

October 19, 2017

North Carolina Housing Finance Agency  
Attn: Chris Austin  
3508 Bush Street  
Raleigh, NC 27609

Re: 2018 Draft QAP\_v2

Dear Chris,

Thanks for speaking with me last week regarding the Average Credits Per Unit Points included in the second draft of the 2018 QAP. First off, I agree with the concept of awarding applications that are more efficient in utilizing credits and not relying solely on the first tie-breaker to determine awards. However, I believe the proposed 4% to 8% below the overall average may steer us back towards a race to the bottom. Below is a theoretical analysis of how this could happen.

The Average Credits Per Unit for New Construction in the Geographic Regions for 2017 were as follows:

1. Central: 31 apps, \$21,916,249 credits, 2,082 units = \$10,526 credits/unit
2. East: 20 apps, \$13,662,963 credits, 1,258 units = \$10,860 credits/unit
3. Metro: 29 apps, \$23,212,585 credits, 2,172 units = \$10,687 credits/unit
4. West: 24 apps, \$15,709,441 credits, 1,436 units = \$10,939 credits/unit

If the 4% to 8% range for max points is maintained, I believe most developers will inherently look to get at least 4% lower than the averages last year...it's the best guess all of us can make at this time. While some outside factors may push the average from last year up (see below additional comments), the ultimate outcome will be the same. That outcome is the proposed 4% to 8% range will actually push awards to applications with credit requests that are 8% to 12% below the average from last year. Below is how I've come to this conclusion:

1. Central average for 2017: \$10,526
  - a. Applicants will see to get at least 4% below 2017 by requesting \$10,105, creating a "New Average"
  - b. Applicants funded will actually be 4% to 8% below the New Average due to the current language, giving a "Funding Range" of \$9,298 - \$9,700
  - c. Funding Range below 2017 averages as a %:
    - i.  $\$9,298 / \$10,526 = 88.33\%$ , or 12%
    - ii.  $\$9,700 / \$10,526 = 92.15\%$ , or 8%
2. East average for 2017: \$10,860
  - a. New Average: \$10,425 (2017 x 96%)
  - b. 4% to 8% range: \$9,592 - \$10,008 (92.01% - 96% of New Average)
  - c. Funding Range below 2017 averages as a %:
    - i.  $\$9,592 / \$10,860 = 88.32\%$ , or 12%
    - ii.  $\$10,008 / \$10,860 = 92.15\%$ , or 8%
3. Metro average for 2017: \$10,687
  - a. New Average: \$10,259 (2017 x 96%)
  - b. 4% to 8% range: \$9,439 - \$9,848 (92.01% - 96% of New Average)
  - c. Funding Range below 2017 averages as a %:
    - i.  $\$9,439 / \$10,687 = 88.32\%$ , or 12%

- ii.  $\$9,848 / \$10,687 = 92.15\%$ , or 8%
- 4. West average for 2017: \$10,939
  - a. New Average: \$10,501 (2017 x 96%)
  - b. 4% to 8% range: \$9,661 - \$10,080 (92.01% - 96% of New Average)
  - c. Funding Range below 2017 averages as a %:
    - i.  $\$9,661 / \$10,939 = 88.33\%$ , or 12%
    - ii.  $\$10,080 / \$10,939 = 92.15\%$ , or 8%

As shown above, the lowest factor, 4% as currently proposed, will become the new average, then those applications that are 4% to 8% below the new average will be awarded. I would suggest the Agency consider this when setting the final range for awarding points in the 2018 QAP and to keep the awards from going too low. **My recommendation would be something like the following:**

1. **Max points for being within the average, maybe below the average by 1% / 2%, but no more than below the average by 5% / 6% max**
  - a. **I do feel there is a nominal difference if an application is within 1% or 2% of the average. That's approximately \$215 - 430/unit, or \$14,190 to \$28,380/application assuming an average deal size of 66 units. In that scenario, my personal opinion is a deal winning by the first tie-breaker should get preference.**
2. **1 point less for being 1% / 2% above the average, but no more than 2% / 3% to 4% / 5% above the average**
3. **2 or 0 points less for being more than 5% / 6% below, or 4% / 5% above the average, with 10% above or below being the max if points awarded within this band**

My additional comments to consider before finalizing the 2018 relates to Maximum Project Development Costs. Construction materials are being diverted to the regions of the U.S. impacted by Hurricanes and wildfires, so construction costs will continue to rise from last year with no pullback, or even stabilization. While the increased \$73K/unit is much better than \$68K or \$70K, I agree with another comment submitted asking the agency to look at costs from a square footage perspective. If you did, you would find **the average per unit in construction (line items 5 & 6) should be higher still...closer to \$75,000, and the minimum should be \$68,000.**

Again, we appreciate this opportunity to provide our comments for consideration in finalizing the 2018 QAP. Should the Agency have any questions as it relates to the above, please do not hesitate to call or email me any time. We thank you for your work in providing the best affordable housing options in the State of North Carolina.

Sincerely,

Tab Bullard, VP of Development