

**AFFORDABLE HOUSING COALITION OF SOUTH CAROLINA
QUALIFIED ALLOCATION PLAN RECOMMENDATIONS
2019-2020 CYCLE**

SITE CHARACTERISTICS

- 1. Removal of the “back up” positive site service for a grocery store, pharmacy, drug store, or convenience store/gas station – The Coalition recommends that “back up” services be reinstated as included in previous QAP’s.***

These services can and previously have changed between the site selection/submittal and SCSHFDA’s inspection of positive site amenities. Examples we have seen are grocery store closings (BI-LO) or pharmacies temporarily closing nurse practitioner clinics for small rehabs. A second amenity within scoring distance would still be able to be submitted as a back-up. Removing the backup would not materially change the overall deal but could cause the development to no longer be competitive because the service chosen closed while the “back up” service did not. A “back up” service would keep the development competitive by providing services for the residents, which is the ultimate goal.

- 2. Increasing the minimum distance to services from ½ mile to 1 mile for maximum points – The Coalition is opposed to this change.***

Because the intent is to develop sites within close proximity of positive resident services and amenities, the Coalition proposes removing the ½ mile increments and change the distance to services by scoring all the services based on the weighted score (maximum 4 points for grocery, pharmacy, and gas; maximum 3 points for restaurant, shopping, etc.) minus the distance from the site to the service in measurements of 1/10th a mile. Require applicants to provide the distance from the site entrance to the service entrance to 1/10th mile accuracy, as is currently required, and for each 1/10th mile the score is reduced from the max point score by 0.1. Rounding would remain the same as allowed in the current QAP. This could allow a site with one (1) service further away to overcome that disadvantage if other services are nearby, eliminating the “half mile” cliff that is now in place. This would open up the number of competitive sites in a given area, significantly reducing the cost of the land as LIHTC developers would not all chase the same parcels. The current proposal creates a situation where site scores will become a “non-issue” and most deals will tie with maximum site scores.

Along with increasing the distance to services, this proposal will have a negative impact on walkable communities. Experienced LIHTC developers are aware that walkable communities are important in the realm of affordable housing. Many families cannot afford multiple vehicles which means while one person is at work with the car other family members are without any mode of transportation.

Another unintended consequence of increasing the distances to services is the argument that will be put forth by NIMBY proponents regarding an increase in traffic congestion.

- 3. Reducing the weighted score for schools and fire stations - The Coalition supports this item as proposed in the new QAP.*

SC DEVELOPMENT EXPERIENCE

- 1. Elimination of the 1 point for SC LIHTC experience – The Coalition is opposed to this change.*

The Coalition recommends that the 1 point for SC experience be restored. Each state has its own set of QAP criteria that layers on top of Federal rules and guidelines that help satisfy the particular needs of each state politically, economically, socially, and geographically. Developers that have longstanding experience in that state have a better understanding of how to help fill those specific state needs. Further, it is important for SCSHFDA to have a knowledge of the development team and guarantor, their ethics and practices to have confidence that all parties are being good stewards of the program for the longevity and reputation of the program.

While lenders and syndicators have the discretion with whom they choose to do business and they make that choice based on the history and financial standing of the borrower or partner, the QAP process is quantitatively based on a point score system. SCSHFDA does not have that same discretion and needs to have at least a slight point scoring criteria to direct the awards to the developers with whom they have experience in South Carolina and are knowledgeable of the practices and commitment to the program.

Along with looking at new construction, it is important to consider affordable communities nearing the end of their compliance period. South Carolina's portfolio of affordable communities is aging and as deals come out of the compliance period, there are only a few tools to rehab or stabilize these older communities. Some are not competitive for resyndication, others have investors and partners with diverging interests, and most are struggling from a capital needs versus income standpoint. Developers that already have investments in towns where older properties are located have a higher likelihood of keeping these deals going than a developer that is 600 miles from any other deal in their portfolio. It is critical that SCSHFDA looks at the long-term life cycle of these deals when choosing who the long-term development partner will be.

