

THE OLMSTED

A Mixed Income Community in Reservoir Hill

Ryan Rattanni

Under the Supervision of:
Program Director: Margaret McFarland
Capstone Advisor: Tim Pula
Architect: Jack Devilbiss, AIA

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PALS - Partnership for Action Learning in Sustainability
An initiative of the National Center for Smart Growth

Gerrit Knaap, NCSG Executive Director
Uri Avin, PALS Director

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EXECUTIVE SUMMARY

Development Highlights

- x One-acre greenfield in Reservoir Hill neighborhood of Baltimore
- x Proposing 218 residential units – 50% affordable (LIHTC), 50% market rate
- x Single-story concrete podium with five stories of wood frame above
- x 205,890 gross square feet
- x \$33,808,786 total project cost
- x Debt sources: tax-exempt bonds, conventional debt
- x Equity sources: 4% LIHTC, Rental Housing Funds, Deferred Developer's Fee
- x 11.5% Year One Return-on-Equity (ROE)
- x 18.9% Internal Rate of Return (IRR) for initial ten years of operation

Introduction

821-825 Druid Park Lake Drive is a one-acre greyfield site in Baltimore City's Reservoir Hill neighborhood. Our redevelopment proposal, The Olmsted, is to construct a 205,890-square foot structure with 218 mixed-income residential units. Reservoir Hill is a historic neighborhood known for its Victorian mansions and architectural character. The site is bounded to the north by Druid Hill Park, a 745-acre park, the third oldest established park in the United States. The park was considered the centerpiece of Frederick Olmsted, Jr.'s 1904 comprehensive park plan for Baltimore.

Key Challenges

- x Rezoning and PUD process

- o Site is comprised of three separate parcels - 821, 823, and 825 Druid Park Lake Drive
- o Current zoning (R-9) permits a maximum number of 77 units by-right
- o If approved, rezoning and PUD would allow for 218 units
- x Public Funding Component is Not Guaranteed
 - o Financial feasibility hinges on Low Income Housing Tax Credit (LIHTC) equity and Rental Housing Program Funds

Key Opportunities

- x Market rate units “subsidize” affordable units
- x Low acquisition costs Æ Low basis
- x Deferred Developer Fee as Equity

Market Area Demographics

- x Within the site’s census tract, 79.2% of households rent and the 20.8% of households own
- x Median age is estimated at over 44 years old compared to Baltimore City’s median age of 34.5 years
- x Household median income is \$27,426, which is less than Baltimore City’s household median income of \$44,165
- x Over one-third of households in the census tract receive some form of cash public assistance income or food stamps

Market Analysis

- x The Olmsted will fill a void in the current market, providing the much-needed affordability along with reasonably priced market-rate units
- x Comparable properties include both affordable developments and high-end luxury developments
 - o The Chateau, operated by Penn Rose Development, is one block from the project site with 101 one- and two-bedroom units and rents ranging from \$1,052 to \$1,135
 - o Remington Row, a newly constructed 108-unit luxury development offers units from \$1,350 for a one-bedroom to \$1,950 for a two-bedroom unit

Financial Analysis

The capital stack comprises largely of public funding sources. On the affordable side, the project will leverage 4% Low Income Housing Tax Credits (LIHTCS) for a considerable amount of equity – \$5,258,846. On the market-rate side, the project will leverage private debt sized from the market rate annual income.

Sources		% of	PSF	Per Unit
Tax-exempt Bonds	\$	18.6	\$	\$
Private Loan	\$	56.2	\$	\$
Rental Housing Program Funds	\$	4.4	\$	\$
Low Income Tax Credit Proceeds	\$	16.3	\$	\$
Deferred Developer's Fee	\$	4.4	\$	\$
Total Sources of Funds	\$	100.0	\$	\$
Uses				
Construction or Rehabilitation Costs	\$	72.9	\$	\$
Fees Related to Construction or Rehabi	\$	5.4	\$	\$
Financing Fees and Charges	\$	5.5	\$	\$
Acquisition Costs	\$	3.0	\$	\$
Developer's Fee	\$	7.4	\$	\$
Syndication Related Costs	\$	0.4	\$	\$
Guarantees and Reserves	\$	5.5	\$	\$
Total Uses of Funds	\$	100.0	\$	\$

Investment Strategy & Returns

- x Hold for the duration of the initial Low Income Housing Tax Credit compliance period
- x 11.5% Return-on-Equity (ROE) in Year One
- x 18.9% Internal Rate of Return (IRR) based on the initial ten years
- x 5.2% Return-on-Cost (ROC)
- x 2.81 Equity Multiplier based on initial ten years

Key Metrics

Affordabilit	Bedroom	Baths	Unit	Rent	Monthly Income	Annual
Affordabl	Studi o	1	20	\$	\$	\$
Market	Studi o	1	20	\$	\$	\$
Affordabl	1	1	60	\$	\$	\$
Market	1	1	60	\$	\$	\$
Affordabl	2	1	29	\$	\$	\$
Market	2	1	29	\$	\$	\$
TOTAL			218		\$	\$

Stabilized Operations	
Effecti ve Gross Income	\$
Operating Expens es	\$
Net Operating Income	\$
Debt Servi ce	\$
Total Cash Flow	\$
Debt Coverage Ratio	1.15

Sensitivity Analysis - LIHTC Pricing			
Total Tax Credit	Raise	Total Equity	Financing
\$5,258,846	0.65	\$3,418,250	(\$2,103,539)
\$5,258,846	0.7	\$3,681,192	(\$1,840,596)
\$5,258,846	0.75	\$3,944,135	(\$1,577,654)
\$5,258,846	0.8	\$4,207,077	(\$1,314,712)
\$5,258,846	0.85	\$4,470,019	(\$1,051,769)
\$5,258,846	0.9	\$4,732,962	(\$788,827)
\$5,258,846	0.95	\$4,995,904	(\$525,885)
\$5,258,846	1.00	\$5,258,846	(\$262,942)
\$5,258,846	1.05	\$5,521,789	\$0

I. General Context

Location

The project site is located at 821-825 Druid Park Lake Drive in the Reservoir Hill neighborhood of Baltimore, Maryland. Reservoir Hill is a historic neighborhood widely known for its variety of

Victorian mansions, brownstones, and Italianate architectural buildings.¹ The neighborhood is largely residential and, much like the city as a whole, has experienced significant population



loss over the previous several decades. Most of the housing stock is multifamily structures, ranging from duplexes to large multifamily developments. The neighborhood is bordered by the Remington and Old Goucher neighborhoods to the east, Bolton Hill and Madison Park to the south, and Penn North to the west. The Site is bounded to the north by Druid Hill Park, a 745- acre park, the third oldest established park in the United

States.² The park is home to the Baltimore Tennis Club, Druid Hill Park Pool, Howard P.

¹ "Reservoir Hill History." *Reservoir Hill Improvement Council*. N.p., n.d. Web. 22 Sept. 2016.

² "Druid Hill Park." Department of Recreation & Parks. Baltimore City, n.d. Web. 18 Sept. 2016.

Rawlings Conservatory, Jones Falls Trail, and the Maryland Zoo in Baltimore.³ Druid Hill Park is home to the reservoir from which the neighborhood gets its name. Other key regional assets near the site include



Baltimore Penn Station located 1.9

miles southeast of the site, Penn/North subway station located 0.8 miles southwest of the site, North Avenue light rail stop

Regional Context

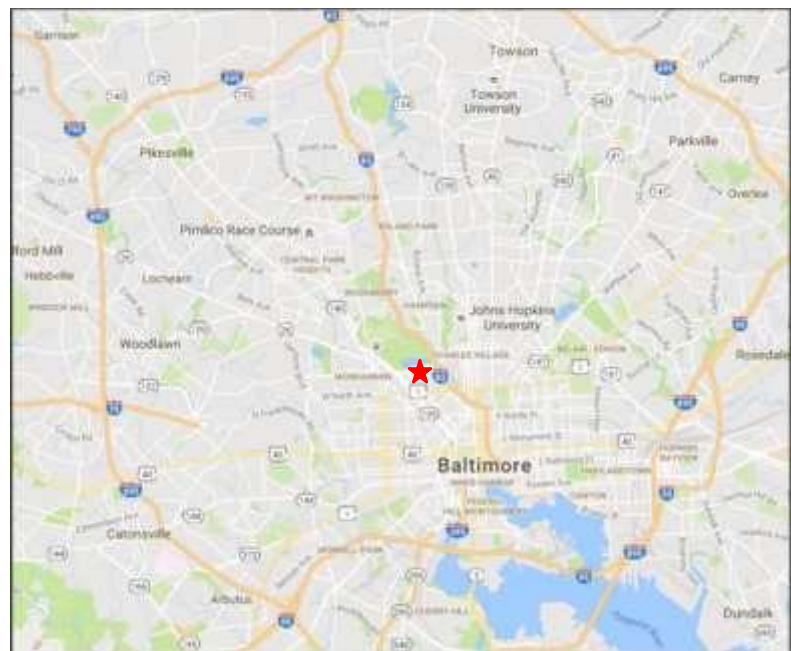
located 1.3 miles southeast of the site, The University of Baltimore located 1.5 miles southeast of the site, Maryland Institute College of Art (MICA) located 1.0 mile southeast of the site, and Johns Hopkins University located 1.6 miles northeast of the site.

