Market Analysis Webinar

June 11, 2012
1:00 pm ET

Operator: Please stand by. Good day and welcome to the HUD Market Analysis conference call. Today's call is being recorded. At this time I'd like to turn the conference over to Marsha Tonkovich. Please go ahead.

Marsha Tonkovich: Good afternoon everybody and welcome to one in the continuing series of Webinars on the 2012 HOME Program requirements. I'm going to go ahead and switch us over to the main slide but in case I - you are having any issues with the phone lines, feel free to put a question into the Q&A box and we can help you to get into the phone line.

And with that I'm going to turn over to slides. And I'd like to introduce my co-presenters here today with me. So I'm going to turn it over to Marcia Sigal and Tim Colon to introduce themselves.

Marcia Sigal: Hi. This is Marcia Sigal. I'm the Director of the Program Policy Division in the Office of Affordable Housing Programs here in CPD at HUD. That's the office that is in charge of the HOME Program.

Tim Colon: And I'm Tim Colon. I'm an Affordable Housing Specialist with the HOME Program.

Marsha Tonkovich: Great. And I think I know many of you. This is Marsha Tonkovich with ICF. I've met many of you at HOME training courses over the years. I lead the Training and Technical Assistance team here at ICF and I'll be helping with the HOME portion of - the HOME requirements portion of the Webinar today.

And I'm joined by two colleagues from AREA, Maxine and Robert. And why don't you guys introduce yourselves?

Maxine Mitchell: And I'm Maxine Mitchell and President of Applied Real Estate Analysis. And we do market research and development strategies for public and private sector clients around the country.

Robert Miller: And I'm Robert Miller. I'm the Senior Vice President at AREA.

Marsha Tonkovich: Great. And Robert and Maxine will be helping us through the portion of today's Webinar that deals with market analysis and how to do that.

So quickly our agenda for today - and we do have a lot to get through in the next hour-and-a-half - we're going to quickly recap the 2012 Appropriations requirements and then we'll get into the specific portion of those requirements that relate to doing a market analysis and particularly the policies and procedures that you have to have in order to be able to do the certification that you're required to do.

We will then talk about both rental projects as well as homebuyer projects and the market analysis related to those. We will take questions on the two big points throughout the Webinar, one in the middle after we go over the requirements and before we jump into the market analysis and then again at the end. And we're going to try to go through the slides quickly so that we can leave a lot of time for you to ask questions.

We will also have a follow-up set of FAQs and I'll let HUD talk specifically about that in just a moment.

How we're going to take questions - and we do want to encourage your questions - we can take your questions in two ways. One - and this is the preference - we'd like to hear audio questions. So you can press star 1 on your phone and that will get you into the queue to be able to ask your question audio.

We also ask that you turn your feedback button - if you look on the upper right-hand corner of your screen you'll see it should be currently green - if you can turn it to purple, that will keep us a good count of how many people want to ask questions. If someone has already asked your question and you want to come back out of the queue, go ahead press star 2 and that will get you out of the phone queue and turn your button back to green.

We can also take written-in questions. So if you look at the top of your screen there's a Q&A button. If you go in there you'll be able to type in a question. Be sure to give us enough detail so we know sort of the context of what you're asking.

And we'll take both the audio and the written-in questions in the order that they are received. We may get too many questions to be able to get through. And if so we'll try to group like questions together so we can try to get as many topics as possible.

So with that I'm going to turn it over to Marcia Sigal to give us a little bit of background.

Marcia Sigal: Thank you, Marsha. Two Marsha’s on the phone today. Good afternoon everybody. Welcome to the second in a series of Webinars that HUD is hosting on the FY fiscal year 2012 HOME Appropriation requirements.

Within the next few days we'll also be posting a Webinar on the HOME TA Web site that is a recorded Webinar that provides an overview of all of the requirements related the FY 2012 HUD Appropriations provisions that apply to the HOME Program. That can be found at the HOME TA

Web site which is www.hometa.info. That's also listed on your resource slide at the end of this presentation so don't worry if you didn't rush to write it down.

There are seven Webinars altogether including our Webinar today which will be running through July 10, a variety of topics related to those 2012 Appropriation requirements. Again, the schedule will be on a slide in this presentation and it's also on the HOME TA Web site.

I want to say a couple of caveats before we get started. As many of you know or perhaps all of you know, HUD published a proposed rule in December that includes many of the proposed changes that are similar to the changes in the FY 2012 HUD Appropriations bill.

In fact, Congress had a copy of the proposed rule and took some of the provisions that we were thinking of proposing and put them into the 2012 Appropriations language, making them statutory requirements. However I think it's really important for all of us to remember that the proposed rule is still just that - proposed. And to be clear, there's nothing in the proposed rule that is currently applicable to the HOME Program.

And I know there's a lot of confusion about that and about the 2012 Appropriations requirements. But again, nothing in that rule will become effective until HUD has completed the final rulemaking process that we're involved in right now and we publish a final rule for effect which we expect will happen this fall.

So the focus for today and for the next several months is on the existing HOME regulation and statute and how the specific provisions in the FY 2012 Appropriations law change existing HOME Program requirements.

One of the issues that Congress expressed a concern about is project selection, the way in which participating jurisdictions, PJs, select projects for HOME funding and HUD's oversight of project selection.

