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August 16, 2024

North Carolina Housing Finance Agency **_Via E-mail – rentalhelp@nchfa.com_**
Attn: Tara Hall, Manager of Rental Development
3508 Bush Street
Raleigh, NC 27609

Ms. Hall:

Thank you for the opportunity to provide comments for consideration in the North Carolina Housing Finance Agency's Draft 2025 QAP.

We continue to appreciate the leadership of the Agency and ask you to consider the comments below:

1. Comment: Eliminate the 200-unit maximum unit count limit on bond projects – **2024 QAP, Sec. IV.E.3.**

   Reasoning: The Agency's current cap of 200 units on bond projects holds back the development of projects that can rapidly help meet the state's housing needs and are also financially feasible. North Carolina has a shortage of over 200,000 affordable rental homes and bond projects are the most efficient way for the state to meet this need. Bond projects can make efficient use of tax-exempt bonds and tax credits to produce larger numbers of affordable homes in a single project. In areas where large projects may exceed market needs, we would encourage the Agency to lift the cap, but develop a system for determining if a project's size is indeed viable in the market. A 200-unit cap across the board, however, is the difference between a developer adding 250 affordable homes or withdrawing a project from consideration entirely.

2. Comment: Consider increasing the developer fee and increasing the maximum allowable percentage of deferred developer fee – **2024 QAP, Sec. VI.B.5.**

   Reasoning: Deferred developer fees are a much-needed financing gap for affordable housing to be feasible. Increasing the developer fee while also increasing the amount that can be deferred will help fund more projects across the state. The current maximum deferment of 50% holds back shovel-ready projects that would be financially feasible if they could only defer additional fee. The Agency can create an appropriate check and balance to prevent excessive pay-outs by requiring the fee must be deferred over a certain amount. We would also encourage the Agency to remove the penalty for deferring more than 25% of their developer fee. This penalty creates another obstacle for housing development. Allowing a higher fee and deferral helps generate tax credit equity to bring more federal resources to the state, makes more developments feasible, and creates more affordable homes for the state's residents—all at no added cost to the state.

3. Comment: Consider raising or eliminating the maximum project development costs – **2024 QAP, Sec. IV.C.1.**

   Reasoning: While construction costs have stabilized a bit, they remain sticky at high pricing. Penalizing applications for higher costs is a hurdle for affordable housing in the current construction environment. As written, the cost cap on project development costs would limit a developer's ability to adequately source and fund projects without facing a penalty. This limit will lead to developers either choosing not to submit shovel-ready projects or cutting construction costs in units and amenities, impacting resident experience. The advantage of having a well-constructed building that can withstand the test of time is a worthy investment of the state's resources.

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4. Comment: Clarify how the priority list is applied for awarding allocations to tax-exempt bond projects and raise the priority of new construction projects – **2024 QAP, Sec. V.A.**

   Reasoning: North Carolina has an urgent need for more affordable housing to be added to its existing stock. Ranking new construction projects at the end of the bond allocation priority list will slow down the construction of new units to meet the state's housing needs. The Agency should consider raising the priority of new construction in bond allocation or creating a specific category of new construction (such as senior housing) that is placed higher on the list.

5. Comment: Clarify that tax-exempt bond projects can use the rents in effect at the time of their pre-application – **2024 QAP, Sec. IV.2.d.**

   Reasoning: Currently, the QAP says market studies must use prior years rents unless rent and income limits are published before the 9% preliminary application deadline in January. The section does not distinguish requirements between 9% and 4% bond projects. The Agency also accepts applications for 4% bond projects later in the year after January. We would encourage the Agency to clarify that 4% bond projects can use published rent and income limits—even if they are published after January in the year—if they are available ahead of subsequent preliminary bond application submittal.

6. Comment: Consider linking caps on increases in total uses to investor credit caps limits – **2024 QAP, Sec. VII.A**

   Reasoning: Currently, the post-award procedures require any project to ask for Agency approval for increases in total uses by 2% or more. Given the inflationary environment and sticky construction pricing, this 2% limit means most projects likely need to solicit approval for an increase in uses. We would encourage the Agency to link their credit cap to the standard used by investors, 10% of LIHTC equity. This maintains a check and balance for the Agency while also accounting for the economic pressure affordable housing construction still faces.

7. Comment: Consider removing the waiver requirements for projects that adhere to the local mandated parking requirements – **Appendix B, Sec. V.F.3.**

   Reasoning: We believe municipalities understand what parking requirements best serve their area. While current guidelines allow for a waiver to use local parking requirements when they are below the Agency's requirements, removing the need for a waiver entirely would be one less threshold for the Agency to enforce. Allowing parking requirements to be determined by the developer and the municipality by default would increase efficiency and remove a hurdle for affordable housing moving forward.

Thank you for your consideration of these comments. We look forward to our continued partnership with the North Carolina Housing Finance Agency.

Sincerely,

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