

Mayor's Tax Credit Workgroup

High-Performance Housing Tax
Credit

July 30th, 2024



Who are we?

Real Estate Development and Investment firm focused on housing and community development.

- Developing 1000 units of All housing types from deeply affordable 30% AMI (\$25k/year), to higher end and student housing
- Creative and Cultural spaces such as the home of the Black Arts District and Charm TV
- Based in Baltimore with offices in Baltimore and DC



Who are we?

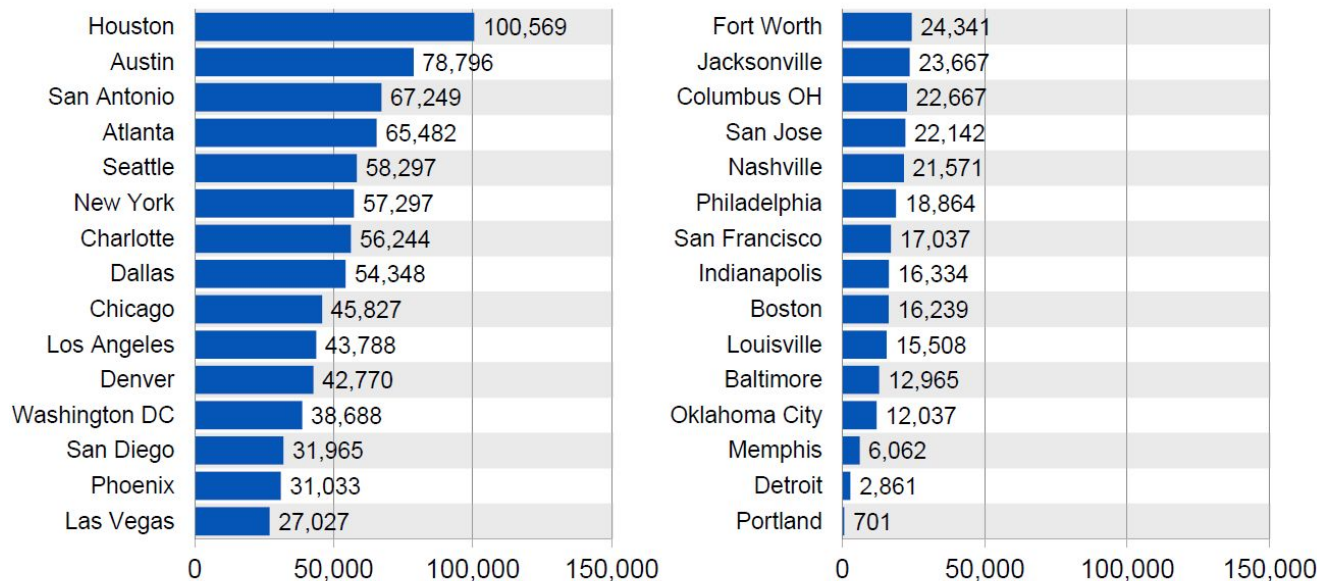
WorkShop Development focuses on value-add commercial real estate development.

Projects include retail, industrial, office and adaptive re-use developments. We approach each with the same objective: to create outstanding environments for people to work, shop and live.



