MSHDA
MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

MEMORANDUM

TO: INTERESTED PARTIES

FROM: ELIZABETH A. RADEMACHER – LIHTC MANAGER

SUBJECT: EMERGING DEVELOPERS GUIDANCE

DATE: NOVEMBER 15, 2023

The 2024-2025 Qualified Allocation Plan (QAP) focuses on creating new opportunities for Emerging Developers in the state of Michigan. With the high level of need for housing throughout the state as evidenced by the Statewide Housing Plan and the Governor's goal of 75,000 housing units, the housing delivery system within the state can benefit from additional professional capacity to keep up with statewide housing demand.

The term Emerging Developer is used to describe a wide range of individuals or entities that are seeking to but have not yet fully established themselves as an experienced developer with the resources to independently navigate the challenges that come with developing housing throughout the state. This may include newer for-profit and non-profit developers with a unique perspective or specific focus area, Tribes that are looking to serve specific housing needs and areas, housing commissions that want to grow their development capacity, etc. Emerging Developers often have a unique perspective or focus area, a connection to a local community or population, and the potential to further diversify the statewide housing development community and enhance statewide housing development capacity. However, Emerging Developers may lack the financial resources for pre-development costs and to overcome unexpected challenges, the human resources to manage the various components of a development, the professional relationships and connections to assemble a strong development team, the track record to easily attract investors, or the specific technical knowledge to navigate complex federal programs. Each of these areas is critical to successfully developing and operating a large housing development and without them, the likelihood of a development being successfully completed is less. On the other hand, through years of successful experience, experienced developers and other established development team members have a significant amount of capacity in these areas.

The Emerging Developer policy in the 2024-2025 QAP is premised on the idea that a good partnership between an emerging developer and an experienced developer multiplies the strengths and counterbalances the weaknesses of each party while also safely starting emerging developers down the path of becoming an experienced developer who will boost Michigan's statewide development capacity. In order for this to be achieved, it is imperative that this partnership have the following characteristics:

- The experienced partner must add stability to the partnership. Many emerging developers will not have the financial resources to overcome significant challenges or the technical knowledge and systems to navigate the development process efficiently. The experienced developer must have these characteristics to best ensure the project is successful for both parties.

- The partnership structure must be fair. Each party has value that they are bringing to the partnership so each should be compensated appropriately. The goal of furthering the capacity of emerging developers should be at the forefront when structuring these partnerships.

- It may require multiple developments before an Emerging Developer has accumulated the financial and technical capacity to develop independently. Partnerships should be formed with long-term goals in mind. This does not mean that the emerging developer and experienced developer would need to commit to a multi-deal partnership; however, each party should have their own long-term strategy for how they are contributing (either through mentoring an emerging developer or becoming an emerging developer) to the housing goals throughout the state. That strategy should shape how the partnership is formed.

- The partnership should align with the housing goals of creating additional statewide development capacity in areas that are historically tougher to serve and/or diversifying and growing the development industry in order to better meet statewide housing needs.

- Any entity intending to enter into a partnership as either an emerging or experienced developer is expected to perform their own due diligence on other members of the partnership. Please contact MSHDA at least 30 days prior to the funding round deadline to discuss any questions regarding other partners.

In the 2024-2025 QAP, the Strategic Investment Category now includes a specific reference to Emerging Developer projects as a way of meeting the Strategic Investment Category. In selecting projects that best meet the goals of the Emerging Developer category, the following general criteria will be utilized:

- **Engagement of all Partners**
    - Emerging Developer partnerships should have active engagement from both the emerging developer and the experienced developer(s). The emerging developer should be engaged to learn the process with rights under the partnership and likewise the experienced partner(s) should be engaged to assist with decision making and advisement to utilize their experience. Partnerships that demonstrate an optimal balance of roles and responsibilities will be prioritized.

- **Financial Incentives**
    - In LIHTC developments, the financial incentives to the developer generally consist of Developer Fee, Ongoing Cash Flow, and Disposition Proceeds. A partnership between an emerging developer and an experienced developer(s) must include a fair split of the developer fee, ongoing cash flow, and disposition proceeds. If the Emerging Developer is a 25% partner, MSHDA will generally expect that they are at least earning 25% of the benefits through developer fee, ongoing cash flow, and disposition

proceeds. Partnerships that recognize a greater contribution of time and energy from the emerging developer and therefore allow the emerging developer to have a larger share of the benefits will be prioritized.

