existing Vacant Housing Units

Using 2015 American Community Survey data, there are approximately 1,411 vacant units for rent or for sale in the FNSB, excluding EAFB and Ft. Wainwright. Using data from the U.S. Census Bureau's American Community Survey (ACS)⁵, Figure 7 shows vacant housing by type in Fairbanks, North Pole (99705) and Salcha (99714). The ACS rental vacancy was 8.0 percent and the home ownership vacancy rate was 1.4 percent. The FNSB Quarterly Survey indicates a current rental vacancy rate of 10 percent, up from 8.7 percent in summer 2017, and down from 11.5 percent in Spring 2017.

While there are almost 6,000 vacant units in the FNSB, excluding EAFB and Ft. Wainwright, most

cannot be considered as potential housing stock. For example, almost half the vacant units are for seasonal, recreational, or occasional use. Another category is "other vacant," which includes homes used for storage, those that are in probate court, or for other reasons the homes are not on the market and available. The total potential number of vacant units that could be used to absorb the F-35 Beddown demand is estimated by summing the vacant units for rent and the vacant units for sale.

⁵ 2011-2015 American Community Survey 5-Year Estimate

FIGURE 7: VACANT HOUSING UNITS IN THE FNSB

Item	FNSB Total Excluding EAFB & Ft. Wainwright	Fairbanks & Vicinity	North Pole Area	Salcha Area
Vacant				
For Rent only	1,110	804	306	-
Rented, not occupied	392	252	106	34
For Sale only	301	159	122	20
Sold, not occupied	-	-	-	-
For seasonal, recreational, or occasional use	2,256	1,457	164	635
For Migrant Workers	-	-	-	-
Other Vacant	1,610	1,315	214	81
Total Vacant	5,669	3,987	912	770
Total Vacant & Potentially Available	1,411	963	428	20

Source: 2011-2015 American Community Survey 5-Year Estimate Data compiled at the zip code level. Fairbanks & Vicinity zip codes: 99701, 99703, 99709, 99712. North Pole is 99705. Salcha is 99714.

Quality & Condition

During interviews and in the on-base focus groups, many people suggested that vacancy rates are not a good indicator of available housing, noting the quality of existing stock as substandard. To quantify this community sentiment, the consulting team worked with the FNSB assessor to collect and analyze raw data from FNSB’s system for assessing housing condition.⁶ The assessor records two types of data points. The first is effective date; if the effective date of a property is older than the construction date, the property likely has some neglect wear/tear. If the effective date equals the construction date, minimal work has been done. And finally, if the effective date is newer than the construction date, the building has been improved. Using the effective date index, 45 percent of multifamily properties have had minimal work or have been subject to neglect/wear and tear. The assessor uses a second index based on a quality grade; 53 percent of properties are considered in fair or below condition.

A composite of these two factors, effective date and quality grade, considers the percentage of properties that received a “fair condition rating” and had “older effective dates than construction dates”. The average of all three factors – effective date, quality grade and the composite – was used to reduce the supply of vacant units to estimate the total vacant housing supply in decent condition, as shown later in this chapter.

New Construction

Raw data from the FNSB assessor indicates that approximately 1,309 new units have been built over the last five years, or around 262 per year.⁷ Most of these units are single-family detached houses (56%) and cabins (32%). Cabins built by owners (5%) are

⁶ FNSB Assessor, 2017. This survey is conducted on a subset of multifamily properties, mostly with fewer than 20 units per building.

FIGURE 8: VACANT HOUSING UNITS IN THE FNSB

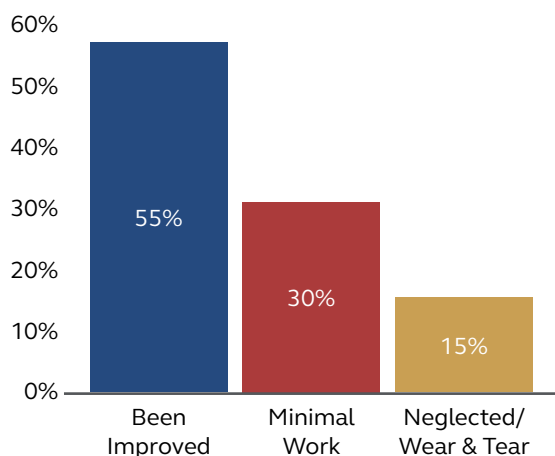
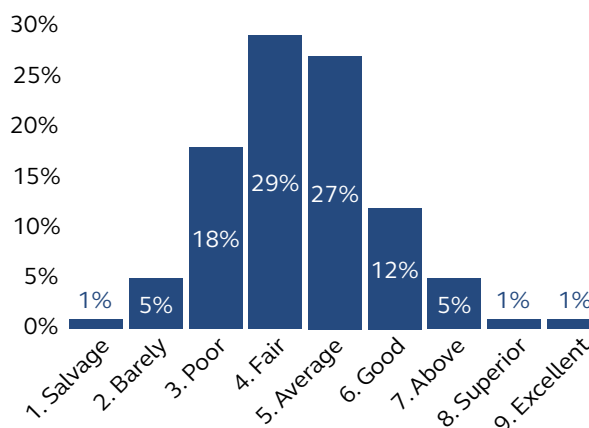


FIGURE 9: CONDITION BASED ON QUALITY GRADE FROM ASSESSOR



Source: FNSB Assessor, 2017 raw data pulled for a sub-set of multi-family properties, mostly less than 20 units per building

not typically available for rent or purchase. Other cabins (27%) can be part of the housing stock for rent, particularly for unaccompanied personnel. Six percent of the units were multifamily (80 units) and six percent were duplexes or town homes (85 units). For the purposes of estimating supply, cabins built by owners were not considered as part of the supply forecast for future years.

The units have been built mostly in the Fairbanks area and vicinity, at an average of 198 per year. North Pole (99705) added approximately 67 per year, and Salcha (99714), nine units per year.

⁷ Source: FNSB Assessor raw data for 2013, 2014, 2015, and 2016. Data excludes Ft. Wainwright new housing.

