Report

Downtown Billings Housing Strategy

The Economics of Land Use

Prepared for:

Downtown Billings Urban Renewal District
East Billings Industrial Revitalization District

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1 INTRODUCTION AND SUMMARY OF FINDINGS

INTRODUCTION

This housing market study was prepared by Economic & Planning Systems (EPS) and Sanderson Stewart (subconsultant) for the Downtown Billings Association (DBA) and the East Billings Industrial Revitalization District (EBIRD). The purpose of this report is to:

- Document the economic and demographic conditions that create opportunities for housing development;
- Evaluate housing market conditions in the DBA and the East Billings Urban Renewal District (EBURD), and compare those conditions to the City overall;
- Determine opportunities for housing development in the DBA and the EBURD, including target demographics, housing preferences, and development strategies;
- Recommend a development approach to increase the housing stock in the DBA and the EBURD, particularly housing affordable to the local workforce.

Increasing housing in a downtown can increase the vibrancy and safety of the area. Adding local residents also supports downtown businesses – particularly locally-oriented retail and food and drink establishments. Workforce housing in particular is an important strategy for Billings. With over 13,000 jobs Downtown in a wide range of wage and skill levels, creating housing options close to employment that are affordable will improve quality of life for the workforce and improve the ability of employers to attract and retain workers.

Housing is also an important component of a vibrant full service Downtown, and strong downtowns are important to economic development because of the identity they create and the increased synergies between businesses who can locate close to each other in a downtown mixed use environment. This type of built environment is particularly desired by skilled workers and the firms that compete to attract them.

Downtown Billings currently has little housing and increasing the housing inventory in this area is a priority for the DBA, the EBIRD, and the City. Workforce housing is of particular interest, defined as housing affordable to households earning between 80 and 120 percent of the Area Median Income (AMI) which in Billings is an annual household income of $43,000 to $65,000. This report presents a strategy to increase housing development, including workforce and affordable housing, in the Downtown area.

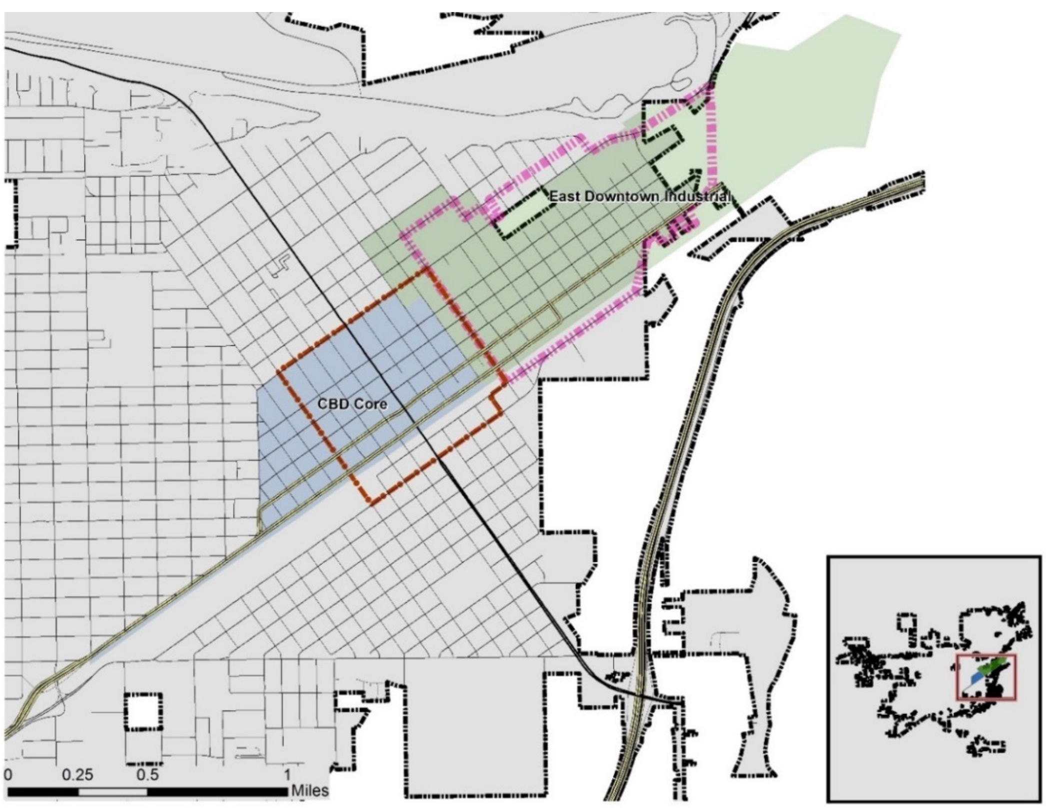
This report includes a market study with a review of market, economic, and demographic trends, results of a downtown housing survey conducted among area employees, and recommendations for a housing development strategy for the Downtown area, including opportunity sites, financial feasibility estimates, and site massing examples.

STUDY AREA

This study focuses on the Downtown area of Billings, specifically the areas within the DBA and EBURD boundaries (**Figure 1**). While this area is a center for jobs in the City—with about 20 percent of all jobs in Billings located in the Central Business District (CBD)—it does not currently have a concentration of housing. The DBA and EBURD areas have fewer than 1,000 resident households – about 2 percent of the City's population.

Land use and zoning in the area is varied, with industrial uses in the eastern part of the EBURD to the Central Business District within the DBA. The study area also has portions zoned for commercial and residential uses, as well as the Railspur Village and Central Works designations within the EBURD.

Figure 1 Study Areas



REPORT ORGANIZATION

This report is divided into six chapters, outlined below.

- Chapter 1 – Contains the Summary of Findings and Recommendations.
- Chapter 2 – Summarizes National Housing Trends that affect development in Billings.
- Chapter 3 – Provides the Market Context for Billings and the Downtown area, including an economic and demographic framework outlining existing conditions and trends.
- Chapter 4 – Evaluates Housing Market Conditions for both for-sale and rental housing, looking specifically at opportunities in the Downtown market and for workforce housing.
- Chapter 5 – Summarizes results of a Downtown Employee Housing Survey, which gathered information from over 700 area employees on housing preferences and interest in living Downtown.
- Chapter 6 – Outlines development strategies and opportunities for Downtown housing development, including project concepts and an analysis of development feasibility.

SUMMARY OF FINDINGS

This Summary of Findings identifies the key points and considerations identified in the analysis of economic and demographic trends, the real estate market, and the housing market. These findings provide important input into the development strategies to be considered, including the types of housing, target markets, and development sites to be prioritized, which are then summarized.

Market Conditions

1. ***Billings has stable rates of population and job growth and low unemployment, which supports a stable housing market.***

   The population of Billings is currently 112,000. From 2000 through 2016 Billings added almost 20,000 new residents, growing at 1.2 percent annually. Yellowstone County as a whole added more than 30,000 residents over this time period, an average population growth of 1,900 people per year (1.3 percent annual growth).

   The current unemployment rate in Yellowstone County is 3.6 percent, 1.3 points below the national rate of 4.9 percent. In addition to low unemployment, employment in the region is growing at 1.4 percent per year. From 2000 to 2016 the largest growth sectors, in terms of total jobs, were Retail, Leisure, and Hospitality, which added 5,600 jobs (35 percent of new jobs countywide); Education and Health Services, adding 4,800 jobs (30 percent of new jobs); and Construction, which added 1,900 jobs (12 percent of new jobs).

2. ***Much of the job growth in Billings is at low and low-middle wages which creates demand and need for a wider array of housing options.***

   While regional employment is growing, most of this growth is taking place in low-wage sectors. From 2011 to 2016, 53 percent of employment growth was in Retail, Leisure, and Hospitality. This is the lowest-wage sector in the area, with average annual wages of just over $24,000, or an hourly wage of $11.72 per hour. Another 25 percent of employment growth took place in Education and Health Services, which has an average annual wage of close to $53,000, or $25.47 per hour.

3. ***While the City overall is growing, the Downtown area is estimated to have lost population since 2010.***

   Both the CBD and East Downtown areas had small population growth from 2000 to 2010; however since 2010 both areas have decreased in population. By 2015 the CBD lost almost 17 percent of its 2010 population, while the East Downtown area population declined by nearly 23 percent. To make Downtown a more vibrant place as the center of Billings, additional housing is needed to grow the Downtown population.

4. ***Demographics and housing types in Downtown Billings are typical of other downtowns and densely developed urban cores.***

   The population in the Downtown area is younger than the City overall; approximately 30 percent of Downtown residents are aged 18 to 34, compared to 24 percent citywide. There is also a higher concentration of middle-aged residents, aged 35 to 54 – 40 to 50 percent of the Downtown population, and just 31 percent citywide. About 10 percent or less of Downtown residents are children and young adults under age 18, while this age group makes up 23 percent of the City population.

   Downtown also has a higher concentration of single-person households (76 percent in the Central Business District, compared to 33 percent in the City) and a much lower population of households with children (6 percent of households in the CBD, compared to 30 percent citywide). There is also a much higher concentration of renter-occupied housing units in this area than in the City, with 96 percent of housing units in the Downtown area being rented, compared to just 37 percent across the City.

5. ***The number of renter households in Billings increased by about 2,500 over the past six years. Rental housing is expected to be a large share of the market going forward, creating an opportunity for Downtown to capture more of this demand.***

   Between 2010 and 2016 Billings grew by 2,500 renter households, following a national trend towards more rental housing. Over this same time period, however, only 1,350 new apartment units have been built. This indicates that nearly 50 percent of renters are moving into single family homes or other existing rental properties. This market shift presents development opportunities, particularly for an area such as Downtown where rental housing naturally fits into the existing market and development context.

6. ***Market rate housing built by private developers can be priced in ranges affordable as workforce housing—housing that is affordable to households earning between 80 and 120 percent of Area Median Income (AMI).***

   Rental housing in Billings built in 2010 or later averages rent of $1,026 per unit, which is affordable to households earning $43,000 (80 percent of AMI) or more. Of newer home sales (homes built since 2010), 46 percent were affordable to households earning up to $65,000 (120 percent of AMI).

   A household earning 80 percent of AMI can afford a $156,400 home, while a household earning 100 percent of AMI can afford a $202,900 home. Many home sales in the Downtown area in 2016 and the first part of 2017 were affordable to this population, with sale prices averaging $186,200.

   These figures indicate that private development can likely develop housing—particularly rental housing—affordable to the local workforce in the Downtown area.

7. ***While Downtown has a small inventory of housing, recently developed and renovated rental properties in the area are fully occupied and re-lease quickly when tenants move.***

   The Downtown apartment inventory, on average, has lower vacancy rates than the City overall. Since 2008, Downtown vacancy has ranged from 5 to 7 percent, reflective of a healthy – if somewhat constrained – rental market. Downtown units are typically a bit smaller than new apartments resulting in higher per square foot rents, but lower overall monthly rents than the citywide average. Interviews with developers indicate that all properties are fully occupied, and when Downtown rental units become available, re-leasing happens very quickly.

Housing Preferences

8. ***The U.S. housing market is changing due to lingering impacts of the Great Recession and financial crisis.***

   The Great Recession had a lasting impact on the housing market. These impacts included a 40 percent reduction in middle class net worth, primarily due to significant decreases in home values, and a tightening in the lending market, which eliminated many first time home buyers. Following these trends, builders built less entry-level priced housing which shrank or eliminated their move-up market. These impacts are still being felt. The most visible effect has been the increase in apartment and other rental housing construction across the United States.

   One major characteristic of many cities' housing markets is the "Missing Middle" – a decline in both middle density and middle priced homes. As builders focus on more profitable move-up and luxury price points, this piece of the housing market has received less attention from builders and developers.

9. ***The housing and lifestyle preferences of the Millennial and Baby Boom generations are a major influence on the housing market nationally.***

   Housing preferences are changing as broad demographic shifts occur at the national and local levels, increasing demand for compact walkable communities close to services and shopping. For the retiring Baby Boom generation born between 1946 and 1964, lifestyle is an important factor in housing choice. This group seeks convenience, locations conducive to health and activity, low-maintenance housing, and communities where they can stay engaged. Younger Millennials born between approximately 1980 and 2000 seek convenience, a sense of community, diversity, opportunity for work-life balance, and proximity to work. There is decreasing demand for large-lot single family housing, alongside increasing demand for smaller lot single family, as well as townhomes and multifamily. Renting is becoming more appealing to many households, and some of these households will look for high quality rental options.

   Billings has a higher concentration of residents aged 25 to 29 and 55 to 59 than the U.S. overall, and so these national demographic trends are also likely to affect the Billings market.

10. In a survey of Downtown employees to determine their housing needs and preferences, 50 percent expressed interest in living Downtown.

The survey asked respondents "Would you be interested in living downtown if suitable housing was available?" Half of respondents expressed interest in living in the area if the right kind of housing was available. Eleven percent are interested immediately, 13 percent are interested in the next five years, and 11 percent are interested in the next 10 years. An additional 15 percent of respondents indicated a possible interest in living Downtown.

11. Based on survey results, short-term demand for Downtown housing is more likely to be for rental units, while over the longer term (5 to 10 years) there is the potential for more demand for ownership housing.

Based on respondents who expressed an interest in living Downtown, some preliminary development potentials for Downtown housing can be determined. Eighty respondents indicated an immediate interest in living Downtown; of these 80 respondents, 71 percent currently rent their homes. If these people are not looking to move to homeownership, this indicates that the immediate demand for housing in the Downtown area is likely to be strongest for rental.

Nearly 100 respondents indicated an interest in moving Downtown in the next five years. In contrast to those interested in moving immediately, those expressing an interest in moving in the next five years are 63 percent owners. This provides an indication of the longer-term development opportunities for ownership housing in the Downtown area. Another 83 respondents indicated an interest in the Downtown area in the next 10 years; these were almost 100 percent owners.

These numbers only reflect the demand indicated by Downtown area workers through this survey. Given that Downtown workers live throughout Billings, their preferences are likely reflective of the larger City population. While it cannot be quantified based on this survey, if this interest is extrapolated to the larger City population there is likely to be more demand.

Downtown Development Potentials and Strategies

12. Attracting more housing to Downtown will require actions, investments, and partnerships with the Downtown Billings Association, the East Billings Industrial Revitalization District, the City of Billings, and private-sector partners.

A theme in survey responses and open ended comments was a perception that Downtown is not currently a safe and appealing place to live. The EBURD especially was not identified as a desirable housing location. The City, DBA, and EBIRD need to continue improving the look and feel of Downtown through investments such as streetscaping, lighting, architecture and design, bicycle and pedestrian access, and potentially increased police or security personnel.

While needed in the community, the presence of several social service providers in Downtown may contribute to perception of a lack of safety. Part of this perception however could be due to the fact that there is a small downtown population, so people in need and the homeless comprise a larger percentage of the downtown population than in cities with more downtown housing.

Another key amenity for Downtown is an improved or new grocery store or smaller market. Being able to purchase quality food close to home is important, and has been a driver for downtown housing development in other cities.

13. Downtown can accommodate a diversity of housing types.

The CBD is most appropriate for the highest density developments, while the EBURD can accommodate a range of housing types and densities depending on the individual site. Single family homes are the largest part of the market in Billings and represent significant competition for mid- and upper-priced downtown housing. In the short term, Downtown’s target market will be for higher density, smaller units, and moderately priced homes.

