

Welcome fellow Real Estate Professionals ...
MYLESTITLE'S 4TH QUARTER 2022
ADVISORY COUNCIL - BREAKFAST & SEMINAR
Hayfields Country Club
October 20, 2022

In association with and sponsored by:
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MYLESTITLE ADVISORY COUNCIL PANELISTS

CLIMATE SOLUTIONS NOW ACT OF 2022:

***What is it? How will it affect your
Real Estate Business?***

PRESENTED BY:

Danielle S. Zoller, Esquire
Real Estate Chair | Gordon Feinblatt LLC

**POST COVID - NAVIGATING THE
CURRENT LANDSCAPE:**

***A Community Banker's Viewpoint on
Real Estate Lending in Today's Market***

PRESENTED BY:

C. Joseph "Joe" Fleury
Vice President, Relationship Manager
Commercial Team - Orrstown Bank

PRESENTED BY:

MYLES LICHTENBERG, Esq.
Managing Principal, MylesTitle
Law Office of Myles L. Lichtenberg, P.A.

Visit us online at:

MylesTitle.com & MarylandCommercialTitle.com

Contact us, directly at:

410.458.8975, Anytime

Myles@MylesTitle.com



GORDON•FEINBLATT_{LLC}
ATTORNEYS AT LAW

CLIMATE SOLUTIONS NOW ACT OF 2022

Michael Powell

mpowell@gflaw.com

www.michaelcpowell.com

Danielle S. Zoller

dzoller@gflaw.com

1001 Fleet St., Suite 700 | Baltimore, MD 21202 | 410-576-4000 | gflaw.com | [@GordonFeinblatt](https://twitter.com/GordonFeinblatt)

AGENDA

- GREENHOUSE GAS REDUCTION TARGETS
- NEW BUILDING CODES
- ENERGY PERFORMANCE STANDARDS
- FUTURE PROVISIONS
- QUESTIONS



EVOLVING STANDARDS

REDUCTIONS COMPARED TO 2006 BASELINE

2009 GGRA	2016 AMEND.	2020 MCCC	2022 CSNA
25% REDUCTION BY 2020	25% REDUCTION BY 2020 AND 40% BY 2030	25% REDUCTION BY 2020 AND 50% BY 2030 AND NET ZERO (100%) BY 2045	60% BY 2031 AND NET ZERO (100%) BY 2045
	GOAL OF 80-95% BY 2050		

