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The Market Studies Should Determine Property Size

Several of the new proposed QAP rules are clearly steering the credit allocations to the higher income counties and the larger cities within those higher income counties by handicapping the other locations within the state and the regions. As we are aware, there is tension within the elected officials of this state between the high income metro markets and the other lower income markets. Proposing rules that can be perceived as favoring the higher income counties should not be on our list of items to change within the QAP if the goal is to spread the credits across the diverse markets. We need the support from all of these localities to keep this program strong.

Below I will outline the challenges with the proposed change and suggestions to fix it.

NCHFA's explanation of the proposed rule change (below) from the published summary sheet of the proposed changes states ***"Projects qualifying as a Small Town cannot exceed 48 units. The rational is smaller sized towns should have smaller sized projects"***

For ease of reference the proposed rule change is in yellow below:

> ***New construction 9% Tax Credit projects may not exceed the following***:
>
> • *Metro Region - one hundred and twenty (120) units*
>
> • *Central, East, and West Regions - eighty (80) units.*
>
> • ***Small Town (any region) – forty-eight (48) units.***
>
> ** A Small Town is a municipality with a population of less than 10,000 people. The list of town sizes can be found on the Office of State Budget and Management web site at https://ncosbm.s3.amazonaws.com/s3fs-public/demog/rankedbysizelargest_2015.html. The Standard 2015 Estimates, Municipal Population Estimates by Size (Largest) will be used to determine a town's population. A site is not required to be within the town limits to qualify but must have an address of a Small Town. Any application in an unincorporated town not appearing on the Small Town list but recognized as a community must have Agency approval to be considered a Small Town prior to the preliminary application deadline.*

1) <u>Project Size verses Market Size.</u>

This limitation on the size of properties for municipalities that have populations less than 10,000 people shouldn't mater. Many low density municipalities with fewer than 10,000 people in this state are bedroom communities. Though small in population numbers, the metro adjacent communities dot the North Carolina map and are generally where the workforce folks live. You can't make the generalization that Small Town markets cannot support properties up to 80 units. The fact is these Small Towns and bedroom communities are a natural fit for the affordable housing program.

There are many examples where the market study would state that a Small Town has greater than 10,000 people within 10 miles of the property. A perfect example of this is Waynesville in the Western Region. Waynesville is just less than 10,000 people, but when you combine Waynesville, Hazelton, Clyde and the local unincorporated areas you have a market that can easily support 80 units. The lines between municipalities are blurred since market areas run together in the real world regardless of who's zoning jurisdiction a property is in. The need cannot be defined arbitrarily and many of the Small Towns are fighting a serious lack of affordable housing. Eighty units of affordable housing in the Waynesville market would not even dent the shortage they are currently experiencing. This isn't even taking into account that many folks who work in Asheville and live in the Waynesville market. This market is only 20 miles from the Asheville market and many in the town make the commute every day since they have been priced out the Asheville housing market. To compound this, affluent seniors are moving to this market from other parts of the county and are displacing the traditional affordable rental tenants as rents rise in the Waynesville market.

The challenge for North Carolina is that the Waynesville market is not the only non-metro market experiencing this shortage.

2) <u>Average Credits Per Unit Disadvantage.</u>

Restricting municipalities with populations of less than 10,000 people to properties with fewer units than other competing cities without this restriction (up to 80 units) is handicapping the smaller cities to compete within the allocation process.

The determining factor to getting an allocation in the proposed QAP is being within the average credits per unit when compared to other competing properties within the region. Restricting certain municipalities to have smaller number of units in a complex than the average for the other applications puts them at a distinct disadvantage. This disadvantage can only be overcome with local soft funds, which is a rare thing in the amount needed for smaller markets to have access to when compared to the larger markets. The NCHFA assistance for these Small Town properties is the same for the larger properties in these counties, so that doesn't help this shortage of available funds.

There are fixed development costs such as leasing offices, architectural fees, engineering costs, legal costs that do not scale up and down depending on the number of units. The hard construction costs per unit will be higher since contractors charge more smaller properties since much of the work is the same for a 48 unit property as an 80 unit one. The only way a smaller property can make up the difference from an 80 unit property in the same county is to ask for more credits. Asking for more credits means they will be above the average credits per unit for the competing 80 unit complexes in cities in the same county so they will not get the "average per credits" points and they will lose.

There are also operational costs which don't scale up/down such as audits, advertising, tax returns, property management, and salaries since running an 80 unit and a 48 unit costs the same for the fixed price items. With more operating expenses per unit, the smaller properties support less loan proceeds and therefore needs more credits per units which also puts them at a disadvantage to getting the average credits per unit points.

Either way this rule puts these "Small Town" applications at a distinct disadvantage even though the property in the larger city two miles away will have the same tenant pool.

Suggestion:

This restriction should be removed or language should be added that this restriction only applies if the population within 10 miles of the property is less than 5,000 people. This is easy to show with census data at the preliminary application stage. It would be best to just let the market studies determine feasibility. I have not heard of any concerns that the market study providers are not already addressing this concern so why try to fix something that isn't broken.