Property Characteristics

The property is vacant and is currently a greyfield site. The site comprises 42,478 square feet in a relatively rectangular configuration.

Street boundaries are Druid Park Lake

Drive to the north, Linden Avenue to



View of Site Looking East From Linden Ave

³ "About Us." *Friends of Druid Hill Park*. N.p., n.d. Web. 22 Sept. 2016.

the west, Hendler Lane to the south, and Brookfield Avenue to the east. The site is relatively flat, sloping slightly from northwest to southeast. There is limited information available

regarding previous land uses. However, property tax records indicate that the site was transferred in October 1997



from an ownership entity called "Lakeside Apartment" to the U.S. government for just under \$1.5 million.⁴ The site has remained in government ownership for the past 19 years.

Project Overview The site is currently zoned R-9, dense residential zoning that allows for multifamily development. R-9 permits a floor area



⁴ Sdat. "SDAT: Real Property Search." *SDAT: Real Property Search*. State Department of Assessments and Taxation, n.d. Web. 22 Sept. 2016.

ratio (FAR) of 3.0 and requires 550-square feet of land per unit.⁵ Given the site's size, R-9 zoning allows for 77 units by-right. However, a rezoning to R-10 and a Planned Unit Development (PUD), would allow for up to 218 units. Of the 218 units, half (109 units) will be affordable, financed with 4% Low Income Housing Tax Credit equity, and half (109 units) market-rate units. The design will complement the neighborhood's historic character while advancing green building principles and smart design.

Traffic

The site is served by Druid Park Lake Drive, a four-lane expressway along the southern perimeter of Druid Hill Park. Druid Park Lake Drive is a heavily trafficked arterial road with a median. The frequency and speed of vehicular traffic makes pedestrian crossings difficult, and at times, dangerous. Druid Park Lake Drive connects with McCulloh Avenue and



Druid Park Lake Drive Looking West

Druid Hill Avenue to the west. The site is 0.3 miles west of the on-ramp to the Jones Falls Expressway (Interstate 83). The Jones Falls Expressway offers connections to Interstate 695, which allows to

⁵ "Table of Contents." *Development Guidebook: Requirements for Building in Baltimore City* 76.1 (2013): n. pag. Baltimore Department of Planning. Web. 22 Sept. 2016.

access to regional employment centers, such as Towson in Baltimore County, just 17 minutes away.

Transit

The site is well-served by a variety of transit options. It is 1.9 miles from Baltimore Penn Station, a regional rail hub with connections for Amtrak, Maryland Area

Regional Commuter

train (MARC),

metro/subway and light

rail. Amtrak serves

most major urban

centers on the east

coast, including

Richmond, Washington
D.C., Baltimore,

Philadelphia, New York



City, and Boston. Amtrak's high speed line, the Acela Express, can move passengers from

Baltimore to New York City's Penn Station in two hours and 17 minutes. In addition to Amtrak,

Baltimore Penn Station is served by MARC's Penn Line, which connects Washington D.C.'s Union

Station and Perryville, Maryland. It can move passengers between Baltimore and Washington D.C.

in just under an hour. The MTA light rail line runs north-south through the center of the city,

terminating in the north at Hunt Valley, Maryland and in the south at BWI Thurgood Marshall

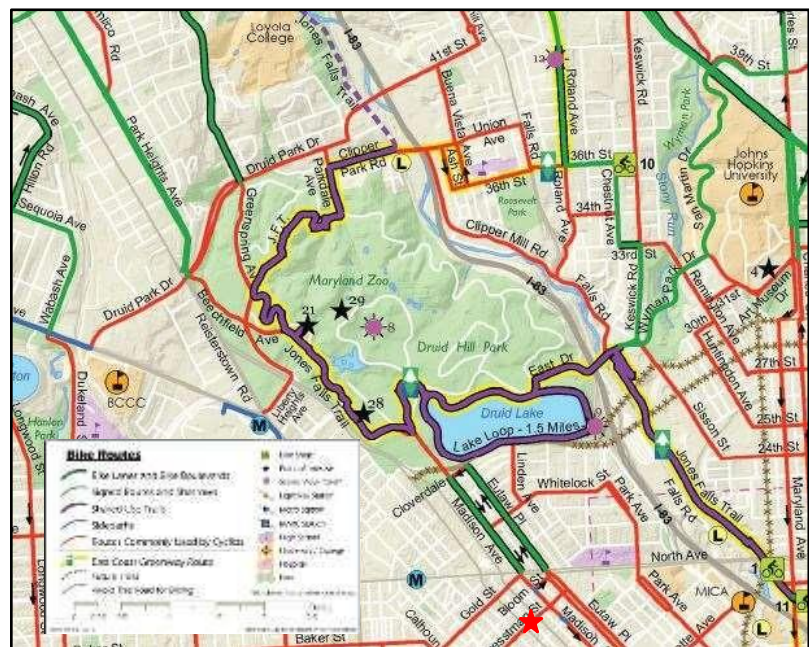
Airport or Glen Burnie,

Maryland. The closest light rail station is the Relief PT/Division station, 1.1 miles from the site. The nearest metro/subway station is the Penn North station, 0.8 miles from the site.

The site is also served by numerous bus routes. The nearest bus station is located at Lakeview Towers, 0.2 miles to the east. The Lakeview Towers station is served by the #5 bus, which runs east-west from Cedonia to Mondawmin Metro Station.

Bicycle/Pedestrian Infrastructure

The Reservoir Hill neighborhood has a Walk Score of 74 and a Bike Score of 77, making it the 89th most walkable neighborhood in Baltimore according to Walkscore.com.⁶ A score of 74 is classified as “very walkable,” indicating that most errands can be accomplished on foot.



Bicycle Infrastructure

Bicycle commuters are well served by

bike lanes and bicycle trails. The site is approximately 0.5 miles from the Jones Falls Trail, that runs eleven miles trail from the Mount Washington neighborhood in north Baltimore to the

⁶ "Reservoir Hill Neighborhood in Baltimore." *Walk Score*. N.p., n.d. Web. 22 Sept. 2016.

Inner Harbor south of downtown Baltimore. The trail is relatively flat and does not exceed a 5% slope at any point.

Local Services & Amenities

The site is located in a City-designated food desert, defined as an area where residents must travel more than ¼ mile to reach a supermarket, the median household income is at or below 185% of the poverty level, over 30% of households lack access to a vehicle, and the supply of healthy food is low. The closest grocery store is Save-A-Lot, located 1.1 miles to the south at 234 McMechen Street. A Shoppers Supermarket is 2.3 miles to the west at 2000 Gwynns Falls Parkway. The neighborhood is served by smaller corner stores, which have limited supplies of fresh produce and other healthy options.

The University of Maryland Medical Center Midtown Campus is approximately 1.9 miles southeast of the site. The UMMC Midtown Campus is a highly ranked teaching hospital with 24-hour emergency services and more than 30 medical specialty departments.⁷ Mercy Medical Center is 2.5 miles southeast of the site. Mercy is the third-ranked hospital in Maryland and is nationally recognized for its orthopedics department.⁸

The site is served by John Eager Howard Elementary School, #61, located at 2235 North Fulton Avenue. The school is approximately 0.6 miles to the west and serves students from pre-K to fifth grade. Mount Royal Elementary/Middle School is the

⁷ "About Us." *University of Maryland Medical Center*. N.p., n.d. Web. 22 Sept. 2016.

⁸ "Best Regional Hospital in Maryland - US News & World Report." *Mercy Medical Center*. N.p., n.d. Web. 22 Sept. 2016.

designated middle school. It is 0.9 miles from the site and serves students from kindergarten to eighth grade. High school admission in Baltimore varies by school, with some offering lotteries and/or entrance exams. The closest high school is Frederick Douglass High School, 1.3 miles to the west. Frederick Douglass is the second oldest historically integrated public high school in the country and currently serves 886 students.⁹

Cultural attractions and entertainment options are easily accessible from the site, most within 2 miles of the site, including the Baltimore Museum of Art, home to the largest public collection of Henri Matisse's work, the Baltimore

Streetcar Museum , and the

Charles Theatre, an 1,150-seat movie theater showing both mainstream and classic films. Retail areas are located to the west at Mondawmin Mall, to the north in the Hampden neighborhood and to the east in Charles Village.

