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***Consolidated and Further Continuing
Appropriations Act of 2012:
Required Market Analysis
for HOME Projects***

June 11, 2012

Office of Affordable Housing Programs, HUD

Welcome!



Welcome and Introductions

- HUD welcome
 - Marcia Sigal, OAHP
 - Tim Colon, OAHP
- Trainer introductions
 - Marsha Tonkovich, ICF
 - Maxine Mitchell, Applied Real Estate Analysis (AREA), Inc.
 - Robert Miller, Applied Real Estate Analysis (AREA), Inc.

Agenda

- Presentation on key topics:
 - FY 2012 HOME Appropriations Law requirements
 - Market analysis policies and procedures
 - Topics in housing market analysis
 - Key components of rental market analysis reports
 - Key components of for-sale housing market analysis
 - Questions
 - FAQ will follow webinar

Q & A Format

- How to ask questions
 - Change status in Live Meeting from **green** to **purple**
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FY 2012 HOME Appropriations Law Requirements

- View recorded Overview webinar at:
<https://www.hometa.info/index.cfm?do=viewWebinarTrainings>
- Brief recap:
 - Imposed by the *Consolidated and Further Continuing Appropriations Act of 2012 (P.L 112-55)*
 - ‘Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements’ (CPD Notice 12-007)
 - Different than proposed HOME Rule
 - Applies to all 2012 HOME projects, including all 2012 CHDO set-aside funds
 - Defined as any HOME activity set up in IDIS under a 2012 Consolidated Plan/Annual Action Plan Project

FY 2012 HOME Appropriations Law Requirements (cont)

- Brief recap – 4 key requirements:
 - 1) Projects must be completed and ready for occupancy within 4 years of the date the written agreement is executed, or the HOME investment must be repaid
 - 2) Before executing a legally binding written agreement, a PJ must:
 - a) Conduct an underwriting review;
 - b) Assess developer's capacity and fiscal soundness;
 - c) Examine neighborhood market conditions to ensure adequate need for each project.

FY 2012 HOME Appropriations Law Requirements (cont)

- Brief recap continued:
 - 3) PJs must convert all homebuyer units that have not been sold to a homebuyer within 6 months of construction completion to HOME rental units, or repay the HOME investment
 - 4) A PJ may not reserve FY 2012 funds to a CHDO for development activities unless it has determined that the CHDO has staff with demonstrated development experience

Webinar Series

Posted Online	Overview of the FY 2012 Appropriations Law Requirements
Mon. June 4 th	Recent IDIS Changes Affecting HOME PJs
Mon. June 11 th	Market Analysis
Thur. June 14 th	Underwriting & Developer Capacity for <u>Homebuyer</u> Projects
Mon. June 18 th	Deadline for Sale of Homebuyer Units
Thur. June 21 st	Underwriting & Developer Capacity for <u>Rental</u> Projects
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Mon. July 10 th	For CHDOs: Understanding the CHDO Development Capacity Requirement

Market Assessment Requirement

- Must conduct assessment of neighborhood market before entering into legally binding agreement for project
 - Ensure adequate need for each project, including reviewing neighborhood market data
 - Applies to both homebuyer and rental projects where development is occurring
 - Includes acquisition, rehabilitation, new construction, downpayment assistance
- PJ must develop written policies & procedures for assessing & documenting market need
- Via IDIS, PJ must certify to compliance

Market Assessment Requirement (cont)

- PJ is not required to pay for external market assessment
- PJ could:
 - Conduct a market assessment in-house using available data – does not necessarily need to be a formal market study, depending on project
 - Contract for a market assessment
 - Review and document market assessment conducted by developer, partner, other funder such as state

Revised Commitment Certification

The screenshot shows the IDIS web application interface. At the top, the browser address bar displays the URL: <https://www5.hud.gov/idis/funding.do?submit=Add-Edit%20Activity%20Funding%20Details&id=900000000266552&key=536538b24f004b251ec98bc9fecc3d8&init=0>. The page header identifies the user as 'User ID: H19720' and 'User Role: Grantee' from the 'Organization: NEW HAVEN'. A navigation menu includes 'Plans/Projects/Activities', 'Funding/Drawdown', 'Grant', 'Grantee/PJ', 'Admin', and 'Reports'. A prominent orange banner states: 'You have 9 HOME activities that have been flagged. Click [here](#) to review them.'

The main content area is titled 'Activity Funding' and contains a 'HOME Activity Funding Certification' section. The certification text reads: 'By requesting the disbursement of Federal funds, the representative of the Participating Jurisdiction using this system certifies that he/she is authorized to execute the certifications set forth herein, and, on behalf of the Participating Jurisdiction, further certifies that, in accordance with the requirements in 24 CFR Part 92:'

- (i) the Participating Jurisdiction has fully executed a written agreement that meets the requirements of the regulations applicable to the IDIS activity for which the funds are to be used;
- (ii) the IDIS activity for which the funds are to be used meets the definition of a commitment and the requirements of the definition of a commitment pursuant to the regulations applicable to the IDIS activity;
- (iii) the Participating Jurisdiction has not drawn and will not draw funds for the IDIS activity unless it has fully executed a written agreement committing the funds;
- (iv) for HOME projects identified as 2012 Action Plan activities in IDIS, if the activity involves acquisition, construction, or rehabilitation of rental or homebuyer projects, including downpayment assistance, the Participating Jurisdiction has conducted an underwriting review, assessed developer capacity and fiscal soundness, and examined neighborhood market conditions to ensure adequate need for the project for which these funds are to be used, and
- (v) all of the statements and claims made herein are true and correct. Pursuant to 18 USC § 1001, 31 USC § 3729, et seq., and 24 CFR Part 28, false or fraudulent statements or claims are subject to up to 5 years imprisonment and civil penalties up to \$10,000 plus up to 3 times the amount of damages sustained by the Government for each fraudulent act committed.

At the bottom of the certification area, there are two buttons: 'I agree. Continue to Add-Edit Funding Details' and 'I disagree. Return to Add-Edit Funding'.

The left sidebar contains navigation links for 'Activity Funding', 'Drawdown', 'Receipt', 'Utilities', and 'Links'. The Windows taskbar at the bottom shows the system clock as 3:33 PM on June 4, 2012.