FIGURE 10: NEW HOUSING CONSTRUCTION IN THE FNSB BY TYPE AND LOCATION

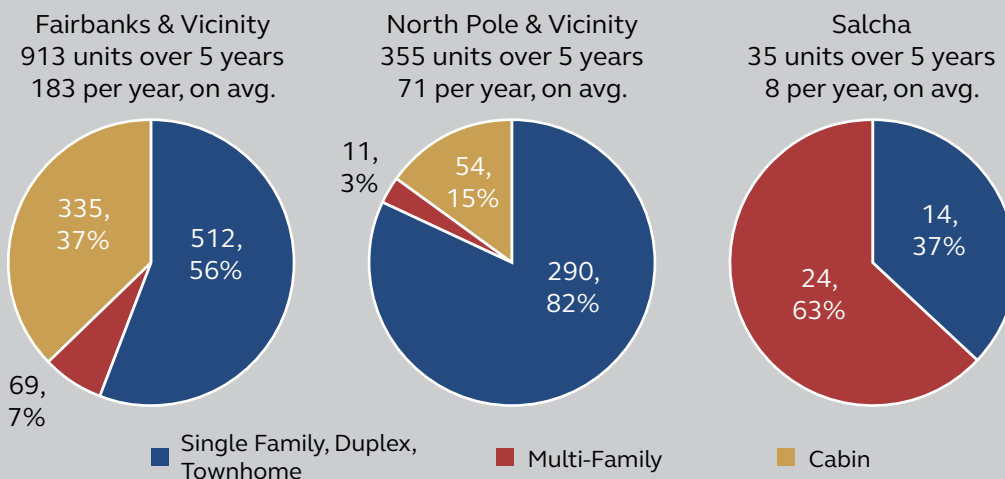
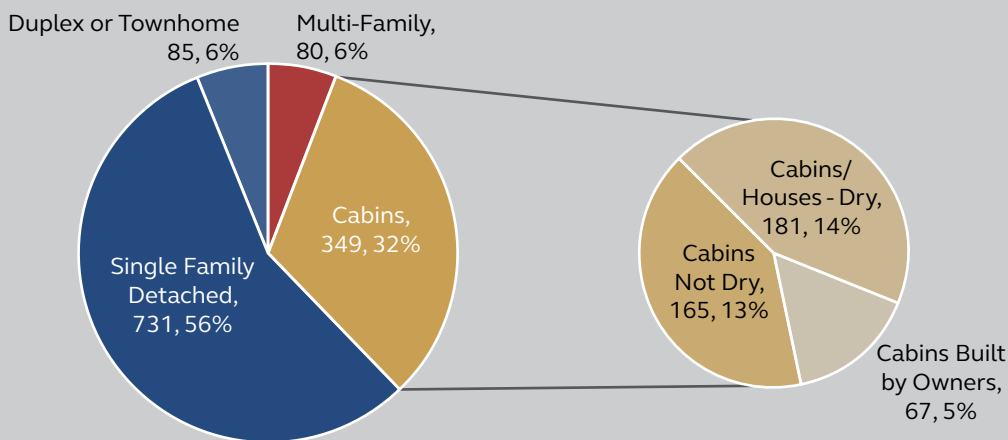


FIGURE 11: NEW UNITS BUILT IN THE FNSB OVER FOUR YEARS



Source: FNSB Assessor, Raw data for 2013, 2014, 2015, and 2016. Data excludes Ft. Wainwright new housing.

HOUSING GAPS

To determine the gap in housing units needed to support the F-35 mission personnel, a comparison of housing demand to supply was conducted.

Borough-wide Housing Demand Compared to Supply

Demand for off-base housing direct from F-35 households is estimated at 974 housing units, the majority of which are needed by federal FY 2020 and FY 2021.

The model takes the total amount of rental units in the FNSB and reduces them by 43 percent to account for poor condition. Next, an estimate of new construction is included and is based on the

pace of new construction over the previous five years. The basis for this is that without any special incentives, about 248 new units have been built each year in the FNSB; it is reasonable to assume that trend continues.⁸ The end result borough-wide is that the combination of vacant housing units, after accounting for poor condition, and new construction at the pace occurring most recently, will provide adequate housing to meet the demand generated by the new F-35 personnel.

⁸ Some cabins have been netted out of the new construction totals. The FNSB Assessor records a new housing unit in the year that it starts construction; not all homes are completed in one construction season. This means that the pace of construction may need to increase to accommodate the demand for the F-35 households.

FIGURE 12: FNSB HOUSING DEMAND COMPARED WITH SUPPLY: BOROUGH-WIDE

ITEM		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
Demand for Housing Off-Base							
Direct from F-35 Related Households		18	-	63	429	465	974
Supply							
Estimated Vacant Units							
Rental		1,110					1,110
(less) poor conditional rental	43%	(483)					(483)
Rental excluding poor condition		627					627
For Sale		301					301
Subtotal Vacant Units		928					928
Average Annual New Construction		248	248	248	248	248	1,242
Carryover Not Used in Previous Year		-	1,159	1,408	1,593	1,413	
Subtotal Supply		1,177	1,408	1,656	1,842	1,661	2,170
Surplus (Gap)		1,159	1,408	1,593	1,413	1,196	1,196
Total New Construction Required to Meet Demand							1,294

Greater North Pole Area (99705) Housing Demand Compared to Supply

Though there appears to be available housing now, and an ability to generate enough new houses to meet demand borough-wide, most of the demand for new housing will likely be concentrated in the Greater North Pole area (99705 zip code). As outlined above, location preference for the incoming F-35 population is based on current residence locations for Air Force personnel that live off-base.⁹ If 85 percent of the F-35 demand for housing occurs in the North Pole zip code, there will be a demand for 832 housing units in that area.

Excluding those in poor condition, the housing supply in the North Pole area includes 178 vacant rentals, 122 vacant properties for sale, and an

average of 70 new units of construction each year. This supply will be sufficient to meet the demand through FY2020, assuming 349 new units are constructed over the next five years. However, by 2021, all personnel will have arrived and there is an estimated gap of 183 units, mostly in the rental market.¹⁰ In total, 532 new units need to be constructed in 99705 to meet the expected demand for the F-35 families through FY2021.

⁹ Input from focus groups and data from school district on locational patterns of students with Air Force families could change assumptions.

¹⁰ A model was prepared that looked at preference for renting and compared that to the rental market supply now and in the future; the results are a gap of 324 rental units within 99705.