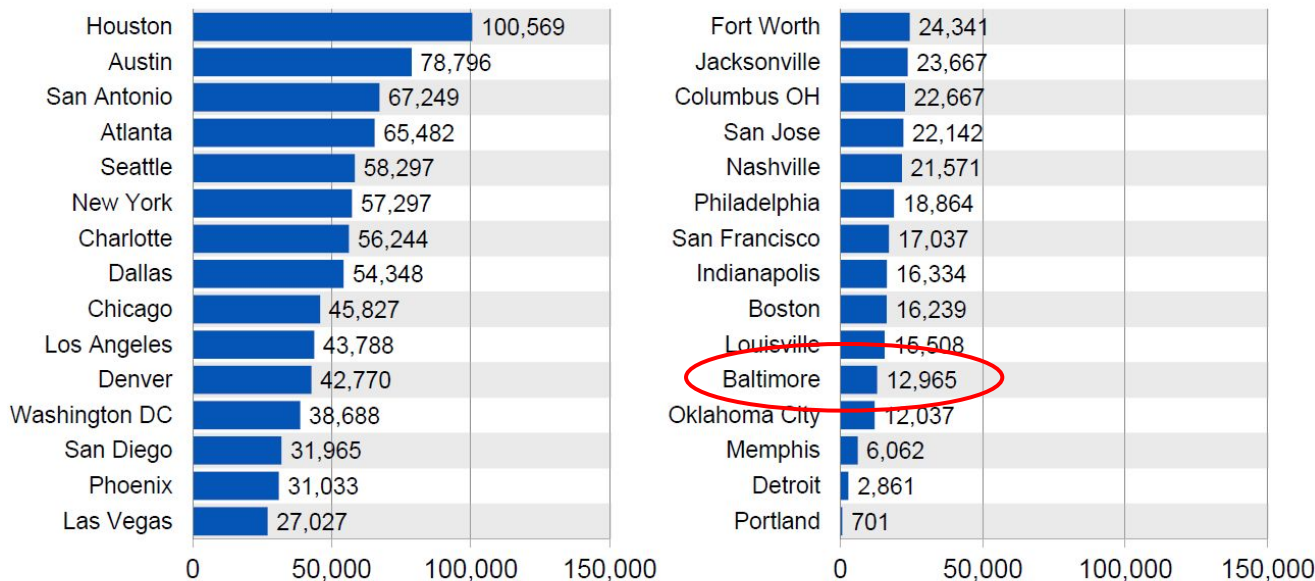
Where does Baltimore rank nationally in housing development?

Units Added 2000-2019, Top 30 Cities



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Units Added 2000-2019, Top 30 Cities



Barriers to New Apartments

Multifamily supply restrictions index

Development costs and local regulations are making it difficult to build new apartments everywhere, but some areas are harder than others. See how your metro stacks up.



● Difficult Entry Point ● Moderate Entry Point ● Easier Entry Point

19.5	Honolulu	13.1	Boston	11.9	Baltimore	9.3	
8.7	Memphis	8.2	Philadelphia	8.0	Seattle	7.6	San Francisco
6.5	Denver	6.0	New York City	5.5	San Diego	5.3	Los Angeles
5.1	Riverside	4.8	Phoenix	4.8	Raleigh	4.7	Milwaukee
4.1	Sacramento	3.8	San Jose	3.5	Orlando	3.3	Minneapolis
3.2	Portland	3.0	Albuquerque	2.7	Washington D.C.	2.4	Salt Lake City
1.9	Columbus	1.8	Pittsburgh	1.6	Chicago	1.2	Detroit
0.4	Atlanta	0.3	Cleveland	0.0	Tampa	-1.1	Birmingham
-1.3	Dallas Fort Worth	-1.3	San Antonio	-1.8	Austin	-2.3	Richmond
-2.4	Nashville	-2.5	Houston	-2.5	Oklahoma City	-2.8	Louisville
-3.1	Sioux Falls	-3.5	Charleston	-3.5	Charlotte	-3.7	Cincinnati
-3.7	Las Vegas	-4.7	St. Louis	-5.1	Indianapolis	-5.3	Kansas City
-5.4	Little Rock	-5.9	New Orleans				

3rd Worst!!!

Advantages to Developing in Baltimore

- MEDs and EDs - major institutions that drive job and population growth
- Highly educated workforce
- Relatively Affordable Land
- Lower Cost Option to neighboring major cities
- Arts & Culture
- Baltimore is Beautiful.



