Meeting Summary

Redeveloping Uptown Butte's Upper Floors into Housing

Meeting Purpose

The meeting brought together property owners, investors, contractors, architects, developers, lenders, and housing resource partners to discuss the opportunities and challenges associated with converting vacant upper floors of Uptown Butte's commercial buildings into housing.

The panel included representatives from the Clearwater Credit Union, Paramount Residential Mortgage Group, the Urban Revitalization Agency (URA), the Montana Department of Commerce Housing Division and Montana Board of Housing, Stockman Bank, the Montana Facility Finance Authority/C-PACE, and Kujawa Development.

The discussion focused on evaluating project feasibility, understanding financing requirements, identifying available grants and incentives, and determining the resources property owners should consult before beginning a redevelopment project.

1. Determine Whether the Project Is Financially Feasible

The panel emphasized that the first step in considering an upper-floor housing conversion is to determine whether projected rental income will justify the total cost of renovation and ongoing operations.

Property owners should develop realistic financial projections that account for:

- Expected rental income based on the specific building's location, views, layout, and amenities.
- Construction and renovation costs.
- Operating expenses, insurance, maintenance, and other ongoing costs.
- Required down payments, cash reserves, and available working capital.
- Loan payments and the ability to cover debt during construction.
- Potential vacancies, delays, and unexpected expenses.

Lenders noted that commercial projects may require down payments of approximately 25% to 35%, depending on the lender, project, and borrower. Requirements vary, so owners should discuss financing expectations with potential lenders early in the planning process.

The panel also cautioned that rental comparisons must reflect the individual property's characteristics. In Uptown Butte, rental values can vary significantly from one block to another. Buildings with mountain views, balconies, or other desirable features may command higher rents than nearby properties without those advantages.

2. Assess the Building Before Committing to Financing

Older buildings can present significant and sometimes unexpected rehabilitation costs. Panelists highlighted asbestos, lead-based paint, mold, radon, deteriorating water lines, fire-safety requirements, and other potential issues that can substantially increase project expenses.

Property owners were encouraged to obtain appropriate environmental assessments and engage architects, engineers, and other qualified professionals early in the process. Brownfields resources were identified as a potential starting point for evaluating environmental concerns.

A feasibility study and preliminary building assessment can help identify problems before they become expensive surprises. The goal is to reduce uncertainty and develop more reliable construction budgets and financial projections.

3. Understand the Challenges of Small Redevelopment Projects

Smaller projects can be particularly difficult to finance because many expenses remain relatively fixed regardless of the number of housing units being created. Architectural and legal fees, accounting costs, and other professional services can represent a larger cost per unit in a small development.

The panel noted that financing options may also differ depending on whether an owner intends to occupy the housing personally or operate the property as a rental development. Some programs may be available only to projects that meet specific eligibility requirements.

Property owners should consider the intended use of the building, the scale of the project, the resources available to them, and whether the completed development will generate sufficient income or otherwise meet their objectives.

4. Understand Commercial Lending Requirements

Commercial real estate financing differs from a traditional residential mortgage. Panelists advised property owners to plan for longer timelines, additional documentation, and higher professional service costs.

Key points included:

- **Loan processing:** Commercial financing may take at least 60 days, with more complex projects requiring additional time.
- **Appraisals:** Commercial appraisals can cost substantially more than residential appraisals.
- **Loan terms:** Commercial loans may have interest rates fixed for three to ten years, with amortization periods commonly ranging from 15 to 25 years, depending on the loan.
- **Borrower documentation:** Lenders need complete and timely financial information to evaluate a borrower's ability to repay.
- **Project valuation:** The purchase price plus renovation expenses does not necessarily equal the property's final market value. Owners should not assume that lenders will

finance a fixed percentage of total project costs without considering the completed property's value.

The panel encouraged owners to speak with lenders while their projects are still in the early planning stages. Initial conversations can help identify potential financing options and reveal challenges before significant money is spent.

5. Build a Complete Financing Plan Before Construction

One of the strongest messages from the discussion was to secure a comprehensive financing plan before beginning demolition or construction.

