Chris Austin

From: Jeffrey Meadows <jmeadows@hdproperties.org>
Sent: Tuesday, October 03, 2017 12:13 PM
To: Chris Austin
Subject: FW: 2018 QAP Comments - Draft

Chris,

Thank you for the opportunity to comment on the 2018 QAP:

In response to the growing demand for affordable housing and HUD's RAD programs the number of bond credit projects is increasing. The mechanics of a bond credit project differ significantly from the 9% credit program. The bond credit projects are driven more from the debt side than the equity side. However, the amount of equity is very critical to the bond credit project underwriting. Several items from the 9% competitive perspective carry over to the non-competitive 4% side but are not yielding more credits for more deals. These items actually constrain the projects and impact feasibility. In the context of the preceding, we offer the following comments:

- While it is understood that limiting the amount of credits in the competitive round yields a larger number of winners, in the non-competitive round the opposite effect is in play. An increase the credits in the non-competitive round as much as possible will help increase project feasibility for bond credit projects.
- The number of units should not be capped (zoning will establish density) and parking requirements should be driven by local code. Bond Credit projects are often market projects with an affordable component. The product should respond accordingly.
- The Developer fee should not be capped on Bond projects. The debt underwriting will naturally cap the amount. Note: The developer fee is an eligible basis item.
- Bond projects defer developer fee as a practice to increase eligible basis and the amount of credits. The repayment of the fee does not interfere with the DCR or property operations. The developer is usually an affiliate of the owner, so revenue is not necessarily increased to the developer as the deferred fee limits cash flow. The additional credits do increase project feasibility.
- Acquisition rehab projects are now presenting as a feasible opportunity, particularly in areas that are rapidly redeveloping. Please lift the 60% acquisition cost restriction. Acquisition brings credits and the debt underwriting will limit the amount that can be carried. There is no need to limit the equity side. Rehabilitating a project, in a given area is often the only way to keep the project affordable and keep it from being converted to market rate. The value cap can exclude a project from making threshold that may work otherwise.
- The acquisition value being lifted is related to the concept of "NOAH" (Naturally Occurring Affordable Housing). The land in a given location can increase above the value of the current structures without rehab, particularly with a change in the entitlements. Allowing an acquisition rehab credit approach, without the 60% TDC test, may seem counter intuitive without considering the loss of the NOAH units altogether. If a NOAH property is captured in the Acq. Rehab Credit approach, it becomes a long term affordable property with restrictions (in some cases all of the units). Whereas before the rents were just affordable to (i.e. 60% AMI) folks based on the market and condition of the units. The typical desirable location where NOAH units occur brings the rents to carry the larger debt required by these projects. Keeping even some of the units affordable is key in many communities.
- Acq. Rehab with Credits is the most common approach to RAD conversions encouraged by HUD. RAD projects would become more feasible with the item suggested above in place and therefore less common in the 9% round.