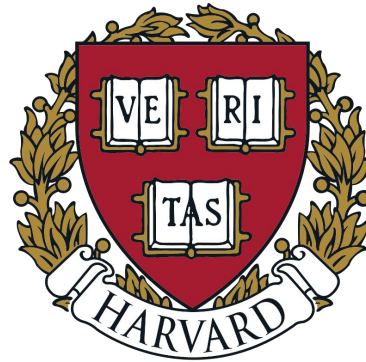
Challenges to Developing in Baltimore

- Slow to no population growth
- Public Safety concerns
- Prohibitively high tax rates
- Incurs the “Baltimore Discount” when speaking with financial institutions



How are Projects Financed?

The majority of funds for a development project are from ***pension funds, insurance companies, and high networth individuals.*** Pension funds need to provide a minimum return in order to meet the obligations or retirees every year. Organizations that contribute to pensions funds include: the Federal Government, State and Local Governments, and Public Educational Institutions.



How are Projects Financed?

Development projects are typically financed with equity and debt. For larger projects (\$20M+) the developer is typically responsible for providing 5-10% of equity. The majority of funds for a development project are from ***pension funds, insurance companies, and high networth individuals.***

Sources	\$ Amount	% off Project Costs
Equity (Sponsor)	\$ 1,136,664	4%
Equity (Institutional)	\$ 6,441,099	20%
Mezz / Pref	\$ 6,928,191	22%
Construction Loan	\$ 17,299,978	54%
Total	\$ 31,805,932	100%

Uses	\$ Amount	% off Project Costs
Land	\$ 2,653,000	8%
Hard Costs	\$ 23,115,700	73%
Hard Cost Developer Contingency	\$ 1,140,535	4%
Soft Costs	\$ 3,127,389	10%
Financing & Closing Costs	\$ 1,120,672	4%
Capitalized Interest Reserve 1	\$ 648,637	2%
Total	\$ 31,805,932	100%

Developer
Contribution



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Developer Contribution

Private Equity (Pension Funds)



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How do Credits Work?

- Reduces the tax rate, typically for the first 10 year of project
- The introductory rate locks in long term revenue from the new project for 90 years
- Credit is converted to a Net Present Value for financial analysis
- The City receives the benefit of additional tax revenue, paying nothing out of pocket

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Types of Credits

- Enterprise Zone
- CHAP
- Brownfields
- High Performance Housing



Are tax credits necessary?

Are tax credits necessary?

Does the typical Baltimore development project pass the “***But For***” test.

But for the High Performance Housing Tax Credit, ***would this project still happen?***

Are tax credits necessary?



CASE STUDY

HOHM Highlandtown

- 149 units
- \$32M total development cost
- Workforce Housing
- Majority of rents are near 80% AMI (\$53k/annually in Baltimore City)
- "Neighborhood Development"

Are tax credits necessary?

PROJECT BUDGET	With HPH Credit	No Credit
Land	\$2,653,000	\$2,653,000
Hard Costs	\$24,256,235	\$24,256,235
Soft Costs	\$3,127,389	\$3,127,389
Financing and Carry	\$1,769,308	\$1,769,308
Gross Development Costs	\$31,805,932	\$31,805,932
Credit for NPV of HPH Tax Abatement	(\$3,360,237)	\$0
IMPUTED PROJECT COSTS	\$28,445,695	\$31,805,932

Gross Rental Revenue

Residential Rent - Market

Residential Rent

Other Income

Parking Income

Vacancy - Residential

Net Residential Income

General & Administrative

Payroll Expense

Turnover, Repairs & Maintenance

Utilities

Marketing

Real Estate Taxes

Insurance and Other Fees

Co-living Premium & Reserves

Management Fee

Replacement Reserves

Total Operating Expenses

Residential Operating Efficiency

Net Operating Income

Return on Cost (with credit for NPV of abatement)

With HPH Credit	No Credit
<u>\$ Amount</u>	<u>\$ Amount</u>
\$3,079,080	\$3,079,080
\$3,079,080	\$3,079,080
\$80,460	\$80,460
\$172,608	\$172,608
(\$166,607)	(\$166,607)
\$3,165,541	\$3,165,541
<u>\$ Amount</u>	<u>\$ Amount</u>
\$44,700	\$44,700
\$250,320	\$250,320
\$216,050	\$216,050
\$111,750	\$111,750
\$67,050	\$67,050
\$493,394	\$493,394
\$37,250	\$37,250
\$52,150	\$52,150
\$79,139	\$79,139
\$22,350	\$22,350
\$1,374,153	\$1,374,153
43%	43%
\$1,791,388	\$1,791,388
6.30%	5.63%

Are tax credits necessary?

