New Construction Rental Housing in South Central PA

September 26, 2018

Brandon R. Johnson, Vice President of Development
717.731.1161
brandonj@monarchdevelopmentgroup.com
2 Kacey Court, Suite 201, Mechanicsburg, PA 17055
Formed in **2005**, Monarch's portfolio includes:

- **14** multi-family developments across Pennsylvania, with **12** completed and **2** under construction/in pre-construction, together representing **471 units**
- Owns an affiliate property management company, Monarch Management Group, Inc., which owns, developed, and manages **849 units across 27 properties in Pennsylvania**
Percent Change in Population, 2010 to 2017

Statewide: +0.8%

- Increase greater than 3.0%
- Increase 1.6% to 3.0%
- Change +/- 1.5%
- Decrease 1.6% to 3.0%
- Decrease greater than 3.0%

Pennsylvania State Data Center
U.S. Census Bureau Population Estimates Division
3 Central PA LIHTC Multi-Family Developments by Monarch
Shepherd’s Crossing
• 35 Townhouses, opened in 2015
• Over 300 applications
• Over 270 on waitlist, 8 turnovers across 3 years (2.7/yr)
Sunflower Fields

- 35 Single Family Detached Homes, opened in 2017
- Over 900 applications
- Over 200 on waitlist
Paxton Place

- 37 unit 3-story elevator building to open in 2019
- 62+ age restriction
- 5% construction cost increase in just 9 months between bids
LIHTC:
• Highly Competitive and Time Consuming
• Only about 1 in 3 applications are funded
• 3 years from deal conception to groundbreaking is normal
• State’s QAP and Program Requirements are decision drivers
• Serve households up to 60% (or, NEW this year, 80% AMI)
<table>
<thead>
<tr>
<th>COUNTY</th>
<th>% OF MEDIAN INC</th>
<th>EFF. DATE</th>
<th>1 PERSON</th>
<th>2 PERSON</th>
<th>3 PERSON</th>
<th>4 PERSON</th>
<th>5 PERSON</th>
<th>6 PERSON</th>
<th>7 PERSON</th>
<th>8 PERSON</th>
<th>9 PERSON</th>
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<td>CUMBERLAND</td>
<td>20%</td>
<td>75,200</td>
<td>10,540</td>
<td>12,040</td>
<td>13,540</td>
<td>15,040</td>
<td>16,260</td>
<td>17,460</td>
<td>18,660</td>
<td>19,860</td>
<td>21,060</td>
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<td>40%</td>
<td>4/01/2018</td>
<td>21,080</td>
<td>24,080</td>
<td>27,080</td>
<td>30,080</td>
<td>32,520</td>
<td>34,920</td>
<td>37,320</td>
<td>39,720</td>
<td>42,120</td>
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<td>50%</td>
<td></td>
<td>26,350</td>
<td>30,100</td>
<td>33,850</td>
<td>37,600</td>
<td>40,650</td>
<td>43,650</td>
<td>46,650</td>
<td>49,650</td>
<td>52,650</td>
<td>658</td>
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<tr>
<td></td>
<td>60%</td>
<td></td>
<td>31,620</td>
<td>36,120</td>
<td>40,620</td>
<td>45,120</td>
<td>48,780</td>
<td>52,380</td>
<td>55,980</td>
<td>59,580</td>
<td>63,180</td>
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<th>1BRM</th>
<th>2BRM</th>
<th>3BRM</th>
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<td>CUMBERLAND</td>
<td>263</td>
<td>282</td>
<td>338</td>
<td>391</td>
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<td></td>
<td>527</td>
<td>564</td>
<td>677</td>
<td>782</td>
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<tr>
<td></td>
<td>658</td>
<td>705</td>
<td>846</td>
<td>978</td>
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<tr>
<td></td>
<td>790</td>
<td>846</td>
<td>1015</td>
<td>1173</td>
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### Table 4: Characteristics of Low-Income Housing Tax Credit Projects by Selected Allocating Agency, 2011–2015

