Testimony of Mark H. Dambly
President, Pennrose, LLC

Good afternoon, my name is Mark H. Dambly, President of Pennrose, LLC a Philadelphia based premier multifamily development company with the expertise to bring together development projects in a way that exemplifies quality, while creating value in the short- and long-term, and a national reputation for development execution. Pennrose has been active in real estate development, through its principals or affiliates, for 50 years.

I want to thank you for the opportunity to present today on the subject of Housing Development For Unhoused People.

Pennrose has developed more than 18,000 rental housing units, the majority of which are affordable housing serving residents at or below 60% of AMI, representing $3.5 billion in total development cost financed through a variety of public and private sources. Pennrose's portfolio includes more than 265 distinct developments in 17 states plus the District of Columbia and the U.S. Virgin Islands. Pennrose is one of the nation's leading developers of mixed-finance projects, and has been a designated redeveloper in over 100 municipalities, and regularly helps cities transform underutilized sites into thriving mixed-use economic development engines.

Pennrose has an established relationship with the Pennsylvania Housing Finance Agency (PHFA), having developed over 4,000 Low Income Housing Tax Credit (LIHTC) units in the state. In Pennslyvania alone, Pennrose has closed on more than 140 real estate transactions.

Pennrose brings forth extensive experience in Philadelphia, including 33 completed developments, and 5 developments that are in the predevelopment stage. Through our 50 years of local experience, we have a unique understanding of how to address the challenges of building communities in this great City.

In all of its developments, Pennrose has demonstrated an ability to secure the necessary financing which includes in its capital stack, Low Income Housing Tax Credits, State Housing Tax Credits, HOME, CDBG, DCED, PHFA, Tax Exempt Bonds, Public Housing Capital Funds, RACP, state and local funds, and private mortgage financing to ensure the successful completion of the redevelopment process. Pennrose is intimately familiar with all the required processes to receive awards and implement the utilization of these funds; from preparing applications, to working through the complexities of overlaying funding requirements, achieving financial closing and meeting on- going compliance requirements. As illustrated above, a very complex capital stack structure.

Supportive Services in our communities

Pennrose is committed to our mission of transforming communities by creating high quality real estate developments and delivering outstanding value to our clients and partners. In many of our developments we set aside units for individuals who may be experiencing, or at risk of experiencing homelessness, so we can help in the plight to end homelessness in our society. We also set aside units for other designated populations such as individuals with behavioral or mental health issues, Veterans, individuals with disabilities and many more.

Pennrose not only builds quality, affordable housing but we also live our mission by creating successful, sustainable communities and strive to improve the overall quality of our residents' lives. We do this through our commitment to providing supportive services programs and resources in all of our affordable communities. We recognize that all vulnerable populations, not just the populations mentioned above, often benefit from on-site supportive services. When funding allows, we employ on-site supportive service coordinators who focus their efforts on education, breaking down barriers through more access to on-site programming, building important relationships with residents so we can be proactive and not reactive, and most importantly, focusing first on rent collections, housekeeping issues, and other common issues in property management. Although the social events are also important and provided to help build a sense of community, we first need to focus our programming on resources and education so residents can have the opportunity to thrive financially, educationally, and socially. If a resident in our community's goal is to achieve homeownership, then we want to help them move onto homeownership. Research has clearly shown that like local economies, the social benefits of affordable housing are cyclical: When a community has more easily accessible social services, the equity of the neighborhood increases. Schools get more funding and local residents can better meet their goals and thrive – which, in turn, leads to increased economic security.

Quality affordable housing is beneficial to the overall health and well-being, both physically and mentally to individuals and families. We know that in general in our society, we are facing a mental health crisis. Many individuals who are experiencing homelessness also suffer from some mental health issues that contributes to their lack of stable housing. Making available a unit to individual experiencing homelessness is clearly not enough. We recognize that in order to successfully house an individual experiencing homelessness, as well as many of our residents in affordable housing, we need to provide the wrap around services to help them achieve successful tenancy. Because most of the issues our residents experience is complex, not all property management staff have the expertise to properly address these issues. We have found that in most communities, especially those with set aside units, we need to employ an on-site supportive service coordinator who possesses the training and skillset to work directly with our residents to build relationships, link them to resources, provide case management, and be a liaison to property management.
Assisting our seniors age in place is also a focus of our supportive service mission and we know that partnerships with healthcare are extremely important. On-site service coordination often becomes our resident's lifeline so we can appropriately link them to the programs and resources that aid in their successful, independent living and helps them not have to choose between buying necessary medication or buying food.

