Osprey Execs on Affordable Housing Issues and Practice

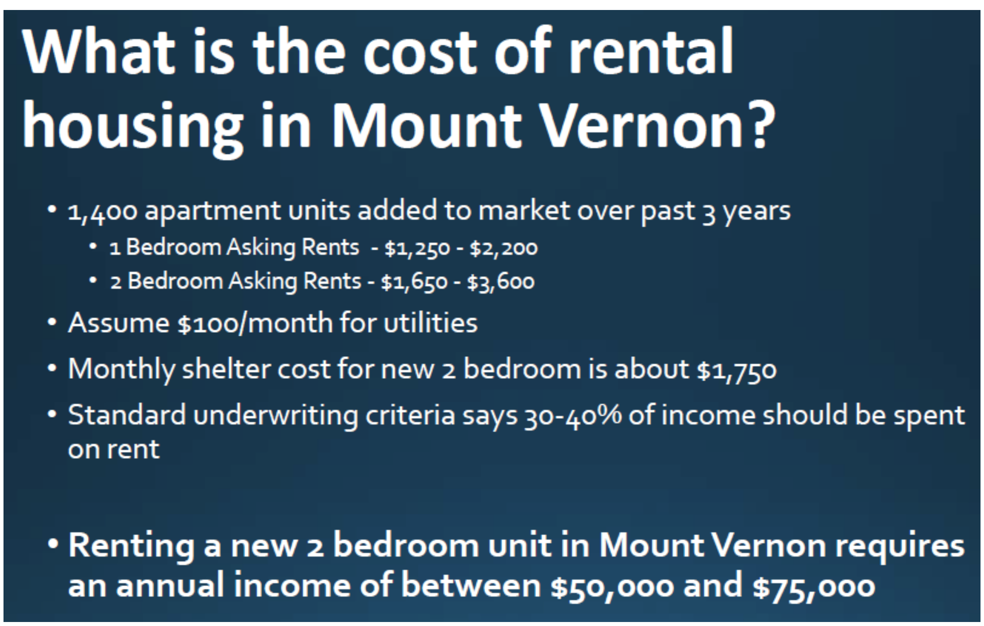
LAI Baltimore Chapter – April, 2017 Meeting

On April 19, 2017 Brian Lopez and James Riggs of Osprey Property Company spoke to the Baltimore LAI Chapter about Affordable Housing in general, with an in-depth look into Franklin Lofts & Flats, a project currently under construction in the City.

Brian Lopez began the presentation with a brief overview of Osprey's history. Brian advised that David Lewis came out of Oxford Development in the mid-1980's after the Tax Reform Act of 1986 created the Low-Income Housing Tax Credit ("LIHTC") program to encourage the development of multifamily housing for the less affluent (Oxford has an impressive list of multifamily alumni which includes Tom Bozzuto). And although David Lewis began Osprey as primarily a land developer, by 1998 the company was deeply involved in the development of affordable housing. Over 5,000 units have been developed by Osprey since 1998, and approximately 3.500 are still owned by the Company and its principals. Osprey has also developed big-box retail, office, strip retail and industrial projects in addition to its focus on affordable housing.

James Riggs picked up the conversation from there, with an in-depth look at Osprey's Franklin Lofts & Flats project. This LIHTC project is located in the heart of the Mt. Vernon neighborhood (near the iconic Tio Pepe's restaurant), in "the old Consolidated Engineers Building – built before the Civil War" at 20 E Franklin Street. As with most buildings of that vintage, Osprey encountered a number of challenges including copious amounts of asbestos, and ten different safes scattered throughout the building (apparently engineers of the past were more than a bit obsessed with safeguarding their valuables!). In the end, Osprey was able to design a 41 unit project in a combination of new construction and rehabilitation of the Engineers Building facing Franklin Street. These units will rent for an average of $926/month – substantially below market rate rents within Mt. Vernon.

