



August 25, 2025

North Carolina Housing Finance Agency
3508 Bush Street
Raleigh NC 27609

Re: Proposed NCHFA Policy Changes for 2026 Qualified Allocation Plan

Dear NCHFA,

I am writing on behalf of LDG Development to propose two policy changes for the **2026 Qualified Allocation Plan (QAP)**. We believe the following changes are essential to ensuring that affordable housing projects remain financially feasible and that we can continue to meet the escalating housing needs of North Carolinians.

Request 1: Revise the Developer Fee Calculation to be Based on Total Development Costs (TDC)

We propose that the developer fee for both 9% and 4% Low-Income Housing Tax Credit (LIHTC) transactions be based on a percentage of **Total Development Costs (TDC)**, rather than the current capped per-unit formula. This is a crucial step for the following reasons:

Enhancing Project Feasibility and Bridging Funding Gaps

The current per-unit fee cap significantly limits a developer's ability to structure a project's financing. Rising costs for construction, land, and soft costs often create substantial funding gaps. A larger, TDC-based developer fee provides a vital, flexible resource. By allowing a portion of this fee to be **deferred**, it can be strategically used as **gap financing** to cover unforeseen cost overruns and maintain project viability in an unpredictable economic climate.

This need is especially urgent in light of the profound instability surrounding federal funding. With current budget proposals in Congress calling for significant cuts and even the outright elimination of programs like **HOME and CDBG**, the traditional sources of gap financing are more unreliable than ever. Projects cannot be underwritten based on a funding source that may not exist. In this volatile environment, a larger allowable developer fee—with a significant portion deferred—often becomes the **only controllable and predictable funding source** to make these projects financially viable. This is particularly critical for **4% bond deals** in small towns and rural markets, which frequently lack access to any other local or state-level subsidies.

Generating a Higher Tax Credit Basis

Developer fee is a **basis-eligible cost** under the IRS Section 42 LIHTC program. This means that a larger allowable developer fee directly increases the project's **eligible basis**, which in turn generates more tax credit equity. This additional equity is essential for offsetting a portion of the project's rising construction costs, thereby strengthening the entire financial structure and reducing reliance on scarce public subsidies.



Request 2: Proactively Adjust Per-Unit Construction Cost Limits

We urge NCHFA to increase the maximum allowable per-unit construction cost limits statewide, with specific recognition of unique regional challenges.

Western North Carolina (FEMA Disaster Areas)

For counties in Western North Carolina that have been designated as federal disaster areas following Hurricane Helene, we respectfully request a per-unit construction cost limit of **\$180,000**. The region presents unique development hurdles that necessitate a higher cap:

- **Challenging Topography:** The mountainous terrain often requires more expensive structural designs, such as four-story, elevator-served buildings, as opposed to the more economical three-story, garden-style designs common in flatter areas.
- **Higher Costs of Labor and Materials:** Due to the distance from major distribution hubs, these areas face elevated costs for materials and limited access to skilled labor, which further drives up construction expenses.
- **Post-Disaster Housing Crisis:** The destruction caused by Hurricane Helene has exacerbated an already severe housing shortage, displacing families and destroying existing housing stock. Raising the cost limit is an urgent measure to facilitate the development of new housing to address this crisis.

Non-Disaster Counties

For all other non-disaster counties, we request an increase of the per-unit construction cost limit to **\$160,000**. This adjustment is necessary to reflect persistent inflationary pressures in the construction sector. Since 2020, we have seen significant increases in the cost of labor, lumber, steel, and other essential building materials. Furthermore, uncertainty surrounding medium-term trade policies and tariffs threatens to introduce additional cost volatility. A proactive increase in this cap will ensure that projects remain viable and developers can lock in financing without the risk of being underwritten out of the market.

These changes are fundamental to strengthening the production of affordable housing and ensuring that North Carolina can meet the needs of its most vulnerable residents. Thank you for your consideration of these vital requests.

Respectfully submitted,

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