14. A recommended housing goal for the Downtown area, including the DBA and EBURD, is 200 to 400 new housing units over the next 10 years. This goal is based on capturing 10 to 20 percent of the Billings multifamily and attached housing market. The recommended short term (five years) strategy is for moderately priced rental housing, with a goal of developing for-sale housing in 5 to 10 years.

On average, there were approximately 700 housing units built annually from 2010 through 2016 in the City of Billings including 200 multifamily dwellings per year. Assuming this trend continues, the market will add 2,000 multifamily dwellings over the next 10 years. Downtown has no track record of a significant amount of recent housing production; there is no ‘hard data’ on which to forecast future construction in Downtown. We recommend a goal of capturing 10 to 20 percent of the attached and multifamily market, which equates to 200 to 400 units over the next 10 years. To start building momentum, an initial target of 50 to 100 units of new housing should be the short term goal.

Billings Housing Production, 2010-2016				
Single Family			500	*units/yr.*
Multifamily			200	*units/yr.*
Total Market			700	
10 Year Projection				
Single Family			5,000	*units*
Multifamily			2,000	*units*
Total			7,000	*units*
Dowtown Area Market Share - 10 Years	Capture Rate			
Low - Multifamily/Attached Housing	10%	200		*units*
High - Multifamily/Attached Housing	20%	400		*units*

Next 5 Years

Initially, focus on rental housing but support any proposals for for-sale housing. Rental housing will appeal to younger households that are more mobile and interested in new living experiences compared to what is offered in Billings today. Survey responses also indicate initial interest in competitively priced rental housing. We recommend starting with a small rental development that can be phased according to market demand. The risk of starting with a large development (100 or more units) is that if it is not successful, it may deter further investment and cast a negative outlook on opportunities in the Downtown area.

5 to 10 Years

As Downtown housing becomes more established and proven, ownership housing is recommended to be added. Survey responses indicate interest in downsized ownership housing in 5 to 10 years, as people age and their children move out. This is not to suggest that ownership housing be ignored for the next five years; there are innovative development proposals (e.g. cottage homes) that can currently be built at prices affordable to households earning 80 to 120 percent of AMI. In future years, higher priced more luxury product could be introduced.

Focus Areas

The recommended focus area is initially the transition area between the CBD (DBA TIF area) and the EBURD:

- The eastern end of Montana Avenue from about 24th to 20th;
- 22nd and 23rd Streets from 1st to 4th; and
- The Salvation Army property and surrounding area along 6th Avenue between 20th and 22nd.

The recommended focus areas are in the transition area between the DBA and EBURD TIF areas. Montana Avenue is a strong street with quality development and daily and nightly resident and business activity. Carrying this momentum further east is a natural initial strategy. The area from about 20^{th} to 23^{rd} is still within walking distance of the Downtown core which has the largest concentration of jobs, restaurants, and retail. Also, there is some existing residential context in this area which could complement new development.

Figure 2 Initial Housing Focus Areas

15. Three housing concepts were tested for feasibility– standard apartments, walk up apartments, and townhomes. The feasibility analysis indicates that the standard apartments and walk up apartments are currently feasible, while a for-sale townhome product may require a stronger housing market before development can move forward.

To test the feasibility of the development types indicated as desirable by the market survey, three concept plans were created. These concepts place three different building types on a typical Billings lot to show how these building types could lay out on a Billings lot, as well as to determine what level of density could be achieved, as density or site yield is a major driver of financial feasibility. EPS prepared a static development pro forma for each concept, providing a summary level project snapshot.

In comparing the value of a project's revenue stream to its cost, the development feasibility can be estimated. Development costs and key market and financial factors such as supportable market rents, vacancy rates, and operating expenses were estimated based on market research and developer interviews in order to value the income streams from the project prototypes. These estimates are summarized in the table below.

Assumptions	Townhomes	Stacked Flat	Apartments
Site Size	10,500 Sq. Ft.	14,000 Sq. Ft.	39,000 Sq. Ft.
Units	3	18	42
Units per Acre	12.4	56.0	46.9
Sale Price or Rent per Sq. Ft.	$216,000	$1.45	$1.50
Monthly Rent	N/A	$1,051	$900
Income Capitalization Rate	N/A	7.0%	7.0%
Land Cost	$8.00/SqFt	$8.00/SqFt	$8.00/SqFt
Project Cost	$698,855	$2,230,312	$4,401,638
Per Unit	$232,952	$123,906	$104,801
Hard Cost per Sq. Ft.	$115/SqFt	$105/SqFt	$105/SqFt
Project Value	$648,000	$2,270,700	$4,536,000
Per Unit	$216,000	$126,150	$108,000
Developer Profit or Return on Cost	-$50,855	7.1%	7.2%

H:\173026-Billings MT Workforce Housing Needs Assessment\Models\[173026- Proforma 12-20-17.xlsx]Summary

Overall, the standard apartments and walk up apartments are feasible under current market conditions and generate roughly a 7 percent return on cost (net operating income divided by project costs). These concepts are estimated to generate modest financial returns. Creative design and innovative construction techniques could create more efficiencies to reduce per unit development costs and increase per unit revenues. The townhome concept however is not feasible as tested. The estimated supportable market value of $216,000 per unit is not high enough to generate a profit on land and construction costs. Other types of for-sale development may be feasible, as other developers have been able to execute for-sale loft conversions in Downtown.

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2 NATIONAL HOUSING TRENDS

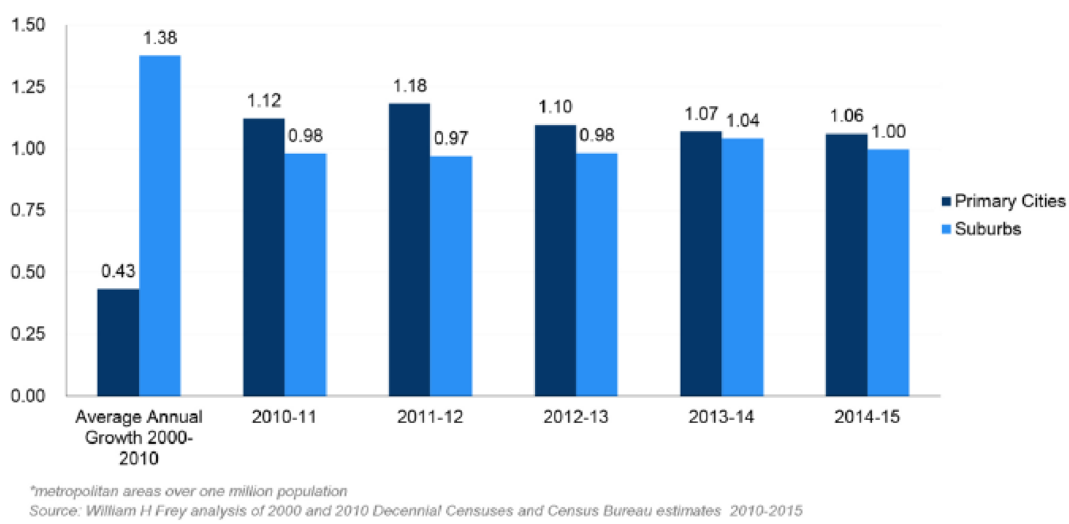
NATIONAL HOUSING PREFERENCES

Housing preferences are changing as broad demographic shifts occur at the national and local levels, increasing demand for compact walkable communities close to services and shopping. Two major shifts have occurred recently – cities grew faster than suburbs, and household growth was fastest for the Baby Boom and Millennial generations who have distinct preferences for walkable, urban locations.

Prior to 2010, suburbs in the United States grew faster than core cities. From 2010 to 2015, however, this trend reversed and cities outpaced suburbs in growth (**Figure 3**). Core cities have also been growing faster than previous decades. Between 2010 and 2015, the annual growth rates of cities with over one million people were double the average annual rate between 2000 and 2010.

This trend is now shifting again – according to the latest Census estimates, between 2015 and 2016 suburbs grew faster than cities for the first time since 2010. While both cities and suburbs experienced slower growth rates over this time, this shift reflects a larger decline in the growth rate of cities than suburbs. While this is only a one-year data point and does not necessarily reflect long-term trends, it may indicate a shift in preferences or ability to move, which will impact both urban and suburban areas.

Figure 3 City and Suburban Growth Trends, 2000-2015



Recent trends in housing preferences are also affecting the type of development that is occurring. The Urban Land Institute's national survey of views on housing, transportation, and community, "America in 2013," found that demand will continue to rise for infill residential development that is less car-dependent. Among the findings:

- 61 percent of respondents prefer a smaller home with a shorter commute over a larger home with a longer commute;
- 53 percent want to live close to shopping;
- 52 percent prefer to live in mixed-income housing; and
- 51 percent prefer access to public transportation.

A second survey, "America in 2015," found that just over half of all Americans, and 63 percent of Millennials, would like to live in a place where they do not need to use a car very often. The survey results also indicate a likely shift in demand toward denser single family housing types, such as townhomes and row houses.

In addition, the National Association of Realtors reports that:

- Cost is a major factor in housing choice, as 59 percent of buyers will make tradeoffs to stay in budget;
- Sense of place is also an increasingly important factor, with a majority of buyers preferring neighborhoods that have a mix of houses, shops, and businesses;
- Only 12 percent of buyers prefer traditional subdivisions with houses only; and
- Walkability and convenience are also critical factors; 59 percent of buyers prefer walkable neighborhoods over conventional suburban areas, and 59 percent would downsize for a commute time under 20 minutes.

GREAT RECESSION IMPACTS

The Great Recession had a lasting impact on the housing market. First, there was a 40 percent reduction in middle class net worth, primarily due to significant decreases in home values.[1] Second, lending tightened which eliminated many first time home buyers. Following these trends, builders built less entry-level priced housing which shrank or eliminated their move-up market. These impacts are still being felt. The most visible effect was the increase in apartment and other rental housing construction across the U.S.

One major characteristic of many cities' housing markets is the "Missing Middle" – a decline in both middle density and middle priced homes. As builders focus on more profitable move-up and luxury price points, this piece of the housing market has received less attention from builders and developers.

DEMOGRAPHIC SHIFTS

Two groups that are affecting, and will continue to affect, the housing market are Millennials (those born between approximately 1980 and 2000) and Baby Boomers (born between 1946 and 1964). For the retiring Baby Boom generation, lifestyle is an important factor in housing choice. This group seeks convenience, locations conducive to health and activity, low-maintenance housing, and communities where they can stay engaged. Younger Millennials, when making housing choices, seek convenience, a sense of community, diversity, opportunity for work-life balance, and proximity to work. One-third of this group will pay more for housing that is walkable to shops, work, and entertainment; two-thirds say living in a walkable community is very important to their location decision; and one-half say they would trade lot size for proximity to shopping or to work.

The preferences of Baby Boomers and Millennials, as the two largest demographic groups in the country, are shifting the housing market. There is greater demand for centrally located neighborhoods, as well as for rental housing. Convenience and access to amenities are key drivers of choice, and walkability commands a premium. The housing market is becoming increasingly segmented; while demand for detached single family homes remains strong, there is growing interest in smaller homes and attached housing, particularly if these models provide the ability to live in the "right place." More frequently people are willing to make trade-offs to find the best fit, and location and amenities are playing an increasing role in these choices.

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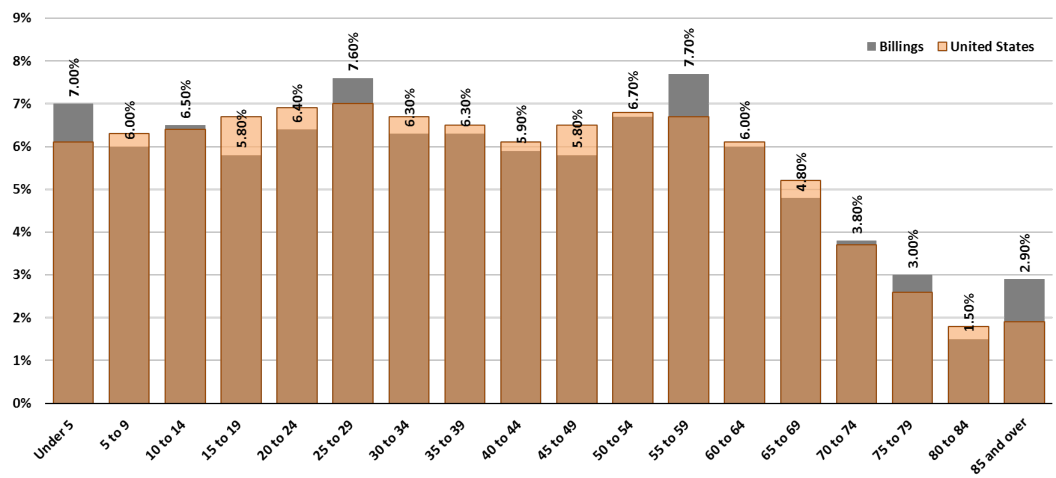
[1] *The Lost Decade of the Middle Class*. Pew Research Center, 2012.

There is decreasing demand for large-lot single family housing, alongside increasing demand for smaller lot single family, as well as townhomes and multifamily (although to a lesser extent). Renting is becoming more appealing to many households, and some of these households will demand high quality rental options. In general, the market will pay a premium for walkable/mixed-use locations with a sense of place and mobility options.

These national demographic trends are likely to affect the Billings market. Billings' age structure generally mirrors the U.S., although the City has a higher concentration of residents aged 25 to 29 and 55 to 59 than the U.S. overall (**Figure 4**).