Why are LIHTC projects necessary within Mt. Vernon? James walked his audience through the economics, using the following slide:

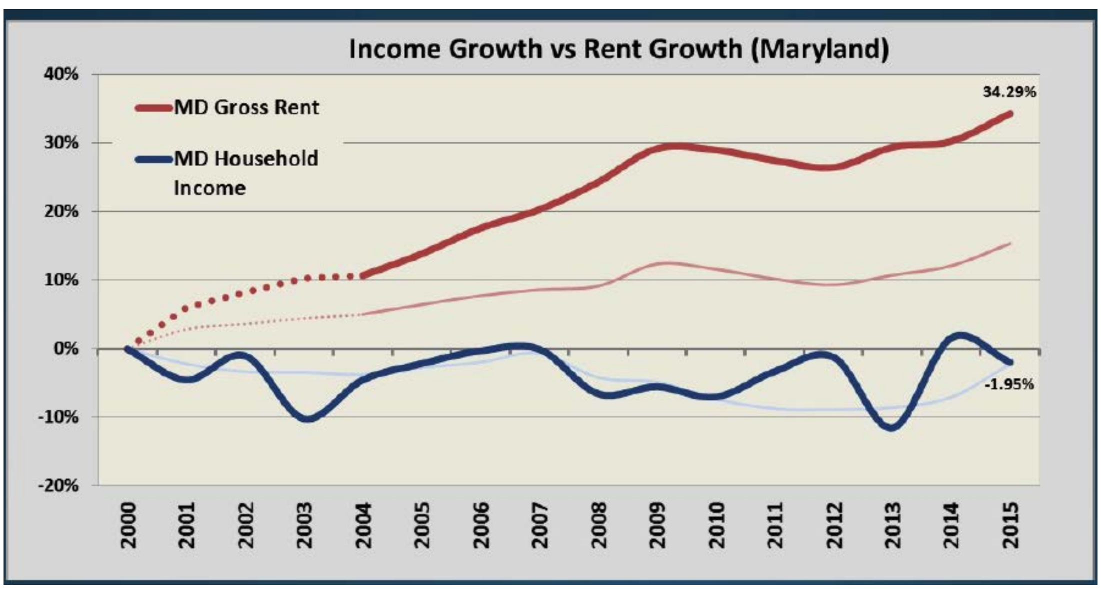


Using American Community Survey income results for 2016, James demonstrated that over 70% of the population within Mt. Vernon cannot afford to rent a market rate 2 bedroom unit there. Median Household Income within the Franklin Street area is $27,809 – far below the $50,000 to $75,000 required to afford a typical market rate two bedroom unit. Hence the screaming need for decent, affordable projects like Franklin Lofts. And how do Low Income Housing Tax Credits make affordable projects like Franklin Lofts possible? James provided the following slide of Sources & Uses as an answer to that key question:

Franklin Flats – With LIHTC

Summary Sources and Uses	Sources		Uses	
Perm Loan	950,000	Total Construction	8,998,353	
CDA RHP Loan	1,855,000	Contingency	899,835	10.00%
City HOME Funds	1,280,000	Acquisition	2,100,000	
		Other Development	2,051,775	
LIHTC Equity	11,839,568	Developer Fee	1,805,841	
		Reserves/Synd	347,318	
		Sensitivity Adjust		
Total Sources	**$15,924,568**	**Total Uses**	**$16,203,122**	
Gap/(Excess)	**$278,554**			

One can readily see by the above slide that the sale of the tax credits to a syndicator, or a corporation in search of tax benefits, provides a significant majority of the capital requisite to bringing a LIHTC project to fruition. The success of the LIHTC program is evident, James opined, by the facts that (i) just under 2.1M affordable housing units have been produced since 1987, and (ii) the foreclosure rate on LIHTC project is less than 1%. To further bolster his contention that LIHTC projects are necessary to provide sufficient rental housing, James offered the following slide:



NOTE: Gross Rent data imputed between 2000 and 2004

Source: US Census: American Community Survey & 2000 Census

As the reader can readily see, rents have been rising steadily since 2000, but Household income has been essentially flat, so a growing affordability gap continues to exacerbate the lack of adequate, affordable housing stock. This disturbing trend can also be seen in this slide provided by James:

Between 2000 and 2015, Maryland lost more than 100,000 affordable rental units

Rental Units Affordable to Households at 60% Median Income

	MARYLAND	AA	BALT CO	CARROLL	HARFORD	HOWARD	CITY
2000	388,592	26,766	61,436	6,931	12,679	17,634	50,425
2010	298,042	20,958	40,849	6,631	10,380	17,507	28,159
2015	282,501	19,953	32,297	6,691	10,343	15,510	28,225
Δ 2000-15	(106,091)	(6,813)	(29,139)	(240)	(2,335)	(2,124)	(22,200)

All Rental Units

	MARYLAND	AA	BALT CO	CARROLL	HARFORD	HOWARD	CITY
2000	605,225	39,496	94,035	8,444	15,711	22,915	124,390
2010	630,007	45,655	100,579	8,824	15,344	25,206	116,111
2015	690,979	50,701	101,628	10,087	18,594	28,079	123,742
Δ 2000-15	85,754	11,205	7,593	1,643	2,883	5,164	(648)

James' presentation contained much more information and detail on LIHTC financing than can be readily summarized by this writer. So for any reader who would like to delve more deeply into the subject, I suggest contacting an LAI board member to obtain a complete copy of James' PowerPoint presentation.

Brian Lopez concluded Osprey's presentation with some Big Picture Takeaways regarding LIHTC projects, opining that:

- LIHTC projects must "fit into" their neighborhoods.
- Affordable housing projects are largely indistinguishable from market rate housing by appearance. No one could tell by looking at, or visiting an apartment project, if it is market rate or affordable. Design and finishes are essentially identical.
- Maryland's 9% tax credit program continues to be extremely competitive, with the latest round granting 20 projects, out of 42 applications, 9% credits.
- The price of LIHTC's has fallen since last fall's election (due to the marketplace's anticipation that the Trump Administration will reduce tax rates), from approximately \$1.05/dollar of credit to approximately \$.95/dollar presently.
- Historically a 15 year compliance period was the standard requirement for maintaining affordable rents within a LIHTC project. However, that is quickly evolving into a 40 year compliance period.

The Baltimore LAI Board thanks Brian and James for the "graduate degree" presentation in affordable housing finance and LIHTC's. It's increasingly important for all real estate centric professionals to be aware of this successful tool for mitigating the growing dearth of decent rental housing. In a world increasingly obsessed with income inequality, it's important to know what's working!

Osprey Property Company is a successful real estate company headquartered in Annapolis with over 25 years of experience investing in and developing affordable housing, senior housing, retail centers and industrial parks. Osprey develops throughout the Mid-Atlantic with focus a in Maryland. Twice in recent years, the Maryland Affordable Housing Coalition awarded Osprey projects with its annual Innovation Award for innovation in the affordable housing community.

Brian P. Lopez, Executive Vice President, has been developing multi-family and senior communities since joining Osprey in February 2001. Brian has been involved with the construction or redevelopment of nearly $500,000 million dollars of residential development activity. In additional to his practical knowledge of affordable development, Brian gained financial expertise while working as a loan officer for AGM Financial Services, Inc. Prior to joining AGM, Brian was a project manager for Safeway, Inc., where he was responsible for managing all aspects of the construction process for several new and remodeled Safeway stores. He is active in promoting affordable housing initiatives and has served on the Executive Committee of the Urban Land Institute's Young Leaders; is a past President of the Arundel Affordable Housing Coalition; and is a member of the Maryland Affordable Housing Coalition. Brian graduated from St. Mary's College of Maryland with a B.A. in Economics and was president of the Economics Honor Society. He received his M.S. in Real Estate Development from the Johns Hopkins University.

James M. Riggs, Vice President, joined Osprey in 2013 as an experienced developer, project manager and analyst. James is responsible for managing multiple affordable housing projects in Maryland and Virginia. Prior to Osprey, James was Director of Operations for a Maryland-based real estate developer, with the responsibility to oversee several affordable housing and for sale developments. He also worked as Director for Real Property Research Group, a leading market research firm specializing in market research for market rate and affordable multifamily housing projects. In that role, James built a practice analyzing community impacts of New Markets Tax Credit projects across the country. James gained financial analysis experience working on the Transaction Advisory team of CohnReznick. Over the past several years, James has lectured as an adjunct faculty member at the University of Maryland's Colvin Institute of Real Estate.