CLIMATE SOLUTIONS NOW ACT

60% REDUCTION BY 2031

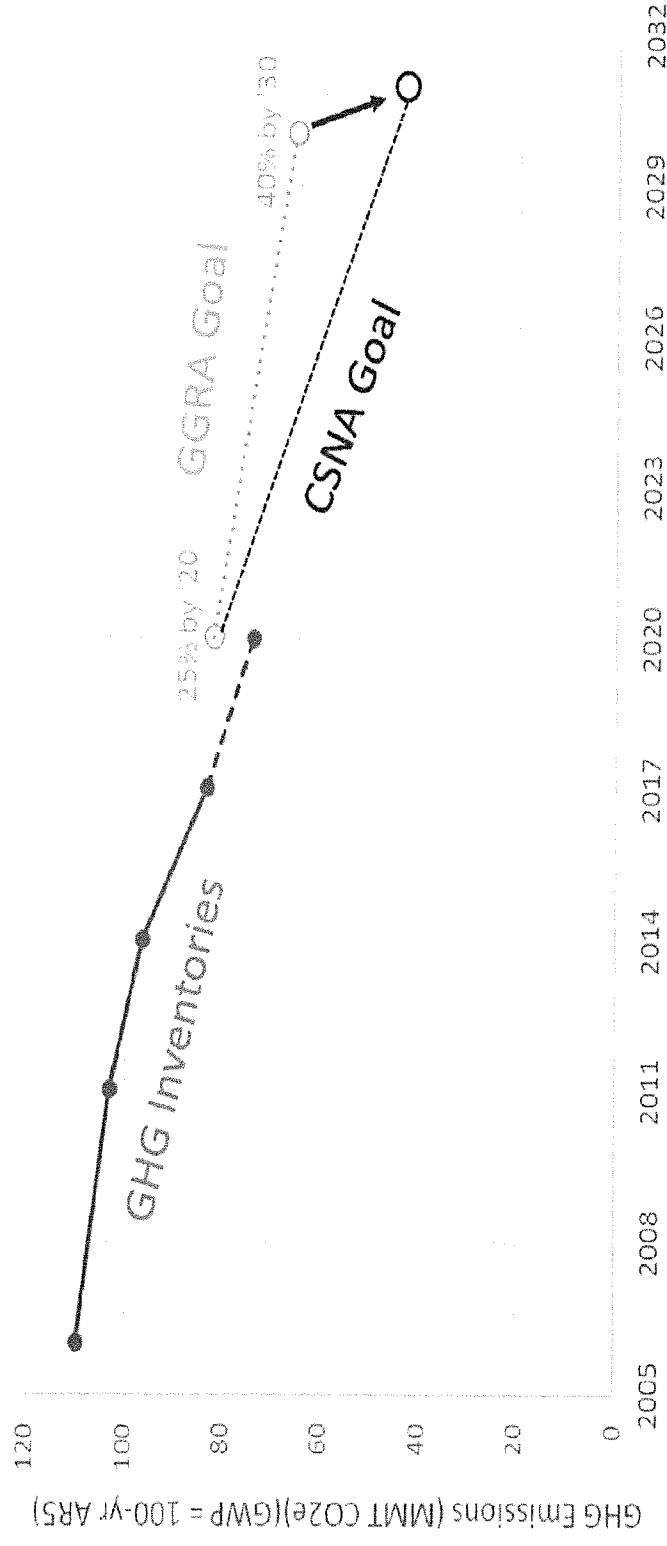
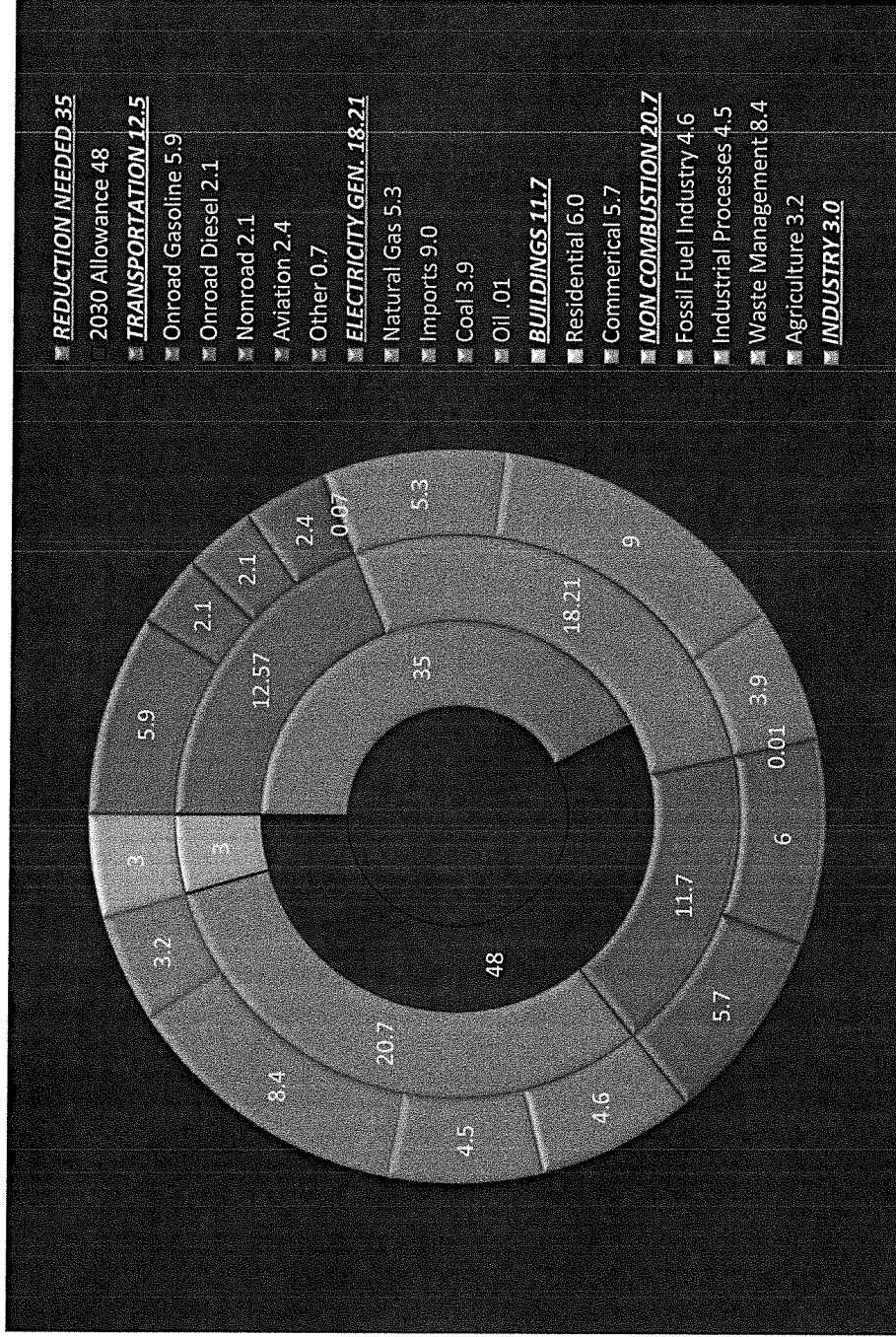