Market Analysis Policies & Procedures

- Should cover topics such as:
 - How will it be conducted (in-house, contracted, review of assessments by others)?
 - Which division/staff are responsible?
 - When will it be conducted (point in process)?
 - How will PJ reach out to potential applicants to explain requirements?
 - What content will be required?
 - What criteria/threshold will demonstrate adequate market need?
 - Who is responsible for certification?
 - How will PJ document compliance?

Tie Between Market Analysis & Program Design

- Requirement applies to each 2012 HOME-assisted development ***project***
- Must occur in context of ***program*** design
 - Design should take into account:
 - Types of needed housing
 - Target locations/neighborhoods
 - Target household types
 - Format/amount of available subsidy
 - Project assessment should be tied to program design decisions

Tie Between Market Analysis & Program Design (cont)

- Consolidated Plan & Annual Action Plan are vehicle for determining & explaining program design decisions to public/partners
 - Consolidated Plan must be based on market assessment
 - New Consolidated Plan template & mapping tool assist with this (more later on tools)
 - PJs required to use new approach starting with Consolidated Plans submitted after November 2012
 - After Consolidated Plan/Annual Action Plan developed, tie project market assessments back to location/household/program targeting decisions made in plan

Questions?

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Key Market Analysis Questions

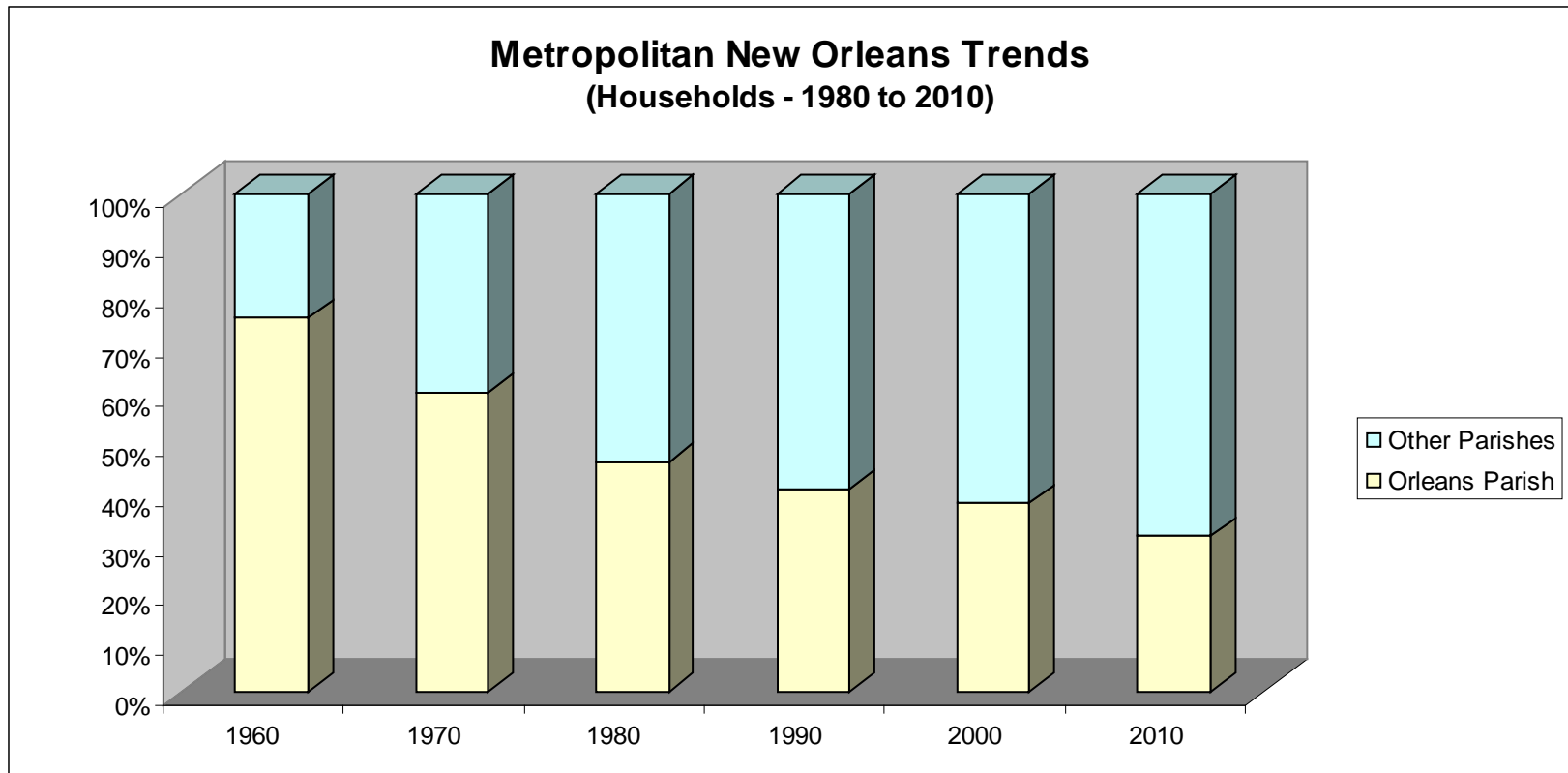
- Has a need for the type and number of housing units been convincingly demonstrated?
- Will developer/program be able to sell the planned homebuyer units prior to the six-month deadline?
- Will developer/program be able to lease-up the planned rental units as expected, e.g. within the timeframe specified in the project pro-forma?
- Will the development adversely impact existing affordable housing developments?

