

November 8, 2021

MEMO:

TO: Scott Farmer, Executive Director
Tara Hall, Director Multifamily Investments
North Carolina Housing Finance Agency

From: Thomas W. Urquhart

RE 2022 QAP

We wish to make the following comments on North Carolina's 2022 Qualified Allocation Plan (QAP) for Low-Income Housing Tax Credits (LIHTC). These are based on what we believe is the current market conditions for both equity values and construction costs.

Our first suggestion is that the QAP's second tiebreaker of the lowest LIHTC be eliminated in its entirety. Allow the third tiebreaker of the average rent to Area Median Income (AMI) to become the second tiebreaker. This would help in making more units available in Higher Income counties in the missing middle rents affordable at 40% and 50% of AMI units.

If this suggestion is approved then we also would suggest that the QAP be modified to have both minimums and maximums for expenses, contingencies and interest rates. The vacancy rate needs to be fixed at the current minimum of 7%. The additions of maximums will help in limiting the LIHTC/unit for exceptionally competitive projects such as projects that are the only application in an Olmstead Bonus Point county.

Another change that we recommend is to give the North Carolina Housing Finance Agency (NCHFA) the authority to give basis boost up to the maximum allowed under Section 42 of 30% rather than the QAP current limit of 10%. This is to allow the NCHFA the maximum flexibility when it becomes time to allow LIHTC some 10 months from now where the conditions are likely to be much different. We simply do not know what the value of the credits will be to investors, the costs of construction, interest rates and the other costs incurred will be. It may be that the only way we can make most projects work at that time is to allow more than the current maximum NCHFA approved 10% basis boost. This will have the very unfortunate result in many fewer units but that is better than a lot of units that can never be developed because they are not economic and therefore cannot attract enough equity to be developed.