Net Present Value
of tax credit

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Are tax credits necessary?

Net Present Value
of tax credit

At the time this was
financed, the target
Yield on Cost for
the market was
6.5%

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It **passes** the “But For” Test

**A 5.63% yield on cost is NOT
adequate to attract capital to
Baltimore.**

It **passes** the “But For” Test
But even if it didn’t this is a **GREAT** deal for Baltimore.

Real Estate Taxes and Abatement

Note: Maryland counties reassess on different 3-year cycles. Baltimore City last reassessment was in 2017 and the next reassessment is in 2020.

Taxes

Maryland State Property	4.75%	0.11%
Baltimore City Property T	95.25%	2.248%
Total Tax Rate		2.360%

Brownsfield Tax Credit*

Baltimore City Property Taxes	2.248%
Abatement	80%
Total Abatement Eligible Taxes	1.80%

REAL ESTATE TAX CALCULATION											
Abatement Year	Reassessment Year										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
	Estimated 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027	Estimated 2028	Estimated 2029	Estimated 2030	Estimated 2031	Estimated 2032	
Land	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	2,450,000	
Improvements	29,550,000	29,550,000	30,444,932	31,358,280	32,299,029	33,268,000	34,266,040	35,294,021	36,352,841	37,443,427	
Total Assessed Value	32,000,000	32,000,000	32,894,932	33,808,280	34,749,029	35,718,000	36,716,040	37,744,021	38,802,841	39,893,427	
Growth Rate after Phase-In			3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
% Price Assessed:	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
Tax Rate:	2.360%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	2.36%	
Estimated RE TAX (Unimproved)	\$ 755,200	\$ 755,200	\$ 776,320	\$ 797,875	\$ 820,077	\$ 842,945	\$ 866,499	\$ 890,759	\$ 915,747	\$ 941,485	
% Increase	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	

High Performance Housing Tax Credit											
Tax Credit - % of Incremental Baltimore City Taxes	80.0%	80.0%	80.0%	80.0%	80.0%	70.0%	60.0%	50.0%	40.0%	30.0%	
Baltimore City Taxes	\$719,360	\$719,360	\$739,478	\$760,010	\$781,158	\$802,941	\$825,377	\$848,486	\$872,288	\$896,804	
Incremental Baltimore City Taxes	\$706,951	\$706,951	\$727,069	\$747,601	\$768,749	\$790,532	\$812,968	\$836,077	\$859,879	\$884,395	
Total Gross Tax Credit	4,994,216	\$565,548	\$565,548	\$581,643	\$598,068	\$614,987	\$553,361	\$487,771	\$418,030	\$343,945	\$265,314
Incremental Baltimore City Taxes		\$141,403	\$141,403	\$145,426	\$149,533	\$153,762	\$237,171	\$325,196	\$418,046	\$515,934	\$619,081
Taxes without development		\$32,673	\$33,653	\$34,663	\$35,703	\$36,774	\$37,877	\$39,013	\$40,184	\$41,389	\$42,631

Are tax credits necessary?

	10 Years	100 Years
Taxes Paid on Developed Land	\$2,846,956	\$367,179,314
Taxes Paid on Vacant Land	\$374,559	\$19,841,912

Are tax credits necessary?

But that's not all...Renters in new multifamily buildings generally provide several benefits to Baltimore's economy.