Image courtesy of Matt Stewart at MDE

2020 INVENTORY AND REDUCTIONS NEEDED BY 2030 (APPROXIMATE MILLION METRIC TONS)

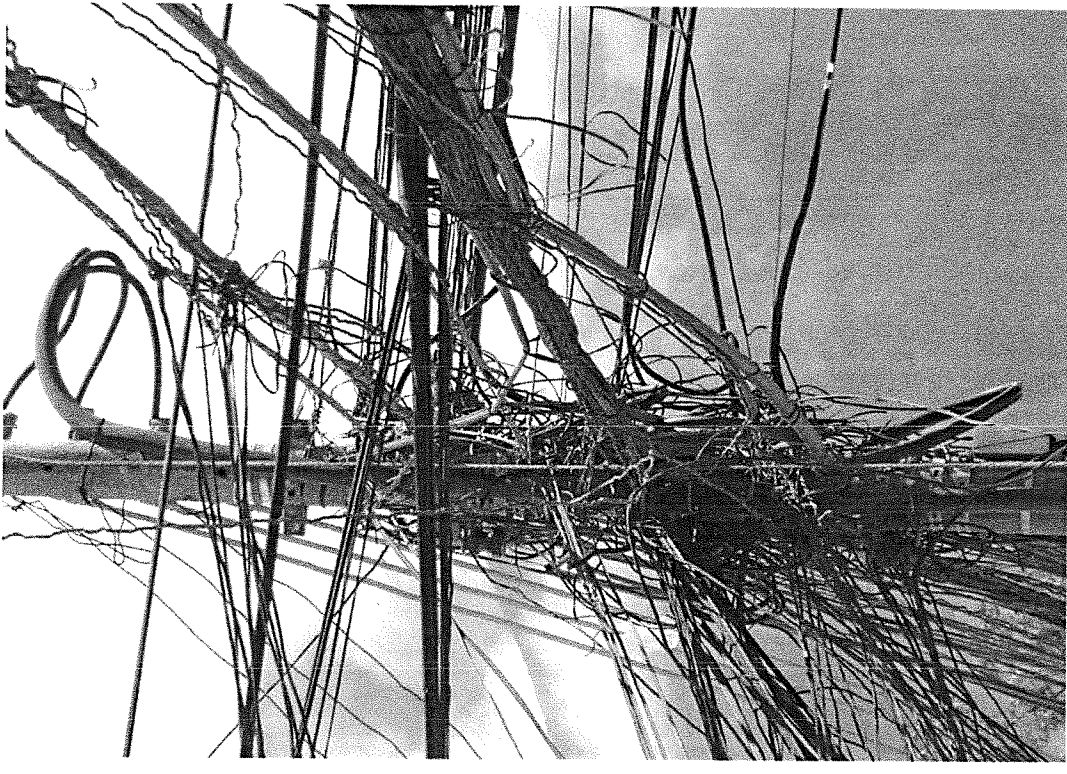


CLIMATE SOLUTIONS NOW ACT OF 2022

ELECTRIFY EVERYTHING

The Act sets out an overall plan to:

- Substitute electricity for fossil fuel consumption.
- Replace fossil fuel electric generation with “clean” energy (solar, wind, nuclear, hydro).
- Meet a very difficult transition milestone in eight years (by 2031).
- Eliminate (or offset) *all* fossil fuel use and, instead, generate all energy by renewable electricity within 33 years (by 2045).