Market Analysis Topics

- Housing demand
- Demographic trends
- Housing supply
- Construction trends
- Vacancy rates
- Market context
 - Project area/neighborhood
 - Metropolitan wide
 - County wide
 - Other broad market area

Market Analysis Topics

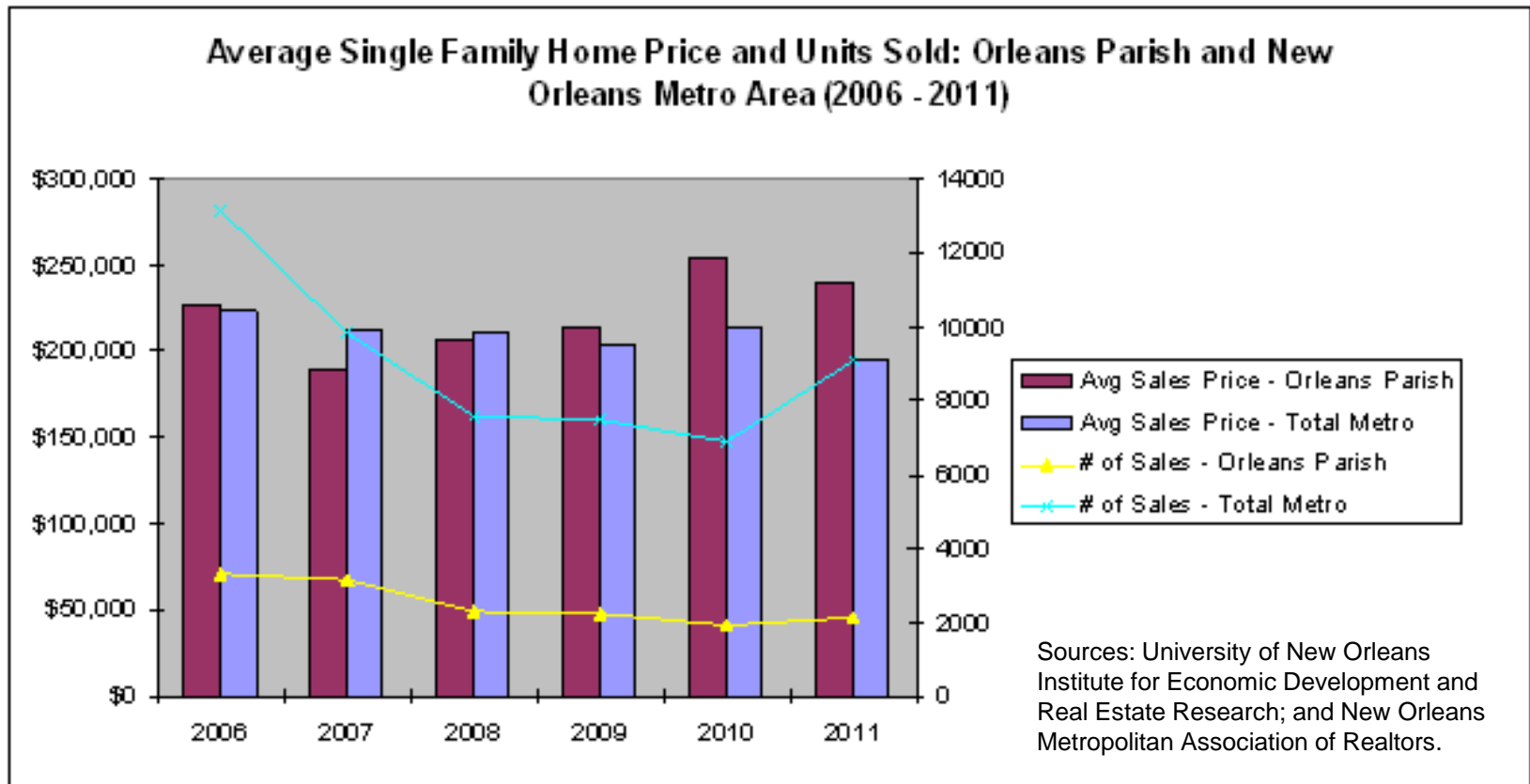
- Analyze **DEMOGRAPHIC TRENDS**—especially household trends—in order to understand the overall market context. Is the market growing, contracting, stable?



Source: U.S. Census.

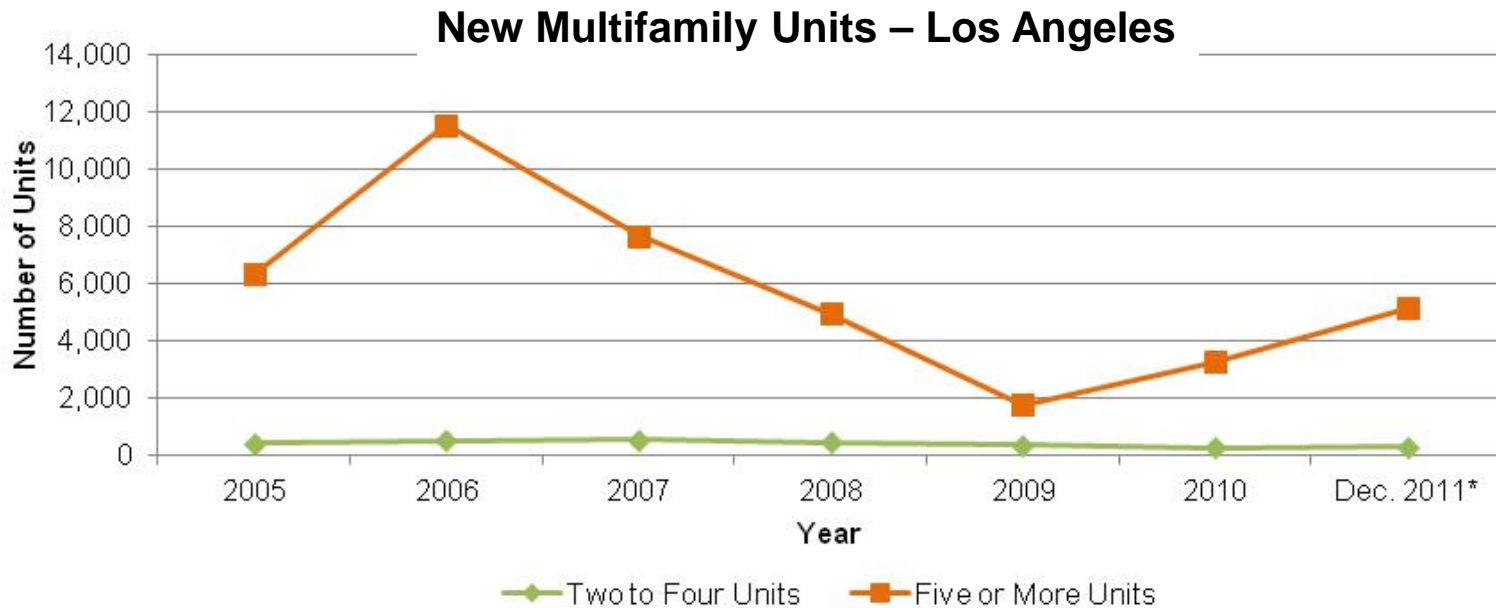
Market Analysis Topics (cont)

- Assess for-sale housing **SUPPLY** activity—such as sales volume, prices, and length of time on market—in order to understand overall metro/county market trends. Are there excess for-sale units on the market? Are sales prices rising, stable, or declining?



