

## **MEMORANDUM**

To: Big Sky Economic Development  
Downtown Billings Alliance  
East Billings Urban Renewal District

From: Brian Duffany and Carson Bryant, Economic & Planning Systems

Subject: Downtown Billings Housing Study Update, EPS #213178

Date: September 26, 2022

*The Economics of Land Use*



This memorandum provides research and analysis on the housing market in Downtown Billings and identifies strategies that can be used to catalyze residential development in the Downtown core.

While Billings has experienced recent increases in housing prices and significant residential building activity that indicate strong demand, the Downtown core has seen relatively little new housing development. Residential development in Billings has primarily occurred on the edges of the city, with single family homes remaining the most common form of new housing delivered by the market. While a few residential infill projects are in the development pipeline, development in the Downtown core has been constrained by high land costs, low rents, and a perceived high level of risk relative to other parts of the city.

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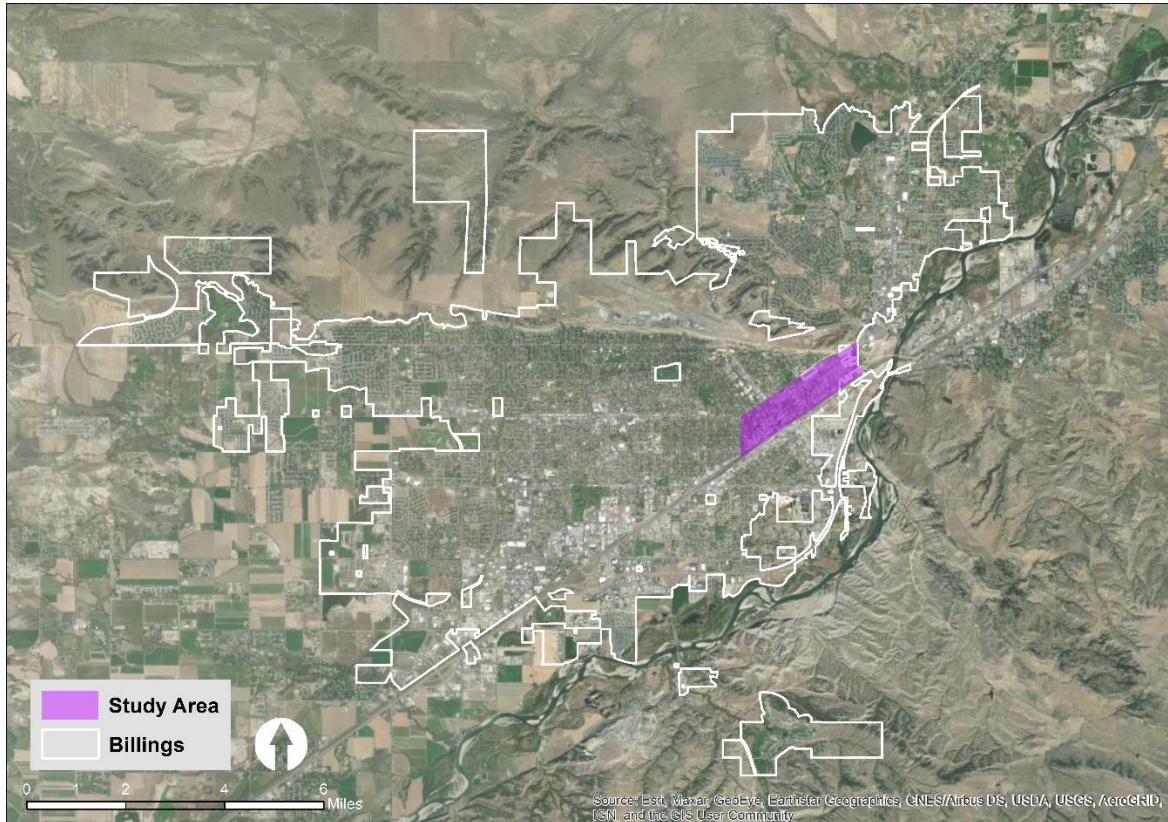
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## Study Area

The study area for this project, shown in **Figure 1**, contains the Downtown Billings central business district (CBD) and the East Billings Urban Renewal District (EBURD). It is bounded by Division Street to the west, 6<sup>th</sup> Avenue to the north, the BNSF railroad to the south, and Main Street (U.S. Highway 87) to the northeast.

**Figure 1. Study Area**



## County and City Trends

EPS examined population trends in the greater Billings area. Yellowstone County added almost 19,000 people from 2010 through 2021, an increase of 13 percent as shown in **Table 1**. Approximately 60 percent of the population growth was in the City of Billings, which added over 11,000 people during this time. The remaining 40 percent of growth was in Laurel, Lockwood, and unincorporated Yellowstone County.

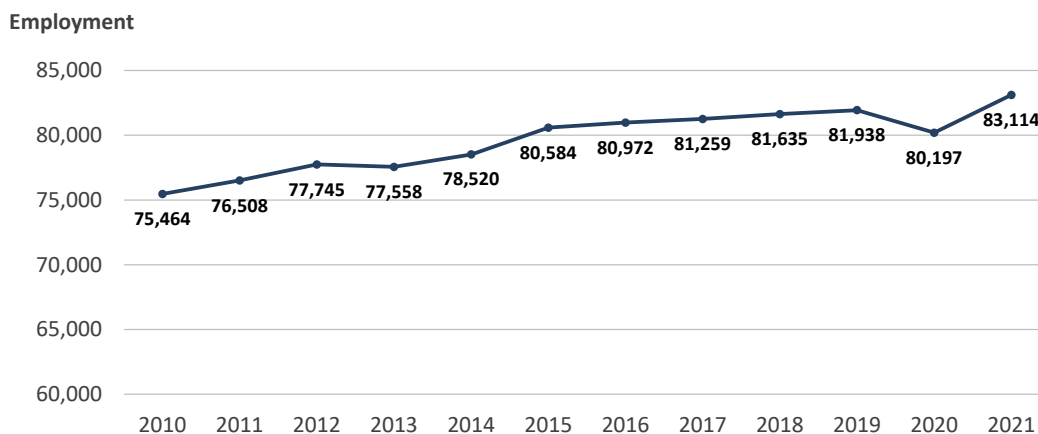
**Table 1. Population by Place, Yellowstone County, 2010-2020**

Population Trends	2010	2021	2010-2021			
			Total	% Change	Ann. %	% Capture
Billings	106,876	118,517	11,641	11%	0.9%	61%
Laurel	6,814	7,388	574	8%	0.7%	3%
Lockwood	6,823	7,258	435	6%	0.6%	2%
Remainder of County	27,459	33,778	6,319	23%	1.9%	33%
<b>Total Yellowstone County</b>	<b>147,972</b>	<b>166,940</b>	<b>18,968</b>	<b>13%</b>	<b>1.1%</b>	<b>100%</b>

Source: U.S. Census; Economic & Planning Systems

Yellowstone County added 7,650 wage and salary jobs between 2010 and 2021 at a rate of just under 700 jobs per year and a 0.9 percent annual growth rate as shown in **Figure 2**. There was steady growth through 2019 followed by a loss of approximately 1,700 jobs through 2020 during the pandemic. By the end of 2021, the economy had bounced back and exceeded 2019 job levels, reaching 83,000 jobs. The largest industry sectors in Yellowstone County include Health Care, Construction, Accommodation and Food Services, and Transportation and Warehousing.