TOTAL DEVELOPMENT COSTS (currently proposed as a tie breaker):

1. *Cost Standards /Total Development Cost less Land Cost per Heated Square Foot Standard Deviation – The Coalition is opposed to this change.*

Our analysis has shown that out-of- state developers have been representing significantly more in development costs. Therefore, even if the out-of-state developers drop their prices to come to an average, the other developers will raise their TDC to reach the same average. The overall result will be that less affordable units will be built because the “average” cost is higher.

- a. While cost is an important consideration in determining which developments should be funded it should not be the only primary source for determining what deals get funded.
- b. The calculation using one standard deviation creates too large of a range. By our calculations the standard deviation for 2018 was approximately \$17.21 with a mean of \$160.63 (family deals). Thus an application with a TDCLL/Htd Sq Ft of \$143.42/Htd Sq Ft is ranked as equal to an application with a TDCLL/Htd Sq Ft of \$177.84/Htd Sq Ft which is not valid.

The Coalition opposes imposing a cost cap at this time. With recent major storms impacting the southeastern United States, there will be tremendous pressure on material costs and construction labor going into 2019. Setting a cap now could result in lower construction standards and/or prevention of some worthwhile deals from being submitted.

TOTAL ELIGIBLE BASIS PER HEATED SQUARE FOOT AVERAGE

Instead of a cap for total development cost as a tie breaker, the Coalition recommends making Total Eligible Basis per Heated Square Foot (TEBPHSF) into a point criteria item. Utilizing a floor determined from the 2018 results and comparing applications to the average of all 2019 new construction submittals, applications between the floor and up to 4.9% above the average would not be penalized. Applications between 5% and 9.99% above the average would lose one (1) point. Applications 10% or higher above the average would lose two (2) points.

Making basis a point item will fix a number of issues that may be occurring:

1. Developers will not inflate what costs are basis versus non-basis as a means to increase the number of credits for which a deal qualifies.
2. Developers will not inflate overall developer costs as they will need to stay within the average in order not to lose points. This should eliminate the need for a TDC cap.

GENERAL QAP COMMENTS

1. The Coalition opposes caps on fees for 3rd party reports

Cost Limits proposed for third-party work could promote those third party reports to increase fees up to SCSHFDA's limits which may be higher than the average based on most 2018 applications.

Some third-party reports need to be completed multiple times and some of the proposed caps are below what we have seen these reports costing.

This is something Underwriting staff should handle on a case-by-case situation. In instances where a developer has represented higher than expected costs then require that developer to justify the estimates. Use the Total Eligible Basis per Heated Square Foot scoring criteria and put an overall limit on costs so there is no need to drill down to this level.

2. The Coalition opposes the land costs limited to 8% of total development costs.

This will exclude Charleston, Beaufort, and other coastal markets as land prices there for well-located sites will significantly exceed this amount. It will also limit opportunities in other major markets as good quality sites near services require a premium.

If SCSHFDA uses the 1/10th mile scoring point scale, developers will not need to bid on the same pieces of land. Brokers and land owners are aware of the LIHTC appetite under the current QAP and changing the criteria to 1/10th mile will open up many more sites.

And, if SCSHFDA uses the TEBPHSF then developers will need to make sure their rents can support a high land price or they are purchasing a site with little site work to offset the high land cost.

Appraisals are required for each application and SCSHFDA has adjusted credits in the past on development deals where the purchase price of the land exceeded the appraisal.

3. The Coalition opposes the change in Developer Fee/OH calculation – Limited to 15% or \$18,000/unit whichever is less.

Developers are already deferring fees to make deals work. These fees are the first line of defense that lenders and equity partners go to for cost overruns. South Carolina also limits the number of deals that a development group can be awarded regardless of their capacity to perform.

If SCSHFDA uses the TEBPHSF as a point item, developers that have previously pushed development costs to increase developer fees will not be competitive as they will lose points by this practice, as they will fall above the average.

