

# *Quad-State Development, Inc.*

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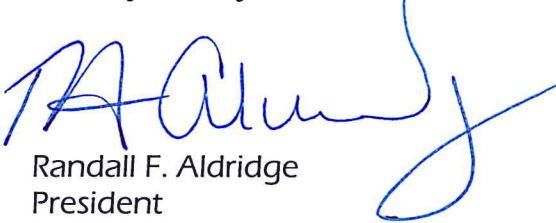
October 29, 2018

Ms. Laura Nicholson  
Development Director  
South Carolina State Housing Finance  
And Development Authority  
300-C Outlet Pointe Blvd.  
Columbia, South Carolina 29210

Dear Laura;

We appreciate the opportunity to comment on the DRAFT 2019-2020 Qualified Allocation Plan and Tax Credit Manual. We respectfully submit the attached comments.

Thank you for your consideration.



Randall F. Aldridge  
President  
QUAD-STATE DEVELOPMENT, INC.

RFA/

# 2019 - 2020 DRAFT QAP Comments

- **Page 1 - Introduction and Purpose**

- Section 42 and SC Housing Mission Statement - The number one item is to “**Serve the lowest income tenants**”. Number two is to “**Serve qualified tenants for the longest period**”. Neither of these will you accomplish using the current proposed caps and other underwriting requirements. **As currently proposed SC Housing underwriting will eliminate 19 of the 46 counties** because of low median incomes. It will also eliminate 3 more counties with high median income that only have small towns in their county. They will have high allowable net rents, but low achievable rents due to the size of the towns. There are 4 more counties with median income around \$53,000 to \$55,000 that are in the mid region counties with higher utilities that could be eliminated.
- Has SC Housing looked at the current tenant income profile of their current tax credit projects when setting some of their caps and underwriting requirements? If compliance staff has not provided it, then you can get that information from HUD. The current HUD reports show a \$15,000 to \$21,000 tenant income profile for South Carolina. Tenants with incomes that low cannot afford max rents for long, which is why you must understand achievable rents and what a low-income tenant can really afford to pay.

- **Page 13 - Financial Characteristics**

- The caps on the total development are well below what the costs will be when awarded projects start construction in March or April of 2020, which is 17 to 18 months from now.
- The Caps are closer to - 1) Garden-Style Multi-Story \$192,000 2) Townhouse \$198,000 3) Single-Family \$206,000.

- **Page 15 - Tie Breaker**

- 2. There are too many variables in the total development costs to base a fair evaluation on who should be selected for funding. 1) Bad soils and rock could cause a significant cost increase in site work. 2) Tap and Impact Fees vary from city to city. They can range from \$50,000 to \$350,000. 3) Adding to the construction costs, are extra construction items required by a lot of cities before giving a zoning letter for the application. Doubling the size of the project detention pond to fix the cities flooding problem downstream. Clean out drainage ditches in the city right a ways. Adding additional perimeter fencing. Require a tree survey and agree to replace tree for tree for all tree type removed. This will also require additional land in which to place the trees 4) The size of the development and unit size, mix and type
- A one story 1-bedroom unit will cost more per square foot than a one story 2-bedroom unit and so on. Then you get into one story, verses two story, verses three story. Anyone of these items could eliminate an application.
- If the developer selects the extended use to 30 years (must have the points to get selected for funding) and SC Housing underwriting caps and other requirements will at best get the project to a 20-year breakeven; how will the project have enough income to operate for the next ten years with the Tax Credit restrictions?