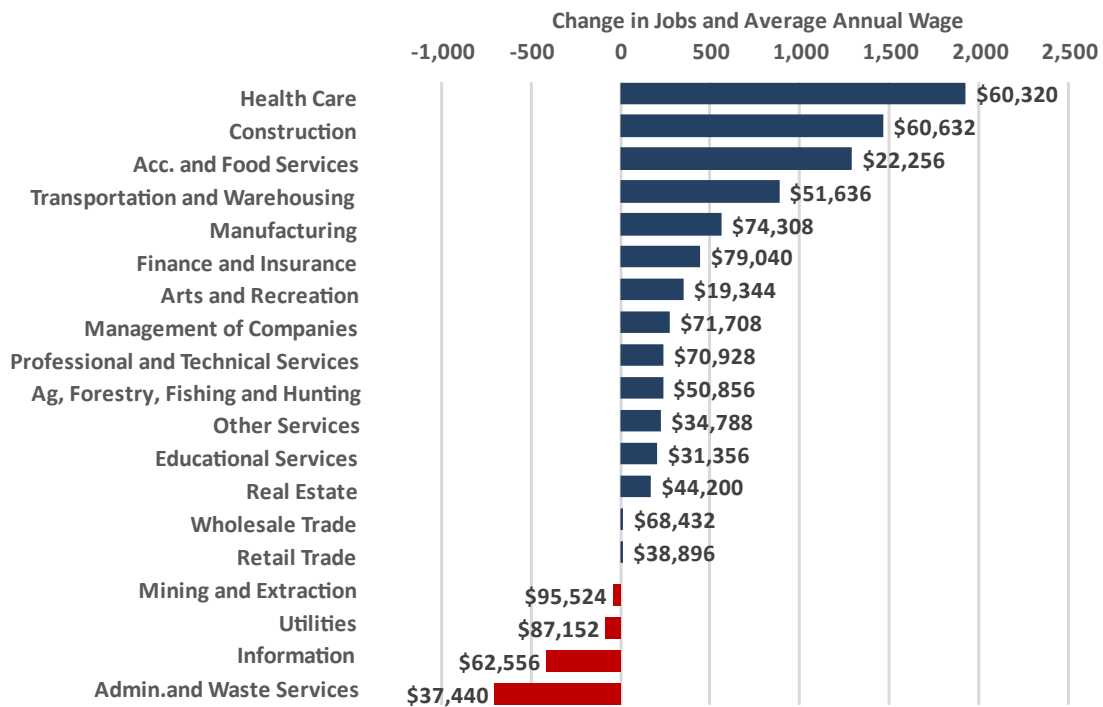
**Figure 2. Employment Trends, Yellowstone County, 2010-2021**



Source: BLS; Economic & Planning Systems

The largest growth industry in Yellowstone County was Health Care which added approximately 2,000 jobs since 2010, with an average annual wage of \$60,300 as shown in **Figure 3**. Additionally, Construction added almost 1,500 jobs also at about \$60,600 per year. Accommodations and Food Services (restaurants, hotels) had the third largest growth with about 1,300 jobs at an average annual pay of just over \$22,000 (not including gratuities).

**Figure 3. Job Growth by Industry and Wages, Yellowstone County, 2010-2021**



## Demographics

The Downtown area comprised of the CBD and EBURD has about 1,600 residents with no appreciable change over the past 10 years based on available data as shown in **Table 2**. While the data show a small decline in population, it should be noted that the data are estimated and have margins of error. In comparison, the City's population grew by 11 percent. Household incomes are lower in the Downtown area, but this is skewed by affordable and senior housing in Downtown. The household size in the Downtown area is much smaller than the citywide average, at 1.6 compared to 2.3. This indicates a larger percentage of smaller households and single person households.

**Table 2. Population, Age, Income, and Household Size**

Area	2010	2021	2010-2021
			Change
<b>CBD &amp; EBURD</b>			
Total Population	1,643	1,614	-1.8%
Median Age	36.7	38.9	6.0%
Median Household Income	\$26,006	\$33,870	30.2%
Average Household Size	1.6	1.6	—
<b>Billings</b>			
Total Population	106,876	118,517	10.9%
Median Age	37.4	39.3	5.1%
Median Household Income	\$45,941	\$60,032	30.7%
Average Household Size	2.3	2.3	—

Source: U.S. Census

In the Downtown area, most households are nonfamily (roommates, single person) households, making up 62 percent of the total as shown in **Table 3**. Renters are the most common household tenure in Downtown, with 87 percent of households compared to 37 percent citywide. Household demographics stand in contrast to those citywide, where family households are 58 percent of the total. However, family households (related by blood or marriage) have decreased from 76 to 58 percent citywide since 2010. This trend indicates that more people are delaying marriage and also pairing up as roommates to reduce per-person housing costs.

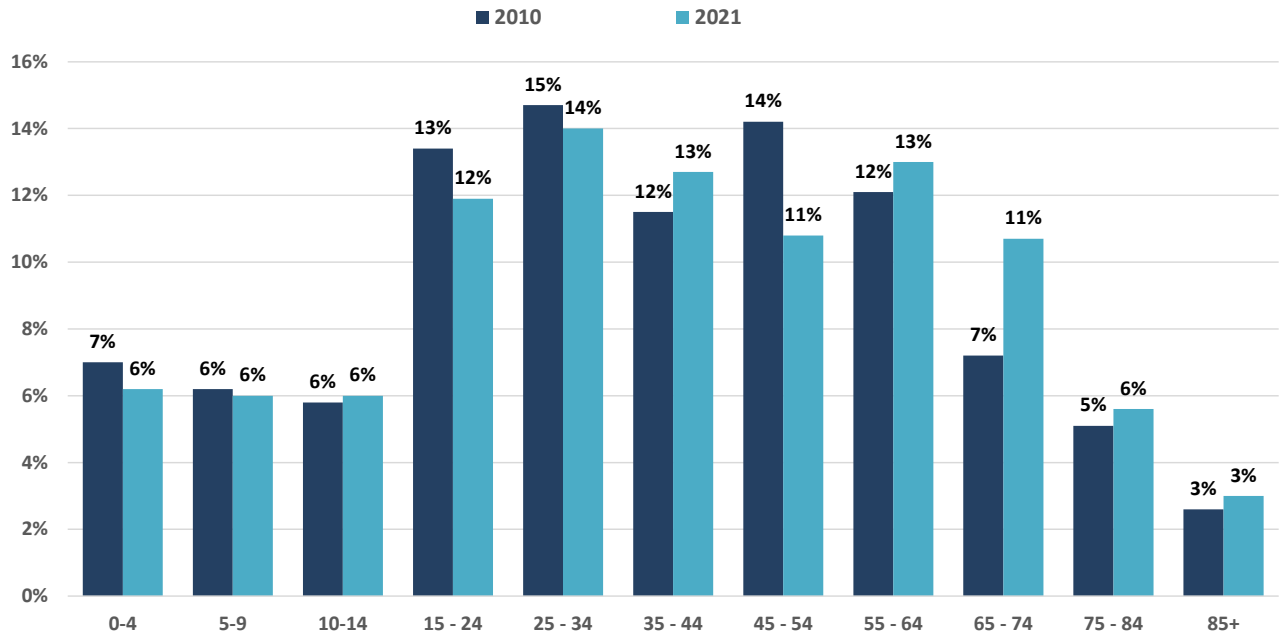
**Table 3. Household Characteristics**

Description	Billings		CBD & EBURD	
	2010	2021	2010	2021
<b>Households</b>				
Family Households	76%	58%	41%	38%
Nonfamily Households	24%	42%	59%	62%
<i>Living alone</i>	67%	81%	39%	79%
<i>With Roommates</i>	33%	19%	61%	21%
<b>Total Housing Units</b>				
Owner Occupied	62.9%	63.2%	16.6%	12.9%
Renter Occupied	37.1%	36.8%	83.4%	87.1%

