

## Chris Austin

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**From:** Joe Horowitz <jhorowitz@elmingtoncapital.com>  
**Sent:** Friday, August 31, 2018 2:09 PM  
**To:** RentalHelp  
**Subject:** 2019 Draft QAP Comments

Hello NCHFA friends –

I sincerely appreciate the opportunity to comment on the 2019 Draft QAP. As a new developer to North Carolina, I hope that these comments will provide some fresh perspective, and to the extent that they do not seem reasonable or a good fit for the program, I am eager to hear the feedback learn from you. I fully appreciate the notion that something that works well for one market may not be a good fit for another market.

1. Section III.A – Affording for a second round of bond volume and 4% tax credit applications is extremely helpful, particularly to the extent that it will allow for an award and transaction timeline to be amended based on the submission of the preliminary application, as the QAP currently reads: “The preliminary application submission date will determine when those [schedule] milestones occur, which will follow a time frame similar to the 9% Tax Credit round.” The current real estate market empowers sellers to impose very short due diligence periods and purchase schedules, and this feature allows developers more flexibility and can keep overall costs for affordable developments down.
2. Section IV.A.2.(h) – Allowing for income averaging and providing guidance as to what is acceptable is very helpful, particularly as certain cities and jurisdictions are using locational policies and other tools to incentivize developments for households with a wide range of incomes. The inclusion of the 120% income range might be worth considering. In some markets it may not be helpful, but it would allow for another higher income band but still place a cap on the income and rent for the unit. By the way, Section IV.B.3(c) states market rents are prohibited, which is slightly inconsistent with Section IV.A.2.(h).
3. Section IV.C.1(b) – Putting a maximum cost per unit on hard costs will make it very difficult for developers to bring quality new affordable units to many markets, especially metro urban markets such as Charlotte. Costs, labor, etc. make the current amount of \$90,000 per unit extremely difficult to work under, and it may serve to undermine the quality of the units being provided, or simply make new affordable developments infeasible.. Lenders, investors, and market dynamics already provide the needed checks and balances to keep these costs in check.
4. Section VI.7 and Section VI.B.5 – One way to enable the creation of more affordable housing units would be to increase the amount of maximum developer fee ONLY FOR TAX EXEMPT BOND TRANSACTIONS, BUT REQUIRE THAT IT BE DEFERRED and repaid from cash flow during the 15-year compliance period. Tennessee has implemented this policy for bond deals only (it allows 25% of total development costs but 10% must be deferred). The benefit to this approach is that it costs the state and municipalities \$0, it generates more sources for affordable transactions, and it does not allow these sources to fund developer fee or go in the pockets of developers.
  - a. Developer fee is eligible basis, and a higher fee can generate more tax credit equity (private sector investment) and reduce the need for GAP financing. GAP financing has become a necessity for new construction tax exempt bond/4% LIHTC transactions, and increasing private sector investment helps alleviate the need for municipalities and other entities to budget for mission based GAP financing.
  - b. By requiring the additional developer fee to be deferred, it avoids bond proceeds, tax credit equity, or other sources being used to fund developer fees. The additional developer fee is funded through cash flow that would go to the partnership anyway.

Thank you very much for considering these comments. If any are unclear, I am happy to discuss them with you at your request.

We look forward to working with NCHFA on our projects in the coming years.

Joe



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