# 2019 – 2020 DRAFT TC Manual Comments

- **Page 7 - Cap for Single Applicant**

- Total Allocation per Applicant \$1,600,000
- Total Tax Credits per development for LPU \$850,000
- Add 32 to 39 units back in the QAP. There is a significant demand in smaller towns for affordable housing but current market study requirements will only show a 32 to 39 demand.
- 32 – 36 units \$750,000
- 37 – 39 units \$775,000
- 40 – 44 units \$800,000
- 45 – 49 units \$825,000
- 50 + units \$850,000

Please keep in mind that the amount of Tax Credits required to have a 20-year breakeven project using real achievable rents that will trend out are subject to several things. First, what are the real **achievable** rents not just the max allowable rents for that market area. There is a difference in the two. Will your starting rents trend out for 20-years with a 2% annual increase? Except for a few larger cities, developments will require Tax Credits and HOME Funds to make developments achieve a 20-year positive cash flow. The larger cities can get/achieve rents in the \$600 - \$750 range, where most other cities are well below those rents. Large city developments can make their projects work with \$16,000 to \$17,000 in tax credits because of the higher achievable rents, while most all others will require \$18,000 to \$20,000 depending on their median income and achievable rents.

- **Page 8 - Geographic Distribution of Tax Credits**

- As per my comments previously related to Page 1, it will be hard to distribute the tax credits equally around the state due to current caps and proposed underwriting restrictions. If SC Housing staff has run numbers on all the counties with \$50,000 and below median incomes, this should be understood, so I don't have to explain this issue further.

- **Page 9 Set-A-Sides**

- 3. Rehabilitation should be reduced back to \$1,500,000. Rehab projects typically require less than new construction and do not help with providing the much needed new housing stock.
- 5. LPU should be reduced to \$1,800,000.

- **Page 21 Underwriting Standards**

- 1. Most Syndicators will require 6 months on Replacement, Operating Reserves and Debt Service Reserves. The syndicators and investors will require release of Reserves on their exit.
- 2. The requirement to fund replacement reserves for 20-years is one of the items that will require higher rents in order to trend out for that period. In saying that, I think 20-year trading is an item that should stay in the QAP; however, it will also require more Tax Credits and/or HOME Funds to keep the rents affordable. Goes back to what can tenants really afford to pay.
- 3. Developers are already deferring a big percentage of the developer fees and a cap of \$18,000 per unit along with the current proposed underwriting requirements will cause an even larger deferral.
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## ● 2019 – 2020 DRAFT TC Manual Comments

- 5. A developer who is also the general contractor should not be penalized for having an identity of interest. Please remember, the general contractor has overhead to pay and is taking the same risk as a third party general contractor to build the project with the funds available. If there are cost overruns, they will have to eat it just like a third-party contractor.
  
- **Page 25 - Debt Coverage Ratio**
  - 13. The requirement to have a 20-year pro-forma that has a breakeven through the 20th year is another item that will cause a \$50.00 to \$75.00 per unit rent increase to trend a breakeven over 20 years. These required rent increases will eliminate 50% or more of the counties. I am sure SC Housing has run the numbers and is aware of this.
  - 17. Architect and Engineering cap should be at 1.5%, if you need to even have a cap.
  
- **Page 26 - Syndication Information**
  - The syndicator will only give an LOI that is at best a very conservative guess at pricing. It would not be fair to either the developer or the project not to negotiate the best deal you can with the syndicators once the project receives a reservation letter.
  
- Agree with almost every point mentioned in the Public Hearing on October 26<sup>th</sup>. Most developers feel that some of the changes are micro-managing. Also, that as written they feel handcuffed, and left not making any money on these deals, which are not cash cows to begin with. The monitoring of third-party costs, reduction in the profit a related contractor and developer make, reduction in developer fees, caps on land costs, all are negative actions toward developing these deals.
  
- After speaking with members of several management companies, the question is if the SC Housing Compliance Staff are already onsite performing physical audits why would the file audits be completed in house? This will place additional time constraints on the property manager and/or compliance staff to scan the tenant files, make sure they are legibly once scanned and then upload them to the extranet. What happens if the writing is too light for it to be picked up during scanning? Will the property be written up or will the SC Housing Compliance auditor have to come onsite to look at that file?