⁹ "Film Shows Baltimore School Struggling despite No Child Left Behind Law." *Mason City Globe Gazette*. N.p., 21 June 2008. Web. 22 Sept. 2016.

II. Market Analysis

Methodology

This section of the report analyzes the demographic and economic trends of the site's and the City's market areas. The data for this analysis were gathered from a variety of sources, including the United States Census Bureau, the Baltimore Department of Planning, and CoStar, Inc.

Market Area

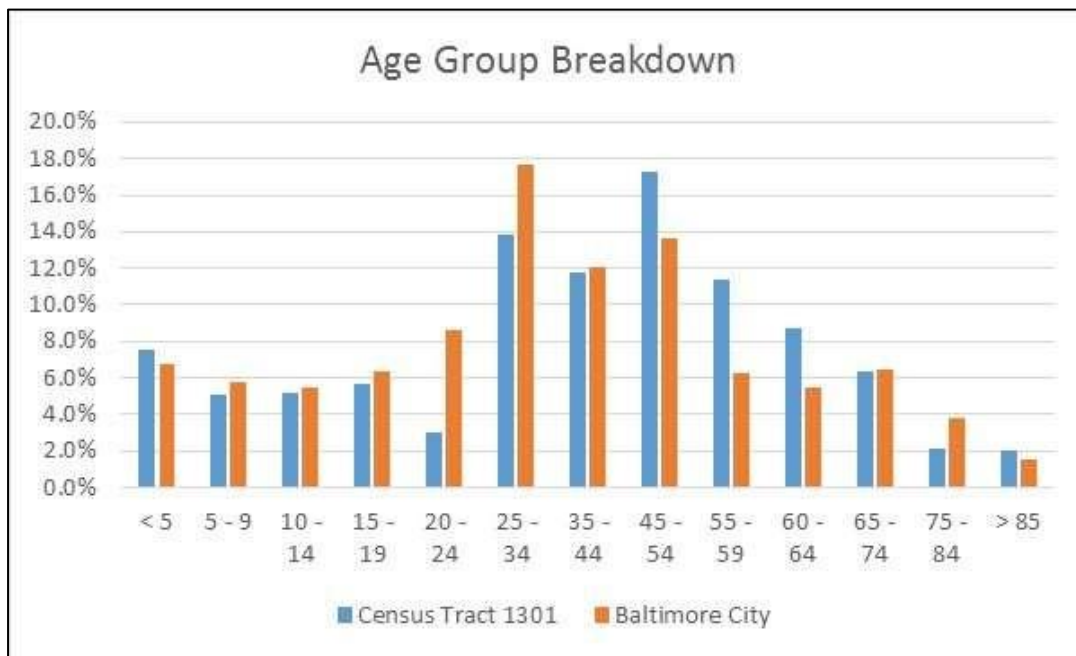
Given that this project will combine affordable and market-rate units, there are essentially two distinct market areas. Affordable units are in very high demand throughout the City, while the market area for the market-rate units is more likely confined to the area surrounding the downtown and Baltimore Penn Station. For this report, each section of the analysis compares the project's census tract with Baltimore City as a whole.

Demographics

The site is located in Census Tract 1301, which encompasses much of the Reservoir Hill neighborhood. The U.S. Census Bureau's 2014 American Community Survey's five-year shows the census



tract’s overall population is 2,941,¹⁰ virtually unchanged from 2010, when the population stood at 2,919. The median age is estimated at over 44 years old, which is significantly older than the City’s median age of 34.5 years.



The graphic above shows the age breakdown of the site’s census tract compared to the City overall. It shows that the site’s census tract has a much larger share of older age groups compared to Baltimore City. It is widely assumed that an older population indicates a consumer base more inclined to own than rent. However, a 2015 Harvard University study found that nationally, half of all renters are over the age of 40.¹¹ Given the median age of the site’s census tract, this trend would support the project’s feasibility.

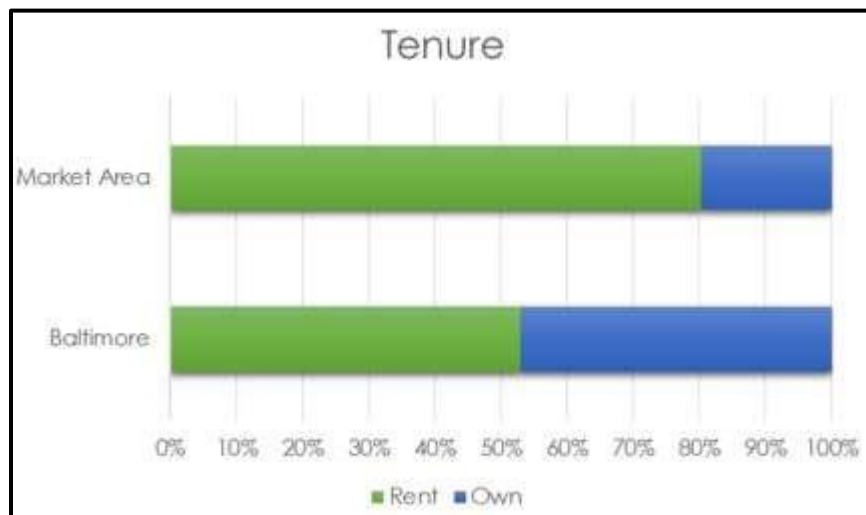
¹⁰ Data Access and Dissemination Systems (DADS). "American FactFinder - Search." *U.S. Census Bureau*. N.p., n.d. Web. 02 Oct. 2016.

¹¹ Design, Harvard Graduate School Of, and Harvard Kennedy School. *AMERICA’S RENTAL HOUSING* (n.d.): n. pag. Joint Center for Housing Studies of Harvard University, 2013. Web.

The census tract is home to 1,508 households with an average size of 1.94 persons. Generally, smaller household sizes are indicative of a greater tendency to rent housing than own. For

example, Maryland has a statewide average household size of 2.67 persons.

67.1% of households own their housing units compared to 32.9% who



rent. Within the site’s census tract, 79.2% of households rent and the remaining 20.8% of households own their homes.¹²

Building permits have largely rebounded to pre-recession levels. After minimal production in 2010 and 2011, production has steadily risen, particularly for multifamily structures with more than five units. In 2015, permits were issued for the construction of 1,064 multifamily units an almost 50% increase from the previous year.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Single Family	219	241	220	164	75	118
Two Family	10	4	8	0	0	0
Three and Four Family	0	4	48	0	4	0
Five or More Family	1064	572	981	566	910	251
Total	1293	821	1257	730	989	369

Source: U.S. Census Bureau

¹² Data Access and Dissemination Systems (DADS). "American FactFinder - Search." *U.S. Census Bureau*. N.p., n.d. Web. 02 Oct. 2016.

Trends and Projections

While population projections are difficult to obtain at the census tract level, the Maryland Department of Planning (MDP) regularly updates population projections and currently makes population and household projections for Baltimore City through 2040.

Historical and Projected Total Population								
	<u>Census 2000</u>	<u>Census 2010</u>	<u>2015</u>	<u>2020</u>	<u>2025</u>	<u>2030</u>	<u>2035</u>	<u>2040</u>
MARYLAND	5,296,486	5,773,552	6,010,150	6,224,550	6,429,750	6,612,200	6,762,300	6,889,700
Baltimore City	651,154	620,961	625,000	634,100	644,000	651,100	655,650	659,100

Historical and Projected Households								
	<u>Census 2000</u>	<u>Census 2010</u>	<u>2015</u>	<u>2020</u>	<u>2025</u>	<u>2030</u>	<u>2035</u>	<u>2040</u>
MARYLAND	1,980,859	2,156,425	2,247,775	2,360,125	2,470,025	2,567,275	2,639,475	2,698,850
Baltimore City	257,996	249,900	254,925	261,975	270,025	275,425	279,575	283,900

Source: Maryland Department of Planning

The data show a moderate growth rate for both population and households, albeit at a much slower pace than growth projected for the state.

Planning Context

Reservoir Hill does not have a neighborhood-specific plan endorsed by the City’s Department of Planning. The last plan for the neighborhood was a 1972 urban renewal plan.¹³ The City’s 2006 Comprehensive Master Plan doesn’t specifically identify a vision for the Reservoir Hill neighborhood.

