August 30, 2018

JD Bondurant
Director, LIHTC Programs
Virginia Housing Development Authority
601 S. Belvidere Street
Richmond, Virginia 23220

Re: Proposal to Recalculate Developer Fees

Dear JD:

The Leadership Council of the Northern Virginia Affordable Housing Alliance is writing to comment on the proposed VHDA change to the developer fee structure.

While this approach may work for smaller projects in lower cost areas, it has real negative implications for larger higher cost developments located in Northern Virginia.

<u>Current vs Proposed Developer Fees</u>. Earlier, APAH sent a summary of the developer fees for 9% new construction projects in Northern Virginia over the last several years which helped quantify our analysis. The average fee was $28,635 per unit. However, under the proposed declining fee scale, the average fee would have been $14,142 per unit. This is a 49% reduction in developer fees. As a percentage of total development costs, the proposed fees would be in the 3-6% range - too low to support the high predevelopment costs and financial guarantees required for new construction in high cost areas.

We believe that the current limits on developer fees are adequate and fair, allowing developers to earn a reasonable fee commensurate with the risk involved in bringing these projects to fruition. Currently, VHDA has discretion to review the proposed fees on individual projects and reduce them in specific cases where they may be excessive.

<u>Impact on Development of Larger Units, Infill Construction</u>. We are particularly concerned that the adoption of a per unit fee, rather than one based on total development costs, may discourage developers from producing 2- and 3-bedroom units, and from tackling ambitious infill projects, both of which are priorities for local jurisdictions in Northern Virginia.

As you know, in the development of these projects, the developer fee is viewed by the syndicators/investors, VHDA and any other participating lenders as a contingency of last resort. In the event of severe increased/unforeseen costs or adjustments, the developer fee is the remaining project source to fill the gap. We note that the entitlement process in urban areas is costly, lengthy and risky (1 to 2 years minimum), and not a given that we will succeed. For all of these reasons, syndicators and investors insist on a healthy assumed paid fee.

<u>Flexibility in Guidelines</u>. We acknowledge the National Council of State Housing Agencies (NCSHA) guidelines for *Recommended Practices in Housing Credit Allocation* that include placing limitations on developer fees either on a per unit or percentage basis:

"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" https://www.ncsha.org/wp-content/uploads/2018/02/Resource-NCSHA-Recommended-Practices-2017.pdf

However, we do not believe the proposed per unit dollar cap is "appropriate" in relationship with higher cost jurisdictions. While we know that some states have moved to this model, they tend to be more rural, with smaller projects in lower cost areas. Both Maryland and the District use a sliding scale of 5-15% of total development costs, similar to VHDA's current system.

We urge VHDA not to alter its program, which has successfully contained costs while producing high quality housing, due to a few cases of excessive fee proposals. Developer fees should be commensurate with the risk inherent in the project, and we believe a more appropriate response could be to set fees as a percentage of hard costs or development costs, rather than a fixed per unit fee.

If VHDA sees the need to re-evaluate the current model, we ask that thought be given to comparisons with states like New York, Massachusetts, California and Washington that have a similar dichotomy between high cost urban areas and lower cost areas in the balance of the state. However, much like VHDA's approach to the cost limits, *if* you are to consider a per unit basis for determining the developer fee, it should be geographically differentiated to account for significantly higher land costs and regulatory requirements in Northern Virginia. For the reasons stated above, our strong preference is to maintain the current standard of a percentage of total development costs.

Thank you for hearing our concerns.

AHC Inc. Walter Webdale, President/CEO
Alexandria Housing Development Corporation, Jon Frederick, Executive Director
Arlington Partnership for Affordable Housing (APAH), Nina Janopaul, President/CEO
Coalition for Smarter Growth, Stewart Schwartz, Executive Director
Cornerstones, Michael Scheurer, Vice President, Housing and Community Development
E and G Group, Jim Edmondson, Principal
Fellowship Square, Christy Zeitz, Executive Director
Habitat for Humanity, Northern Virginia, Jon Smoot, Executive Director
Northern Virginia Affordable Housing Alliance, Michelle Krocker, Executive Director
Stratford Capital Group, Stephen Wilson, President (Virginia Office), Principal
Wesley Housing Development Corporation, Shelley Murphy, President/CEO