ReaVentures Group, LLC

September 1, 2017

North Carolina Housing Finance Agency
Attention: Rental Help
P.O. Box 28066
Raleigh, NC 27611-8066

via Email (rentalhelp@nchfa.com)

RE: Comments on Draft 2018 Qualified Allocation Plan

To Whom It May Concern:

Thank you for this opportunity to submit our comments on the draft 2018 North Carolina Qualified Allocation Plan (QAP) to the North Carolina Housing Finance Agency (NCHFA). First off, we would like to thank NCHFA for several recent changes that have improved the viability of affordable housing development in the state:

1. **Points for Average Credit Request** – the shift in last year's QAP from selecting applications with the lowest average credit request to selecting applications falling near the average credit request was a very positive change. Previously, applicants had been encouraged to become overly aggressive and optimistic on construction and equity pricing in an environment where construction costs are actually rising and equity prices falling. The result among funding recipients was often significant "value engineering" to build a cheaper product than originally promised and, most recently, applications that could simply not close their financing because they were not feasible. Now applicants are encouraged to submit realistic underwriting that should provide adequate funds to build quality affordable housing in line with an applicant's concept at initial application.
2. **Increased WHLP Funding** – this year's proposed increase in Workforce Housing Loan Program (WHLP) funds per development will help NCHFA build more affordable units with its tax credit allocation. However, all of this increase has been directed toward low-income and middle-income counties which will result in fewer deals being funded in the high income counties where affordable rents are hardest for residents to find.
3. **Increased Vertical Cost Limit** – the vertical cost limit imposed by NCHFA has been too low for several years and encourages development of fewer bedrooms and smaller-sized units. We appreciate NCHFA's increase in the vertical cost limit amount to $70,000/unit. However, we would encourage NCHFA to switch to the cost standard used by contractors and developers in assessing unit costs – cost/square foot. Using cost/square foot is the best way to account for differences in unit sizes and bedroom counts.

2964 Peachtree Road NW, Suite 200 ▪ Atlanta, Georgia 30305
Phone: (404) 250-4093 ▪ Fax: (404) 250-4091

There are also several areas for further improvement we would like to suggest:

1. **Operating Cost Limit –** We recommend that the operating cost limit remain at $3,600/unit before taxes, reserves, and supportive services. We are not seeing increases in operating costs like we are seeing in construction costs. The proposed $3,800/unit operating cost minimum would result in more equity required per development (since less debt could be supported) and result in fewer affordable units funded.
2. **Average Credit Request –** The credits per unit average scoring should remain at 5% of the average for maximum points, rather than the proposed 2.5% of average, due to the funding request volatility created by uneven WHLP funding increases. Given that WHLP funding is being doubled for low and middle income counties, applications can be expected to concentrate in these areas where credit requests are lower. This concentration will likely drag the regional average down and make high income counties less competitive, where affordable housing is often in greatest demand and credit requests will be now be proportionally higher.
3. **WHLP Statutory Maximums** – The statutory funding maximums should be increased evenly among high, middle, and low income counties. Currently, WHLP maximums are doubled in middle and low income counties but remain the same for high income counties. The high income counties are already scored based upon the lowest income targeting and often have the highest land costs. WHLP loan maximums should be increased by the same proportion in high income counties as in low income and middle income counties.
4. **Small Town Unit Count Limit** – Creating a lower unit limit in small towns that is half that of other communities, such as proposed, would disadvantage the competitiveness of small towns for tax credit financing. All other factors being equal, a 48-unit development in a small town will need considerably more tax credits/unit than a larger 80-unit development and could easily become uncompetitive based on the average credit request scoring criteria. If the market supports a larger development in a small town it should be able to proceed. Many small towns are in fact suburbs of much larger communities and their market area is rarely limited to the municipal boundaries.
5. **Site Bonus Points** – NCHFA should give more guidance in the QAP on what factors will justify the awarding of bonus and negative site score points. The QAP also needs to clarify these points will be awarded during site score if at all. Given the considerable costs involved in securing and rezoning sites, all applicants should know if these points are awarded to a development as soon as possible given that they could render all other applications in a county uncompetitive.
6. **Vertical Construction Cost –** Vertical construction costs should be measured on a cost per square foot basis, rather than the current per unit basis, in order to account for different unit sizes and bedroom mixes. The proposed $70,000 vertical cost per unit is still low if 3-bedroom units are included in the unit mix. For example, a 1-bedroom vertical unit cost could be $54,000/unit, a 2-bedroom vertical cost around $70,000/unit, and a 3-bedroom unit around $81,000/unit (depending on size, bathrooms, etc.). Limiting cost on a per-unit basis incentivizes the developer to build more 1-bedroom units when the market may need more 3-bedroom units since it is a fixed cost per unit (regardless of unit characteristics) being evaluated by NCHFA. Thus, NCHFA

is skewing the unit mix being built with the cost/unit metric. However, if NCHFA sets its costs limits on a square foot basis the developer is evaluated on their cost competitiveness rather than their skewing of the unit mix. All contractors and sub-contractors quote their costs based upon cost per square foot to account for this unit mix variation.

Thank you again for this opportunity to submit comments on the draft 2018 QAP. We appreciate all the hard work of NCHFA in developing quality affordable housing in North Carolina and are proud to be a part of the process.

Sincerely,

Sean M Brady

Sean M. Brady
Vice President of Development