So the purpose of the provisions that Congress included in the 2012 HOME Appropriations statute related to market assessment is to improve projects and develop the selection by participating jurisdictions, PJs, and ensure that there is an adequate market demand for FY 2012 HOME projects.

Specifically, Congress wants to ensure that PJs have examined the neighborhood's market conditions to ensure that there is an adequate need for each HOME project. And this is why PJs must now certify in IDIS that a market assessment has been conducted and that there is an adequate demand for each HOME project in the 2012 action plan or consolidated plan.

The Webinar today is to - is provided to you to help you to get a better understanding about how to do market needs analyses. It will address how PJs and their partners can define markets, how PJs can assess neighborhood market conditions or review assessments done by developers or others. And hopefully it will help you compose key questions that you need to have asked and answered about each HOME project before you commit HOME funds to it.

So project-specific market analyses together with the new consolidated plan requirements that will look at the overall market needs within each jurisdiction receiving HOME funds will hopefully bring about better targeting of HOME and other resources.

We plan to follow up this Webinar with some FAQs about market analyses and a mini-guide that we hope will sort of encapsulate some of what we talked about here today and add some additional resources for you. So look on the HOME TA Web site frequently and over the next three months for these resource materials.

Now I'm going to turn it back over to Marsha who's going to continue on with today's presentation and go over some other resources for you.

Marsha Tonkovich: Thanks, Marcia. So one - a couple things just as background and we're going to quickly go through the background and jump into the market assessment requirements. But we want to make sure you know that shortly there will be posted on the HOME TA Web site an overview that HUD taped that goes through all of the requirements for the 2012 funding so that you can see them from beginning to end and see a comprehensive overview.

And you have on your slide there that direct link of where you'll be able to find those. And I imagine they'll be posted later this week.

As Marcia mentioned, we're going to specifically focus today on a portion of the requirements which are related to the 2012 Appropriations so not related to the proposed HOME rule but rather related to the 2012 HOME funding. And we'll define a little bit more clearly in a moment what that means.

HUD did publish a notice which implements these requirements. And you'll see it's on your slide. There's a citation for that and later on we have the actual link where you can go online and read the details. If you haven't had a chance to read that, I encourage you to do so. It gives you the official and more details than we're able to do here in a Webinar.

The key thing to remember that we're talking about today is that we are talking about the requirements which are applicable to 2012 HOME projects. And when HUD says 2012 HOME projects what they mean are projects which are set up in IDIS under your 2012 con plan and/or action plan. So anything that you set up as a project under one of those planning umbrellas, if you will, in IDIS, that's what we're talking about.

So it's not necessarily tied to the source here of the funding but it is tied to what you set up under 2012 action plan or con plan. So it's - it may be hitting some of you guys very quickly in terms of the implementation of these requirements.

So I'm going to do a - and Marcia, anything to add about the timing of the applicability of these requirements?

Marcia Sigal: I'm sorry. Could you repeat that, Marsha?

Marsha Tonkovich: Anything else to add about the timing of when these requirements kick in?

Marcia Sigal: They apply to all 2012 action plan activities identified in the action plan or the consolidated plan.

Marsha Tonkovich: Yes, yes. So that's again, as I said, so some of you that's soon.

Marcia Sigal: Right. For some - right.

Marsha Tonkovich: ((inaudible)).

Marcia Sigal: It depends where people are in their process, right.

Marsha Tonkovich: Exactly, exactly. So there are four key requirements which are spelled out in the notice and I'm only very quickly going to go over them because, again, it will be this Webinar which we'll repost and which will go over the others so we want you to know the quick context. And then we will dive more deeply into a subset.

So the four key requirements that are coming about in 2012, the first is requirements related to project completion. And what the Appropriations language says is that you have four years from the date of your written agreement - and that's your HOME-required written agreement - to complete the project and have it ready for occupancy.

And what HUD means when it says completed and ready for occupancy is that the construction has been completed and the certificate of occupancy or whatever local equivalent you use to legally authorize occupancy of those units had been completed within that four-year period.

If that does not occur, HUD can ask you to come back and pay back your HOME investment in that project. They can give up to a one-year extension for good cause if it was beyond the ability of the PJ, beyond the PJ's control, and therefore they needed to have an extension. But only a one-year extension and only if you can demonstrate that you've, you know, used proper due diligence and that the reason why you need the extension is beyond your control.

So that's the first requirement. There will - there was a discussion of that on a previous Webinar, the IDIS Webinar that already occurred. It occurred last week. So if you want to learn more about that requirement, I'd recommend going onto the HOME TA Web site and it should be posted this week. You'll be able to listen to that Webinar to hear about that requirement.

The second requirement relates to looking at these projects. And it ties back to what Marcia said earlier that Congress is concerned that we're sure that we can document that we did a thorough analysis of HOME projects before we funded them. And so it requires that before executing a legally binding agreement, you have underwritten the project, reviewed the developer's capacity and done a market assessment.

Today we're focusing on the market conditions and market assessment. Subsequent Webinars will talk about the underwriting and the developer capacity.

The third type of requirement has to do with homebuyer units that we develop that we intended to be homebuyer but have sat vacant and have not been sold to a homebuyer within six months.

