

# Welcome!

*This archived document is no longer applicable.*

## ***Consolidated and Further Continuing Appropriations Act of 2012:***

# **Deadline for Sale of HOME Homebuyer Units & Conversion to Rental**

June 18, 2012

Office of Affordable Housing Programs, HUD



# FY 2012 HOME Appropriations Law Requirement Series

Posted Online	Overview of the FY 2012 Appropriations Law Requirements
Mon. June 4 <sup>th</sup>	Recent IDIS Changes Affecting HOME PJs
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Thur. July 12 <sup>th</sup>	For CHDOs: Understanding the CHDO Development Capacity Requirement

# Welcome & Introductions

- HUD welcome
  - Ginny Sardone, OAHP
  - Marcia Sigal, OAHP
  - Mandy Wampler, OAHP
- Trainer introductions
  - Steve Lathom, Training & Development Assoc.
  - Monte Franke, Franke Consulting Group

# Goals

- Understand requirements in context
- Avoid conversion through
  - Program design
  - Project selection
  - Project management
- Successful conversion to rental
  - Exit/recapitalization strategies after conversion

# Legislative & Regulatory Context

- FY 2012 HOME Appropriation Law requirements
  - *Consolidated and Further Continuing Appropriations Act of 2012* (PL 112-55)
  - Statutory requirements—“law of the land”
  - Applies to activities identified as 2012 Consolidated Plan/Annual Action Plan projects
- [CPD Notice 12-007](#) provides operating guidance
- Proposed HOME Rule
  - Despite similarities, essentially does not exist

# Deadline for Sale of Homebuyer Units Requirement

- PJs must convert all 2012 HOME homebuyer units that have not been sold to an eligible homebuyer within 6 months of project completion to HOME rental units, or repay the HOME investment

# Deadline for Sale of Homebuyer Units Requirement (cont'd)

- Determining “project completion”
  - “all necessary construction work has been completed and the project has received a certificate of occupancy or other local certification”
  - This starts the clock on the 6 month deadline!
- Defining “sale” to homebuyer
  - “ratified sales contract”
- HUD has no waiver authority

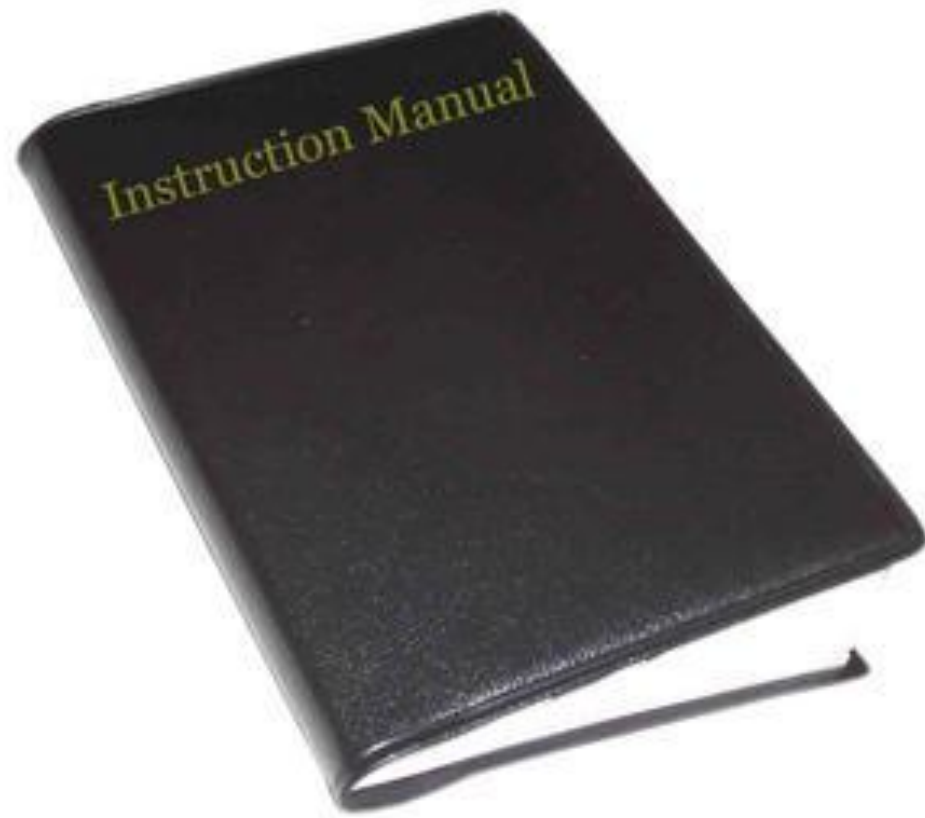
# Overview

- Program design
- Project considerations
- Fall back strategies for sale
- Conversion to rental
- Exit/recapitalization strategies



