**From:** Yoni Gruskin [mailto:yoni@lincolnavecap.com]
**Sent:** Tuesday, February 27, 2018 8:22 AM
**To:** Trey Price <Trey.Price@floridahousing.org>
**Cc:** Brantley Henderson <Brantley.Henderson@floridahousing.org>; Melissa Levy <Melissa.Levy@floridahousing.org>; Nancy Muller <Nancy.Muller@floridahousing.org>; Jeremy Bronfman <jeremy@lincolnavecap.com>
**Subject:** Proposed Developer Fee Reduction - Public Comment

Mr. Price:

We are greatly concerned about the proposed FHFC rule change to reduce developer fee and the impact that it will have on the LIHTC preservation market in Florida. Lincoln Avenue Capital was founded in 2016 as an affiliate of the Matthew Bronfman Family Office with a mission to buy and preserve affordable housing throughout the country. We primarily focus on areas where a combination of rental market dynamics and programmatic policies allow us to maximize the impact of available resources. As described below, lowering the cap on the developer fee will have a material adverse effect on the ability of preservation-oriented developers to execute tax credit preservation transactions and will encourage other developers to remove their properties from the program rather than resyndicate.

Many communities in Florida are experiencing severe shortages of affordable housing. Some of the properties that we own in Miami and Orlando, for example, have several year waitlists as a result of LIHTC restrictions that limit rents to a level that is 30-40% below the natural market rents for those submarkets. The affordable housing stock is becoming more scarce as market rate developers take advantage of these rent spreads to buy existing LIHTC projects and remove them from the program through the qualified contract process or the natural expiration of the rent restrictions. Florida's developer fee (18%) and well-designed Florida Housing policies have allowed Lincoln Avenue Capital and other preservation-oriented firms to compete with market rate buyers and maintain a financially feasible business model centered around preserving affordable housing units and extending rent restrictions through LIHTC resyndication transactions.

In addition to the market dynamics described above, preservation executions have become even less competitive because of the recent reduction in the corporate tax rate. Tax credit pricing has been reduced by roughly 15%, leaving deals with fewer sources. Preservation deals that worked with a thin margin prior to the 2016 election do not work anymore, and preservation structures that were clearly competitive with yield-oriented market rate buyers have lost ground. In response to the lower tax credit pricing, we have shifted our execution on many deals away from preservation resyndications in favor of cash out refinancings.

All else being equal, there are several advantages to pursuing conventional refinancings over resyndications. For one thing, the brain damage and toll on the firm's resources are much greater in a preservation deal. A successful tax credit transaction takes several months, hundreds of hours, and an incredibly difficult balancing act to split the competing interests and requirements of lenders, tax credit investors, and credit underwriters/FHFC. Second, the pursuit costs are far greater for a preservation deal, totaling several hundred thousand dollars by the time of closing to pay for third party reports, architectural drawings, legal costs, etc. Finally, tax credit transactions require substantially more developer risk than a non-recourse refinancing. In addition to spending at-risk pursuit costs, developers are required to provide various guarantees to several parties, including completion, operating deficit, and tax credit recapture guarantees. The web of guarantees both puts the developer at financial risk and

also creates substantial and complicated contingent liabilities that have to be disclosed on personal and corporate loan applications.

In other words, tax credit resyndications are difficult, cumbersome, risky and taxing on the resources and balance sheets of developers. The numbers must overwhelmingly favor a resyndication. The proposed reduction in developer fee will have an immediate impact on how we approach deals in our pipeline, starting with a deal that is currently in the credit underwriting process. Lincoln Avenue Capital bought Logan Heights Apartments out of the qualified contract process in February 2017, preserving 360 affordable units that were on the brink of transitioning to market rate. Our current plan is to resyndicate the project using 4% FHFC MMRB and debt and tax credit equity from SunTrust Community Bank. Under this contemplated transaction, we would invest approximately $25,000 per unit into the project, and extend the affordability restrictions for a full 30 years. The upgrades will include new flooring, cabinets, countertops, bathroom fixtures, energy efficiency lighting, energy efficient windows, energy-efficient HVAC units, accessibility upgrades and solar panels. The proposed cut in developer fee would cause the Project to receive approximately **$1.3 million less tax credit equity**, at which point the deferred fee will be over 100% of the total developer fee, and **the project will no longer be viable**. If the proposed developer fee reduction occurs, we will have no choice but to withdraw our MMRB and non-competitive 4% application, and refinance the loan without investing in CapEx and extending the rent restrictions. The table below illustrates the impact to the Logan Heights Project from the proposed rule change:

| Logan Heights - Source Comparison | | |
|---|---|---|
| Tax Credit Equity With Current Developer Fee (18%) | $ | 14,141,039 |
| Tax Credit Equity With Revised Developer Fee Structure (4%/16%) | $ | 12,817,708 |
| Difference in Tax Credit Equity | $ | (1,323,331) |
| Cash Developer Fee (18%) | $ | 1,527,064 |
| Deferred Developer Fee (18%) | $ | 5,693,818 |
| Cash Developer Fee (4%/16%) | $ | (452,159) |
| Deferred Developer Fee (4%/16%) | | Over 100% Deferred |

Logan Heights provides just one poignant example of the impact that the reduced developer fee would have on the 12 (and counting) Florida projects in our portfolio. On the whole, preservation deals will become less feasible and over time the number and quality of affordable units in Florida will decline. Please feel free to reach out directly to me if you wish to discuss the impact that this will have on our plans to preserve affordable housing in Florida.

Best,
Yoni

**Yoni Gruskin**
Managing Director, **Lincoln Avenue Capital**
(424)222-8259 | (303)489-7187|
http://lincolnavecap.com/ |
201 Santa Monica Blvd, Suite 550, Santa Monica, CA 90401

---

IMPORTANT: The contents of this email and any attachments are confidential. They are intended for the named recipient(s) only. If you have received this email by mistake, please notify the sender immediately and do not disclose the contents to anyone or make copies thereof.