So you have six months after construction completion and if you are not able to sell that home unit to a homebuyer within that six-month period, the unit automatically turns into a home rental unit to be managed as a home rental unit. Or - under that HOME affordability period - or you're required to repay your HOME investment. There will be a subsequent Webinar -and we'll talk about the dates of those in just a moment - where we'll dig more deeply into that topic.

Finally the fourth topic that been in the requirements has to do with CHDO capacity. And the requirements say that you cannot provide funds to a CHDO to do development unless you can show that the CHDO has staff with that development expertise. And again, there will a series of - there's actually going to be two Webinars on this topic, one for CHDOs and one for PJs that will dig more deeply into this topic.

So for today we're going to focus on the part of the underwriting assessment which is related to market assessment. And again, here is a list of the subsequent Webinars that are coming up on those topics I just mentioned, tied back to that notice implementing the 2012 requirements.

So we're going to jump down into the market assessment. And I'm going to give you a general overview of the requirements and then we'll dig more deeply into how you can do this.

The requirement is that before you fund a project - and notice I'm focusing on the word "project" - before you fund a project with HOME funds into the 2012 Appropriation you are required to document you've done an assessment of that market and that there is, in fact, adequate need for that project.

So you have to have a process and procedure for having done that market assessment, having looked at that market data and having determined that there is, in fact, a need and documented so there is, in fact, a need for that project.

Now the key thing is that this applies not just to rental projects - and I think most of us are familiar with doing market assessments in the context of a rental project - but it also applies to homebuyer projects and it applies not only to acquisition, rehabilitation and new construction but it also applies to direct homebuyer assistance such as down payments.

So when you are assisting a project of any type, homebuyer or rental, you are going to require to certify in IDIS - and we'll look at that certification in just a moment - that you have done this market assessment and documented the need within that defined market area - however you have defined it - the need for this project.

Now in order to be able to do that, what the notice requires is that you, as a PJ, have adopted written policies and procedures for how you're going to do this market assessment. So who at your agency, how is it going to happen. And we'll get into sort of the table of contents, if you will, for those policies and procedures in just a moment.

But the key thing is you have to put those written policies in place and then you have to follow those policies and procedures in order to be able to certify that you have, in fact, done this market assessment.

Now one of the questions we've gotten a lot of about this requirement is does that mean that PJ has to go out and hire, you know, a - some sort of market study or market analysis by a contracted market firm? No. You could do that - and we'll talk about the options - but you - there are other approaches you could choose to use in order to document the market assessment.

So one option, the first option might be to do it in-house. So if you have staff at PJ or if you have a sub-recipient who is working with you on these projects and they have staff who are good at doing market assessments, who have experience in doing that kind of thing, you could do it in-house using data that you have available to you.

And we will look at con plan data a little bit later under the new con plan tool which would help you to be able to do this in-house. So it doesn't have to be a formal market study with a scope of work on a market study and all that that comes with that. Of course it could be and we'll talk about that in just a moment.

But what it does have to be is a rigorous assessment of what's happening in the market area for the project that you're trying to fund and demonstrating the need for the specific type, the specific size, the specific approach that you're going to fund with this project.

Now it might be that for some projects that you are funding, particularly larger projects or more difficult projects or ones where you're concerned about whether there really is demand, the PJ could decide to contract out for a market assessment.

So you could go through a procurement process, hire a market assessment firm. Or if you had a sub-recipient who is - they're interested, contract with a sub-recipient to do it, to do, again, this same sort of market assessment for a particular project that we're talking about or perhaps for a series of projects. You might contract out for someone to do several market assessments. So you could decide to procure a market assessment firm.

Finally, your third option is you could look at a market assessment that's being done by another partner. So you could look at a market assessment that's being done by the State housing finance agency or perhaps your sub-recipient, something like that. We do want to give you a caveat however.

It's not sufficient to just take the market assessment done by somebody else, check the box that they've actually done it and put it in a file. PJ is required to do a rigorous assessment of that market assessment that it saw the right market area, that it's fully described, that it's got - appropriate data has been used.

So you really want to make sure that it's an independent assessment of that market and accurate assessment of that market. So you can't simply accept a market assessment by another entity.

That is particularly true if the market assessment is being done by someone who has an ownership interest in that property. So that the equity owner in a tax credit project or another owner who's doing the market assessment, you as a PJ may want to still do your own assessment to ensure that you're getting an unbiased view of the need for this project.

Marcia or any of the folks at HUD, anything you want to add on that?

Marcia Sigal: No. Go right ahead, Marsha.

Marsha Tonkovich: Okay. So I mentioned that you have to certify to this in IDIS. Here's the - I know it's a little bit small but this is the certification that will pop up. Now IDIS, because of the way IDIS works, this is going to pop up for any HOME project.

It's only required for the 2012 Appropriations and only for those development activities that we talked about so the acquisition, the rehabilitation and the construction or the direct homebuyer subsidy. They're only required for those types of activities for 2012.

Now that doesn't mean you might not want to do it for other activities. You know, if you've got things from previous funding rounds or, you know the TBRA program and you want to show the market for your TBRA that's fine. You could certainly do a market assessment for those kinds of things. But it's required - the certification is required for the 2012 activities - the development activities.

Now obviously whoever is signing the certification - and by signing we mean electronically signing by clicking on "I agree" - needs to be authorized to do that. So they need to have the legal authority for the - your PJ to sign such a certification or they need to have been delegated that authority by someone else who has that certification right within your PJ.