FIGURE 13: ZIP CODE 99705 (NORTH POLE) HOUSING DEMAND COMPARED WITH SUPPLY

ITEM		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
Demand for Housing Off-Base							
Direct from F-35 Related Households		18	-	63	429	465	974
North Pole (99705) Demand	85%	15	-	54	366	397	832
Supply							
Estimated Vacant Units							
Rentals in 99705		306					306
(less) poor condition rentals	42%	(128)					(128)
Rentals (excluding poor condition)		178					178
For Sale in 99705		122					122
Subtotal Vacant Units		300					300
Average Annual New Construction in 99705		70	70	70	70	70	349
Carryover Not Used in Previous Year		-	355	424	441	144	
Subtotal Supply		370	424	494	510	214	649
Surplus (Gap)		355	424	441	144	(183)	(183)
Total New Construction Required to Meet Demand							532
Surplus (Gap) Excluding Avg Annual New Construction		335	396	402	96	(241)	(241)

Salcha (99714) Housing Demand Compared to Supply

Current location patterns indicate four percent of current EAFB personnel reside in Salcha. If that preference holds for new F-35 personnel, there will be a demand for 36 housing units in 99714.

The American Community Survey reported there are no vacant rentals in Salcha; thus, estimated

supply includes 20 vacant homes for sale and an estimated seven new units constructed each year. Based on these assumptions, housing supply will total around 57 units by FY 2021 when the F-35 Beddown is complete, or a surplus of 21 housing units in 99714.

FIGURE 14: CODE 99714 (SALCHA) HOUSING DEMAND COMPARED WITH SUPPLY

ITEM		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	TOTAL
Demand for Housing Off-Base							
Direct from F-35 Related Households		18	-	63	429	465	974
Salcha (99714)	4%	1	-	2	16	17	36
Supply							
Estimated Vacant Units							-
Rentals in 99705		-					-
(less) poor condition rentals	42%	-					-
Rentals (excluding poor condition)		-					-
For Sale		20					20
Subtotal Vacant Units		20					20
Average Annual New Construction in 99705		7	7	7	7	7	37
Carryover Not Used in Previous Year		-	27	34	39	31	
Subtotal Supply		27	34	42	47	38	57
Surplus (Gap)		27	34	39	31	21	21
Total New Construction Required to Meet Demand							-

HOUSING OBSTACLES & OPPORTUNITIES

Based on interviews with developers, banks, project designers, Air Force personnel, and policy makers, a set of obstacles and opportunities related to the development of new housing in the FNSB have been identified. At the EAFB RGP Housing Strategy Session held on December 6, 2017 in Fairbanks, a preliminary set of housing obstacles and opportunities was shared with a group of developers, financiers, policymakers and funders. Additional feedback was received and modifications were made to the preliminary ideas. Some of the obstacles are specific to housing for the Air Force F-35 personnel, while others are relevant to overall housing development in the FNSB. The

following obstacles and opportunities are described in the next section.

- Unpredictable market demand
- Air Force partnership necessary for larger housing projects
- Financial feasibility limitations for multi-family product
- Limited equity in local market
- Infrastructure limitations
- Lack of energy efficient homes
- Opportunities for single family, duplex and townhomes



*Pioneer Park lit up for the winter season in Fairbanks, Alaska
Photo by Sherman Hogue/Explore Fairbanks*

Unpredictable Market Demand

The military responds to evolving national priorities with personnel at installations increasing and decreasingly, accordingly. This makes housing investment decisions for banks and equity partners challenging. The future of military installations is not predictable. For example, in 2005, the Fairbanks region mounted a community-wide effort to “Save Eielson” as part of the 2005 Base Realignment and Closure Commission (BRAC) process. Ultimately the BRAC modified the Secretary of Defense’s recommendation to realign EAFB and reduce it to “warm” status with only the Air National Guard remaining. In reviewing the

value of EAFB, the BRAC found that “a risk of the realignment of Eielson would be under-use of the Air Force’s best airspace and range complexes” among other reasons. Following the 2005 BRAC, EAFB remained open but without a squadron of twin-engine A-10 Thunderbolts. Then, in April 2016, the Department of Defense announced the arrival of the F-35s to EAFB. Since then, there have been efforts in Congress to implement another BRAC but nothing has materialized.¹¹

¹¹ 2005 Defense Base Closure and Realignment Commission Report, Department of Defense; “On Guard for Military Closings,” Daily News-Miner, September 15, 2017 and Association of Defense Communities newsletter.

“ Private Sector Input

The problem with any private money coming into the housing market in order to address the housing needs in Fairbanks / North Pole is that the military will not sign a lease for that housing. Any private investor would need to build the housing on a spec-basis with no certainty that in the near future the military might decide to build competing housing.

The keys to attracting investors are: to get the military to commit to leasing at least a majority of the housing for a reasonable period of time and to have the military agree to a non-compete that would prohibit it from building new housing in the Fairbanks/North Pole market.

Short of getting those two things, the chances of attracting investment capital to address the housing issue is very likely impossible.

– Anchorage-based private equity firm

Whether another BRAC occurs, and whether EAFB will be on that list is unknown, as is the case for installations across the globe. The EAFB has a strategic location and a substantial amount of air space, which bodes well for the installation. However, investment decisions for new housing must be able to rely on a reasonable expectation that market demand will continue, at least for the duration of the loan term or equity position. While Fairbanks investors and stakeholders feel confident that the F-35s will arrive at EAFB given the investment the Air Force has already made in facilities to support the new mission, many express concerns that future Congressional and Department of Defense decisions could reduce the personnel needed at EAFB. This would be less of an issue if broader economic expansion was predicted in the FNSB; however, the baseline economic forecast for the FNSB is that jobs decrease due to reduced economic activity from low oil prices and State budget reductions.

Further exacerbating the market uncertainty are higher than healthy vacancy rates for rental products in the FNSB. As reported by the FNSB, as part of their quarterly rental market survey, the September 2017 rental vacancy rate was 10 percent, up from 8.7 percent in the summer and down from 11.5 percent in the spring. A healthy vacancy rate is around five percent. For the home ownership market, vacancy rates have been closer to 1.4 percent.¹² When investors consider providing financing, home ownership products with demonstrated demand often makes more sense than larger rental projects. Larger rental projects often need to be completed in one phase and require a substantial amount of capital to construct. For example, costs can range from \$11 million for a 30-unit apartment building to \$36 million for a 100-unit rental project, assuming \$300 per square foot in cost for 1,200 square foot housing units. This is different than funding a construction loan to

support several \$300,000 single family homes built in phases.

