



September 25, 2019

VIA ELECTRONIC MAIL

Mr. Trey Price, Ms. Marissa Button, and Mr. Kevin Tatreau
Florida Housing Finance Corporation
227 N. Bronough Street, Suite 500
Tallahassee, FL 32301

RE: TOTAL DEVELOPMENT COST ("TDC") CAP FOR FLORIDA HOUSING ("FHFC") FUNDED DEVELOPMENTS

Dear Mr. Price, Ms. Button and Mr. Tatreau:

The TDC per unit maximum ("TDC Cap") was originally implemented as a countermeasure to prevent unscrupulous developers from overcharging and unreasonably overburdening affordable housing developments with unnecessary costs, and to avoid contractor kickbacks. Subsequently, FHFC instituted a GC Cost Certification which should have obviated the need for the TDC Cap. If, however, FHFC believes the TDC Cap to still be necessary, it is essential that the TDC Cap is adjusted to account for substantial increases in construction costs, since the TDC Cap as currently constituted is limiting the ability of affordable housing developers to continue to achieve the level of quality that the affordable housing community has delivered in the past. Higher quality accommodations allow residents to take pride in their community, drives more private investment to affordable housing, and fights the scourge of NIMBYism.

Recommendation:

Adjust the post-award TDC Escalation Factor to **3.00% annually**, to be applied from the RFA application deadline to the date of the GC contract.

Current Situation:

FHFC has recognized construction cost inflation in Florida over the last six years by annually increasing the TDC Cap in each subsequent Request for Applications ("RFA"). For example, the average increase of the TDC Cap in 9% Miami-Dade RFAs is almost 5% annually. There have been several factors that affect the TDC of a development, the greatest of which is the cost of construction, which is driven primarily by labor and material costs. However, another factor has now compounded the hardship for developers - the protracted time it takes to close on the acquisition and financing of the developments once an allocation has been preliminarily awarded. Unfortunately, the one-time escalation factor (usually under 2%) provided in past and current

RFAs (3% for new construction 2019 RFA cycle) has proven insufficient to keep pace with prevailing market conditions.

Excessive demand for skilled and unskilled labor, qualified and bondable subcontractors and now, for basic building materials, are raising GC contract amounts to record levels. To make matters worse, an ongoing immigration crisis and recent trade wars with major material exporting countries across the globe are exacerbating what is already an intolerable situation.

This increased demand and corresponding shortage of labor is also delaying the development timeline. Design professionals and consultants are at full capacity, which is delaying completion of drawings and final plan submittals, all of which are critical path items to close on affordable housing acquisitions and financing. More importantly, the number of permitting submittals in all municipalities is at an all-time high, further increasing approval periods. Obtaining bids in a timely fashion from qualified and experienced general contractors is a serious challenge in the current market. Specialized construction workers such as plumbers and electricians are particularly oversubscribed, further contributing to the extreme increase in costs. Finally, natural disasters like hurricanes, which have been more common in the past three years, aggravate the labor shortage and material pricing issues, and further extend timeframes for permitting and construction.

Previously, the period from application submittal to signed GC contract took around twelve months. As shown in Exhibit A, it can now take, on average, **nineteen months** from the RFA due date to execute a GC contract for developments funded under the 2017 RFAs. Most of the timeline is driven by the permitting process of each municipality. If a bid protest delays allocation, it could take two years from the date an RFA is due to when a GC contract is executed. If the development requires any kind of HUD approval, the timeline can easily exceed two years.

