From: Yolanda Winstead [mailto:Yolanda.Winstead@greyco.com]
Sent: Wednesday, February 28, 2018 12:49 PM
To: Trey Price <Trey.Price@floridahousing.org>
Cc: Tanya Eastwood <Tanya.Eastwood@greyco.com>; Will Eckstein <Will.Eckstein@greyco.com>; Campbell Brown <Campbell.Brown@greyco.com>
Subject: Comments Regarding Rule Chapter 67-21

Mr. Price,
Thank you for the opportunity to comment during the 2018 Rule Development Process. Attached please find Greystone Affordable Development's comments to FHFC's 2-16-18 draft of Rule Chapter 67-21, FAC. We would be glad to discuss our concerns further if there are any questions.

Yolanda Winstead | **Vice President of Finance**
Greystone Affordable Development | www.greycoaffordabledev.com |www.greyco.com
4205 Lake Boone Trail, Suite 209, Raleigh, NC 27607-3080
yolanda.winstead@greyco.com |o: 919.573.7517 m: 984.209.2574

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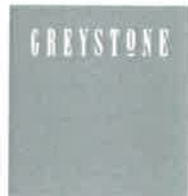

VIA Email: Trey.Price@floridahousing.org

February 27, 2018

Trey Price, Executive Director
Florida Housing Finance Corporation
227 North Bronough Street, Suite 5000
Tallahassee, FL 32301

Re: Comments Regarding Rule Chapters 67-21

Thank you for the opportunity to comment on the 2-16-18 draft of Rule Chapter 67-21. We appreciate and respect that FHFC is required to ensure effective and efficient allocation and utilization of the Housing Credit Program, which includes not authorizing fees for duplicative services or duplicative overhead. However, if enacted, the reduction of developer fee on the building acquisition costs would substantially limit the ability of USDA property owners to structure financially feasible state-wide preservation transactions using bonds and 4% LIHTC.

Greystone Affordable Development (Greystone) continues as the nation's leader in preservation of affordable rental housing in rural markets. Over the past several years, we have facilitated the acquisition and rehabilitation of over 10,000 housing units (256 properties) across 10 different states, including the 24 properties that make up the Hallmark Preservation Portfolio in Florida. Such preservation efforts of aged and at-risk USDA Section 515 housing has primarily been successfully completed utilizing LIHTCs in large statewide portfolio tax-exempt bond transactions.

The average unit size of a USDA multifamily property is 36 units and can sometimes be as small as eight units. As you are keenly aware, there are very limited financing opportunities available to support the acquisition and rehabilitation of a large portfolio of very small properties. While it may be possible to do one or two properties each year via the 9% LIHTC competitive cycle, a portfolio (or pooled) tax-exempt bond transaction with 4% LIHTCs is virtually the only viable option for large-scale preservation and the most cost effective and efficient model currently available to preserve and rehabilitate these properties. It also allows a developer to pool enough units to attract interest from investors typically not interested in deploying capital into rural markets. Individual rural properties cannot be preserved using 4% tax-exempt bonds as the bond costs, and legal fees cannot be supported. A stay in Owner/Developer is likely the only candidate that will have the resources to secure the properties in the portfolio in order to re-syndicate.

One of the most critical components in structuring these USDA transactions is the Multi-Family Housing Preservation & Revitalization (MPR) program, which offers favorable financing tools such as the assumption and deferral of existing debt as well as 0% - 1% new 515 program debt. Yet, even with these tools, the transactions may still require additional financing due to the low market rents in rural markets restricting the properties' ability to increase rents and therefore afford new debt. This secondary financing will have to be subordinated to the existing USDA debt that will be assumed with the acquisition of the properties. Subordinate long-term loans are not attractive to conventional and private lenders and with limited availability of other soft funding resources, seller financing is often the only alternative. Only a seller with long-term involvement in the operations of the properties is likely to make such a loan. As a result, an

Owner/Developer does not receive a windfall of cash proceeds at closing and essentially invests those proceeds in the properties for as long as 30 additional years. Even before it is ear marked as a source of permanent funding, the sales proceeds are often the source used to fund the buyout/exit of a limited partner or partners from the existing partnerships in order to position the properties for redevelopment. This is especially true for the potential re-syndication of expiring tax credit properties with corporate investors as the limited partner. Consequently, with the sales proceeds reinvested to fund the purchase of the properties, developer fees account for the majority of the compensation that an Owner/Developer can truly expect to make in these-transactions.

The Owner/Developer of a preservation transaction utilizing non-competitive 4% LIHTCs should receive the same compensation as a developer utilizing the competitive 9% LIHTC program because they are taking the same amount of risk to get the transaction closed and the property rehabilitated. Not allowing developer fee to be generated through the purchase of the existing structures unfairly penalizes an Owner/Developer that is already deferring the benefits of reinvestment in the properties for well beyond the tax credit compliance period as a mechanism to make the transaction viable.

Furthermore, developer fee is often a vital tool in mitigating risks from an equity investor's perspective. It is often difficult for even the most experienced developers to meet the net worth and liquidity standards required by the investors. Investors are often willing to offset these requirements, by holding back payment of cash developer fee. Properties in portfolio transactions are rehabilitated with tenants in place. As such, net operating income or cash flow during operations is typically a source of funds through construction. Investors view this source as a stressor on the cash developer fee and guarantor strength. From a risk perspective, limiting developer fee in acquisition/rehabilitation transactions again creates a disadvantage for the developer of a 4% LIHTC preservation transaction that does not extend to a developer using the 9% LIHTC program.

The Rules already require appraisals to determine the fair market value of the properties, to ensure that the sales prices are not inflated and to safeguard against an Owner/Developer being unduly enriched. Furthermore, the market value of the properties are inherently constrained by the long-term income and regulatory restrictions under the USDA programs. This in itself limits the pool of potential buyers for these properties making them less attractive to the general real estate market. Eliminating the ability to include the costs of the existing structures in the full calculation of developer fee in these preservation transactions will add a potentially insurmountable obstacle to the challenges already faced in structuring financially feasible preservation portfolio transactions.

Therefore, we urge FHFC to maintain the developer fee limit of 18% of Development Costs including the building acquisition costs in the calculation.

Sincerely,

Greystone Affordable Development

Tanya Eastwood
President