# Q&A: Requirements

- To submit a written question:
  - Click on the **Q&A tool** in the top menu bar. Type your question in the text box provided and click “Ask”
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# Program Design & Project Selection



# How Best to Serve Homebuyers

- Should you develop for-sale units at all?
  - No development = no requirement for conversion
  - Does the market need more units?
- Is buyer-driven direct assistance program a better option in some markets?
- Decision informed by:
  - Assessment of market needs
  - Recent experience

# So You Want to Develop Units

- Project certification requirements for FY 2012 activities (prior webinar—“Required Underwriting & Developer Capacity for Homebuyer Projects”):
  - Structure projects around market need & marketability
  - Select strong partners
    - Capacity for both sales and rental conversion
  - Leave room to maneuver in project underwriting

# Managing Risk Thru Project Selection

- Demonstrated market
  - Pre-sales
  - Pool of ready, willing, & able buyers
  - Spec builds – limit number of units w/out identified buyers
- Consider other pipeline & inventory
- Site selection
  - Local policy goals: production v. revitalization
  - Is conversion even possible? Zoning or other prohibitions on rental?

# Control Points

## Written Agreement

- Build in performance benchmarks & decision points about changes to strategy/conversion
- Allow for PJ to transfer project to another developer/owner
- Pre-structure rental conversion

# Transaction Structure

- Determining the project
  - “common ownership, management, and financing” (92.2)
  - Multi-address homebuyer projects in IDIS
- Implications of leverage
  - Does it limit options for direct financing, lease purchase, conversion?
  - But, not all costs HOME eligible



# **Project Planning & Ongoing Management**





# Sales & Marketing Plan

- Key component of underwriting
  - Demonstrates developer understanding of market context and project financial assumptions
- Foundation requirement – prior to funding
  - Starting at construction kickoff is too late
- Actively track progress and manage project
  - Require regular reporting
  - Involve local market experts in review

# Manage the Sales Effort



# Overall Sales Framework

- Right product?
- Right price?
- Good deal?
- Effective marketing?
- Access to credit?

# Product

- Location, location, location
  - Select sites where neighborhood is an asset not an obstacle
- Build to be competitive
  - Curb appeal
  - Energy efficiency & ease of maintenance
  - Offer modest “upgrade” options or buyer-selected finishes & fixtures
  - Future owner enhancements – “bonus room,” egress basement window, etc.

# Price & Deal Structure

- Determine pricing & process for adjusting
  - Reflect market
  - Generate interest
- Ensure adequate buyer assistance is available
- Sweeten deal terms
  - Recapture instead of resale
  - Deferred instead of amortizing
  - Forgivable instead of fully repaid

# Marketing Effort

- Identify the right partners... use realtor with history of serving low income buyers
- Partner with local stakeholders whose constituents are already in the neighborhood
  - Employers, schools, churches, etc.
- Seek free media opportunities... counter story to foreclosure focus
- Mine other programs for buyers... homeownership counseling, Sec. 8 homeownership, “excess” Habitat buyer pipeline

# Access to credit... provide it?

- Consider converting HOME investment from “construction loan” to developer into first mortgage to the buyer
- But, direct mortgage lending adds regulatory and administrative burdens
  - Complex set of issues
  - May vary dramatically based on state law
  - Foreclosure of defaulted loans
- New role: PJ or developer as lender/servicer

# Access to credit... lease purchase?

- Lease purchase is homebuyer under HOME but hybrid rental in the meantime
  - Identify near credit-worthy buyers who can transition to owners within 36 months
  - Must provide support to help household make transition to ownership
- Successful lease purchase programs start out that way, they don't "back into" option
  - Keys to success include program design, buyer selection, buyer support, and strong asset management



# Track Progress

- IDIS doesn't record construction completion, PJ must develop tracking system
- IDIS will identify “likely suspects,” post monthly
  - Activities in final draw
  - Activities with 90%+ of HOME funds drawn and no draws for 6 months
  - <http://www.hud.gov/offices/cpd/affordablehousing/reports/>
- Construction start is too late
  - Start marketing early, establish benchmarks
  - Report monthly upon construction completion?
  - 60, 90, 120 day meetings?