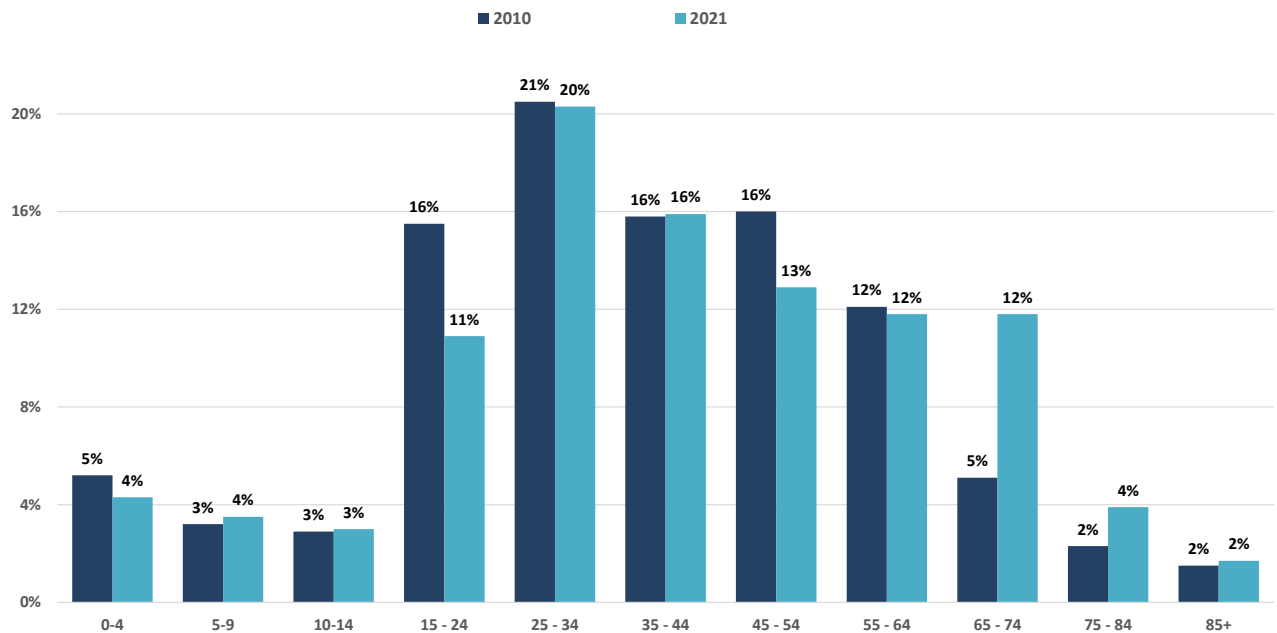
Source: Economic & Planning Systems; US Census

The population of Billings as a whole has gotten older over the past decade, as the median age has increased from 37.4 to 39.3, and the age cohort to grow the most was 65 to 74, as shown in **Figure 4**. In contrast, residents in the Downtown area are younger on average than the city as a whole. The largest age group in Downtown is 25- to 34-year-olds with 20 percent of the total population as shown in **Figure 5**.

**Figure 4. Population by Age, 2010-2021**



**Figure 5. Downtown Population by Age**

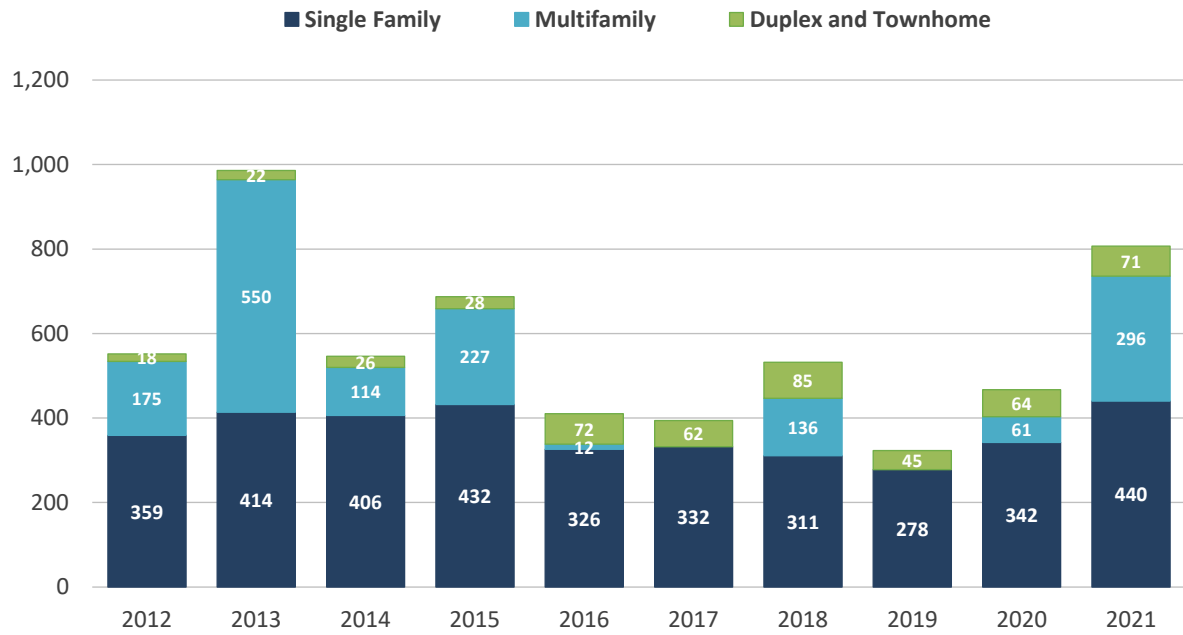


## Building Permits

Between 2012 and 2021, Billings issued new construction building permits for an average of 545 residential units per year, approximately 65 percent of which were for single family homes, 26 percent for multifamily projects, and 9 percent for duplex/townhome projects. Development activity was relatively consistent through the years, with the highest level of activity in 2013, when 986 units were permitted as shown in **Figure 6**. This residential development was concentrated on the western, northwestern, northeastern, and southern edges of the city, with comparatively minimal development activity in the central part of the study and in the Downtown core and Study Area as shown in **Figure 7**.