Figure 4 2016 Population by Age, Billings and the United States



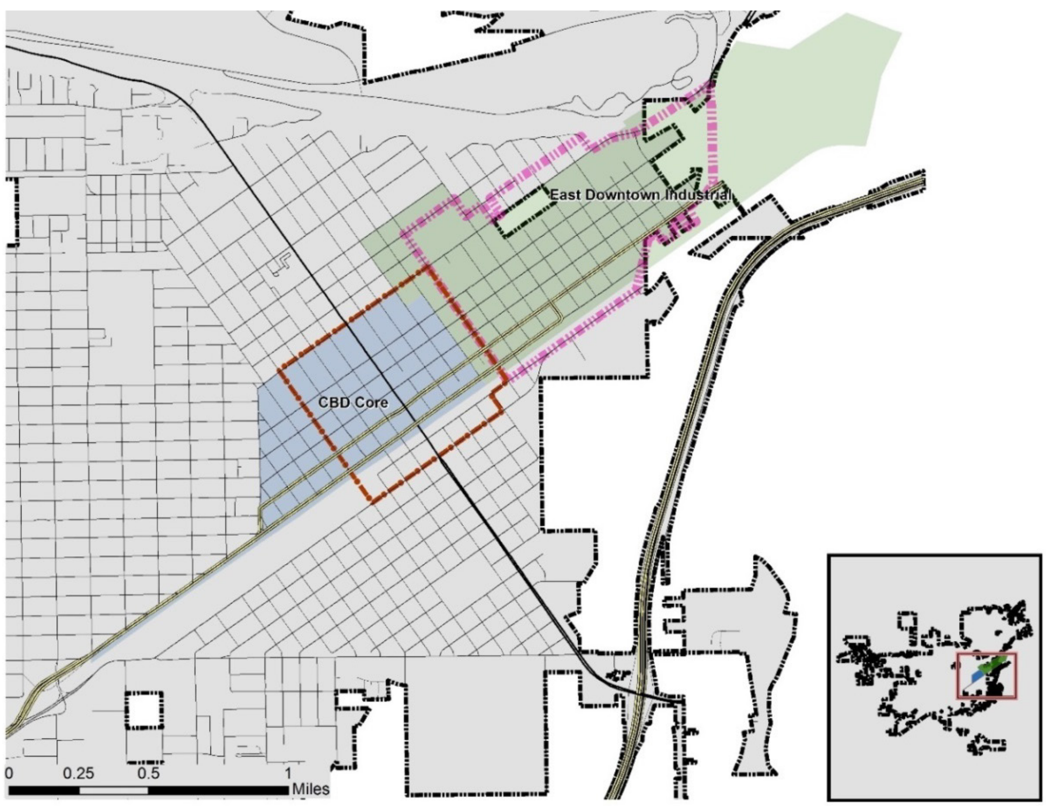
Source: US Census; Economic & Planning Systems

3 Billings Market Conditions

MARKET AREAS

To analyze demographics as they relate to Downtown housing demand, two market areas were defined for this study: Central Business District (CBD) Core, and East Downtown Industrial (**Figure 5**). These areas were defined based on Census Block Group boundaries, which encompass a slightly larger area than the exact boundaries of the DBA and the EBURD. Due to a change in Census boundaries between 2000 and 2010, some data is not available for the East Downtown Industrial area for 2000.

Figure 5 Market Areas



GROWTH TRENDS

Population and Households

The population of Billings is currently 112,000. From 2000 through 2016 Billings added almost 20,000 new residents, growing at 1.2 percent annually (**Table 1**). Lockwood grew at a similar rate, increasing by an average of 1.0 percent annually, while the unincorporated County grew at 2.0 percent per year. Laurel, Yellowstone County's only other incorporated city, grew at 0.8 percent annually adding a total of about 830 residents. Overall, Yellowstone County added more than 30,000 residents, an average of 1,900 people per year.

Table 1 Population and Household Trends, 2000-2016

				Change 2000 - 2016		
Description	**2000**	**2010**	**2016**	**Total**	**Ann. #**	**Ann. %**
Population						
Billings	92,550	104,103	112,035	19,485	1,218	1.2%
Lockwood	6,218	6,797	7,312	1,094	68	1.0%
Laurel	6,257	6,718	7,094	837	52	0.8%
Remainder of County	24,327	30,354	33,303	8,976	561	2.0%
Total Yellowstone County	**129,352**	**147,972**	**159,744**	**30,392**	**1,900**	**1.3%**
Households						
Billings	38,513	43,919	47,099	8,586	537	1.3%
Lockwood	2,223	2,566	2,745	522	33	1.3%
Laurel	2,533	2,790	2,949	416	26	1.0%
Remainder of County	8,815	11,397	12,451	3,636	227	2.2%
Total Yellowstone County	**52,084**	**60,672**	**65,244**	**13,160**	**823**	**1.4%**

Note: 2000 data is provided for 2010 Census geographies

Source: ESRI; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- City County Comparison Data - ESRI.xlsx]Table - Area Comparison

Housing

Parallel to population trends, Yellowstone County has seen consistent growth in housing units since 2000, with the area adding 14,000 housing units over that time, or 880 units per year. The unincorporated area of the County added an average of 250 units per year. Billings added close to 600 units per year from 2000 to 2016, a total of nearly 9,200 new housing units (**Table 2**).

Housing vacancy rates have remained stable across the County since 2000, ranging from between 3 and 4 percent vacancy in Lockwood to 5 percent in Billings, Laurel, and Countywide. Billings' current housing vacancy rate is 4.95 percent, which is representative of a stable (if slightly constrained) market with a healthy balance of supply and demand. This is only one metric, however, and does not show gaps or surpluses across different areas, in different price ranges, or between rental and for-sale housing.

Renters and Owners

While growth and vacancy rates have been stable, the characteristics of the area's housing have changed since 2000, with the share of owner-occupied housing units declining in all areas. Laurel saw the greatest increase in the share of housing units that are renter-occupied over this time, increasing from 24 percent in 2000 to 34 percent in 2016.

Billings had 34.5 percent renter households in 2010, a group that grew to 37.3 percent in 2016; this represents a growth of 2,500 renter households in the City. These trends are consistent with broader national trends of a shift towards renter-occupied housing, particularly in urban areas.

- Both the CBD and East Downtown market areas have a greater proportion of rental housing than the City overall. In 2016, the Billings area had 58 percent owner-occupied housing units and 37 percent renter-occupied.
- The CBD market area was 100 percent renter-occupied, while housing in the East Downtown area was 91 percent renter-occupied and 9 percent owner-occupied.

Table 2 Billings Region Housing Units, 2000–2016

Description	2000	2010	2016	Change 2000 - 2016 Total	Ann. #	Ann. %
Billings						
Housing Units	40,387	46,292	49,553	9,166	573	1.3%
Owner-Occupied	61.8%	60.4%	57.7%	-4.0%		
Renter-Occupied	33.6%	34.5%	37.3%	3.7%		
Vacant	4.6%	5.1%	5.0%	0.3%		
Lockwood						
Housing Units	2,311	2,651	2,836	525	33	1.3%
Owner-Occupied	81.1%	78.5%	77.1%	-4.0%		
Renter-Occupied	15.1%	18.3%	19.7%	4.6%		
Vacant	3.8%	3.2%	3.2%	-0.6%		
Laurel						
Housing Units	2,653	2,943	3,110	457	29	1.0%
Owner-Occupied	72.0%	64.5%	61.2%	-10.7%		
Renter-Occupied	23.5%	30.3%	33.6%	10.1%		
Vacant	4.5%	5.2%	5.2%	0.7%		
Unincorporated County						
Housing Units	9,212	12,057	13,147	3,935	246	2.2%
Owner-Occupied	79.2%	79.7%	76.4%	-2.8%		
Renter-Occupied	16.5%	14.8%	18.3%	1.8%		
Vacant	4.3%	5.5%	5.3%	1.0%		
Yellowstone County Total						
Housing Units	54,563	63,943	68,646	14,083	880	1.4%
Owner-Occupied	66.0%	64.9%	62.3%	-3.7%		
Renter-Occupied	29.4%	29.9%	32.8%	3.3%		
Vacant	4.5%	5.1%	5.0%	0.4%		

Note: 2000 data is provided for 2010 Census geographies

Source: ESRI; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- City County Comparison Data - ESRI.xlsx]Table - HU Comparison

DEMOGRAPHICS

The demographics of the Downtown area are quite different than the City of Billings overall; these differences may point to a portion of the target market for development in this area (**Table 3**). In general, in Downtown there are more renters (as a percentage), incomes are lower, there is a larger concentration of young people, there are more single-person households, and fewer households with children. These demographics are common for downtown areas; lower incomes may be an exception to this, however the presence of a large affordable housing development in the CBD affects the income statistics for the area.

Table 3 Market Area Demographic Comparisons

	Billings Market Area		Central Business District		East Downtown	
	2000	**2015**	**2000**	**2015**	**2000**	**2015**
Population	94,266	109,357	984	974	905	710
Households	39,174	44,596	561	508	516	430
With Children	31%	30%	8%	6%		13%
1-Person	31%	33%	76%	76%		58%
Housing Units						
Owner-Occupied	25,333	28,087	24	0	101	38
Renter-Occupied	13,841	16,509	537	508	415	392
Total	39,174	44,596	561	508	557	430

Source: ESRI; US Census; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Market Area Demographics Comparison Table.xlsx]Demographics Summary Table

Despite growth in the City overall, both the CBD and East Downtown areas declined in population and households from 2000 to 2015. There were almost 1,700 people living in these areas in 2015, a decline of 200 residents from the nearly 1,900 people residing there in 2000.

Age

The largest age group in the CBD is residents aged 18 to 34; this population comprises 34 percent of residents in the Downtown, compared to 24 percent of the citywide population (**Table 4**). This is common in downtown areas, where young residents live until they have children or otherwise require more space, and move to another area of the city.

In East Downtown, the largest age group is residents aged 45 to 54, comprising 38 percent of the population – a much larger share than the 13 percent in the City overall. The CBD and East Downtown also have a much smaller proportion of residents under age 18 than the City, indicating that there are few families living in these central areas.

Table 4 Population Age Distribution, 2015

	CBD	East Downtown	Billings
Under 18	4%	10%	23%
18 to 34	34%	25%	24%
35 to 44	18%	7%	12%
45 to 54	22%	38%	13%
55 to 64	17%	11%	13%
65 to 74	4%	5%	8%
75 and Over	1%	4%	7%

Source: US Census; Economic & Planning Systems

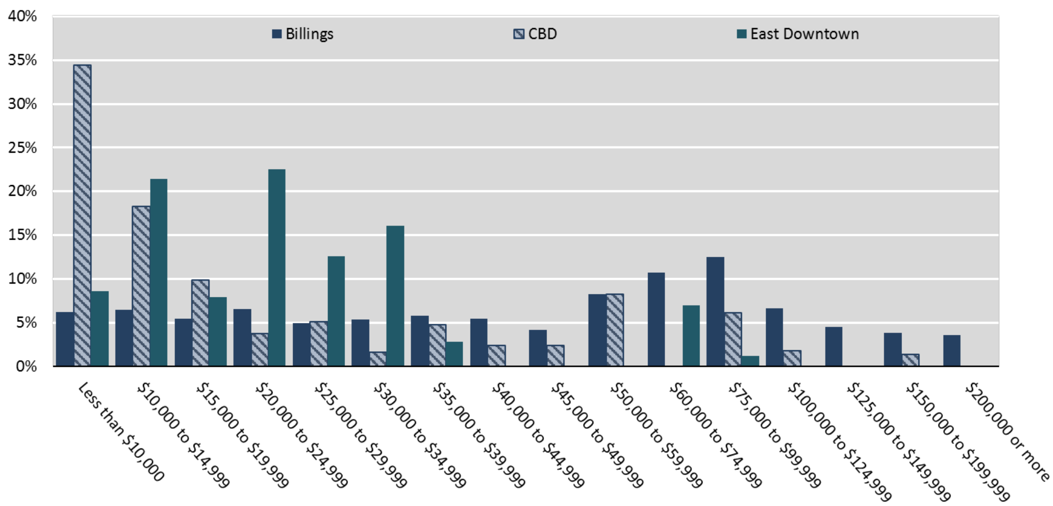
H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Census Data Summary.xlsx]T- 2015 Age Distribution

Income

The Downtown area has a significantly different household income distribution than the City overall, with a greater concentration of lower-income households. In 2015, 29 percent of Billings' households earned less than $30,000 per year, while in the CBD 71 percent of households were in this group, and in East Downtown 73 percent of households earned less than $30,000 (**Table 5**). Eighteen percent of Billings households earned $100,000 or more, while in the CBD only 3 percent of households exceeded this income, and no households in the East Downtown area earned more than $100,000.

One factor affecting the income distribution in the CBD is the Sage Tower Apartments, an affordable senior development. Residents of this building are likely on fixed incomes, skewing the income distribution of the area lower.

Figure 6 Household Income Distribution, 2015



Source: US Census; Economic & Planning Systems

ECONOMIC TRENDS AND CONDITIONS

Employment

There are 81,000 jobs in Yellowstone County. The largest employment sectors are Retail, Leisure and Hospitality (28 percent of County employment) and Education and Health Services (17 percent of employment).

From 2000 through 2016, Yellowstone County added approximately 16,000 jobs, growing at 1.4 percent per year as shown in **Table 5**. While the most accurate employment data is only available at the County level, approximately 83 percent of the jobs in Yellowstone County are in Billings, indicating that countywide trends are representative of the City as well.

The largest growth sectors in terms of total jobs include Retail, Leisure, and Hospitality, which added 5,600 jobs (35 percent of new jobs countywide); Education and Health Services, adding 4,800 jobs (30 percent of new jobs); and Construction, which added 1,900 jobs (12 percent of new jobs). Construction and Education and Health Services both grew at almost 3.0 percent annually and were among the fastest growing sectors, along with smaller sectors such as Natural Resources and Mining (3.9 percent annual growth). Slower-growing sectors, which grew at under 1.0 percent annually, include Manufacturing (0.5 percent); Trade, Transportation, and Utilities (0.6 percent); Information (0.3 percent); Professional and Business Services (0.5 percent); and Government (0.5 percent).

Table 5 Employment Trends by Industry, Yellowstone County, 2000-2016

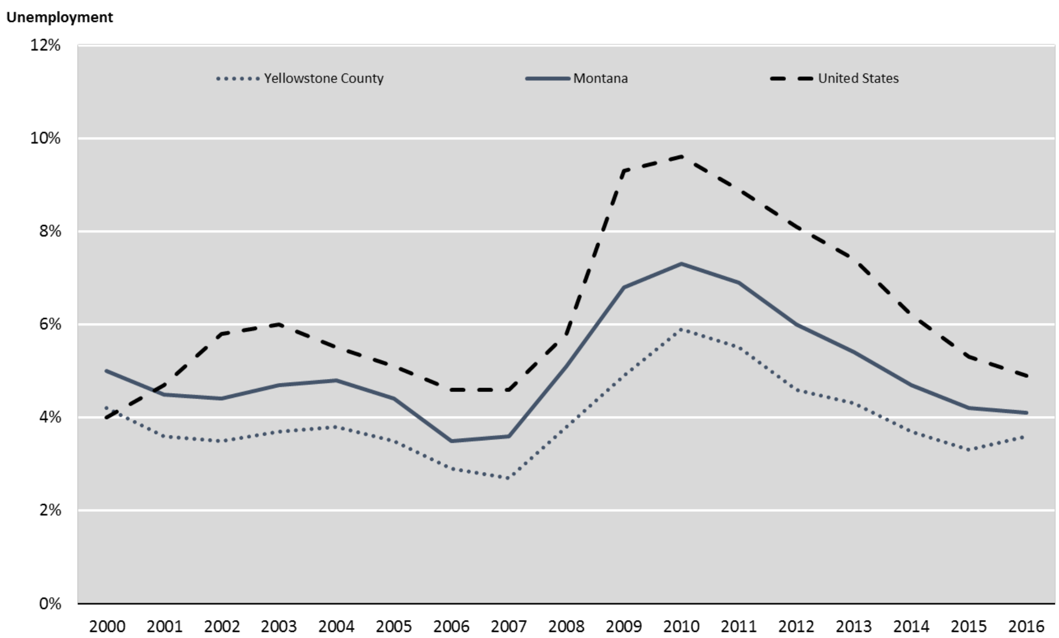
				Change 2000 - 2016		
Wage and Salary Jobs	**2000**	**2011**	**2016**	**Total**	**Ann. #**	**Ann. %**
Natural Resources and Mining	436	665	801	365	23	3.9%
Construction	3,398	4,617	5,347	1,949	122	2.9%
Manufacturing	3,256	3,137	3,547	291	18	0.5%
Trade, Transportation and Utilities	8,046	8,472	8,862	816	51	0.6%
Information	1,170	1,175	1,218	48	3	0.3%
Financial Activities	3,369	3,912	3,968	599	37	1.0%
Professional and Business Services	8,061	9,913	8,765	704	44	0.5%
Education and Health Services	9,152	12,861	13,981	4,829	302	2.7%
Retail, Leisure and Hospitality	16,833	20,086	22,475	5,642	353	1.8%
Other Services	2,999	3,152	3,458	459	29	0.9%
Government	7,995	8,514	8,612	617	39	0.5%
Total	**64,715**	**76,504**	**81,034**	**16,319**	**1,020**	**1.4%**

Source: Montana Department of Labor & Industry; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- qcewreport Montana Dept of Labor.xlsx]Table - Empl. by Supersector

As of 2016 Yellowstone County had a 3.6 percent unemployment rate versus a national rate of 4.9 percent, indicating a tight labor market (**Figure 7**). Aside from 2000, Yellowstone County unemployment has been lower than both Montana and the U.S., while following a similar trend. The County, State, and Country all saw an increase in unemployment during the recession, although the County saw a more moderate increase of one to two points while the national unemployment rate increased by over five points.