Market Analysis Topics (cont)

- Examine changes in the **SUPPLY** of rental or for-sale housing



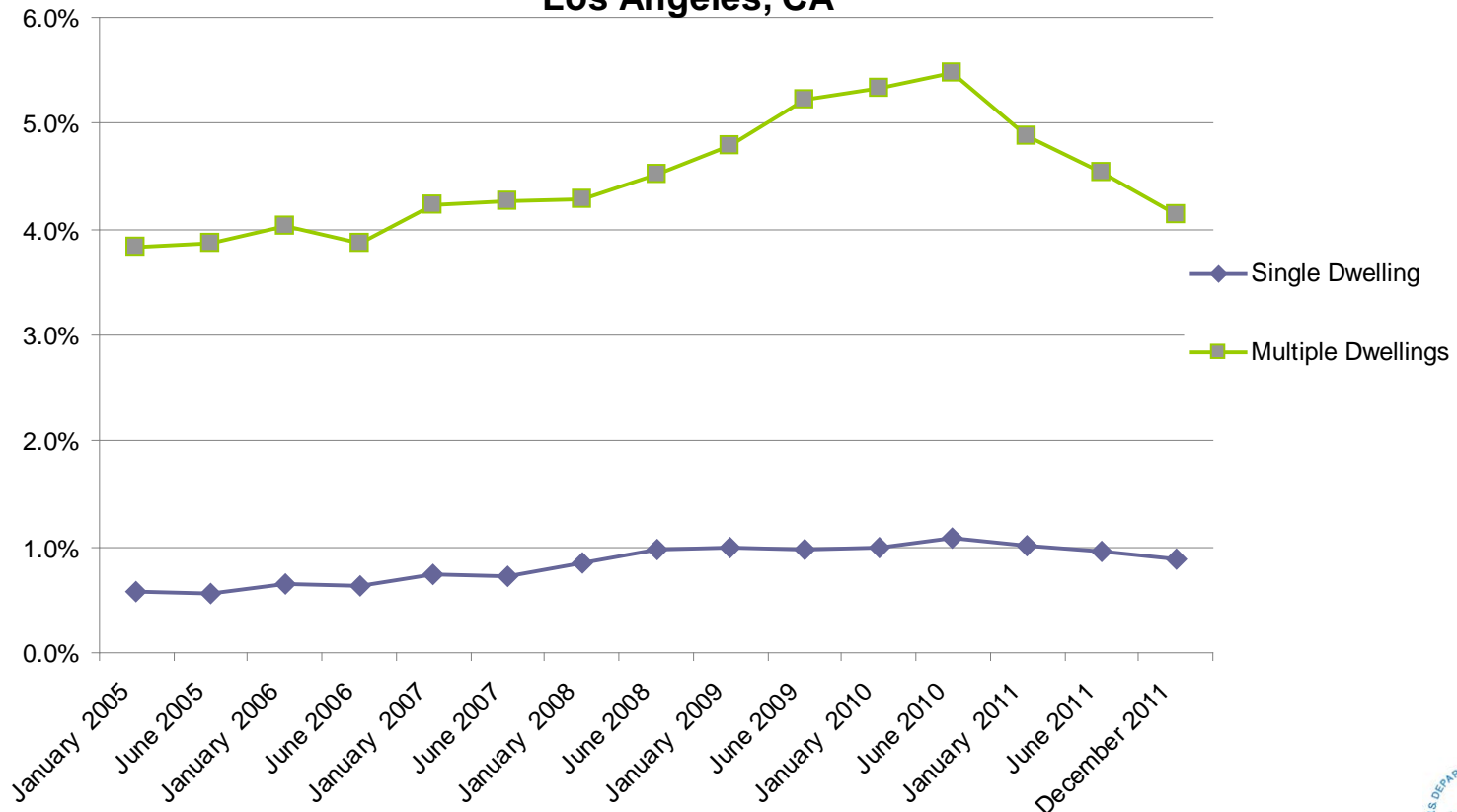
- After declining between 2006 and 2009, new construction activity in this example increased from 2009 through 2011.

- Is the market now balanced in terms of multifamily housing supply and demand?
- Is additional housing needed?
- Is the market already overbuilt?

Market Analysis Topics (cont)

- Examine rental or for-sale housing **VACANCY** conditions and trends. Are vacancy rates increasing, stable, or declining?