NEW BUILDING CODES PART I

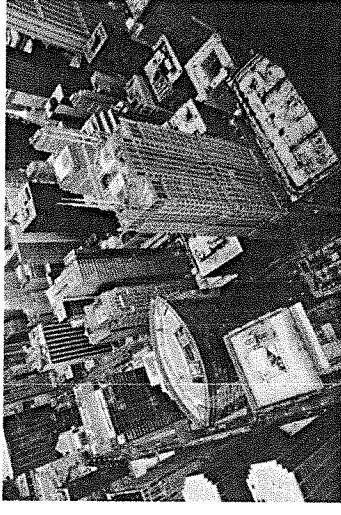
MANDATORY ADOPTION OF INTERNATIONAL CODE



- The Department must adopt the International Building Code – including the International Energy Conservation Code – as the “*Maryland Building Performance Standards*.”
- Any new updates of the International Building Code must be adopted in Maryland within 18 months unless:
 - The Department decides to adopt changes to “enhance energy conservation and efficiency” or
 - The Department allows an “innovative” method that provides an equivalent performance.
- The Department may adopt energy conservation requirements that are *more* stringent than the International Energy Conservation Code but not less stringent.

NEW BUILDING CODES PART II

BUILDING CODE ADMINISTRATION REPORT

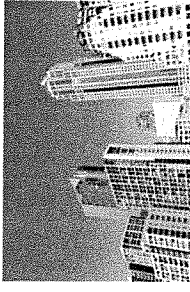
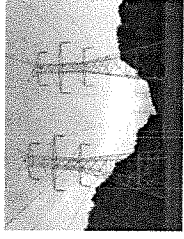
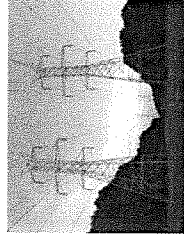
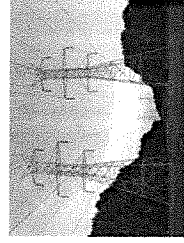
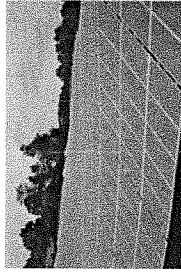
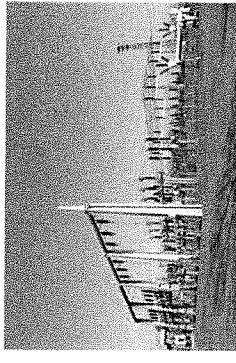


- The Building Code Administration must develop recommendations for “an *all-electric building code*” for the State during 2023 (interim by January, final by December).
- The recommendations may include “appropriate exemptions” for
 - “particular industries, including life sciences”
 - “local conditions” and
 - “sectors vital to natural security as identified by the US Department of Homeland Security.”
- The recommendations shall be for the “fastest and most cost-efficient methods for decarbonizing buildings and other sectors in the State.”
- Must report to the Public Service Commission on the projected electric loading impacts; and consider recommendations for the use of renewable, low-carbon biofuels.

CAN THE GRID HANDLE THE LOAD?

PSC PLANNING STUDY

- The study must assess the capacity of gas and electric distribution systems to serve customers under a managed transition to a highly electrified building sector.
- Maryland has always been a “summer peak” state. Moving from heating oil, natural gas and propane to electric will make Maryland a “winter peak” state.
- Eliminating fossil fuels will increase the load as energy is transferred by electric lines instead of pipelines and delivery trucks.
- Highest demand for winter peaks is during cold winter nights when solar production is low.
- Results of the study are due back to the General Assembly by September 30, 2023.



ENERGY PERFORMANCE STANDARDS

COVERED BUILDINGS

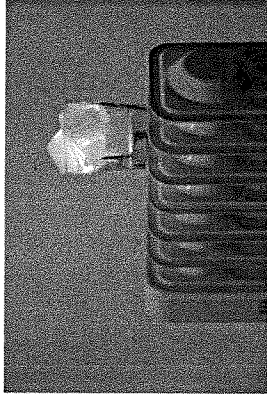
- New standards will be applicable only to “covered buildings” which means:
 - Is a commercial or multi-family building or owned by the State; and
 - Has a gross floor area (excluding parking garage) of 35,000 sq. ft. or more.
- Excluded from the definition are:
 - Historic properties
 - Schools
 - Manufacturing buildings
 - Agricultural buildings
- The new standards will apply to both new *and existing* buildings.