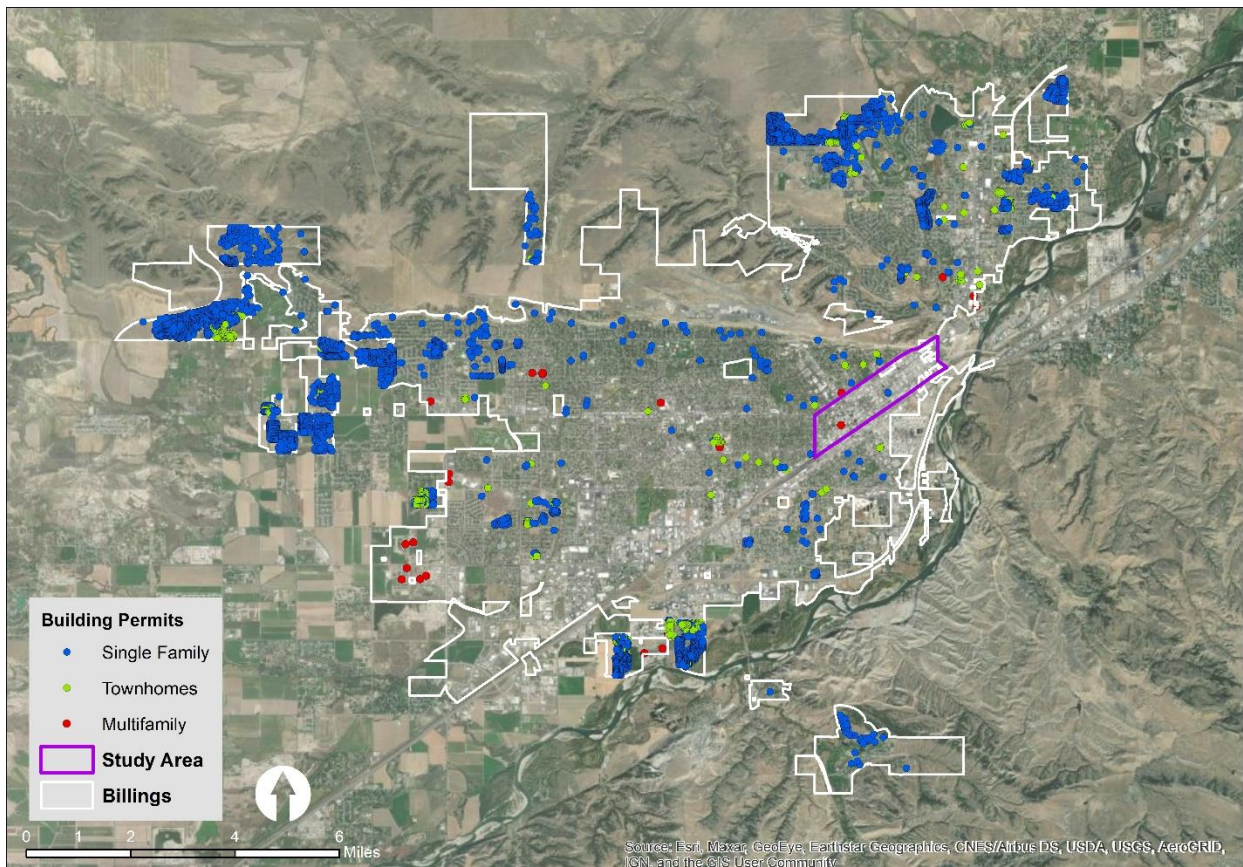


**Figure 6. New Construction Building Permits, 2012-2021**



Source: City of Billings; Economic & Planning Systems

**Figure 7. Permit Activity, 2012-2021**

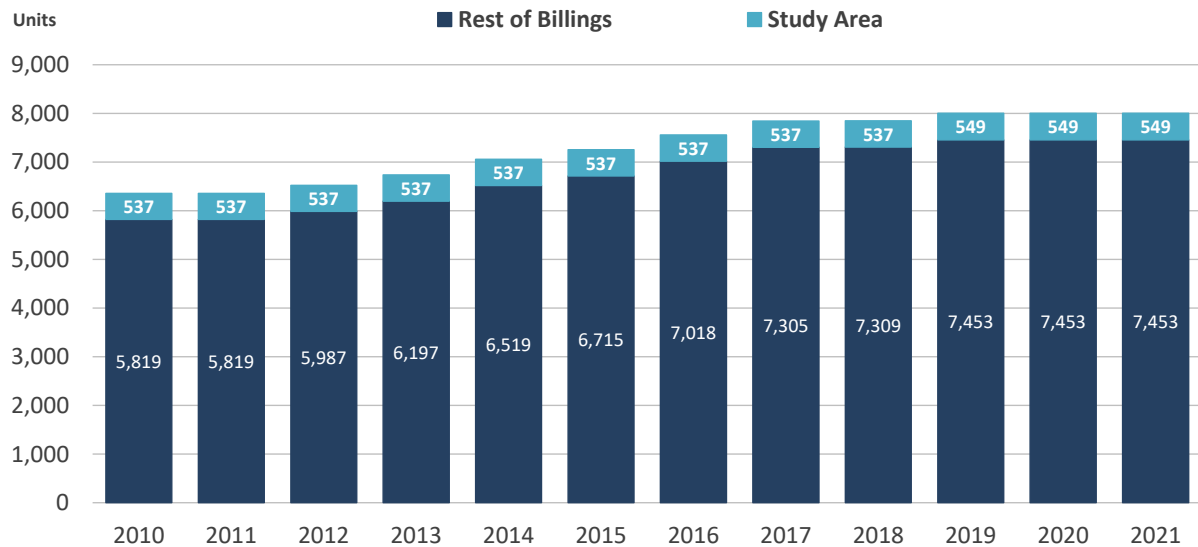




## Rental Housing Market

Multifamily development activity was strong in Billings over the past decade. Between 2010 and 2021, the inventory of multifamily rental housing expanded by 1,646 units, or 25 percent, as shown in **Figure 8**. The Study Area experienced a more limited amount of growth in multifamily inventory, increasing by 12 units between 2010 and 2021.

**Figure 8. Multifamily Inventory, 2010-2021**



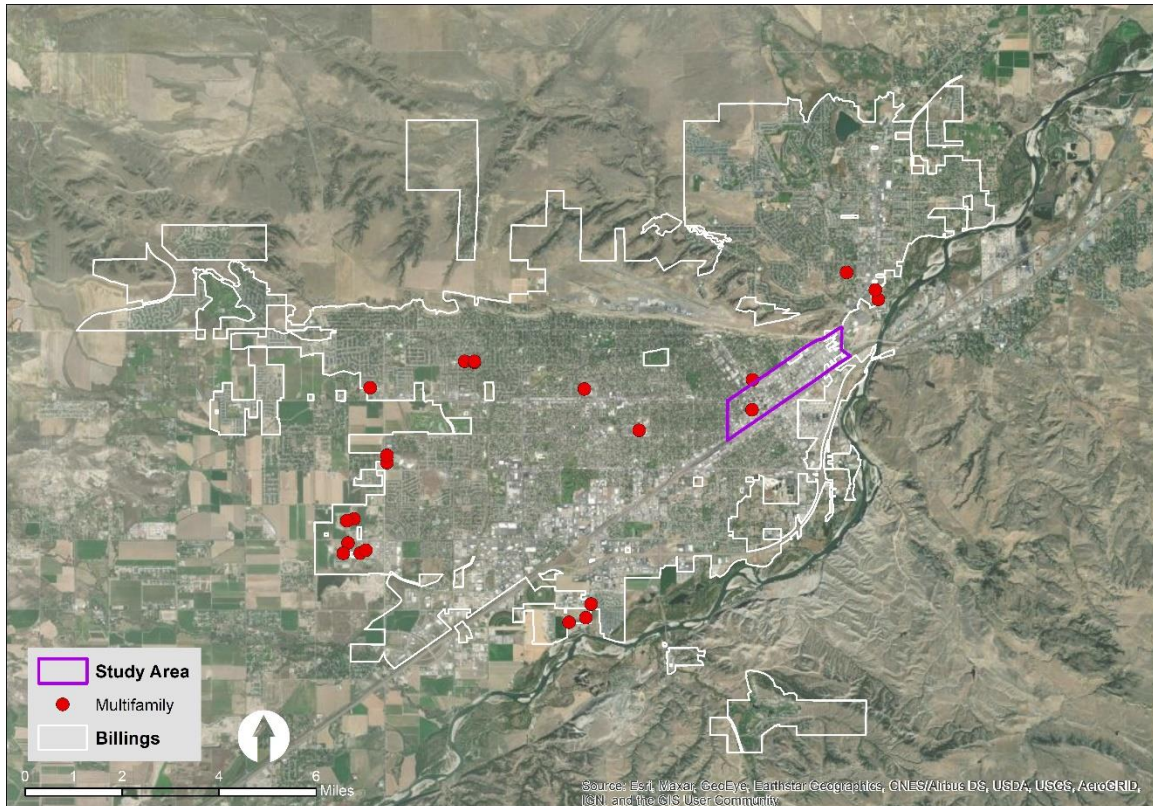
Source: Costar; Economic & Planning Systems

Much of the new multifamily inventory delivered over the past decade is located on the west side of the city, including the major projects Shiloh Commons, Hoop Dreams Apartments, Granite Peak Apartments, Affinity at Billings, and the Interurban Apartments, as shown in **Table 4** and **Figure 9**. By comparison, the Study Area saw limited development activity, as the 12-unit McDonald Lofts built in 2019 was the only rental project delivered between 2010 and 2021.

**Table 4. Key Multifamily Projects, 2010-2022**

Market	Address	Year Built	Type	Units	Rent/Sf
Downtown Billings	124 N 29th St	2019	Apartments	12	\$1.43
Billings	1607 17th St W	2017	Apartments	126	\$2.16
Billings	501 S 44th St W	2014	Apartments	160	\$1.49
Billings	610 S 44th St W	2016	Apartments	216	\$1.54
Billings	4402 Blue Devils Way	2013	Apartments	198	\$1.21
Billings	3110 Boulder Ave	2018	Apartments	4	--
Billings	4110 Clippers Way	2016	Apartments	87	--
Billings	4510 Gators Way	2015	Apartments	196	\$1.79
Billings	4300 King Ave W	2012	Apartments	168	\$1.89
Billings	325-327 Lincoln Ln	2013	Apartments	12	\$0.81
Billings	1094 Lincoln Ln	2010	Apartments	36	\$1.10
Billings	4215 Montana Sapphire Dr	2014	Apartments	154	\$2.52
Billings	5629 Reds Way	2017	Apartments	106	--
Billings	115 Shiloh Rd	2019	Apartments	144	\$1.54
Billings	223 Shiloh Rd	2017	Apartments	41	\$1.69
Billings	1010 Wyoming Ave	2017	Apartments	12	--

**Figure 9. Key Multifamily Projects, 2010-2022**



Current multifamily listings, shown in **Table 5**, show a relatively wide range of price points. Monthly rents for 1-bedroom units range from \$1,150 at Western One to \$1,845 at Avenue C, with most other 1-bedroom units renting below \$1,400. Monthly rents for 2-bedroom units at Shiloh Commons are \$2,995, although most 2-bedroom unit rents are between \$1,400 and \$1,700.