Single Dwelling and Multiple Dwellings Vacancy Rates:
Los Angeles, CA



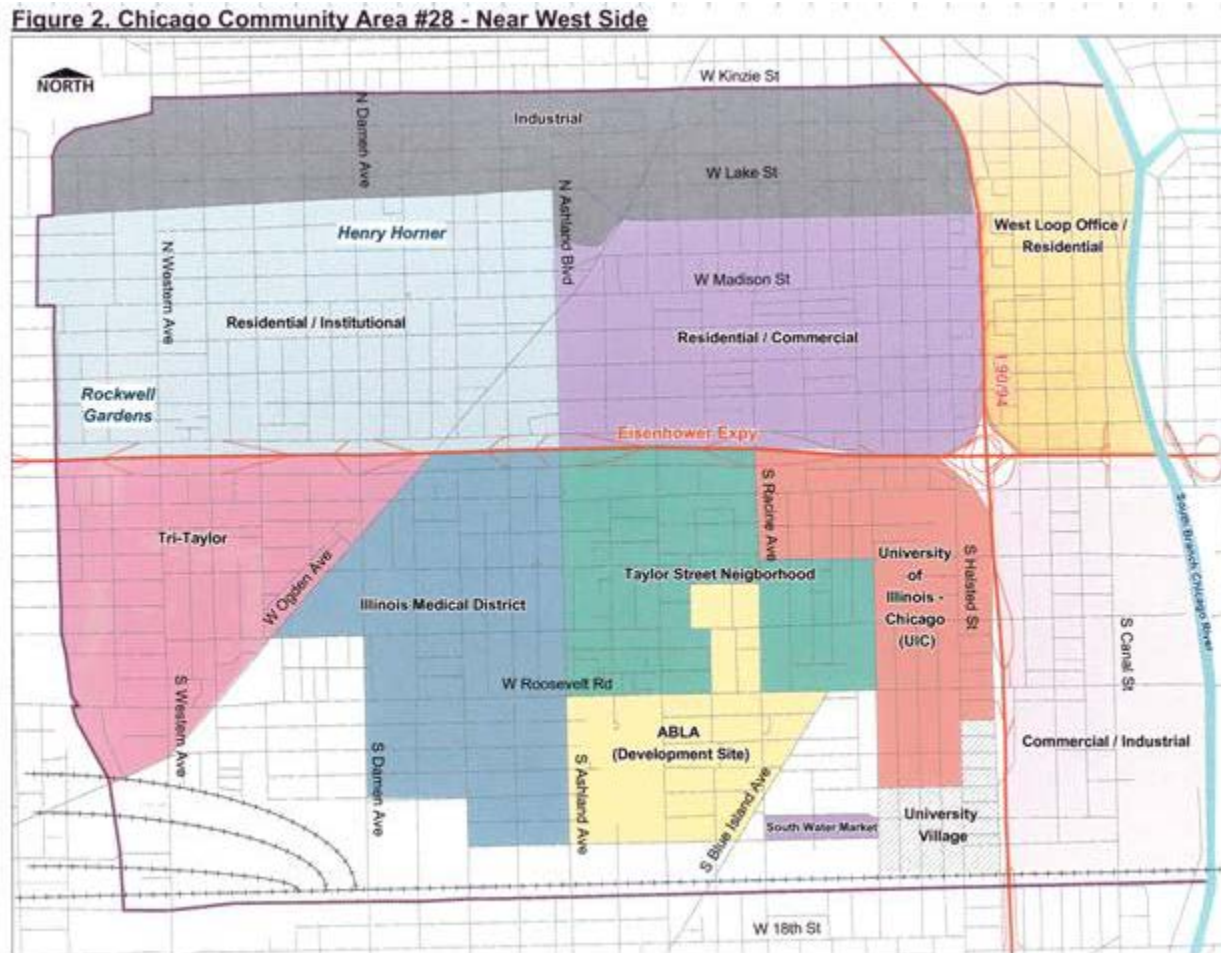
Defining the Market

- Market area definition – neighborhood within larger city



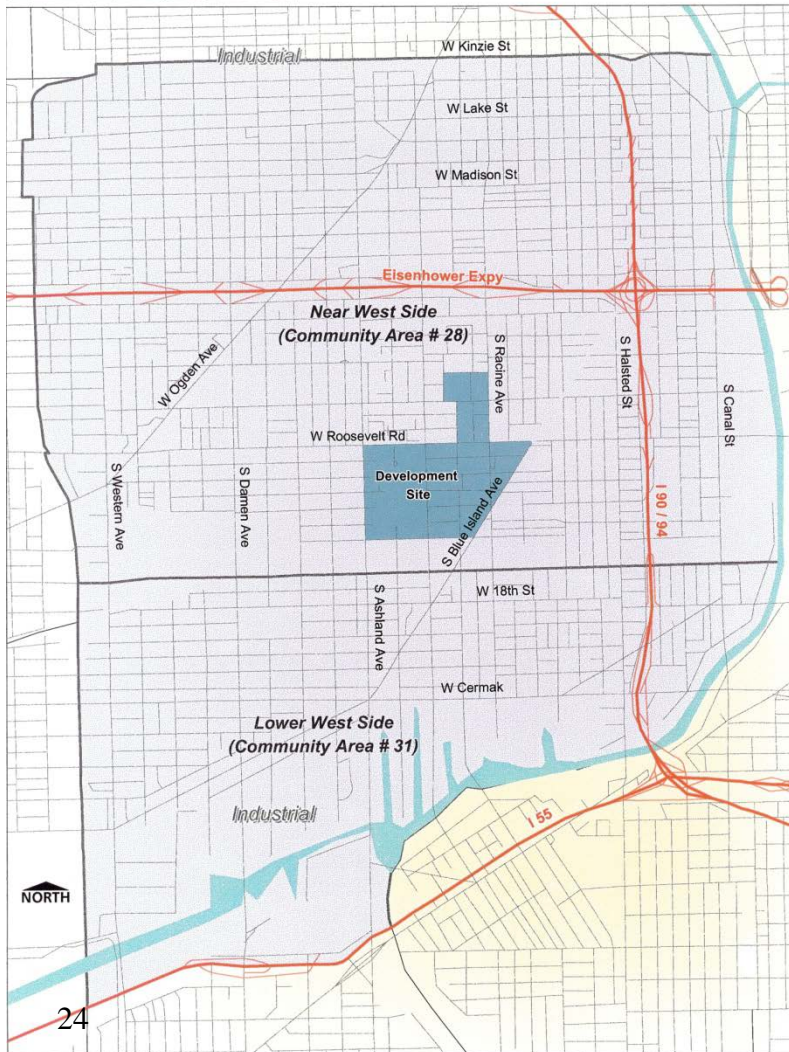
Defining the Market (cont)

- Market area definition – neighborhood within larger city



Defining the Market (cont)

