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.
• 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
  – Press *1 to ask a question through Premiere Conference
    • Provide Name and Organization
    • If question already answered, press *2 to remove from queue
  – Change status back to green after question answered
  – Can also use Live Meeting written question function
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
• 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.
• 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.
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<td>For PJs: Assessing CHDO Development Capacity</td>
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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

You have 9 HOME activities that have been flagged. Click here to review them.

Activity Funding

HOME Activity Funding Certification

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 26, 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.

Agree, Continue to Add/Edit Funding Details

Disagree, Return to Add/Edit Funding
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?

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**Metropolitan New Orleans Trends**

*(Households - 1980 to 2010)*

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?

Sources: University of New Orleans Institute for Economic Development and Real Estate Research; and New Orleans Metropolitan Association of Realtors.
Market Analysis Topics (cont)

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

New Multifamily Units – Los Angeles

- 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](image)

Sources: Residential Meter Activity Report, City of Los Angeles Department of Water and Power; LA Housing Dept.
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)

- Market area definition – neighborhood within larger city
Defining the Market (cont)

• Market area definition – neighborhood within larger city
Defining the Market (cont)

- Market area definition – several suburban communities
Defining the Market (cont)

- Market area definition – small town
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
Table A
Very Low-Income Tax Credit Units
Overall Market Penetration Rate for 77 Units

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

- Assess support for proposed rental housing development
- Assess potential unit absorption/timing
• 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
Supply analysis – characteristics of competitive properties

<table>
<thead>
<tr>
<th>Property</th>
<th>Year Rehabbed</th>
<th>Unit Configuration</th>
<th>Rents ($)</th>
<th>Occupancy (%)</th>
<th>Utilities Included</th>
<th>Change in Rent (%)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plaza On The Park</td>
<td>1987</td>
<td>1br/1ba</td>
<td>525</td>
<td>Raise</td>
<td>528</td>
<td>100%</td>
<td>none</td>
</tr>
<tr>
<td>608 East 51st Street</td>
<td>1987</td>
<td>2br/1ba</td>
<td>628-661</td>
<td>Planned</td>
<td>628-661</td>
<td>100%</td>
<td>none</td>
</tr>
<tr>
<td>Chicago</td>
<td>1987</td>
<td>3br/1ba</td>
<td>795</td>
<td>First</td>
<td>792-799</td>
<td>9.9%</td>
<td>- 1.8%</td>
</tr>
<tr>
<td>608 East 51st Street</td>
<td>1987</td>
<td>4br/1ba</td>
<td>825</td>
<td>Old</td>
<td>842-884</td>
<td>2.1%</td>
<td>- 7.2%</td>
</tr>
<tr>
<td>608 East 51st Street</td>
<td>1987</td>
<td>5br/1ba</td>
<td>965</td>
<td>Year</td>
<td>1021</td>
<td>5.8%</td>
<td></td>
</tr>
<tr>
<td>608 East 51st Street</td>
<td>1987</td>
<td>6br/1ba</td>
<td>1085</td>
<td>Year</td>
<td>1152</td>
<td>8.6%</td>
<td></td>
</tr>
</tbody>
</table>

3. Cornerstone Apartments | 1993 | 2br/1ba | 525 | 573 | 573 | 100% | heat | 9.1% | Nicely rehabbed building in marginal but improving area. Some Section 8 tenants |
| 608 East 51st Street | 1993 | 3br/1ba | 739 | 790-847 | 790-847 | 6.9% | - 14.6% | |
| Chicago | 1993 | 4br/1ba | 790 | 790-847 | 790-847 | 0.0% | - 7.2% | |

4. Cornerstone Apartments | 1994 | 2br/1ba | 586 | 653-683 | 653-683 | 8.0% | - 16.6% | |
| 608 East 51st Street | 1994 | 3br/1ba | 780 | 790-847 | 790-847 | 0.0% | - 7.2% | |
| Chicago | 1994 | 4br/1ba | 790 | 790-847 | 790-847 | 0.0% | - 7.2% | |

5. Kings Court Apartments | 1994 | 2br/1ba | 610-625 | 625-650 | 625-650 | 100% | heat | 6.6% | Nicely rehabbed building. Some Section 8 tenants |
| 608 East 51st Street | 1994 | 3br/1ba | 735-750 | 745-750 | 745-750 | 0.0% | - 2.0% | |
| Chicago | 1994 | 4br/1ba | 790 | 790-847 | 790-847 | 0.0% | - 7.2% | |

6. Wilmington Apartments | N/A | 0br/1ba (sm)| 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. |
| 4901 Drexel | N/A | 1br/1ba (lg) | 435-450 | 450-470 | 470 | 4.4% | - 8.0% | |
| Chicago | N/A | 2br/1ba | 600 | 610 | 610 | 0.0% | - 1.7% | |

7. 45th Street Apartments | 1990 | 2br/1ba | 435 | 450 | 450 | 100% | heat | 3.4% | Euro-cabinets in kitchens. Large units with various views. Blue-collar families. Less than |
| 4503 S. King Drive | 1990 | 1br/1ba | 515 | 515-525 | 515-525 | 0.0% | - 1.9% | |
| Chicago | 1990 | 2br/1ba | 610-650 | 635-650 | 635-650 | 0.0% | - 3.3% |
Rental Housing Market Analysis (cont)

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

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

Income $38,880  Term 30 years
Max % for Mortgage 25%
Annual Payment $9,720  Interest rate 4.5%
Monthly Payment $810  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

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<td>Total number of households (2012)</td>
<td>21,494</td>
</tr>
<tr>
<td>Number of households with incomes of $32,000-$45,000</td>
<td>2,026</td>
</tr>
<tr>
<td>Market penetration by 50 units</td>
<td>2.5%</td>
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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
New Consolidated Plan eCon Planning Suite:
- CPD Maps is online data & mapping tool: [http://egis.hud.gov/cpdmaps/](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


• 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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# Webinar Series

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Please Give Us Your Feedback

• Answer a few short questions
  • http://www.surveymonkey.com/s/MarketAnalysis