DIRECT GREENHOUSE GAS EMISSIONS

ONLY EMISSIONS FROM THE BUILDING ARE COVERED

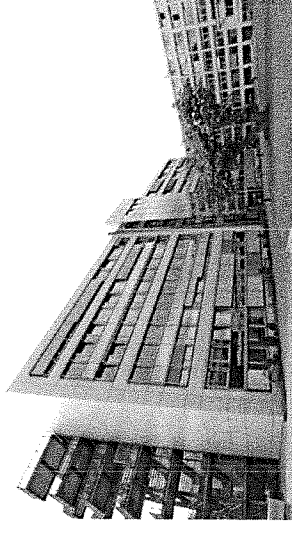
- The standards will regulate “Direct Greenhouse Gas Emissions”:
 - Regulations will require reporting starting in 2025,
 - Reductions starting on January 1, 2030, and
 - Net zero emissions starting on January 1, 2040 (unless the Assembly sunsets the requirement).
- The standards only apply to “greenhouse gas emissions produced on-site”.
- Emissions from natural gas, propane and oil burning on site are covered by the standard.
- Emissions from fossil fuel burned by utilities at off-site power plants are not covered.
- Emissions from a Tenant Food Service Facility engaged in commercial cooking and water heating is not counted.



DEVELOPMENT OF STANDARDS – PART I

REGULATIONS FROM MDE BY JUNE 1, 2023

- The regulations will establish “energy use intensity targets by building type.”
- Special provisions “as necessary” will account for:
 - Building age
 - Regional differences
 - “Unique needs of particular building types” including
 - Health care facilities
 - Laboratories
 - Assisted living and nursing facilities
 - Military buildings
 - Critical infrastructure
 - Buildings used in life sciences

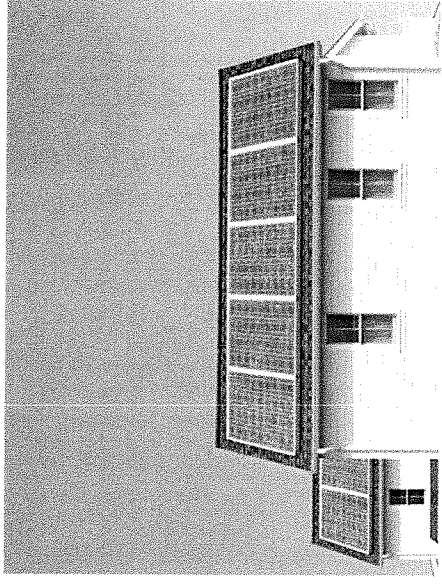


DEVELOPMENT OF STANDARDS – PART II

REGULATIONS FROM MDE BY JUNE 1, 2023

Special provisions “as necessary” will also account for:

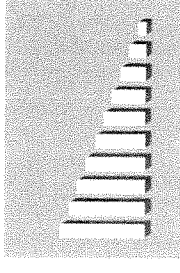
- The use of direct energy systems.
- Landlords who:
 - are not responsible for the equipment of tenants,
 - do not have control over the tenant’s energy systems or
 - the commercial tenant is responsible for all maintenance and repairs.
- The Department is required to “provide maximum flexibility” for owners to comply with the new standards.
- The bill sets up a task force to consider financial incentives.



COMPLIANCE WITH EPS

BUILDINGS MUST EXCEED THE STANDARDS OR PAY A FEE

- Starting in 2025, each covered building owner must report Direct Greenhouse Gas Emissions to MDE annually.
- It is possible that the utilities and other fuel suppliers will provide information to the owner for reporting to the State. Electric and gas companies must provide energy data to building owners for benchmarking purposes.
- Starting on January 1, 2030, the covered buildings' net Direct Greenhouse Gas Emissions must be 20% less than the 2025 levels for an average building of similar construction.
- Starting on January 1, 2040, the covered buildings must achieve net-zero Direct Greenhouse Gas emissions.
- Failure to meet the requirements will result in a compliance fee.
- The Net-Zero 2040 requirement is subject to a sunset provision (in 2029).