And this is meant as a serious legal certification that, indeed, your PJ is swearing that it has done this assessment of the marketplace. And you'll see as we - later on, as the Webinars talk about the underwriting, similarly with the underwriting.

So you want to make sure that you've got backup of this in your file to prove that you really did do this kind of market assessment because if you just click on this and then HUD goes out and does monitoring later and can't find any justification that you really did do a market assessment, that will make the certification invalid and would certainly be cause for monitoring findings. So you want to make sure you've got a process to back this up.

So I mentioned that you have to have written policies and procedures. And many of you probably already do but you want to make sure that those policies and procedures, particularly as they tie into underwriting, have a specific component related to how you're going to do market assessments.

So some of the key topics that ought to be covered by those policies and procedures as it relates to market assessments are things like how is it going to happen? Are you going to use staff? Are you going to contract it out? What's the planned approach or perhaps a mix? It might be a mix of those options.

Which division or department is going to take this on? So you don't have to necessarily state a specific staff team but you certainly want to highlight, you know, how the process is going to work. Who is going to undertake this assessment?

When in your process will it occur? So is it going to happen prior to application? Is it going to happen - maybe an initial application and then a market assessment? What point in the process is it going to occur?

How are you going to let your applicants know that this is happening? This is a requirement in that they or you or however you're going to do it will be doing a market assessment and what content you expect to be covered in an adequate market assessment.

And as an aside, if you are working with a State housing finance agency or if you want to connect to a State housing finance agency, many of those agencies have required market assessment content for their tax credit program. So if you are looking for some guidance on how to develop these policies and procedures, you might try talking to them about what they require and build from that, you know, borrow some of their requirements

What will demonstrate to you that it is, in fact, sufficient need in this market? Are you looking for a particular vacancy rate? Are you looking for a particular absorption rate? What factors will dictate to you that this is adequate need?

Who's going to sign a certification? How - are they legally authorized to do so? And how are you going to document in the back office part of this that you, in fact, complied?

Now, again, we have to talk about how this applies. It applies to every single project that you're going to fund on your 2012 Appropriation, as we talked about. But that's going to happen in the context of your program design.

And by that we mean you will have already made decisions about what neighborhood you want to target, what kind of housing you want to develop, what types of households, you know, what income levels. Are they persons with disabilities?

Whatever it might be that you've decided about your program design, all of that will have occurred in the context of your consolidated plan. So think of this market assessment for these 2012 HOME projects as a follow-up to that program design decision that you will have already made about what kinds of things you want to fund.

As you know - and we'll get a little bit more into it at the end of the presentation - the con plan is changing. There is a new template that is out that was announced in May. And there - that will be required to be used starting in November of this year. So now is the time to begin thinking about how all these pieces fit together. And we'll talk a little bit later about some of the data tools that the con plan can bring to this market assessment process.

We're going to get to the next part of the presentation and then we'll come back to questions.

So with that, I'm going to turn over the presentation to the folks at AREA who are going to take us through the conversation about market assessments.

Maxine Mitchell: And this is Maxine Mitchell at AREA. And Robert Miller who's also with AREA is going to participate in the presentation. But just a caveat here, Robert Miller and I have each been working on doing market research and development strategies for both housing and other types of real estate development for over 30 years each. And we still are looking at the subtleties of how you do market research effectively.

And there are constantly changing sources and considerations. Fortunately in many instances, things have gotten better over the years, not more difficult, with data sources and the Internet availability. But it's a - it's also an art, not a science.

So we don't expect to be able to tell you all of the nuances on how to do market research in an hour or an hour-and-a-half but we do want to be able to discuss the key elements of market research and how you approach that research to ensure that you answer these key questions effectively.

And the first one is going to be has a need the type and number of housing units been convincingly demonstrated? And that's going to be really key. You don't want a project that's going to sit there empty.

Will your developer status for program be able to sell planned homeowner units - homebuyer units prior to the six-month deadline? You know, there are a lot of hot markets out there where lenders are eager to lend and buyers are eager to buy and frequently they absorb units at a fairly small number each month over a period of time, frequently longer than six months.

So, if you were in a tough market and had to sell your units within a very short time frame, you need to know up front how many of those units are in demand and how quickly they can be absorbed. The same is true for rental units.

There are places where there’s been pent-up demand for rental units that - where there’s been constant demand. There are other places where it’s going to be a slower slug through to get those units leased up. And you need to know well in advance how many units are in demand.

And then, most importantly, you know, this is a subsidy program and it's supposed to be production oriented but the last thing you want is product that is going to compete with your existing housing and lead to musical chairs where people move from one existing subsidized development to something that's newer and brighter and more attractive. You don't want to add product in a place where it's going to waste your resources and not allow you to really meet an unmet need.

There are some key topics that we're going to cover. Looking at housing demand which - looking - understanding that demand includes understanding demographic trims. We're going to talk about this in greater detail but not only the population, but most importantly household since households are the measure of demand for housing.

Looking also at the housing supply which includes those next two bullets which is construction trends and vacancy rates. How has this supply changed in the last few years?