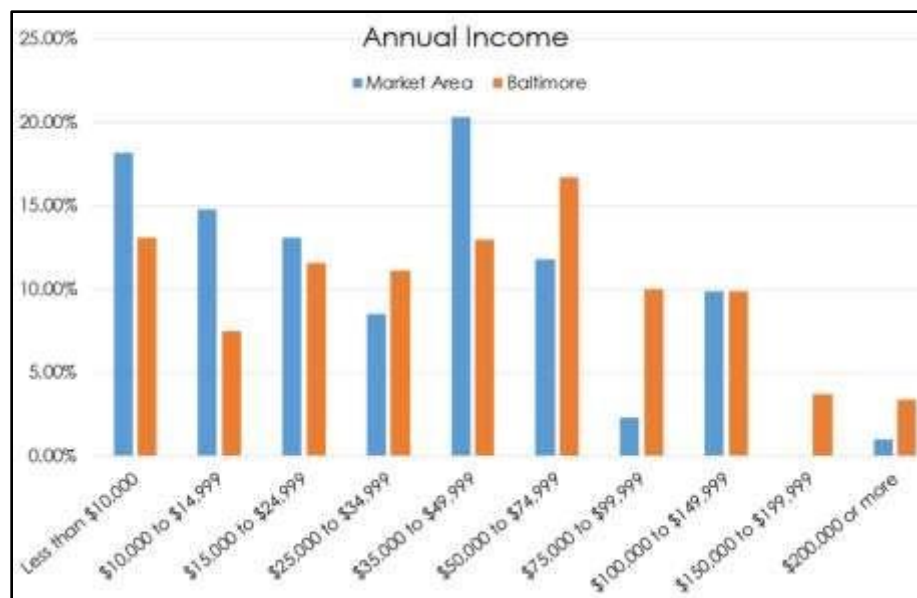
¹³ Amendment No. 1, Dated March 22, 1973, Approved By The Mayor And City Council Of Baltimore By, Ordinance 316, Dated May 3, 1973., li. Amendment No. 2, Dated June 20, 1974, Approved By The Mayor And City Council Of Baltimore By, and Ordinance 735, Dated October 17, 1974.

A review of Baltimore City’s EconView, an online interactive tool displaying recent developments in the City, shows two recent residential developments and one infrastructure development in the site’s market area. Lakeview Tower is a 30-unit affordable housing development one block from the site, currently undergoing a \$22,400,000 rehabilitation. 2401 Brookfield Avenue is a 22-unit multifamily rental development that has recently undergone a significant rehabilitation. Additionally, the City is implementing pedestrian infrastructure improvements near the entrance to Druid Hill Park at 2700 Madison Avenue.¹⁴

Economic Profile

By every measure, the site’s census tract is a low-income area. The household median income is

\$27,426, roughly half of the national household median income of \$53,482 and significantly less than Baltimore City’s household median income of

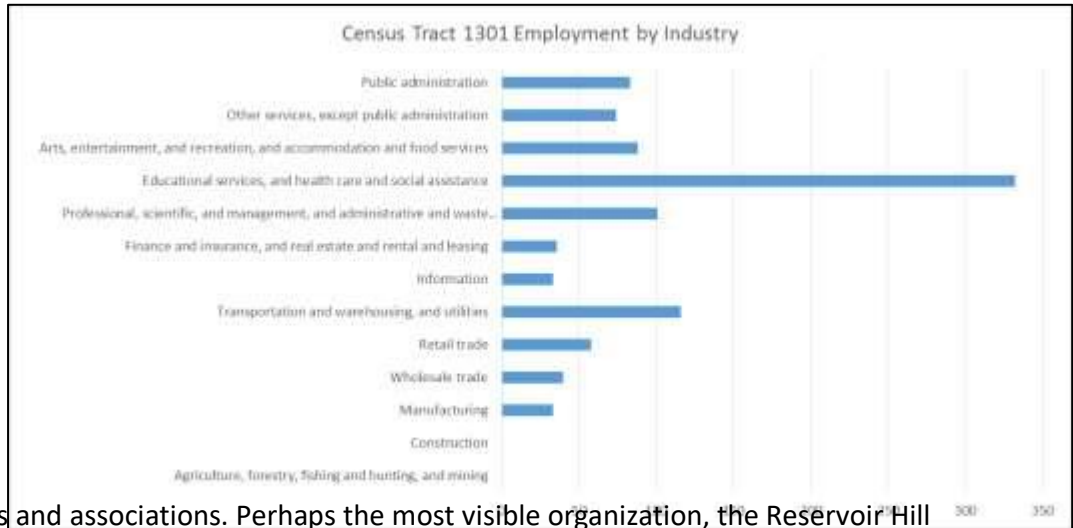


\$44,165. According to the U.S. Census, over one-third of households in the census tract receive some form of public assistance income or food stamps, more than the 25.7% of City

¹⁴ Streetscape, West North Avenue, Conceptual Master Plan, and 6/30/2015. *WEST NORTH AVENUE STREETSCAPE CONCEPTUAL MASTER PLAN* (n.d.): n. pag. Web.

households overall.¹⁵ Of the census tract’s working age population (16-64 years old) the Census Bureau estimates that 48.9% do not work, significantly more than Baltimore City overall at 31.6%. More than one-third of those employed in the census tract work in educational services, healthcare, or social assistance.

Stakeholders
The Reservoir
Hill
neighborhood
has a robust
network of



community groups and associations. Perhaps the most visible organization, the Reservoir Hill Improvement Council (RHIC), is a 501(c)3 organization that operates in three areas: urban environment, schools and recreation, and housing and development. The organization’s specific initiatives under include greening and tree-planting, housing counseling, and the creation of Linden Park.

The Historic Mt. Royal Terrace Association is a small but active neighborhood organization that works on neighborhood beautification and crime awareness. The St. Francis Neighborhood Center is a youth-focused community organization located on Linden Avenue in Reservoir Hill.

¹⁵ Data Access and Dissemination Systems (DADS). "American FactFinder - Search." *U.S. Census Bureau*. N.p., n.d. Web. 02 Oct. 2016.

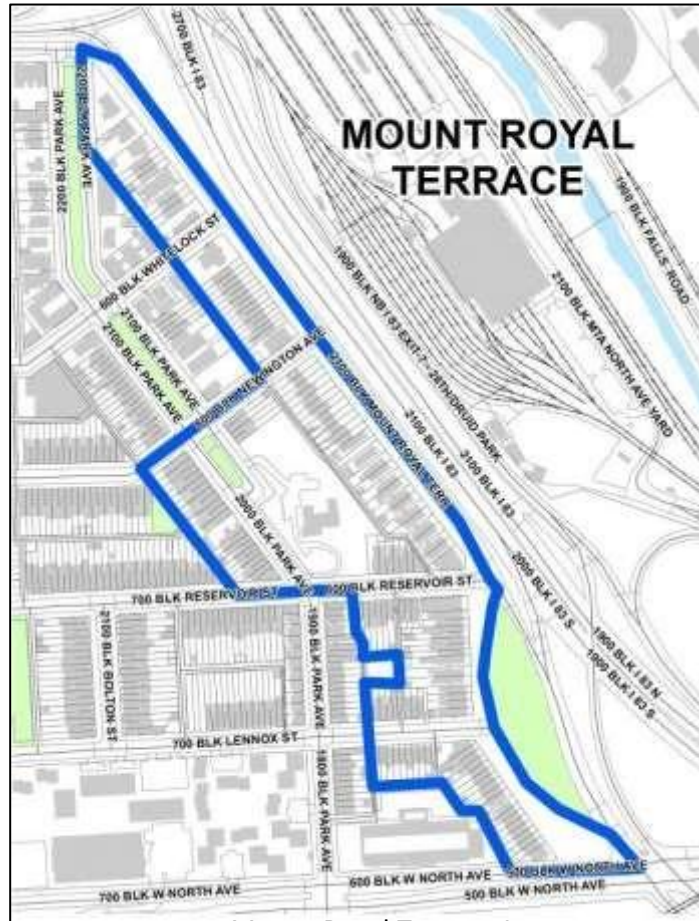
St. Francis Center offers youth development programs, computer and finance classes, yoga, job training, and literacy programs.

Bolton Park Neighbors, Inc. is a 501(c)3 organization that sponsors an annual Home & Garden tour of the neighborhood’s historic homes.

Market Demand

Our analysis of competitive properties shows 23 comparable developments within a one-mile radius. These properties

are both market rate and affordable developments, ranging from 47 to 305 units. Median rents for are \$678 for a studio, \$946 for a one-bedroom, \$1,079 for a two-bedroom, and \$1,116 for a three-bedroom. Of these developments, Remington Row, a new luxury development in the Remington neighborhood, commands the highest rents. Overall, vacancy rates are low across the comparable properties, showing strong demand for multifamily products.



