September 13, 2016

Mr. Steve Auger
Executive Director
Florida Housing Finance Corp.
227 N. Bronough Street, Suite 5000
Tallahassee, FL 32301

**Re: Affordability Periods**

Dear Mr. Auger:

Thank you to both you and the Board for allowing stakeholder partners the opportunity to continue the dialogue with FHFC regarding reduced affordability periods. The current thinking that has been in place many years provides affordability periods of 50 years for developments funded by FHFC using 9% credits or SAIL.

I first discussed this topic with the FHFC Board at its strategic planning workshop in St. Augustine, Florida in January, 2014. Thereafter, FHFC posted material on its website providing information on how other states govern affordability periods in addition to periodic public discussions with the FHFC Board at its Board meetings. The information provided by FHFC detailed approximately two thirds of states with affordability periods less than 50 years. In fact, in 2013 the State of Texas reduced its affordability period from 40 years to 35 years.

In July 2016 the Board agreed to further discuss this topic at its September, 2016 Board meeting. The reason affordability periods are topical and relevant now is simple; a number of developments that are funded by FHFC with 50 year set asides are now reaching 15 years of age or older. This trend will obviously continue to grow in the coming years and it is time to reflect and evaluate the wisdom of 50 year affordability periods in light of our aging housing stock. Recently, The Coalition of Affordable Housing Providers reflected on the length of the current extended use period and reached consensus that the affordability period should be reduced to 30 years.

The core issue is very straight forward and well documented; housing stock built in Florida, both affordable and market rate, does not have a useful life of 50 years. It is that simple. I was not involved in our industry when the 50 year thinking was implemented but I now see the aging process of developments statewide.

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The concern is not the first 15 or 20 years post construction as the wear and tear after 15 years is manageable; however, like all housing stock, when the developments reach approximately age 30 or beyond, the housing requires substantial reinvestment. Accordingly, it is prudent to objectively reflect on the 50 year affordability period policy and discuss reducing the term for new deals and determining strategies for existing developments. Ignoring this issue is counterproductive. We can and should discuss this issue and implement solutions.

There is little debate surrounding the reality that a significant rehab will be required of the housing stock after approximately 30 years. If the affordability period ended after 30 years, the owner of the development could pursue market driven financing alternatives to rehabilitate and refinance the 30 year old development. Whether or not there are income or rent restrictions, almost all of the developments will remain "affordable". Why? Simply because this older housing stock in most locations will still command rents in keeping with housing stock of its age, caliber and location. However, the developments will procure fresh capital to reinvest in the property. Could rents go up in such a scenario? Yes, but relative only to the age, quality and location of the development.

Opponents to this approach argue many developments will transition to market rate after the affordability periods end and thus displace residents. That may occur but for only a small fraction of the FHFC portfolio. Most developments will remain "C" class developments and provide reasonable rents with an enhanced product for years to come.

If a major rehabilitation does not occur around year 30, owners and residents living in such housing are faced with a dilemma. How do we prevent such developments from becoming sub-standard over the next 20 years? Today there are no clear answers to this question and thus the need to be proactive and discuss this important issue now. No subsidies or programs exist today to universally assist this aging housing stock. The private sector offers the only definitive option. Debating if tax credits or SAIL or any other subsidy will be available down the road is difficult. We have all lived the unpredictability of SAIL and other subsidy programs. The private sector refinancing options coupled with knowing that almost all of the housing stock will remain reasonably priced is simply logical and prudent.

Interestingly, HUD's Office of Policy Development and Research published a report in August, 2012 titled *What Happens to Low-Income Housing Tax Credit Properties at Year 15 and Beyond?* The executive summary concluded "We do not recommend that states extend use restrictions beyond 30 years because of the trade-offs required". HUD has learned many lessons over the years and perhaps none as important as this one.

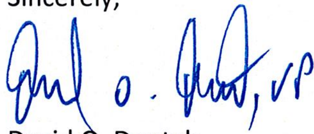
The following are two real examples of this discussion. Pinnacle owns a tax credit property in South Florida that recently turned 40 years old. We purchased it 15 years ago and did a rehab to better serve its existing residents and surrounding community. The property is concrete block, not wood. We have 15 years of affordability restrictions remaining but the property is functionally obsolete. Structural, mechanical, HVAC, electric and plumbing systems are in need of dramatic improvements. The proceeds we have available now will only scratch the surface of its needs. We are maintaining the property as best we can but it is not something that enhances the community or services its residents well. The next 15 years will see continued decline for obvious reasons until the affordability period ends and the

property can access the capital markets for a major rehab. This is not the type of situation we all desire or relish but it is the essence of seeing FHFC housing stock age.

A second example is a rehab we performed on the West Coast of Florida, a concrete block development that was functionally obsolete. The development procured 9% credits to finance a gut/rehab. The cost of the rehab was similar to new construction. Luckily, 9% credits provided the financing tool to correct this substandard housing stock. However, relying on 9% credits to solve this issue of aging housing stock will fall well short of meeting FHFC's needs and will also take away funds from new construction.

I thank you for the opportunity to discuss this important policy and I hope you and the Board will continue engaging in a thoughtful approach to affordability periods in order to soon implement reasonable solutions to this difficult issue.

Sincerely,



David O. Deutch
Vice President