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October 24, 2018

Laura Nicholson
Development Director
South Carolina State Housing Finance and Development Authority
300 Outlet Pointe Blvd C,
Columbia, SC 29210

RE: South Carolina State Housing Finance and Development Authority 2019-2020 QAP Comments

Dear Ms. Nicholson:

Throughout the years we have enjoyed partnering with South Carolina State Housing Finance and Development Authority (SCSHFDA) to develop high quality affordable housing developments within the State of South Carolina. We believe that together, we have successfully increased opportunity for all citizens of South Carolina to obtain quality affordable housing. At Woda Cooper Companies, Inc., we believe thoughtful discussion and listening to stakeholders creates better public policy. Therefore, we respectfully submit the following comments about the 2019-2020 Qualified Allocation Plan (QAP).

1. **Positive Site Characteristics:**

Removal of distances less than a ½ mile are measured using electronic tracking data systems.

In our 28 years of experience managing a portfolio of over 12,000 units, we find our residents care most about ½ mile proximity to basic life necessities such as visiting the grocery store so they have access to a variety of fresh food, visiting the pharmacy where they can get their prescriptions filled, visiting the doctor's office for routine check-ups, etc. all of which provide tremendous value to the residents which is the point of affordable housing – linking residents to what benefits them – our clients. Close proximity, specifically ½ mile to all of the above amenities is vital to improving the quality of life for all of the people we serve in the great state of South Carolina and the ½ mile criterion should be reinstated.

2. **Tie Breaker Criteria:**

1. Removal of Developments with the highest site scores

This criterion incentivizes the best real estate deals as those that link residents close to amenities that they will utilize on a daily basis. By removing this as the first tiebreaker, the Authority is disincentivizing developers from going after the best real estate in the state which consists of sites within ½ mile of amenities. Therefore, the first tie breaker of highest site scores and the ½ mile scoring option should be reinstated to enhance the life of the residents.

3. **Tie Breaker Criteria:**

2. As required in each Set-Aside, the Authority will apply cost standards to all developments reaching this tiebreaker based on Total Development Cost less Land Cost per Heated Square Foot (TDCLL/HSF).

As currently constructed, awards will be decided by the above tie breaker. It does not make sense to rely on cost standards given the current state of the financial markets. Currently, interest rates are rising and the reduction in the Corporate Tax Rate due to the Tax Cuts and Jobs Act of 2017 has depressed equity pricing. Both of which already cause developers to take on increased risk and fine tune their numbers to the greatest extent possible. Furthermore, construction costs have risen over the last few years due to the threat of tariffs being enacted by the President, labor shortages on the construction side due to the financial crisis as people have refused to reenter the market place, and hurricanes. Some of these events simply cannot be planned for. Finally, constricting developers on construction costs ultimately hurts construction quality which negatively impacts the residents and all South Carolinians we serve who deserve high quality affordable housing that will last decades.

4. **Targeting Characteristics:**

Letters of positive support from the City Manager, Mayor or County Administrator for the development of affordable housing within their communities.

This scoring criterion should not be eliminated as it will allow developers to gain public support for their proposed developments. Such public support is immensely helpful when going through construction as it reassures the developer that the process will run in a timely fashion without any undue delays. Furthermore, it allows the developer to vet any potential NIMBYs early in the development process. By omitting this scoring criterion, it increases the chances that developers will run into NIMBYs as well as the chances that a developer will have to give tax credits back due to a noncooperative locality.

5. **Underserved Set-Aside Only Points:**

Points for developing in the following counties which have not had a new construction development in the past 4-6 years.

Removing points for underserved counties effectively eliminates certain areas of South Carolina from even participating in the tax credit program. We believe that the tax cred it program was meant for all South Carolinians, not just a select few. As such, the underserved set-aside criteria should be added back to the QAP and given the opportunity to participate in the program and take advantage of such a valuable resource.

6. **Development Size:**

Applications for new construction developments consisting of fewer than 40 affordable units or a rehabilitation development consisting of fewer than 24 affordable units will not be considered in any funding set-aside for the competitive tax credit funding cycle.