By providing on-site supportive services and programs to our residents, we are not only improving the quality of their lives and positively impacting the greater community, but we are also creating a healthy business model so our communities will continue to thrive and be a place people want to call home. In our industry, on average, by preventing one turnover, we are saving the property $5,230. Through our on-site service coordination, it is estimated that we are preventing 25-30 turnovers per property annually.

<u>Pennrose's Supportive Services Department's Mission Statement</u> Mission Statement:

To improve the quality of lives for the individuals that reside at our Pennrose managed properties by providing robust, life-enhancing programs and services that will enable the residents to achieve and *maintain greater self-sufficiency and aid our senior residents in aging in place with dignity. By eliminating barriers to access programs and services, we will build stronger, more cohesive communities that will positively impact the greater community.*

To ensure a successful living experience for all residents of Pennrose managed properties by providing access to and assistance in securing necessary supportive services which enhance the quality of their lives. Beyond large scale supportive service initiatives are the everyday connections needed by our residents.

These connections are achieved by advocating on behalf of the residents and linking them to appropriate service provider agencies and services. Our objective is to provide services that help maintain and prolong the residents' ability to live independently and improve self-esteem, self-sufficiency and self-empowerment, both as individuals and as a community. Additionally, by working proactively with the site staff, we strive to alleviate most common to affordable housing; such as high turnover, rent- delinquencies, property damage, vacancy losses and evictions; thereby improving overall property operation though enhanced resident relations and stronger fiscal operations.

The following are the goals for each of our communities:

1. To foster self-sufficiency by bringing numerous services to the site, such as access to basic needs, enrollment in various entitlement programs, housekeeping assistance and access to affordable and reliable transportation.

2. To promote education and the strengthening of the household unit by coordinating access to educational programming, informational activities, workshops and services appropriate to both adult and youth needs.

3. To effectively address the needs of the resident population by developing and maintaining solid working relationships with a network of service provider agencies, local government agencies, businesses, churches and schools in close proximity to the site.

4. To ensure that the physical asset is effectively maintained through the provision of supportive services.

Below is a list of goals for our properties and examples of the programs we deliver, at minimum, at all of our affordable properties:

- Resources and Referrals provided by the on-site Supportive Services Coordinator for individual needs.
- A Minimum of 2 Educational Programs on-site a month which can include:
  - Blood Pressure Screenings
  - Flu Vaccination Clinics
  - Health & Wellness Presentations
  - Nutrition Classes
  - Parenting Classes
  - Transportation
  - Health Fairs
  - Community Garden Programs
  - Job Readiness training, Resume writing, Job Placement programs
  - Exercise Programs

    - Benefit Seminars
    - Computer Training Classes
    - Wills – Estate Planning
- Linkages to After-school programming and summer camps.
- Safety and Fraud Presentations.
    - Annual Fire Drill
    - Fire Safety Presentations
    - Fraud Presentations
- Community Outreach and Partnerships
    - Police Departments
    - Fire Departments
    - Local Councils
    - Non-profit agencies
    - Government Agencies
- Financial Education
    - Budget Counseling
    - Credit Repair
    - Long Term Financial Planning
    - Home Ownership Programs
- Social/Community Building Programs
    - Holiday Gatherings
    - National Night Out
    - Potlucks
    - Resident Appreciation Events
    - Back to School – Back pack events

➢ Robust Partnership with BAYADA Home Health Care, Inc. and/or other healthcare organizations.
- Free Health Navigation
- On-site Health Education Programs
- Blood Pressure Screenings, fall prevention assessments, etc.
- In-home Physician Services
- On-site Physical and Occupational Therapy

Virtually all Pennrose's developments feature strong resident and community involvement and employment in the planning and construction processes. Pennrose has acquired a well-deserved reputation because of its concern for and attention to the needs of its residents.

Current Challenges

With demand and construction activity consistently rising prior to the March 2020 COVID shut-downs, construction costs were already increasing significantly with the sustained economic surge – and now, after over a full year dominated by pandemic disruption, the construction industry as a whole, and specifically the Affordable Housing sector, is facing even more extraordinary cost escalation challenges.