TDC Cap History:

FHFC has consistently increased the TDC Cap each year based on their own analysis. As an example, below is a chart of new construction TDC Caps for the **Miami-Dade County** 9% Housing Credit RFAs for each of the last five years, along with its percentage increase compared to the year before:

Miami-Dade	Garden Wood		Garden Concrete		Mid-Rise Wood		Mid-Rise Concrete		High-Rise	
	TDC	%	TDC	%	TDC	%	TDC	%	TDC	%
2019 TDC	\$223,500	3.00%	\$267,800	3.00%	\$267,800	3.00%	\$295,600	3.00%	\$337,000	1.51%
2018 TDC	\$217,000	9.54%	\$260,000	9.20%	\$260,000	9.20%	\$287,000	9.38%	\$332,000	5.97%
2017 TDC	\$198,100	3.02%	\$238,100	2.98%	\$238,100	2.98%	\$262,400	2.98%	\$313,300	1.00%
2016 TDC	\$192,300	4.00%	\$231,200	4.00%	\$231,200	4.00%	\$254,800	4.00%	\$310,200	3.99%
2015 TDC	\$184,900	6.51%	\$222,300	6.52%	\$222,300	6.52%	\$245,000	6.52%	\$298,300	6.50%
2014 TDC	\$173,600		\$208,700		\$208,700		\$230,000		\$280,100	
Average		5.21%		5.14%		5.14%		5.18%		3.79%

The above Miami-Dade chart indicates an average annual increase of over **5%** for almost all development types. Similar charts can be made for the yearly TDC increment for all counties.

As another example, below is a chart of new construction TDC Caps for the **Medium Counties** 9% Housing Credit RFAs for each of the past six years:

Medium Counties	Garden Wood		Garden Concrete		Mid-Rise Wood		Mid-Rise Concrete		High-Rise	
	2019 TDC	\$212,200	3.01%	\$255,400	2.98%	\$255,400	2.98%	\$282,200	2.99%	\$322,000
2018 TDC	\$206,000	9.11%	\$248,000	9.25%	\$248,000	9.25%	\$274,000	9.47%	\$317,000	6.09%
2017 TDC	\$188,800	3.00%	\$227,000	2.99%	\$227,000	2.99%	\$250,300	3.00%	\$298,800	1.01%
2016 TDC	\$183,300	2.98%	\$220,400	2.99%	\$220,400	2.99%	\$243,000	3.01%	\$295,800	2.99%
2015 TDC	\$178,000	4.52%	\$214,000	4.49%	\$214,000	4.49%	\$235,900	4.52%	\$287,200	4.51%
2014 TDC	\$170,300		\$204,800		\$204,800		\$225,700		\$274,800	
Average		4.52%		4.54%		4.54%		4.60%		3.24%

The above Medium Counties TDC increase chart shows an average annual increase of over 4.50% in almost all development types.

Despite FHFC’s recognition of these significant increases each year, these RFAs only allowed for a one-time escalation factor that was usually under 2%. That factor was only a fraction of the inflation that FHFC has recognized every year, and given the increased timelines required for closing and financing, is clearly insufficient based on current market conditions and GC contract pricing.

At the June 2018 Board meeting, FHFC recognized this deficiency, and the FHFC Board approved an increase in the TDC Cap for all funded developments from 2014 to the beginning of 2018. The effect of that Board item was an increase that was much higher than would have been permitted by the one-time escalation factor, correctly reflecting the exponential annual increases of 4.25% or more (see Exhibit B). Below is a comparison between a correspondent **Miami-Dade County** year-funded TDC Cap and the new TDC Cap set by the June 2018 Board:

Miami-Dade	Garden Wood	Garden Concrete	Mid-Rise Wood	Mid-Rise Concrete	High-Rise
June 2018 Board limit	\$210,300	\$252,700	\$252,700	\$278,500	\$328,600
2017 TDC	6.16%	6.13%	6.13%	6.14%	4.88%
2016 TDC	9.36%	9.30%	9.30%	9.30%	5.93%
2015 TDC	13.74%	13.68%	13.68%	13.67%	10.16%
2014 TDC	21.14%	21.08%	21.08%	21.09%	17.32%

Below is a comparison between a correspondent **Medium Counties** year-funded TDC Cap and the new TDC Cap set by the June 2018 Board:

