Breaking Ground

Rodger Brown, Managing Director, Real Estate Development, Preservation of Affordable Housing, Inc.

By Darryl Hicks

Rodger Brown has spent four decades in the affordable housing business and has been an integral part of Boston-based nonprofit developer and property manager Preservation of Affordable Housing, Inc. (POAH) since 2004.

As managing director of real estate development, Brown oversees the activities of all real estate development staff, manages resource allocations and departmental budgets, establishes strategic initiatives and provides direction on complex real estate transactions.

Previously, Brown operated a real estate consultancy that provided project structuring and development consulting services to a range of for-profit, nonprofit and governmental entities. Since 2015, Brown has served on the Board of Directors for National Housing & Rehabilitation Association.

At NH&RA's Annual Meeting earlier this year, Brown highlighted a current project that involves state-assisted public housing in Massachusetts that almost fell apart had it not been for a Japanese-owned company in the Netherlands that offered a low-cost modular housing technology. *Tax Credit Advisor* sat down with Brown to learn more about this project, POAH, and other noteworthy trends that he's seeing in the marketplace.

Tax Credit Advisor: ***Let's talk about this public housing project first. Why did the deal almost fall through and how did this company in the Netherlands save the day?***

Rodger Brown: The plan was to sell a piece of land to a private developer who was going to pay us for that land and build his product. The proceeds from the land sale were going to underwrite the cost of our state public housing construction. As it turned out, unexpectedly increased labor costs guaranteed under local requirements would have consumed the profits from that sale, so we no longer had a plan that worked. We had lost the cross-subsidy that was needed to underwrite the cost of recreating the public housing. Subsequently, we were introduced to this firm in the Netherlands owned by Daiwa House Group that had a different way of constructing high-rise buildings. Their proposal would deliver a modular product equal to about 60 or 65 percent of the cost of a planned steel-frame, high-rise building. Additionally, they had already secured space for a factory and building materials in the U.S. and were already fabricating modulars. Therefore, they were able to meet our budgetary requirements and the development could proceed.


Rodger Brown

TCA: ***How did you find out about this company?***

RB: Our project partner introduced us. The company had done a lot of work around the world doing this kind of housing and they were interested in penetrating the U.S. market.

TCA: ***What building materials does this company use to keep costs down that are different from what you typically work with?***

RB: It's the same material we normally work with. Steel and concrete form the boxes and then they use traditional techniques to construct the units in a factory. That's a key component because they're able to get uniform, quality-controlled production in a protected environment. They're able to get to scale and produce without having to worry about thunderstorms, rain, snow and other weather constraints that come with building on-site. It's like a conveyor belt in the factory. They can work on 30 boxes at a time. It's a much more organized execution.

TCA: ***Since this issue of*** **TCA** ***focuses on design and construction, I am curious if there is a template that POAH uses when developing affordable housing. Did you have to alter that template when working on this modular project?***

RB: We work in many different geographies. If we worked in one geography, we might have adopted templates related to amenities or unit sizes, but typically every project is just a little bit different. A lot of requirements are dictated at the local level, and when using public funds, there'll be different sets of regulations that come with various funding streams.

***TCA:* Does this modular building technology lend itself to a particular type of affordable housing project in terms of building design and the number of stories and units?**

RB: It's our observation that this particular technology is competitive where you have requirements for prevailing wage and high-rise construction. It's 30 percent cheaper. However, if I need to deliver five-over-two straight podium construction, this type of modular construction isn't yet competitive.

***TCA:* If you were to do more modular deals, do you anticipate the capital stack to be different compared to the affordable deals you normally work on?**

RB: The capital stack would probably be the same. The biggest change would be the timing, and the cash flow during construction, because the fabricator wants a big chunk of money upfront. We've got to negotiate something different with our lenders because they are used to onsite construction and paying down based on a percentage of work put in place. In this case, we're going to ask them for 30 percent of the money right up front, which is a different conversation. We'll use the same lenders, but we're having a different conversation to manage the risk associated with having a lot of money out the door before anything ever shows up on-site.

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***TCA:* I know other developers who have embraced modular housing because of the cost savings and because it looks like any other affordable housing project when assembled. Have you contemplated using this company for other projects, especially since the company has built a factory in your backyard in Boston?**

RB: We don't have anything in our pipeline right now that is a good fit. But we're on the lookout, and they are as well. They are committed to being in this country.

***TCA:* Since they only have one factory, I imagine it would be too expensive to use this modular technology for a project that's in Washington, DC or further south, just because of the transportation costs.**

RB: I know that distance is a limiting factor, but I don't know enough about the incremental costs charged for mileage. The factory is probably 30 miles away from the public housing site that we're working on now. If it was 500 miles away, the math might look a little different.

***TCA:* I'd like to talk about POAH. What regions of the country are you most active in? How many affordable housing units do you manage? What types of deals do you find most appealing?**

RB: We currently own and manage about 13,000 units in 11 states and the District of Columbia. We have development and construction management offices in Boston, Chicago, Washington, DC and recently Florida. We have projects in development in Maine, Massachusetts, Washington, DC, Florida—particularly Dade County—and the Chicago area.

***TCA:* Are you looking to enter any new markets in 2024?**

RB: Ohio, Virginia and New York.

***TCA:* Is there a project from 2023 that you'd like to talk about because of its innovativeness or importance to the community?**

RB: We delivered a project early this year that was in construction during the pandemic. It's a 135-unit, mixed-income project called The Loop at Mattapan Station (*TCA* February 2021) that utilized four and nine percent credits. It was built at the terminus of a subway line in Boston that was previously a surface parking lot. It's fully occupied. We delivered a grocery store in what was previously a food desert. We've got space for local retailers that we're currently leasing up. It was a great

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community engagement story. We partnered with a local nonprofit, a Community Development Corporation (CDC), that ran the community engagement process for us. We're very proud of it.

TCA: ***What other noteworthy trends are you seeing in the marketplace that you'd like to share with our readers?***

RB: Supply chains are getting better with the notable exception of some electrical components, including generators and elevators, that still have exceedingly long lead times. Price increases are moderating, but costs are not reducing. We're constructing more buildings that incorporate "passive house" energy-efficiency standards. We're delivering later this year a senior building in Boston, that's a new construction and will be the first all-electric, five-story, residential building in the City of Boston. It's built to be a passive house, so it has no fossil fuel, not even the generator. I think we'll see more of that coming from municipalities, certainly from the City of Boston, as people focus on climate change and the impact it's having. Electrification is a new buzzword and something that we're looking to implement across our portfolio. When we started doing passive house construction, a lot of our subcontractors and general contractors charged premiums for utilizing different building envelope techniques and having to pay attention to the details that we wanted in our buildings to assure we had tight building envelopes. As we do more and more of these projects, and as the industry adapts to these standards, I see the price increases going down. That first building probably had a six percent premium in the carpentry line for a passive house. Now it's one or two percent, and I could see that going lower. From a development perspective, we do new construction and preservation. When we started in 2001, we did a lot more acquisitions/rehabs, but acquiring properties has become very, very challenging. Seller expectations relative to price have not kept up with the reality of eight percent interest rates and construction costs that increased 30 percent over the last two years. We haven't been able to find too many deals that work, but we'll see. TCA