October 22, 2018

Laura Nicholson
SCSHFDA
300-C Outlet Pointe Blvd
Columbia, SC 29201

RE: Draft 2019/2020 QAP and Manual

Dear Laura,

I am in receipt of the proposed draft 2019/2020 QAP and Manual and would like to offer my comments to the proposed changes. I am greatly concerned these proposed changes are a deal breaker for many of your existing developers who submit regularly in South Carolina. I believe these changes are very short sighted and the end results will be severe problems for the State Agency 15-20 years down the road. I respectfully request another approach should be considered that benefits the tenants and doesn't restrict construction quality and longevity for the proposed apartments.

QAP

Positive Site Characteristics. Page 4. The Alternate Services were removed. IF the goal is to find sites within specific ranges to services, then an alternate service must be allowed. Human error shouldn't be a reason a property is awarded credits from scoring. Allowing an alternate service also does not cost the site reviewer or the State time or money. If the first service falls into the appropriate mileage on Form 2, the second does not need to be verified.

Positive Site Characteristics. Page 4. Eliminating the ½ mile for scoring seems to be a negative for the tenant (walking to services vs traveling in a car). Why is this being eliminated when developers have continually found better and better locations each year. Applications should be awarded on site and market. The closer all the services, the better. This also will result in all applications with a site score tie. The application process is very costly in time and money to developers. By removing the ½ mile, it opens up many more average sites, therefore, the developer has a harder time preapplication trying to determine whether they will have a competitive edge. Please don't have a site score that is going to tie all applicants as this is basically a lottery.
Allow other services to be scored such as dollar stores, other types of doctors, daycares, etc. Adding in scoring with more services is a better way to distinguish sites, rather than have us all score the same.

Tax Credit Development Experience. Page 9. Please consider keeping the SC Experience points. I do believe there is a learning curve to all States QAP's and knowing South Carolinas and developing quality housing in the State should be considered a privilege. I can say as a consultant; my phone has been ringing for the past couple of weeks with new out of state developers now interested in the program. The State may be potentially be flush with applicants from all over the Country not experienced in the South Carolina program. Additionally, this also allows an extra point(s) in the scoring to help distinguish applicants.

Development Characteristics. Page 11 #9. We are finding in our current properties that residents are not using the scanners and they are costly to upkeep as they are a high maintenance issue. Please consider eliminating this item or reducing the scanner to 1 per development.

Rehab Points. Both page 10 and page 13 list points for Rehab properties that are identical. Please clarify these are not double points.

LPU Set Aside. Page 14. I'd like a clarification on the 5 points for Cities not funded in 2018. Does this mean for the LPU Set Aside ONLY (i.e. Columbia)? Or is this for ANY CITY awarded in 2018 regardless of Set Aside?

Tie Breaker #1. Extended Compliance Period. Page 15. I have reviewed my past proformas from years 2017 and 2018 and they run a negative cash flow around years 19-28. I assume the state is making the assumption that the developer will refinance the debt. However, has it been considered that currently we are at historic lows for interest rates, very little debt will have been paid down on mortgages and a HOME loan balance might still be deferred? Then, this proposal was also built with the lowest construction dollars possible so corners were cut, buildings were stripped to win the award. That means more potential operating expenses down the road with stagnant rents.

Tie Breaker #2 and #3. Cost Per Square Foot. Page 15. This is encouraging the lowest quality of construction. Shouldn't we be encouraging a high quality, green, high sustaining product that will last? Page 13 of the QAP limits construction on a per unit basis. Why be redundant with the tie breaker and this cost limitation? Has the state did an exhaustive analysis on what it currently costs to build? If so, I'd like to see this report. As you are aware, each year our costs are increasing. The initial application does a good job at estimating construction but it is still about a year prior to actual construction commencing. Labor and materials can change easily within that time frame. Limiting construction will only bring the State a lower quality product, smaller units and fewer amenities that does not benefit the tenant. I am very concerned this tie breaker will result in poor housing for tenants' years down the road.

Alternative Tie Breakers

As a tax credit consultant, I don't see where the proposed changes benefit the tenant. We are here to build the best quality housing in the best markets. Most of the revised changes are a limitation to the developer. As I read these changes, I see this simply as the following: all applications will tie in scoring in very average areas, sign up to keep the property affordable for 35 years and the winners will be the developers who strip their product to the most basic level and lowest construction dollars. Twenty years down the road, the State Agency will have properties in crisis and being out performed by new quality construction. Therefore, I'd like to offer these tie breakers as options to consider:

1. Highest site score (including the ½ mile increment). Location, Location, Location. For the past several years developers have managed to find sites in better, safer, higher incomed areas that before.
2. Sites that are NOT within 1 mile of an existing tax credit property funded within the past 5 years. This stops areas from being "over built" that score under the same previous QAP scoring from past years. It also promotes housing in other areas of the State, instead of Phase II and Phase III properties.
3. Lowest capture rate determined by Third Party Market Study. Awards should be based on Site and Market. A low capture rate promotes the developer to build in the highest need areas.

Additional QAP Comments

Please do not set up scoring that promotes a tying situation with multiple applications. Applicants are costly in not only money but also time. Exhaustive work is done to rezone sites, gain local support and financially prepare for application time. Please consider adding services for tenants while helping developers distinguish site scores.

MANUAL

Land Cost limit to 8% of Total Development Costs. Page 16. There are many areas in the State that have high land costs. If this must remain, consider breaking this out by Region.

Developer Fee Limitation of $18,000/Unit. Page 21. Developers take many risks preparing, submitting, building and maintaining these properties. Each individual Owner also personally guarantees these properties. As you are aware, these properties have very little annual cash flow, if any, so the only benefit to a developer is the Developer Fee. Applications take months, some times years to prepare and properties are often not often awarded on the first submittal. Please consider the time and effort that the Developer (and teams) put into each submission and realize in some instances this is over multiple years.

Positive cash flow for 20 years. Page 25. Many proformas I have reviewed over the past couple of years do not cash flow to year 20 in Rural areas. This is a good portion of South Carolina. I can only assume this extension of positive cash flow was added due to the Tie Breaker #1 in the QAP. Please consider, especially in Rural areas that this may not be possible.

Limitations on Soft Costs. Page 25-26. I spoke to many of my third-party providers and discussed the limitations on individual line items. Most thought the amounts were somewhat reasonable but ALL raised the question that not every property/project is equal. A Phase II Environmental Study may need an extensive report which can quickly climb from $9K-$25K. A market analyst and appraiser also shared that depending on their own work load and when the developer contacts them for the reports, costs may fluctuate closer to the approaching deadline. A market analyst also asked me if the $600 review fee that the State conducts during application must be included within the $6000 limitation? If so, they did not think $5400 was accurate (plus most often traveling expenses are added too).

Syndication. Page 26. I would like a clarification on the new language that states “The tax credit award cannot exceed the syndicator’s projected 10-year total capital contribution in the letter of intent at initial application and placed in service application.” Would this limit the total development budget to the Initial Application amount?

Sincerely,

Sarah Niemann

Niemann Consulting, Inc.