Panelists described projects that stalled after owners spent substantial sums on early work while waiting for grants, tax credits, or other funding that ultimately did not materialize as expected.

Property owners were advised to:

- Obtain detailed architectural plans and evaluate alternative designs before committing to construction.
- Secure realistic contractor bids and subcontractor pricing rather than relying solely on preliminary estimates.
- Confirm financing sources, funding amounts, eligibility, and timelines.
- Account for contingencies, interest expenses, and bridge financing when funding is reimbursed after eligible expenses are incurred.
- Avoid starting construction based on anticipated grants or tax credits that have not been secured.

The redevelopment of the Sears building was cited as an example of the time and coordination required to assemble multiple funding sources. According to the panelist, lining up five financing sources took approximately three years, while construction took about 18 months.

6. Explore Local Grants and Financing Assistance

The Urban Revitalization Agency (URA) described several ways it can assist redevelopment projects.

The URA offers reimbursable grants that can cover 25% of eligible costs for qualifying building improvements. These grants can reduce the amount of private financing needed and help close gaps in a project's capital budget. The URA also offers loans and can work alongside other financial institutions.

Panelists who had used URA funding on projects such as the Sears building and Hirbour Tower explained that participating banks had counted approved URA grant funding as owner equity in those projects.

However, because the grants are reimbursable, owners must be able to pay eligible expenses upfront or arrange suitable bridge financing. Any associated interest and loan origination costs should be included in the project budget.

The panel also recommended exploring historic tax credits, low-interest financing, and other incentives that may apply to a particular building or development.

7. Evaluate Affordable Housing Programs Carefully

The panel discussed federal housing programs, including the Low-Income Housing Tax Credit (LIHTC), administered in Montana through the Montana Board of Housing.

Two financing structures were outlined:

- **9% housing tax credits:** A competitive program intended to support eligible affordable housing developments. The panel described a two-stage application process involving a preliminary application followed by invitations for selected applicants to submit full applications. The credits are syndicated to investors to generate project equity.
- **4% housing tax credits:** Available in connection with qualifying tax-exempt private activity bonds issued through the Montana Board of Housing. The panel noted that this option was noncompetitive at the time of the meeting, subject to the applicable program requirements.

The panel indicated that 9% credits can provide substantial equity toward eligible development costs, but awards are competitive and the proceeds depend on the market value of the credits when syndicated.

Owners considering public funding should also understand the obligations that may accompany it. Depending on the program, these can include environmental reviews, prevailing-wage requirements, and long-term affordability restrictions that affect rental rates or sale prices. The panel noted that affordability requirements can range from five years to 50 years under different programs.

The Montana Board of Housing also operates revolving loan funds. Its representative explained that lending decisions consider the borrower's character, capacity to repay, and available collateral.

8. Use Available Business Planning Resources

Property owners do not need to have every detail finalized before seeking professional guidance. Panelists encouraged early conversations with lenders and resource organizations to identify possible options and determine which programs may fit a proposed project.

Resources mentioned during the meeting included:

- The Urban Revitalization Agency for eligible grants and loans.

- The Small Business Development Center for business plans and financial projections.
- Brownfields resources for preliminary environmental assessment assistance.
- Local lenders for financing requirements and preliminary project discussions.
- Architects, engineers, contractors, and other qualified professionals for feasibility studies, building assessments, design plans, and construction estimates.
- The Montana Board of Housing for information about affordable housing financing programs.

A financial projection spreadsheet was also offered by individuals attending the meeting as a tool to help property owners develop more complete project estimates.

Key Takeaways

The panel's central message was that successful upper-floor housing redevelopment begins with careful planning, realistic numbers, and early coordination with financing and technical assistance partners.

Before investing heavily in a project, property owners should understand the building's condition, determine realistic rental income, establish a credible construction budget, and identify how the entire project will be financed. Grants and tax credits can help close funding gaps, but they often have eligibility requirements, application timelines, and obligations that must be understood in advance.

Owners who begin exploring a project early—even if they have only an initial concept—can use available resources to identify potential challenges and determine the most practical path forward.

The recommended next step is to start the conversation early, assemble a qualified project team, and develop a complete feasibility and financing plan before beginning construction.