And then, most importantly, understanding the context in which your development is located, understanding the immediate area surrounding the development, the neighborhood. But also - and I'm going to talk about this in the next few slides - understanding the broader market context. Are you in a small town where there has been a lot of construction in recent years and there's a lot of foreclosures? Or are you in an area that has been fairly stable over time?

Similar for metropolitan areas and county-wide assessments, you have to know the broader market context within which there is development where the project is located.

First - and this is the topic that you will have to cover two times, actually several times - when you're designing an overall program and understanding where your target areas are and what kinds of housing rental are for sale you are delivering to each of those target areas, as Marsha indicated, you have to understand market trends in that context of program design.

But once you have individual specific projects within each of those target areas, you have to assess the market one, two, three, four, times, as many times as necessary to assess the demand for specific individual projects.

And again, you will need to understand the demographic trends. This is an example in New Orleans, for example, where the Orleans parish which is the City of New - (co-term is that) the City of New Orleans has actually been losing population steadily for the last 60 years, 50 years.

And at the same time that the broader metropolitan area has been improving, the number of households within the City of New Orleans itself has declined relative to the overall metropolitan area.

At the same time, you have to assess the supply of housing and the availability of the competing units, especially for for-sale units. Understanding little details such as the volume of sales are - especially since the foreclosure problem has occurred and changes in the overall economy and slow-down in the economy nationally as well as in specific geographic areas.

In a lot of instances, the number of units available - that are on the market has remained very low in recent years and the prices have also been constrained. You need to know where you are in the market cycle, in the broader area in which you are located because if you are in a specific neighborhood that is challenged in terms of investment levels and investment trends and has a lot of physical deterioration and a lot of challenges.

And you are also located within the broader metropolitan area or county that has had setbacks because of foreclosures and a lot of attractive product that is now going sagging on the market, you are going to have to understand where your project sits within the broader context of what's going on in the broad marketplace.

Also, in terms of the rental stock, you need to understand - and this is true for sale as well - how many units have been added to the marketplace or how may demolitions have occurred as well. In, for example, here in Los Angeles, in 2006 there was a decline in the number of units that were constructed in terms of multi-family units.

I'm sorry, I'm having a - switched slides here by accident somehow.

If you were in a location where there's been decreasing supply and finally you're catching up with developers or realizing that there is demand for rental housing and are now beginning to construct new housing, the question is, you know, is that demand now in synch? Is there a match between demand and supply? Is there too much supply?

There's - in downtown Chicago, a lot of new construction that's occurred and that's planned to occur in the next few months, you need to know both what is in place and what's planned within a short period of time because that's going to compete in many instances for rental units for the market that you are targeting.

Similarly, another factor affecting that understanding of overall demand for housing currently - especially for rental as well as for sale - is the occupancy level. In Los Angeles, for example, the occupancy level or vacancy - the vacancy rate has declined in the last year or so as the market for rental housing has become much more - much stronger, as people have given up on a lot of owner-occupied housing options and there's been a lot of doubling up in the marketplace.

And increasing pressure on the rental stock demand at the same time that there's been somewhat less pressure on the for sale stock. And in any instance, when you're looking at vacancy levels, there's a certain level of vacancy that's needed in order to just allow mobility within your housing market.

You would need to have about 5% vacancy level in order to allow people who are in one neighborhood to move to another neighborhood. But - so, for example, at this example in Los Angeles with a vacancy rate of only 4%, it's a very tight market.

And when you have a vacancy rate of less than 1% for for-sale housing, it's a very, very tight market. You can have a slightly lower vacancy rate for for-sale housing but (the - still the) standard for the industry is that a 5% vacancy level is tolerable and is something that you can expect to allow mobility within the household - among the household.

A key factor when you're analyzing your specific development, you need to know how the area surrounding that project compares with the rest of the city and where it sits within the larger market context, and need to very carefully assess how you define your market area. You don't want to have an area that's too large and where you're assuming that, you know, you'll draw people from very far afield from your development.

You have to very carefully assess the - and Robert will discuss this in greater detail - the demographic characteristics and then investment levels and the housing stock characteristics of the area surrounding your specific development to understand how it compares and - with other options that people have in the marketplace.

On this example when we defined a development area for a specific development on Chicago's - west of downtown, we went both north of a key expressway, which frequently is a major dividing line and boundary for many market areas, as well as south of that major expressway, because the characteristic of the neighborhood allowed us to draw from both of those areas.

So overall we had a very substantial market area from which to draw that, again, had similar tastes in housing choices by the housing households that resided in this area, and the types of housing options that were available to them. Now of course you're always going to draw outside of your primary and even your secondary market area.

There will always be some people from a suburb that will move into the area and will want to live in this location because of employment opportunities and because of proximity to institutions such as hospitals, the availability of shopping, all of the factors that make a market area neighborhood a specific market area.

But for the most part you need to understand that you need to draw those boundaries very carefully, because when you get into absorption and market penetration, which Robert is going to talk about in greater detail, you want to make sure that you're not including too large an area.

You want to have something that's truly realistic and will allow you to really be accurate in your market assessment. Slow response from the computer here that (slipped) over some things. So a similar analysis that was constructed for a neighborhood within Chicago, this one, again, was bounded by the lake and expressways that formed natural and manmade boundaries for the area.

Again, if you're in a suburban location, frequently your development will be supported not only by household living specifically within your city, but possibly surrounding cities as well, but you need to be able to carefully define that market area. And if you were in a small community, in some instances your market demand will be focused exclusively on the small town in which you're located.