4. *The Coalition opposes further reducing the Contractor Profit/OH to 6% (down from current 8%) if there is an Identity of Interest.*

Why should a contractor entity with an Identity of Interest be expected to earn a lower fee, particularly when their construction costs have historically been below the program averages? Instead, the Coalition suggests that SCSHFDA set parameters and reserve the right to require a cost certification if the construction costs exceed those parameters. One parameter which could work would be to cost certify the general contractor on any funded deal where the TEBPHSF was greater than 4.99% above the average.

5. *Manual - Page 13, item 9(d) - Only Government or PHAs as applicants can do a ground lease.*

The Coalition opposes this measure as it means developers will need to partner with a city or housing authority to do a ground lease. We are unclear as to what this stipulation is trying to prevent. However, a local municipality may be willing to ground lease their land but not be a co-developer. As long as lease terms and payments are reasonable, there should not be restrictions on ground leases. If payments are excessive, or a lease is unusual, we would hope SCSHFDA could handle it on a case-by-case basis. A good practice would be that the ground lease payment should not exceed the amount that the permanent debt payments would increase by if the property was purchased at appraised value.

6. *Manual - Page 15, item 15(j) - Land Appraisal limited to "neighborhood" - It will be difficult to find comps if an appraiser is limited to a small sub-market.*

7. *Manual - Page 21, Operating Reserve - change from 6 months to 4 months.* If SCSHFDA allows underwriting to a 4 month operating reserve, it is assumed that the investor LOI and final reserve requirements of the deal will only have a 4 month reserve, otherwise this would be a misrepresentation. The operating reserve is a critical reserve if needed by the property during the compliance period and typically the GP can utilize the reserve to help buy out the investor in year 15. Allowing this will put the economics of the development at risk and could be a venue for developers to “play games” with their costs.

8. *Construction Item: Exterior light fixture at all entry doors to units.* The Coalition recommends that this be removed for interior corridors on secure entry buildings. The lights are not needed as hallway lights are installed which appropriately light the entrance to the unit. Unit entry door lights are switched on from inside the unit. Some residents choose to utilize the lights, while some do not. Properties are designed to have energy efficient common areas with the required lighting. Without having control over the individual entry light, the lighting engineer must assume it is always off and therefore create a lighting plan that generates more light than needed at the unit entry.

9. *Construction Item: Exterior Stairs going to concrete and steel* – Due to rust issues with steel, the Coalition proposes allowing wood products using dimensional pressure treated lumber for the structure and composite decking as an alternative to steel and concrete especially in coastal areas.

EQUITY PRICING

The Coalition requests clarification on the proposed language on equity pricing in application must match LOI from syndicator or deal will be disqualified.

MANAGEMENT

- 1. The Coalition opposes the requirement that on-site management staff has to schedule/attend SCSHFDA compliance training meeting when development is 75% complete.*

Typically, at this point in the process, on-site staff has not been hired. The Coalition recommends that SCSHFDA offer quarterly training that on-site staff can access close to the time of hire. Another suggestion is that SCSHFDA could require on site staff to be “certified” by the time lease up and 8609’s are issued. Leave the timing of getting staff trained prior to that to the qualified management companies. Owners and management companies alike are at great risk of losing credits and extreme financial risk and therefore are incentivized to get their staff trained. The Coalition fully supports SCSHFDA providing greater training opportunities for owners and management staff.

TIE BREAKERS

The Coalition recommends utilizing the Census Tract with Lowest Poverty Percentage as the 1st tie breaker. This would be the most impartial measure available to break a tie. One of the primary goals of the program should be to try and locate affordable developments in Census Tracts with more affluence and positive attributes. To continue to build in poor neighborhoods is just perpetuating the cycle. Census Tracts with less poverty typically have better schools, employment opportunities and other resources to improve the quality of life.

Other items of consideration:

Support Letter – Previously a point item in 2017/2018 QAP

30 years of affordability – The Coalition is neutral on this item. Our members have properties outside of the initial 15 year compliance period which are naturally affordable and may need a QC process to ease the tenant restrictions because of occupancy issues. If this remains we would like it to be further down the tie breaker list.