Figure 7 Unemployment Rate, 2000–2016



Source: Bureau of Labor Statistics; Economic & Planning Systems

Wages

Average wages for Yellowstone County are presented in **Table 6**. The highest-paying jobs in the County are in Natural Resources and Mining, with an average annual wage of $86,200. However, jobs in this sector only comprise 1 percent of 2016 County employment and have only accounted for 3 percent of employment growth since 2011. Jobs in Retail, Leisure, and Hospitality have the lowest average wages, at $24,400, and make up the greatest share of County employment (nearly 35 percent) and have accounted for 53 percent of job growth in the County since 2011. This high growth in the lowest wage industries puts pressure on the need for affordable housing – especially rental housing, which is generally more attainable to low-wage earners than ownership housing.

Table 6 2016 Average Wage by Industry, Yellowstone County

			New Jobs 2011-2016	
Average Wage	**Annual**	**Hourly**	**Total**	**Share of Growth**
Natural Resources and Mining	$86,218	$41.45	136	3%
Construction	$53,599	$25.77	730	16%
Manufacturing	$66,700	$32.07	410	9%
Trade, Transportation and Utilities	$53,564	$25.75	390	9%
Information	$50,064	$24.07	43	1%
Financial Activities	$60,952	$29.30	56	1%
Professional and Business Services	$51,627	$24.82	-1,148	-25%
Education and Health Services	$52,967	$25.47	1,120	25%
Retail, Leisure and Hospitality	$24,385	$11.72	2,389	53%
Other Services	$28,650	$13.77	306	7%
Government	$51,323	$24.67	98	2%
Total/Average	**$45,067**	**$21.67**	**4,530**	

Source: Montana Department of Labor & Industry; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- qcewreport Montana Dept of Labor.xlsx]T- 2016 Wages by Supersector

4 Housing Market Conditions

This chapter analyzes trends and characteristics of the housing market in Billings and the Downtown market specifically, considering residential construction trends, existing and new home sales activity and price points, and rental market conditions and rates. The purpose of this analysis is to determine potential market rents and sale prices for new Downtown housing concepts. Downtown housing still competes somewhat with housing in other parts of Billings, and pricing for any new Downtown housing needs to be in the context of the larger market area.

FOR-SALE HOUSING

The average sales price of a house in Billings has increased nearly $50,000 since 2011, from $206,000 to $256,000, an average increase of 3.6 percent per year (**Table 7**). This growth rate was similar for both overall sales price and the price per square foot. Different trends are seen for new homes (built and sold within five years) and older homes, as the price per square foot for new homes has increased faster (4.5 percent per year) than for older homes (3.4 percent per year).

Table 7 Home Sales Price Trends, 2011-2017

								2011-2017	
Description	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Change**	**Ann. %**
All Sales									
Number of Sales	1,166	1,710	1,897	1,907	2,057	2,045	876		
Average Sales Price	$206,742	$212,436	$230,470	$237,782	$243,746	$248,711	$256,352	$49,611	3.6%
Average Price per Square Foot	$91.18	$93.87	$98.92	$103.13	$107.52	$112.02	$112.94	$21.76	3.6%
Average Size	2,337	2,331	2,389	2,363	2,336	2,304	2,363	26	0.2%
New Homes (5 years or newer at sale)									
Number of Sales	243	313	380	344	386	376	174		
Average Sales Price	$245,047	$246,414	$277,061	$283,877	$282,491	$298,252	$290,980	$45,933	2.9%
Average Price per Square Foot	$107.62	$111.64	$117.18	$125.77	$132.12	$137.54	$139.90	$32.28	4.5%
Average Size	2,356	2,292	2,451	2,355	2,255	2,289	2,200	-156	-1.1%
Older Homes (older than 5 years at sale)									
Number of Sales	923	1,397	1,517	1,563	1,671	1,669	702		
Average Sales Price	$196,657	$204,823	$218,800	$227,637	$234,796	$237,550	$247,769	$51,112	3.9%
Average Price per Square Foot	$86.85	$89.89	$94.34	$98.15	$101.83	$106.27	$106.25	$19.40	3.4%
Average Size	2,332	2,340	2,373	2,364	2,355	2,307	2,403	71	0.5%

Source: MLS; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Market Area Demographics Comparison Table.xlsx]Demographics Summary Table

Single family homes dominate the Billings market, accounting for over 80 percent of sales every year. Townhomes make up between 7 and 9 percent of sales. Three areas in the City contain the majority of sales. Home sales in Billings are concentrated in Northwest Billings, West Billings, and Billings Heights (west of Main Street). These three areas have accounted for between 70 and 75 percent of home sales each year since 2011. Over this same time period the Downtown area has accounted for between 3 and 6 percent of home sales in the City. In this dataset, "Downtown" extends north to Alkali Creek Road and west to Virginia Lane.

RENTAL HOUSING

There are 141 multifamily apartment buildings in Billings, with a total of 6,144 units. The average vacancy rate in these properties is 5.8 percent, indicating a healthy, if not somewhat constrained rental market. Overall, rent averages $835 per unit, or just over $1.00 per square foot.

Only 5 percent of these units are studios, while 43 percent are 1-bedroom units, 40 percent are 2-bedroom units, and 7 percent are 3-bedroom units. Rents and vacancy rates for each of these unit types are summarized in **Table 8**.

Table 8 Apartment Inventory Summary by Unit Type

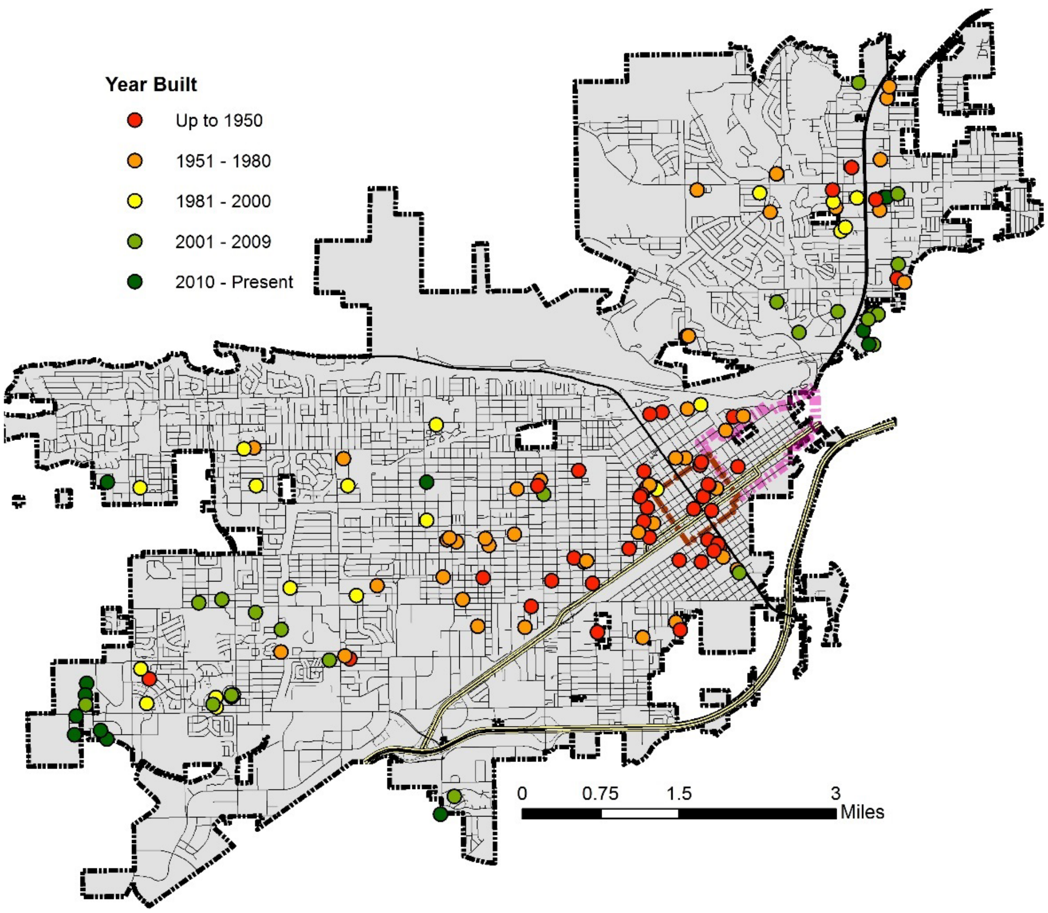
	Rent Per Unit	Rent Per Square Foot	Vacancy Rate
Studio	$829	$1.70	11.5%
1 Bedroom	$787	$1.19	4.3%
2 Bedroom	$928	$1.02	5.5%
3 Bedroom	$1,052	$0.84	6.3%
Average	**$835**	**$1.01**	**5.8%**

Source: CoStar; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- CoStar Multifamily Summary.xlsx]T- Unit Types

Most recent development of rental housing has taken place in Billings Heights and in the West End (**Figure 8**). Eleven new developments have been constructed since 2010, adding 1,453 apartment units to the City – 44 percent of these are 1-bedroom apartments, and 48 percent are 2-bedroom apartments. These units have an average rent of just over $1,000 ($1.21 per square foot).

Figure 8 Multifamily Housing by Year Built



A number of rentals across the City are single family homes or other units not in a large development, and thus not captured in apartment market data. Some of this inventory is summarized in **Table 9**. On average, these units rent for less per square foot than those in apartment developments.

Table 9 Online Rental Data Summary

	Rent per Unit		Rent per Bedroom		Rent per Square Foot	
	Average	Median	Average	Median	Average	Median
Craigslist Data						
SF Homes	$1,077	$1,095	$440	$425	$0.75	$0.75
Apartments	$706	$650	$517	$500	$0.85	$0.81
Rainbow Property Management						
Houses/Condos/Townhomes	$1,068	$995	$412	$417	$0.63	$0.62
Apartments/Duplexes	$682	$650	$384	$325	$0.80	$0.76

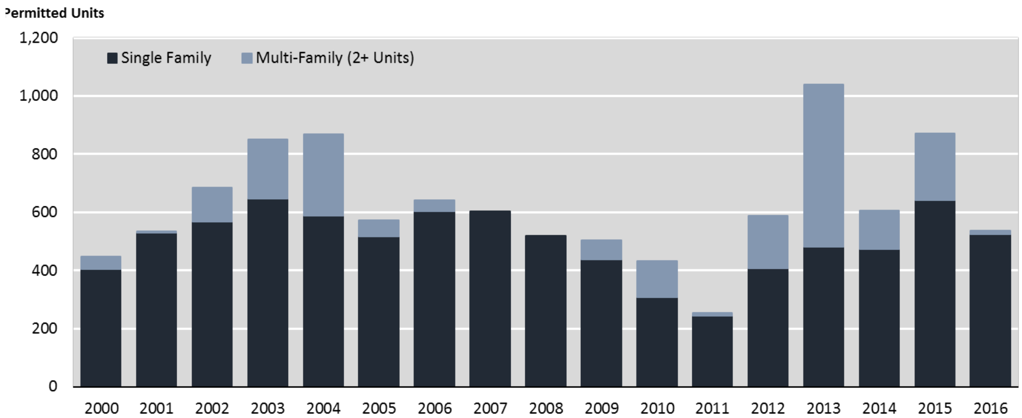
Source: Craigslist; Rainbow Property Management; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Online Rental Listings.xlsx]Summary Tables

RESIDENTIAL CONSTRUCTION

There have been about 419 residential building permits issued per year in Billings since 2000 for an average of 620 new units per year (**Figure 9**). On average, 87 percent of all residential permits issued are for single family homes, while 8 percent are for duplexes and only 4 percent are for multifamily construction. Development declined slightly during the Great Recession, but began to recover in 2013. This recovery included a significant increase in multifamily units permitted.

Figure 9 Billings Permitted Units, 2000-2016



Source: US Census; Economic & Planning Systems

Single Family Homes

New homes in Billings (those built and sold since 2010) have sold for an average of $277,300, or $128 per square foot. On average, these homes have 3.3 bedrooms, and are 2,280 square feet (on a 14,300 square foot lot).

This sales data only includes resales of homes, and may not reflect new greenfield housing development. For example, homes in Josephine Crossing that are sold directly from the developer to the homebuyer are not included in this data. These homes have an average base price of $256,780, or $147 per square foot. These include some townhome models, but are mainly single family detached homes, averaging 1,764 square feet.

Apartments

There have been 10 apartment projects built in Billings since 2010, adding 1,353 units to the City. There is one additional 100-unit project currently under construction, as well as two proposed 6-unit projects. New development is concentrated in the east and west ends of the City. These developments range from 12 to 216 units, with an average of 135 units per project; seven of the 10 new developments have over 100 units. Units average just under 900 square feet, with an average rent of $1.21 per square foot. The majority of units being constructed are 1- and 2-bedroom apartments.

DOWNTOWN MARKET

For-Sale Housing

The Downtown area accounted for between 3 and 6 percent of annual home sales in Billings from 2011 to 2017. Average sales prices for homes in this area are, on average, 74 percent of the citywide average, and there were no sales of new homes during this time. Downtown homes are smaller on average than other homes in the City, with an average size of 1,842 square feet (compared to 2,345 square feet citywide). Homes in the Downtown area are also older than other homes, with an average age at sale of 79 years, compared to 32 citywide. These trends reflect the older nature of the Downtown area, with original City neighborhoods, traditional block grids, and denser more walkable development patterns.

In 2016 and the first half of 2017, Billings had almost 3,000 home sales and the Downtown area accounted for 5 percent of these sales (**Table 10**). Homes in the Downtown area had close to the lowest average sales price and lowest average home size of all areas in the City.