COMPLIANCE FEE

\$ \$ \$ \$ \$

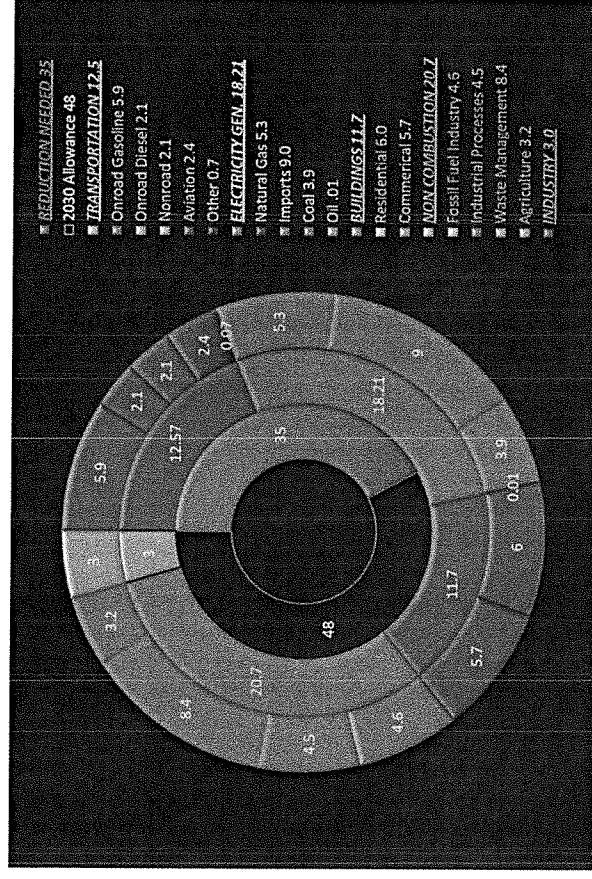
BASED ON “SOCIAL COST OF CARBON”

- The Department will establish an “alternative compliance fee” based on the extent that the emissions exceed the requirement.
- The fee cannot be less than the “social cost of carbon” adopted by the U.S. EPA.
- The social cost of carbon is a hypothetical rate representing the assumed harm to society from each ton of carbon dioxide emissions released into the atmosphere.
- The calculated cost has varied based upon the politics of the administration in power and the status of scientific research. Suggestions have varied from \$3-5 (Trump Admin), \$43 (Obama Admin) to \$245 (United Nations IPCC).
- The current EPA number is \$51 per ton. It will likely be raised to around \$120 a ton.
- One million BTUs of natural gas produces about 120 pounds of CO₂.

WAIT THERE IS MORE!

THE ENERGY PERFORMANCE STANDARDS WILL NOT GET US TO THE 2031 GOAL.

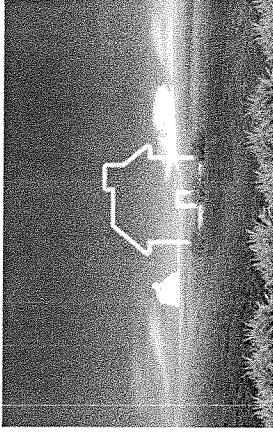
A 20% reduction for covered buildings (with some exceptions) will not achieve a 60% reduction in greenhouse gases by 2031.



