August 31, 2018

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 2019 Qualified Allocation Plan

To Whom It May Concern:

Thank you for this opportunity to submit our comments on the draft 2019 North Carolina Qualified Allocation Plan (QAP) to the North Carolina Housing Finance Agency (NCHFA). We would first like to thank NCHFA for maintaining the 2018 QAP largely intact. We felt the increased cost limits and focus on being within the average credit/unit request (rather than the lowest credit/unit request) worked well and are happy to see those allowances carried forward.

There are, however, several concerns we have with proposed changes in the draft 2019 QAP:

- **Section C. Part 1. Maximum Project Development Costs.** We request that NCHFA further increase the vertical cost limit for scoring from $78,000 to $88,000 per unit and remove the upper limit of $90,000 per unit. It is also unclear if the $90,000 upper limit applies as a threshold or scoring item. Construction costs are rising considerably throughout the country and in this environment of rapidly-rising costs it does not make sense for NCHFA to not only not increase the vertical cost limit from last year but to also further impose an absolute upper bound on costs that are outside a developer's control. The final construction bid pricing for 2017-awarded developments (estimated at $95/net square foot) is coming in considerably higher than was estimated last year ($84/net square foot). We have attached several articles that document the recent and dramatic rise in construction costs. NCHFA's focus on imposing unrealistic cost limits risks making many affordable housing development opportunities infeasible in North Carolina.

- **Section C. Part 1. Maximum Project Development Costs.** We request that NCHFA score this section based on vertical cost/net square foot rather than vertical cost/unit in order to equalize the differences in construction costs between smaller and larger units. All construction prices are set on a cost/square foot basis for this reason. Current construction bid pricing is averaging $95/net square foot. NCHFA's current approach of setting a cost limit per unit incentivizes developers to use a unit mix skewed toward smaller unit sizes and fewer 2-bedroom and 3-bedroom units in order to back-in to an average unit cost that meets the current $78,000/unit NCHFA cost limit. This approach is unintentionally leaving families with children underserved across North

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Carolina as fewer 2-bedroom and 3-bedroom units can afford to be built since these units now cost more than $78,000/unit to build.

- **Section F. Part 2. Credits Per Unit Average.** The credits per unit average scoring should remain at 5% of the average for maximum points, rather than the proposed 4% of average. With rising land prices and construction costs, applicants can already be expected to feel greater pressure to control costs so as not to exceed the average credit request. There were a number of applicants in the 2018 funding round that fell outside of the regional 5% average, more than we expected to see. NCHFA already places the underwriting of applicants through severe strain with its low vertical cost limits, pressure for an applicant to self-lower their credit request in order to fall within their estimate of the region's average request amount, and post-award limitations on usable equity if final credit pricing exceeds underwritten equity pricing. Further tightening its cost controls in an environment of rapidly rising construction costs may prove unsustainable for many affordable housing developers and result in fewer of North Carolina's housing needs being met.

Thank you again for this opportunity to submit comments on the draft 2019 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

CONSTRUCTION COSTS SOAR IN MAY, OUTPACING CONTRACTORS' PRICING; NEW TARIFFS THREATEN TO WORSEN COST SQUEEZE, LEAD TO PROJECT DELAYS

SHARETHIS

June 13, 2018

Association Officials Say the Threat of New Tariffs Has Already Led to Dramatic Increases in the Cost of Many Construction Materials, Warn Prices Will Grow As the New Trade Restrictions Take Effect

Construction costs accelerated again in May, with steep increases for a wide range of building and road materials, including many that are subject to tariffs that could drive prices still higher, according to an analysis by the Associated General Contractors of America of new Labor Department data. Association officials say that the construction industry will bear a heavy share of the tariffs' costs.

"Prices jumped at double-digit annual rates for metals, lumber and plywood, and diesel fuel, while ready-mixed concrete, asphalt paving and roofing materials also had unusually large increases," said the association's chief economist, Ken Simonson. "The cost of all goods used in construction rose 8.8 percent from May 2017 to May 2018, the steepest annual increase in nearly seven years."

