October 26, 2016

Dear Laura:

Thank you for your time on the telephone. We would propose the following modifications to the SCSHFDA's 2017-2018 Qualified Allocation Plan (the "QAP").

During the last several tax credit application cycles, a site needed a minimum score of approximately 33 out of 34.5 possible points in order to be awarded an allocation of tax credits for newly constructed developments. Notably, 3 miles represents the maximum distance measured, so if any of the 11 services are more than 3 miles from the proposed site, no points are awarded to the development for that service. For communities which have all of their public schools situated in one location or do not have one of the services located within them, a location that scores 33 out of 34.5 points does not, and in the instance of Hardeeville (located in an Underserved County), cannot exist. The result is these communities are foreclosed from participating in the government's best and most successful affordable housing program. Two suggestions are: 1) **Limit the number of services from which the distance to the site is measured to 8 or 9 of the 11 listed, with the developer choosing the 8-9 services from the 11 shown. 2) Remove the distance to public schools from the criteria as most, if not all school districts provide complimentary bus service for their students.** These change swill create greater parity among the communities around the state.

Market Study Criteria beginning on page 8 of the QAP - The SCSHFDA currently limits capture rates to 30%. We would suggest that this criterion remain intact, as it is appropriate. However, the level of demand for a proposed affordable housing development as indicated by capture rates should be a <u>significant</u> factor in determining tax credit allocations. **One method for making this factor as consequential as we believe it should be is to award points based upon a meaningful capture rate range and create an additional factor to avoid a scenario with a number of projects achieving the same overall point score.** As an example, modify the ranges as follows: developments with an overall capture rate of 0% to 15% will receive 1 points, while those with more than 15%, but less than 30% will receive none.

Also, under Market Study criteria, the SCSHFDA currently awards 1 point to projects proposed for markets with a vacancy rate of less than 6%, ½ point for projects proposed in markets with a vacancy rate of more than 6% and less than 10% and eliminates from consideration those in markets with more than 10% vacancy. **We would suggest increasing the point spread for each of the ranges from ½ point to a full point and awarding an additional 1-point to developments that are located in extremely strong markets (e.g. 97% or higher LIHTC occupancy rate).** Most experts would agree that a market with 5% to 7% vacancy is in balance. As the occupancy rate increases above 95%, supply and demand are increasingly out of balance in favor of landlords and will likely lead to substantial rent increases

and perhaps deferred maintenance since competition is limited. Allocating tax credits to markets with extremely strong LIHTC occupancy rates will help keep supply/demand and housing affordability in balance.

In the Tiebreaker section of the QAP, the eligible basis per heated square foot tiebreaker should be changed or removed from consideration. Currently, this tiebreaker puts developments located in HUD designated Difficult to Develop Areas (DDA's) and other high costs/high rent markets at a competitive disadvantage with those that aren't. This is exactly the opposite of the intent behind the DDA designation, which is to allocate the appropriate amount of tax credits to developments in these areas. For instance, a developer that is building in a DDA in coastal South Carolina with its high land costs, high concentration of unsuitable soils, additional construction costs (impact glass, etc.) to mitigate for windstorm standards will most certainly have a higher eligible basis per heated square foot than projects in markets without these extraordinary factors.

Along the same lines, the SCSHFDA is proposing a cost cap per unit of $180,000 for garden style apartment developments in the coming year. While I recognize this represents a 3% increase over the cap from last year and 10% over that for the previous two years, construction costs in the coastal markets with which we are familiar have increased by over 30% during the last 3 years alone. In addition, this cap is the same for developments located in major cities and along the coast as it is in rural areas like Allendale, Barnwell or elsewhere across the state of South Carolina. Obviously, developments in coastal markets are subject to higher costs for the reasons mentioned in the above paragraph. **I suggest a separate cost cap for developments located in the coastal region using some other appropriate measure (construction cost index, etc.), which compares and contrasts land, site, and vertical construction costs by region in the state.**

We appreciate the opportunity to present these suggestions for your consideration and would be delighted to answer any follow up questions.

Regards,

David G. Bennett,
President