**Table 5. Select Current Multifamily Listings**

Name	Address	1 Bed	2 Bed	3 Bed
McDonald Lofts	124 N 29th Street	\$1,150	\$1,400	\$1,600
Avenue C	1607 17th St W	\$1,845	\$2,600	
InterPoint Apts	501 S 44th St W	\$1,195	\$1,550	\$1,775
InterUrban Apts	610 S 44th St W	\$1,295	\$1,650	\$1,925
Western One Apts	4402 Blue Devils Way	\$1,150	\$1,350	
Shiloh Commons	115 Shiloh Rd	\$1,400	\$2,995	

Source: Economic & Planning Systems

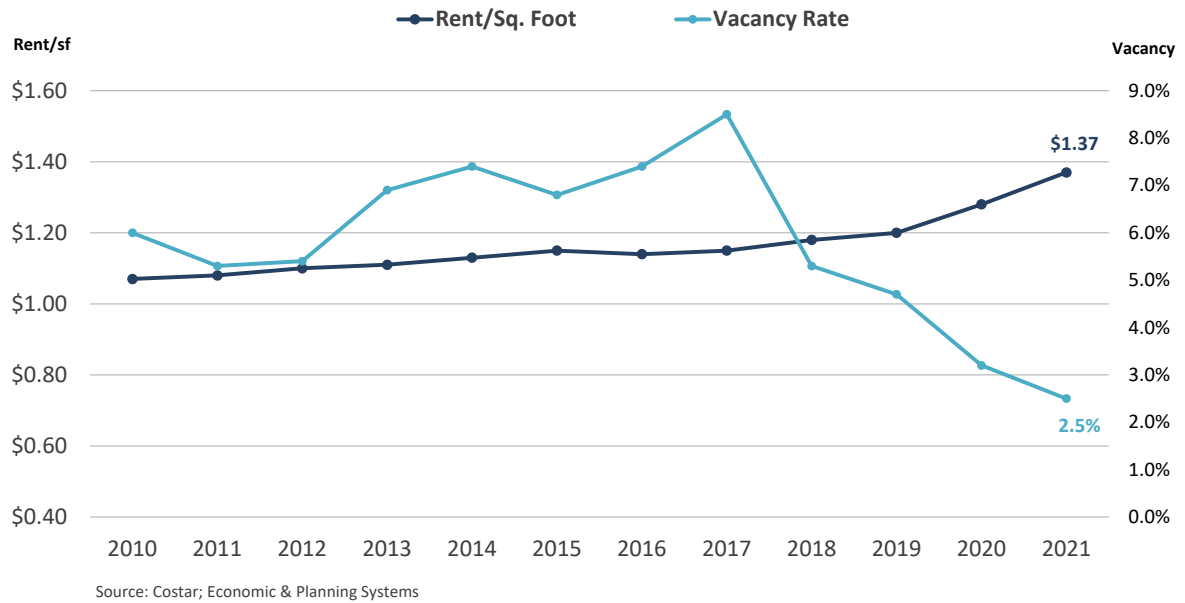
Over the past decade, multifamily rents have increased while vacancy rates have generally declined as shown in **Table 6** and **Figure 10**. From 2010 to 2021, the average rent per square foot in Billings rose by \$0.30 or 28 percent, with the most significant year-over-year increases occurring between 2019 and 2020, and 2020 and 2021. Since reaching a 10-year peak of 8.5 percent in 2017, the vacancy rate for multifamily has declined sharply, reaching 2.5 percent in 2021, below what is commonly understood as market equilibrium at 5 percent. Rising rents and a decreasing vacancy rate point to a tight rental market with strong demand.

**Table 6. Apartment Market Trends, 2010-2021**

Yellowstone County Multifamily Trends				2010-2021	
	2010	2015	2021	Change	Ann. %
<b>Inventory (Units)</b>					
CBD & EBURD	537	537	549	12	0.2%
Billings	6,356	7,252	8,002	1,646	2.1%
<b>Rental Rates per Sf.</b>					
CBD & EBURD	\$0.95	\$1.01	\$1.20	\$0.25	2.1%
Billings	\$1.07	\$1.15	\$1.37	\$0.30	2.3%
<b>Vacancy Rates</b>					
CBD & EBURD	6.5%	5.5%	3.1%	-3.4%	
Billings	6.0%	6.8%	2.5%	-3.5%	

Source: CoStar

**Figure 10. Multifamily Rents and Vacancy Rates, 2010-2021**



### ***Development Pipeline***

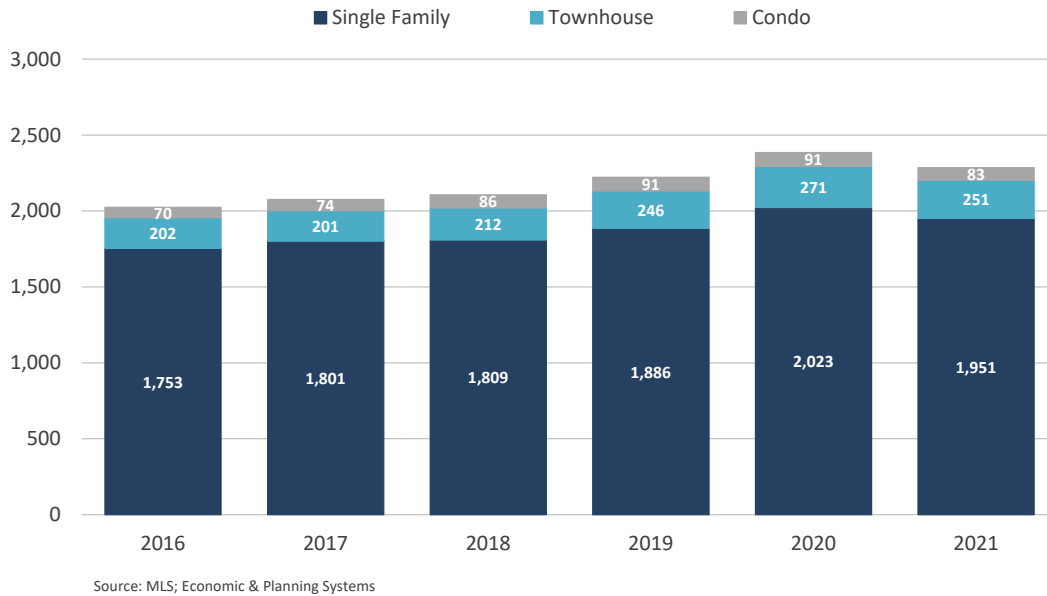
Recently there has been a notable increase in planned Downtown development. If these projects are completed, they will add at least 100 units to Downtown, more than 10 times what has been built in the last 10 years.

- 2520 1<sup>st</sup> Avenue N was recently purchased and is planned for 28 residential units by the end of 2022.
- 2316 1<sup>st</sup> Avenue N is a larger project planned for 36 market rate units in phase one and another 36 market rate units in phase 2.
- 2802 Montana Avenue is also planned to be redeveloped within the next 18 months into 24 market rate units.
- A 16-unit project on N. 20<sup>th</sup> Street is expected to be completed by the end of 2023.

## For-Sale Market Conditions

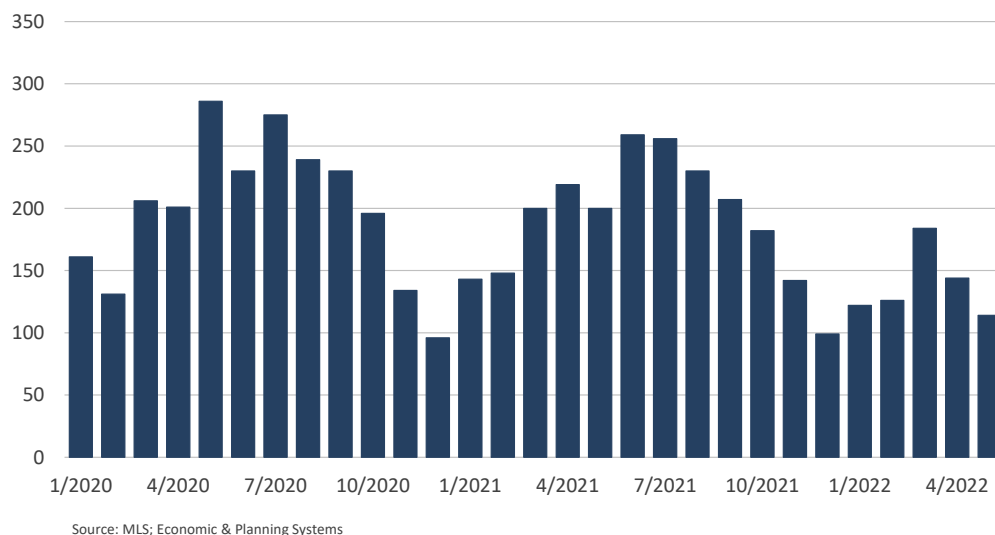
Residential sales activity in Billings has increased in recent years. In 2016, the Billings market had 2,025 sales and by 2020 had 2,385 sales, an increase of 360. As shown in **Figure 11**, approximately 85 percent of sales in Billings are single family homes, while 11 percent are townhouses and 4 percent are condos.

