

[REDACTED]

From: Holly Douglas [REDACTED]
Sent: Tuesday, October 29, 2019 3:54 PM
To: McMillan, Chris 6-9196
Cc: Martinez, Sara 6-4144; David Douglas
Subject: Comments to proposed final QAP

Good afternoon Chris,

Please accept the following as comments to the proposed final draft of the QAP. These are follow-ups to the comments made to the initial draft.

1. The removal of the basis boost for all deals with exception of rehabs leaves large gaps in funding that is backfilled in other states by a state tax credit South Carolina does not have. The strain this puts on the deal *in addition to:*

- awarding points for being 10% below the average
- Incentive to ask for as few credits as possible (tie breaker #1)
- Directive to "maximize debt"
- Incentive to essentially misrepresent syndication rates outside of Charleston and Greenville (because 93 cents can be attained on a non-binding LOI anywhere, but will only actually be paid in certain markets)
- Major reduction in allowable developer fee, which is often utilized to fill funding gaps, esp. in rehabs and bond deals
- ETC....

All fundamentally incentive, or mandate, applicants to value engineer projects in ways that would undoubtedly compromise quality of construction to be competitive.

2. At the same time as #1, Applicants are required to commit to 35 years of affordability for a deal that has been underwritten to razor thin standards (higher must-pay debt, lower operating reserves, pro formas that must rely on max rents that never taper to maintain property DSC, etc).

This is undoubtedly a recipe for failure in many cases. What is the plan to ensure ALL of these value engineered, optimistically underwritten communities are maintained to acceptable standards for that period of time, if the only viable option for rehab in 20 years is hoping for a 9% rehab?

How many markets in South Carolina can demonstrate 2% rent growth consistently over the last 15 years? How many portfolios have truly been able to hold operating expenses to 3% annual increase y/y for all properties? SCSFHDA has this data I'm sure; has it been studied in advance of proposing such drastic programmatic changes?

3. The location guidance is largely in response to the Needs Assessment (which references the need for housing of the lowest income persons/most rent-burdened populations), but the underwriting all but mandates all rents are maximized, making the housing less attainable for those that need it the most. This seems like a further contradiction between the apparent underwriting objectives and stated housing policies/goals.

4. As a follow-up to comments made by the AHC and numerous management companies, I would like to know which management companies would qualify under guidelines for approved management companies in the new

QAP? Two vacant units puts you under the occupancy threshold for smaller deals. 95% collections is typical but not always assured given the tenant population. There are legitimate reasons an invoice may not be paid, including non-performance by a vendor.

We have spoken with four separate management companies, and not one meets this standard without exception. So, please advise which management companies should be proposed going forward, and how these new standards will be monitored/enforced, as any diligent investor will mandate adherence to these standards given their inclusion in the QAP.

5. Similarly, it is frankly impossible that there is a developer (LIHTC or otherwise) with an existing portfolio in *any* state that has not had an instance of "deferred maintenance" in the past ten years. I do not understand how this can be monitored, evaluated and enforced fairly as a benchmark as written. The language needs to be qualified and clarified, and/or a cure period should be proposed.

The approach taken in Virginia to approve developers to submit LIHTC applications would satisfy what I think is trying to be accomplished with the Applicant Qualification language.

6. What is the intent of putting such an emphasis/incentive on folks requesting HOME funds? Again, I feel the underwriting standards taken in consideration of one another are excessive; however, if you keep *half* of the new standards referenced in #1 above in place, majority of Applicants will not have a choice but to ask for HOME. Most SC municipalities don't have soft funding, we have no state tax credit, and you've taken the basis boost away for most new construction deals. The Authority has already created the incentive to ask for HOME. The new HOME points are completely unnecessary.

7. Why would the Authority cap rehab developer fees at \$500k? Almost all rehabs close with a deferral. Rehabs are more volatile and complicated, and they require the exact same amount of time and effort, if not more. What is the intent/rationale?

8. There are myriad reasons that density is not maximized. Local green space requirements, building type, parking requirements that vary based on targeting, a site's overall buildability, etc all factor into the number of units that can be proposed on a parcel. It's understood by everyone that larger properties generally operate more efficiently over the long-term, so there is no reason developers would arbitrarily reduce the number of proposed units for a project. The Authority should keep these factors in mind when evaluating whether a site is "maximizing efficiency".

9. We feel the reconsideration process unduly benefits the Authority and lacks transparency to the point confidence in the SC LIHTC program has been undermined. The new draft does little to address the concerns or issues that came about in the 2019 cycle. We fail to understand why a more equitable alternative for reconsideration can't be put forth.

Ultimately, what we find most disheartening is a sea change in the South Carolina affordable housing program as a whole from one focused on construction of quality communities to one that seems solely focused on the quantity and volume. We firmly believe this is bad policy long-term and contrary to the ultimate objectives and standards South Carolina Housing has championed for so long. We can look at its portfolio going back 20+ years and pretty easily identify the years that a particular QAP provided points for excessive value engineering or overly aggressive underwriting in a market that didn't support it-- and we chased those points down the rabbit hole and into financial straits. We've been fortunate to have the means to write checks to fill funding gaps when the proforma was not realized- and write the checks due from past partners when they could not. We've learned from our mistakes and do not plan to make the same ones again, regardless of whether a particular cycle provides inordinate incentives to do so. America is near the end of the longest bull market in US history with some version of a recession assured in the next few years-- and another during some other period after that

while these deals are still under restrictions. This QAP has left no room for error and no room to breathe on several fronts.

The fact that other states have enacted such severe standards does not legitimize the practice. As an example, there is already a clear understanding between developers and investors on the difference in quality between a North Carolina and South Carolina LIHTC community over the past few years. These differences will undoubtedly become even more pronounced as the developments funded in the "race to the bottom" years of 2013-2017 continue to age. NC has since largely backed off this, no longer offering incentives to shoot below the average as SC is now proposing. With all due respect, South Carolina should be able to establish its own best practices for housing creation without (seemingly arbitrarily) cherry-picking concepts from other state's QAPs-- or at a minimum consider the specific provisions cherry-picked in the greater context of one another and in light of SC's resources (ie the size of our local markets, the availability of soft funding, etc).

We simply do not understand why SCSFHDA feels compelled to put forth so many sweeping changes at one time versus gradual, thoughtful amendments to a program that has such a near sterling track record for the quality of communities it has historically produced. You cannot expect to achieve the same quality within the parameters of the 2020 QAP, on the front end or long-term. These measured combined compromise the integrity of affordable housing in our state.

We respectfully request that the Authority evaluate the above-mentioned points and those put forth by the Affordable Housing Coalition prior to finalizing this year's QAP.

Kind regards,
Holly Douglas
Holliday Development, and on behalf of Douglas Development

This email has been scanned for spam and viruses by Proofpoint Essentials. Click [here](#) to report this email as spam.