Attachment D: Developer Fee Guidelines for Affordable Multifamily Rental Projects

Developer Fee Overview

In recognition of the time, effort, overhead costs, and risk associated with an affordable housing development project, a developer fee is commonly included in the total development cost budget. The amount of the fee which may be eligible for tax credits under the low income housing tax credit program is limited by Arizona Department of Housing (ADOH) regulations.

Performed by the developer's staff or by third party consultants, the developer fee includes payment for project planning, financial engineering and managing the development process. Examples of such services include entitlement processing, project management, negotiation of financing, construction management, financial structuring of tax credit projects and cost overruns. If consultants are used to perform services customarily performed or provided by developers any payment to the consultant will be deducted from the developer fee that otherwise may be paid.

Payment of developer fee is limited by the amount of cash available in the development budget. Frequently in multifamily development projects, financing sources are insufficient to pay 100% of the allowed developer fee. In this case, a portion of the fee may be deferred and is to be reflected by a deferred developer fee note. In general, developer fees are paid out of the developer's share of cash flow when a Cash Flow Loan is in place.

Allowable Developer Fees

City loans cannot be used to pay any portion of the developer's fee. The Department will allow the following developer fees to be included within the development cost budget; however, they may not be eligible costs for direct City reimbursement.

- New Construction:
  - Up to 5% of the acquisition cost
  - Up to 12% of the construction cost
  - Construction costs exclude capitalized reserves, permanent loan fees, and soft costs incurred for project start up (marketing, lease-up reserves, organizational expenses, audit costs, etc.)
  - Combined total fee may not exceed $1,000,000
  - Adjacent projects developed by the same sponsor that begin construction within 15 months of each other will be treated as one project for purposes of determining the allowable fee.

- Acquisition/Rehabilitation:
  - Up to 5% of the acquisition cost
  - Up to 12% of the rehabilitation cost
  - Rehabilitation costs exclude capitalized reserves, permanent loan fees, and soft costs incurred for project start up (marketing, lease-up reserves, organizational expenses, audit costs, etc.)

- Combined total fee may not exceed $1,000,000

- Rehabilitation Only:

  No developer fee is allowed

  For projects subject to Arizona Department of Housing (ADOH) regulations due to the use of low income housing tax credits, ADOH regulations for developer fee shall prevail in lieu of these City requirements.

- Distribution of Developer Fees:

Developer fees that are not deferred may be distributed as follows, subject to the approval of other project lenders, tax credit equity investor, etc.:

1/3 at the close of all construction loans
1/3 in progress payments during construction
1/3 at 90% occupancy and receipt of all tenant certifications for restricted units