To: Chris Austin – NCHFA

From: Richard Angino

Date: October 15, 2019

Re: Comments on Second Draft of the 2020 NCHFA QAP

I have the following comments based on the discussion at the NC Housing Conference QAP meeting:

1. The construction cost should be increased to an amount higher than the current draft. We have been seeing double digit increases, so adding $2,000 to each level is not reflecting the true increase. A 10% increase in construction costs would be $7,800 for the $78,000 new construction line. We have just completed a 139 unit historic rehab property and our cost certification reflects $102,000 per unit and this was bid two years ago. Our construction folks are saying that it would be $115,000 and that is for the economic efficiencies of doing 139 units. The $99,000 per unit for historic was added a year ago and we are puzzled on where that starting number came from. Adding this cost cap to historic properties is effectively stating that the agency doesn't want any historic properties in the nine percent round since having construction costs below $102,000 would make the affordable credits too low to compete in the average credits points.
2. We in North Carolina are leaving too much fund proceeds on the table related to the debt sizing by requiring the properties to have a 1.15 throughout the loan period. I have spoken is a ton of permanent lenders and none of them are underwriting properties this way. They are generally looking for the 1.0 DCR in year 15. This may not seem like much, but it is forcing the properties to have smaller loans which requires more tax credits to fill the gap. This is especially hurting the lower rent counties since the operating expenses are capped at the same level for metros as small markets. These location trend negative on NOI and therefore support even smaller loans using the QAP underwriting guidelines.
3. When properties are larger than 100 unit, the operating cost should be lower than the current minimums since there is efficiencies of scale. The lenders for these bond deals are underwriting them $500 to $800 less than the minimum which results in very high DCR's which means the properties are not using the full potential of bond financing. Also the allocation fee should be based on the credits not the basis for bond transactions. There is no reason that the fees should be twice as large for bond transactions for the same amount of units. There is no additional state agency costs, so why are the fees double?
4. Shouldn't the rules that Russ outlined at the developer's meeting be added to the Appendix B so we can see the proposed language. We are especially interesting on the now switchbacks as it relates to existing buildings where ramps are needed to meet the ADA rules.