ELMINGTON
CAPITAL

October 4, 2024

<u>**Via Email**</u>
North Carolina Housing Finance Agency
Attn: Tara Hall
tshall@nchfa.com

Re: 2025 QAP 1st Draft – Comments for tax exempt / 4% LIHTC tax exempt bond projects

Ms. Hall,

Thank you for the opportunity to provide our comments to the 2025 QAP 1st draft. Based on our activity within the state and our review of the 2025 Draft QAP, we propose the below changes for your consideration. <u>Please note that below changes are only specific to tax exempt bond projects and are not being proposed for the 9% competitive round:</u>

NSPIRE - The NSPIRE requirements and regulations make sense for new projects applied for under the 2025 QAP and going forward; however, for projects applied for and funded under previous QAP's, we would like NCHFA to consider not requiring the NSPIRE standards and upgrades, unless NCHFA plans to set aside funds to assist developers in making NSPIRE compliant improvements to projects.

Affordable projects have limits on income instituted by HUD and furthered by NCHFA, but still must continue to withstand inflationary pressures. But not have funds set aside for these improvements, and limited additional cash flow to make such improvements, the NSPIRE upgrades puts additional stress on projects to maintain project physical and operational quality while also meeting the debt service coverage requirements imposed and tested by lenders and investors throughout the life of the project.

For those projects that are not utilizing NCHFA sources other than private activity tax exempt bonds and 4% LIHTC's (i.e. not using NCHFA soft funds or other funding programs that establish rent levels), we would like NCHFA to consider allowing for rents at lease-up that are consistent with the unit type/set-aside HUD published rents for the year in which lease-up occurs without requiring a Project Update, market study, or other approvals from NCHFA.

Additionally, and more importantly, we would like NCHFA to consider removing the newly proposed requirement that the Agency must approve all rent increases through the extended use period for all Agency funded and/or tax credit projects.

We understand NCHFA's desire to prevent unusually large rent increases. Another developer suggested making approval of an increase above 10% from the previous year as a compromise, which Elmington would support. The purpose of this request is to allow projects to address inflation and operational cost increases without putting undue operational stress on the projects.

- Regardless of highly volatile or relatively stable inflationary periods, operational cost increases will occur from preliminary application to completion of a project, just as they will also occur during the 15-yr permanent phase (the 15-yr cash flow underwriting assumption of 3% annual costs increases reflects this fact). Requiring Project Updates or other approval processes puts additional stress on NCHFA staff, and to the extent the requests are not approved as submitted, puts additional stress on projects to maintain project physical and operational quality while also meeting the debt service coverage requirements imposed and tested by lenders and investors throughout the life of the project.
- HUD publishes AMI's and rent limits for purposes of determining what the maximum allowable rent limits should be for a given county, which include CPI and cost factors, that serves to ensure proper resident rent levels are established. Project owners and management companies are highly incentivized to maintain compliance with these standards via numerous economic and regulatory requirements.
- As currently written, the uncertainty of rent increase approvals during the extended use period will create concern and hesitation for lenders and investors to invest in a long term economic feasibility of a project. The 10% threshold noted above would alleviate that stress for lenders and investors.

Section 8 Project-Based Rental Assistance: We ask that NCHFA consider allowing developers to underwrite the full rent levels for Section 8 Project-Based Rental Assistance, including amounts above LIHTC maximum rents.

The use of Project-Based Rental Assistance is a common approach developers use to support additional debt to balance sources and uses and make projects economically feasible, while also providing housing to very low income households.

The US Congress has maintained a consistent, bipartisan commitment to fully funding the PBRA program for many decades now, and properties should be able to underwrite full PBRA rents to maximize available proceeds to support construction/renovation scope.

Given a 42m is required to submit Subsidy Layering Reviews to HUD, which is required before obtaining an AHAP contract, a potential safeguard to ensure projects are not over-leveraged would be the requirement that an AHAP is submitted prior to closing.

Thank you for your consideration.

Joe Horowitz
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CC: Hunter Nelson, Managing Member, Elmington Capital