Medium Counties	Garden Wood	Garden Concrete	Mid-Rise Wood	Mid-Rise Concrete	High-Rise
June 2018 Board limit	\$200,400	\$241,000	\$241,000	\$265,700	\$313,400
2017 TDC	6.14%	6.17%	6.17%	6.15%	4.89%
2016 TDC	9.33%	9.35%	9.35%	9.34%	5.95%
2015 TDC	12.58%	12.62%	12.62%	12.63%	9.12%
2014 TDC	17.67%	17.68%	17.68%	17.72%	14.05%

Also, note that only three months after the June 2018 Board meeting, FHFC issued the 2018 9% RFAs with TDC Caps that were on average 2.50% *higher* than the June 2018 limits. For example, as you can see in the charts above, the Mid-Rise Concrete Miami-Dade County June 2018 limit was \$278,500 and the Miami-Dade 2018 9% RFA, issued only three months later for the same Mid-Rise Concrete type, was \$287,000, which is almost 3% higher.

Our Recommendation:

In light of the above, we respectfully request that the post-award one-time TDC Cap escalation factor be replaced by a 3.00% annual factor, and for that annual factor to be applied on a monthly basis. Therefore, the TDC Cap escalation factor would be 0.25% *times* the number of months from the RFA application deadline to the date of execution of the GC Contract. Of course, if FHFC staff and their underwriters believe that specific developers are being irresponsible or taking too long to close on developments, FHFC staff can always deny extension requests to the Carryover Deadlines or the SAIL deadlines set in Rule Chapter 67-48, or approve those extensions with the condition that the monthly escalation factor will only apply until a certain month determined in such extension approval.

Accordingly, we recommend that FHFC take the following actions:

1. Modify the issued 2019 RFAs to include a 3% annual escalation factor (or 0.25% monthly escalation, as explained above) from the RFA application deadline to the date of GC Contract, replacing the one-time 3% escalation factor; and
2. Propose another Action Item for the next Board Meeting to allow for a 3.00% annual escalation factor to all previously funded developments:
 - a. For developments to which the June 2018 Board meeting escalation is applicable, the 0.25% monthly escalation factor will apply from June 2018 to the respective GC Contract date and use as a basis the TDC Caps established by the June 2018 Board item; and
 - b. For developments funded after RFA 2018-119, the 3.00% annual escalation factor will represent a 0.25% monthly factor to be multiplied by the number of months between the RFA application deadline and the date of the GC Contract.

Consequence for not taking the proposed actions:

Failure to act will seriously diminish the quality of affordable housing developments in Florida. Developers will be forced to naturally seek to reduce the size of units, the quality of the fixtures and amenities, and the overall look and marketability of developments in order to meet the current TDC Caps, which are no longer realistic. Lower quality construction will lead to more

ongoing maintenance costs, fewer potential renters, and an overall lesser quality of affordable housing. All of these will destroy many years of good work at the State and National level in the eradication of NIMBYism and will as a consequence result in significantly less private investment in affordable housing. We cannot allow this to happen.

It is in no one's best interest to delay closings. The developer has significant money at risk before a development closes, and the longer the timeframe the more the risk profile escalates (costs, market, interest rates, etc.). While a TDC Cap is probably no longer necessary, if FHFC deems it to still be relevant, it simply must be updated as recommended above to reflect current market conditions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Matthew Dieger', written over the printed name.

Matthew Dieger, President & CEO
Housing Trust Group

Enclosures

Exhibit A

Information obtained by 9-23-19 from CURs through the Corporation Clerk:

Year RFA	Developer	Project	County	Type	App Due Date	GC Contract execution	Months between app due date and GC Contract	Type	Material	Units	RFA
2014	NuRock Development	Residences at Crystal La	Broward	SAIL	9/18/2014	4/20/2015	7	Garden	Concrete	92	2014-111
	NuRock Development	Residences at Crystal La	Broward	SAIL	9/18/2014	4/20/2015	7	Townhouse	Concrete	92	2014-111
	Housing Trust Group, LLC	Valencia Grove	Lake	4%	9/18/2014	7/22/2015	10	Garden	Wood	144	2014-111
	Southport Development	Garden Trail	Pinellas	SAIL	9/18/2014	9/3/2015	12	Garden	Wood	76	2014-111
	Southport Development, Inc.	Garden Trail	Pinellas	SAIL	9/18/2014	9/3/2015	12	Garden	Wood	76	2014-111
	Picerne Affordable Development	Villages at Hallifax II	Volusia	9%	1/22/2015	11/16/2015	10	Garden	Concrete	80	2014-114
	Wendover Housing Partners	Kenwood Place	Leon	9%	1/22/2015	12/17/2015	11	Garden	Wood	112	2014-114
	Housing Trust Group, LLC	Freedom Gardens	Hernando	9%	1/22/2015	2/12/2016	13	Garden	Concrete	96	2014-114
	Housing Trust Group, LLC	Park at Wellington I	Pasco	9%	1/22/2015	5/4/2016	16	Garden	Wood	110	2014-114
	Green Mills	Burlington Place	Pinellas	9%	2/3/2015	1/4/2016	11	MR 5-6	Concrete	53	2014-115
	Landmark Development	City Vista	Broward	9%	2/3/2015	8/23/2016	19	High Rise	Concrete	107	2014-115
Carrfour Supportive Housing; GMKV C	Karis Village	Miami-Dade	9%	2/10/2015	7/22/2016	18	High Rise	Concrete	86	2014-116	
2015	Pinnacle Housing Group, LLC	Casanas Village at Fren	Leon	SAIL	5/5/2015	8/25/2016	16	MR-(5-6)	Concrete	88	2015-103
	The Vestcor Companies, Inc.	Abigail Court	Pasco	9%	10/15/2015	9/1/2016	11	Garden	Wood	90	2015-106
	Roundstone Development, LLC	The Pines	Volusia	9%	10/15/2015	10/6/2017	24	Garden	Wood	100	2015-106
	The Vestcor Companies, Inc.	Lofts at LaVilla	Duval	9%	11/5/2015	9/1/2016	10	MR-4	Concrete	130	2015-107
	NuRock Development Partners, Inc.	Residences at Haverhill	Palm Beach	9%	11/5/2015	9/4/2016	10	Garden	Concrete	117	2015-107
	Southport Development, Inc.	Calusa Estates	Palm Beach	9%	11/5/2015	10/7/2016	11	Garden	Wood	114	2015-107
	Housing Trust Group, LLC	Arbor View	Broward	9%	11/5/2015	11/7/2016	12	MR-(5-6)	Concrete	100	2015-107
	Southport Development, Inc.	Laburnum Gardens	Hillsborough	9%	11/5/2015	5/1/2017	18	Garden	Concrete	120	2015-107
	Housing Trust Group, LLC	Park at Wellington II	Pasco	4%	11/10/2015	6/30/2016	8	MR-4	Wood	110	2015-112
	Royal American Development, Inc.	Pelican Pointe	Bay	SAIL	11/10/2015	9/6/2016	10	Garden	Wood	78	2015-112
	RS Development Corp.	La Joya Estates	Miami-Dade	4%/MMRB	11/10/2015	2/15/2017	15	Garden	Concrete	106	2015-112