It is important to note that higher than healthy rental vacancy rates are both an obstacle (as described above) and an opportunity for the Borough and EAFB. Without the supply of vacant units currently available, it would be harder for the Air Force and the region to accommodate a successful F-35 mission. The housing supply may not be entirely of the quality and size that Air Force families prefer, but it offers a housing opportunity for construction workers who are building F-35 facilities, as well as new F-35 personnel when they arrive.

¹² American Community Survey 2015 5 Year and FNSB Quarterly Survey



Photo by Agnew::Beck

Air Force Partnership Necessary for Larger Housing Projects

Historically, in Fairbanks, Anchorage, and other military communities, when a new military mission requires a substantial amount of housing to meet personnel needs, the military either builds the housing, or releases a competitive process for privatized housing either on or off-base (or installation). These types of projects typically come with a base closure guarantee or some type of military partnership; the lack of predictability related to military personnel decisions limits long-term investment by financiers. For example, the Alaska Housing Finance Corporation (AHFC) has been involved in four of Alaska's most recent military housing projects, all of which included a base closure guarantee by the Department of Defense.¹³

- **Mid-1990 at EAFB.** AHFC provided a conglomerate called HEBL, a \$54 million, 30-year term loan for the construction of 366 units occupied by military personnel on EAFB. The loan was funded in phases. This loan is no longer in AHFC's loan portfolio. A base closure guarantee was provided by the Department of Defense.
- **2001 at Elmendorf Air Force Base (Phase I).** AHFC provided JL Properties a \$48 million, 30-year term loan for the development of Phase I housing for military personnel on Elmendorf Air Force Base. The development involved 980 units consisting of new construction, renovation, and demolishing units. At the completion of the project,

there were 828 units. The loan was funded in phases and successfully developed. This loan is no longer in AHFC's loan portfolio. A base closure guarantee was provided by the Department of Defense.

- **2004 at Elmendorf Air Force Base (Phase II).** AHFC provided JL Properties a \$96 million, 35-year term loan for the development of housing for military personnel on Elmendorf AFB. The development involved 1,194 units consisting of new construction, renovation, and demolishing units. This loan was also funded in phases and successfully developed. This loan is no longer in AHFC's loan portfolio. A base closure guarantee was provided by the Department of Defense.
- **Current at Ft. Wainwright/Ft. Greely.** AHFC provided Lend Lease a loan for up to \$159,425,000 with a 40-year term involving 1,815 units; the loan is funded in phases with one more phase remaining to be funded no later than July 2018. Maturity is July 2058 and the loan is currently on AHFC's books. A base closure guarantee was provided by the Department of Defense.

¹³ From email communications with Mark Romick and Jan Miyagishima, AHFC, September 28, 2017.

As stated publicly in response to the F-35 Beddown¹⁴, the Air Force has no current plans for privatized on-base or off-base housing construction, plans to construct housing, nor to partner with the private sector through a base closure guarantee or similar structure. This means the private sector has an opportunity to respond to market demand. Given that a larger scale rental housing project designed specifically for the military will likely require a partnership with the military, the market response by local and out of region developers to incoming F-35 population housing need will occur in a more incremental way. A mix of single family detached and cabin products, as well as potential multi-family housing if obstacles (see below) can be addressed, will meet demand. Incentives and policies (see next section) can help shape the type of housing produced, but a large scale (100 to 300 unit) planned development of a scale similar to Birchwood, or the on-base Corvias housing, is not likely without a partnership with the Air Force.

¹⁴ Personal communications between the Eielson Regional Growth Plan team with the EAFB personnel and public presentations between June 2017 and October 2017.

Financial Feasibility Limitations for Multi-Family Product

Developers and investors in the FNSB express that multi-family rental product is difficult to “make pencil.” The most widely cited issue is the bank’s project valuation and appraisal process, or the inability of the project to secure a bank loan that covers closer to 75 or 80 percent of the total project development cost. Banks typically lend no more than 80 percent of the value of the project, which is often less than the total development costs. For example, when the appraisal is ordered, comparable sales are often older apartment buildings that have sold for lower valuations than the cost to build a new building. This means banks are lending at 75 to 80 percent based on a non-representative value. This often equates to funding closer to 50 percent of the project’s total development cost. A smaller bank loan means the equity portion of the project is closer to 50 percent and requires more equity investors and developers with access to substantial capital (see next issue). This issue is not isolated to providing housing that supports the F-35 Beddown population. Newer, higher density rental housing products throughout the Fairbanks region also face similar financing issues; this is also an issue for multifamily rental product in Anchorage.



Variation on Condominiums

It is important to note that a variation of multi-family rental apartment product is a condominium project that offers opportunities to provide for-sale housing. Condominiums can take many forms, but the type that is multi-story and built as one larger building has unique financing issues. Banks require 50 percent of the condominium units be pre-sold to buyers before the condominium certification can be approved and the construction loan funded. Pre-sold means that the buyer must provide their 20 percent down, beyond the normal \$500 escrow payment. The challenge with this model is difficulty to pre-sell 50 percent of a 50-unit project, making it difficult to fund the construction loan. Instead, a townhouse project that can be added onto and/or grouped into four or five-unit phases is easier to pre-sell at 50 percent to secure construction financing.¹⁵ Again, this is a housing obstacle that is broader than just the F-35 Beddown mission.

¹⁵ Personal communication with developers and bankers.

Limited Equity in Local Market

Stakeholders indicate the next generation of local developers in the FNSB have limited access to equity to fund even 20 percent of the total development costs of a multi-family rental project; finding 50 percent of the total development costs is even less likely. Developers who have been in the business of building housing in the Fairbanks area for many years, particularly multi-family, are of retirement age, and are less interested in riskier investments. The next generation of developers are expressing interest in developing new housing product in the multi-family rental category, but again, are unable to secure the necessary capital. Additionally, returns may be lower on these multi-family rental projects when compared to other competitive markets. This is due to the large amount of equity required; this makes attracting capital even more difficult.¹⁶

¹⁶ The NOI divided by the Total Development Cost (TDC) is the Return on Cost (ROC) and is a simple measure of project viability. A ROC above seven percent and closer to 12 percent is typically considered a feasible project. For equity investors, the Before Tax Cash Flow (BTCF) is also critical. The BTCF is the available NOI after paying debt service on a bank loan that is available as a return on the equity investment. The cash-on-cash return is the BTCF divided by the equity investment and this return should definitely be above what can be secured in the stock market, given that the equity investor is subordinate to the banks (meaning they get paid last). If the equity investment required is 50 percent of the TDC, even if the rental stream is strong, the cash-on-cash return will be low because it must generate returns to cover a very large investment amount.

