

6. ECONOMICS



This chapter addresses the economics related to redevelopment in the Government Hill neighborhood, from the standpoint of benefits to the community as well as feasibility with respect to private-sector investment.

The Economic Benefits of Enhancing Government Hill

From an economic standpoint, enhancing the Government Hill neighborhood will yield benefits to the Municipality at large. It will enhance the value of major employment centers located within the neighborhood boundaries, protect public investment in existing infrastructure, and enhance the attractiveness of parks, trails, and other amenities found in the neighborhood that residents throughout the region enjoy.

Recreation and Culture

The parks, trails, and civic facilities in Government Hill are unique and they serve the community at large. These enhance the quality of life for all Anchorage residents and contribute to its business development strategies in a global economy.

Heritage Tourism

As a place with a unique identity, Government Hill's preserved heritage will improve the appeal of Anchorage as a place to live, work, and visit. A key element contributing to Anchorage's economic future is the rise in heritage-related tourism in the region. Historic sites in Government Hill expand the menu of heritage resource offerings, an important factor in expanding the tourism market.

Business Incubator

Government Hill can play an important role as a supportive place for start-up businesses, particularly in professional services and technology.

Housing Supply

The increased residential density proposed for the Neighborhood Center will strengthen the market for local businesses. Those who wish to live and work in the neighborhood will support and benefit from services provided in the Neighborhood Center.

A. THE ECONOMIC STRATEGY

The economic development strategy for the Government Hill neighborhood relies upon policies and trends in other Municipal planning documents. These are the key principles:

1. Build on Regional Growth Trends.

The economic development strategy for the neighborhood plan builds on policies related to growth, infill, and housing that are set forth in Anchorage 2020-Anchorage Bowl Comprehensive Plan, which was adopted in 2001. Several of those policies are included in Chapter 1 of the Government Hill Neighborhood Plan as a part of the discussion of existing conditions.

2. Make Better Use of Developed Lands.

In general, comprehensive plan policies note that reusing existing urbanized lands is preferred, and that densities should increase to the extent that is reasonable and feasible. They also encourage making best use of existing infrastructure and improving it as necessary. The conceptual plans for a revitalized Neighborhood Center, which appear in Chapter 4, reflect those policies.

3. Respond to the Housing Market Needs.

The strategy also draws upon findings in the Anchorage Housing Market Analysis, which was published in March 2012. The study notes that demand for housing will continue to grow with the projected increase in population of the area, but that a serious problem exists in meeting future housing needs with typical, low-density development patterns. Higher densities are needed. While the proposed densities for the Government Hill Neighborhood Center are not “high” by most standards, they will increase above existing level and would make better use of an existing infrastructure.

4. Enhance the Quality of Life for Existing Businesses in the Neighborhood.

Major employers in the neighborhood include JBER, Alascom, the Port of Anchorage, and the Alaska Railroad. An improved neighborhood center will offer goods and services that enhance the working environment for employees of these important institutions.

5. Strengthen the Established Residential Areas.

Promoting rehabilitation and compatible infill in the residential parts of the neighborhood is a core principle for economic development. It will encourage more home ownership, and it

will enhance property values. The quality of life for residents will be enhanced with an improved neighborhood center, and attract more residents to the area as well.

6. Leverage public investment to stimulate private investment.

The Government Hill neighborhood, as with many others in Anchorage, faces a contradiction in conditions, in that the current market conditions are not strong enough to attract substantial private investment at the scale that can substantially transform the neighborhood center. At the same time, the future market potential can be quite strong if infrastructure improvements can be made that will support it. This will require using creative financing tools.

B. EXISTING FEASIBILITY ANALYSIS

This section summarizes findings of economic feasibility for redevelopment in the Neighborhood Center, under current conditions in early 2012. This analysis uses data from local and national sources to project the feasibility of redeveloping the neighborhood center as a whole within the categories of commercial and residential markets.

Feasibility analysis

This analysis was performed for the specific scenarios that are presented in the preceding chapter. Note that this is a more general test of feasibility than that which might typically be developed for a specific development site. It is intended to provide a general understanding of feasibility.

Many variables can influence feasibility, including current

development costs and potential sales or rental income projections. The cost of financing, the degree of risk a developer is willing to undertake, and the rate of return are other variables. Values for these factors are included in the feasibility analysis, which is based on information provided by local professionals in related fields of development, construction, and finance.

It is also important to note that this feasibility analysis is based on current market conditions, while the timeline that projects when redevelopment will actually occur (presented in the next chapter) envisions the first development projects occurring in 2018. At that time, the market conditions may well be stronger as the national economy recovers.

Because immediate rate of return projections are lower than most developers might seek, these pro forma analyses focus on value created in the development projects.