Housing Trust Group, LLC	Douglas Gardens	Broward	4%	11/10/2015	6/12/2017	19	MR-4	Concrete	110	2015-112	
Royal American Development, Inc.	The Jasmine	Miami-Dade	9%	11/15/2015	1/25/2018	27	HR 7+	Concrete	96	2015-108	
Housing Trust Group, LLC	Princeton Park	Miami-Dade	9%	11/19/2015	5/26/2017	18	Garden	Concrete	150	2015-108	
2016	Blue Sky Communities, LLC	Woodwinds	Lake	SAIL/9%	3/10/2016	10/31/2016	8	Garden	Wood	96	2016-102
	Housing Trust Group, LLC	Freedom Gardens II	Hernando	4%	10/13/2016	9/28/2017	12	Garden	Wood	94	2016-109
	Birdsong Housing Partners	Palos Verdes Apartmen	Osceola	Bonds/SAIL	10/13/2016	5/29/2018	20	Garden	Concrete	120	2016-109
	Southport Development, Inc.	Delphin Downs	Escambia	Bonds/SAIL	10/13/2016	6/13/2018	20	MR-4	Wood	72	2016-109/201
	Housing Trust Group, LLC	Hammock Ridge II	Hernando	9%	12/2/2016	2/2/2018	14	MR-4	Wood	92	2016-110
	Atlantic Pacific	Northside Village	Miami-Dade	9%	12/15/2016	6/1/2018	18	HR	Concrete	120	2016-114
	Pinnacle	Verbena	Miami-Dade	9%	12/15/2016	8/28/2018	21	MR-(5-6)	Concrete	110	2016-114
	Royal American / Invictus	Parramore Oaks	Orange	9%	12/30/2016	6/12/2018	18	MR-4	Concrete	120	2016-113
	Atlantic Pacific	Saratoga Crossings	Broward	9%	12/30/2016	8/7/2018	20	MR-4	Concrete	128	2016-113
	Pinnacle	Pinnacle at Peacefield	Broward	9%	12/30/2016	10/8/2018	22	Garden	Concrete	120	2016-113
2017	Southport Development, Inc.	Palmetto Pointe	Pinellas	SAIL	10/12/2017	12/18/2018	14	MR-4	Wood	82	2017-108
	Housing Trust Group, LLC	Osprey Pointe	Pasco	4%	10/12/2017	1/25/2019	16	Garden	Wood	110	2017-108
	Cornerstone	Water's Edge	Miami-Dade	SAIL	10/12/2017	5/22/2019	20	Garden	Concrete	128	2017-108
	Housing Trust Group, LLC	Oaks at Lakeside	Manatee	9%	12/15/2017	7/23/2019	20	Garden	Wood	96	2017-111
	Atlantic Pacific	Residences at Dr. King B	Miami-Dade	9%	12/18/2017	9/23/2019	21	HR	Concrete	120	2017-112
	TVC Development	Lucas Creek	Escambia	9%	12/20/2017	1/17/2019	13	Garden	Wood	92	2017-111
	Blue Sky Communities, LLC	Clermont Ridge Senior	Lake	9%	12/20/2017	9/23/2019	21	Garden	Concrete	70	2017-111
	Greenmills	Colonnade Park	Citrus	9%	12/20/2017	9/23/2019	21	Garden	Wood	106	2017-111
	Gardner Capital	Lofts on Lemon	Sarasota	9%	12/20/2017	9/23/2019	21	MR 5-6	Concrete	76	2017-111
	Arbour Valley Development	Arbours at Hester Lake	Pasco	9%	12/20/2017	9/23/2019	21	Garden	Concrete	80	2017-111
	Atlantic Pacific	Sailboat Bend Apartmen	Broward	9%	12/28/2017	9/23/2019	21	HR	Concrete	110	2017-113
	Lewis Sweezy	Ocean Breeze	Palm Beach	9%	12/28/2017	9/23/2019	21	Garden	Concrete	123	2017-113
	Housing Trust Group, LLC	Village View	Broward	9%	12/28/2017	9/23/2019	21	HR	Concrete	100	2017-113

