Finance

Financing for early stage development is still getting done

It's no secret that in 2022 through October 2023, we saw credit market conditions generally erode. However, in November this year we saw significant improvements in benchmark interest rates like the 10-year U.S. Treasury and the Municipal Market Data index that drives tax-exempt debt issuance. While credit market conditions remain tight relative to historical norms, many financings are getting done in this environment and there are innumerable ways that public finance strategies can help fund regional infrastructure for development across Colorado.

Throughout much of the initial post-pandemic credit boom, investors were interested in projects that were very early in the development cycle. Today, the investment community is looking for more concrete milestones to be reached before funding infrastructure for new development. In a residential context, they generally want to know that land is under contract with significant hard money deposits if land is not already closed to a homebuilder, preliminary plats are in place if not final plats, and that ground has been broken for infrastructure if not for vertical development of homes. Under these circumstances, there is significant capital available to fund early stage development.

Michael Lund
Senior vice president, Piper Sandler

The availability of capital for early stage development has a direct impact on the housing crunch we've been experiencing in Colorado. The market for new homes has actually been somewhat resilient with sales continuing to increase year over year. People who are currently in homes are not as interested in selling as many, if not most, have an existing mortgage rate that's much lower than the current market rates, making it expensive for them to get a mortgage on a new home. With resale market supply down, demand has shifted to new home products instead. The new construction homes that are available today are the result of public financing that we put in place several years ago, for example, Harmony in Aurora and Westerly in Erie. New homes that will deliver in the next year or two will be the result of metro district financing transactions that we close this year and next, making it imperative that we find creative ways to get capital raised in this unique market to ensure housing supply does not fall further behind.

Uplands is an example of the ability to develop novel solutions to early stage financing.

A recent example of this is Uplands, a 234-acre master-planned community that creates vital missing middle housing in Westminster. Located in Adams County between Denver and Boulder, the development of this infill site marks the revitalization of a historically underutilized and underfunded pocket in Westminster's southern corridor. Working with the developer and investors to deliver a significant amount of capital up front while providing significant debt service coverage over time, we were able to close on nearly $44 million in bonds to fund public infrastructure in late September. This primarily residential development is anticipated to include a total of 1,117 single-family and 449 multifamily homes – much of which will consist of for-sale townhomes and duplexes priced to meet the needs of first-time buyers, families looking to grow and older adults looking to downsize – as well as 30,000 square feet of commercial space and 47 acres of parks, open space and view corridors. Uplands is a success story in terms of understanding the challenges of the market and the ability to develop novel solutions to early stage financing needs.

A second example is the October closing of a $21.8 million financing for the Powers Boulevard Extension Project through Copper Ridge Metropolitan District in Colorado Springs. This financing funds the next phase of the project that will ultimately connect North Powers Boulevard to Interstate 25, which will complete the transportation corridor and provide greater access to Colorado Springs' eastern residential neighborhoods and businesses. The financing required an approach that pledges future sales tax revenues from the Pikes Peak Rural Transit Authority along with existing property tax revenues and public improvement fees to result in a relatively low cost of borrowing in this environment with the opportunity to borrow more money for the next phase of development. The financing was placed through our network of bank lenders through our private placement sales and

Please see **Lund,** *Page 46*