<table>
<thead>
<tr>
<th>Allocating agency</th>
<th>Projects (number)</th>
<th>Total costs (dollars)</th>
<th>Construction costs</th>
<th>Soft costs</th>
<th>Units</th>
<th>Buildings</th>
<th>Median land cost (dollars)</th>
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<tbody>
<tr>
<td>Pooled</td>
<td>1,849</td>
<td>222,809</td>
<td>147,277</td>
<td>52,704</td>
<td>66.0</td>
<td>7.5</td>
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<tr>
<td>Arizona</td>
<td>70</td>
<td>188,400</td>
<td>121,755</td>
<td>46,885</td>
<td>66.4</td>
<td>11.9</td>
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<tr>
<td>California</td>
<td>409</td>
<td>307,107</td>
<td>176,915</td>
<td>79,760</td>
<td>60.7</td>
<td>5.3</td>
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<tr>
<td>Chicago</td>
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<td>301,529</td>
<td>236,447</td>
<td>53,234</td>
<td>67.4</td>
<td>3.6</td>
<td>247,316</td>
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<td>Florida</td>
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<td>115,903</td>
<td>48,910</td>
<td>94.7</td>
<td>6.8</td>
<td>1,059,886</td>
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<td>Georgia</td>
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<td>141,126</td>
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<td>72.5</td>
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<td>Illinois</td>
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<td>213,343</td>
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<td>10.6</td>
<td>314,447</td>
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<td>New York</td>
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<td>264,018</td>
<td>187,933</td>
<td>60,276</td>
<td>58.5</td>
<td>5.6</td>
<td>186,445</td>
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<tr>
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<td>157</td>
<td>260,089</td>
<td>198,039</td>
<td>54,438</td>
<td>35.5</td>
<td>1.7</td>
<td>219,564</td>
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<tr>
<td>Ohio</td>
<td>181</td>
<td>168,213</td>
<td>113,706</td>
<td>40,004</td>
<td>52.3</td>
<td>10.5</td>
<td>219,564</td>
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<tr>
<td>Pennsylvania</td>
<td>185</td>
<td>246,966</td>
<td>174,908</td>
<td>55,053</td>
<td>49.3</td>
<td>7.8</td>
<td>181,550</td>
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<tr>
<td>Texas</td>
<td>212</td>
<td>127,302</td>
<td>85,115</td>
<td>30,512</td>
<td>109.2</td>
<td>12.0</td>
<td>705,446</td>
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<tr>
<td>Washington</td>
<td>77</td>
<td>207,066</td>
<td>142,781</td>
<td>43,316</td>
<td>61.3</td>
<td>6.6</td>
<td>411,579</td>
</tr>
</tbody>
</table>

Source: GAO analysis of allocating agency data. | GAO-18-537

- **3rd highest for a State**
- **3rd highest for a State**
- **Lowest**
- **Lowest**
Market Rate Rental Housing
Simple Math – Sample Deal

New Construction Market Rate Rental Development
• 100 2BRs at 1,000 SF (=100,000 SF) + 15,000 SF common/circulation = 115,000 SF total
• NOI = $1,250/month * 12 months * 100,000 SF * 65% = $975,000
• Value = $975,000 / 6.5% Cap Rate = $15M
• Bank Loan Max – Lesser of:
  • 80% LTV = $12M max loan
  • ***1.2 DCR: $975,000 / 1.2 DCR = $812,500 max annual payment, $11M max loan
• Equity Max = Cash Flow / Desired Cash on Cash Rate = $2M
• Total Sources = $11M + $2M = $13M
• Total Uses = $13M
  • Construction = $96/SF * 115,000 SF = $11M
  • Soft Costs (Engineering, Design, Financing/Interest, Muni/Tap Fees, etc.) and Acquisition (Need 5-10 acres) = $2M
• ***Fairly aggressive assumptions to make above model work***
• Amenities, Design Features – Delicate balance of cost versus value added – How much additional revenue can I generate by adding an electric car charging station or using this nicer kitchen cabinet?
• Other Challenges Beyond Feasibility
  • Appropriately zoned available land
  • NIMBYism
  • Construction Costs
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