**Figure 11. Sale Volume by Type, 2016-2022**



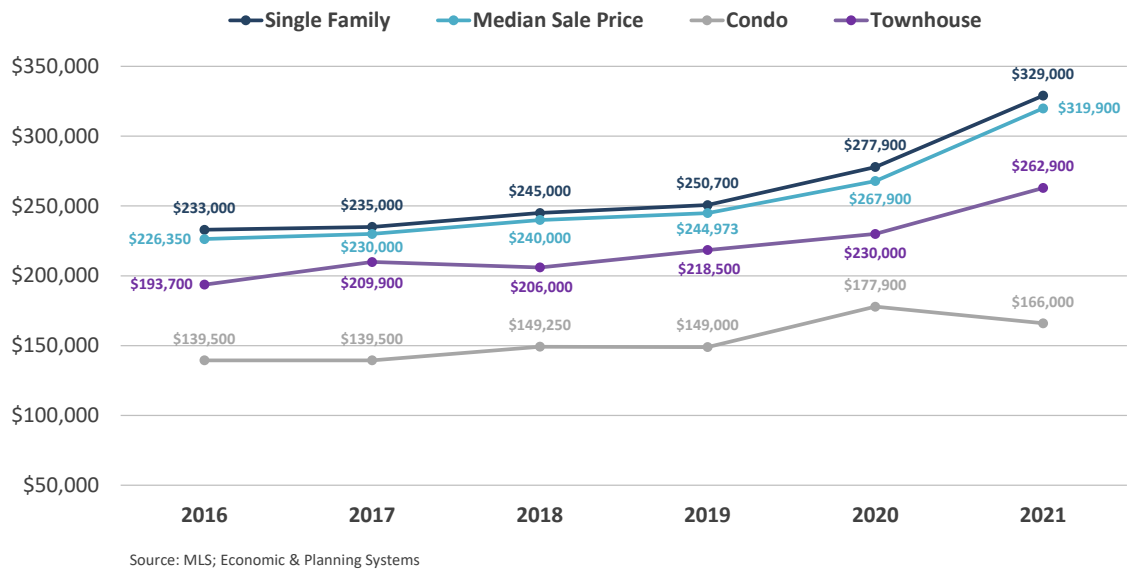
While overall sales volume has been trending upward over the past five years, monthly sales show a slight cooldown in activity in early 2022 as compared to 2020 and 2021, as shown in **Figure 12**. In the first five months of 2022, there have been 690 home sales, as compared to 910 in the first five months of 2021 and 985 in the first five months of 2020.

**Figure 12. Monthly Home Sales, 2020-2022**

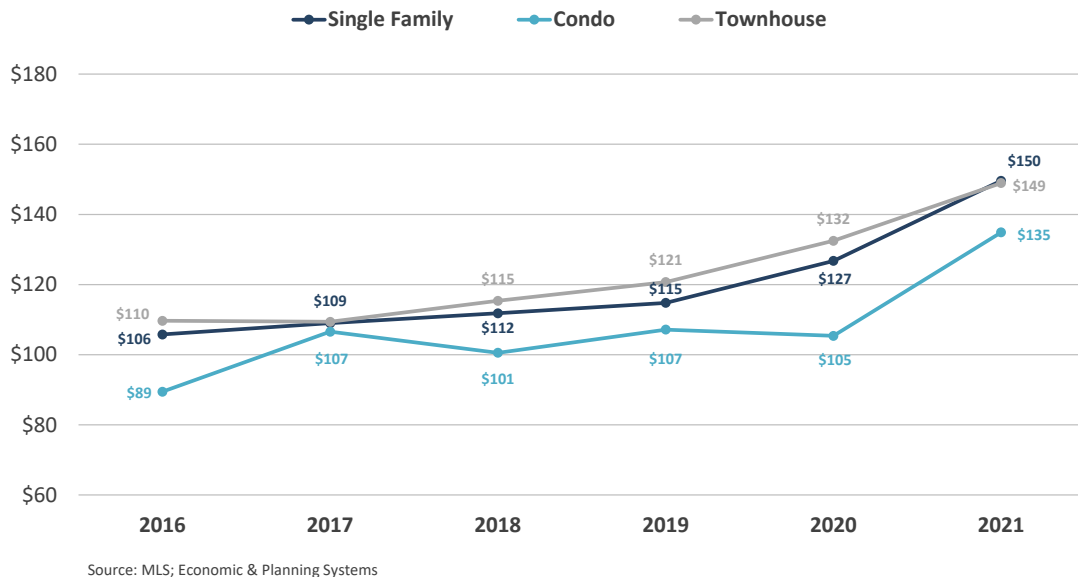


Home prices have escalated significantly in Billings over the past five years. The overall median sale price rose from \$226,350 to \$319,900, an increase of 41 percent, as shown in **Figure 13**. The median price for single family homes, which comprise 85 percent of home sales, rose from \$233,000 in 2016 to \$329,000 in 2021. Over the same period, the median sale price for townhomes increased by 41 percent and the median sale price for condos increased by 19 percent. On a per square foot basis, median home prices between 2016 and 2021 rose to \$150 for single family, \$149 for townhomes, and \$135 for condos, which equates to increases of 41 percent, 51 percent, and 36 percent, respectively, as shown in **Figure 14**. The overall median sale price in 2021 was \$149 per square foot, while newer builds (built within five years of sale) had a significantly higher median sale price in 2021 of \$211 per square foot.

**Figure 13. Median Sale Price by Type, 2016-2021**



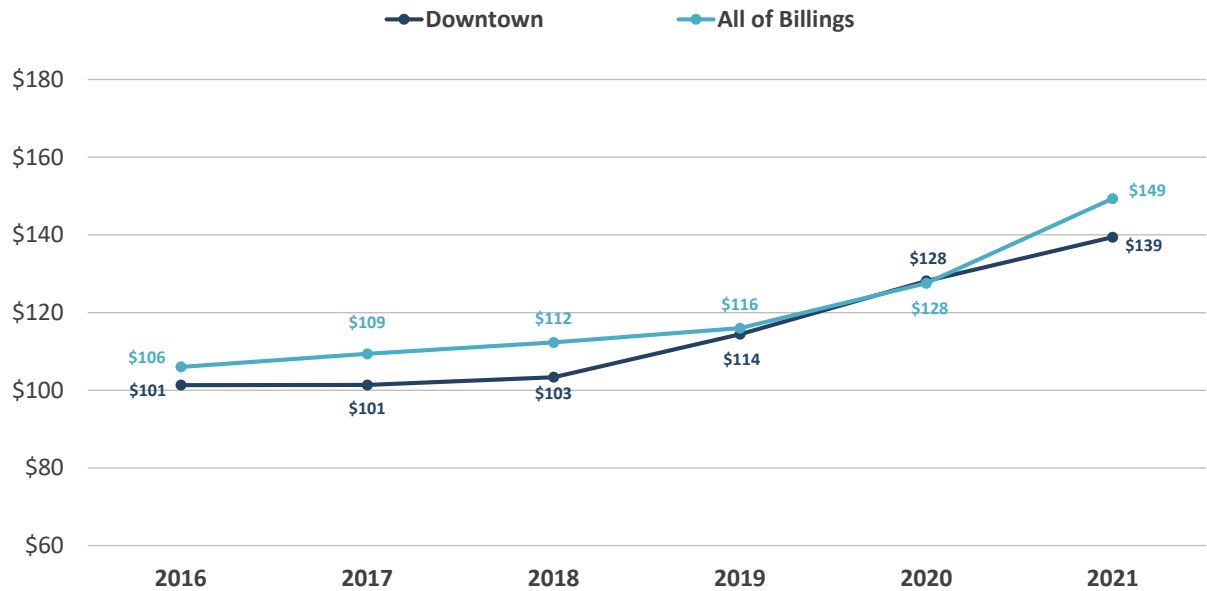
**Figure 14. Median Sale Price per Sq. Ft. by Type, 2016-2021**





Overall, median sale price per square foot Downtown is slightly lower than for all of Billings, reaching \$139 per square foot in 2021 compared to \$149 for Billings as a whole, as shown in **Figure 15**. In 2021, the Downtown area had 124 sales, 109 of which were single family homes and the remaining 15 of which were condos.