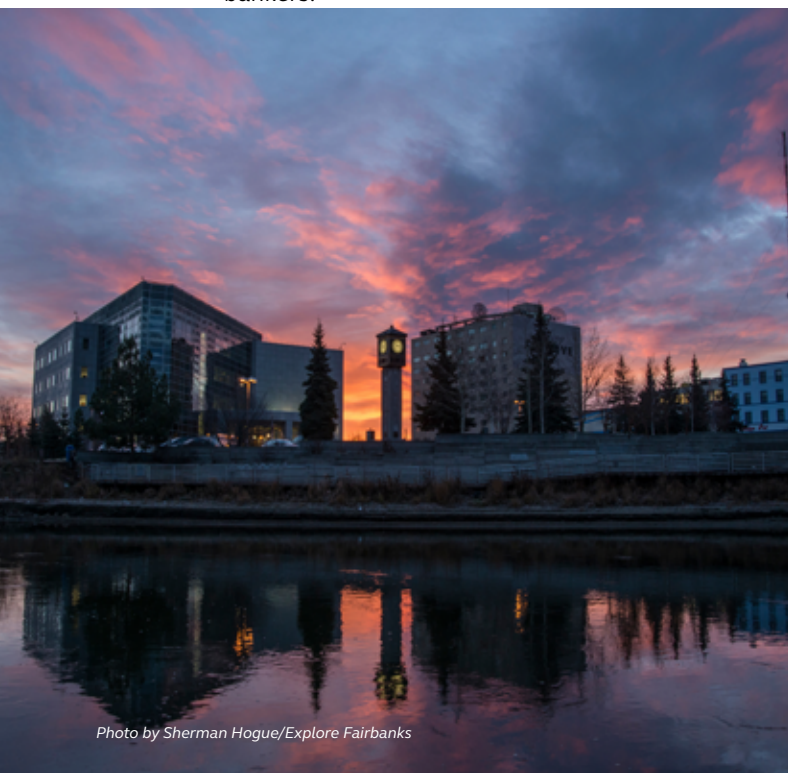


Photo by Sherman Hogue/Explore Fairbanks



Photo by Sherman Hogue/FCVB

Infrastructure Limitations

Adequate access to water and sewer utilities is a requirement of more intensive multi-family housing, most of which is often rental units. Developing housing for F-35 families that want to live in the Greater North Pole area requires additional units and the infrastructure to support those units. Most housing units in 99705 are on independent water wells and septic tanks. The land use chapter of this Regional Growth Plan provides more specifics on this issue.

Lack of Energy Efficient Homes

As Fairbanks developed rapidly in the 1970s and 1980s, many homes in the area were constructed without high energy standards. For example, according to the AHFC 2018 Housing Needs Assessment, there are an estimated 10,000 homes built before the 1980s in the FNSB that have not be retrofitted via the State of Alaska energy efficiency program. This is about 25 percent of the overall housing stock. With annual energy costs averaging \$5,300 per household in the FNSB, homes that are energy efficient are a critical part of ensuring housing affordability for the community, and for the new F-35 families who will be arriving. Currently, there is no borough-wide building code requirement related to energy efficiency.



Photo credit: Agnew::Beck

Opportunities for Single Family, Duplex & Townhomes

Raw data from the FNSB Assessor indicates that 591 single family detached units and 75 duplex and townhome units were built in the FNSB over the past four years. This is 61 percent of new housing over the past four years; versus seven percent in the multi-family market and indicates that constructing single family, duplex, or townhome housing has been more feasible than multi-family housing.¹⁷

In terms of financial feasibility, some developers of single family homes indicate the appraisal process is still difficult and that costs can be higher for new product than the value of existing for-sale housing, making construction loans difficult to obtain.

However, it appears that financial feasibility and access to equity is less of an issue for the single family detached, townhome, and duplex product types. This is due to demonstrated market demand given a less than two percent vacancy rate in the owner-occupied market, which is largely single family or townhouse product (89 percent of the time in the FNSB, and 94 percent of the time in 99705). Additionally, the ability to phase one or two units at a time when buyers are identified improves the financial viability of this product type.

¹⁷ Source: FNSB Assessor raw data 2013, 2014, 2015, 2016; Note: balance of new housing (32%) is cabins.

Bank Lending

A typical real estate pro forma for a multi-family rental project adds up all the costs associated with the project, including land, site improvements, and soft costs (legal, marketing, etc.) to estimate the total development cost (TDC). Next, the pro forma estimates the net operating income (NOI) of the project once it has stabilized (fully leased-up). The NOI is the gross rent from the project minus all operating expenses and allowance for bad debt and vacancy.

A bank will review the NOI and apply a capitalized value to the income stream to estimate project value; in other words, when considering the amount of a loan the income stream dictates the value of the project, not the cost to construct. Capitalization rates are often higher for real estate product that is considered riskier and less financially viable. Additionally, when a bank is considering a loan, they are required to have an appraisal completed. The appraiser can use one or a combination of three valuation methods: comparable sales, documented income stream of comparable projects, and replacement/construction costs. However, comparable sales often bring down value if the projects are older and deteriorated. Ultimately, the bank loan may be much less than 75 percent of the TDC.

Photo by Sherman Hogue/FCVB



HOUSING STRATEGIES – WHAT ARE OUR RECOMMENDED SOLUTIONS FOR MEETING ANTICIPATED GAPS?

Borough-wide there appears to be adequate housing supply to meet demand for the new housing from the F-35 personnel, yet there is a projected gap in housing within the North Pole area (99705) where Air Force personnel prefer to live and that gap is largely in rental housing.

Some product types, such as multi-family rental housing face more obstacles than others. Based on these key findings, the following are housing recommended strategies as part of this Regional Growth Plan. The housing recommended strategies are grouped according to the following categories.