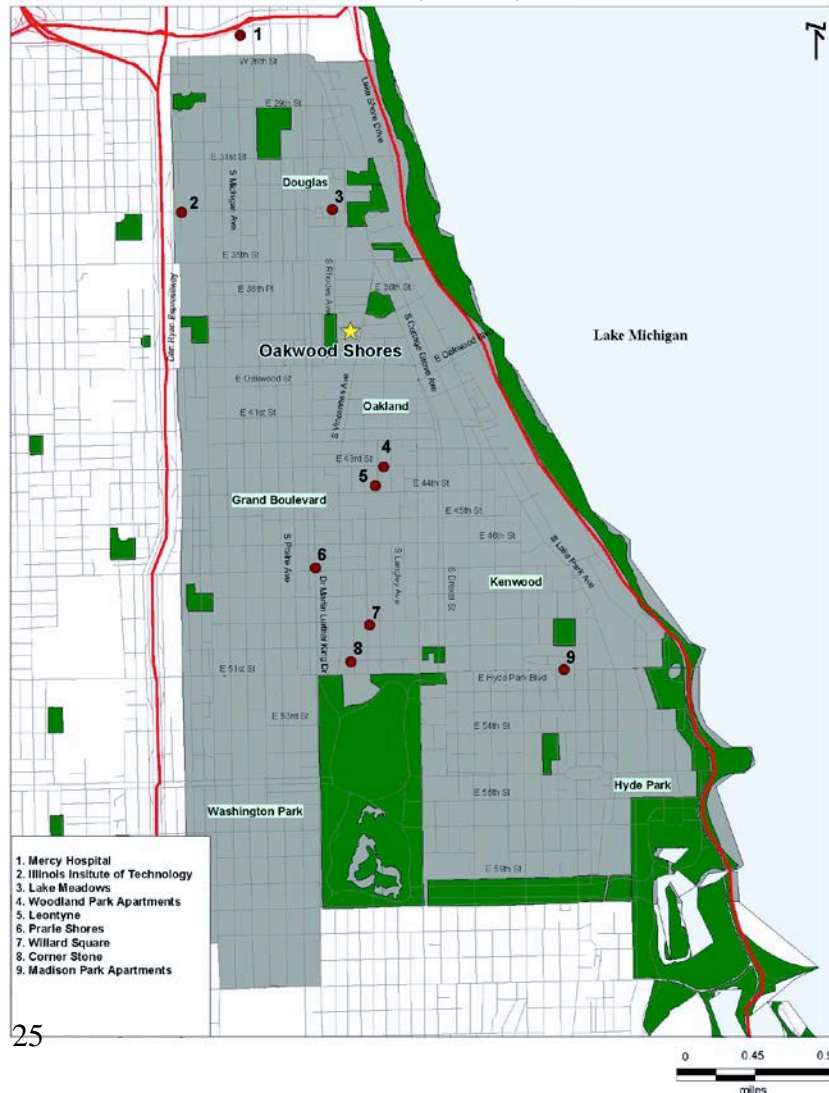
Figure 3. Primary Market Area



- Market area definition – neighborhood within larger city

Defining the Market (cont)

Oakwood Shores Phase 2B Market Area and Comparable Properties

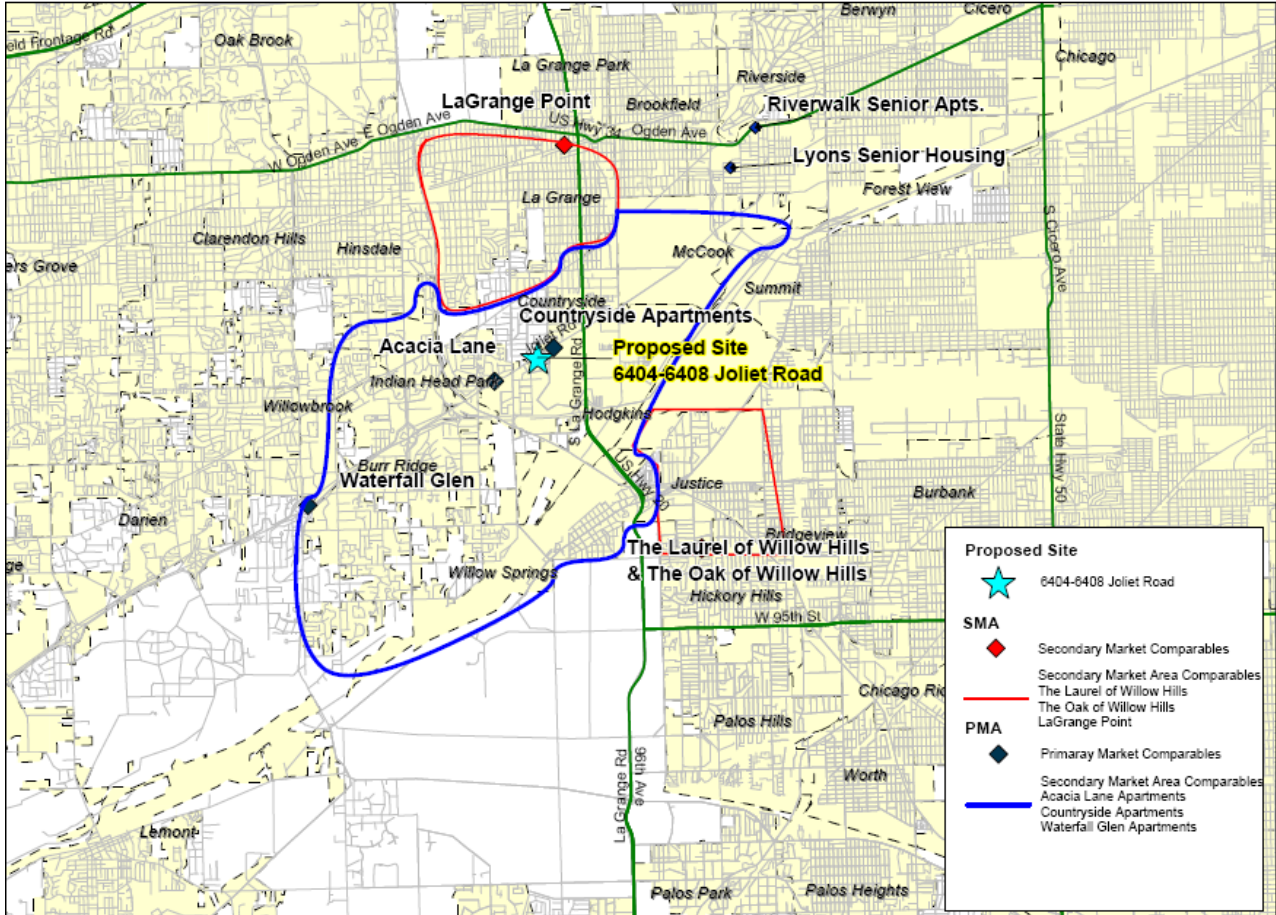


- Market area definition – neighborhood within larger city

Defining the Market (cont)

