

MCCORMACK BARON SALAZAR

September 30, 2022

Mr. Scott Farmer, Executive Director
Ms. Tara Hall, Director of Rental Investment
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, North Carolina 27609

Dear Mr. Farmer and Ms. Hall,

On behalf of the City of Winston-Salem (City), the Housing Authority of Winston-Salem (HAWS) and McCormack Baron Salazar (MBS), we want to thank you for NCHFA's continued support to the Winston-Salem Choice Neighborhoods Project in awarding Phase I 2021 tax credits as well as the \$5.6M in WHLP CV Funds. Additionally, we cannot thank NCHFA enough for the Choice Neighborhood Implementation Set-Aside in the 2021 through 2025 Qualified Allocation Plan. This will be a great benefit to the Winston-Salem Choice Neighborhoods Project, and it truly demonstrates your commitment to its success.

MBS appreciates the continuing efforts of the NCHFA staff to dialogue with the development community on the 2023 draft QAP, and we especially appreciate many of the changes proposed thus far. While we feel the 2023 draft QAP has improvements, we have a few additional comments and recommendations to make. Please see them below.

As you are aware, the dramatic increase in the cost of construction materials and labor shortages over the recent years are having an exceedingly detrimental effect on the market's ability to develop much needed affordable housing. As construction costs have continued to increase over the last year and half, the Winston-Salem Choice Neighborhoods Project's development cost gap has increased. At this time, there is no certainty of when construction costs will level out or decrease. While we are grateful for the Choice Neighborhoods Implementation Set-Aside in the 2023 draft QAP, we have an additional request that we would like to present for consideration. In the 2023 draft QAP, it states that "the Agency will award one new construction project not to exceed \$1,000,000 annually and the set aside will remain in each QAP through 2025". **We kindly ask you to please consider allowing the CNI Project to receive a maximum \$1,200,000 per project as the LIHTC award cap, consistent with all other North Carolina projects.**

The CNI transformation effort is a significant undertaking, and every project expense is necessary to achieve success. As we have outlined in previous communication with you, the total housing development costs across all phases, including site preparation and infrastructure, is

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currently approximately \$182m. This will result in the new construction of 406 units across 5 phases, including one senior phase in the northeast Winston-Salem Cleveland Avenue Homes neighborhood. This transformation will have an extraordinary impact on the lives of the families and children that live there. The CNI development can support \$1.2m of tax credits per phase. Currently there remains a financing gap of approximately \$50M as it relates to site preparation, public infrastructure, and future housing phases. The City initially committed \$3m of CDBG and \$3m of GO Bonds to help fund site preparation and public infrastructure, and they have diligently worked over the last year, in partnership with HAWS and MBS, to identify an additional \$8.4M of additional sources of funding.

We commit to utilizing the funds efficiently and within the given timeframe, demonstrating our strong collaborative partnership with NCHFA, HAWS, and the City. MBS appreciates NCHFA's interest to work as a team to move this CNI redevelopment project forward with the most efficient and effective use of HUD's \$30 million grant.

As pointed out in the NCHFA notification email, the Project Development Costs are marked as TBD. The pandemic, current economy, and increasing rate of natural disasters have greatly impacted affordable housing and more specifically the price of construction. We continue to see spikes in the costs of a wide range of manufactured products due to both costs of raw materials and shortage of production labor. Shortage of production labor has also caused costs to rise. Subcontractors are pricing the uncertainty into their bids and even when material costs stabilize, they are still drastically above pre-pandemic levels. The labor market is still tight and delivery schedules are unpredictable. Contractors are lengthening construction periods as a result and increasing the cost of overhead accordingly. All materials, including insulation, roofing, windows, plumbing, and HVAC have shown significant increases in cost, but other trades such as electrical have also been impacted, primarily through the cost of metals. The LIHTC program has hard IRS deadlines for completion, which puts LIHTC developers at a disadvantage as compared to market rate developers when adjusting their construction schedules to wait for better pricing.

As a guideline for NCHFA's 2023 QAP Project Development Costs, NCHFA may consider reviewing the budgets of projects that have most recently closed in order to determine an average cost. Specifically on the Phase I project budget at closing, the Project Development Cost per unit was \$180,000. **We kindly request that NCHFA follow the same removal of the limits on Line 5 and 6 of the PDC for the 2023 QAP as was allowed for the 2022 final tax credit applications due to the current construction environment.**

We request that NCHFA allow 2022 tax credit allocations the same ability to request a new tax credit allocation as the current draft 2023 QAP does for 2021 tax credit awards. Due to ongoing construction delays from supply chain issues, labor being difficult to find, etc. the uncertainty of the length of construction is an ongoing problem. The Winston-Salem Choice

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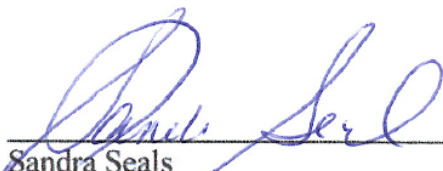
Neighborhoods Project has a HUD grant expenditure deadline of six years, ending September 30, 2026. If the funds aren't spent by then, they will be returned to HUD, as there is no extension that can be granted. If NCHFA isn't comfortable with allowing all 2022 tax credit awards to request a new tax credit allocation, then we would ask that language be added to the CNI Set-Aside at a minimum, to allow tax credits for CNI projects to be swapped without penalty when applying for a 9% award under the next year's QAP/tax credit allocation cycle.

We request that NCHFA consider removal of the restriction of no market-rate units in a project for RPP awards. When a project has mixed income units that include restricted and unrestricted income, other state HFA's allocate their loan funding based on the restricted income units. This would still allow RPP funding to go toward all restricted low-income units even if there are market-rate units in the project. The guidelines of the 2019 HUD Choice Neighborhood Initiative (CNI) grant NOFA in which the project received a CNI grant under requires that unrestricted units be available for households at or above 80% AMI.

In Appendix B, we request that NCHFA consider updating Section 5 Item D Laundry Facilities Item 1 to state, "**Laundry facilities are required for all projects unless washers and dryers are provided in each unit.**" We also request that NCHFA consider updating **Section 5 Item E Community / Office Spaces to include an exception for phased projects** to provide one central Community / Office Spaces adequately sized and available to residents of all phases.

Once again, our sincerest thanks for your partnership and for the consideration of our comments for the 2023 draft QAP. As always, please do not hesitate to let us know if you have questions or need any additional information.

Sincerely,



Sandra Seals

McCormack Baron Salazar
Senior Vice President, Project Management