They are disproportionately high earners contributing to the City's Income Tax collections

	10 Years	100 Years
Income Taxes Paid by HOHM residents (Assuming \$76k Avg Income)	\$25,444	\$61,776,977

The Year 11 Problem

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
Income	\$3,152,399	\$3,416,043	\$3,501,444	\$3,588,980	\$3,678,705	\$3,770,672	\$3,864,939	\$3,961,563	\$4,060,602	\$4,162,117	\$4,266,170
Expense	\$1,200,092	\$1,489,450	\$1,752,335	\$1,798,299	\$1,845,521	\$1,894,034	\$1,943,875	\$1,995,079	\$2,047,686	\$2,101,878	\$2,159,144
HPH Abatement	\$176,218	\$350,692	\$510,135	\$524,543	\$539,384	\$554,670	\$570,414	\$586,631	\$603,334	\$567,477	\$0
NOI	\$2,128,524	\$2,277,286	\$2,259,244	\$2,315,225	\$2,372,568	\$2,431,308	\$2,491,479	\$2,553,114	\$2,616,250	\$2,627,716	\$2,107,026
Property Value	\$38,700,440	\$41,405,193	\$41,077,172	\$42,094,992	\$43,137,604	\$44,205,606	\$45,299,614	\$46,420,257	\$47,568,179	\$47,776,652	\$38,309,559

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NOI	\$1,952,306	\$1,926,593	\$1,749,109	\$1,790,681	\$1,833,184	\$1,876,638	\$1,921,064	\$1,966,483	\$2,012,916	\$2,060,239	\$2,107,026
Property Value	\$35,496,477	\$35,028,968	\$31,801,989	\$32,557,839	\$33,330,620	\$34,120,698	\$34,928,444	\$35,754,237	\$36,598,464	\$37,458,891	\$38,309,559

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The Building value on year 11 is less than year 1.

**The High Performance Housing Tax
Credit is a GREAT deal for Baltimore
City.**

Young, Higher-Income Renters

WPM Real Estate Management HOHM Apartments Resident Demographics

Occupant Types	
Primary	143
Responsible	28
Not Responsible	18
Guarantor	23
Total	212

Legal Gender	
Male	
Female	
Unknown	214
Total	214

Animals Per Unit	
0	120
1	21
2	2
3+	0
Total	143

Household Income	
\$20,000 - \$29,999	1
\$30,000 - \$39,999	4
\$40,000 - \$49,999	12
\$50,000 - \$59,999	17
\$60,000 - \$69,999	29
\$70,000 - \$79,999	24
\$80,000 - \$89,999	10
\$90,000 - \$99,999	12
\$100,000 +	26
Unknown	4
Total	139
Mean (Average)	\$ 76,228

Age	
0 to 1	1
2 to 5	4
6 to 12	8
13 to 17	5
18 to 25	43
26 to 30	65
31 to 35	33
36 to 40	9
41 to 45	12
46 to 50	11
51 to 55	7
56 to 60	7
61 to 65	2
66 to 70	5
Unknown	4
Total	216
Mean (Average)	31
Median	29

Service Animals Per Unit	
0	137
1	5
2	1
3+	0
Total	143

Household Size	
1	108
2	28
3	3
4	3
5	0
6+	1
Total	143

Why HPHTC is important

Houston	TX	United States
Houston	TX	United States
Hyattsville	MD	United States
Itasca	IL	United States
Lanham	MD	United States
laurel	MD	United States
Laurel	MD	United States
LAUREL	MD	United States
Leechburg	PA	United States
Lincoln	CA	United States
Los Angeles	CA	United States
Los Angeles	CA	United States
Louisville	KY	United States
Louisville	KY	United States
Macon	GA	United States
Macon	GA	United States
Maumee	OH	United States
Media	PA	United States
Memphis	TN	United States
Middle River	MD	United States
Millersville	MD	United States
Milton	DE	United States
New Taipei City	New Taipei City	Taiwan, Province of China
Odenton	MD	United States
Overland Park	KS	United States
Owings Mills	MD	United States
Owings Mills	MD	United States
Owings Mills	MD	United States
Parkville	MD	United States
Parkville	MD	United States
Parkville	MD	United States
Parkville	MD	United States
Parkville	MD	United States
Pasadena	MD	United States
Pasco	WA	United States
Pasco	WA	United States
Pataskala	OH	United States
philadelphia	PA	United States
Philadelphia	PA	United States

