October 11, 2024

Tara Hall
North Carolina Housing Finance Agency
3508 Bush Street
Raleigh, NC 27609

Dear Ms. Hall:

Thank you for the opportunity to contribute this feedback, which we hope will inform the development of the State of North Carolina's 2025 Draft Qualified Allocation Plan. We look forward to collaborating with the North Carolina Housing Finance Agency (NCHFA / the Agency) as you develop your affordable housing priorities. Lincoln Avenue Communities (LAC) is a mission-driven affordable housing developer currently active in twenty-seven states. In North Carolina, we are focused on developing ground-up new construction affordable housing and preservation of existing affordable housing using a combination of 9 percent LIHTCs and 4 percent LIHTCs with tax-exempt bonds (TEBs). The following recommendations include several additional comments from the version we submitted on October 4 – we request NCSHFA substitute this letter for our earlier submission.

Developer Fees [Highest Priority Comment]

2025 QAP, Pg. 31

<u>New Construction Projects</u>

We appreciate that NCHFA has increased the per unit developer fee limit for new construction projects from $22,500 to $23,000 per unit in the draft 2025 QAP. This is a move in the right direction; however, we urge NCHFA to consider a further increase, at least for projects financed using 4% LIHTCs and TEBs to improve transactional feasibility.

Most states permit a flat developer fee percentage of at least 15% and many states in the region have higher developer fees for 4% transactions.[1] The additional eligible basis generated results in an additional increment of federal tax credit equity that helps fill financing gaps and offsets rising construction costs, inflationary interest rates and operating expenses. If NCHFA wishes to continue have a hard dollar per unit developer fee limit, we suggest raising it to at least $26,000 per unit for new construction projects.

<u>Rehabilitation Projects</u>

As NCHFA considers further updates to the QAP, we strongly encourage the agency to follow the precedent it adopted in 2024 for new construction projects and increase the allowable developer fee for rehabilitation projects in 2025. The methodology for calculating developer fees for rehabilitation projects

[1] Maximum Developer Fee Policies for 4% LIHTC transactions:
25% - Tennessee
20% - Kentucky, Ohio, North Dakota, Oklahoma, Wisconsin
19% - Arizona
18% - Florida, Iowa, West Virginia

results in a below market developer fee, fully omitting acquisition basis as well as other costs in eligible basis (e.g., GC overhead, GC profit, PMP, developer fees). In effect, developer fees can only be generated by hard construction costs. While the percentage *appears* to be high (28.5%), when normalized to include excluded eligible basis is below market and results making many affordable housing preservation opportunities financially infeasible. This change is urgently needed to preserve the first generation of LIHTC properties that are now nearing the end of their thirty-year extended-use period and are at risk of converting to market.

Development Experience

2025 QAP Pg. 20

Per the 2025 Draft QAP, to be eligible for a 9% LIHTCs, at least one Principal must have successfully developed, operated, and maintained in compliance either one 9% LIHTC Project in North Carolina or six separate 9% tax credit projects totaling more than 200 units. The projects must have been placed in service between 1/1/2017 and 1/1/2024. The principal must become a GP or managing member of the ownership entity, remain responsible for overseeing the project and operation for at least two years.

We recognize that successful LIHTC development experience is one of the most positive indicators for future success of a development team. We believe that positive development experience with the 4% LIHTC program should be given equal footing with 9% LIHTC experience. In our experience, 4% LIHTC transactions tend to be more challenging than 9% LIHTC developments. This is due to the typical scale of 4% LIHTC projects, the increased leverage, and the additional steps necessary to secure private activity bonds such as the TEFRA hearing, bond inducement and the placement of the bonds.

Under the current QAP policy, successful 4% LIHTC experience is not recognized when considering a 9% LIHTC applicants experience. We believe this creates an unnecessary impediment from attracting the qualified and experienced 4% LIHTC developers from participating in the 9% program and that limits capital investment in North Carolina, discourages diversity within the affordable housing ecosystem and concentrates risk amongst a small pool of developers. As fiduciaries of the state limited affordable housing resources, NCHFA should further develop experience policies that encourage the nation's most experienced and best-capitalized affordable housing developers to invest in North Carolina. Likewise, as industry stewards with a long-term outlook, it should also develop experience policies that welcome and assist next generation, emerging and MWB development companies to invest in the state.