In a few instances if you have no other rental subsidized housing or attractive subsidized market rate for-sale housing, you might go further afield looking for households that want to move to that location, but when you look at the demand, you have to make sure that you look at it as carefully and make sure you understand what the options are for people who are living further away in terms of for-sale or rental housing.

Robert Miller: Okay. Well, when you're looking at an existing market report that's been supplied by the developer or by some other agency that has required that report, or one that you've asked to be contracted for, there are several key things that you start out looking for. How is the market area defined? And as Maxine said, that's a very, very important thing.

But then also what are those sites' locational advantages and disadvantages, not only within its neighborhood, but the sites you've got, how does it compare with competing sites a block or two away? But also within adjacent neighborhoods, what are the options that people have? And of course then we try to estimate the demand for rental housing, the current supply of rental housing.

You make sure that there's - that these details are all in the report in a systematic and convincing fashion. And what do competing properties tell us about the property feasibility and operation that there's - that we'll talk a little bit about that, and how you asses that.

And then look at all this and try to estimate how fast your project is likely to lease up or how fast you're likely to get the new tenants in there. Again, you have to do that demographic analysis at the local level as well as the broader area, and they key for your project, of course, will be income-eligible households, and the characteristics of the households are likely to be detracted to that element.

There may be - in some cases you're going to be trying - looking at projects that are being built in neighborhoods which have been losing population, and that doesn't necessarily mean that there's no demand for new housing in that area, and in fact if it's declining, it may be that the condition of the housing in an area is so poor that you actually need some replacement housing.

In other cases it may be that you, you know, in a smaller community you may have elderly persons that are sort of trapped in their single family houses that they can no longer maintain simply because there are no alternatives, and you need some kind of alternative housing.

But there's - so there may be reasons for building new housing in neighborhoods where there's been a declining number of households and populations, but you need to look at it very, very carefully to make sure that you know why those - you need new housing in situations where there's nobody moving in and where there's no apparent new demand.

Now this is especially true if you're in a metropolitan area that - where the whole metropolitan area has been losing population, and you don't even have strong potential for attracting people from other neighborhoods or other communities within the metropolitan area. Just because you build new affordable housing, it doesn't necessarily mean that there's going to be people ready to move into it.

To try and give a little bit of how you assess the depth of the rental market, we try to look at something, we call it either the capture rate or the penetration rate, and one way to do that is to take an area - here we looked at a market area that had a little over 21,000 households in it. And in that 21,000 households it doesn't matter what size the geography is.

If it's in the city it might be a ten square block area. If it's in a suburban area it might be several communities. If it's in a small town rural area, it might encompass half a county or more. So the size of the geography isn't as important in terms of this as it is how many households are in that geography that are likely to be attracted to your or be just aware of your project.

And in this case, because we're dealing with rental properties, we're looking primarily at rental households. There is some movement back and forth between for-sale and rental, but it's in most neighborhoods where you've got a high concentration of rental households. That will be your primary market. And then in this particular area we found that the percentage of rental households was estimated at about 75%.

Now, then because this was going to be a project that involved housing for a broad spectrum of population, including one, two, and three bedrooms, and it had some - both tax credit and then some more projects - I mean households with deeper subsidies, there was a broad range of incomes that could conceivably be eligible.

In this case it calculated out to about $14,000 to $56,000. And that was of unit that would be able to afford the rents that were - that they were - that you would want to get for - that would fall within the income eligibility for the project. In this case that was down to about 9000 households, and we brought that on down to about 87% of that, which - because some of those 9000 actually did own their own homes.

They just had been in them for a while. And so we're down to about 8000 households, when the market penetration rate was 1%. Well that's not - that's pretty good for a rental project. You figure that if you're below 5% you might have a viable project, and of course the lower the - you go, the stronger the indication is that there's going to be some demand for your project within that market area.

However, estimating that demand is only one side of the issue. The other side is the supply side. And so there's, you know, several questions you ask. What are the competing properties? How comparable are they to the competition? In this case you're sort of looking - you try to look at other projects - properties that are going to be similar to yours.

If you're building a multifamily mid-rise several story building, then you're going to want to try and look at the other projects in the area that would be - have a comparable configuration. And then - and how do they - how are - how comparable are they? Are they fairly recent construction?

Are they likely to have the same kind of appeal that your property will, or are they older buildings that may be outdated and in serious need of repair? So you have to ask all these different things about - and then, again, what is the effective demand? How are these units performing?

It's important to gather information, too, on both the market rate units as well as other subsidized units within your community, because knowing what the market rates are, then you'll know how comparatively affordable or unaffordable they are to your target market. And at the same time you want to know what other subsidized units there are out there that you're going to be competing with or that are already meeting part of the demand.

I was hoping this would show up a little larger. You can't really tell, but on - in this particular case in which - in any kind of a market report you want to look for the - what comparables the analyst used to compare to their - to determine the market. And you want to know the characteristics of those, their rents, their occupancy rate, and something about the features of them, whether or not the rent's included - I mean the utilities are included in the rent.

Usually utilities are not, but in many older buildings and even in some newer ones they - heat is included in the rent. And so that becomes important, because if you're setting rents on yours that don't include heat, and they're the same as the ones that do include heat, then of course people are likely to go to the ones that will be most cost effective for them.