CATEGORY	STRATEGY
Stakeholder Involvement & Implementation	Strategy #1: Create a Housing Task Force
Market Response to Housing Need	Strategy #2: Allow the Market to Absorb Available Rentals Strategy #3: Monitor the Market’s Response Strategy #4: Work Toward a Mix of Housing Types
Financial Incentives	Strategy #5: Develop an Expanded Tax Exemption Program Strategy #6: Create New Sources of Capital and Fully Maximize Existing Opportunities
Housing Supportive Policies	Strategy #7: Utilize Military Facility Zones, as Appropriate Strategy #8: Improve Land Use Planning in 99705

H1: Create a housing task force.

The FNSB in partnership with City of North Pole, City of Fairbanks, the Fairbanks Economic Development (FEDC) Corporation, the Interior Area Building Association (IABA) should create a Housing Task Force to monitor the housing situation in the region and help implement recommended strategies to improve housing opportunities for the F-35 personnel and for the broader Fairbanks community. This group should include bankers, investors, developers, policymakers and professionals involved in housing market analysis and/or design.

Two initiatives the Task Force could take on include:

- Provide an appraisal workshop and working with HUD to do a workshop that showcases relative loan guarantee programs. The Task Force could collaborate with AHFC to hold an appraisal workshop to include developers, AHFC appraisers, and local appraisers to share ideas on how to integrate and utilize the various appraisal techniques, including the income approach for projects that are newer to the market.
- The HUD Alaska Field Office has offered to help host a video conference with project developers and other HUD offices from outside of Alaska to share specific examples of how certain HUD programs work. Specifically, the HUD 184 loan guarantee and the HUD 221 D4 loan program (see Strategy #6) are options that could help with housing development to meet growing demand. A seminar that focuses on specific project examples that have used these funding options could help developers and financiers understand how to apply these programs in Fairbanks.

Housing Task Force Example

In Anchorage, the Anchorage Economic Development Corporation sponsors the Live Work Play initiative with housing as one of several focus areas. Led by Cook Inlet Housing Authority and DOWL Engineers, this housing group meets monthly to review land use policies and advocates for housing initiatives that support the development of a range of housing options. Recent successes include passing a unit lot subdivision ordinance, developing a workshop series to explain housing feasibility to planners, and showcasing small housing product types throughout Anchorage. This model is one example of the type of housing task force that could guide housing policy in the FNSB.





Photo by Agnew::Beck

H2: Allow the market to absorb available rentals.

Assuming housing production remains at the same level as in the past four years borough-wide, there is no immediate crisis for housing over the next five years. Allowing the market to produce more housing, reduce overall rental vacancies, and improve the investment climate, is critical to ensuring that an over-supply of housing is not produced and sound real estate development decisions proceed.

H3: Monitor the market's response.

Allow for a local market response to housing demand while monitoring the need for a larger scale military-focused housing project to serve new Air Force personnel. Given the Air Force's current preference not to partner in a larger scale privatized housing project, and the borough-wide housing surplus that is forecasted during the F-35 personnel timeline, it appears that allowing the market to develop housing in a more incremental way will be sufficient. However, the FNSB community and the Air Force should continue communications and monitor the market's response to housing. Should the Air Force evolve their thinking to prefer a larger scale housing project focused on military personnel, and if partnership opportunities are available, this could occur closer to 2020 or 2021 when most F-35 personnel arrive.

SB 100

The 2017 Alaska State legislature amended Alaska Statute 29.45.050(m) to allow more flexibility in the way property tax exemptions and deferrals for economic development are implemented by local jurisdictions. Key changes are:

Allows the jurisdiction to choose the term of the tax exemption or deferral; previously the maximum was 5 years.

Allows for a menu of options to justify the use of the exemptions or deferral. Previously, the third bullet was not available and all listed criteria had to be met. SB 100 allows for one or more of the following to justify the exemption or deferral:

- Property not previously taxed, or
- Business that creates employment, generates sales outside of the community, or reduces the importation of goods and services, or
- Enables significant capital investment in physical infrastructure that expands the tax base and will generate property tax revenue after the exemption expires, or
- Has not been used in the same trade or business in another municipality for at least six months before the application

H4: Work toward a mix of housing types.

A mix of housing types offers a range of housing options for military personnel who appear to prefer single family detached homes but are also accustomed to attached housing product and apartment living. No single housing type is the only solution for Air Force personnel.

FNSB Current Property Tax Incentives

Chapter 8 of the FNSB code allows for two types of property tax exemptions most applicable to new housing development, as well as a shorter list of optional exemptions that could help project feasibility and/or military personnel and their families.

Economic development. The economic development option was amended in early 2017 to limit the exemption to two years and allows taxes to be exempted while the project is being constructed. Since the ordinance re-write, only one application has been requested and no applications have been submitted.

Deteriorated area. This option requires the property be designated as deteriorated or be within a district that is designated as deteriorated. The Fairview Manor Apartment complex on Airport Road may be the only project approved for the deteriorated property exemption. The 60+ year old improvements were torn down, and redeveloped with a Low-Income Housing Tax Credit and a senior housing component.

Other. Buildings on the national Register of Historic Places that are owned by a non-profit; Property owned as the permanent resident by a widow or widower of a member of the armed services injured serving on active duty; increased valuation from that results from a new renewable energy system; increased assessed value of improvements that enhance the exterior appearance or aesthetic quality of the structure.

Source: FNSB code and Assessor

H5: Develop a targeted tax exemption program.

Property tax incentives are a typical mechanism to encourage the type and location of housing within a community. Land use regulations are also an option. Minimum densities and requiring inclusionary zoning (20 percent of a subdivision must be affordable) are examples of land use regulations that guide housing policy. Land use regulations can be effective in areas with strong market demand for housing, where developers can still maintain market returns while providing housing that is less financially viable. However, in the Fairbanks region, economic growth is not expected absent the F-35s and housing feasibility, particularly for the limited multi-family rental product. As a result, the FNSB in coordination with a newly formed Housing Task Force, should consider a new tax exemption policy according to the following steps and guiding principles.