Mount Royal Terrace Area

COMPETITIVE										
Building Name	Unit#	Studio	# 1	1-BR	# 2	2-BR	# 3	3-BR	Vaca	
Wyman House	16	12	4	4						23
Wyman Court	7	32	2	2	2					5.3
Bellevue M	4		4	4						3.3
Frederick Douglass	9		3	3	3		3			13
Renaissance at	6		3	2	2		4			3.0
Lakeview Towers	30	15	15							7.5
Riviera Apartments	5		1	4	4					2.2
The Chateau	4		2	2	2					4.0
New Shiloh Senior Liv	8		6	1	1					2.1
Marlborough	22	70	15							0.0
Medeso Manor	5			2	3		3			0.0
Emersonian	6		2	3	3		1			4.9
Esplanade	9	8	4	3	3		4			7.8
Mill No. 1	8	15	2	3	3		4			6.2
Pedestal Gardens	19		5	5	5		4			4.6
Temple Gardens	9	9	4	3	3		4			5.3
Linden Park	26	11	15							9.7
Pedestal Gardens	20		4	7	7		7			2.0
Bolton North	20		20	1	1					0.6
Penn North Plaza	6	26	4	4						1.5
Beethoven	6		1	4	4					5.2
Penn Square	9		3	3	3		3			2.2
Remington Row	10		7	3	3					1.4

* Provided by CoStar, Inc.

III. Regulatory Context

Current Zoning

The project site comprises three parcels: 821, 823, and 825 Druid Park Lake Drive, all zoned R-9, which allows for a 3.0 FAR and permits multifamily developments. The total site is roughly one acre (42,478 square feet) and, by right, could develop with 127,434 square feet. However, the zoning code requires a minimum lot size of 550 square feet per dwelling unit. Therefore, the maximum number of permitted units is 77.



This allowable density is significantly less than the density required to positively impact the neighborhood and increase housing affordability for Reservoir Hill residents. This project proposes rezoning the site to R-10, the densest residential zoning district, to develop the site as a planned unit development

(PUD). The PUD allows for the three parcels to be considered as a single site, simplifying the redevelopment process and allowing for a single development plan.

	R-9	R-10	R-10/PUD
Site Size (SF)	42,478	42,478	42,478
Min Lot Size - SF/Unit	550	200	N/A
Total Units Permitted	77	212	218

Yield
Matrix

The remainder of this section assumes the proposed rezoning will be granted.

Minimum Lot Area and Setbacks

The R-10 zoning district requires a minimum lot size of 200 square feet per residential unit; the site’s size (42,478 square feet), would generate 212 units. A clear benefit of the PUD guidelines is their flexibility in density, lot coverage, and other criteria not allowed in standard zoning districts. For example, the code permits up to 218 units per acre for PUDs. Furthermore, the code states “the basic building height limitations for the underlying district may be increased to the extent specifically provided in the approved Development Plan.” The same flexibility applies to lot coverage requirements. The code requires a 10-foot rear setback and a 10-foot interior side setback. For PUDs, neither a front setback nor a street corner setback is required.

Parking

The code requires one parking space for every two residential units. The project’s total unit count under PUD guidelines is 218 units. Therefore, the off-street parking requirement is 109 spaces. Furthermore, the code stipulates that each space must be at least 180 square feet. In addition, one bicycle parking space is required for every ten vehicle spaces, which would require 11 bicycle parking spaces for the project.

Overview of the Development Process

The zoning process begins with a preliminary meeting with the Planning Commission. The meeting is an opportunity to informally present the Development Plan and gauge their support. In addition, the preliminary meeting is an opportunity to answer any questions at the outset, rather than allow them to delay the project later.

After the preliminary meeting, a formal application and Development Plan is submitted to the City Council. The development plan must include:

- Topographic and boundary line map
- Location map showing the surrounding neighborhood context
- Pattern and intended design standards of existing and proposed roads, driveways, and parking facilities
- Use, type, size, and arrangement of existing lots
- Landscaping, existing and proposed
- Architectural drawings and sketches
- Existing and proposed water and sewer
- Existing topography and drainage
- Proposed stormwater management and topographic changes

- Calculations for development size, unit counts, and density
- Construction schedule

After receiving the formal application, the City Council refers the Plan to relevant agencies for review. These agencies, working as the Site Plan Review Committee (SPRC) submit recommendations to the Council, which has three options: approve or deny the application, grant a conditional approval, require that the applicant modify the plan.

The key review milestones are:

- x Site Plan Review Committee (SPRC)
 - o This review ensures the development complies with the zoning code and the comprehensive plan. Furthermore, the SPRC considers building codes, environmental regulations, aesthetics, and traffic circulation.

SPRC includes representatives from the Department of Planning, Office of Sustainability, Fire Department, Department of Housing and Community Development, Parking Authority, Department of Public Works, Department of Transportation, and Mayor's Office of Disabilities. Upon completion of the review, SPRC makes recommendations to the Planning Commission.

- x Urban Design and Architectural Review Panel (UDARP)
 - o UDARP comprises six individuals appointed by the Director of Planning with "expertise in the areas of urban design, architecture, and landscape design."
 - o The aim of UDARP's review is to ensure the highest quality of the built environment.

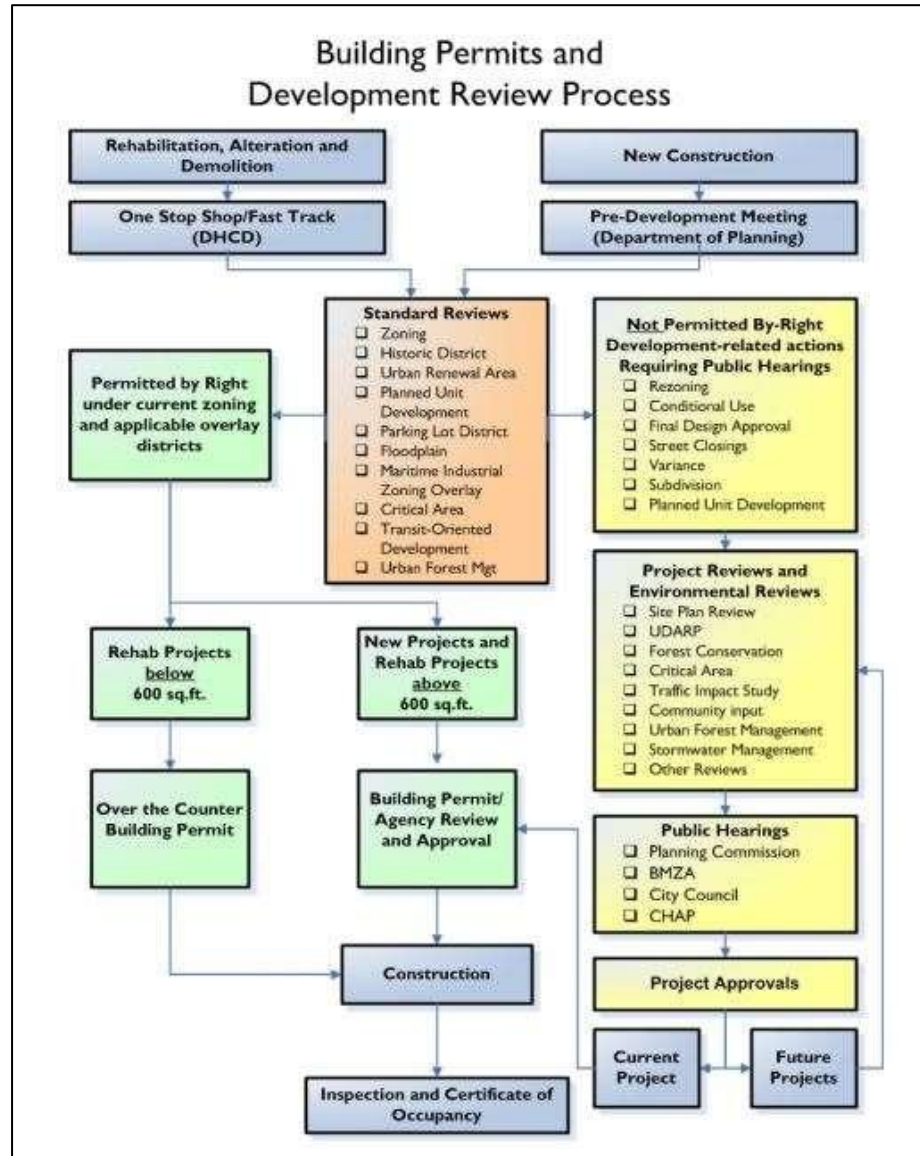
- x Traffic Impact Study
 - o Any development of 100 or more units is required to conduct a Traffic Impact Study (TIS).
 - o The developer pays the full cost of the TIS.
- x Green Building Requirements
 - o Any development over 10,000 square feet must meet green building standards.
 - o The Standards offer two ways meet the requirement: the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system, or the City's Green Building Standards.
- x Stormwater Management
 - o Any development that "disturbs" over 5,000 square feet of land is required to submit plans for stormwater management to the Department of Public Works' Water and Wastewater Division for review.
- x Grading/Sediment and Erosion Control
 - o Any development that "disturbs" over 5,000 square feet of land is required to submit plans for sediment and erosion control. These plans are submitted to the Department of Public Works, which must approve the plans before the development's approval can advance to further stages of review.