Note: The dates highlighted in green is the date HTG received the data from the Corporation Clerk and for which FHFC did not have CURs and therefore we believe these developments do not yet have a GC Contract.

To summarize this data, the average number of months from App Due Date to GC Contract date is:

App Year	Average # months
2014	12
2015	15
2016	17
2017	19

Also, the relevance of the municipalities permitting timeframe is unquestionable:

County	Average
Miami-Dade	20
Broward	17
Palm Beach	11

Exhibit B
MULTIFAMILY PROGRAMS

Action

II. MULTIFAMILY PROGRAMS

A. Total Development Cost Per Unit Limitations

1. Background

- a) Florida is experiencing a strong real estate construction boom across the state that started in 2014. The effects of Hurricane Irma have exacerbated the situation by creating additional new demand on new construction and substantial rehabilitation services and building supplies. The effects of Hurricane Maria evacuees have further increased the demand for housing in Florida as well.
- b) The increased demand on building supplies and construction labor in Florida has caused construction costs to increase over this time period at a greater pace than expected at the time the respective Request for Applications (RFAs) were issued.
- c) There are many Applicants who had applied to Florida Housing for funding that during this time and have received an Active Award, but have not yet started construction or rehabilitation of their proposed developments. As the Applicants enter negotiations with their prospective general contractors, it has become apparent the construction costs have escalated beyond expectations which comes with the need to obtain additional funding sources.
- d) The majority of Florida Housing's RFAs incorporate a Total Development Cost Per Unit (TDC PU) Limitation requirement that is tested at time of application, credit underwriting and, if applicable, final cost certification.
- e) As the Applicants finalize their development cost budgets and arrange for adequate sources of financing to pay these higher development costs, many find themselves in non-compliance with the TDC PU Limitation test set-forth in their respective RFA under which it applied. Non-compliance is established when an Applicant's development costs exceed the relative TDC PU Limitation and if the non-compliance excess costs exceeds five percent of the TDC PU Limitation, the credit underwriter must provide a negative recommendation to the Board when submitting the Credit Underwriting Report (CUR).

2. Present Situation

- a) Florida Housing has made efforts to maintain the viability of the developments in this predicament and continues to believe it is beneficial to deliver these much-needed affordable housing units and communities in a timely manner. An important hurdle that remains to be addressed is to reasonably accommodate a request by the stakeholders to reduce the burden of the TDC PU Limitations which would otherwise create an unreasonable financial burden on the development and its Principals or even stop its delivery.

MULTIFAMILY PROGRAMS

Action

- b) Staff has had discussions with the stakeholders about a reasonable increase in the current TDC PU Limitation to reduce this burden and believes an increase of 4.25% is reasonable, as verified with in-house data. Incorporating this proposed increase to the current RFA funding cycle, the Total Development Cost Per Unit Base Limitations, inclusive of any applicable post-application escalation factors, would be changed to those presented in the table below:

Measure	New Construction Units					Rehabilitation Units	
	Garden Wood	Garden Concrete	Mid-Rise Wood	Mid-Rise Concrete	High-Rise	Garden	Non-Garden
Maximum TDC PU Base Limitation for all counties except Broward and Miami-Dade	\$200,400	\$241,000	\$241,000	\$265,700	\$313,400	\$167,800	\$236,400
Maximum TDC PU Base Limitation for Broward and Miami-Dade Counties	\$210,300	\$252,700	\$252,700	\$278,500	\$328,600	\$176,000	\$247,900

- c) All other processes, criteria and definitions provided in the original RFAs are to remain the same. The above Base Limitation amounts do not include any TDC Add-On such as the one applicable to developments financed with tax-exempt bonds or the one applicable to Applicants who have a PHA as a Principal. If a TDC Add-On is applicable, it will be added to the above Base Limitation prior to incorporating any applicable TDC Multiplier. The above Base Limitations have incorporated the post-application escalation factors provided in the current RFA cycle and consequently, no other escalation factor shall be applied.
- d) There are some Applicants during this period that were better positioned to execute a general contractor agreement, finalize and close on its funding sources and start construction. Florida Housing does not desire to have Applicants that could complete this process timelier to have a higher standard of delivery than those who found themselves delayed in this process.

3. Recommendation

- a) Staff recommends the Board to authorize a change to the TDC PU Limitation requirements for all RFAs from the 2014-2015 RFA funding cycle (beginning with RFA 2014-111) through the current 2017-2018 RFA funding cycle (ending with RFA 2018-109) to have the same TDC PU Limitation requirements for credit underwriting and final cost certification processes (if they originally included a TDC PU Limitation process) as set-forth above.

MULTIFAMILY PROGRAMS

Action

- b) Staff recommends the Board to authorize a re-examination of credit underwriting reports and final cost certifications previously completed relative to awards in the above referenced RFAs and to re-evaluate any applicable developer fee penalties for non-compliance of the TDC PU Limitation requirements utilizing the adjusted amounts in the table above.