<u>10/23/23 House Housing & Community Development Committee Informational Meeting</u>

Brad Mowbray - SVP and Managing Director of the residential division for High Real Estate Group ("HREG"), a private owner and operator of housing communities, commercial and industrial properties, retail centers, and hotels.

HREG currently owns and manages 3,200 apartment and manufactured housing units in Pennsylvania (2,600) and the Carolinas (600).

We have approximately 1,000 apartment units in our development pipeline in Pennsylvania, which includes the Greenfield North project in E. Lampeter Township, Lancaster County. The project consists of 600 apartments and 28 rental townhome units. We have obtained land development approval for the first phase of the project (440 apartments) and site work is well underway utilizing an $11M grant from the State's Redevelopment Assistance Capital Program.

I also serve as a Board Member for the Pennsylvania Apartment Association, a research and advocacy group for the rental housing industry, with 316 management company members who operate more than 276,000 apartment units.

There are several misconceptions about rental housing and developers that I think it is important for the committee to be aware of.

> Misconception – Developers make significant profits from market-rate projects.
> Fact – The National Apartment Association published a white paper that breaks down $1 of rent (see attachment). On average, 7 cents of every $1 is returned to owners as profit.
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> Misconception – Our community doesn't need any more housing; lack of affordability is not my problem.
> Fact - Local communities are stronger and more vibrant when there is a mix of rental and owned housing. Without a diversity of housing options to meet a variety of lifestyle needs and price points, local economies are held back. It's an important issue for everyone in the community whose employer might move to another market where housing is more readily available.

What can the state do to help?

While a number of established state and federal programs exist to promote affordable or low-income housing and have long been administered by qualified agencies (such as PHFA), programs such as LIHTC and Section 8 haven't been able to keep up with the rapidly increasing demand for affordable and workforce housing. It is highly competitive to secure tax credits for a project, and we have found that the cost can be $125,000-$150,000 per unit higher than a market-rate apartment development.

Housing affordability can be thought of as existing on a spectrum. Area median income (AMI) determines what's considered affordable, and affordable housing programs are designed to assist those who make less than 60% of AMI.

Often, working families and young professionals don't qualify for affordable housing due to exceeding local AMI, but they can't afford market-rate or luxury apartments. These families make too much to qualify for traditional low-income subsidized housing and too little for market-rate communities. Workforce housing can be thought of as serving households earning between 60% and 120% of the AMI.

To address this "missing middle" – or the gap in available housing between luxury, market-rate, and affordable lower-income housing – some states have begun implementing programs designed to stimulate the construction of urgently needed workforce housing.

I would encourage the committee to consider the following:

Create a missing middle housing production program designed to increase the supply of housing stock to support employees' growth and economic mobility through cost subsidies to developers investing in, constructing, or substantially rehabbing properties targeted to missing middle/workforce households.

Some states creating such a program have provided a maximum grant award per unit (e.g., 70-80K/unit), structured in a way that incentivizes project density.

I would strongly urge that efficiency and flexibility be built into such a program. Strong housing developers know their customers, markets, and how to deliver projects – to make a meaningful dent in bridging the gap, allowing the development community to do what they do best while ensuring that essential policies and program guidelines are met.

Construction subsidies for eligible projects should include funding for site work and utilities, vertical construction (including renovation), and land acquisition as eligible costs for funding.

Demand for such a program would be great - I would recommend inviting a working group to include representatives from PHFA, DCED, and the Governor's office to discuss how such a program could be created and sustainably funded.

Our time limit today prevents a detailed conversation about such a new program. I hope this policy recommendation is helpful and stand ready to assist with the next steps if there is an interest in pursuing it further.