

# 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:

## What is the cost of rental housing in Mount Vernon?

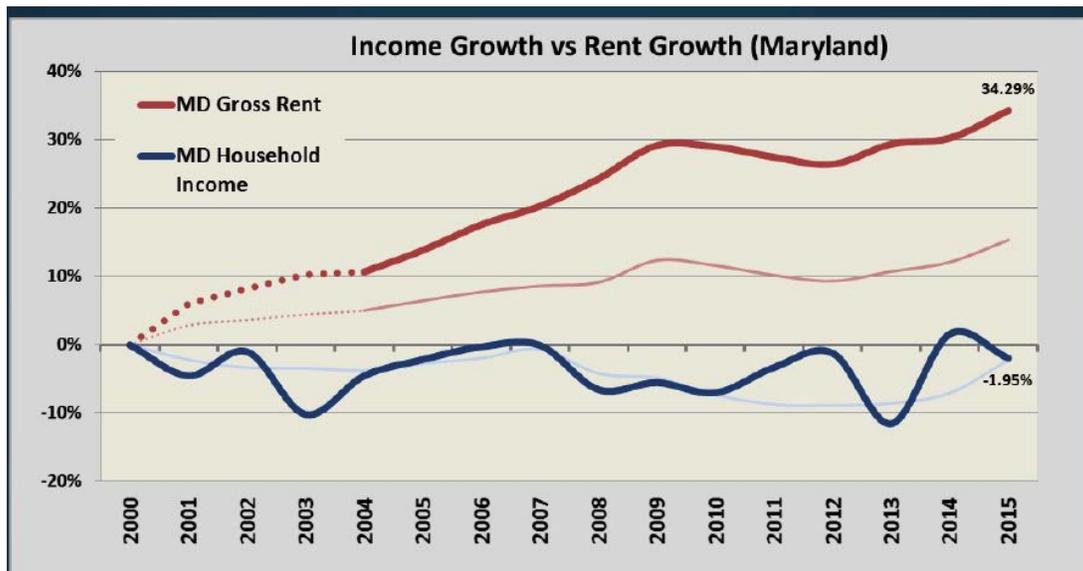
- 1,400 apartment units added to market over past 3 years
  - 1 Bedroom Asking Rents - \$1,250 - \$2,200
  - 2 Bedroom Asking Rents - \$1,650 - \$3,600
- Assume \$100/month for utilities
- Monthly shelter cost for new 2 bedroom is about \$1,750
- Standard underwriting criteria says 30-40% of income should be spent on rent
  
- **Renting a new 2 bedroom unit in Mount Vernon requires an annual income of between \$50,000 and \$75,000**

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           |        |
|                          | <b>LIHTC Equity</b>  | <b>11,839,568</b>   | Other Development         | 2,051,775           |        |
|                          |                      |                     | Developer Fee             | 1,805,841           |        |
|                          |                      |                     | Reserves/Synd             | 347,318             |        |
|                          |                      |                     | <b>Sensitivity Adjust</b> |                     |        |
|                          | <b>Total Sources</b> | <b>\$15,924,568</b> | <b>Total Uses</b>         | <b>\$16,203,122</b> |        |
|                          | <b>Gap/(Excess)</b>  | <b>\$278,554</b>    |                           |                     |        |

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!

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**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 addition 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.