# Adjust Strategy

- Product – will a minor upgrade (e.g., stainless steel appliance package) make a difference?
- Pricing – is pricing still reflective of market ?
- Deal – are we missing out on interest due to level of DPA available ?
- Marketing – has it been effective, how do we do more?
- Access to credit – offer HOME first?

# Q&A: Program Design, Project Selection & Management

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# Making Rental Work



# If you can't sell, what then?

- Conversion to HOME rental or repayment of HOME investment
- If rental:
  - HOME Facts Vol 4 No 1: Changing the tenure type in IDIS
  - Bigger challenge – HOME rental requirements (rents, leases, property standards, affordability period)
- Requires:
  - Different owner/developer skill sets
  - Negotiations between PJ, lenders, and partners

# How do you make it work?

- Who needs to be involved?
  - Ownership & management
- Who do you seek to serve; how much will they pay?
  - Rents & revenue
- What will it cost to operate as a rental?
  - Operations
- Where's the money coming from?
  - Need for new/different financing
- How will performance change over time?
  - Compliance

# Ownership & Management

- Who should own and manage the property?
- Very different skill sets than for-sale development
  - May need to find new partners to own and manage
  - May require difficult or uncomfortable negotiations
- Alternative partners:
  - Look for experienced rental housing operators (if they do scattered site rental) -- PHA? Nonprofit? Others?
  - If CHDO project, must remain CHDO project (but remember CHDO “sponsor” option)

# Rents & Revenue

- HOME rental requirements impose different occupancy limits:
  - Program Rule—90% of initial tenants <60% AMI
  - Project Rule—if 5+ HOME units (scattered site project), 20% Low-HOME units tenants <50% AMI
- HOME rent limits:
  - High-HOME/Low-HOME rents net of utility allowance
  - Set rents below regulatory/market limits
- Change marketing efforts to reach a different target audience



# Operations

- Budget for real, don't hide from costs
  - Need to budget taxes, insurance, maintenance, and utilities (if not paid by tenant)
  - Need to consider contributions to reserves
- Management challenges of scattered site rental:
  - “**Diseconomy**” of small scale
  - Increased cost of distance and lack of uniformity
  - Lack of onsite management presence

# Financing Implications

- Need to replace sales proceeds with new source of permanent financing
- Projects may not support much debt
  - Operating costs likely to absorb most revenue
- Financing options
  - More HOME? CHDO proceeds from other deals?
- Evaluate need for reserves and plan future exit or reinvestment strategies

# Long Term Compliance

- Affordability period may be different
  - Based on total HOME investment, not direct buyer assistance
  - 20 years for new construction
- Ongoing compliance: PJ needs monitoring plan
  - PJ & owner must plan for annual occupancy report, income certifications, updated rents/utility allowances, etc.
  - Physical standards must be maintained over time, including lead-based paint hazards
- Owner needs to have capacity to meet ongoing obligations

# Other HOME Considerations

- Written agreement, legal documents, and IDIS
  - See HOME *FACTS* Vol 4 No 1 for IDIS changes
- Caution: Scattered site “project” implications
- CHDO set-aside
  - Will project still qualify as CHDO project?
- Reference: Considerations for Conversion  
handout

# Recapitalization & Exit Strategies

- Repayment risk during affordability period
- Funding rehab needs
  - Reserves: CHDO proceeds from current/future projects, developer equity (i.e. fee) contributions
  - HOME – no double dipping, CDBG for future rehabilitation
- Possible future conversion to homebuyer
  - 92.255: Can sell to *existing* tenant during the affordability period

# Available Resources

- Sales Self Assessment Tool
- Considerations for Conversion from Homebuyer to Rental
- Additional Resources listing
- HomeFACTS Vol. 4., No. 1—changing tenure type to rental  
<http://www.hud.gov/offices/cpd/affordablehousing/library/homefacts/volumes/vol4no1.cfm>
- “Operating Guidance for Implementing FY 2012 HOME Appropriation Requirements” (CPD Notice 12-007):  
<http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/notices/#2012>

# Reminders

- Recording, presentation, and supplemental materials available for download now
- <https://www.hometa.info/> will also include transcript & FAQs
- Please complete evaluations
- Direct highly specific questions to your Field Office

# Q&A: Rental Conversion

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# Evaluations & Adjourn

- Please complete evaluations
- Thanks to HUD staff
- Thank you for your
  - Time
  - Contribution to learning
  - Work on behalf of communities & residents



# Additional Webinars

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