

CONNELLY DEVELOPMENT NC, LLC

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DURHAM, NC 27705

August 22, 2015

North Carolina Housing Finance Agency

Attn: Mr. Chris Austin

3508 Bush Road

Raleigh, NC 27705

RE: 2016 LIHTC Qualified Allocation Plan (QAP)

Dear Chris,

We recognize that formulating the necessary housing criteria for determining which proposed transactions best meet the needs of the State is an enormous responsibility which NCHFA has done an admirable job over the years. As with any program that has limited resources there will be winners and losers and that the Agency's task is to devise a methodology for determining which are most feasible from a location, financial, and ongoing operations standpoint. We understand that the Agency is accepting comments as it looks to make whatever revisions to its 2016 Qualified Allocation Plan (QAP) and below are our comments.

- Developer Experience – As an experienced Developer with over twenty-five (25) LIHTC properties developed in my portfolio I believe my organization has demonstrated the ability to put a transaction together, get it built, and then operate it efficiently. We have very strong relationships with several Debt and Equity Providers that have been developed over many years. We have been actively participating in the North Carolina LIHTC Program for the past five (5) years and have had success in getting three (3) developments funded and placed-in-service during that time. We have also been awarded a 2015 transaction which we are beginning the process to get closed and built. Further, I would suggest seeking comments/references from Agency staff (Russ, Toby) as well as the SC Compliance staff where we have successfully built, own, and maintain twenty-four (24) properties with over 1,200 units and \$125 million + worth of affordable housing.

As we continue to look for opportunities to provide affordable housing in NC we ask that the Agency not to raise the bar on Developer Experience where we are at a competitive disadvantage to other developers who have perhaps been active in the NC Program for a longer period. We recognize the need for the Agency to have criteria that weeds out

inexperienced Developers that can't complete a transaction however we believe our track record in South Carolina and North Carolina should provide evidence of our commitment to provide good quality, affordable housing to the targeted beneficiaries. We believe the current Developer Experience criteria is sufficient.

- Tie Breaker Criteria – We understand the difficulty in coming up with meaningful criteria to distinguish between the many competing applications but we continue to be concerned about the Lowest TC per Unit criteria as a Tie Breaker. From a Developer's perspective it is very important that the property survives the Compliance Period and knowing that multi-family properties by nature endure substantially greater wear and tear it is critical that we build as solid a structure as possible for the long term viability of the development. Unlike conventional apartment properties that are often bought and sold numerous times with upgrades/rehab each time with new ownership, affordable housing is a "build and hold" strategy that affords less opportunity for refinance prior to Year 15. We also must look down the road at the end of the initial Compliance Period when the Perm Debt comes to term requiring a refinance however if that Debt level is too high due to insufficient Equity on the front end we have a potential problem. Obviously nobody knows what the debt market will be in fifteen (15) to twenty (20) years but if interest rates have increased to levels that sufficient debt cannot be raised to pay off the Perm Loan then the Developer is left in an uncomfortable situation. He either has to make up the shortfall of funds to pay off the debt or turn in the keys which would result in a foreclosure removing the property from the affordable program. Sufficient equity on the front end not only allows us to build a more durable product but also helps keep the initial debt at a level that a refinance in the future is more achievable.

Thank you for the opportunity to add my comments to the discussion as the Agency moves forward in developing the 2016 QAP.



T. Kevin Connelly, Manager Member