From: Holly Douglas
Sent: Monday, October 22, 2018 1:34 PM
To: Nicholson, Laura 6-9190
Subject: Comments to draft QAP

Good afternoon Laura,

Please see below comments to the draft QAP. I appreciate your consideration of these and am available at your convenience if further clarification of any point is needed. Please excuse the formatting, started from a word doc and the indentation got wonky with copied to email...

Kind regards,
Holly

1. The site-scoring criteria as proposed makes the site points meaningless. A perfect site score would just be a starting point, and everyone would fall to tie breaker, which is essentially a lottery. Proximity to goods and services should continue to be a vital scoring category. Support the suggestion of Coalition to measure each amenity to the 1/10th mile and eliminate the ½ mile cliffs.

2. Grocery stores, pharmacies, gas station/convenience stores and retail centers often change ownership or flags, and occasionally they do go dark. With site points being essential to funding, allowing developers to use a back-up option prevents an application from falling out due to unforeseen circumstances beyond one’s control.

3. Raising the minimum unit count to 40 from 32 further limits the ability to build new projects in urban infill areas. Smaller tracts of land (2-3 acres) in and around city centers may only accommodate 24-32 units because of density restrictions and parking requirements. Building projects of this size within denser areas in essence can create integrated, mixed-income housing neighborhoods, because you’re putting affordable housing in a location that may otherwise be used for higher-end owner-occupied housing (conventional rental deals don’t make much sense at 32 units, which is why smaller sites often have condos or townhomes vs. multifamily).

The implementation of qualified basis per unit averaging, cost caps or adopting the points proposed by the Affordable Housing Coalition to incentivize developers to manage hard costs would address the issue of smaller deals chewing up an inordinate amount of credits. It is unnecessary to further decrease the size of the deals themselves if you have one of these cost measures in place.

4. Cost caps or points for being at an average qualified eligible basis per unit will address the concern that folks are paying too much for land. Adding the 8% of TDC threshold will keep developers from being able to purchase quality land without site

issues in many markets. Buying inferior sites would potentially just shift the costs to site work from land cost. If cost limits are in place, developers could not overpay for land and still submit a competitive application.

Utilizing the 1/10th mile for site scores would open up many more competitive sites within a scoring area. Currently, in a given area with a concentration of positive Site Amenities, at most maybe 2 sites would score and be developable for multifamily. Developers have been chasing these same parcels for 4 years. Many owners and brokers are aware of the LIHTC appetite so many sites get bid above market price. With scoring at 1/10 mile increments, there would be many more competitive sites, and the land values shouldn't inflate beyond what another non-LIHTC developer would pay.

Allowing developers to pay more than this limit but only underwriting 8% will create bigger gaps in development budgets and basically set up 'two sets of books'—do not think that is desired by any party involved.

5. Developer fees are a funding source for these deals and often the main source of income for all members of the development team/company, not just the individual developer(s) listed in the application. These deals are never cash cows, and the net cash flow shown in pro formas are before payment of $5,500-$8,500 in annual asset management fees to the syndicator. The fee is earned over 2.5-3 years in the best-case scenario, and often a portion is deferred to fill funding gaps in the development budget.

We have deals where the developer fee is still slowly being paid 10+years later and a number of deals where we're having to take phantom income (and pay the taxes) for fees the deal never actually generated, because it was never paid in full. This is by no means unique to our development group. With most developers lucky to get one deal a year in South Carolina,- sometimes getting none in a year but still submitting annually- to further limit this line item when all other costs in the industry are increasing is damaging and unwarranted. The qualified basis average proposed would limit a run-up of basis and TDC that the 15% developer fee is currently tied to.

6. Cities often ground lease city-owned land to developers for "public good" uses, including housing. Cities want housing, but they may not want to be part of the actual development or ownership (and associated risk) for a long period of time, so they partner with the private sector via ground leases. Why shouldn't private developers be permitted to submit an application with a legitimate arms-length long-term ground lease for housing? This does not make sense. As long as lease payment amounts are reasonable (if not below market which is more often the case), anyone should be able to do a ground lease.

7. Support and reiterate the Coalition's comment regarding the point for in-state experience.

8. The current structure of QAP puts everyone at perfect scores and the first tie-breaker, making the first tie-breaker essentially a mandate if you want the chance of

funding. Requiring that all LIHTC developments stay in compliance for 30 years without clear options for rehabilitation of ALL these deals in 15-20 years when they need it could be the set up for LIHTC deals being the next public housing deals in a few decades—underfunded properties with excessive deferred maintenance and no viable exit strategy. Many properties will remain naturally affordable; the percentage of these deals that are actually coming out of the program and converting to market rate are small. This should be a lower tie-breaker and thoughtful election of a developer vs. something everyone has to elect to be competitive.

Further, if the deal cannot sustain for 30 years on paper (vs. 20 as currently proposed), why would we be required to check the box that it will operate as affordable for 30 years? We are actively managing our 15-20 year affordable housing portfolio right now, thus far with our only exit strategy being voluntary re-syndication. However, there are some deals that may need different rent structures, different financing, et cetera. The first tie-breaker is an unnecessary restriction that could have unintended consequences in the future.

9. Underwriting Cost Limits- Some of these just don't make a lot of sense. Some line item suggestions seem high, others are low. Every deal is different. Authority should just have ability to evaluate deals on a case-by-case basis and ask for back-up or detail when costs seem out of line.

Please note that we underwrite the assumptions we will have to pay for third parties twice, which is the reality if a deal is funded since all third parties have to be fully redone per lender/syndicator standards, and this is a cost fully born by development budget.

Also, we are unaware of any syndicator or lender that will accept 4 months of an ORA; 6 months is industry standard.