60% reduction by 2031

Net Zero by 2045

POSSIBLE FUTURE PROVISIONS

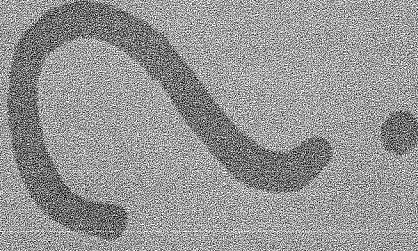


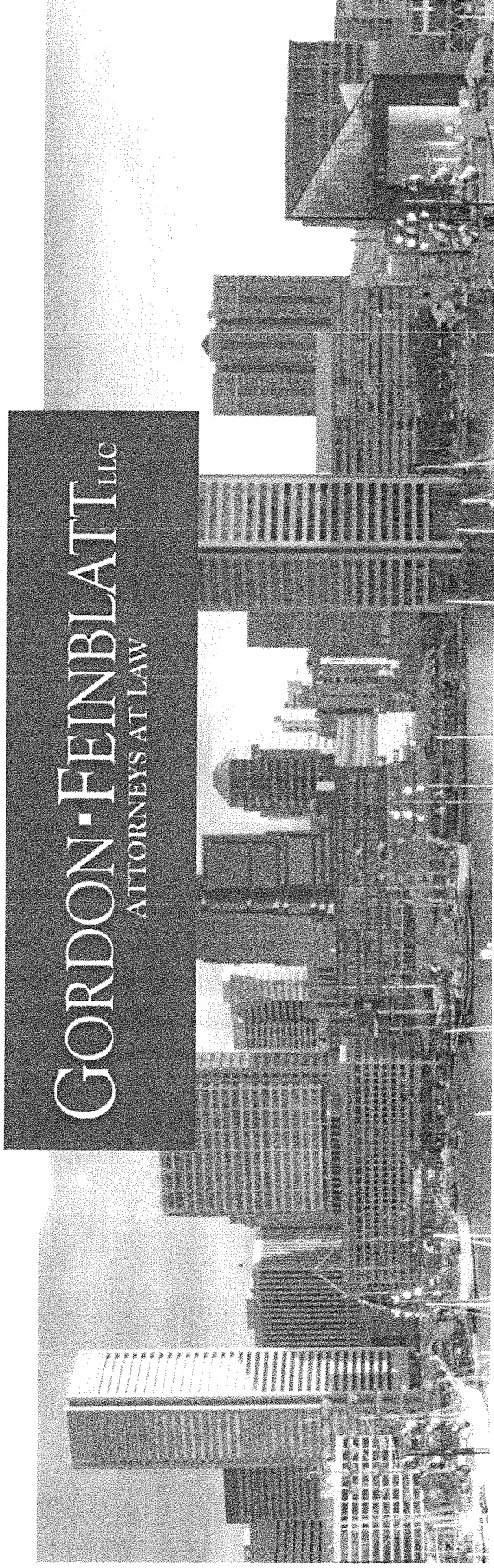
- Electric car charging:
 - Transportation produces a bigger share of greenhouse gas than buildings.
 - Currently, less than 1% of Maryland vehicles are all electric or plug-in hybrids.
 - To achieve the required greenhouse gas reductions, the number of electric vehicles would need to increase by orders of magnitude.
 - Federal financial incentives are concentrated on charging stations along major transportation routes, but most charging will be at home or work.
 - New building codes are likely to require accommodations for home charging.
- Significant increases in renewable energy will be required and, to avoid stress on the electric grid, a significant portion of the new generation will need to be near the point of consumption.
 - New building codes are likely to require provisions for the installation of solar panels.

QUESTIONS?

Danielle S. Zoller
dzoller@gflaw.com

Michael C. Powell
mpowell@gflaw.com
www.michaelcpowell.com





THANK YOU!

DANIELLE S. ZOLLER

410-576-4036

dzoller@gflaw.com

1001 Fleet Street, Suite 700 | Baltimore, MD 21202 | 410-576-4000 | gflaw.com | [@GordonFeinblatt](https://www.instagram.com/GordonFeinblatt)

ORRSTOWN BANK

C. Joseph Fleury
Vice President
410.291.7054

jfleury@Orrstown.com

Orrstown Bank

Assets: \$2.8 Billion

Locations: 33

NASDAQ: ORRF

Founded 1919

Bank HQ: Harrisburg

Regional HQ: Towson

MD Branches: Towson,

Cockeysville, Rosedale,

Pasadena, Ellicott City,

Hagerstown

ORRSTOWNBANK

Who We Are

Core Business: Main Street Banking

- Commercial Banking
- Mortgage
- Wealth Management

C&I / Business Banking

- Working Capital Lines; Equipment Finance; Owner Occupied Mortgages; Term Debt

Real Estate Banking

- Construction Finance, Term Debt
- Multi Family, Office, Retail, Industrial, Home Building, Land Development

A Lender's Approach To New Regulations

Net Interest Margin

$$\text{NIM} = \frac{\text{Interest Received} - \text{Interest Paid}}{\text{Average Invested Assets}}$$

As a Community Bank, our largest driver of revenue is net interest margin

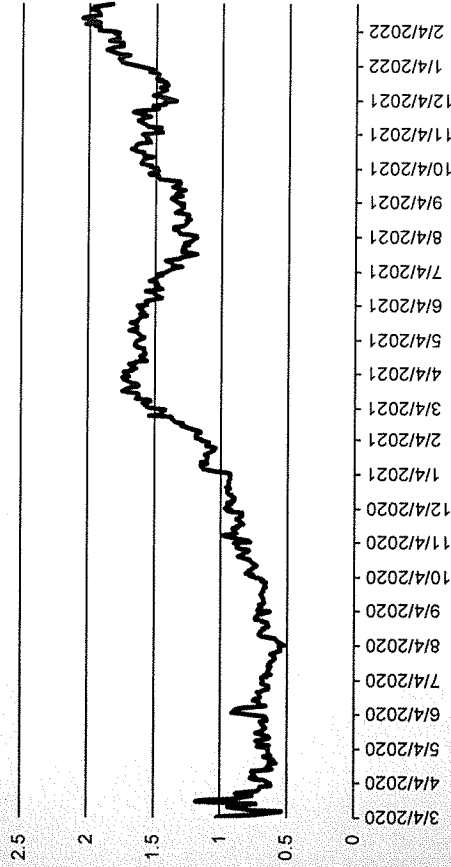
We must continue to lend to carry on our business