Community Engagement and Participation

Several stages of the review process are open to the public and allow for public comment. The rezoning process requires a public hearing, which allows residents to comment on the project.

The PUD approval process also involves a public hearing. As with virtually all development, the best strategy is to engage the community at the

outset of the process and address their concerns early, before incurring significant upfront costs. The following flowchart summarizing the review process is provided by the City of Baltimore:



IV. Design/Environmental Analysis

The total gross building size is 205,890 square feet with a footprint of 34,315 square feet. The first floor will consist of a concrete podium containing 136 parking spaces. An additional five stories of wood frame construction will rise from the podium. Net square footages are calculated using a standard 85% efficiency rating. The project will consist of 218 residential units distributed over five floors for an average of 43 units per floor.

	Gross SF	Net SF
Floor Plate	34,315	29,168
Stories	6	6
Total Building Area	205,890	174,400
Residential	171,575	145,839
Other (Parking)	34,315	229,168

<i>Affordability</i>	<i>Bedrooms</i>	<i>Baths</i>	<i>Unit Count</i>
Affordable	Studio	1	20
Market	Studio	1	20
Affordable	1	1	60
Market	1	1	60
Affordable	2	1	29
Market	2	1	29
TOTAL			218

Amenities

The project’s amenity package will be competitive with comparable projects in the market area. It will feature a full-service fitness center with cardio, strength training, and group exercise classes. Additional amenities include a 400-square-foot business center with the latest computing technology and high-speed Internet access, two indoor lounge areas open to all residents, a community kitchen, and two outdoor community spaces. One outdoor space will be at-grade and the second will be a roof deck. The project will also feature a single shared laundry room. The following charts compares the amenity packages for competitive properties in the market area.

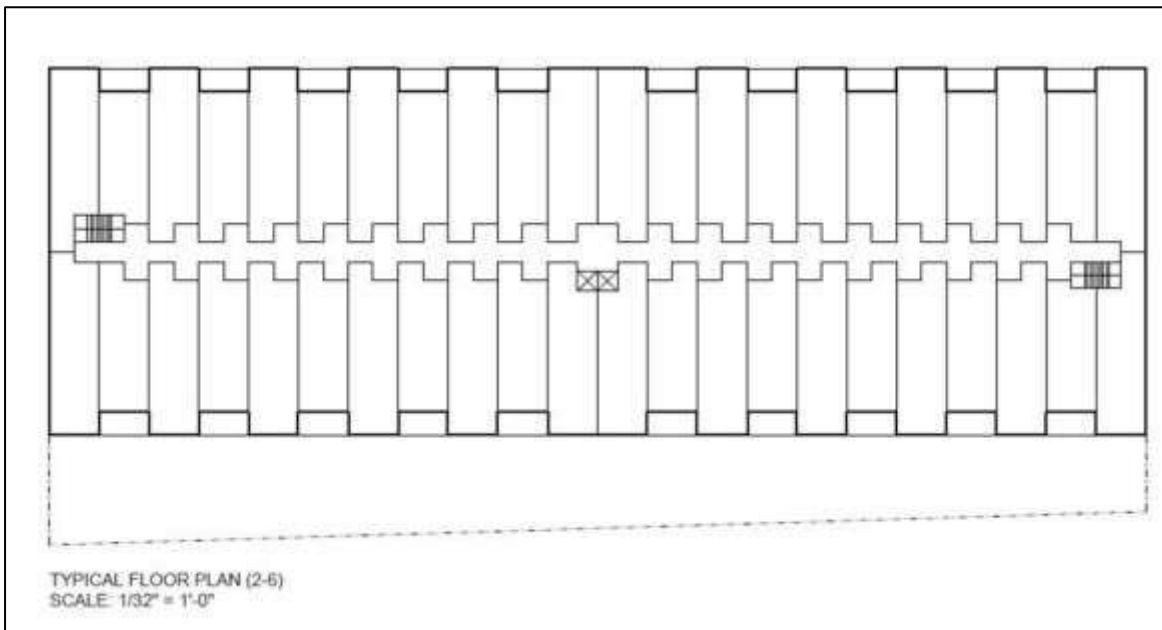
Building Name	Lounge	Fitness Center	Business Center	Playground
J. Van Story Branch	X			
Wyman House	X			
Gilmor Homes				
Wyman Court	X			X
Belleveu Manchester	X			
Frederick Douglass				
Renaissance at Reservoir Hill	X	X		
Lakeview Towers				
Riviera Apartments	X	X		
The Chateau		X	X	
New Shiloh Senior Living	X			
Marlborough Apartments				
Medeso Manor Apartments				
Emersonian Apartments				
Esplanade Apartments				
Mill No. 1	X	X	X	
Miller's Court	X	X		
Pedestal Gardens				X
Temple Gardens				
Linden Park Apartments		X	X	X
Pedestal Gardens				X
Bolton North	X			X
Penn North Plaza				
Beethoven Apartments	X	X	X	
Penn Square	X			X
Remington Row		X		

Materials and Design

The structure is a total of six stories—five stories of wood frame construction above a single-story concrete podium. The foundation and ground floor are constructed of reinforced concrete. The exterior ground floor envelope is a modern design of glass and aluminum storefront systems and concrete masonry.

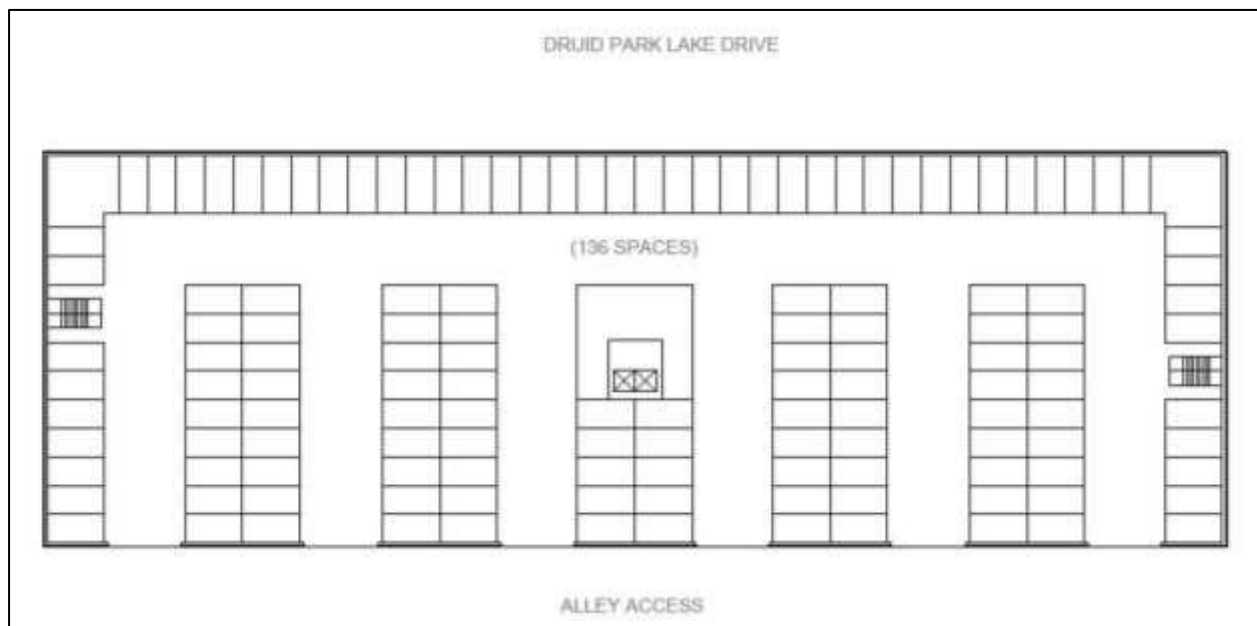


The second floor slab is also constructed of reinforced concrete. Second floor walls are constructed using a mixture of load-bearing steel studs and non-load bearing Fire Retardant Treated (FRT) wood stud walls. Third, fourth and fifth floors are constructed using wood truss floor framing, load-bearing steel studs and non-load bearing FRT wood stud walls. The exterior building envelope is a combination of thermally broken aluminum windows with low-E insulated glass, concrete masonry units, fiber reinforced cement panels and stucco. Exterior walls are insulated with blown-in insulation (interior) and continuous rigid insulation panels (exterior). The roof structure is constructed of insulated wood truss framing. The roof is a white EPDM membrane over tapered rigid insulation. The occupied roof area is covered with pavers on adjustable pedestals. Residential dwelling units are conditioned using a Variable Refrigerant Flow (VRF) mechanical system. Common area spaces are conditioned with individual electric Roof Top Units (RTUs).