Again, this is - looking at the comparable properties is one way to sort of estimate what the demand is, too, because if those units are all - have a high occupancy rate, 96%, 98%, 100%, in cases of the subsidized ones some of them may even have waiting lists, then that's an indication that there's probably room in the market, or even need in the market, for additional subsidized rental units.

However, if most of those competitive projects out there have rates - occupancy rates in the 88%, 92%, 90% range, then that's an indication that there's probably plenty of supply, and the question becomes, do you really need any more or is there - maybe some of these existing buildings aren't drawing people because they're not in very good shape, and maybe they simply need to be renovated and fixed up rather than having additional supply added to the market.

So again, just to kind of recap the key things that we're looking for, is net effective demand. Is there more demand than there is supply? How much more? What is the - of that estimated overall effective demand, what is your capture rate? How much of that would you have to capture to make your project viable?

If you have to capture 15% of that total out there to make your project viable, then you probably don't have enough demand to make a viable project. You'd better rethink it. Trying to estimate the absorption rate, how fast the units are going to be leased up, is very, very difficult, especially if you're in a market where nothing new has been built for a while, and so you don't have anything to compare it to.

But again, if you're looking out there and you're seeing that there's fairly low vacancy rates in all the competing properties, then that means that you may have a very tough time renting up your units. You may have an initial surge of people just because you're new, but at the same time there's probably enough supply, and you may not - and so you're not going to be able to rent them up as quickly as you would like.

Usually you would hope to be able to rent up a project within six to ten months, depending upon how large it is, larger projects maybe 18 months. The other thing is what is the effect of the subject? Is this project really competitive? As we said before, you have to know how affordable is it compared to the real market rate unit?

Can people actually afford it on the market rate unit by just spending a little - tiny little bit more a month, or do they really need some kind of assistance? And the other thing is, again, as Maxine indicated, it is a needs program, and if all you're going to do with your - this new development is draw people from the other subsidized developments down the block and around the corner, here again, you should probably be rethinking whether or not this project is - should be built.

Maxine Mitchell: And Robert's been talking about the rental market analysis. It's very, very similar in terms of doing for-sale market analysis, and again, some key questions. Who is your target market? Are you getting, in many instances, first time home buyers? Are they small families, large families?

What's the ethnic racial characteristics likely to be of people attracted to this specific neighborhood? What kinds of households will be interested in looking at this location? And I'm going to jump down to the last question, which is what's the competition?

What are the choices for these buyers in terms of foreclosed properties that are selling in other neighborhoods, or units that were priced higher in the market in past years, but have been losing value and are offering a lot of - we were looking at some housing in San Bernardino County that was, especially a couple of years ago, was going begging, with really high finishes and high quality housing that was available that had been marked down substantially.

You need to know what your options are for the people whom you're targeting. How much product do they have and how many choices do they have, which again is going to determine how many you can - units you can sell in that area. Again, knowing that even in hot markets developers frequently sell a small number of units per month. Can you sell enough units in six months to have your complete development sold out?

Again, as in the rental market analysis, the same factors have to be done for for-sale housing. You need to understand the broad market context, whether it's country, metropolitan-wide, or other broad area market trends, to understand how competitive your target development location is compared to other choices that people have in the marketplace.

You have to very carefully define your market area so that you don't artificially overestimate the number of households that's going to be assessed in your market penetration analysis. You can always define a market area that will justify the number of units you want to sell. If it's broad enough, you can say that there's thousands of units that can be attracted to and sold at this location. So it's very important that you realistically assess and assign the market area.

And then for for-sale housing you need to understand the characteristics of the buyers, their age, their income levels, and the physical condition of the housing stock. Are people really eager to get out of housing that has maintenance problems, that is severely compromised in terms of physical condition? Are they really eager to find a new unit that will require less maintenance over this time, or are there lots of options where they can invest a little and get a very decent house at that location?

Robert Miller: In terms of for-sale housing, there are some special considerations, especially in relation to the advantages and disadvantages of the project site. Generally rental - renters are fairly, you know, can pick up and move fairly easily. If they move into a neighborhood and find they don't like it, they can move somewhere else without too much difficulty.

But when you're trying to sell houses, people are looking now - they're investing not just in that house, but they're investing in the neighborhood, and they don't want to walk in and spend

$50,000 for a house today that's going to be worth $45,000 tomorrow, or $150,000 today that's going to be worth $120,000 tomorrow.

Now granted, there's no guarantee that home prices will go up, as we all know from the past five, ten years of home sales. When they go up, they sometimes come back down even faster. But at the same time people do really look at the neighborhood and...

So especially if you're building new houses, of course you want to make sure that you're building in area where you've got some solid neighborhood around you, but rehabilitation projects can be even trickier, because frequently you go in and you're trying to renovate whatever houses might be available.

And if those happen to be the better houses on the block, all you've done is renovated the houses that are sitting adjacent to dilapidated properties or vacant lots, and may not be as worth as much as you've put into them. So again, it's very, very difficult - I mean very, very, important to look at the - not just the neighborhood in general, but the specific site that you're dealing with when you're dealing with for-sale properties.

Marsha Tonkovich: And Robert, just to quickly jump in, you know, we only have a couple of more minutes for the slides before we have to go back to questions.