Get back to underwriting basics

Bank clients who can weather a storm

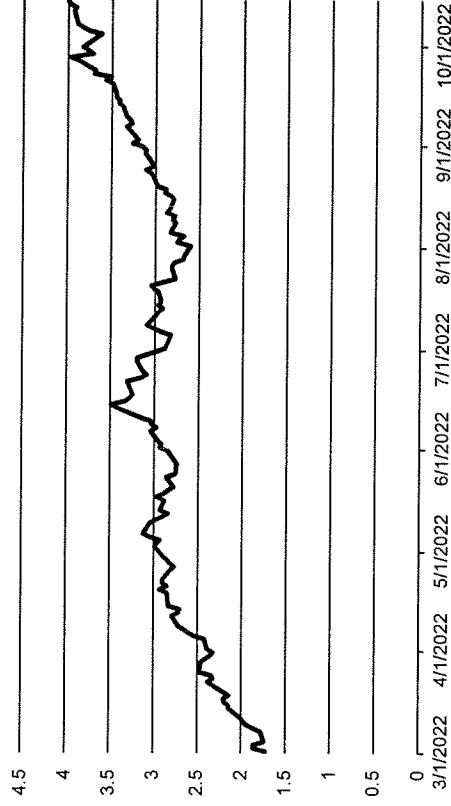
Rate Environment

10 Year Treasury Yield
March 1, 2020 to March 1 2022



2 year Low: 0.52% 2 Year High 2.05%

10 Year Treasury Yield
March 2022 to Current



7 Month Low: 1.72% 7 Month High 4.00%

Rate Environment

NNN Acquisition

5,000 Square Foot Single Credit Tenant NNN Acquisition

- \$15.00 Per Foot Rent | \$75,000 NNN NOI | \$1,200,000 Purchase Price (6.25% Cap)

August 5, 2022 –

October 14, 2022 –

10 Year Treasury 2.83%
Spread 2.25%
Rate: 5.08%

10 Year Treasury 4.00%
Spread 2.25%
Rate: 6.25%

\$960,000 Mortgage (80% LTC)

\$960,000 Mortgage (80% LTC)

\$860,000 Mortgage (72% LTC)

NOI \$75,000
Debt Service \$67,883

NOI \$75,000
Debt Service \$75,994

NOI \$75,000
Debt Service \$68,078

Debt Service
Coverage Ratio: 1.10x

Debt Service
Coverage Ratio: 0.99x

Debt Service
Coverage Ratio: 1.10x

ORRSTOWN BANK

Rate Environment

Multi Family Construction

40 Unit Project | \$9,000,000 Project Cost | \$225,000 Per Unit

As Underwritten Construction				At Construction Completion				Right Sized			
Revenue	\$	760,000	\$ 19,000 /Unit	Revenue	\$	760,000	\$19,000 /Unit	Revenue	\$	760,000	\$19,000 Per Unit
Vacancy	\$	60,800	8%	Vacancy	\$	60,800	8%	Vacancy	\$	60,800	8%
EGI	\$	699,200		EGI	\$	699,200		EGI	\$	699,200	
Expenses	\$	228,000.00	30%	Expenses	\$	228,000.00	30%	Expenses	\$	228,000.00	30%
NOI	\$	471,200		NOI	\$	471,200		NOI	\$	471,200	
Loan	\$	6,750,000		Loan	\$	6,750,000		Loan	\$	5,300,000	59%
Rate		4.00%		Rate		6.25%		Rate		6.25%	
Payment		\$386,706.39		Payment		\$498,730.93		Payment		\$391,596.14	
Coverage Ratio		1.22		Coverage Ratio		0.94		Coverage Ratio		1.20	

75% Loan To Cost

60% Loan To Cost

Summary

- Back to Basics: Underwritten mortgage rates should be higher than the current market rate
- Plan: Loan amount fluctuation is real from terms to closing
- Backstop: Add cash flow sizing language in term sheets
- Buyers: Try to manage a seller's expectations
- Opportunity Exists: Banks could find themselves with outsized loans

ORRSTOWN BANK

C. Joseph Fleury
Vice President
410.291.7051
jfleury@Orrstown.com