Table 10 Billings Housing Market Summary, 2016 and YTD

Description	Number of Sales	Share of All Sales	Average Sales Price	Average Price per Square Foot	Average Size (Sq.Ft.)
Area					
Billings Heights (W of Main St.)	501	17%	$241,419	$110	2,302
Billings Bench (E of Main St.)	245	8%	$225,342	$113	2,085
Lockwood/Emerald Hills	111	4%	$244,152	$111	2,286
South Billings	149	5%	$144,767	$98	1,605
Blue Creek/Duck Creek	177	6%	$263,668	$133	2,168
Downtown	146	5%	$186,206	$107	1,802
Northwest Billings	849	29%	$310,049	$113	2,848
West Billings	741	25%	$230,149	$113	2,096
Laurel, Park City, Molt, Action	1	0%	$395,000	$134	2,940
Shepherd, Huntley, Ballantine, Worden, Pompey's Pillar	1	0%	$325,000	$110	2,960
Total	**2,921**	**100%**	**$251,002**	**$112**	**2,321**

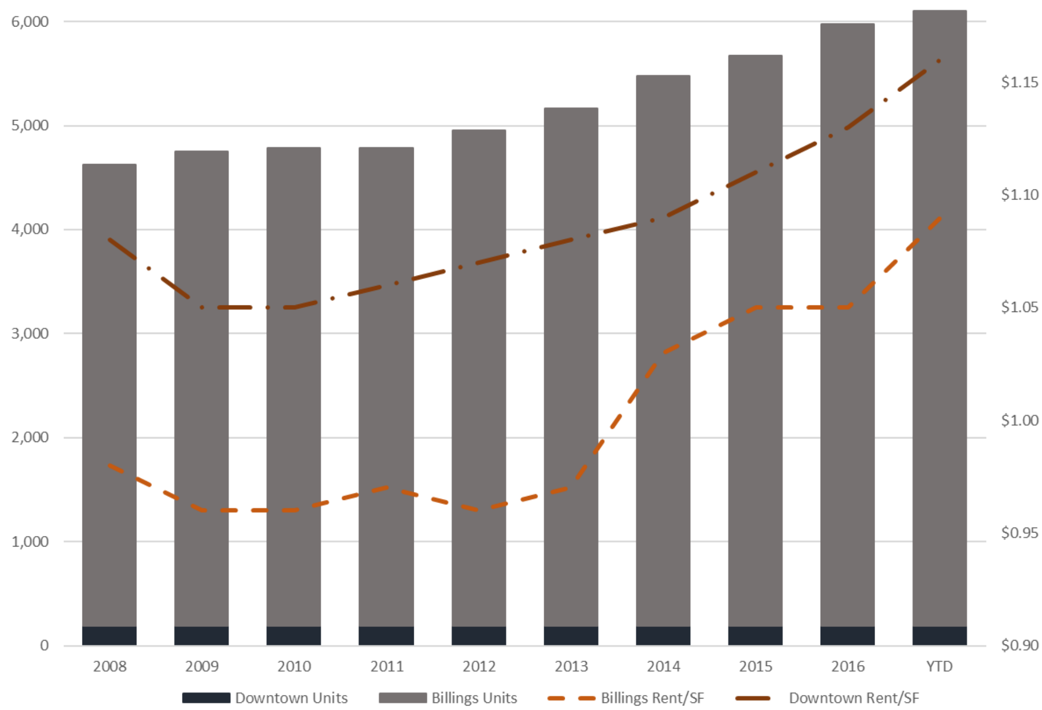
Source: MLS; Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\MLS\[173026- MLS All Data Combined.xlsx]Table- 2016-YTD Summary by Area

Rental Housing

Of the 141 rental developments in Billings, nine (6 percent) are in the DBA or EBURD. One of these is a senior housing project with 81 units; the remaining eight developments average 14 units each. All are older buildings, although some have been recently renovated, and they have an average vacancy rate of 4.5 percent. Since 2008, the DBA and EBURD have had a consistent inventory of 190 rental units, with no increase in rental inventory (**Figure 10**).

Figure 10 Multifamily Inventory and Rent Trends, 2008-2017



Source: CoStar; Economic & Planning Systems

Recent Development

Most recent housing development in Downtown has been rehabilitation of existing structures. These projects are small, averaging 15 units, often are mixed use, and are mostly rental (although there are a few ownership projects).

- While there have not been many developments, the demand for Downtown housing appears to be strong.
- Discussions with developers indicate that these developments have little vacancy, and when a unit does become available it leases up right away.

Recent Downtown projects are summarized in **Table 11**.

Table 11 Recent Downtown Residential Development

					Unit Mix				
Name	Location	Year Built/Renovated	Units	Uses	Studio	1 BD	2 BD	3 BD	Notes
Tracy Lofts	2600 Montana Avenue	2012	19	Residential	9	7	3		3 levels of lofts
SoPO	2608 Montana Avenue	2004	6	Mixed Use; Residential and Photography Studio		4	2		1st floor has 4,500 sf photography studio; 2nd floor has 6 loft apartments w/ indoor onsite parking
Swift Lofts	2605 Minnesoate Avenue	2009	9	Residential (mixed extended stay, long-term lease, owner-occupied)	1	3	3	2	3 levels of lofts; indoor onsite parking in separate building
Oliver Building	2702 Montana Avenue	2005	7	Mixed Use; Commercial and Residential		1	6		Mixed use; commerical on 1st & 2nd floors & lower level; 2 story condos on 3rd & 4th floors; gated onsite parking
SoNoMa	2915 2nd Avenue South	2009	12	Residential (mixed owned and leased)		4	8		Two 2-story buildings; gated onsite parking
Old Maverick Fire Station	201 South 30th Street	2003	2	Mixed Use; Commercial and Residential		1	1		Commerical on 1st floor; lofts on 2nd floor; gated onsite parking
Stapleton Lofts	104 North Broadway	2004	14	Mixed Use; Commercial, Office and Residential					Commerical on 1st floor; office on 2nd floor; 14 condos on 3rd & 4th floors; parking for condos on lower level
Montana Avenue Lofts	1 North 33rd Street	2002	7	Mixed Use; Commercial and Residential		4	3		Commercial on 1st floor; lofts on 2nd floor; indoor onsite parking
One South Broadway	1 South Broadway	2001	6	Mixed Use; Commercial and Residential		3	3		Commerical on 1st floor; 4 lofts on 2nd floor & 2 lofts on lower level; onsite parking
Babcock Apartments	2812 2nd Avenue North	2011	14	Mixed Use; Commercial and Residential	6	7	1		Commercial on 1st floor; 14 apartments on 2nd floor
Acme Hotel	107 N. Broadway		19	Mixed Use; Commercial and Residential	4	12	3		Commercial on 1st floor; 19 apartments on 2nd & 3rd floors
Securities Building	2700 1st Avenue North	2003	12	Mixed Use; Commercial and Residential					5-story building; commercial on 1st floor
O'Donnell Hotel	2504 2nd Avenue North		7	Mixed Use; Commercial and Residential		7			Commercial on 1st floor; apartments on 2nd floor; off-street parking

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Downtown Building Inventory.xlsx]Full List - For Report

EPS was able to obtain rents for several Downtown rental properties. Rents for these units are between $600 and $1,000 per unit, or $0.90 to $1.35 per square foot. These rents are within the range of what new apartment development in the City is renting for, indicating market support for new apartments in the Downtown area.

WORKFORCE HOUSING

Downtown Billings is a large jobs center, with approximately 13,700 workers in the CBD. A major opportunity and need in the Downtown area is workforce housing – units that are affordable to the local workforce. While not restricted to those who work in the Downtown area, more housing affordable to local workers would provide an opportunity for residents to live closer to their workplace, in addition to the other benefits of Downtown housing described in Chapters 1 and 2. Workforce housing is not necessarily limited to a certain income range, and can often be provided through private, market-rate development. This determination is made through an analysis of local incomes and the housing market. This section estimates affordable housing costs at different income ranges to determine opportunities for workforce and other affordable housing in Downtown Billings.

In connection with housing, income is expressed in terms of Area Median Income (AMI); housing affordability is calculated based on household income as a percentage of the AMI. In Billings, median household income in 2016 was $54,222 – this number was used as the basis for the affordability analysis.

In general, if a household spends 30 percent or less of income on housing costs, its housing is considered affordable; if more than 30 percent of income is spent towards housing, the household is considered "cost burdened." This 30 percent threshold was used to determine affordable rental and purchase prices for households of various incomes.

Workforce Housing Price Points

- A Billings household earning the median income of $54,222 can afford to purchase a $203,000 home, or pay $1,350 in rent per month.
- "Workforce housing" is generally categorized as housing affordable to households earning between 80 percent and 120 percent of AMI.
- For Billings, this means households earning between $43,400 and $65,000. These households can afford a home priced between $156,400 and $249,000, or monthly rent of between $1,080 and $1,630 (**Table 12**).

Table 12 Affordable Housing Costs by Income Level

	Income Level					
	30% AMI	60% AMI	80% AMI	100% AMI	120% AMI	150% AMI
Household Income	$16,267	$32,533	$43,378	$54,222	$65,066	$81,333
Monthly Rental Maximums at 30%	$407	$813	$1,084	$1,356	$1,627	$2,033
Supportable Monthly Payment						
Less: Insurance [1]	-$125	-$125	-$125	-$125	-$125	-$125
Less: Property Taxes	-$60	-$140	-$200	-$260	-$320	-$400
Less: Miscellaneous (e.g. HOA Dues)	-$50	-$50	-$50	-$50	-$50	-$50
Mortgage Payment (Monthly)	$172	$498	$709	$921	$1,132	$1,458
Valuation Assumptions						
Loan Amount	$36,000	$104,400	$148,600	$192,800	$237,000	$305,500
Mortgage Interest Rate	4.0% int.	4.0% int.	4.0% int.	4.0% int.	4.0% int.	4.0% int.
Loan Term	30-year term	30-year term	30-year term	30-year term	30-year term	30-year term
Downpayment as % of Purchase Price	5.0% down pmt	5.0% down pmt	5.0% down pmt	5.0% down pmt	5.0% down pmt	5.0% down pmt
Maximum Supportable Purchase Price	**$37,900**	**$109,900**	**$156,400**	**$202,900**	**$249,500**	**$321,600**

[1] Estimated at $1,500 per year.

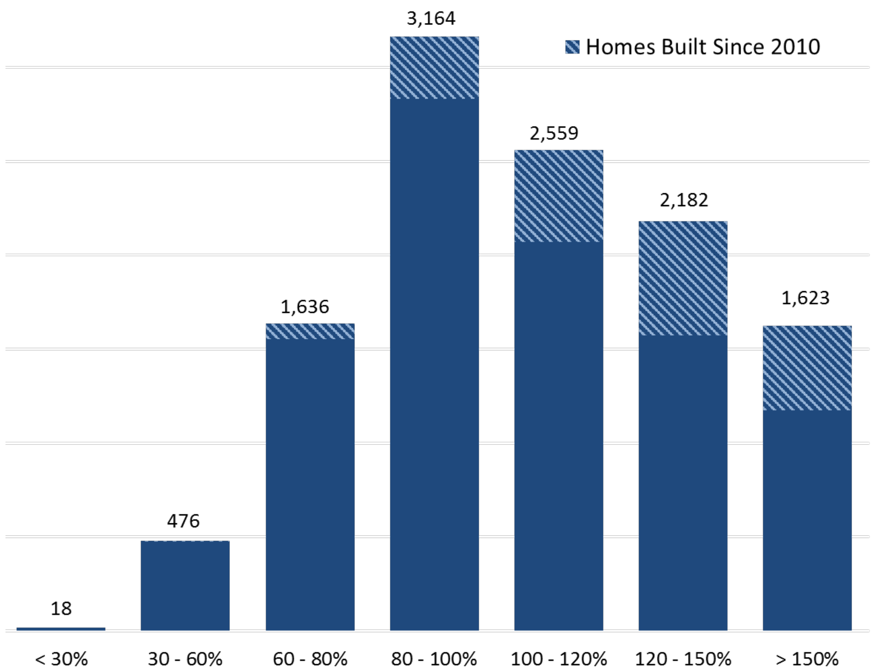
Source: Economic & Planning Systems

H:\173026-Billings MT Workforce Housing Needs Assessment\Data\[173026- Target Purchase Price.xlsx]Target Purchase Price

Market rate development in Billings can meet a large portion of the workforce housing demand (households earning between 80 and 120 percent of AMI). Of all homes sold in Billings between 2011 and 2017, 49 percent were affordable to households in this income group (**Figure 11**). Of new homes - built and sold since 2010 - 42 percent were affordable to these households. The homes built in Josephine Crossing provide another indication of the affordability of new home construction in Billings. Based on discussions with the developer and data from available listings, few units are priced below 100 percent AMI affordability. However, a little less than half of floorplans are affordable to households earning between 100 and 120 percent AMI. The remainder is affordable to households earning between 120 and 150 percent AMI.

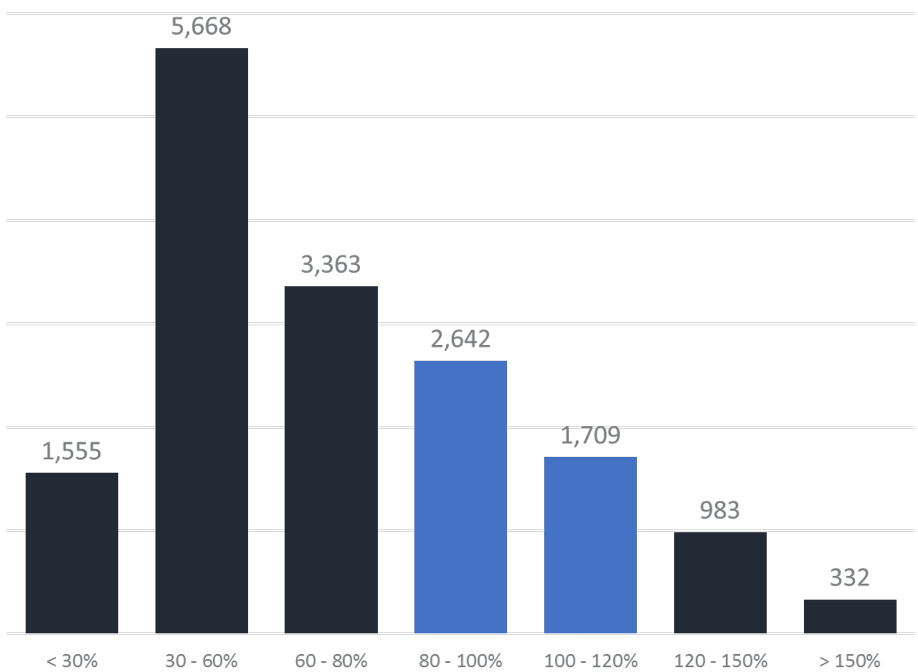
Rental housing in Billings is well matched to local incomes. Twenty-seven percent of existing rentals are affordable to households earning 80 to 120 percent AMI, while an additional 65 percent of rental housing is affordable to those earning less than 80 percent AMI (**Figure 12**).