**Figure 15. Median Sale Price per Sq. Ft. by Area, 2016-2021**



Source: MLS; Economic & Planning Systems

In terms of sale price distribution, a majority (56 percent) of home sales in Billings in 2021 were above \$300,000, while one-quarter were above \$400,000, as shown in **Table 7**. By contrast, only 21 percent of home sales in Billings in 2016 were above \$300,000. On a per square foot basis, 89 percent of sales in 2016 were below \$150 per square foot, compared to only 52 percent of sales in 2021, as shown in **Table 8**. In 2021, approximately 18 percent of sales were above \$200 per square foot, compared to less than 1 percent of sales in 2016. In Downtown, the distribution is similar but slightly less expensive than Billings as a whole, with 60 percent of sales below \$150 per square foot.

**Table 7. Sale Price Distribution, 2016 and 2021**

Sale Price	2016		2021	
	Amount	% of Total	Amount	% of Total
Less than \$100,000	84	3.9%	94	3.9%
\$100,000-\$200,000	672	31.4%	243	10.0%
\$200,000-\$250,000	580	27.1%	311	12.8%
\$250,000-\$300,000	344	16.1%	414	17.0%
\$300,000-\$350,000	187	8.7%	438	18.0%
\$350,000-\$400,000	104	4.9%	303	12.5%
\$400,000-\$500,000	92	4.3%	326	13.4%
\$500,000-\$600,000	36	1.7%	130	5.4%
\$600,000-\$800,000	24	1.1%	122	5.0%
\$800,000-\$1,000,000	13	0.6%	20	0.8%
Over \$1 Million	2	0.1%	28	1.2%
<b>Total</b>	<b>2,138</b>	<b>100%</b>	<b>2,429</b>	<b>100%</b>

Source: MLS; Economic & Planning Systems

**Table 8. Sale Price per Square Foot Distribution, 2016 and 2021**

Sale Price	2016		2021	
	Amount	% of Total	Amount	% of Total
Less than \$100	898	42.0%	211	8.7%
\$100-\$150	995	46.5%	1,043	42.9%
\$150-\$200	226	10.6%	729	30.0%
\$200-\$250	16	0.7%	287	11.8%
\$250-\$300	3	0.1%	136	5.6%
\$300-\$400	0	0.0%	19	0.8%
\$400-\$500	0	0.0%	2	0.1%
\$500-\$700	0	0.0%	1	0.0%
Over \$700	0	0.0%	1	0.0%
<b>Total</b>	<b>2,138</b>	<b>100%</b>	<b>2,429</b>	<b>100%</b>

Source: MLS; Economic & Planning Systems

### **Development Pipeline**

The most recent for-sale development in Downtown Billings is the Fratt Condominiums, located at 235 N. 32<sup>nd</sup> Street. The building is historic, originally built in 1918 as a Catholic school, and was remodeled in 2020 into 13 condominium units. Most units sold in the upper \$200,000 range, depending on size, and for a price ranging from \$240 to \$270 per square foot. The units were desirable and sold quickly.

## Housing Affordability for the Workforce

EPS analyzed data on median wages of occupations in Billings to determine the affordability of for-sale housing to the workforce. The top five largest occupations in Billings are Office and Administrative Support, Sales and Related Occupations, Food Preparation and Serving Related Occupations, Transportation and Material Moving Occupations, and Healthcare Practitioners and Technical Occupations. The highest earning occupation is Management Occupations with a median wage of \$85,570. Using the overall median sale price of \$319,900 in Billings, EPS identified affordability gaps in home ownership based on occupation. Other assumptions included household size with 1.5 earners, a 30-year fixed rate mortgage with a 4.0% interest rate, and a 5.0% down payment.

The affordability gaps are summarized in **Table 9**. Four of the five largest occupations do not have a high enough income to afford a home at median sale price. Food service-related occupations have the largest affordability gap, with an affordable unit price of \$124,100 based on median household income, falling \$195,800 short of the median priced home. The largest occupation by count, Office and Administrative Support, has a gap of \$82,200 between affordable and median home price. The overall median income, which in this case is \$58,335, has an affordability gap of -\$72,400.

Based on current incomes of key occupations, target sale prices and rents should be around:

- \$250,000-\$300,000 for new home sales
- \$900-\$1,200 per month for rents

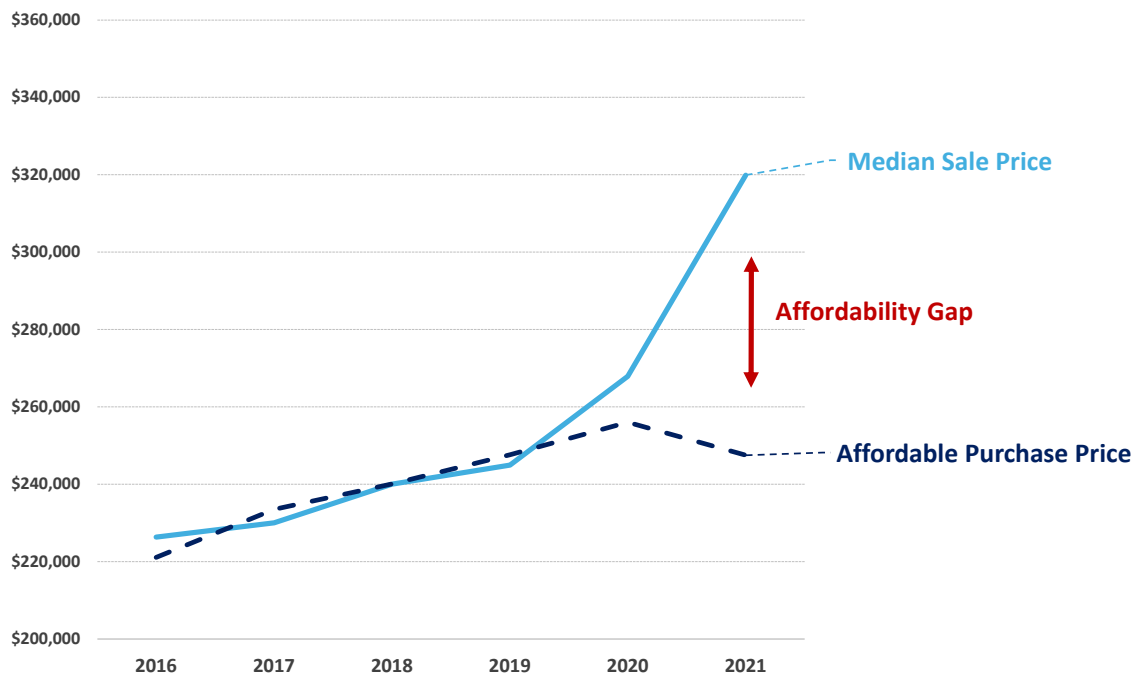
**Table 9. Affordable Sale Prices and Affordability Gaps by Occupation**

