HOUSING CREDIT CONNECT 2018

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Creative Approaches to Cost Control

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NCSHA

NCSHA Recommended Practices in Housing Credit Administration

- In 2016, NCSHA's Board of Directors appointed a task force of Housing Finance Agency executive directors to review, revise, and expand NCSHA's existing Recommended Practices.
- The task force worked on this project over 18 months, collaborating with all HFA executive directors and HFA staff, with significant input from Housing Credit industry stakeholders.
- NCSHA's Board adopted these Recommended Practices at its December 2017 meeting in Washington, DC.
- A major impetus for the original 1993 recommended practices was cost containment.

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Cost-Related Recommended Practices

- **Ensuring Reasonable Development Costs:** Agencies should develop a standard for limiting development costs to reasonable amounts. This standard may take the form of a development cost limit, calculated on a per unit, per bedroom, or square footage basis.
  - The standard should be based on TDC, including costs not eligible for Housing Credit financing or funded from other sources.
  - In developing a cost standard, Agencies should examine building construction and land costs in the state — including variations in such costs — and certified cost data from existing Credit developments.
  - If an Agency receives an application with costs in excess of its established limit, the Agency should subject the development to further scrutiny and only award Credits if the costs are justifiable, reasonable, and attributable to unique project characteristics.

- **Ensuring Reasonable Development Costs (continued):**
  - Agencies should compare the cost of developments competing in the same allocation cycle.
  - Agencies should carefully limit, justify, and document the number of developments with costs in excess of the state's established standard and amount of Credits allocated to such developments.
  - Agencies should recognize that some markets, property characteristics, and circumstances may be cost-prohibitive, and that developments with excessive costs may not receive Credits.
  - Agencies may supplement cost limits with other policies such as eligible basis limits or scoring criteria incentives for reasonable development costs.
  - Agencies should regularly review QAPs with the goal of reducing costs.

- **Qualified Allocation Plans:** As Agencies consider priorities to encourage, they should consider the impact of these priorities on upfront development costs.
- **Allocation and Underwriting of Tax-Exempt Bond Deals:** Agencies should evaluate and underwrite tax-exempt bond-financed properties as they do 9 percent properties.
  - Applies to all bond-financed properties, including those in which the bonds were issued by an entity other than the Agency
  - Agencies should apply standards substantially similar to those they apply to non-bond-financed developments
- **Sustainable Development:** Agencies should consider cost implications of sustainable development initiatives individually and in totality to ensure consistency with development cost containment goals. This cost assessment should consider both upfront development costs and potential long-term savings.

- **Developer Fee and Builder Fee Limits:** The limit should not exceed the lesser of 1) an appropriate defined per unit dollar cap on developer fee, or 2) 15 percent of total development cost.
- **Consultant and Professional Fees:**
  - Require consultant fees to be permitted only within the developer fee limit.
  - Review professional fees at project application and compare them with professional fees charged in Housing Credit developments awarded Credit in prior funding cycles and with current Housing Credit applications to assess reasonableness.
  - Apply additional scrutiny to any outlier professional fees and require documentation as to why the higher fees are warranted.
  - In some cases, Agencies may choose to establish specific limits for professional fees.

- **Sponsor Certification of Project Sources and Uses of Funds:**
  - Agencies should require sponsors to certify they have disclosed all of a development's funding sources/uses as well as total financing; reported costs based on actual development costs; disclosed any additional amounts paid to them or related parties for syndication fees, debt placement fees, guaranty fees, or other fees; and identified the purchase price of a site and its cost to the partnership.
  - Agencies should require this sponsor certification at each point of Agency evaluation and in the event of any change in sources and uses of funds.
- **Appraisals in Acquisition/Rehab Projects:**
  - Agencies should limit the acquisition price to the lesser of the sale price or appraised value.
  - Agencies should apply additional scrutiny to acquisitions that involve related parties or an identity of interest.

NCSHA Housing Credit Development Cost Study

- NCSHA has commissioned Abt Associates, in partnership with the Urban Land Institute and Blue Sky Consulting, to conduct independent research into Housing Credit development costs and cost drivers.
- Findings will add to the body of research on the Housing Credit and provide greater context to available development cost research, including a forthcoming GAO report.
- Two distinct work products:
  - Quantitative analysis of syndicator cost data
  - Series of case studies profiling specific projects considering cost drivers that are not ascertainable in the quantitative data

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Quantitative Analysis

- 14 syndicators participated
- Projects placed in service between 2011 and 2016
- Database includes more than 2,500 properties with more than 160,000 units
- At least one project in every state, DC, Puerto Rico, Virgin Islands, and Guam; more than 25 projects in each of 35 states

Case Studies

- Mix of Housing Credit and market-rate examples to compare and contrast
- Different geographic areas, housing markets, construction types, type of Credit (4 percent and 9 percent), some 100 percent affordable and others mixed income
- Not representative of entire Housing Credit portfolio

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Preview of Findings from Quantitative Analysis

- Location matters — even when TDC are analyzed excluding land costs and variances in construction wages across states are held constant.
- Project and unit size matters — larger developments are less expensive per unit. Projects with average unit size at more than 2.5 bedrooms are more expensive per unit.
- Project type matters — new construction is substantially more expensive than rehab.
- When adjusted for construction cost inflation, TDC was relatively stable over time, with the exception of 2014, which appears to be an outlier year.
- Median per-unit TDC across all years is $164,757. Three-quarters of the units had TDC at or below $224,903, and one-quarter of units had TDC at or below $121,254.

Preview of Findings from Case Studies

- Higher costs associated with:
  - Longer development timelines related to obtaining local development approval or addressing local opposition
  - Tight labor markets and/or prevailing wage requirements
  - Certain types of construction, such as steel framing and structured parking
- Lower costs associated with:
  - Donated land or below-market land transfers
  - Location in a master-planned development where the development approval has been obtained in advance