In addition to the points made above, there are several additional flaws with the experience policy as currently administered:

- It is very difficult for both experienced developers that may lack *local* tax credit experience as well as emerging developers of color from gaining the necessary experience to compete.
- It sets too high a bar for out of state experience.
- It discounts experience with the 4% LIHTCs; which, if anything is more valuable experience given the scale and difficulty of the transactions, compared to 9% transactions.
- It discounts relevant experience that professionals may have earned (either in state and/or out of state) performing the function of the developer if they were not principal of the company. An

individual may have led the successful development of thousands of units of affordable housing as an employee of another firm and receive no credit under the current policy if they switch firms.
- It conflates development experience with guarantor capacity. While both are important indicators of success, they should be evaluated.

We recommend that NCHFA consider the following policy changes in its QAP:

- Treat in-state and out-of-state experience with parity. If NCHFA requires a higher standard of experience for out of state developers, we suggest 3-5 properties placed in service (over the past 5 years) is sufficient.
- Allow experience from 4% LIHTC transactions to count towards the experience requirement for 9% developments and vice-versa.
- Allow an "inexperienced" developer to submit applications to earn experience (but potentially limit the number of awards for first time developers

Award Limits

2025 QAP Pg. 7-8

We appreciate that in recent years NCHFA has increased the maximum award limit to any one project to $1,300,000. As development costs continue to increase due to inflation and other factors this allows developers to pursue projects that create efficiencies through economies of scale. We encourage NCHFA to take an additional and corollary step and increase the maximum award limit to any one Principal from the current $2,000,000 to $2,600,000. This will allow a development team to potentially be awarded two larger projects under the 9% program and allow both projects to benefit from economies of scale. We anticipate this will result in greater unit production across the state.

Underwriting Project Based Vouchers

2025 QAP Pg. 16

We appreciate that NCHFA requires a letter from an issuing authority when the applicant proposes to convert tenant-based Housing Choice Vouchers to a project-based subsidy and that the conversion of vouchers is treated similar to a funding source under Section VI(B)(6)(e). To further assist the underwriting of properties with project-based rental assistance and project-based vouchers, we ask that NCHFA recognize the voucher payment standard in their underwriting, which at times can be higher than the rents that would otherwise be underwritten. It would be appropriate for NCHFA to require the developer to provides adequate documentation of the payment standard from the voucher provider. This will allow applicants to underwrite additional debt proceeds and will result in an more units financed or less reliance on other sources of scarce subsidy.

Agency Approval of Rent Increases

2025 QAP Pg. 34

We urge NCHFA to reconsider its proposed language in the draft QAP requiring the agency to approve all rent increases at tax credit properties. This is a broad and burdensome expansion of the current policy relating to rent increases, which only covers properties with agency funding resources (namely RPP funds). As community development professional we recognize the disruptive impact large rent increases can have on our residents and we take proactive steps work with our residents to mitigate the impact of rent increases at an amount. It is better for the health of the property as well as the resident for owners to raise rents in reasonable but consistent increments rather than to implement excessive increases sporadically. We suggest that rent increases within a certain pre-defined range should not require agency approval. We suggest that the lesser of 10% or the published federal guidelines (i.e., HUD's published AMI's and rent limits used for the purposes of determining maximum allowable rents) is a fair compromise that addresses owner, lender, and investor requirements without overburdening residents. We further suggest there should be no cap on rent increases when a unit turns over to a new tenancy.

The proposed policy creates uncertainty for lender, investors, and developers on how to underwrite revenue growth and creates delays in rent increases which negatively impacts a property's operations. We also observe that property operations have been significantly and negatively impacted by inflation over the past several years particularly as it relates to property payroll, utilities, insurance, property tax and turnover costs. Responsible rent increases are necessary to ensure properties resident quality of life and that properties are maintained to the highest possible standard, preventative maintenance is conducted proactively, and resident services are provided consistently.

Conclusion

Lincoln Avenue Communities appreciates the opportunity to work with NCHFA on the drafting of its 2025 Low-Income Housing Tax Credit QAP. We welcome the opportunity to discuss them with you further at your leisure and/or answer any questions you may have regarding our feedback. I can be reached at 646-585-5526 or tamdur@lincolnavenue.com.

Regards,

Thom Amdur
Senior Vice President, Policy & Impact

About Lincoln Avenue Communities

Lincoln Avenue Communities is one of the nation's fastest-growing developers, investors, and operators of affordable and workforce housing, providing high-quality, sustainable homes for lower- and moderate-income individuals, seniors, and families nationwide. LAC is a mission-driven organization that serves residents across 27 states, with a portfolio of 150 properties comprising 26,000+ units.