Balancing Cost and Quality

Construction cost-containment has long been a fundamental goal in the affordable housing industry – using various metrics to ensure that the housing produced with scarce subsidy resources is executed in an efficient manner that is not wasteful or elaborate in order to create the most units for the limited resources available. At the same time, the consensus within the development community has also been that such housing should aspire to certain quality goals such as design aesthetics (ie: to '*be like everybody else'* so as not to stigmatize the residents), safety & accessibility, efficiency of utility costs, environmental sustainability, and the ability to be maintained for the long-term. To balance those quality goals with the cost-containment goals, most oversight agencies, including PHFA, employ a combination of square footage criteria and also limitations on the hard cost per unit, and/or the total development cost per unit – and to a great degree these cost limitations are based on historic trends and data. Those metrics, however, cannot anticipate nor accommodate the unprecedented increases that are now occurring, and therefore must be re-evaluated.

1 - Material Cost Impacts

The most significant area of impact is in the cost of building materials – which has been affected across-the-board by 13% [3], but most dramatically associated with framing lumber, which has increased in our area by as much as 300% in a single year [5]. Nationally, lumber has reached an historic high-mark of $1650 per 1,000 board-feet in April 2021 (up from $200 in May 2020)[4]. The reasoning behind these increases is a combination of oversold inventory, limited production recovery, and at the same time an ever-increasing demand by both the multifamily sector as well as traditional homebuilders and even DIY retail outlets [1,3,4]. Further, while the year-over-year increases are alarming, they are the result of a rapidly and consistently escalating trend that has been seen throughout the year, and while it is expected that some stabilization will occur in the future, few predict a return to pre-pandemic lumber prices in the foreseeable future [3,4,5,6]. Beyond lumber, inventory shortages, increased fuel prices, and lost production are also affecting the entire spectrum of building materials, to the extent that the Federal Reserve recently (4/14/21) added the broad category of 'building materials' to its list of known commodity shortages. A major contactor we are active with on multiple affordable housing projects in PA reports year-over-year increases on a variety of components: Softwood up 80%, Plywood up 44%, OSB up 62%, Steel up 15%, Copper up 18%, Asphalt up 34%, Plastic/PVC up 20% - and that is when they are able to actually get the materials.

> Impact on PA Affordable Housing: The very nature of the 9% tax credit program requires a development team to establish a realistic cost budget prior to the competitive application. Such budgets are typically 'projected' forward to accommodate the expectation of cost increases in the typically 8-10 month period between application-award-closing, yet at the same time an applicant is limited in how much cost escalation can be reasonably included, or else damage the competitiveness of their application. Several GCs note that cost increases of up to 5% can be 'absorbed' in most cases between initial pricing and contract award – but with the current situation few, if any, of the 2018/19/20 tax credit projects have been able to hold their pricing, resulting in significant funding gaps and stalled construction.

2 - Supply Chain Disruption

Due to the loss in inventory and increasing demand, even those able to pay the higher prices are finding that many building materials and components are simply not available – or require greatly extended lead times to acquire. Ultimately, we are seeing most construction projects that were typically on a 12 month build-out schedule, now stretching the project timeline over 14-16 months – even for large and seasoned GCs. This results in added general operations costs for the GCs which are also now factoring into current pricing, as the general conditions and soft costs of maintaining a construction site likewise increase to meet the longer timelines. In some cases, the specified materials and products cannot simply be substituted, as the proposed replacement product – though available – does not meet specific performance criteria required by the quality standard committed to in the funding application. Some examples of what we at PENNROSE have encountered in tax credit projects in the past year:

- Product substitutions that historically have been suggested to save money are now being offered on the basis of availability. GCs are literally willing to buy a more expensive product than what is specified simply because it is available where the lower-priced model is not.
- Appliance package submittals with multiple versions of the same product on a single project (ie: three different dishwasher manufacturers on a single 64-unit senior building, because there were not 64 pieces available from any one of the appliance suppliers.
- Changing from one typical exterior wall assembly to multiple assemblies on a single project, due to the limited availability of the specified sheathing material in a timely manner to fully construct and enclose the building shell.

