August 31, 2015

North Carolina Housing Finance Agency
Attention: Rental Help
P.O. Box 28066
Raleigh, NC 27611-8066

via Email (rentalhelp@nchfa.com)

RE: Comments on Draft 2016 Qualified Allocation Plan

To Whom It May Concern:

Thank you for this opportunity to submit our comments on the draft 2016 North Carolina Qualified Allocation Plan (QAP) to the North Carolina Housing Finance Agency (NCHFA). The current QAP rules do provide for a clear selection methodology and place reasonable cost and workload requirements on applicants to prepare a funding application. However, the central emphasis placed on minimizing credits/unit combined with NCHFA's policy of recapturing funds post-award place severe financial burdens on funded developments that must be changed going forward.

We recommend a shift toward more desirable site scoring factors and away from lowest cost as the deciding factor in application awards. Equity gained from higher equity pricing post award should also be fully usable by the applicant/owner as construction costs continue to increase across the country. In this current cost environment, funded applications need all the equity they can raise to deal with rising construction costs.

Site Location Factors. The number of nearby amenities required in the current QAP is more than sufficient to ensure adequate services are available near a development site. If anything, the types of amenities required should be reduced and the distance further increased to two miles. Most residents will drive, not walk, and the difference in a vehicle between one mile and two miles is negligible. Loosening the site location factors will allow for cheaper land cost as it is proximity to these same amenities that drives up the asking price. With lower land costs, the overall credits/unit requests of applicants will go down.

Beyond amenities, residents are also interested in locating in higher income areas, better school ratings, and proximity to jobs. Each of these factors can be measured and mapped at a census tract level and incorporated into the site location score. Adding one or more these factors will shift the focus from locating in expensive retail corridors to locating in higher quality neighborhoods.

Underserved Markets. Another avenue to shift awards toward more desirable locations is to allocate points for underserved communities based on municipal boundaries. Some larger communities in North Carolina receive an allocation every year while many smaller communities are frequently passed over. Adding points for underserved markets would both meet the housing needs of overlooked markets and better diversify housing investment across the state. While some states award underserved market points for locating in communities that have never received an award, we would recommend awarding these points if a community had not received an award in the past five years. That five-year timeframe gives enough room for previous projects to build, lease up, and stabilize without driving applicants too far away from population centers that had been overlooked for a longer period of time due to low market demand.

Cost Control. Given that most applicants now achieve the same score, the credits/unit tie breaker has become the central driver for determining awards. This tie breaker, therefore, puts significant pressure on applicants to drive down construction costs wherever possible. It seems redundant, then, to also cap the vertical construction cost at a specific amount (currently $66,000/unit). If an applicant is higher than their peers, they simply won't be funded. Further, capping costs on a per unit basis doesn't account for differences in unit size or unit mix. Most contractors estimate costs based on cost per square foot and not cost per unit.

We recommend the credits/unit tie breaker be removed and costs be controlled through points awarded for applicants falling within 10% of the average total construction costs per square foot (vertical plus site work) among applicants. Such a metric would level the playing field by accounting for differences in unit sizes as well as wide variations in site work cost.

Developer Experience. We are aware that some members of the North Carolina Affordable Housing Coalition are advocating additional barriers to participation for North Carolina developers. Specifically, a recommendation has been put forward that a North Carolina-based developer must participate in the financial guarantees for the application to be awarded points for North Carolina experience. Such a move would only benefit large North Carolina developers and would harm their smaller competitors who would not be able to meet the financial requirements or be willing to assume the substantial risks involved with providing guarantees. Those larger developers would then have even less incentive to innovate with competition further reduced. North Carolina's residents would ultimately suffer with less housing choice. The current requirement already protects the greatest number of North Carolina developers. We recommend keeping the current developer experience requirements unchanged.

Contractor Experience. The use of North Carolina-based contractors often forces development teams to partner with unfamiliar builders. While this current provision does ensure more work for local contractors it also can cause cost and schedule overruns for funded projects that cause harm to the long-term viability of the development. Most sub-contractors hired would be local to the development area anyway on account of their costs. We would recommend either removing this requirement or replacing it with a requirement to award at least 50% of the sub-contractor work to North Carolina suppliers or contractors that would still enable the use of a more experienced out-of-state General Contractor who could better keep an affordable housing development on schedule and on budget.

Thank you again for this opportunity to submit comments on the draft 2016 QAP. We appreciate all the hard work of NCHFA in developing quality affordable housing in North Carolina and are proud to be a part of the process.

Sincerely,

Sean M Brady

Sean M. Brady, LEED AP
Vice President of Development