Bryn Mawr	PA
Byron	GA
CARY	NC
Cary	NC
CHARLOTTE	NC
Cockeysville	MD
Columbus	OH
Columbus	OH
Covington	KY
Doylestown	PA
Dundalk	MD
East Stroudsburg	PA
Easton	MD
Edgewood	MD
El Retiro	ANT
El Retiro	ANT
Ellenwood	GA
Ellicott City	MD
Elliott city	MD
Elliott City	MD
Ewa Beach	HI
Frederick	MD
Gaithersburg	MD
Gaithersburg	MD
Germantown	MD
Germantown	MD
Glen Burnie	MD
Glen Burnie	MD
Haddonfield	NJ
Hampton	VA
Hampton	VA

[illegible]

Riesterstown	MD
Rockville	MD
Rosedale	MD
SALISBURY	MD
San Juan	
San Juan	
Savage	MN
Shippensburg	PA
Silver Spring	MD
Silver spring	MD
Staten Island	NY
Staten Island	NY
Suamico	WI
Overland Park	KS
Owings Mills	MD
Owings Mills	MD
Owings Mills	MD
Parkville	MD
Parkville	MD
Parkville	MD
Parkville	MD
Parkville	MD
Parkville	MD
Parkville	MD
Pasadena	MD
Pasco	WA
Pasco	WA
Petaluma	CA

[illegible]

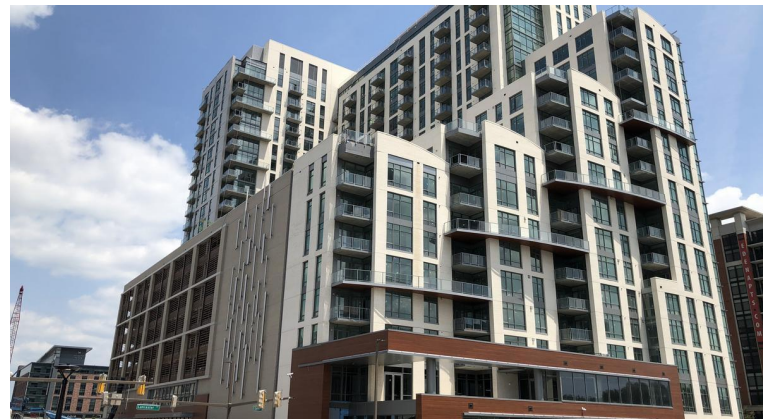
Why HPHTC is important

- Complete upside for the City. The City never collects less tax revenue in absolute dollars than day 1
- 10 years of abatement in exchange for 90 years of full benefit
- The program brings new, high earning residents to the City
- Successful Cities grow - growth creates more resources for initiatives we care about.
- **Office development of scale is no longer possible.** Residential development is Baltimore City's future

If we offered the returns of the High Performance Housing tax credits to investors, it would be the most popular investment vehicle in the world.

Did the Tax Credits Work?

