



October 9, 2025

Scott Farmer & Tara Hall  
North Carolina Housing Finance Agency  
3508 Bush Street  
Raleigh, NC 27609

**Re: Comments on Draft 2026 Qualified Allocation Plan and Appendix B**

Dear Mr. Farmer, Ms. Hall, and NCHFA Staff,

Thank you for the opportunity to comment on the Draft 2026 Qualified Allocation Plan (QAP) and Appendix B. Our firm has extensive experience developing affordable housing across North Carolina, particularly using tax-exempt bonds and 4% LIHTCs. We greatly appreciate the Agency's continued commitment to refining the QAP, and we offer the following proposed revisions that we believe will improve the feasibility of future 4% developments.

**1. Maximum Project Development Cost Cap**

We strongly urge NCHFA to consider removing the new \$280,000 per unit replacement cost cap for 4% bond transactions. Bond deals inherently carry significantly higher soft costs – issuer fees, underwriter fees, rating agency expenses, bond counsel, and other transaction-related costs – which are not present in 9% executions. In addition, construction costs remain elevated post-pandemic; according to the U.S. Bureau of Labor Statistics, the PPI for Multifamily Residential Construction has increased a cumulative 39% since January 2020 and continues to rise. Moreover, sites across North Carolina often require extensive grading and stormwater infrastructure due to topography, and land prices continue to climb with no sign of relief. Imposing this cap will disqualify many otherwise viable projects, sharply curtailing housing production at a time of record need. Due to the factors described above, all our recent North Carolina projects awarded after 2022, all of which are 4% bond transactions, would be disqualified if this cap had been in place.

**2. Developer Fee Cap**

While the increase from \$23,000 to \$24,000 per unit is helpful, NCHFA could consider an alternative structure that balances mission alignment with project feasibility. One option would be to permit a developer fee equal to 20% of eligible basis (excluding the fee itself), with a maximum paid portion of \$24,000 per unit, and all remaining developer is required to be deferred. The entire developer fee would be recognized as basis and generate tax credit equity, but any fee above \$24,000 per unit would be required to be deferred and repaid from cash flow (even if the project sources and uses show the project could support paid developer fee above \$24,000 per unit). This approach preserves the mission of affordable housing by limiting upfront compensation, while still capturing the full LIHTC equity potential. In doing so, it helps reduce financing gaps and reliance on scarce gap funding resources, ensuring more bond-financed projects can move forward.

### 3. Rent Increase Approval Requirement

For projects that rely solely on private activity bonds and 4% LIHTCs (with no NCHFA soft funding), we suggest allowing rents at lease-up to match the HUD-published limits for the year of lease-up, without requiring a Project Update, market study, or other NCHFA approvals.

This change would help address inflation and operating cost increases that occur between preliminary application and lease-up, a period that often spans 2.5 to 3.5 years. It would also minimize the risk of large rent jumps between a tenant's first and second lease years, since rents would be set at current HUD limits at move-in rather than "catching up" later.

HUD's rent limits already safeguard affordability, while developers and managers are incentivized to lease quickly and keep projects stabilized. Owners are significantly incentivized through operating deficit guaranties, tax credit recapture risk, and significant compliance oversight by the Agency, the lenders, and the investors to ask rents the market will support and maintain project viability. Market conditions will naturally constrain achievable rents below HUD limits when appropriate.

Additional state-level restrictions on rent growth undermine feasibility, particularly in an inflationary environment where operating costs continue to rise. For instance, from 2022 to 2024, CPI increased 20.7%. That is an increase that is much higher than the 3% expense factor utilized in the 15-yr cash flow projection.

### 4. Antiquated Appendix B Requirements

Several Appendix B requirements add cost without improving livability or long-term durability. We respectfully request that NCHFA consider removing or modernizing the following:

- **Medicine cabinets in every bathroom.** These are outdated, seldom used, and not required in other states where we build.
- **Separate telephone and cable jacks in every bedroom.** We recommend at minimum allowing a **Cat 6 outlet** in lieu of obsolete jacks, given that most households rely on fiber/data services rather than landline phone or coaxial cable.
- **Switched light at every entry door in breezeways.** These should be permitted to operate on photocells rather than requiring a hardwired interior switch, which adds unnecessary construction cost.

These small changes would reduce costs and reflect modern building practices while maintaining quality standards for residents.

### Conclusion

We recognize NCHFA's responsibility to steward limited resources carefully, but we believe the replacement cost cap will make 4% bond projects financially infeasible and substantially reduce affordable housing production in North Carolina. Additionally, we believe the increasing the Developer Fee (but with a portion being required to be deferred) and removing the rent increase approval for lease-up for certain 4% bond transactions will improve the appetite of developers, investors, and lenders to participate in addressing the housing needs of North Carolinians. Finally, we also believe removing certain Appendix B items would meaningfully reduce costs without compromising design quality.

We respectfully request that NCHFA:

- Exempt 4% bond deals from the \$280,000/unit cost cap,
- Further increase the developer fee cap to maximize LIHTC equity generation,
- Remove the Agency approval requirement for rent increases at lease-up.
- Modernize Appendix B by eliminating outdated requirements (medicine cabinets, obsolete wiring, and unnecessary switched lighting).

Thank you for your consideration and for your continued partnership in addressing North Carolina's affordable housing needs.

Sincerely,

A handwritten signature in black ink that reads "Joe Horowitz". The signature is written in a cursive, flowing style.

Joe Horowitz  
Senior Vice President of Development  
Elmington Affordable

cc: Hunter Nelson