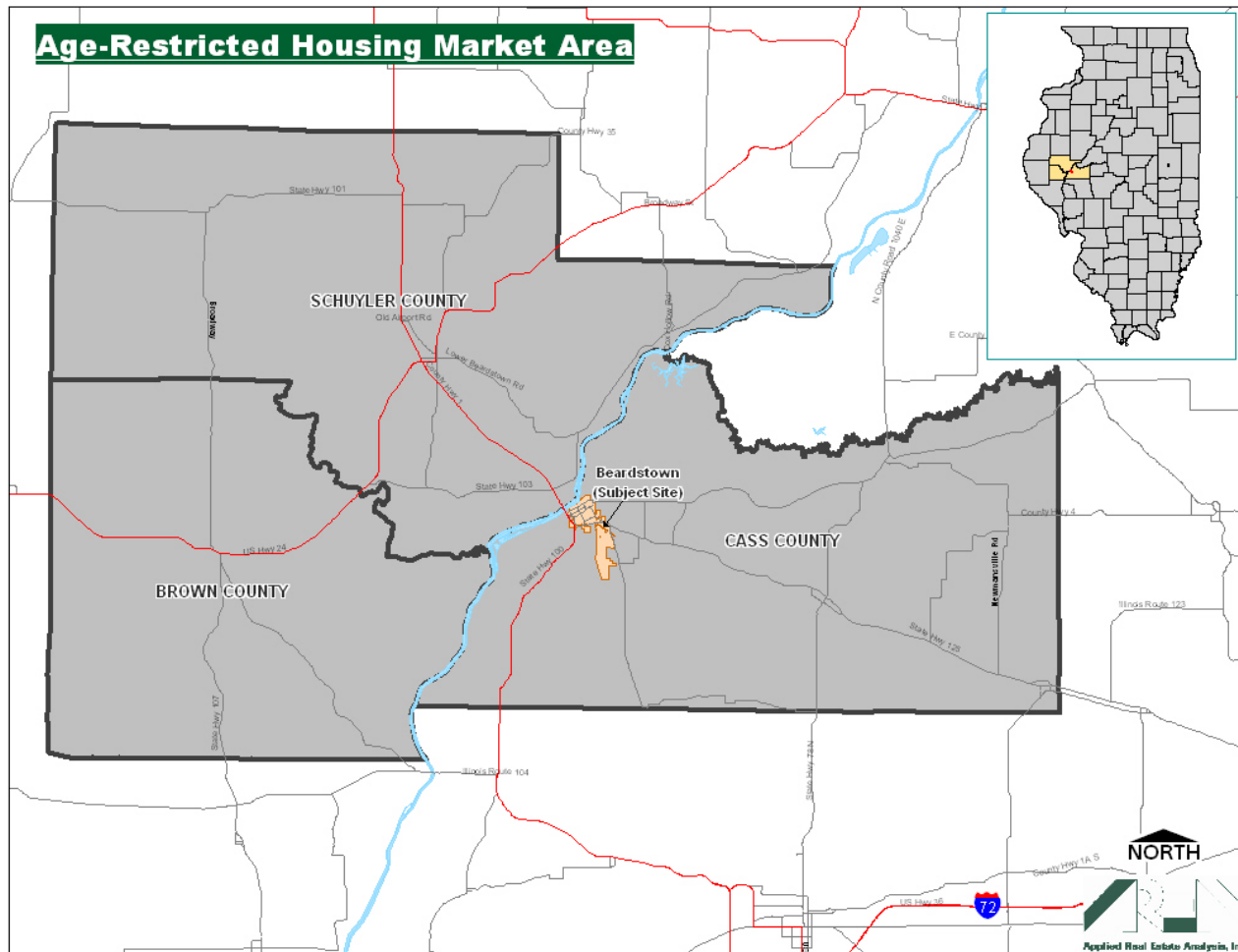
- Market area definition – several suburban communities

Low Income Housing Tax Credit Units



Defining the Market (cont)

- Market area definition – small town



Rental Housing Market Analysis

- When reviewing rental market reports evaluate following questions:
 - How is the market area defined?
 - What are the site locational advantages and disadvantages?
 - What is the demand for rental housing?
 - What is the current supply of rental housing?
 - What do competing properties tell us about likely property feasibility/operations?
 - What do key indicators tell us about timing/lease-up, likely tenants etc?

Rental Housing Market Analysis (cont)

- Demand analysis
 - Market area demographic profile/trends
(population, number of households, age profile, household incomes, etc.)
 - Income eligible households
 - Characteristics of households likely to be attracted to development

Rental Housing Market Analysis (cont)

Table A

Very Low-Income Tax Credit Units

Overall Market Penetration Rate for 77 Units

<u>Market Area</u>	
• Total number of households (2002)	21,494
• Number of rental households	16,034
• Percentage of total (estimated)	74.6%
• Number of households with incomes of \$14,000 - \$56,000	9,112
• Estimated number of rental households in income group (87%)	7,927
• Market penetration by 77 units	1.0%

- Assess support for proposed rental housing development
- Assess potential unit absorption/timing

Rental Housing Market Analysis (cont)

- Key questions on competing properties:
 - What are competing properties?
 - How comparable are they to competition?
 - Is there excess effective demand?
 - How do units perform?
- Helps determine:
 - Likely rents and occupancy levels
 - Types of services/amenities needed to compete
 - Likely costs to operate and returns

Rental Housing Market Analysis (cont)

- Supply analysis – characteristics of competitive properties

Appendix A-1 Competitive Rental Properties

Applied Real Estate Analysis, Inc.