Case Study: Harbor East & Harbor Point



1984

Image U.S. Geological Survey

Google Earth

1992



Image © 2021 Maxar Technologies

Google Earth

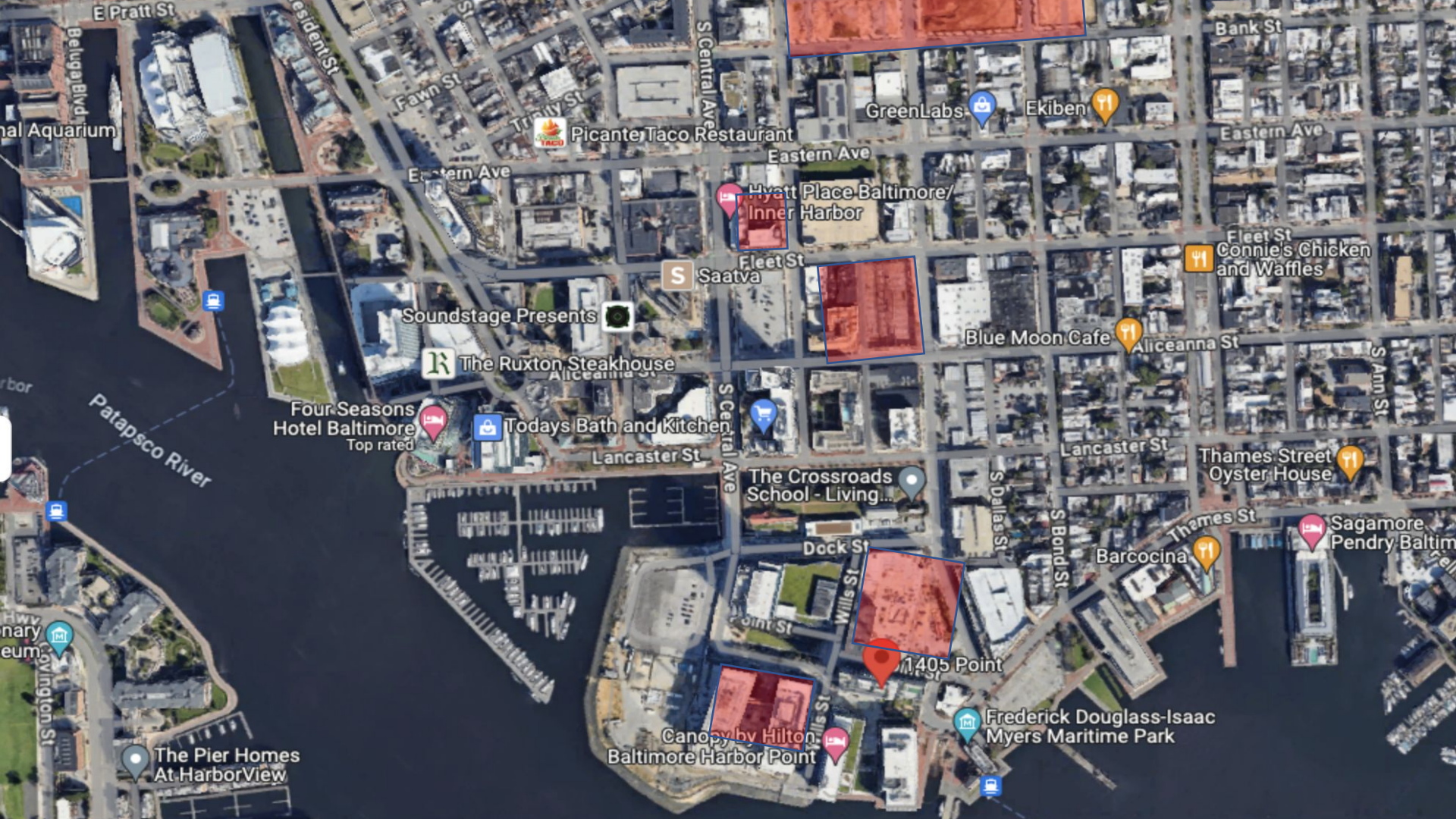
2007

Image U.S. Geological Survey

Google Earth

2020

Google Earth



Harbor East Tax Generation Estimate

Built	No.	Assessed	Annual Tax
Before 2000	5	\$ 108,923,000	\$ 2,568,449
01-'10	11	\$ 621,312,000	\$ 14,463,296
11-'21	9	\$ 660,460,027	\$ 15,586,409
Total	25	\$1,390,695,027	\$ 32,618,154

- Data from SDAT and Costar
- Some data estimated
- Assumes full taxes except Marriott Waterfront
- Estimate 8 buildings still getting credits, other expired
- Some show taxes paid considering credits (Costar)
- Some not listed

At least 9 major parcels remain undeveloped – 10 more years of projects?

civic

Thank You

Does HPH favor particular neighborhoods? I.e. does it concentrate development in the white L?