Test Feasibility with a Real Estate Pro Forma

Develop a set of real estate pro formas for several housing prototypes as part of the Badger/Salcha small area plan. The housing prototypes should include multi-family rental (approx. 30 units), duplex units, single family detached, and townhouse product. Variations of rental and for-sale should be included. Working with local architects, contractors, and developers, the analysis should identify the financial feasibility of a range of housing types in the 99705 zip code and identify the specific financial feasibility issues by housing type. Only those housing products that demonstrate financial feasibility limitations should have access to property tax exemption.

Decide on the Location for Tax Exemption

Property tax exemption for a targeted housing product can help redevelop older apartment communities closer to Fairbanks or spur

redevelopment in downtown and bring more quality multifamily product to areas closer to North Pole. Areas with neighborhood plans or small areas plans that identify priority housing goals should be candidates for tax exemption consistent with demonstrated financial feasibility limitations. The Housing Task Force should work to identify specific areas to allow tax exemption based on community plans.

Develop a List of Outcomes to Result from Tax Exemptions

The tax exemption policy should identify the outcomes to be achieved in return for granting tax exemptions and/or deferrals. Examples are multi-family rental projects within 99705 to support the EAFB F-35 personnel, new mixed-income and mixed-use housing projects in and near downtown Fairbanks, redevelopment of older apartment communities to be more energy efficient, or other housing goals that support military personnel and the broader community goals.

Tie Housing Tax Incentives to Support New Air Force Personnel with Housing Goals throughout the FNSB

As described in the section under housing obstacles, the financial feasibility issues associated with multi-family rental and condominium housing is not limited to the housing for F-35 Air Force personnel. Redeveloping older properties throughout the FNSB, revitalizing parts of downtown Fairbanks with urban mixed-use housing, and providing opportunities for affordable housing that supports seniors and working families all benefit from improved financial feasibility. Incentives should be targeted to the housing products that have limited financial feasibility but allow for multiple community and Air Force goals to be realized.



Photo by Sherman Hogue

Incentivize Development sooner rather than later and place a timeline on the Borough's exposure.

The Borough and/or the communities could create a pool of tax exemptions that are available between now and 2021; first come first served. After 2021, the exemptions would retire. This encourages developers to move forward sooner to secure tax incentives while limiting the Borough and communities' exposure to an indefinite tax exemption program.

Protect the Current Tax Base

Whenever possible, create a tax exemption program that protects the current tax base by allowing tax exemption on only the increment (or new development) portion of the project. It is reasonable for a developer to receive tax exemption on new construction while still paying taxes on the land and any existing developments in the new development area. Creating a policy that limits the use of 100 percent tax exemption avoids the situation where the tax base decreases and tax revenues decline due to reduced taxes on certain properties.

Limit the Term of Tax Exemption

Recently adopted SB 100 at the State level opened the time limit allowed for tax exemption for economic development to be at the discretion of the local jurisdiction; previously, the term was

restricted to five years. A ten-year period (20 years maximum depending on loan term) is a reasonable time frame for tax exemption to ensure the community receives the benefit of additional taxes during the foreseeable future.

Create a Simple Application Process

The Borough's current tax exemption application is very simple but the scope of the exemption opportunity is narrow and very little interest has been shown so far. With a revamped tax exemption program that requires demonstrated financial feasibility issues for eligibility, a new process is needed. One option is to require the developer submit a real estate pro forma using a standard template. This type of process can be cumbersome for the applicant and difficult to review. Another option is to use market and financial feasibility studies of overall housing prototypes to justify the location and type of tax exemption allowed. When a developer brings a project forward that meets the defined outcomes, he or she is eligible for the tax exemption at the approval of the Assembly. Projects that fall outside of defined outcomes or policies could still petition for consideration using a real estate pro forma application process.



Photo by Agnew::Beck

H6: Create new sources of capital and fully maximize existing opportunities.

Tax exemptions and deferrals are available to support specific projects and within specific locations; however, this tool is often not sufficient to improve the financial viability of certain housing types. For example, property tax exemptions can improve the net operating income for a project during a set period, and this can improve the return on cost. However, it does not necessarily change the outcome of the bank's underwriting process and gaps in project financing continue. The following describes new and existing financing tools to support new housing development.

Create Mezzanine Financing Fund

As described previously, for multifamily rental housing, capitalization rates and the appraisal process often lead to banks lending at closer to 50 percent of total development costs, leaving the remaining amount to come from equity (as opposed to a more reasonable 20 to 25 percent equity share). A mezzanine fund could finance the project in an amount that bridges the bank loan and the equity share. This fund would need to be subordinated to the bank and interest rates should be less than bank rates to improve feasibility. Potential sources of funds could be bond funds issued by communities within the FNSB and the Borough itself, Alaska Native Corporations, individual investors, and other public and private entities. The State of Alaska through AHFC and Alaska Industrial Development and Export Authority (AIDEA) may not be able to offer their existing loan products and help capitalize a mezzanine fund, but this should be researched further to determine whether portions of their treasury could be leant as mezzanine financing. The potential gap financing provided by a mezzanine fund could support housing projects throughout the

FNSB in addition to housing for F-35 personnel. Additionally, other communities throughout Alaska face similar financing issues with multi-family rental projects; the creation of a mezzanine financing fund could have statewide benefit, starting and building from FNSB projects. To create a mezzanine fund, a feasibility study should be completed to identify potential sources of capital, and evaluate the viability of creating such a fund.

Develop a Local Private Equity Fund

Stakeholders indicate investors in the Fairbanks area would like the opportunity to invest in real estate projects. The creation of a local private equity fund could provide a more transparent process to match developers to potential investors. A financial advisor or non-profit organization could manage the fund and evaluate applications on behalf of a Board of Directors according to return requirements. Specifically, the equity portion of the construction loan offers specific opportunities for new investment needed to improve project viability. A local private equity fund would also benefit from a feasibility study to better evaluate entities and individuals willing to contribute and identify the type of organization that could manage it.

Continue Utilizing AHFC Multi-Family Loans & Appraisal Process

AHFC is unlikely to finance a large-scale housing project focused entirely on military personnel in the Fairbanks area without an Air Force partnership or base closure guarantee; their existing loan products offer financing options for permanent financing for smaller housing projects

and they do not provide construction financing. Additionally, AHFC works with developers to create situations where the appraisal process does not unduly impact the project financing in a negative way. For example, AHFC can solicit appraisals to support the provision of the permanent financing for up to 80 percent of the total development costs, which often corresponds to 100 percent of the construction cost. The banks still require 20 percent equity on the construction loan but the permanent (or takeout financing) can be provided by AHFC. Other banks in the region can offer similar permanent financing options but might be more reluctant until rental vacancies decrease.