Including a minimum number of units for a development to be considered in any funding set-aside for the competitive tax credit funding cycle will eliminate certain markets from even participating in the program. Doing so red lines the state and does not allow the Authority to achieve an equitable balance of geographic distribution throughout the state. This approach does not allow all South Carolina properties to compete on an equal basis. Essentially, you will be leaving a number of South Carolinians without a chance to obtain safe, decent and affordable housing that is desperately needed for all people. We respectfully request the Authority remove this language and allow deals to compete based on need and market and not man-made limitations.

7. **Large Population Urban Set-Aside Only Points:**

Points will be awarded to Cities not funded in the 2018 tax credit funding cycle. 5 points

While we understand the Authority is trying to achieve geographic distribution, set-asides for Cities not funded in the 2018 tax credit funding cycle allows underserved Cities to circumvent the process of choosing the best real estate for development.

The low-income housing tax credit is a scarce resource that assists in providing much needed affordable housing in all of South Carolina. Special interest groups should not be given an unfair advantage or preference against other areas of the state. In addition, we urge the Authority to focus on linking residents to amenities which are critical to their daily lives.

8. **Tax Credit Development Experience:**

Owners (which include individual(s), corporation(s), or in the case of a limited partnership, the general partners(s)) who have previously developed LIHTC developments in South Carolina between January 1, 2009 and February 1, 2017.

The point for previous experience in South Carolina should not be eliminated. Owners with previous experience in South Carolina are accustomed to the rules, regulations, and process that the Authority has in place. This familiarity reassures the Authority that tax credit deals will be on schedule and seen all the way through to completion. Eliminating this point will encourage owners without prior experience in South Carolina to apply, and therefore, increase the risk a deal is not completed. Since tax credits are such a scarce resource, the Authority should not jeopardize such a finite resource that brings tremendous economic investment to communities and increases the quality of life of South Carolinians.

9. **Financial Characteristics:**

Total Development Cost/Unit Cap

The total development cost per unit caps do not accurately reflect industry trends of rising construction costs. For example, the cost limit for townhomes is being proposed to decrease by $5,000 from the amount in the 2017-2018 QAP. Construction costs have risen drastically since the 2017-2018 was published due to tariffs and labor shortages. It will not be financially feasible to build quality, safe housing under the limits prescribed in the new QAP.

Instead of proposing total development cost caps, SCSHFDA should focus instead on the amount of credits allocated to deals to ensure this scarce resource extends as far as possible. Additional costs covered by non-SCSHFDA resources which benefit tenants should not be seen as detrimental.

If SCSHFDA is unwilling to do away with the total development cost per unit caps, we propose a 15% increase over the 2017-2018 QAP's limits.

10. **Contractor Cost Limits:**

If there is an identity of interest between the Applicant and General Contractor, as defined in the LIHTC Manual, the Contractor Profit and Overhead is limited to six percent (6%) of the Hard Construction Costs

This limitation should be removed to not penalize developers with related party contractors. A fully integrated development, construction, and management company allows for greater efficiency and more internal control over the process. This can result in lower costs and quicker deal execution. Therefore, this relationship should be encouraged, and not punished with a lower overhead and profit limit.

11. **Permanent Financing:**

The Authority will underwrite all first mortgage debt at the lesser of six and a half percent (6.5%) or the rate provided in the lender letter

The 6.5% interest rate limitation on permanent debt does not accurately reflect market conditions. Since the publication of the 2017-2018 QAP, interest rates have risen drastically. Specifically, the US 10-year treasury has risen 100 basis points, and the WSJ prime rate has risen 175 basis points. Rates are expected to continue to rise over the next year and a half.

Developers have an incentive to negotiate low interest rates on permanent debt as that can lead to larger mortgages. Unfortunately, the market is causing this to be increasingly difficult. It is not in the state's best interest for deals to be underwritten with narrow margins for interest rate risk. Therefore, we request that the minimum interest rate be increased to 7.5%.

Thank you for your consideration of the above comments and suggested changes to the upcoming 2019-2020 QAP. We greatly value this opportunity to provide input that will better serve the residents of the State of South Carolina. Please do not hesitate to call me for clarifications or additional input.

Sincerely,

WODA COOPER COMPANIES, INC.

Thomas S. Simons, Senior Vice President