McCormack
Baron
Salazar

October 15, 2021

Mr. Scott Farmer, Executive Director
Ms. Tara Hall, Director of Rental Investment
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, North Carolina 27609

Dear Mr. Farmer and Ms. Hall,

On behalf of the City of Winston-Salem (City), the Housing Authority of Winston-Salem (HAWS) and McCormack Baron Salazar (MBS), we want to thank you for NCHFA's continued support to the Winston-Salem Choice Neighborhoods Project in awarding Phase I 2021 tax credits. We cannot thank NCHFA enough for the Choice Neighborhood Implementation Set-Aside in the 2021 through 2025 Qualified Allocation Plan. This will be a great benefit to the Winston-Salem Choice Neighborhoods Project, and it truly demonstrates your commitment to its success.

MBS appreciates the continuing efforts of the NCHFA staff to dialogue with the development community on the 2022 draft QAP and we especially appreciate many of the changes proposed thus far. While we feel the 2022 draft QAP has improvements, we have a few additional comments and recommendations to make. Please see them below.

As you are aware, the dramatic increase in the cost of construction materials and labor shortages over the past 18 months are having an exceedingly detrimental effect on the market's ability to develop much needed affordable housing. As construction costs have continued to increase over the last year and half, the Winston-Salem Choice Neighborhoods Project's development cost gap has increased. At this time, there is no certainty of when construction costs will level out or decrease. While we are grateful for the Choice Neighborhoods Implementation Set-Aside in the 2022 draft QAP, we have an additional request that we would like to present for consideration. In the 2022 draft QAP, it states that "the Agency will award one new construction project not to exceed $1,000,000 annually and the set aside will remain in each QAP through 2025". **We kindly ask you to please consider allowing the CNI Project to receive a maximum $1,200,000 per project as the LIHTC award cap, consistent with all other North Carolina projects**. The CNI transformation effort is a significant undertaking, and every project expense is necessary to achieve success. As we have outlined in previous communication with you, the total housing development costs across all phases, including site preparation and infrastructure, is approximately $126m. This will result in the new construction of 406 units across 5 phases, including one senior phase in the northeast Winston-Salem Cleveland Avenue Homes neighborhood. This transformation will have an extraordinary impact on the lives of the families and children that live there. The CNI development can support up to $6.5m of tax credits in total. Currently there remains a financing gap of approximately $22m as it relates to site preparation, public infrastructure, and future housing phases. The City is putting in $3m of CDBG and $3m of GO Bonds to help fund site preparation and public infrastructure, and they are working diligently in partnership with HAWS and MBS to identify additional sources of funding.

We commit to utilizing the funds efficiently and within the given timeframe, demonstrating our strong collaborative partnership with NCHFA, HAWS, and the City. MBS appreciates NCHFA's interest to work as a team to move this CNI redevelopment project forward with the most efficient and effective use of HUD's $30 million grant.

While we are appreciative that Line 5 and 6 of Project Development Cost (PDC) per unit has been raised by $4,000, this increased amount does not keep pace with the reality of construction pricing over the last 18 months. The pandemic has greatly impacted affordable housing and more specifically the price of construction. We continue to see spikes in the costs of a wide range of manufactured products due to both costs of raw materials and shortage of production labor. Shortage of production labor has also caused it to be more expensive. Subcontractors are pricing the uncertainty into their bids and even when material costs stabilize, they are still above pre-pandemic levels. The labor market is still tight and delivery schedules unpredictable, and contractors are lengthening construction periods as a result, increasing the cost of overhead accordingly. All materials, including insulation, roofing, windows, plumbing, and HVAC have shown significant increases in cost, but other trades such as electrical have also been impacted, primarily through the cost of metals. The LIHTC program has hard IRS deadlines for completion, which puts LIHTC developers at a disadvantage as compared to market rate developers when adjusting their construction schedules to wait for better pricing. NCHFA's Project Development Costs for new construction maximum limit is $110,000 per unit or $100,000 per unit for public housing redevelopment projects or $89,000 per unit for all other projects, which are virtually impossible to meet, particularly in dense urban areas and in this construction cost environment. We are currently receiving construction quotes in North Carolina from general contractors that range from $130k-$140k per unit for the Construction of New Building Line 5 costs. As we previously noted in our letter to you on May 12, 2021, HUD has recognized the construction cost increases and provided notice PIH 2020-05 which allows a waiver to increase their current Total Development Cost limits by 25-50%. Many State HFA's have started to implement creative solutions to help developers continue to build desperately needed affordable housing in these challenging times. For example, Missouri removed their Total Development Cost limits in their 2021 QAP issued September 1, 2021, and Florida has implemented increases in Total Development Cost limits. Louisiana has provided additional waivers for their Total Development Cost limits, including CNI projects. Georgia and Missouri have allowed applicants to apply for additional tax credits. **We kindly request that NCHFA remove these limits on Line 5 and 6 of the PDC for the 2022 QAP due to the current construction environment. If NCHFA maintains the limits, we recommend the maximum limit is $140,000 per unit, $132,000 per unit for public housing redevelopment projects, or $116,000 per unit for all other projects.**