Affordability Gaps by Occupation	Employment Count	Median Wage	Earners per HH	Median HH Income	Affordable Sale Price	Median Sale Price	Affordability Gap
Overall Median Income	N/A	\$38,890	1.5	\$58,335	\$247,500	\$319,900	-\$72,400
Office and Administrative Support Occupations	10,230	\$37,700	1.5	\$56,550	\$237,700	\$319,900	-\$82,200
Sales and Related Occupations	9,670	\$30,480	1.5	\$45,720	\$178,000	\$319,900	-\$141,900
Food Preparation and Serving Related Occupations	8,610	\$23,970	1.5	\$35,955	\$124,100	\$319,900	-\$195,800
Transportation and Material Moving Occupations	7,570	\$37,920	1.5	\$56,880	\$239,500	\$319,900	-\$80,400
Healthcare Practitioners and Technical Occupations	6,680	\$75,000	1.5	\$112,500	\$546,100	\$319,900	\$226,200
Construction and Extraction Occupations	4,830	\$48,610	1.5	\$72,915	\$327,900	\$319,900	\$8,000
Installation, Maintenance, and Repair Occupations	4,380	\$48,510	1.5	\$72,765	\$327,100	\$319,900	\$7,200
Business and Financial Operations Occupations	4,270	\$63,510	1.5	\$95,265	\$451,100	\$319,900	\$131,200
Educational Instruction and Library Occupations	3,840	\$60,040	1.5	\$90,060	\$422,400	\$319,900	\$102,500
Management Occupations	3,670	\$85,570	1.5	\$128,355	\$633,500	\$319,900	\$313,600
Healthcare Support Occupations	3,520	\$29,780	1.5	\$44,670	\$172,200	\$319,900	-\$147,700
Building and Grounds Cleaning and Maintenance Occupat	3,250	\$30,260	1.5	\$45,390	\$176,100	\$319,900	-\$143,800
Production Occupations	3,040	\$44,860	1.5	\$67,290	\$296,800	\$319,900	-\$23,100
Personal Care and Service Occupations	1,950	\$28,350	1.5	\$42,525	\$160,300	\$319,900	-\$159,600
Community and Social Service Occupations	1,860	\$45,850	1.5	\$68,775	\$305,100	\$319,900	-\$14,800
Architecture and Engineering Occupations	1,770	\$76,650	1.5	\$114,975	\$559,700	\$319,900	\$239,800
Computer and Mathematical Occupations	1,230	\$65,090	1.5	\$97,635	\$464,100	\$319,900	\$144,200
Protective Service Occupations	1,190	\$49,840	1.5	\$74,760	\$338,000	\$319,900	\$18,100
Arts, Design, Entertainment, Sports, and Media Occupatio	1,040	\$38,820	1.5	\$58,230	\$246,900	\$319,900	-\$73,000
Life, Physical, and Social Science Occupations	820	\$67,660	1.5	\$101,490	\$485,400	\$319,900	\$165,500
Legal Occupations	690	\$63,330	1.5	\$94,995	\$449,600	\$319,900	\$129,700
Farming, Fishing, and Forestry Occupations	250	\$35,840	1.5	\$53,760	\$222,300	\$319,900	-\$97,600

Source: U.S. Bureau of Labor Statistics, Economic & Planning Systems

Significant price appreciation over the past two years in Billings has led to a widening affordability gap. As shown in **Figure 16**, the affordable purchase price for a household earning a median income was on par with the median purchase price citywide from 2016 through 2019. Starting in 2020, the median sale price rose significantly and outpaced growth in income. In 2021, the affordability gap grew even more, reaching \$72,000. This means that the median sale price is \$72,000 higher than the affordable purchase price. This signals that the housing market pressure has recently been notably strong in Billings, and home prices may continue to diverge from incomes, leading to greater affordability issues.

**Figure 16. Affordability Gap, 2016-2021**



Source: MLS; Economic & Planning Systems

## **Developer Interviews**

EPS interviewed several residential developers in Billings and gleaned the following initial takeaways on current opportunities and constraints around residential development in Downtown Billings.

### ***Rents and Development Feasibility***

- Achievable rents were cited as a barrier to new development. Given recent increases in construction costs, the market in Downtown Billings struggles to support rents that are high enough to justify new residential construction.
- Infill development in Downtown is seen as risky, with potential returns of residential development often not high enough to take on the risk associated with it. As a result, Downtown has experienced relatively little residential development over the past decade, although a few new residential projects are currently in the development pipeline and are expected to be completed in the next few years.

### ***Market Demand and Interest***

- Generally, the market for residential product in Downtown Billings is strong and demand is adequate to fill units in new projects. Developers expressed confidence about finding tenants, a sentiment which aligns with low vacancy rates in the current multifamily market. However, there are concerns about the price points of rental units being high enough to make projects feasible.
- Additionally, there is growing investor interest in the Billings market, which has made the land market more competitive, pushing prices of parcels up and making developable land less available for prospective housing developers.

### ***Incentives***

- Developers expressed the importance of incentives, such as tax increment financing, in driving new residential development. A general sentiment was that without incentives, it is challenging for multifamily projects to be financially feasible Downtown, given current rents, construction costs, and land costs.
- It is worth noting that the cost of developing on-site parking was not cited as a major concern or impediment to residential development, owing to the relatively high amount of off-site parking (street and public garage) in Downtown Billings.

## **Recommendations and Strategies**

There is reason to be optimistic that development will increase in Downtown. There are over 100 new residential units in the development pipeline as of this writing, more than any time in recent years.

### ***Key Development Project***

One limitation in Downtown is that most projects have been small and are not able to achieve some of the cost efficiencies of scale that larger projects can. Information gathered from interviews suggests that developers are timid in doing downtown projects because they feel the market is unproven and therefore riskier. Lastly, institutional capital drives multifamily housing investment in urban markets and those investors look for larger projects (more than 100 to 150 units) to invest in.

Executing a key development project could help address these three issues. A successful larger development would help prove the market in Downtown and attract additional investment. The 10,500 square foot site at the YesterYears building owned by the Downtown Billings Partnership should be a priority to develop under a partnership with a developer. If the Downtown Billings Partnership contributes the land at below market value, it can be in a position to negotiate a percentage of the units to be set aside at specific income levels.

### ***Leveraging City Property***

In interviews, developers cited the higher land costs in Downtown as a barrier. The City of Billings owns several properties in and around Downtown that do not have any current or future use planned to the best of our understanding. The DBA and EBURD could work with the City to identify additional key sites that could be used in a public-private partnership to develop housing, with the City contributing land at a cost sufficient to incentivize housing development, ideally with an affordable component.

This approach could be an effective way to incentivize new residential projects in Downtown, while also expanding the tax base by driving more valuable uses on currently vacant land. This approach would also help advance the resolution adopted by Billings City Council in 2011 that expressed support and provided implementation strategies for infill development.

The City may need to revise its procurement policies to implement this strategy. The City needs to be able to engage in an RFP or RFQ process to select and negotiate with a developer, and not just sell the property to the highest bidder. The development agreement should include provisions for public benefits, namely allocating a percentage of the project as affordable.



### ***Financial Tools and Incentives***

The City, DBA, and EBURD should continue using their existing tools in tax increment financing (TIF) and explore other tools to incentivize residential development.

- **Tax Increment Financing** – TIF can be used for utilities, demolition, sidewalk and street improvements, environmental remediation, or land assemblage. The DBA and EBURD should continue to promote and use this tool to incentivize projects.
- **Historic tax credits** – Tax credits can lower the equity investment needed and therefore the cost of a project by roughly up to 20 percent. However, it is a complicated process that deters many developers who are not familiar with it. The DBA, EBURD, and City could consider creating a resource guide or developing staff expertise (or having a consultant on retainer) to guide developers through the process. Historic tax credits have been used successfully in several existing Downtown projects.
- **Fee waivers and deferrals** – The City, DBA, and EBURD could explore a policy of using TIF to backfill waived impact fees on affordable units. Another option is to allow impact fees to be paid at a later date after the project has received a certificate of occupancy and is leased up or sold. While not transformational as an incentive, it does help projects with initial cash flow early in the project when cash needs are highest.
- **Parking reductions** – Downtown zoning already has no on-site parking requirements for residential development, which is a significant cost savings. This should be recognized and promoted as an important incentive.
- **Low-income housing tax credits** – This is an existing federal program that is used to provide equity to subsidize the development of affordable rental housing. The program is widely used in Billings, and the DBA should continue to promote its use to incentivize affordable residential development.
- **New markets tax credits** – This program offers a federal tax credit to investors who place capital into qualified business and real estate projects in particular communities. It is a program to consider for future projects.
- **Opportunity zones** – The opportunity zone program provides federal tax incentives to taxpayers who invest in qualified opportunity funds, which invest in particular business and/or real estate projects within the geographic boundaries of an opportunity zone. Downtown Billings is in an opportunity zone. The DBA and the City should continue to make this known as an option for investors.
- **Tax abatements** – Tax abatements reduce the property tax burden associated with a project, making it more financially attractive. While Montana law limits their application on residential development in Downtown Billings, tax abatements should be considered as a possible incentive for commercial development.