

Tara Hall

From: Paul Baalman <pbaalman@csere.com>
Sent: Wednesday, September 25, 2024 1:28 PM
To: RentalHelp; Tara Hall
Subject: EXTERNAL: Comments on the Draft 2025 QAP

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First, we would like to thank the entire NCHFA team for all you do for affordable housing across North Carolina, and for being a great partner for the development community. We appreciate the opportunity to provide comments on the Draft 2025 QAP.

We have reviewed the QAP comments submitted to-date and offer our support for the following items.

- **Development Limit:** We agree that the \$1.3M development limit is insufficient given today's costs and will result in very small developments that will have operational challenges in the future and/or a reduction in construction quality. We support a limit of \$1.5M.
- **Principal Limit:** We agree that a principal limit of \$2M effectively restricts a principal to only one award. We recommend the limit be set to two times the development limit.
- **Cost Limit:** We agree that the \$130K cost limit does not reflect actual construction costs today and recommend removing the limit.
- **Development Fee:** We agree that increasing the development fee limit to a percentage of total development costs like many states do would assist in making developments financially feasible.
- **Timing of Final QAP:** We agree that not having final QAP site scoring criteria until late in a year when applications are due the following January is extremely problematic for developers. We recommend that the site scoring criteria in a QAP be applied to applications one year forward (e.g., site scoring criteria in the final 2025 QAP should be applied for 2026 applications, not 2025 applications).
- **Project Plan Requirements:** We agree that it is not industry practice to complete final detailed site lighting and fire/ sprinkler alarm drawings prior to financial closing, but to complete post closing. Thus, requiring these to be submitted prior to closing for the NCHFA to perform a review of the plans is problematic for developers.
- **Voucher Rents in Underwriting:** We agree that it is problematic for developers that the NCHFA does not use the agreed voucher rents in underwriting until final HUD approval is obtained. We believe a Housing Authority's commitment to provide voucher's is similar to a lender or investors' funding commitment at the time of the final LIHTC application and should similarly be relied upon for underwriting.

We have two additional comments to the Draft 2025 QAP.

- **NCHFA Approval of All Rent Increases:** We understand and appreciate the NCHFA's objective to ensure unusually large rent increases not occur without NCHFA concurrence. But, for properties without NCHFA funding we recommend that NCHFA approval only be required for lease renewals where rents will increase by more than 10%. New leases should not be subject to NCHFA approval but would obviously need to comply with all applicable rent limits for the development. We believe this approach would meet the NCHFA's objectives

without being needlessly burdensome for the both the NCHFA and developers/ property managers. We also believe the need to have all rents approved by the NCHFA would be a concern for investors and lenders and result in more conservative underwriting and pricing, impacting the financial feasibility for new developments.

- **Appendix B:** We appreciate the sincere desire of NCHFA staff to ensure the quality and safety of developments through the appendix B requirements and know the development community also wants to ensure the quality and safety of new developments. However, we believe there are Appendix B requirements that increase the cost of affordable housing developments relative to market rate developments and do not provide commensurate value in terms of quality and safety. For example, the minimum square footage requirements are larger than the square footage of most new market rate units in urban markets. We recommend the NCHFA conduct a survey of developers to solicit their input on which requirements in Appendix B increase development costs above comparable market rate developments and that they would recommend changing. Once the NCHFA has consolidated the survey responses, the NCHFA should host developer workshops to discuss the top recommendations and work to incorporate them into the 2026 QAP. We believe this would help improve the financial feasibility of developments going forward without sacrificing quality or safety.

Thank you,

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