Regarding the Principal Limits of $2m in tax credits, **we request that the 2022 QAP increase this limit to $2.4m** to align with the maximum tax credits per project of $1.2m. If a Principal

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can receive up to two new construction awards, the two projects can support tax credits of at least $1.2m (in many cases much more) and be competitive with other projects in scoring points, then we believe both projects should have the opportunity to be awarded the $1.2m tax credit award. As noted previously, all projects are faced with rising construction costs and financing resources for affordable housing are scarce. The scoring/points system that NCHFA has established provides the competition needed to award the best projects in the state with tax credits.

We request that NCHFA put back in the Credits Per Unit Average, if the Second Tiebreaker is going to be the project requesting the least amount of federal tax credits per low-income unit based on the Agency's equity needs analysis. We support the efforts to incentivize developers to utilize the credit efficiently. The tax credits are a limited resource that needs to be allocated in manner that increases production of affordable housing units while maintaining financial feasibility of the project. With the Second Tiebreaker being the lowest credit per unit calculation, too many developers might be incentivized to submit unrealistic underwriting to maximize their chances in the competition.

We request that NCHFA consider reducing the requirement of 25% of units to be set-aside for 30% AMI to 10-15% of total units. It is difficult to operate property without rental assistance with 25% of the units at 30% AMI rents. Other state HFA's, for example Missouri and Florida, established a very low-income unit (30%AMI or below) set-aside between 10-15% of the total units in the development.

We request that NCHFA allow 2021 tax credit allocations the same ability to request a new tax credit allocation as the current draft 2022 QAP does for 2019 and 2020 tax credit awards. Due to ongoing construction delays from supply chain issues, labor being difficult to find, etc. the uncertainty of the length of construction is an ongoing problem. The Winston-Salem Choice Neighborhoods Project has a HUD grant expenditure deadline of six years, ending September 30, 2026. If the funds aren't spent by then, they will be returned to HUD, as there is no extension that can be granted. If NCHFA isn't comfortable with allowing all 2021 tax credit awards to request a new tax credit allocation, then we would ask that language be added to the CNI Set-Aside at a minimum, to allow tax credits for CNI projects to be swapped without penalty when applying for a 9% award under the next year's QAP/tax credit allocation cycle.

We request that NCHFA consider removal of the restriction of no market-rate units in a project for RPP awards. When a project has mixed income units that include restricted and unrestricted income, other state HFA's allocate their loan funding based on the restricted income units. This would still allow RPP funding to go toward all restricted low-income units. even if there are market-rate units in the project. The guidelines of the 2019 HUD Choice Neighborhood Initiative (CNI) grant NOFA in which the project received a CNI grant under requires that unrestricted units be available for households at or above 80% AMI.

Once again, our sincerest thanks for your partnership and for the consideration of our comments for the 2022 draft QAP. As always, please do not hesitate to let us know if you have questions or need any additional information.

Sincerely,

Sandra Seals
McCormack Baron Salazar
Senior Vice President, Project Management