- **Risk to the Emerging Developer**
  - Development challenges are more difficult to weather for a new developer that does not have substantial financial capacity. In Emerging Developer partnerships, MSHDA expects that the experienced developer(s) will be providing the necessary guarantees throughout pre-development, construction, and operations in order to effectively manage the risk to the emerging developer. Partnerships where the experienced developer(s) shoulders these risks will be prioritized in this category.

- **Long-Term Goals**
  - Building capacity in emerging developers will require a long-term, multi-development approach. The goal is to promote emerging developers who are on a mission to eventually grow into experienced developers that will increase development capacity throughout all areas of the state and diversify the affordable housing industry. Identifying emerging developers who have long-term goals is a key component. Partnerships that can identify long-term goals and strategies and how the development that is being applied for is a key component in furthering that long-term strategy will be prioritized.

- **Focus on Local Community**
  - Part of the intent of the emerging developer is to promote local capacity, to eventually grow experienced, local teams to increase development capacity throughout all areas of the state. Identifying local emerging developments who are committed to their communities and meeting the goals of their local plans is a key component. Partnerships that commit to continued development in their communities will be prioritized.

The documentation submitted in the LIHTC application needs to be consistent and clearly support the narrative for these projects. These should be documented in a) a formal legal agreement that clearly outlines the risk, roles and responsibilities for each partner and b) the project and/or strategic exhibit narratives included in the funding round submission. Absence of documentation or non-submission of any of the items listed above from that agreement will cause any submitted application to be ineligible for consideration for funding under this section of the Strategic Category.

MSHDA has received other questions related to these partnerships. Some additional information regarding any Emerging Partnerships projects follows:

- Established development teams, their owners, members, and/or others that are known to the industry will not be eligible to be considered as emerging developers. This includes related party entities, consultants, general contractors, and other similar individuals or entities.

- Allocation in this section is intended to refer to an award of credit, including 9% LIHTC announcements and/or reservations. These may be in any LIHTC program (9%, 4% Direct Lending, 4% Pass-through, or others as applicable) in any state and in any year.

Examples of anticipated emerging developer partnerships:

- A community in Michigan's thumb area has great need for low-income housing in their jurisdiction, and the housing commission has a few plots of vacant land that might be good for new construction. Unfortunately, building a new complex is impossible on the city budget, and the housing commission has only been a part of one LIHTC development before. The process was complicated, and it's been a while since they did it. They aren't sure they have a solid grasp of rules that have changed since their last project. The housing commission enters a partnership with an experienced LIHTC developer. The housing commission will get a portion of the developer fee, plus the experienced developer can help the staff learn the new parts of the LIHTC program.

- The tribally designated housing entity for a federally recognized tribe within the bounds of what is identified as the State of Michigan has housing, but much of it is aged and there really isn't enough of it for the members that need it. The tribe, through their tribally designated housing entity, would like to rehabilitate the aged housing and build new units on land under tribal control. Many of the housing units they have already have income restrictions, but none are specifically part of the LIHTC program. They enter a partnership with an experienced development team that would like to support the tribe's housing goals. In the partnership, the tribe will receive part of the development fee, ongoing cash flow, and disposition proceeds as the housing is built and be able to use that to support future projects. They'll also be able to add knowledge of the LIHTC program to their knowledge of other income-restricted housing programs.

- Nova started a business flipping houses in one of Detroit's neighborhoods as stress relief in college. They found they really liked contributing to getting people into homes. Nova just graduated with a business degree and heard about the LIHTC program at an industry event. It might be a good fit, but they don't know enough about it – and those balance sheet requirements are way outside of their ability to fulfill. Nova partners with an experienced developer, benefitting from the experienced developer's ability to provide guarantees. They're able to meet more contacts in the industry, learn about the process and requirements and the portion of developer fee they earn can help them start their own company.

- A development team in a downtown neighborhood of one of Michigan's cities can see a need for low-income housing within the neighborhood they serve. Households are overburdened and units are being over occupied as people try to make ends meet. The team believes the market is perfect for LIHTC development, but they aren't sure how or where to start. They form a partnership with an experienced LIHTC developer that can help them through the process and point out possible stumbling blocks within the program. They learn a lot about selecting sites, putting together an application and gain useful contacts in the industry. The neighborhood development team plans to do a series of a few projects with the experienced team, after which the neighborhood team thinks they will be able to complete subsequent projects on their own.