



## THE PENDERGRAPH COMPANIES

DEVELOPMENT ■ CONSTRUCTION ■ MANAGEMENT

### MEMORANDUM

To: NCHFA

From: Frankie W. Pendergraph

Date: September 11, 2012

Re: Comments to 2013 QAP

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In years past I have always made several comments to the QAP. This year I am limiting my comments to what I think is the most important issue facing tax credit developments in our State.

#### Deep Rent Targeting Points

The points for Tenant Rent Levels need to be removed altogether. The reward for targeting lower rents and satisfying the requirements of the State Credit is the receipt of the State Credit funds themselves. Points should not be awarded for the use of this limited and valued resource. Therefore, developments that target lower rents and use the State Credit funds as well as developments that do not target lower rents and do not use State Credit funds will receive the same amount of points: zero.

#### Deep Rent Targeting Policy

- It is not fair for 60% and 50% rents to be pushed to the maximum levels just to subsidize 30% and 40% rents. It is much better to have all of the rents affordable.
- When rents are skewed like they have been, you are raising the rents by \$50 or more on the 50% and 60% rents in order to charge the lower 30% and 40% rents. This causes a serious rent overburden situation to develop.
- The 30% and 40% tenant is more likely to receive a voucher or other type of rental assistance and is less likely to even significantly benefit from the lower rents.
- Are you better off to have everyone paying less rent or some paying higher and others paying much lower, and the ones paying higher rents struggling and getting

behind and management having to evict them? You are placing the burden on the tenant who is working, trying to make ends meet and trying to get ahead to supplement the rents of the tenants who are not.

- In my opinion the deep rent skewing does not follow the intent of Section 42 which is supposed to target 60% primarily and 50% if HOME funds are utilized. This is supposed to be workforce housing, not public housing. It is misleading for us (the Agency and Developers) to “sell” this type of housing to local governments, landowners and the general public as not being subsidized/low-income housing and instead to be for school teachers, police officers and firefighters, and then go right ahead and put the opposite type of tenant in the units. We are lying to these people. Section 42 housing was designed to fill the gap between the government housing programs that already existed (HUD, RD and Public Housing) and market rate housing; ie for the working poor, single moms etc... It was not designed to provide housing for the very low income. We are making this program for the very low income and we are missing the boat. Now, more than ever, with the economy like it is, we need to address the working poor, and rents are crucial. We need to be as concerned about the ability of the 60% tenant to pay the rents as we are for the 30% and 40% tenant to pay the rent, and maybe more so because the 60% tenant probably will not be able to qualify for a voucher.
- It is a management nightmare to have multiple rent levels for the same unit type and to have to explain to someone why a tenant who is working has to pay \$50 to \$200 more each month than the tenant who is not working. It encourages the tenants who are working to be less likely to keep their job and discourages tenants who are not working from applying for a job. A tenant does not understand that when they lose their job that they do not automatically get to reduce their rents because we only have so many at that level.
- As we rent to lower and lower income tenants who are not working, they are tearing these properties up. That is not the intent of this program. We can build units that cost \$1 million but that does not mean that the tenants will maintain them and that it will change their life. We cannot afford that every time a tenant moves out it is a \$3,000 or \$4,000 turn because they have destroyed the unit, or it takes months for a housing authority to come out and inspect a unit and we have had a loss of revenue or they turn a unit down because of some minor issue that is due to the tenant, not to mention that for whatever reason HUD is slow in making their payments and it might take months before you even receive a payment from HUD. These things are causing unnecessary burdens and stress on the properties and our hands are tied and we cannot overcome the problem.
- This issue will be even more important in 2013 and beyond if the 9% rate lock and discretionary basis boost are not extended. Deals will be very hard to proforma with the multiple rent levels.
- Bond deals should not be required to target any units at less than 60%. They are a separate type of development and there should not be any type of deep rent skewing whatsoever for bond deals.