

Office of Housing (OH) NOFA Review Guidelines for 2019

Purpose

The Office of Housing is providing guidance and insight into key underwriting criteria examined during the Notice of Funding Availability (NOFA) review process. Limited resources and an increase in applications has resulted in fewer funding resources to reach every project. In the spirit of transparency, these guidelines are meant to show applicants how OH evaluates key items and project budgets. OH recognizes that applications reflect preliminary budgets that do not reflect actual construction bids, financing terms, etc., and that many of these initial estimates will not be the final estimate. However, to allow for consistency during the underwrites, OH **strongly encourages** applicants to review and apply these guidelines when applying for funding from OH.

Disclaimer: Various criteria go into each funding decision and award. Following these guidelines does not guarantee a funding award.

Underwriting Assumptions

Construction Loan Interest	4.25%
Total Soft Cost	Between 10–12% of total development cost
Total Project Contingency	No more than 10%
Equipment and Furnishings	lesser of \$100k or less than 1% of project hard costs
LIHTC Equity Pricing	\$0.95
Debt Service Coverage Ratio (DSCR)	1.15
Permanent Debt Interest	5.00%

Operating Proforma

Annual Rent Increase	2.5%
Annual Expense Increase	3%
Management– Off Site	Max of 7% of annual operating expenses
Replacement Reserves	\$350 per unit/per year
Operating Reserves	Up to 6 months of operating expenses (excluding service expenses)

Below is narrative guidance that further explains the underwriting assumptions in the chart. This guidance is provided to help applicants achieve the most competitive application.

Development Budget

Construction Loan Interest

Construction loan interest should be modeled at 4.25%. Calculations should be assumed based on the realistic amount of time the construction loan will be drawn. For example, if the project is not going to draw on the construction loan proceeds from construction lender until after 60% of construction completion, the construction loan interest in the development budget should be sized based on the amount of time the construction loan would be drawn, i.e. 60% of the construction loan for 12 months.

Construction Fee and Expenses

Based on the most competitive Letter of Interest (LOI). Applicants can explain or demonstrate how terms used in the proposed budget are most competitive. References to recently-completed projects should be supported by an existing cost certification.

Third Party Construction Estimates

Non-GC third party construction estimates are **strongly encouraged** and are an eligible *other consultants costs*.

Soft Cost

On average, soft costs should range from 10–12% of the TDC. Applicants should aim to keep soft cost at or below this average to remain competitive.

Contingencies

Total project contingencies should not exceed 10% of hard costs, with an understanding that, as the project moves towards finance closing, contingencies like the *design contingency* would be greatly reduced or all together eliminated. For illustration purposes, please refer to the sample contingencies are outlined here:

Owner's	5%
Contractor	3%
Escalation/Design	2%
Soft Cost	1%–2% of soft costs

Equipment and Furnishings

OH typically sees equipment and furnishings the lesser of \$100k or less than 1% of project hard costs. For costs greater than \$100k or 1%, a more comprehensive narrative will be sought from the sponsor for justification.

Syndication Consultant and Other Consultants

Consultants, like syndication consultants, should be covered by developer's cash fee. OH understands that some consultants, like acoustic consultants, would be outside of developer fee but it should be covered under the architect contract. Please contact your OH project manager prior to application submission to make sure the consultant would be acceptable under *other consultants costs*.

Permit Fees and Expenses

Should be approximately equal to Seattle Department of Construction & Inspections (SDCI) estimates and charges. Applicants should use SDCI's 2019 Fee Estimator.

LIHTC Pricing

Applicants should assume LIHTC pricing at \$0.95. This amount is an average based on current pricing OH has seen across projects applying for LIHTC in 2019. This is an attempt to help establish a baseline to review projects. OH understands this amount is subject to change depending upon conditions of the project and strength of borrower.

LIHTC Request

Projects should assume the maximum equity based on the maximum LIHTC credit under current WSHFC policies. All LIHTC equity should be used to develop the affordable units in the residential portion of the property. OH has noticed that this can be tricky, as the WSHFC forms show equity as the "gap", the applicant must back into this number assuming that OH is the "gap".

Evergreen Sustainable Development Standards (ESDS)

OH anticipates projects to at least meet the minimum ESDS requirements. If the project exceeds the minimum, OH will require a more comprehensive narrative as to how the incorporation of additional ESDS measures will be cost effective and is critical to the long-term operations of the project.

WSHFC Cost Limits

Projects must be at or below Washington State Housing Finance Commission (WSHFC) Cost limits. Projects over WSHFC's cost limits will not be deemed competitive.

Sources of Financing

Debt

Projects seeking permanent loans should maximize the projects borrowing capacity. Debt Service Coverage Ratio (DSCR) should be set at 1.15 for all debt, and the maximum OH loan is 40% of the Total Residential Cost (TRC). In addition, applicants should assume construction loan interest is 4.25% and perm debt interest is 5.00%.

Operating Pro Forma

Rents and Expenses

Applicants should use the most current OH 2019 rent schedule. Rents should increase at 2.5% and expenses should increase at 3%. If the project is a 4% LIHTC deal, the sponsor must include service expenses "below the line" to maximize the debt.

Operating Reserves

No more than 6 months of operating expenses (excluding service expenses) and no hard debt service should be capitalized in the sources of financing.

Replacement Reserves

Applicants should use \$350 per unit per year.

Management Off-Site

On average, OH is seeing no more than 7% of annual operating expenses.