C. GENERAL OBSERVATIONS

In the initial pro forma analyses for redevelopment opportunities in Government Hill, these are the preliminary observations:

1. Overall, feasibility is marginal with the assumptions stated in the pro forma.

Even if public facilities and infrastructure are removed from the equation, and some land costs are as well, the mix of uses in aggregate result in a negative bottom line. However, at a finer grain of consideration, some pockets of opportunity exist.

2. Construction costs are high.

This remains true throughout the region and makes any redevelopment challenging. For this reason, the projects envisioned are ones that keep construction methods simple. Mixed-use developments are generally assumed to be “horizontal” rather than “vertical.” This means most commercial and residential uses would occur in separate buildings in order to hold construction costs down.

3. Rental and sales prices are low in comparison with construction costs.

This is particularly true for projects targeted at low and moderate income segments. As Government Hill attracts a broader mix, including some higher-income residents, this may change the formula.

4. Residential development is less feasible than commercial.

Rental housing appears to be more feasible than “for sale” products. Overall, it suggests that growth should occur incrementally, with a core of commercial development happening first and with residential projects following later when the market conditions improve. (This may also coincide with additional land becoming available from JBER.)

5. A hotel is marginally feasible.

A hotel could serve the community at large, and particularly visitors to JBER. Feasibility could be increased if a solid occupancy rate could be assured, perhaps in agreement with JBER for people attending training, etc. Again, perhaps this should be deferred to a later phase.

6. Commercial development may be feasible.

This is the most promising use. Even so, construction costs need to be held down to the extent feasible. Minimizing the level of tenant finish is an example. A grocery, for example, appears to be feasible, given the relatively limited level of finish typically required.

7. Vertical mixed use should be programmed with caution.

The fire separation requirements between commercial and residential will increase construction costs. Placing offices above retail will be less costly. On the other hand, some vertical mixed use should continue to be included because of the positive benefits of the interactions of the uses.

8. Use private funds strategically to stimulate private investment.

Off-setting site improvement and infrastructure costs will be important. The analyses assume that street improvements, landscaping, and even some parking will be public-sector projects. (These may be privately financed, however, through improvement district mechanisms, which are described in the next chapter.)

D. ALTERNATIVE APPROACHES TO ECONOMIC DEVELOPMENT IN GOVERNMENT HILL

The redevelopment scenarios presented for the Neighborhood Center are ambitious. Given the constraints of the economic conditions, why is that approach recommended? Because this is a special neighborhood, with unique opportunities for its

residents as for the Municipality at large, but its potential will only be realized with an affirmative action. In the event that the KAC project moves forward, the plan advocates for the “creating value” approach. This includes reconfiguration of the neighborhood center parcels and streets. However, in the event that the KAC does not move forward, the “conservative investment” should be elected, with some more modest “creating value” improvements, targeted redevelopment, and continued partnership with JBER, the Railroad, and the Port to encourage mutually enhancing development.

In reaching this conclusion, three alternative approaches were considered:

Approach 1: Do Nothing

In this approach, properties will continue to be constrained, which will limit reinvestment opportunities. Irregular street intersections will continue to complicate traffic movements and discourage pedestrian activity, and access to community services, including parks and schools, will remain awkward. There would be no significant public investment in the Neighborhood Center.

With current economic conditions and the constraints of the existing parcels, little redevelopment would occur. There could be some façade improvements, but the overall supply of commercial space and residential units would not increase substantially. And, it is possible that the net commercial space would actually decline, especially if the KAC project proceeds ahead and removes some buildings in the path of construction.

In the long term, utility upgrades will still be necessary in Government Hill, particularly sewer lines. When those

replacements did occur, they would, however, happen in the existing street configurations. Once those investments are made, it will be less cost-effective to change street layouts later.

Approach 2: Conservative Investment

In this scenario, there would be no attempt to reconfigure streets or property layouts. The focus would be on renovating existing properties. Public sector work would concentrate on installing some streetscape enhancements within existing curb lines and on improving intersections within the constraints of the existing street network.

This scenario may encourage some property upgrades, but no substantial redevelopment would be likely. Densities would remain similar to that of today. And, again, if KAC moves forward, there would be little opportunity to take advantage of the disruption that would occur, in terms of combining parcels and changing circulation patterns.

Approach 3: Creating Value

This approach, which is the one recommended in this plan, takes an ambitious stand. It seeks to create a sense of place with streetscape enhancements and new utilities, but it also creates new opportunities for investment. It does so by reconfiguring parcels and streets and expanding the Neighborhood Center to the northeast. While it requires substantial investment, it promises greater benefits in terms of creating a center that contributes meaningfully to property values, job creation and retention, and housing supply.

Potential mechanisms to make best use of available lands include leasing or buying JBER lands for the future residential development, adopting the final scenario and

its recommendations for development within the commercial core, incorporating certain elements of the overlay district, and incorporating the GHNP land use map. The map includes JBER properties in its potential expanded commercial core, which advocates for mixed use and could allow for higher density residential.

See Appendix for the Summary of Pro Formas.

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