From May 2017 to May 2018, the producer price index jumped by 17.3 percent for aluminum mill shapes, 13.9 percent for lumber and plywood, 13.8 percent for copper and brass mill shapes and 10.5 percent for steel mill products. Other construction inputs that rose sharply in price from May 2017 to May 2018 include diesel fuel, 44.5 percent; asphalt felts and coatings, 8.9 percent; ready-mixed concrete, 6.5 percent; and paving mixtures and blocks, 5.2 percent.

The U.S. imposed steel and aluminum tariffs on imports from Canada, Mexico and the European Union on May 31. The impact from these tariffs is not reflected yet in the most recent data.

"These increases far outstripped the 4.2 percent rise in the price index for new construction, implying that contractors are facing a severe squeeze on costs for both ongoing and new projects," Simonson added. "Moreover, tariffs imposed on steel and aluminum since this data was collected in mid-May are likely to drive contractors' costs still higher."

The producer price index for inputs to construction industries, goods—a measure of all materials used in construction projects including items consumed by contractors, such as concrete products—rose 2.2 percent in May alone and 8.8 percent over 12 months. The year-over-year increase was the steepest since July 2011, the economist noted.

Even before they have taken effect, construction officials said the tariffs have triggered a surge of orders that mills say exceeds their current capacity, a situation that threatens to produce construction delays, budget problems and possibly cancellations for future construction projects.

“Considering the impact the mere threat of tariffs have had on materials prices and demand, prices are likely to increase further as the new trade restrictions come online,” said Stephen E. Sandherr, the association's chief executive officer. “Forcing contractors to pay more for materials and wait longer to receive them will make construction more costly and slower.”

View producer price indexes for construction.

Contractor Type: Utility Infrastructure Federal/Heavy Highway Building

Industry Priorities: Tax

Construction Cost Increases Are Unrelenting

June 27, 2018 | Dees Stribling, Bisnow National

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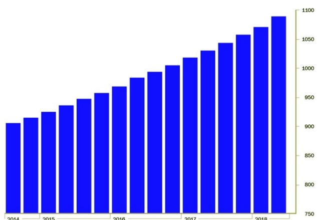
Construction costs are continuing on their upward trajectory, according to Turner Construction Co., whose Turner Building Cost Index rose by 1.68% from Q1 to Q2, and 5.63% since a year ago.



Attilio Rivetti, the Turner vice president responsible for compiling the index, chalked the increases up to the same factors that have been driving construction costs upward since soon after the end of the recession: a tight labor market, plus rising material costs.

According to Turner, construction costs as reflected by the index have been rising steadily since 2014.

The index, which has a value of 1089 in Q2 2018, measures nonresidential U.S. construction costs, taking into account not only labor and material costs, but the impact of competition in the construction market. Though Turner takes a somewhat different methodology than other construction cost indexes, Turner's is roughly in line with other reports.

Rider Levett Bucknall, for instance, recently reported that its construction cost index came in at 187.58 in Q1 2018, up nearly 4% compared with a year earlier.

The Associated General Contractors of America reported recently that construction costs accelerated again in May, up 4.2% compared with a year earlier. That organization said its calculations included steep increases for a wide range of building and road materials, including many that are subject to tariffs that could drive prices still higher.

The rise in costs has contractors busy on two broad fronts: finding labor and using new technologies to cut costs.

Contractors are more active than ever in regional programs to train the next generation of skilled workers, producing a stronger workforce and setting students up with jobs postgraduation, while other companies are investing in training employees internally.

In 2017 the Federal Reserve reported that an increasing number of employers have turned to internal training and development skills programs to address the shortage in construction.

In new tech, WiredScore CEO Arie Barendrecht said at a recent *Bisnow* event that more developers and contractors are planning tech additions early in the development stage, versus waiting until a project is well underway. He said these "digital master plans" for new developments are cost-saving measures.

See Also: Report: The Rate Of Skyscraper Development To More Than Quadruple In Coming Decades

Related Topics: Arie Barendrecht, Rider Levett Bucknall, Construction costs, Associated General Contractors of America, construction labor shortage, Turner Construction Co., Attilio Rivetti