

929 at Johns Hopkins Medical Institute**Background/objectives**

East Baltimore Development, Inc. — a public/private partnership dedicated to urban revitalization — hired a master developer to lead an initiative to provide economic development and community revitalization in a rundown area adjacent Johns Hopkins Medical Institute (JMHI). Graduate-school housing was one component of an urban redevelopment vision that included 1.1 million square feet (sf) for life science technology at Johns Hopkins Medical Institute Science + Technology Park.

The then-available graduate housing was insufficient, outmoded and aging — unsustainable for this new vision. The world-renowned university desired modern, affordable collegiate housing in keeping with its stellar reputation among medical schools.

To advance the revitalization effort, the master developer, Forest City-New East Baltimore Partnership (FC-NEBP), competitively selected EdR to purchase 1.5 acres in an enterprise zone for development of graduate housing. Initially EdR was to purchase the land for \$1 million, owning it and the improvements and being eligible for a significant tax abatement while FC-NEBP would develop adjacent parking. The goals included:

- State-of-the-art housing for JHMI graduate students
- Architectural attraction
- Affordable rents
- Positive community relations
- Woman- and minority-owned business involvement
- LEED Silver certification

EdR was well into the development process and had committed substantial dollars when a seemingly insurmountable roadblock arose — the tax abatement would not be forthcoming, making rents unaffordable.

Implementation/execution

The independent market study EdR commissioned found demand for 800 beds with rents in the \$896 to \$1,216 range (2012 dollars). EdR invested \$1.2 million in architectural design. Then it became clear the tax abatement would not be forthcoming. EdR appealed the decision and lost, resulting in an estimated liability of \$1.5 million annually. EdR's pro forma accounted for \$300,000 in first-year taxes, assuming abatement. The project was not feasible at market rents due to the \$1.2 million gap. A solution was needed to substantially reduce the tax burden in order to achieve rents that would make the project feasible.

EdR considered tax-exempt bond financing to save the project, but the national economic collapse and the loss of bond insurers sky-rocketed the cost of that option, no longer making it financially feasible. A creative solution was needed, and quickly.

- **How this financing solution allowed the project to move forward**

EdR enlisted Richard Grossi, vice president/CFO at JHMI, and Cindy Swisher, then-CFO of EBDI, to join it in working with the local taxing authority on conditions for tax abatement. Through collaboration, they determined JHMI must own the land and a 501(c)(3) must own the improvements.

A condition of Mr. Grossi's was that EdR needed to have "significant skin" in the game — 30% of the development cost — to protect JHMI's debt capacity, along with no guarantees for master leasing or occupancy. EdR backed EBDI's purchase of the land, which was then deeded to JHMI. The non-profit was required to use the improved land for a public purpose: medical student and staff housing. EBDI executed the ground lease with JHMI, to which the ownership of the improvements will revert at the end of the ground lease. Through this complex transaction, EdR was able to reduce real estate taxes by \$1.2 million.

What financing techniques and strategies were used to overcome obstacles in arriving at a financing solution that worked for all stakeholders

EdR crafted a creative financing solution to cover the \$60 million development cost. We guaranteed EBDI's \$42 million construction mini-perm loan with PNC and then invested \$18 million in a second mortgage with escalating interest. EBDI, in turn, established a \$2.5 million replenishing cash reserve to protect EdR's interest.

In return, EdR received development and construction oversight fees and expense reimbursement, similar to any third-party development work. EdR also received a 10-year fee management agreement. Project feasibility and rent affordability were restored; thus EdR's ONE Plan PlusSM financing model was born and JHMI got its needed housing.

Results

The main goal of the new financing model is to achieve affordable rents by eliminating real estate taxes. Using this program allowed the project to move forward, eventually being delivered two months ahead of schedule in June 2012 and \$1 million below budget. The rents are in the range identified as affordable by Anderson Strickler's independent market study.

Residents of 929, named for its address on North Wolf Street in Baltimore, enjoy upscale accommodations and finishes as well as these amenities:

- Green park-like roof
- Fitness center
- Conference room
- Casual study lounge
- 8,000 sf + commercial space
- Adjacent structured parking

They also enjoy green living since 929 was designed to achieve LEED Silver but is on track to be awarded Gold certification. The community has 572 beds in 321 units, the majority of which are studios and one bedroom. Fifty-two units with four bedrooms are available at a significantly lower price point to enhance affordability — starting at \$799 a month per bed. All but the four-bedroom units have bed-bath parity. About 100 unfurnished units also are available at a reduced price compared to furnished ones.

In a departure from EdR's typical practice of leasing only per bed — owing to the graduate student/staff population that includes families — individual and joint leases are available. The units feature:

- Stainless-steel appliances (dishwasher, microwave, refrigerator and oven/stove)
- Granite countertops
- Faux hardwood flooring
- Private washer and dryer
- 42-inch, wall-mounted flat screen TV
- Cable service
- WiFi internet access
- Water, trash removal and electricity
- 24-hour access to fitness center, club room and rooftop terrace

The community's amenities include shuttle service to JHMI and downtown, a boon to the residents who do not own cars.

Said U.S. Rep. Elijah E. Cummings, representing the Seventh District of the State of Maryland, "This new building will house hundreds of students at Johns Hopkins who will make a difference. While they live here, they will buy here, eat here and help the community grow. People growing up here will see people who are living their dreams and doing good things in the world."

Assisting EdR and EBDI in bringing this project to fruition were:

- Architects Marks-Thomas (woman-owned business), DiMella Schaeffer, and Harris Kumpfer (minority-owned business)
- Contractors Clark Construction and Banks Construction (minority-owned business)
- Co-developer Otis Warren (minority-owned business)
- PNC Bank