- In anticipation of long lead times – some GCs are submitting shop drawings *months* in advance of the closing/NTP in order to secure pricing and delivery time for items such as elevators, cabinetry, and fixture

Impact on PA Affordable Housing: The supply chain challenges are not unique to affordable housing, though with respect to certain products, *affordable housing projects have far less flexibility* to pivot compared to the open market. (ie: a market-rate project can easily choose to abandon Energy-Star or LEED goals). In addition, the cash flow of drawing funds on tax credit projects do not allow the GC to commit and pay for bulk materials early, as funds are typically released only for work-in-place, and not stored materials. These challenges, plus the added cost of the extended construction timelines are legitimate concerns that we are now seeing quantified in GC requests for change orders on both work under construction as well as those projects that are stalled and awaiting startup.

3 - Labor Cost Increases

In most projects, materials are more than half the cost of construction, with labor being somewhat less. And while material increases are outpacing the still-rising cost of labor, the wage forecast still projects labor rate increases of 3-5% in 2021 [3] due to steady demand and competition for skilled workers. The manpower shortage in construction and rising wage rates were already considered critical issues before the pandemic, and that situation has only gotten worse in the past year. Some of the trends we are witnessing is the retiring of senior, experienced project leaders, and contractors filling in those vacancies with far less-experienced people who would find managing a project to be challenging under even normal circumstances. While rate increases are a factor throughout construction, in affordable housing – where prevailing wage rates and/or Davis-Bacon rates often apply – higher wage cost can easily be exacerbated by the inefficiency of an ill-prepared workforce. Once again, the indicators that Pennrose is observing more frequently in the current construction climate than in past years include:

- Higher incidence of corrective work (work having to be done twice because it wasn't properly planned for, coordinated, or executed the first time)
- Increasingly untimely/late submittals – often accompanied with 'same day turnaround' demands to avoid losing the price or delivery commitments
- Increased volume of questions from GCs and Subs that are readily discernable from a working knowledge of the plans & specifications
- Increased lack of understanding of the requirements and processes applicable to projects funded with public subsidies such as tax credits
- Increased replacement of subcontractors for failure to execute work of acceptable quality or within sequenced timeframes

Impact on PA Affordable Housing: While not specifically attributable to the pandemic of the past year, the increased cost and decline in quality workforce available has certainly been exacerbated by the surrounding factors of COVID. While affordable housing jobsites themselves were never shut down (considered essential infrastructure), the efficiency of those active jobsites declined and GCs struggled to limit workers on site and employ various methods of jobsite social-distancing and safety protocols. When taken in consideration together with extended construction schedules, the factors cited above are being felt in cost proposals by all GCs, suppliers and subcontractors to compensate for the drain on the construction workforce.

It is often asked '*Why does affordable housing cost so much?*' when we see a new one-bedroom apartment with a total cost higher than what some single family homes sell for. The answer to that question is complex and layered, with only a few of the factors addressed in this short conversation – however it is well understood within the industry that the projects that we build are *affordable to live in*, with the most recent data from PHFA being from the pre-pandemic 2019 allocations the PRE-pandemic median cost for low-rise wood construction was over $208/sf and mid-rise elevator buildings jumping well above $250/sf [7]. In the City of Philadelphia, which has a similar construction environment as that of many urban centers, the median cost of a tax credit project in 2019 exceeded $300/sf for the first time ever – and this is *before* COVID impacted the industry!

Certainly, a policy of good stewardship of the limited subsidy and tax credit resources that fuel the affordable housing sector has merit and is necessary to safeguard against 'cost creep' that can be avoided by a disciplined design and construction approach. These cost-containment measures also serve the dual purpose of establishing a clear set of benchmarks within a competitive development environment that helps serve to 'level the playing field'. Yet, these same measures – being based primarily in long-term historic trends – are not nimble or flexible enough to accommodate the kind of extraordinary, fast-paced cost escalations that have been experienced throughout the industry as a result of the COVID pandemic.

Our hope in providing this commentary on current challenges is to consolidate much of the discussion in one place, and provide those overseeing the process the ability to place these issues in the proper perspective, recognizing that good projects are still good – even though they are struggling through an historically difficult cost cycle. **Many projects will require special consideration and flexibility in the short-term to enable them to move forward – and in the coming 1-2 years the cost-containment metrics will need to be revisited to better reflect the 'new normal' of where the material cost factors ultimately stabilize.**

References to recently published sources:

[1] National Association of Home Builders, 4/28/21, *“Higher Lumber Costs Add More Than $35K to New Home Prices, $119 to Monthly Rent”*

[2] ConstructConnect.com, 3/18/21, *“US Construction Material Cost Shock Escalates”*