Sustainability

As a mixed-income development, The Olmsted will seek to balance environmental sustainability with affordability. Whenever cost-feasible, The Olmsted will incorporate green and energy efficient features. The rooftop deck will feature a green roof for rainwater retention, stormwater management, and improved insulation.¹⁶ At-grade surfaces will use impervious building materials if available to assist with stormwater management. The parking garage will include two electric vehicle-charging stations to promote sustainable transportation. The Olmsted will also have bicycle storage options for tenants to encourage bicycling.



¹⁶ "Using Green Roofs to Reduce Heat Islands." EPA. Environmental Protection Agency, n.d. Web. 18 Oct. 2016.

V. Construction Management Scheduling

Cost Summary

Construction costs are 72.9% of the total project cost, or \$24,645,033. Per square foot, these costs equal \$119.70, compared to \$164.21 for the project as a whole. The following chart compares the total construction cost to other major cost categories for The Olmsted.

<i>Uses</i>		<i>% of Total</i>	<i>/sf</i>
Construction or Rehabilitation Costs	\$ 24,645,033	72.9%	\$ 119.70
Fees Related to Construction or Rehabilitation	\$ 1,810,989	5.4%	\$ 8.80
Financing Fees and Charges	\$ 1,849,627	5.5%	\$ 8.98
Acquisition Costs	\$ 1,000,000	3.0%	\$ 4.86
Developer's Fee	\$ 2,500,000	7.4%	\$ 12.14
Syndication Related Costs	\$ 150,126	0.4%	\$ 0.73
Guarantees and Reserves	\$ 1,853,010	5.5%	\$ 9.00
Total Uses of Funds	\$33,808,786	100.0%	\$ 164.21

The total construction cost of \$24,645,033 includes the total construction contract, \$23,471,460 and \$1,172,573 of construction contingency funds. This contingency is 5% of the total construction contract. The actual construction costs are \$20,541,622 of the \$23,471,460 construction contract. In addition to construction costs, general requirements are \$1,437,622, or 7% of the construction costs. 2%, or \$410,832, are the general contractor's profit. Overhead amounts to 4%, or \$821,655. These construction costs are based on recent comparable developments in the Baltimore market area.

Schedule

The total time period from planning to the point of stabilized operations is estimated at 43 months. Of these, 18 months are anticipated at the outset for the permitting

entitlement process. An additional 18 months are projected for building construction. The final 10 months are for lease-up, projected at 15 units per month. The lease-up period will begin when three months remain for construction completion.

<i>Type of Uses</i>		<i>Percentage</i>	<i>Total Budgeted Cost</i>
01	Net Construction Costs		20,541,622
02	General Requirements	7.00%	1,437,914
03	Builder's Profit	2.00%	410,832
04	Builder's General Overhead	4.00%	821,665
05	Bond Premium		133,898
06	Other		125,529
07	Total Construction Contract		\$ 23,471,460
08	Construction Contingency	5.00%	1,173,573
09	Total Construction Costs		\$ 24,645,033

The entitlements process includes securing public funding, rezoning from R-8 to R-9 to allow for more density, and the PUD process. This projected entitlement period of 18 months is optimistic. However, seeking 4% tax credits versus 9%, in addition to the City's desire to see the site redeveloped, makes this timeframe reasonable. Furthermore, the PUD process will fast-track some of the permitting and review processes, thus cutting down on the overall entitlement process.

The building construction period is projected to be 18 months. This timeframe is less susceptible to variation compared to the entitlements process. However, certain variables, such as inclement weather, could result in delays and extend the construction period.

Construction																		
Months	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Preconstruction																		
Foundation to Grade																		
Base Building Structure & Systems																		
Building Envelope																		
Finishes																		
Close Out																		

Preconstruction tasks are estimated to require two months. Site preparation and laying the foundation is a four-month process. The longest phase, constructing the building base structure and installing major systems, is projected at six months. The building envelope, finishes, and construction close-out are estimated to require two months each, totaling six months. At certain points in the construction process, these phases can and should overlap. However, this is a rough timeline of the major phases and leaves considerable room for delays at certain phases.

The lease-up period, described in greater detail in the next section, is projected to require 10 months from the first occupant to 95% occupancy. This assumes a 45 unit pre-leasing period and an absorption pace of 15 units per month thereafter.

VI. Financial Analysis

Sources of Funds

As a mixed-income project, The Olmsted will leverage both affordable housing financing instruments as well as traditional equity and debt products. On the affordable side, the project will incorporate 4% Low Income Housing Tax Credits (LIHTC) for a considerable amount of equity – \$5,521,789. This figure is based on the current market for the tax credits, reflecting a market price of \$1.05 per credit. The decision to pursue 4% tax credits versus the more lucrative 9% credits came down to availability of the State’s allocation and the relative predictability of 4% credit awards. In addition, as a 4% LIHTC project, The Olmsted will leverage tax-exempt bonds as a debt source. These bonds are a critical because their interest rate is roughly 100 basis points lower than that of conventional debt.

Sources		% of Total	PSF	Per Unit
Tax-exempt Bonds	\$ 6,287,731	18.6%	\$ 30.54	\$ 28,843
Private Loan	\$ 18,999,266	56.2%	\$ 92.28	\$ 87,153
Rental Housing Program Funds	\$ 1,500,000	4.4%	\$ 7.29	\$ 6,881
Low Income Tax Credit Proceeds	\$ 5,521,789	16.3%	\$ 26.82	\$ 25,329
Deferred Developer's Fee	\$ 1,500,000	4.4%	\$ 7.29	\$ 6,881
Total Sources of Funds	\$ 33,808,786	100.0%	\$ 164.21	\$ 155,086
Uses				
Construction or Rehabilitation Costs	\$ 24,645,033	72.9%	\$ 119.70	\$ 113,051
Fees Related to Construction or Rehabilitation	\$ 1,810,989	5.4%	\$ 8.80	\$ 8,307
Financing Fees and Charges	\$ 1,849,627	5.5%	\$ 8.98	\$ 8,485
Acquisition Costs	\$ 1,000,000	3.0%	\$ 4.86	\$ 4,587
Developer's Fee	\$ 2,500,000	7.4%	\$ 12.14	\$ 11,468
Syndication Related Costs	\$ 150,126	0.4%	\$ 0.73	\$ 689
Guarantees and Reserves	\$ 1,853,010	5.5%	\$ 9.00	\$ 8,500
Total Uses of Funds	\$ 33,808,786	100.0%	\$ 164.21	\$ 155,086

Additionally, tax-exempt bonds are offered at a 40-year amortization term, compared to the 30 years for conventional debt.

A Rental Housing Program Loan will be sought for \$1,500,000. Rental Housing debt is offered at a 2% interest rate and 40-year amortization period. Also, the Developer will defer a sizable portion of their fee as

an equity source. Due to the relatively healthy projected cash flow, the Developer will be repaid with interest.

On the market rate side, the project will leverage a considerable amount of private debt sized from the market rate annual income. This debt is estimated based on the current interest rate market, with the understanding that significant uncertainty in global markets could result in a higher rate at the time of closing.

Use of Funds

The total development cost (TDC) of The Olmsted is \$29,305,650. Additional costs include the \$2,500,000 Developer Fee, \$150,126 for syndication costs, and \$1,853,010 for guarantees and reserves. The total uses are \$33,808,786. The total development cost of \$29,305,650 equals a per-unit residential cost of \$134,429. Adding in the various financing fees and reserves increases the per-unit residential cost to \$155,086.

Financial Assumptions

The current capital stack comprises largely of public sources of funding. These funds come with clear advantages—they they are often offered at below-market interest rates and their availability tends to be less susceptible to market fluctuations. On the other hand, these funds are in no way guaranteed and are often limited. A significant equity source will be Low Income Housing Tax Credits (LIHTCs), which are issued to the ownership entity and sold on the secondary market. As this secondary market is subject to macroeconomic variations, the pricing of the credits— and consequently, the total LIHTC equity—can vary. This is of particular concern to the project as current LIHTC pricing is near historic highs.

Rental Rates

Affordability	Bedrooms	Baths	Unit Count	Rent	Monthly Income	Annual Income
Affordable	Studio	1	20	\$ 910	\$ 18,200	\$ 218,400
Market	Studio	1	20	\$ 1,300	\$ 26,000	\$ 312,000
Affordable	1	1	60	\$ 975	\$ 58,500	\$ 702,000
Market	1	1	60	\$ 1,425	\$ 85,500	\$ 1,026,000
Affordable	2	1	29	\$ 1,171	\$ 33,959	\$ 407,508
Market	2	1	29	\$ 1,750	\$ 50,750	\$ 609,000
TOTAL			218		\$ 272,909	\$ 3,274,908

The rental rates for the affordable units are set by the U.S. Department of Housing and Urban Development (HUD) for the LIHTC program at 60% of area median income (AMI).¹⁷ For the Olmsted, these are calculated by unit size, family size, and area median income for the Baltimore metropolitan area. The market-rate units are estimated using comparable market-rate developments in the area.