Figure 11 2011-2017 Home Sales by Affordability



Source: MLS; Economic & Planning Systems

Figure 12 Rental Units by Affordability, Billings 2016



Source: US Census; Economic & Planning Systems

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5 DOWNTOWN EMPLOYEE HOUSING SURVEY

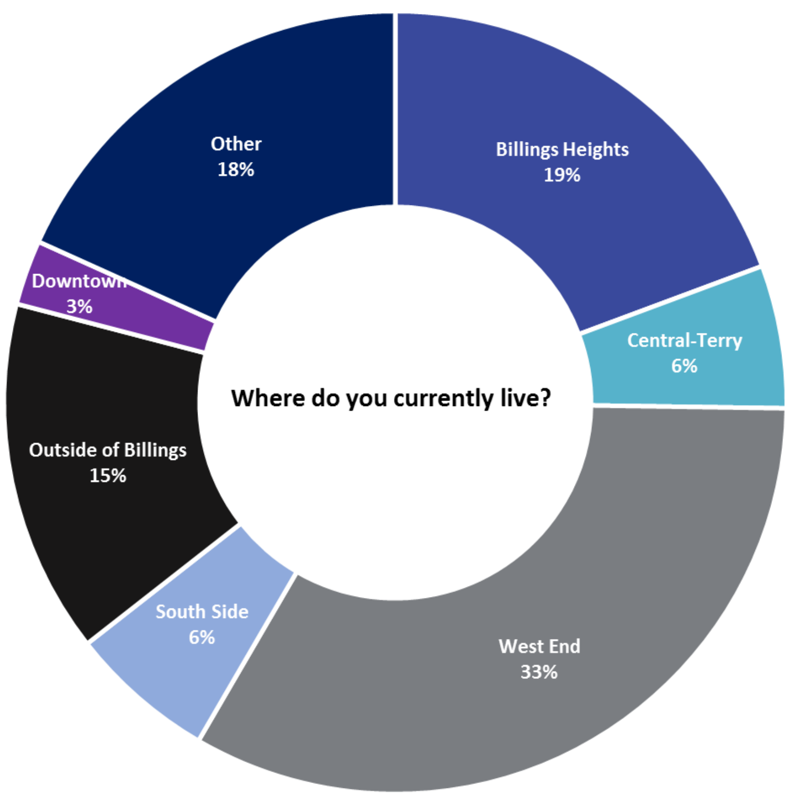
This chapter summarizes results from a survey conducted of Downtown area employees. The survey asked about housing needs and preferences, and results can be used to help gauge demand for housing in the Downtown area. Key findings are presented in this chapter.

The survey was distributed to Downtown and area employees through area employers. Responses were collected from July 7 to July 31, 2017; approximately 750 survey responses were received.

RESPONDENT CHARACTERISTICS

One-third of survey respondents currently live in the West End, 19 percent currently live in Billings Heights, and only 3 percent currently live Downtown. The full distribution of respondents' home locations is shown in **Figure 13**.

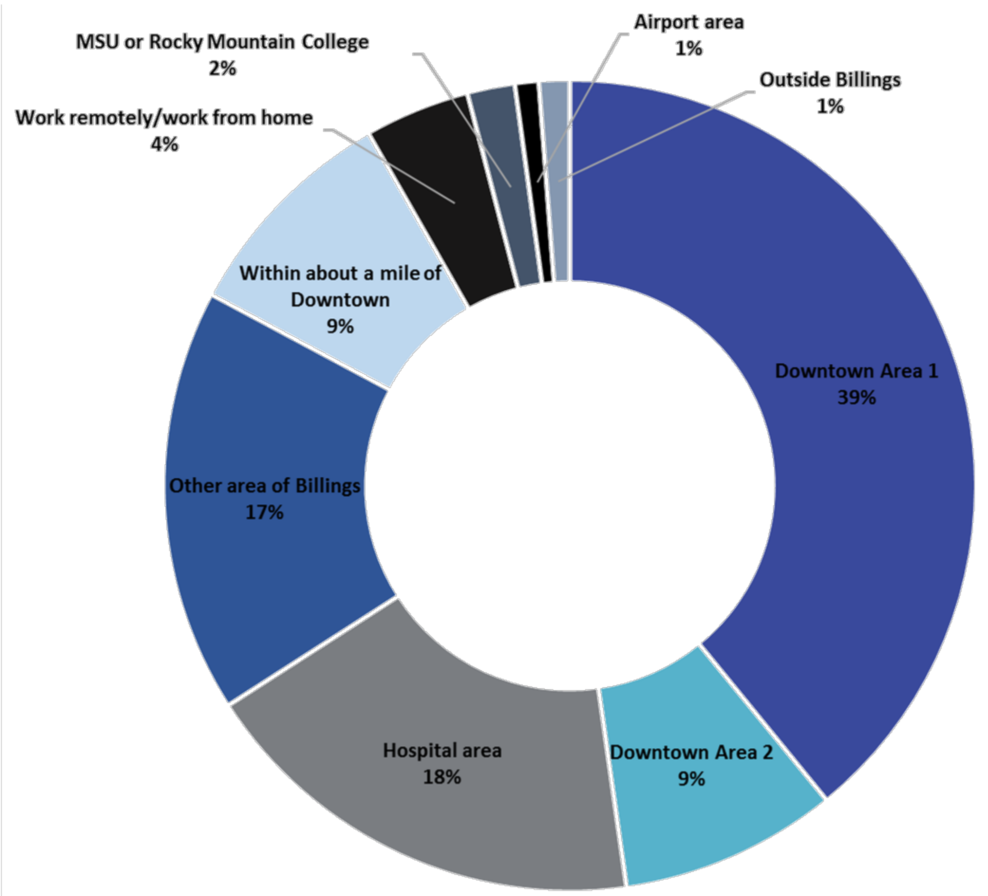
Figure 13 Survey Respondents Current Residence Location



Most respondents (78 percent) currently live in a single family detached home; 9 percent live in a townhome or duplex, and the remaining 13 percent live in apartments (8 percent), condominiums (2 percent), and mobile homes (3 percent). Ownership patterns among survey respondents follow closely to this housing type breakdown – 77 percent of respondents own their homes, while 23 percent rent.

Almost 40 percent of survey respondents work in the Downtown Core ("Downtown Area 1"), and another 9 percent work in the East Downtown area ("Downtown Area 2"). The Hospital area is another large employment hub, representing 18 percent of survey respondents (**Figure 14**).

Figure 14 Survey Respondents Employment Location



Almost one-third of survey respondents have a household income of between $60,000 and $100,000 per year (**Figure 15**). The income distribution of respondents who expressed an interest in living Downtown is very similar to the overall income distribution of respondents (**Figure 16**).

Figure 15 Household Income of All Survey Respondents

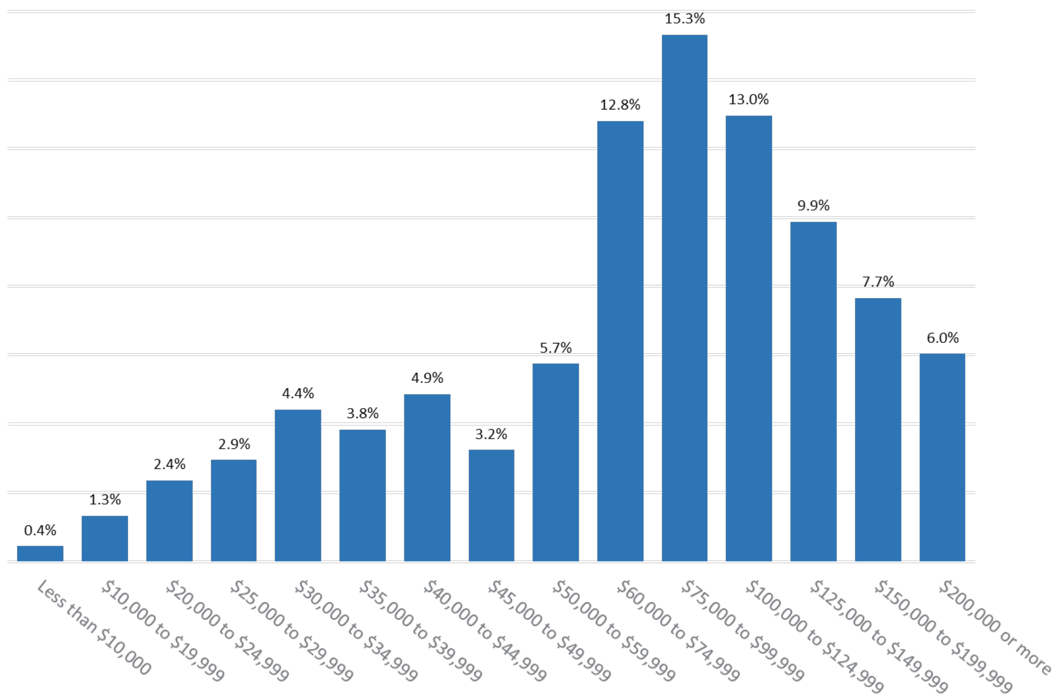
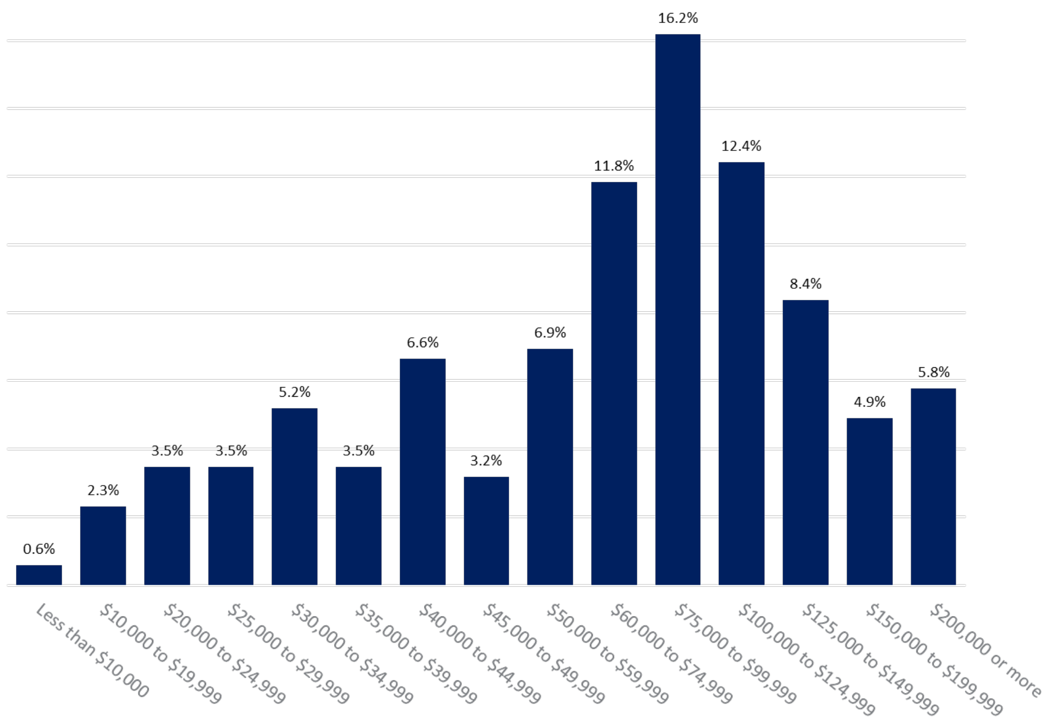


Figure 16 Household Income – Survey Respondents Interested in Living Downtown



Household characteristics of survey respondents are summarized in **Table 13**. Close to one-third of respondents are in a household consisting of a couple with children – although this group only represents 25 percent of those interested in living Downtown. While only 18 percent of total respondents are adults living alone, this group represents 23 percent of those interested in Downtown.

Table 13 Household Characteristics of Survey Respondents

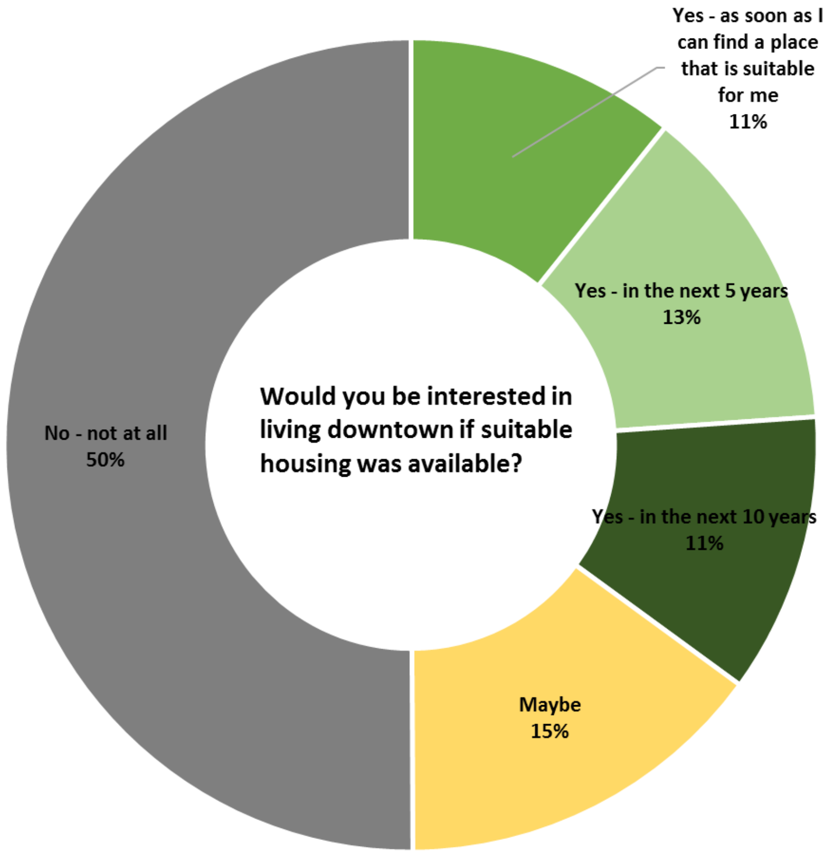
Household Type	All Respondents	Respondents Interested in Downtown
Couple with child(ren)	31%	25%
Couple without children	22%	21%
Adult living alone	18%	23%
Empty nester(s) or retired (no children at home)	16%	14%
Single parent with child(ren)	6%	8%
Immediate and extended family	1%	2%
Unrelated roommates	3%	4%
Other	3%	3%
Total	**100%**	**100%**

SURVEY RESULTS

Interest in Living Downtown

The survey asked respondents "Would you be interested in living downtown if suitable housing was available?" Responses to this question are summarized in **Figure 17**. Half of respondents are not interested in living Downtown. Of the remaining half, 11 percent are interested immediately, 13 percent are interested in the next five years, and 11 percent are interested in the next 10 years. Fifteen percent of respondents indicated a possible interest in living Downtown.

Figure 17 Survey Respondents Interest in Living Downtown



Of those respondents who are not at all interested in Downtown,

- 56% say the area does not match their lifestyle
- 35% need more space for family/children
- 28% say the area does not feel safe
- 22% need off-street parking
- 19% need more space for possessions

The responses reported in the remainder of this section are limited to those respondents who expressed interest in living Downtown.

Sixty-four percent of those who expressed an interest in Downtown currently own their home, while 36 percent currently rent. Close to one-third currently live in the West End, 15 percent live in Billings Heights, and 11 percent live outside of Billings.