Property	Year Rehabbed	Unit Configuration		Apr-97	Rents (\$) Dec 98	Apr-99	Occupancy (%) as of Apr-99	Utilities Included	Change in Rent (%)		Comments
1 Plaza On The Park 608 East 51st Street Chicago	1987	20	1br/1ba	525	Raise	528	100%	none	0.6%		Well maintained for its age. Large units with sun porches. On-site maintenance. High percentage Section 8 tenants. Some vacant and problem adjacent to this property. Two and 3 bedrooms are the most requested unit types, Two bedrooms turnover frequently. Eighty percent of the tenants are Section 8 and 20% are market rate. Development includes 7 buildings.
		75	2br/1ba	628-661	Planned	628-661			0.0%		
		45	3br/1ba	785	First	792-799			0.9%	- 1.8%	
		6	4br/1ba	825	of	842-884			2.1%	- 7.2%	
		5	5br/1ba	965	Year	1021				5.8%	
		<u>151</u>									
2 Cornerstone Apartments 533 East 50th Place Chicago	1993	27	2br/1ba	560-595	633-683	633-683	100%	none	13.0%	- 14.8%	Nicely rehabbed building in marginal but improving area. Some Section 8 tenants
		16	3br/1ba	739	790-847	790-847			6.9%	- 14.6%	
		<u>43</u>									
3 Cornerstone Apartments 4950-54 Langley Chicago	1993	2	1br/1ba	525	573	573	100%	heat	9.1%		Nicely rehabbed building. Some Section 8 tenants
		17	2br/1ba	586	633-683	633-683			8.0%	- 16.6%	
		2	3br/1ba	790	790-847	790-847			0.0%	- 7.2%	
		<u>21</u>									
4 Kings Court Apartments 5858 South King Drive Chicago	1994	18	2br/1ba	610-625	625-650	625-650	100%	heat	6.6%	- 4.0%	Mgr. wants to attract professionals 50% of the tenants are Section 8. Tenants must supply own appliances. All units have hardwood floors. Compared with last year, more tenants are professional.
		12	3br/1ba	735-750	745-750	745-750			0.0%	- 2.0%	
		<u>30</u>									
5 Wilmington Apartments 4901 Drexel Chicago	N/A	54	0br/1ba (sml)	385	430-440	440	100%	all	14.3%		Desk security. Well maintained and beautifully landscaped. Majority of the tenants are market rate. The few Section 8 tenants are elderly.
		54	0br/1ba (lrg)	435-450	450-470	470			4.4%	- 8.0%	
		18	1br/1ba	600	610	610			0.0%	- 1.7%	
		<u>126</u>									
6 45th Street Apartments 4503 S. King Drive Chicago	1990	12	0br/1ba	435	450	450	100%	heat	3.4%		Euro-cabinets in kitchens. Large units with various views. Blue-collar families. Less than 20% Section 8.
		6	1br/1ba	515	515-525	515-525			0.0%	- 1.9%	
		9	2br/1ba	615-650	635-650	635-650			0.0%	- 3.3%	
		<u>27</u>									

Rental Housing Market Analysis (cont)

- Key analytics commonly seen in market assessments:
 - Net demand: $\text{Effective Demand} - \text{Supply}$
 - Capture rate: Percentage of effective demand
 - Determine absorption rate: Rate of rent-up (over time)
 - Effect of Subsidy: Is project competitive? Below market?

For-Sale Housing Market Analysis

- Initial for-sale housing market questions to ask:
 - Who is the target market?
 - What product will sell in the market area?
 - Will this project sell in this market 6 months after construction completion?
 - What is the competition?

For-Sale Housing Market Analysis (cont)

- Key components of for-sale market analysis similar to rental market analysis:
 - Broad market context (metropolitan wide, county wide, or other broad market area)
 - Market area definition
 - Market area/project area/neighborhood conditions and trends
 - Demographic/socioeconomic trends
 - Physical condition
 - Demand analysis
 - Income eligible households
 - Characteristics of households likely to be attracted to housing
 - Supply analysis
 - Characteristics, prices, sales activity trends in the target market area
 - Characteristics and prices in other areas when potential buyers could purchase housing

For-Sale Housing Market Analysis (cont)

- Special considerations in market analysis of for-sale housing:
 - Advantages/disadvantages of project area/housing for attracting buyers
 - Rehabilitation project site selection

For-Sale Housing Market Analysis (cont)

- Target Market-Buyer eligibility requirements

Any City HOME Income Guidelines, 2012

Family Size	1	2	3	4	5	6	7
Median Income	\$45,360	\$51,840	\$58,320	\$64,800	\$69,984	\$75,168	\$80,352
80% of AMI	\$36,290	\$41,470	\$46,660	\$51,840	\$55,987	\$60,134	\$64,282
60% of AMI	\$27,210	\$31,100	\$34,990	\$38,880	\$41,990	\$45,100	\$48,210
50% of AMI	\$22,680	\$25,920	\$29,160	\$32,400	\$35,000	\$37,600	\$40,200

Income \$38,880
 Max % for Mortgage 25%
 Annual Payment \$9,720
 Monthly Payment \$810

Term 30 years
 Interest rate 4.5%
 Mortgage amount \$160,000

For-Sale Housing Market Analysis (cont)

- Analysis of unit absorption potential/timing

Table B

HOME Home-Ownership Units

Overall Market Penetration Rate for 50 Units

<u>Market Area</u>	
Total number of households (2012)	21,494
Number of households with incomes of \$32,000-\$45,000	2,026
Market penetration by 50 units	2.5%
Estimated percentage of income-eligible households with consumer debt problems	60%
Number of income-eligible households who can qualify for financing.	810
Market penetration by 50 units	6.2%

Market Assessment Data Sources

- Data sources for doing market assessments yourself:
 - HUD Consolidated Plan data sets
 - U.S. Census
 - Private data sources
 - Web resources
- Field work
 - Neighborhood/site assessment
 - Examination of competitive properties
- Reaching conclusions

Market Assessment Data Sources (cont)

- New Consolidated Plan eCon Planning Suite:
 - CPD Maps is online data & mapping tool:
<http://egis.hud.gov/cpdmaps/>
 - Helps grantee to do place-based planning
 - Includes data on housing and economic conditions
 - Covers housing stock, facilities and other assets by census tract, county or state
 - Use tool for to assist HOME project market analysis by reviewing: location of other affordable housing; demographic data; grantee funding information
 - Includes a new planning template in IDIS

Resources

- “Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements” (CPD Notice 12-007):
<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/notices/#2012>
- For information on upcoming webinars, visit the HOME TA website: <https://www.hometa.info/>
- Con Plan: <http://www.hud.gov/offices/cpd/about/conplan/>
- CPD Maps is on line data & mapping tool:
<http://egis.hud.gov/cpdmaps/>
- Background on HOME program requirements:
<http://www.hud.gov/offices/cpd/affordablehousing/training/materials/building/index.cfm>

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Please Give Us Your Feedback

- Answer a few short questions
 - <http://www.surveymonkey.com/s/MarketAnalysis>