[3] Bisnow, 4/27/21, *“Perfect Storm of Construction Cost Spikes Wreaking Havoc on Contractors, Developers”*

[4] The Western Journal, 5/10/21, *“Have You Seen the Price of a Two-by-Four Lately? Disturbing Inflationary Trends Are on the Rise”*

[5] Multifamily Executive, 4/7/21, *“Sky-High Lumber Prices Exacerbate Affordable Housing Crisis”*

[6] Associated Builders and Contractors (ABC), 4/9/21, *“News Release: Monthly Construction Input Prices Rise in March, says ABC”*

[7] Pennsylvania Housing Finance Agency, *2019 Median cost/sq ft of all Applications by Building Type*

I would like to close by asking for your assistance in increasing the supply of affordable housing by assisting with the following:

1. Allocating 10 million for the funding of Act 107 of 2020 for the PA State Housing Tax Credit which was signed into law last fall by Governor Wolf

2. Directing 100 million of the 7 billion of American Rescue Plan Funds to PHFA to fill the gap of affordable housing projects funded in 2019 and 2020 which are unable to close do to the increase in construction costs brought about by the pandemic.

3. Lifting the cap on the Real Estate Transfer Tax to fully fund the PA Housing Trust Fund

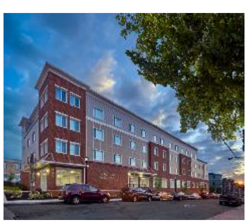
MARK H. DAMBLY

President, Pennrose

Education: Bachelor of Science, Real Estate and Insurance, The Pennsylvania State University Experience: 29 years with the firm | 33 years in the industry

As President for Pennrose, Mark H. Dambly provides strategic and day-to-day leadership for nearly 400 Pennrose employees who support development and management activities in 17 states and the District of Columbia. Mark has more than 30 years of experience in the real estate industry, including overseeing complex transactions in both the affordable and market-rate housing markets. Under his leadership, Pennrose has completed more than 270 developments totaling over 181,000 units and encompassing nearly $4 billion in total development costs. Mark joined Pennrose in 1992, tapping into his many years of experience in real estate development. Mark intimately understands the intricacies of multi-family residential development and takes a balanced perspective of social mission and market opportunity. He has proven financial capability, a record of accomplishment of successful properties planned and built on schedule and on budget, and a strong commitment to providing families and seniors with affordable and market-rate multi-family housing. In 2015, Mark was honored by Pennsylvania Housing Finance Association (PHFA) with the Pioneer Award in recognition of the positive difference to expand affordable housing in Pennsylvania. Mark serves as President of the Pennrose Foundation, a nonprofit charitable organization that further enhances the company's mission of transforming communities. Mark also serves as Chairman of the Pennsylvania State University Board of Trustees and is on the Board of Directors of Penn State Health. In addition, he is on the Board of Directors for Regional Housing Legal Services, Housing Alliance of Pennsylvania, Southeastern Pennsylvania Transportation Authority (SEPTA), and Military Veteran Partners (MVP).

RELEVANT EXPERIENCE



West Turner Residences, Allentown, PA

+ $13M | 61 Units

West Turner Residences is a four-story, 61 unit affordable multifamily senior rental project situated on a sloping site at the corner of West Turner and North 5th Streets in the Center City District of downtown Allentown. This was a joint venture redevelopment project between Sacred Heart Hospital (SHH), which is located only two short blocks to the north of the site.

John C. Anderson, Philadelphia, PA

+ $19M | 56 Units

Pennrose and Dr. Magnus Hirschfeld Fund are partners on the development of John C. Anderson Apartments. The building is a 56-unit senior affordable development in the heart of Center City, Philadelphia. The goal of JCA is to provide high-quality housing that is open and welcoming to low- income

LGBTQ+ seniors.

Wynne Senior, Philadelphia, PA

$16M | 51 Units

The former Wynne Theater sat vacant on the site for years, causing concern for the local community and unsafe for occupancy. With tremendous support from the City of Philadelphia and other neighborhood group, the site was redeveloped into a new senior facility that provides much needed affordable housing for the Overbrook neighborhood of Philadelphia.

The Avenue, Braddock, PA

$14M | 53 Units

The development team saw Avenue Apartments as the new beginning for Braddock and the first part of what the county has announced as their Braddock plan. The design of the building was meant to be reflective of the Braddock's past yet expressive, through its contemporary design both inside and out, of the new direction for this community.