From: Darren Smith [mailto:dsmith@smithhenzy.com]
Sent: Tuesday, February 27, 2018 4:37 PM
To: Trey Price <Trey.Price@floridahousing.org>; Marisa Button <Marisa.Button@floridahousing.org>
Subject: Smith & Henzy Public Comments to FHFC Proposed Rule Changes

Hi Trey and Marisa,

Attached are my comments to the proposed rule changes. Please feel free to contact me if you have any questions.

Thank you,

Darren Smith | Principal

Email: dsmith@smithhenzy.com | Mobile: 561.859.8520

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M E M O R A N D U M

To: Florida Housing Finance Corporation (“FHFC”)

From: Darren Smith

Date: 2/27/18

Re: Rule 67-21 Developer Fee

The purpose of this memo is to express my concern related to the proposed 2018 revisions to Rule 67-21 regarding reducing the developer fee for acquisition cost from 18% to 4% and reducing the overall developer fee limit from 18% to 16%. Over the last two years Smith & Henzy Advisory Group (“Smith & Henzy”) has closed three acquisition rehab projects utilizing 4% tax credits and tax-exempt debt and is currently in the process of closing two additional acquisition rehab projects in Miami-Dade County in the second quarter of 2018. As currently written, rule 67-21 has enabled us to finance these projects without relying on FHFC’s limited competitive financing resources and extend the affordability period to 30 years for all three projects. The rule has also allowed us to conduct meaningful rehabs (in excess of $40,000 per dwelling unit) to increase the tenants’ standard of living, meet local building code standards and address all life safety issues such as installing impact windows, new roofs and generators. On two of the three projects, the deferred developer fee was a significant financing source exceeding 25% of the total developer fee.

Unfortunately, the proposed rule change has come at an extremely difficult time for financing affordable housing projects. With the decrease in tax credit pricing due to tax reform, interest rate growth and an increase to construction cost, it is increasingly difficult to finance an acquisition rehab project without any competitive financing from FHFC. In this current market, most of these projects only work by deferring a significant portion of the developer fee. If FHFC enacts the proposed developer fee reductions, financing affordable housing projects will be even more difficult and less financially feasible given the reduction to acquisition credits and rehab credits associated with lower development fees. For example, one of the Miami-Dade County

projects that Smith & Henzy is closing in April 2018 would lose approximately $1.3 million of LIHTC equity based on the new proposed developer fee limits. To offset the loss of LIHTC equity we would have to reduce our scope of the rehab, such as potentially omitting HVAC or window replacements, in order to make the deal financially viable. However, cutting the rehab scope is typically not the best solution since many of these properties are over 20 years old, with deferred maintenance, and need a substantial rehab to maintain the sites long-term feasibility and marketability. In addition, the large reduction to the developer fee would discourage developers from pursuing acquisition rehabs with 4% credits and preserving the affordability of existing multifamily rental properties. The risk profile of rehabilitating a 20 - 25 year old property is extreme given the amount of unforeseen property conditions which could lead to cost overruns beyond the hard cost contingency. The current developer fee of 18% encourages developers to take on this risk and in return extend the affordability period of the property.

I would like to conclude by stating that I hope FHFC reconsiders this proposed rule change so that we can all continue to preserve our current stock of affordable housing properties in Florida. If you have any questions, please feel free to contact me at dsmith@smithhenzy.com.

Thank you,

Darren Smith
Principal
Smith & Henzy Advisory Group