

Chris Austin

From: Holly Douglas [holly@hollidaydev.com]
Sent: Friday, August 30, 2013 3:45 PM
To: rentalhelp
Subject: QAP comments

To Whom it May Concern:

Please accept the following comments under consideration when revising the 2014 Qualified Application Plan.

1. The determination to allot points equivalently toward an “in-state” developer with one project and an “out-of-state” developer with ten deals in a seven year time frame seems short-sighted and does not reflect a desire to award deals based on a developer’s experience, successful track record or even the quality of the deal itself. The awards process is extremely competitive and it’s extremely difficult for any developer, in-state or out-of-state, to consistently win (basically) two deals a year and meet this requirement. An out-of-state developer will pay tap/impact fees, taxes, permit fees and other such costs in the same manner and to the same extent an in-state developer will. If the construction is happening in North Carolina, a developer will likely use North Carolina subcontractors for most of the trades because it’s cost efficient and makes more economic sense to do so than having out-of-state subcontractors travel. If the goal is to keep dollars in North Carolina, this rule does not necessarily accomplish that. It places more importance on the developer’s physical address than the quality of the proposed development or even need for the proposed development.
2. For the past few years, the determinant of awards has been lowest credits per unit. This has in essence created what I’ve heard many describe as a “race to the bottom”, with developers competing to thin construction numbers and make aggressive assumptions to win a deal. Meanwhile, the costs of construction materials has steadily increased as the multifamily sector has surged back toward pre-recession numbers. It will be several years before the impact of this policy may be seen in construction quality- but ultimately this rule creates a situation in which developers are pushed to choose the lowest bidder and continue to look for ways to cut corners to get hard cost numbers down. Additionally, this makes the land price a critical component of the deal’s chances to be funded. You can only push construction numbers so low and stay within QAP guidelines, and you can only defer so much fee- so ultimately the next cut comes in land price. Sites in better locations within the market will be passed over for those in lesser location due solely to price.

I believe these are all unintended consequences, and I understand the desire for more efficient use of resources. However, to make this the sole determinant of whether a deal is funded or not will ultimately hinder the quality of proposals both in terms of scope and location within the market.

3. If the tie-breaker remains focused on lowest credit request, the formula should be augmented to take **all** resources into consideration, including RPP. Several deals were funded this cycle with very low credit requests but inordinately high requests for RPP. The net result was funding of projects that requested **2 to 3 times more** in **total** state resources per unit over others that requested far less. This was particularly the case in low-income counties where RPP is usually not needed due to the size of state tax credit loan. While I strongly believe a deal should not simply go to the “lowest bidder”, if that is to remain the case the formula should be retooled to factor in total resources requested and the location in which those resources are being requested- i.e. a deal in a low income county with a 30% state tax credit loan should not need the full RPP loan amount, if any.
4. In underwriting the loan payments for RPP loan, some number for the asset management fee due to limited partners should be included as an operating expense. This is a fixed expense to every tax credit deal and must be paid annually. It is as fixed an expense as real estate taxes. The cost is typically \$100 per unit and is **always** paid before deferred developer fee.

I appreciate your time and consideration in reviewing these comments.

Kind regards,

Holly Douglas
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