

Section 232 New Construction Key Decision Criteria

Successful Section 232 New Construction Applications have typically included the following key elements.

Project Characteristics	
Experience	<ul style="list-style-type: none"> • Evidence of successful experience developing, leasing up, and operating similar projects, within the state of the proposed project or similar markets in the recent past (within the past 5 years). • When a joint venture was proposed, evidence was provided showing successful experience of the participants developing and operating projects together. • Successful experience was clearly shown with an Experience Chart, which included Previous HUD Experience, Lease Up Experience (providing specific details, including the actual monthly lease-up rate), Quality Control – chart with other projects they own/manage with Star Ratings (include city/state), and/or a summary of inspection reports for AL facilities.
Equity	% of Equity (20-30% of total all in project cost)
Financial Capacity	Participants had sufficient liquidity to meet the upfront cash requirement, fund non-mortgageable escrows, and meet unforeseen cashflow needs should the project take longer than expected to lease-up.
Number of units at our facility compared to existing	The proposed number of units did not exceed the market norm. In some situations, developers restructured their project into phases to be more acceptable. Sometimes developments were phased.
Appraisal Components	
Market Occupancy	The proposed occupancy did not exceed market occupancy. The contract appraiser visited comparables in person and interviewed staff.
Achieved rates compared to the subject	Proposed rental rates were not at the high-end or above the comparables' adjusted rate ranges.
Supply Pipeline	Proposed and under construction developments were not missed in the appraisal. Data sets such as NIC data do not list all proposed developments. In person interviews at planning departments and comparables will inform the contract appraiser of all new developments.
Level of competitiveness	In the appraisal, where comparables' bed counts were included at less than 100%, it was fully explained.
Income Requirements	Target market residents' minimum income calculations included level of care fees.
Expenses	Nearby, recent and similar comparable projects were used as Expense Comparables in the appraisal.
Capitalization rates	A full analysis was included, not a statement that the concluded capitalization rate was based on the contract appraiser's experience.
HUD Requirements	
Initial Operating Deficit (included in the equity calculation)	<p>Used the most recent version of the HUD IOD worksheet, found here.</p> <ul style="list-style-type: none"> • Prelease, absorption rates and expense floors were very conservative. • The NOI parameters are the lenders DSC parameters, not the appraiser's NOI. <p>For Section 241 applications, the preleases reflect current operations.</p>

Debt Service Reserve Escrow (included in the equity calculation)	Between 6 to 12 months of P+I+MIP
Operational Control of Borrower Entity	<ul style="list-style-type: none"> The Borrower entity must have at least one key Controlling Participant that has recent (within the past 5 years) experience developing similar projects. That specific participant must have control over the day-to-day operations and the organizational structure contemplated that participant's participation for the life of the mortgage. Experience of the Management Agent or Operator is not an acceptable mitigant to offset the Borrower's lack of experience. <p>See draft handbook 4232 Section II, Chapter 2.5.EE.2 for additional detail including the expectation that the experienced participant(s) have a minimum of 25% ownership interest in and decision-making authority in the borrower entity.</p>
Environmental Review Items that Frequently Delay New Construction Applications	<p>Please pay particular attention to the following items and contact LeanThinking@hud.gov in advance of application submission for assistance.</p> <ul style="list-style-type: none"> Tribal Consultation SHPO Consultation Endangered Species Review Wetlands/Floodplain Review Asbestos Pre-Demolition Survey Aboveground Storage Tank Mitigation Climate Change Impact Review (see 8/25/2022 Email Blast)

Sample Lease-Up Experience Chart

Project Name	FHA Number (if Applicable)	City	State	Facility Type	# of Units / Beds	Dates Participated	Dates Leased Up	Monthly Lease-Up Rate	Star Rating / Summary of Survey History	Additional Comments