



U.S. Department of Housing and Urban Development

Minneapolis Field Office
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Minneapolis, Minnesota 55402-4012
<http://www.hud.gov/local/min/minhome.html>

MEMORANDUM FOR: Minnesota MF Hub Lenders

SUBJECT: Residential Occupancy Rate- Circular 03-09

Date: April 29, 2003

The purpose of this circular is to describe this Hub's current expectations regarding residential occupancy rate assumptions used in underwriting.

On February 8, 2002, and again March 20, 2002, we sent e-mail to our lenders cautioning that due to the softening in the market, we would no longer be using or observing a 5% vacancy and collection loss assumption or a 95% residential occupancy rate. We indicated that we would revert to a 7% loss assumption and a 93% occupancy rate. Nevertheless, numerous applications have been submitted over the past year still using the lower loss rate and higher occupancy rate.

In the interim, according to GVA Marquette Advisor's "Apartment Trends" quarterly report, the Twin Cities-wide vacancy rate for 1st Quarter of 2003 is 6.5%, up considerably from the 4.8% vacancy rate one year ago when our caution was issued. When collection losses are added to this vacancy rate, it is clear that no less than 7% vacancy and collection loss is being experienced on average across the market. In its most recent report, GVA indicates, "The vacancy rate (alone) will likely approach 7% in the coming quarter."

Moreover, the GVA report noted, "Newer communities (those built since 1995) showed an 11.1% vacancy rate this quarter, compared to 5.5% vacancy rate in older, Pre-1980 communities."

Until further notice from this office, it is our expectation that no greater than **93%** residential occupancy rate be reflected on Line F30c of the Form HUD-92264, or Line G2 of Form HUD-92264 HCF as submitted by lenders.