DEVELOPMENT
CONSTRUCTION
MANAGEMENT

128 Habersham Street
Savannah, GA, 31401
Office: 912.224.2169
www.wodagroup.com

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August 25, 2015

Mr. Scott Farmer
NC Housing Finance Agency
Attn: Rental Investment
3508 Bush Street
Raleigh, NC 27609

VIA EMAIL: rentalhelp@nchfa.com

Dear Mr. Farmer:

The Woda Group, Inc. appreciates the opportunity to provide comments to be considered for the State's 2016 QAP for the 9% LIHTC application round.

a) <u>RAD deals</u>

The RAD program is an important initiative of HUD that promotes private ownership and participation in Housing Authority properties and will allow for much-needed community revitalization. We suggest, however, that RAD properties not be included in the 9% LIHTC application round. RAD properties should instead use bond financing and 4% credits. RAD properties can be underwritten using 4% credits thereby leaving the 9% credit for other developments and allowing North Carolina to create and preserve additional housing units.

We recommend that RAD projects be excluded from the 9% funding round, or at a minimum, capped at a low amount.

b) <u>The first Tiebreaker</u>

Given how competitive the allocation has become, we feel that developers are pushed to take an undesirable amount of risk by having the first tiebreaker, and therefore only relevant tiebreaker, determined by the project requesting the least amount of federal tax credits per unit. In order to win this tiebreaker, we have noticed that developers are underwriting their projects using higher rents (much closer to the limits), being aggressive on the projected long term permanent debt rates at the time of application, and consequently taking on more debt. These deals are going to be significantly more financially sensitive, with little room for error and could run into difficulties in the years to come.

We recommend that the first tiebreaker not be the amount of tax credits requested per unit. We understand that NCHFA is considering including more point categories in the selection process. In other states not all applications have the same scoring. We encourage this approach.

c) <u>North Carolina Based Developer, Developer Capacity</u>

The program awards 5 points if the Principal has been awarded seven 9% LIHTC deals in North Carolina for the past seven years or has her/his/its principal office in North Carolina. This would essentially mean that an out-of-state developer would need to be awarded a deal every year to obtain these points. So it really favors developers with a principal office in North Carolina. We request that points that favor North Carolina based developers be removed. We find this not only to be unfair but also unconstitutional.

Many North Carolina based developers work in other states. If other states enacted reciprocal restrictions, the impact would be detrimental to North Carolina based developers. So we feel we are in an unfair situation when we apply for tax credits in North Carolina.

We also feel the scoring process is unconstitutional as these are federal tax credits, yet the NC state developers are favored versus the developers not based in North Carolina. There should be a level playing field for in-state and out-of-state developers. That is not the case in the current QAP which give more points to developers with principal offices in North Carolina.

The tax credit industry is increasingly complex, and investors and syndicators prefer to invest with larger developers with good track records and strong balance sheets. These types of developers command higher equity prices thereby allowing North Carolina to more efficiently use its credits to create as many units as possible. In lieu of the requirement that a developer be based in North Carolina to receive points, we ask that you consider awarding points based on a combination of developer experience, track record, and net worth, as these are the factors used by the investment community to evaluate developers. Specifically, NCHFA could have a sliding scale for experience. Developers with more than 100 properties placed in service could earn maximum points, those with 50 could earn the next level of points, and those with 25 could earn the lowest number of points. Developers that have been removed as general partner of any project should receive negative points. Developers should be required to have a net worth at least equal to the total development cost of the project for which they receive a reservation of credit, and should also be required to have liquid assets equal to at least 20% of total development costs.

If NCHFA does not want to implement points to reward experienced developers, NCHFA should not award points for local developers as we strongly feel this to be unconstitutional.

Thank you for your consideration of these changes.

Sincerely,

Denis Blackburne
Senior Vice President
The Woda Group, Inc.