Tax Credit Calculation

The LIHTC equity is based on the following calculation:

Description	Acquisition Basis	Construction Basis
Total Uses of Funds (from Uses of Funds worksheet)	\$ 150,000	\$ 25,362,172
Adjusted Project Costs	\$ 150,000	\$ 25,362,172
Adjustment for Federal QCT / DDA (130% maximum)		130%
Eligible Basis	\$ 150,000	\$ 32,970,823
Applicable Fraction (calculate below)	50%	50%
Qualified Basis	\$	\$ 16,485,411
Applicable Percentage (enter correct percentage per IRS rules)	3.19%	3.19%
Low Income Housing Tax Credit Eligible	\$	\$ 525,885
Combined Low Income Housing Tax Credit Eligible (result from previous table)		\$ 525,885
Tax Credit Period (10 years)		x 10
Total Tax Credit Received Over Period		\$ 5,258,846
Raise Ratio from Syndicator's Proposal		1.12
Gross Proceeds from Low Income Housing Tax Credit		\$ 5,889,908
Less: Gross Proceeds from Historic Tax Credit (calculate below)		0
Total Equity from Syndication Proceeds		\$ 5,889,908
Low Income Housing Tax Credit Syndication Proceeds (to Sources of Funds worksheet)		\$ 5,889,908
Raise Ratio from Syndicator's Proposal		1.12
Total Tax Credit Received Over Period		\$ 5,258,846
Tax Credit Period (10 years)		+ 10
Maximum Low-Income Housing Tax Credit		\$ 525,885

¹⁷ "Low-Income Housing Tax Credits | HUD USER." *Low-Income Housing Tax Credits | HUD USER*. N.p., n.d. Web. 15 Nov. 2016.

The tax credits awards are calculated using an adjusted project cost basis. The basis is adjusted to reflect the percentage of the development that is affordable. Finally, the “qualified basis” is multiplied by the applicable fraction, in this case 3.19%, to generate the tax credit eligibility. This figure is multiplied by 10, the number of years over which the credit is received, and the raise ratio, or the dollar value per credit, to determine the actual equity generated. The Olmsted will receive \$5, 521,789 in equity from Low Income Housing Tax

Credit proceeds.

Exit Strategy & Returns

In Maryland, the LIHTC compliance period is essentially 40-years. To avoid “recapture,” the LIHTC units need to maintain their affordability and remain in compliance over that period. Additionally, these developments often need renovation during the compliance period, which offers the opportunity to re-syndicate credits and earn an additional developer’s fee. For this reason, LIHTC developments are often held for the term of the compliance period.

While The Olmsted is a mixed-income development with healthy cash flows at the point of stabilization, our analysis will assume a long-term hold for the duration of the LIHTC compliance period. Projected returns are based on this assumption. The internal rate of return calculation is based on the initial ten years of cash flows.

Return on Equity (ROE/“Cash-on-Cash”) is calculated using the amount of Developer Fee deferred as an equity contribution. As such, Year 1 stabilized ROE is 11.5%. These returns

continue to increase annually, equaling 44.2% ROE in Year 10. The Internal Rate of Return (IRR) based on the initial ten years of cash flows equals 18.9%.

Sensitivity Analysis

The LIHTC equity pricing adds a considerable amount of risk to the financing structure. The election of Donald Trump and anticipation of major tax reform has led to volatility in the tax credit markets.¹⁸ This volatility is incorporated into the projections to mitigate the risk, but there is the possibility of a significant gap in financing should tax credit pricing continue to fall. Currently, this project's LIHTC equity is priced at \$1.05 per credit. The following graphic shows the potential financing gap that would result from that price falling below current projections. It's highly unlikely that such a scenario would occur, and any gaps could be filled with subordinate debt, additional developer equity, or Maryland Department of Housing and Community Development gap financing products.

<i>Sensitivity Analysis - LIHTC Pricing</i>			
<i>Total Tax Credit Amount</i>	<i>Raise Ratio</i>	<i>Total Equity Proceeds</i>	<i>Financing Gap</i>
\$5,258,846	0.65	\$3,418,250	(\$2,103,539)
\$5,258,846	0.7	\$3,681,192	(\$1,840,596)
\$5,258,846	0.75	\$3,944,135	(\$1,577,654)
\$5,258,846	0.8	\$4,207,077	(\$1,314,712)
\$5,258,846	0.85	\$4,470,019	(\$1,051,769)
\$5,258,846	0.9	\$4,732,962	(\$788,827)
\$5,258,846	0.95	\$4,995,904	(\$525,885)
\$5,258,846	1.00	\$5,258,846	(\$262,942)
\$5,258,846	1.05	\$5,521,789	\$0

¹⁸ "Tax Reform Could Leave LIHTC, NMTC, HTC and RETCs Untouched Yet Still Have Dramatic Effects." *Novogradac & Company LLP*. N.p., 07 Dec. 2016. Web. 11 Dec. 2016.

VII. Marketing and Management

Marketing

As a mixed-income building, The Olmsted will need to blend distinct marketing strategies for the affordable and market-rate units. The goal of these strategies will be to attract a diverse group of tenants that contribute to The Olmsted's sense of inclusiveness and community.

Marketing will start when construction does, with prominent signage at the project site. The signage will feature The Olmsted's logo and a point of contact for additional information. The signage will also display a website URL, which will allow prospective tenants to access an online rental application. The leasing office will also maintain a list of prospective tenants who contacted the office, using their contact information for email marketing throughout the construction and lease-up period.

On the affordable side, the marketing plan will begin with notifying local community organizations and leaders about the basics of the development. Introductory letters will be sent to local social service non-profit organizations focusing on housing and community development, churches, community centers, and union halls. Relationships will be fostered with local community housing counselors. The councilperson representing The Olmsted's legislative district will also be notified and given updates at various points throughout the construction process.

The Olmsted will use a traditional media campaign to advertise the development. Full-page ads will be taken out in The Baltimore Sun, which has a daily circulation of over 175,000 people.

Ads will also be placed in the Baltimore Afro-America, Las Americas Newspaper, the Baltimore Business Journal, Baltimore City Paper, and the Baltimore Examiner. Radio advertisements will be broadcast on WBAL 1090 AM, WERQ 92.3 FM, and WYPR 88.1 FM. Television ads will air on WBAL, WJZ and WMAR.

Absorption and Lease-Up

Typical absorption in the Baltimore multifamily market is 10-12 units per month. However, The Olmsted will likely lease up at a slightly greater monthly pace due to its significant percentage of affordable units. Affordable units are in great demand in Baltimore and are likely to lease up faster than the market rate units. A 2015 Baltimore Sun article estimated that 43 affordable units were available for every 100 households of demand.

Therefore, we are estimating an absorption rate of 15 units per month. In addition, given the aggressive marketing campaign and 90-day pre-leasing period, we are anticipating 45 units leased in the first month of occupancy. At this pace, a 95% occupancy level will be achieved after ten months.

Size and Style	# of Units	Market Absorption Trends per Month	Projected Units Absorbed Per Month
Studios	39	6.90%	2.69
One-Bedrooms	126	6.90%	8.69
Two-Bedrooms	53	6.90%	3.66
Total	218	6.90%	15.04

Monthly Absorption Schedule										
Size and Style	1	2	3	4	5	6	7	8	9	10
Studios	8.1	10.8	13.5	16.1	18.8	21.5	24.2	32.3	35.0	37.7
One-Bedrooms	26.1	34.8	43.5	52.2	60.9	69.6	78.2	104.3	113.0	121.7
Two-Bedrooms	11.0	14.6	18.3	21.9	25.6	29.3	32.9	43.9	47.5	51.2
Total	45.1	60.2	75.2	90.3	105.3	120.3	135.4	180.5	195.5	210.6

Management and Operations

The Olmsted's project operating budget for its first year of operation is \$1,137,050. The largest component is Taxes and Insurance, estimated to be \$333,280 in the first year for state and local property taxes.

The Operating and Maintenance category accounts for \$271,613 annually. Operating and Maintenance includes janitorial expenses, groundskeeping, pest control, and snow removal.

Administrative costs amount to \$197,555 in the first year. Administrative costs include office supplies, advertising, and payroll for the office staff. All major expense categories are projected to increase by 3% each year.

<i>Expense Categories</i>	<i>Annual Expense</i>
Administrative	\$ 237,102
Management Fee (<i>Effective Gross Income x percentage</i>)	\$ 248,893
Utilities	\$ 152,965
Operating and Maintenance	\$ 328,279
Taxes and Insurance	\$ 405,912
Reserve for Replacement	\$ 109,000
Total Project Expenses	\$ 1,482,151

Management accounts for \$198,768 annually. The Olmsted will be managed by an experienced subsidiary company of the development firm. The management fee is currently projected at 8% annually.