

Chris Austin

From: Stephen Brock <stephen@brockvi.com>
Sent: Friday, August 14, 2015 10:45 AM
To: rentalhelp
Subject: 2016 QAP public comments

4th attempt....email servers were failing yesterday. Please confirm receipt.

Begin forwarded message:

From: Stephen Brock <stephen@brockvi.com>
Subject: 2016 QAP public comments
Date: August 13, 2015 at 5:13:39 PM EDT
To: Chris Austin <claustin@nchfa.com>

Chris, sending my public comments to you....emails to rentalhelp are failing for some reason.

GENERAL

The QAP is very workable and should continue to serve as a stable foundation for our industry participants. It's a competition and there has to be **meaningful** criteria for separating the best apps.

Major changes to the QAP should only happen if truly necessary — otherwise, an overhaul will waste much time and effort spent to date (including that of architects, local government staff etc), create new unforeseeable problems that then require further QAP changes, and otherwise destabilize the industry as a new paradigm emerges. Everyone has adjusted to the last major changes and it's now much more workable. To overhaul again will only create new, unintended consequences, loopholes, etc.

Stable policy is extremely important. It is a signal to industry participants — including land owners, local govt, etc — that their investment of time and money is not subject to whims, especially given the late adoption of the QAP relative to Prelim App due dates. **The larger a change to the QAP is, the higher the threshold or standard of proof for justifying that change should be.**

The QAP should and does reward developers who have done their homework and refined their applications into smart, competitive, realistic, cost-rev-exp optimal, and otherwise responsible proposals. Selecting winners based on criteria such as a lottery, arbitrary site criteria, or other is a disservice and is

frankly lazy and entitled and would only reduce the quality and precision of applications submitted. Now is not the time to change, but instead refine it.

Per below, the only general adjustments might be to refine some safeguards that mitigate the so-called “race to the bottom”. Construction costs are rising rapidly and so adjustments in some areas may be justified. However, I would not constrain developers from bringing their resources and talents to a deal with extremely rigid or high underwriting safeguards and parameters. Generally, the current set strikes the right tone. We should keep the current ones to prevent wild-hare applications from winning. But we should not constrain too much either.

SITE SCORE — Site score is good as-is. No further criteria should be added. In fact, Secondary criteria should be relaxed a bit to not cap at 6 points. In VA, there is no site score — they leave it to the developer and the market analyst worry about whether it’s viable.

It is important to understand against the backdrop of those calling for more site score criteria that **each criteria added drastically shrinks the universe of feasible parcels**. Achieving zoning for Multi-Family is hard enough, much less for affordable housing, so why would we want to shrink the overall universe of parcels that need to otherwise be (1) physically suitable for apartments (size, topo, sewer, etc), (2) affordable, (3) with an owner willing to ride through long option period, (4) conforming to the city’s plans/zoning, (5) in a visible location, and (6) not garner too much NIMBYism? I’d have more luck searching for unicorns.

In SC, it used to be that you had to find a site that met distance measures to 12 or more criteria. Often, a site would meet 11 of the 12 criteria and be 0.1 miles too far from the 12th. What’s the sense in that? That is NOT where we want to go.

There are so many subjective, situational, and unpredictable factors for a site that it should not be subjected to an extravagant matrix. Increasing site score criteria for the sake of “differentiating” winners and losers is not differentiating at all — it’s arbitrary.

DEVELOPER EXPERIENCE — The truth is that the best thing for NC residents is to keep it open to the maximum amount of qualified developers. The current requirement strikes a good balance of making sure a developer is competing in NC in a thoughtful, structured way vs not being too restrictive. By making the Applicant have one recent deal in NC, it blocks developers not focused on NC and who would otherwise throw darts.

Increasing the experience requirement further, however, would just be arbitrary and pointless. It would favor a certain subset and then, in subsequent years, perpetuate a monopoly at the top of the experience ladder.

BONDS - Bond deals proposing new construction need every bit of help they can get. As they will only work in urban, higher income areas, new construction bonds should be 100% at 60% AMI. Also, scale is needed to make them work, thus, the max Developer Fee on a new construction bond deal should be uncapped. The current max is the same as approx 115 units at \$13,000/unit — not too different than 9%.

SITE WORK — Site work line item in Uses is the second to fourth largest line item in the budget and by far the most unpredictable. This line item only should be given a mandatory 35% contingency (on new construction) that NCHFA can walk back favorability from. I would say require a letter from a civil confirming site work estimates (with no contingency), however, we've done this only to still be grossly underestimated. Or just increase overall Contingency %. Either way, there should effectively or directly be a minimum of \$200,000 contingency just for site work, preferably more.

HARD COST MAX & MINS— no reason to have hard cost maximums while construction prices are rising rapidly. Trust the financial efficiency scoring components to keep this under control. If they are retained, an exception process should be avail for alternative products (pre-fabs, modular, adaptive reuse, etc).

CURRENT TIEBREAKER & FINANCIAL EFFICIENCY - I strongly support the current tiebreaker. Financial efficiency is and should remain the deciding factor. It is the invisible hand that will keep app numbers reasonable.

GENERAL CONTRACTOR - I do not support requirement of GC to be domiciled in NC. This just forces developers to partner with someone they would not otherwise which can cause back end problems.

CREDIT CAP PER DEVELOPER - I do not support lowering the cap. However, If it is reduced, please do not reduce below \$1.4MM as this is the amount to enable two larger deals... larger deals are the most financially efficient.

INCOMPATIBLE USE —DISTRIBUTION

FACILITY — Several times, I've encountered small scale distribution facilities near a property that should not be considered a nuisance. I would support clarifying or changing this criteria to only include larger scale distribution facilities where truck traffic would be significant.

POST DEV AWARD — In the current environment of rising construction prices, I support a bit more relaxed approach to post-award underwriting. It feels unbalanced — agency seems to penalize favorability faster than it will help with unfavorability. Or perhaps we get cut too early — adjustment of WHLP, RPP and LIHTC resource amounts should not occur until approval of construction contract.

QAP TIMING — I know it can't be changed this year, but I would be remiss if I didn't again argue for much earlier QAP finalization.

Regards,

Stephen Brock
Brock Ventures, Inc.