Robert Miller: All right, I'll quickly run through this one. This is figuring out the depth of your market, the target market eligibility - the buy eligibility requirements. Obviously the home program has some income limitations, and if you start working with some of these, for instance, we've set up a little thing here where if you had a two person - two bedroom house that you're building, and you've got people that can afford to pay $800 a month, well, they might be able to afford a mortgage of $160,000.

You say, wow, we can build housing for $160,000 with our subsidy, however that was only for people who were at the top of the eligibility range. So that means that if you are building 15 houses, you'd have to find 15 households with incomes between $38,000 and $39,000 that has the household make-up to - that meet program requirements. Essentially you'd have no market.

So you have to make sure that you're pricing your project low enough that you have a broad range of incomes that are eligible for it, and thus able to have a pool of potential buyers. And actually that's true in the rental market, too. You have to make sure those rents are low enough that there's enough people out there that can afford them.

Again, we've sort of just taken that very same scenario we used before when we went back and looked at it from a standpoint of people who are eligible to buy. It's a much smaller pool of people, and the - we were looking at 50 units, but it looks like we might be okay. We've got a 2-1/2% penetration rate.

That's even high probably for a for-sale market, but in low income households you know that there's - a percentage of people have consumer debt problems, and it makes it difficult for them to become eligible for financing. And therefore we'll - subtracted that out. We got down to a potential of only about 810 households up there, or in other words one out of every 16 households that were potentially eligible.

Well, even if you assume that every one of those households is going to move sometime during the year, many of them will continue to rent. Some of them may buy a house, but not in your unit - in your development. So there's no guarantee that you're going to be able to capture one out of every 16 households.

So you've actually now have - in this scenario would have a very, very risky development that's likely to have units sitting vacant for quite a period of time. Okay, we've got - if you're wanting to do this in-house, there are some data sources here, and we're going to list in more detail but the real key thing is looking at the field work. You've got to go out and talk to people.

You've got to be thoroughly familiar with the neighborhood you're dealing with. Who lives there? Who wants to live there? Who might not live there now that would like to come into the neighborhood? You have to examine those competitive properties and you have to talk to the property managers. You have to really understand what's going on, and it does take some work in the field. It can't just be done all from the desk.

So now I'll turn this back over to Marsha to talk about the data sources.

Marsha Tonkovich: Thanks, Robert. So one of the data sources that we do want to make sure everybody knows about is the new mapping tool that's available under the con plan, and the Web site is listed here. It gives you an ability to look at data at a census track level on up to a broader level, and it gives you information about the current supply of housing, home units, tax credit units, other HUD units, as well as other kinds of demographic factors.

So we want to encourage you that if you really want to do this kind of assessments in-house, to take a look at that map, the mapping tool that you're using for the con plan, not just for the con plan purposes, but you can actually use that tool for the purposes of doing a market assessment, or at least part of the market assessment for these projects.

So with that, I'm going to go ahead and jump back into some of our questions while we view the slide up here about resources. So Marcia, I think you wanted to recap again on the down payment.

Marcia Sigal: Yes. I'm back everybody, the other Marcia. Okay, I'm referring to the notice, which I think is important for you all to read some of the questions that have come in about this maybe based on just what you're seeing in the presentation. So I'm referring to notice CPD 12-007, which you can also link to on the HOMETA Web site.

On page 5 is the fully visual - fully readable version of the funding certification, and right above that box it says "Certification number 4, below", which is exactly what we're talking about today, "is not applicable to an activity that does not involve development activities that necessitate underwriting, assessing developer capacity, and examination of neighborhood market condition".

This is why, for down payment assistance only, okay, a market assessment it not necessary. If you are putting home subsidy into the development of the project, the home buyer project, then a market assessment is necessary.

Down payment assistance only, no. Same question - similar question about homeowner rehab. If it’s just homeowner rehab, you’re not really developing a new unit, okay? Then, no, you don’t need to do a market assessment.

If it’s acquisition and rehab, yes you do, because you are putting a new assisted unit into the inventory in your jurisdiction. So I’m assuming maybe some confusion if you look at exactly the certification language but if you look at the entire thing and putting the guidance right about there, then you could see that that’s why we are saying that for down payment assistance only, then you don’t need to do a market needs assessment of that particular unit.

However, I think the slides that Marsha went over relates to the consolidated plan and what I said at the beginning applies. You still should be checking yourself against some kind of market need overall as to whether you should have a home buyer program.

Okay, so no you don’t need to do a certification in IDIS about this particular market - neighborhood market assessment for this down payment assistance, you know, but you should overall be in your consolidated plan, your annual action plan, be looking at the overall data and let that guide you to where - to the right program defining whether or not you should be having a home buyer program or down payment assistance program.

Female: Thanks (Marsha).

The next Webinar is this Thursday at 1 o'clock. It is on the underwriting requirements for HOME buyers. If it's maybe a different call-in member, you should receive a e-mail blast probably tomorrow, the next day that will show you how to get on to that Webinar. It will also be posted on the HOMETA Website, www.hometa.info.

Thank you so much for your participation everybody and I hope that this has been helpful to you.

Female: Thanks everybody. Bye-bye.

Operator: And does that conclude today's conference. Thank you for your participation today.

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