Among those respondents interested in living Downtown, affordable housing costs vary by immediacy of interest. Those respondents with the most immediate interest have the lowest affordable housing costs, and this number increases as interest in Downtown gets farther into the future (**Table 14**).

Table 14 Monthly Affordable Housing Costs for Respondents Interested in Downtown

Monthly Affordable Housing Costs	
Would you be interested in living downtown if suitable housing was available?	
Yes – as soon as I can find a place that is suitable for me	$928
Yes – in the next 5 years	$1,080
Yes – in the next 10 years	$1,399

Downtown Preferences

Survey respondents were asked about a variety of housing preferences and priorities. This section summarizes those preferences for those respondents who expressed an interest in living Downtown.

When asked about which area of Downtown was more appealing, the majority of respondents indicated a preference for the DBA over the EBURD (**Table 15**). This preference was strongest for those with the most immediate interest, and declined slightly the further out in time interest in Downtown was.

Table 15 Downtown Area Preferences

Which Area Appeals to You Most?	Area 1 (DBA)	Area 2 (EBURD)	Neither
Interested in Living Downtown			
As soon as I can find a place that is suitable for me	77%	6%	16%
In the next 5 years	72%	16%	11%
In the next 10 years	75%	14%	11%
Maybe	67%	14%	19%

The survey also asked about priorities when choosing a place to live, allowing respondents to pick three housing/area characteristics. For those respondents who expressed an interest in living Downtown, over 50 percent chose off-street parking as a top priority (**Table 16**). The second most common response was a walkable neighborhood with good sidewalks (39 percent of respondents), followed by two cost considerations - reasonable or low overall cost (34 percent) and value for size/cost per square foot (32 percent). Other popular area characteristics included being close to amenities (29 percent of respondents), and being close to work, prioritized by 24 percent of those interested in living Downtown.

Table 16 Housing Choice Priorities

Description	Respondents Interested in Living Downtown
What are your top priorities when choosing a place to live? (Choose 3)	
Reasonable or low cost	34%
Value for the size of home (cost per square foot)	32%
Large home size	4%
Smaller home size	5%
Close to good schools	9%
Close to work	24%
Close to amenities like shopping and services	29%
Close to parks and trails	12%
Walkable neighborhood - good sidewalks	39%
Low maintenance/upkeep	22%
My own yard	22%
Driveway or garage (off-street parking)	51%

Respondents were also asked about the Downtown area specifically, and what additional features would make it more appealing for living. The most common responses among those interested in living in the area were different or better grocery options, safety improvements, better walking environment, and more outdoor public space (**Table 17**).

Table 17 Additional Downtown Features

	Interest in Downtown			
	As soon as I can find a place that is suitable	In the next 5 years	In the next 10 years	Maybe
What additional features in downtown would make it more appealing for living? (Select all that apply)				
Different or better grocery options	68%	63%	67%	72%
Safety improvements	58%	51%	61%	57%
Better walking environment (sidewalks, lighting)	49%	57%	49%	47%
Better bicycling environment (bike lanes, racks)	35%	27%	29%	31%
Different or better school options	11%	9%	5%	9%
More people living downtown	44%	35%	41%	30%
More outdoor public space	59%	47%	57%	40%
Public transit service	25%	19%	17%	19%
More or wider selection of retail options	40%	33%	33%	34%
More arts & culture activities and/or facilities	44%	32%	27%	29%
Other	14%	14%	14%	23%

After identifying these features, respondents were then asked to rank their top five in order of importance. For respondents with an immediate interest in living Downtown, the highest priority features were grocery improvements, more outdoor public space, and safety improvements – over 50 percent ranked these features as a top 5 priority (**Table 18**).

Table 18 Ranked Downtown Features

	Interest in Downtown (% of Respondents Ranking)			
	As soon as I can find a place that is	In the next 5 years	In the next 10 years	Maybe
Of these features in downtown, which are the 5 most important to you? Please rank in order of importance (1 = most important)				
Different or better grocery options	65%	59%	61%	67%
Safety improvements	53%	50%	55%	51%
Better walking environment (sidewalks, lighting)	46%	53%	42%	42%
Better bicycling environment (bike lanes, racks)	31%	22%	24%	26%
Different or better school options	9%	9%	5%	7%
More people living downtown	39%	34%	39%	28%
More outdoor public space	55%	45%	52%	39%
Public transit service	24%	19%	12%	17%
More or wider selection of retail options	38%	28%	29%	30%
More arts & culture activities and/or facilities	38%	28%	22%	27%

DOWNTOWN HOUSING POTENTIAL

Based on respondents who expressed an interest in living Downtown, some preliminary development potentials for Downtown housing can be determined.

0 – 5 Years

Eighty respondents indicated an immediate interest in living Downtown; assuming that between 25 percent and 30 percent of these households would actually move, this would create demand for 20 to 24 new housing units. Of these 80 respondents, 71 percent currently rent their homes. If these people are not looking to move to homeownership, this indicates that the immediate demand for housing in the Downtown area is likely to be strongest for rental.

Nearly 100 respondents indicated an interest in moving Downtown in the next five years. Again assuming that between 25 and 30 percent of these people would move, this could create demand for between 25 and 30 housing units. In contrast to those interested in moving immediately, those expressing an interest in moving in the next five years are 63 percent owners. This provides an indication of the longer-term development opportunities for ownership housing in the Downtown area.

5 – 10 Years

Another 83 respondents indicated an interest in the Downtown area in the next 10 years; these were almost 100 percent owners. While projecting demand this far out can be challenging, assuming between 25 and 30 percent of respondents expressing interest would move to the area, this could create demand for 21 to 25 new housing units.

These numbers only reflect the demand indicated by Downtown area workers through this survey. Given that Downtown workers live throughout Billings, their preferences are likely reflective of the larger City population. While it cannot be quantified based on these survey results, if this interest is extrapolated to the larger City population there is likely to be more demand.

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6 DEVELOPMENT STRATEGY

Attracting more housing to Downtown will require actions, investments, and partnerships with the DBA, the EBIRD, the City of Billings, and private sector partners. This chapter outlines housing goals and development strategies for the Downtown area based on the market analysis and survey results, and identifies initial opportunity areas within Downtown that can be prioritized for housing development.

DOWNTOWN HOUSING GOAL

Downtown can accommodate a diversity of housing types. The CBD is most appropriate for the highest density developments, while the EBURD can accommodate a range of housing types and densities depending on the individual site.

Single family homes are the largest part of the market in Billings and represent significant competition for mid- and upper-priced downtown housing. In the short term, opportunities in the Downtown housing market will be for higher density, smaller units, and moderately priced homes.

A recommended housing goal for the Downtown area, including the DBA and EBURD, is 200 to 400 new housing units over the next 10 years. This goal is based on capturing 10 to 20 percent of the Billings multifamily and attached housing market. On average, there were approximately 800 housing units built annually from 2010 through 2016 in the City of Billings, including 200 multifamily units per year. Assuming this trend continues, the market will add 2,000 multifamily dwellings over the next 10 years. Downtown has no track record of a significant amount of recent housing production, and so forecasting future construction Downtown is challenging. Because of this, a goal of capturing 10 to 20 percent of the attached and multifamily market was estimated to be reasonable.

Table 19 Downtown Housing Goal

Billings Housing Production, 2010-2016			
Single Family		500	*units/yr.*
Multifamily		200	*units/yr.*
Total Market		700	
10 Year Projection			
Single Family		5,000	*units*
Multifamily		2,000	*units*
Total		7,000	*units*
Dowtown Area Market Share - 10 Years	Capture Rate		
Low - Multifamily/Attached Housing	10%	200	*units*
High - Multifamily/Attached Housing	20%	400	*units*

Source: Economic & Planning Systems

Phased Development

Both volume and housing type will need to be slowly introduced into the Downtown market. Based on survey results and estimated market capture, the recommended short term (five year) strategy is for moderately priced rental housing, with a goal of developing for-sale housing in 5 to 10 years. To start building momentum, an initial target of 50 to 100 units of new housing should be the short term goal.

Next 5 Years

The Downtown development focus should initially be on rental housing, however there should be support for any proposals for for-sale housing as well. Rental housing will appeal to younger households that are more mobile and interested in new living experiences compared to what is offered in Billings today. Survey responses support this, and also indicate initial interest in competitively priced rental housing. A small rental development that can be phased according to market demand is an appropriate development type to begin with. There is a risk to starting with a large development (100 or more units), in that if it is not successful it may deter further investment and cast a negative outlook on opportunities in the Downtown area.

5 to 10 Years

As Downtown housing becomes more established and proven, ownership housing is recommended to be added. Survey responses indicate interest in downsized ownership housing in 5 to 10 years, as people age and their children move out. This is not to suggest that ownership housing be ignored in the short term; there are innovative developments possible - for example, cottage homes and townhomes that can currently be built at prices affordable to households earning 80 to 120 percent of AMI. In future years, higher priced more luxury product could be introduced.

DOWNTOWN DEVELOPMENT APPROACHES

As noted above, attracting more housing to Downtown will require actions, investments, and partnerships with the DBA, the EBIRD, the City of Billings, and private-sector partners. There are two primary approaches to this type of development:

P3 Model

In a Public-Private Partnership (P3) model, a public entity would acquire land and partner with a developer on a large, catalytic project. This approach creates an opportunity to make a large impact with one development, and spreads the risk between the public and private entities. It may also be easier to market a single site and attract one developer, instead of attempting to develop multiple smaller sites. However, with this approach there is a lot of risk and investment in a single project, which may deter developers in an untested market.

Amenity Driven Model

In an amenity-driven model, public entities invest in the “place” and private investment follows. Investments may include safety improvements (e.g. sidewalks, lighting), public space improvements (e.g. trees, benches), or other investments that create or improve amenities in the area. This model has a lower risk than a P3 approach and may be lower cost for the public entity, however it is often slower to get development started and it may be challenging to market scattered development sites to private developers.

AMENITIES AND PLACEMAKING

The survey responses showed a common perception that Downtown is not currently a safe and appealing place to live, with the EBURD in particular identified as an undesirable housing location. One factor impacting these responses is likely the concentration of social service providers in the Downtown area. While social service providers are needed in the community, the presence of many of these organizations in Downtown may contribute to a perception of a lack of safety. Part of this perception, though, may be due to the fact that there is a small downtown population, so people in need and the homeless comprise a larger percentage of the downtown population than in cities with more downtown housing.

The City, DBA, and EBIRD will need to collectively lead in addressing these concerns and improving the amenities and placemaking aspects of the area. Strategies may include better connections between the eastern DBA and western EBURD areas to the Central Business District; improved walking and bicycling environment; traffic calming measures to make the area more pedestrian-friendly; safety improvements including lighting, sidewalks, pedestrian signals, high visibility crosswalks, and possibly increased police or security presence; general aesthetic improvements; and an improved grocery store.

Based on survey results, security enhancements and an improved grocery store should be prioritized, as these were common concerns among survey respondents and are key barriers to attracting new residents to the Downtown area.

Downtown Grocers and Markets

One of the most desirable amenities to improve quality of life for residents in a downtown setting is a quality supermarket, either full service or a smaller neighborhood market. While a typical grocery store is often 40,000 to 60,000 square feet, smaller markets ranging from 10,000 to 20,000 square feet are becoming more common in downtowns. These markets often have a large prepared foods section and generate much of their business from downtown workers purchasing lunch, as well as workers taking home dinner and other items at the end of the day. The stores can therefore generate half or more of their sales from workers, rather than relying solely on downtown residents.

Downtown has an Albertsons supermarket and a smaller Good Earth market. It will be important to ensure that there continues to be quality grocery options in Downtown.

INITIAL FOCUS AREA

Given the relatively untested nature of the Downtown housing market, initial development should be concentrated geographically in order to focus investment and create development momentum. As shown in **Figure 18**, the recommended initial focus area is the transition area between the CBD (DBA TIF area) and the EBURD. This area encompasses:

- The eastern end of Montana Avenue from about 24th to 20th;
- 22nd and 23rd Streets from 1st to 4th; and
- The Salvation Army property and surrounding area along 6th Avenue between 20th and 22nd.

Montana Avenue is a strong street with quality development and daily and nightly resident and business activity. This existing success creates an opportunity to carry this momentum further east as an initial strategy. The area from about 20th to 23rd is still within walking distance of the Downtown core, which has the largest concentration of jobs, restaurants, and retail. In addition to commercial success, there is some existing residential context in this area which could complement new development.

Figure 18 Initial Opportunity Areas

HOUSING CONCEPTS

To test the feasibility of the development types indicated as desirable by the market survey (modest size, reasonable cost, low maintenance) three concept plans were created. These concepts place three different building prototypes (townhomes, walk up apartments, and standard apartments) on typically sized and configured Billings lots in order to show how these building types could lay out, as well as to determine what level of density could be achieved—as density (the number of units yielded on a site) is a major driver of financial feasibility.

Many Billings lots were platted with a dimension of 25' wide and 140' deep. This size was used for the townhomes and walk up apartments. Because the practice in Billings has been to aggregate multiple lots, there is little to no development that has occurred on 25' wide lots. Therefore, a 75' wide development site was used for the townhomes and a 100' wide development site was used for the walk up apartments. Because of the larger nature of the development, the standard apartments were placed on an existing site bordering the south side of 6th Avenue North, 300' wide and 130' deep.

While the EBURD contains multiple zoning districts and typically allows for setbacks between 0' and 10' from the property line, for the purposes of these plans a 10' setback was assumed to provide some green space to enhance the Downtown and EBURD environment.

As concepts of typical developments, these are not meant to consider every possible development alternative or scenario. Actual development may vary in terms of building placement, parking arrangement and number, and actual density.