Engage AIDEA to Assist with Infrastructure Financing

AIDEA is a public corporation of the State of Alaska, created in 1967 by the Alaska Legislature “in the interests of promoting the health, security, and general welfare of all the people of the state, and a public purpose, to increase job opportunities and otherwise to encourage the economic growth of the state, including the development of its natural resources, through the establishment and expansion of manufacturing, industrial, energy, export, small business, and business enterprises...” AIDEA manages eight programs: loan participation, project development, infrastructure development, energy development, conduit revenue, bonds, new market tax credits, business loans, and business and export assistance. AIDEA can help finance mixed use projects that have a housing component; their focus is on financing and supporting economic development, commercial projects, as well as energy related projects. At the December 6, 2017

Housing Strategy Session, AIDEA provided insight into how the conduit revenue bonds and infrastructure financing programs could support the needed infrastructure for new housing in the North Pole / 99705 zip code. This could include pooled bond financing to help extend water and sewer throughout the Greater North Pole area, thereby improving opportunities for multi-family housing.

Research and Consider a HUD 221 D4 Loan

This loan product is used by developers outside of Alaska, but has not been used much, or at all in Alaska.¹⁸ The program is a loan guarantee from Housing and Urban Development (HUD) to insure the lender against any loss on defaults and takes the risk out of the lender's court. The program allows for a 40-year fixed rate fully amortized loan (interest rates between 4.1 and 4.75 percent currently) with more favorable debt sizing structure. The downside - there is considerable paperwork and it takes time to go through the process to secure approval from HUD. However, for some multi-family housing projects, it makes sense for developers to work with AHFC, HUD, and the local banks and to consider the use of this lending opportunity. The Borough, communities, and other partners could find a

¹⁸ Personal communications with AHFC, September 2017.



Photo by Sherman Hogue

technical assistance program to assist developers in the application process for the 221 D4 program. More information on the HUD 221 D4 loan is available at <https://www.hud.loans/pha-221d4/>.

Engage the Interior Regional Housing Authority (IRHA) to Deploy the HUD 184 Program to Increase Rental Product

The IRHA is the tribally designated housing entity (TDHE) for the Doyon region. With a mission to provide housing opportunities and support self-sufficiency through housing, the IRHA builds housing in many communities through Interior Alaska with a focus on serving Alaska Native households. They have access to specific funding sources, such as the Indian Housing Block Grant that provides necessary funding for housing for Alaska Native households at or below 80 percent of median income. The IRHA may want to consider opportunities to expand their housing development and rental portfolio to diversify their revenue stream and enhance the organization's sustainability through more unrestricted revenue. One way to do this is to develop rental housing product for F-35 families. The HUD 184 is a loan guarantee by HUD that backstops a mortgage loan in the event revenues fall short. HUD 184 is often used by Alaska Native / American Indian households to secure a mortgage for home ownership. However, TDHEs are eligible entities for a HUD 184; proceeds can be used to acquire, rehabilitate, construct, or refinance housing as long as it is single family (1 to 4 units). Because of the loan guarantee, interest rates are more favorable and the down payment requirement is only two percent. When a TDHE utilizes a HUD 184, the housing can be rented to anyone regardless of income and occupants are not limited to Alaska Native persons. Within the North Pole/99705 area, IRHA could consider developing duplexes, triplexes, and fourplexes using a HUD 184 loan and renting them to help meet housing demand. These projects may

also help IRHA realize additional discretionary income to build housing in other parts of their region.

Explore the Possibility of Tax Increment Financing (TIF)

TIF is a widely used public financing tool across the United States to support redevelopment, housing and economic development; it is not currently used in Alaska. Why? There appears to be lack of knowledge about how to use the tool, concerns about voter approval of bonds supported by TIF, and other issues. A TIF district allows the base year assessed value to freeze and the tax revenue derived from the increase in the incremental assessed value to accrue to the redevelopment agency so they can invest in housing and economic development projects. Bonds can be issued against the tax increment providing for a new revenue source for project financing. In 2016, Cook Inlet Housing Authority in partnership with the Municipality of Anchorage requested a legal review of State statute to understand whether TIF could be implemented. The Attorney General determined that local communities should determine the legality of TIF. A summary of a TIF district is provided in Appendix C.



Photo by Sherman Hague

H7: Utilize military facility zones as appropriate.

In 2012, the State of Alaska approved HB 316 that allowed military facility zones (MFZ) in the state with a focus on housing development. The enabling legislation specifically identifies that projects may be financed by the Alaska Industrial Development and Export Authority (AIDEA) as well as priority funding from the Department of Military and Veteran Affairs and from other state programs. However, no new resulting financing programs or funding sources have been created to support housing development within MFZs.

¹⁹ In 2014, HB 223 authorized municipalities to exempt or partially exempt property taxes for up to 10 years in a military facility zone that creates or supports industry, development or educational or training opportunities. This is a variation on the tax exemption opportunities provided through SB 100 and described previously. In September 2017, the North Pole City Council approved Resolution 17-16 directing the City's Director of City Services to apply to the State of Alaska for military facility zone designation for all of the North Pole City limits. The use of the Military Facility Zone (MFZ) helps to bracket the location where additional local tax incentives could be made available, or other newly developed financing options. However, it does not appear to provide any additional financing options that are not already available outside of a MFZ. Tied with other incentives and/or plans, the MFZ is a helpful tool to identify the location for housing investment within the FNSB to support EAFB expansion.

¹⁹ Communications with State of Alaska Department of Military and Veteran Affairs, September 2017

H8: Improve land use planning in 99705.

A final strategy for housing development that supports the EAFB expansion and the FNSB communities is to improve land use planning and infrastructure development in the 99705 zip code. Through the Salcha-Badger Road subarea plan, land use policies and incentives can be tested and recommended for implementation. A critical part of the land use planning is to clearly communicate

the plans for water and sewer expansion, and identify land and development patterns to align with access to infrastructure. This planning effort can test various policies and incentives for developing a range of housing types to serve the fastest growing area in the FNSB (with and without the F-35 Beddown).



Photo credit: Lymburner Realty