Standard Apartments

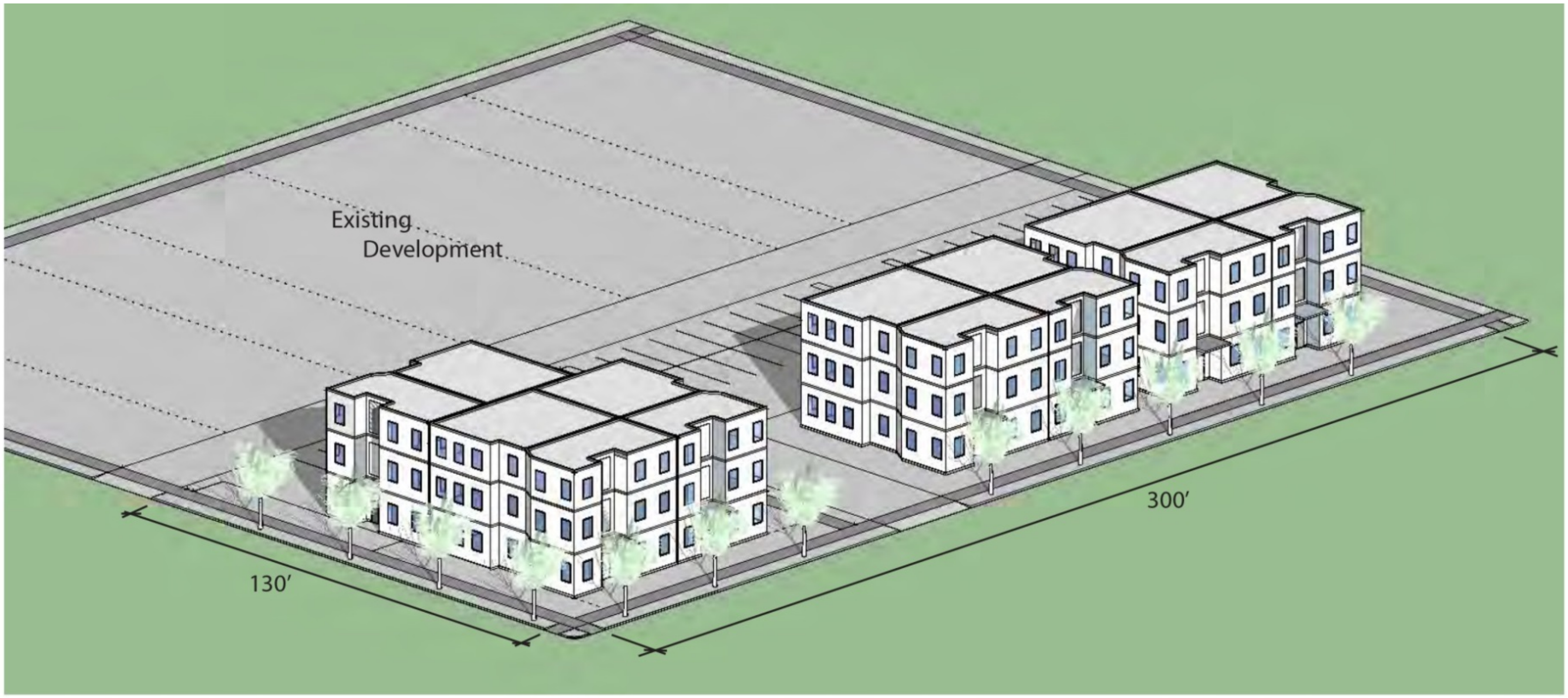
The development of apartments will require the largest lot size in order to achieve the required efficiencies of development. For this concept, a lot of 300' wide and 130' deep was used for a lot size of 39,000 square feet. There are large sites comprised of multiple property owners in the northern areas of the EBURD with a similar size and configuration.

The conceptual plan consists of two apartment buildings containing 12 units and one building containing 18 units, for a total of 42 units. All buildings have a completely interior circulation system. At this conceptual level, unit type (bedrooms, baths, etc.) were not determined. Based on the lot size and number of units, the total density is 46 dwelling units per acre, however in actual development the density will vary based on unit size, number of buildings and parking provision.

In most instances, parking provision is the limiting factor for density. The parking in this concept is provided at a ratio of one space per unit and is located entirely within a surface lot between the buildings and the alley. This parking ratio was determined based on market trends and feedback from stakeholders. Example images of this development type, and the development concept created, are shown in **Figure 19** and **Figure 20**.

Figure 19 Standard Apartments Sample Images

Figure 20 Standard Apartments Development Concept



APARTMENTS

Need the largest site
Surface parking drives density

Lot Dimensions: 300′ Wide X 130′ Deep

Lot Size: 39,000 Square Feet

Number of Units: 42

Number of Parking Spaces: 42

Density: 46 Units per acre

Walk Up Apartments

Walk up apartments utilize an exterior circulation system to provide access to the units and usually do not have elevators. This results in a more economical building to construct and operate. For this concept a development site 100’ wide and 140’ deep was used, resulting in a 14,000 square foot site. Eighteen units are provided in one building, for a density of 55 units per acre. Site efficiency would go down as more buildings are added, due to required separation between buildings resulting in a lower number of units per acre. These buildings can be constructed with conventional wood frame construction, modular off-site construction, or modern techniques such as structural insulated panels (SIPs).

Parking is provided at a ratio of one space per unit and the units depicted have a mix of podium parking and surface parking. Podium parking is parking that is located on the ground floor of a building with units or other occupiable spaces directly above it. The parking spaces may or may not be enclosed with garage doors; more spaces can be provided if the spots are left unenclosed, as is assumed for this concept. Here, the parking is provided on the back half of the building with portions of the residential units located in the front half near the street. However, the podium parking alone is not sufficient to provide the needed spaces, and some surface spaces are provided in the back corner of the site. This development concept is summarized in **Figure 21**.

Figure 21 Walk Up Apartment Development Concept

WALK UPS

External stair access, surface and rear loaded "tuck under" parking
Need larger site for feasibility

Lot Dimensions: 100' Wide X 140' Deep

Lot Size: 14,000 Square Feet

Number of Units: 18

Number of Parking Spaces: 18

Density: 55 Units per acre

Townhomes

Townhomes are typically defined as single family dwelling units that share at least one wall with another unit, yet sit on their own fee simple ownership parcel. For this concept, three units are placed on a development site 75' wide and 140' deep, while each unit is on its own portion of that development parcel. The total square footage of the development site is 10,500 square feet resulting in a density of 12 units per acre. More townhomes being built would result in a greater site efficiency and lowered cost as less room is used for setbacks and less space is enclosed by exterior walls. Three units is likely the minimum number of units that should be constructed in a single development.

Parking is provided in a detached garage located at the back of the lot and accessed from the alley. An urban format two car garage is a minimum of 22' wide. It is assumed that in a for-sale product such as these townhomes a two car garage will be required for marketability. Example images of this development type, and the development concept created, are shown in **Figure 22** and **Figure 23**.

Figure 22 Townhomes Sample Images

Figure 23 Townhomes Development Concept

TOWN HOMES

Smaller lots needed to start.....
........though more units = greater efficiency
Easier to phase

Lot Dimensions: 75' Wide X 140' Deep

Lot Size: 10,500 Square Feet

Number of Units: 3

Number of Parking Spaces: 6 (2 spaces per unit)

Density: 12 Units per acre

FINANCIAL FEASIBILITY

This section presents planning-level feasibility analyses for the three concepts identified through the market analysis and discussed above. The feasibility estimates are not meant to be prescriptive, but rather illustrate the challenges and opportunities for housing development in the Downtown area that this study aims to address.

In comparing the value of a project's revenue stream to its cost, the development feasibility can be estimated. Development costs and key market and financial factors such as supportable market rents, vacancy rates, and operating expenses were estimated based on market research and developer interviews in order to value the income streams from the project prototypes. These estimates are summarized in **Table 20**, and detailed below.

Table 20 Financial Feasibility Summary

Assumptions	**Townhomes**	**Stacked Flat**	**Apartments**
Site Size	10,500 Sq. Ft.	14,000 Sq. Ft.	39,000 Sq. Ft.
Units	3	18	42
Units per Acre	12.4	56.0	46.9
Sale Price or Rent per Sq. Ft.	$216,000	$1.45	$1.50
Monthly Rent	N/A	$1,051	$900
Income Capitalization Rate	N/A	7.0%	7.0%
Land Cost	$8.00/SqFt	$8.00/SqFt	$8.00/SqFt
Project Cost	$698,855	$2,230,312	$4,401,638
Per Unit	$232,952	$123,906	$104,801
Hard Cost per Sq. Ft.	$115/SqFt	$105/SqFt	$105/SqFt
Project Value	$648,000	$2,270,700	$4,536,000
Per Unit	$216,000	$126,150	$108,000
Developer Profit or Return on Cost	-$50,855	7.1%	7.2%

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Static Pro Forma

EPS prepared a static development pro forma for each concept. A static pro forma is a summary level project snapshot at a point in time. Static pro formas are less detailed than a time series cash flow analysis, but still contain enough information to provide an initial assessment of a project's financial performance. They are frequently used by developers as a first level of due diligence when considering a project. Static pro formas are used to estimate a project's feasibility, the financing gap, or the amount a developer can afford to pay for the land and still earn its required return on the project (residual land value).

These static pro formas compare the value of a project after it has been completed and is at a stabilized level of occupancy, to the cost to develop the project. In order to be profitable, the value of the development must be greater than the cost. For the income-producing concepts evaluated (the standard apartments and the walk up apartments), the value of the real estate is the value of its income stream. For the for-sale concept evaluated (the townhomes), the value is the achievable sale price. There are several factors that contribute to the value of these project concepts and the resulting feasibility that has been estimated. These key assumptions and estimates are described below.

Rental Rates

The rent generated by a project is the biggest determinant of project feasibility. The market analysis prepared for this report indicates that overall City rents average just over $1.00 per square foot, while rents for new developments are closer to $1.30 per square foot. Units in the conceptual developments tested are slightly smaller than the City average, which combined with being new construction allows average rents to be estimated upwards slightly. Based on these factors, rents in this analysis were estimated to be between $1.45 and $1.50 per square foot.

Vacancy Rate

The average vacancy rate for apartments in Billings is 5.8 percent, indicating a healthy, if not somewhat constrained rental market. Given this rental context, the vacancy rate in this analysis was estimated to be 5 percent to allow for tenant turnover and some collection loss.

Capitalization Rate

A capitalization rate (cap rate) is the ratio of the annual income stream to the value of the property. The value of an income producing property can thus be estimated by dividing the annual stabilized income by the cap rate. A cap rate is similar to a price to earnings ratio in stocks. Cap rates have a major impact of value, and picking the appropriate cap rate can be difficult because it will vary based on the risk profile of the investor and lender. Cap rates have an inverse relationship to value: a low cap rate results in a high value, while raising the cap rate reduces the value.

A low cap rate implies a high value and relatively low-risk investment, such as a "Class A" building in a proven downtown location with tenants (businesses or households) with strong credit ratings or high incomes. Projects perceived to have higher risks due to the market, being in an unproven location (for conventional investors), or being of an unconventional type often have higher cap rates. The higher degree of perceived risk to the investor makes the income stream less valuable, just as treasury bills have low interest rates because they are perceived to be safe investments whereas junk bonds have much higher interest rates.

Developer interviews indicated that a 7.0 percent cap rate is reasonable and conservative for these types of buildings and the location in Billings.

Return on Cost

The return on cost is another simple financial metric used to gauge feasibility and potential return on investment. It is calculated (without debt in this case) as the stabilized net operating income (one year of cash flow) divided by the project cost. Rules of thumb for return on cost range from roughly 7 to 12 percent or higher, depending on the risk of the project; these are the returns a developer would need to see to justify the risk of the investment. Anything below the required return would indicate that the project would not generate enough revenue to adequately compensate the developer for the risks taken.

Project Costs

Construction costs were estimated from EPS project experience with input from local developers and general contractors. Costs for the standard and walk up apartments are estimated at $105 per square foot. Townhomes are estimated at $115 per square foot. Land cost is assumed to be $8.00 per square foot. This is estimated to be the upper limit of land prices that can be paid to still achieve a modest financial return on a development project.

Standard Apartments

Development feasibility for the standard apartments is summarized in **Table 21**. Overall, this development program is feasible, showing a surplus of just over $134,000 (project value minus cost).

The development concept has a per-unit value of $108,000 and a per-unit cost of $104,800, indicating that this program would be feasible to construct based on given assumptions. This is a small margin of feasibility. However, a creative site and building plan could create more cost efficiencies and therefore improve feasibility. Lower land costs would also improve feasibility. The return on cost of 7.2 percent is on the low end of the typical range of 7 to 10 percent a developer might look for.

Table 21 Standard Apartments Development Feasibility

Description	Standard Apartments
Development Program	
Residential	
Stories	3
Units	42
Unit Size	600 Sq. Ft.
GLA	25,200 Sq. Ft.
Residential Rent	$1.50/SqFt
Parking	
Total Spaces	42
Revenue	
Net Operating Income	$317,520
Total Development Value	**$4,536,000**
Costs	
Land and Site Costs	$312,000
Hard Costs	$3,422,938
Soft Costs	$666,700
Total	**$4,401,638**
Feasibility	
Development Value	**$4,536,000**
Development Cost	**-$4,401,638**
Difference	**$134,362**
Return on Cost[1]	**7.2%**

[1] Stabilized NOI divided by costs

Source: Economic & Planning Systems

Walk Up Apartments

Development feasibility for the walk up apartments is summarized in **Table 22**. Overall, this development program is feasible, showing a surplus of just over $40,000 (project value minus cost). Like the apartments, this concept generates modest financial returns. The development has a per-unit value of $126,000 and a per-unit cost of $124,000 which is a small margin of feasibility. Again, creative and efficient building design and innovative construction techniques could achieve lower costs per unit. If land can be obtained at a lower cost, that would also improve feasibility. Similar to the apartments, this concept generates an estimated 7.1 percent return on cost (net operating income divided by project cost).

Table 22 Walk Up Apartments Development Feasibility

Description	Walk Up Apartments
Development Program	
Residential	
Stories	3
Units	18
Unit Size	725 Sq. Ft.
GLA	13,050 Sq. Ft.
Residential Rent	$1.45/SqFt
Parking	
Total Spaces	18
Revenue	
Net Operating Income	$158,949
Total Development Value	**$2,270,700**
Costs	
Land and Site Costs	$112,000
Hard Costs	$1,758,812
Soft Costs	$359,500
Total	**$2,230,312**
Feasibility	
Development Value	**$2,270,700**
Development Cost	**-$2,230,312**
Difference	**$40,388**
Return on Cost[1]	**7.1%**

[1] Stabilized NOI divided by costs

Source: Economic & Planning Systems

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Townhomes

Townhomes are not feasible in the EBURD today under market and financial assumptions developed in this market study. The sales price estimated to be achievable on the eastern edge of the CBD and western edge of the EBURD was estimated at $216,000 per unit ($180 per square foot) compared to costs of $233,000 per unit including land. This results in a gap of just over $50,000, or 7.0 percent of total development costs (**Table 23**). It is possible however that for-sale townhomes could be developed if they were part of a larger mixed use and rental housing development in which the more profitable rental units subsidized some of the financing gap for the for-sale units. With a large project on a larger site, there can also be cost efficiencies resulting in lower per unit site development and vertical construction costs.

Table 23 Townhomes Development Feasibility

Description	Townhomes
Development Program	
Residential	
Stories	3
Units	3
Unit Size	1,200 Sq. Ft.
GLA	3,600 Sq. Ft.
Value/Unit	$216,000
Parking	
Total Spaces	0
Revenue/Value	
Total Development Value	**$648,000**
Costs	
Land and Site Costs	$84,000
Hard Costs	$434,700
Soft Costs	$89,000
Developer Return	$91,155
Total Costs and Return/Profit	**$698,855**
Residual Land Value	
Development Value	**$648,000**
Development Cost	**-$698,855**
Difference	**-$50,855**
Developer/Builder Profit	**15.0%**

Source: Economic & Planning Systems

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Feasibility Considerations

As demonstrated in the feasibility analysis, density is a key driver for development potential. A greater number of units per acre of land increases the potential feasibility of a project, with a minimum required density likely around 35 units per acre.

Given the small feasibility margins, demolition and redevelopment of existing buildings does not appear to be a viable development strategy at this point. Vacant lots or vacant spaces such as parking lots do not have site preparation costs associated with existing structures, and are thus more viable development sites.

Another consideration, given the small feasibility margin, is the opportunity to assist developers through Tax Increment Financing (TIF). This assistance may come in the form of funds for utilities, demolition, sidewalk and street improvements, environmental remediation, or land assemblage.