

National Council of Housing Market Analysts

Finding Profitable Opportunities & Financing Affordable Housing Summit

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Indianapolis, IN

Mixed-Use Development: Case Studies & Issues Market Analyst's & Underwriter's Perspectives. Douglas P. Koch, MAI, AICP (Dauby O'Connor & Zaleski, LLC)

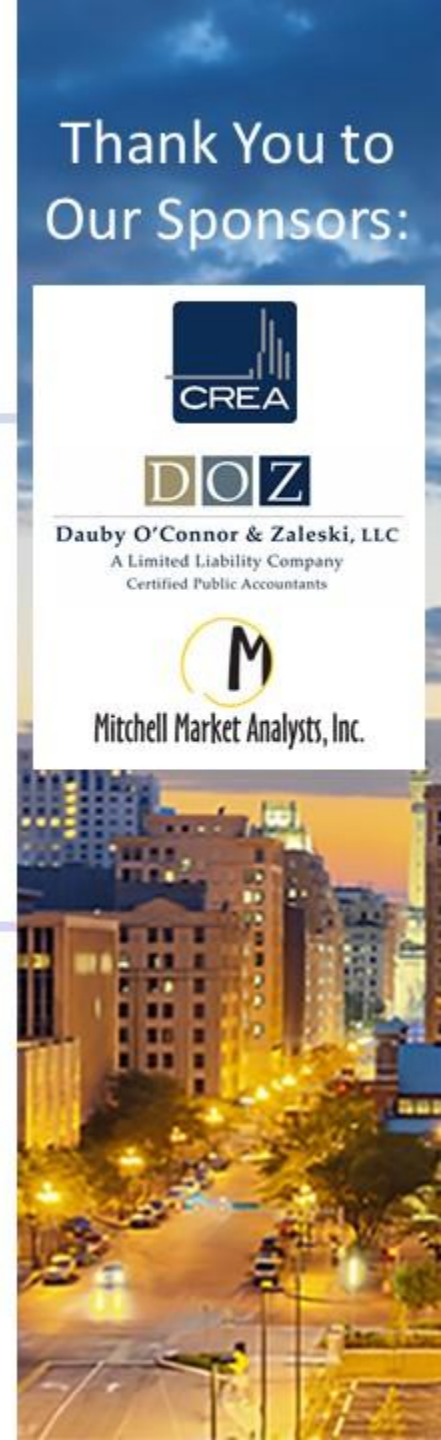
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Mixed Use Development: Underwriting Commercial Uses

1. Understand QAP requirements/local incentives for ancillary commercial space and balance feasibility with the attainment of points or zoning.*
2. Transit Oriented Development :(TOD's) balance incentives with the need for real linkages to commercial centers supporting feasible commercial rents.
3. Section 42 LIHTC restriction on commercial income as a source of revenue and as a % of basis.*

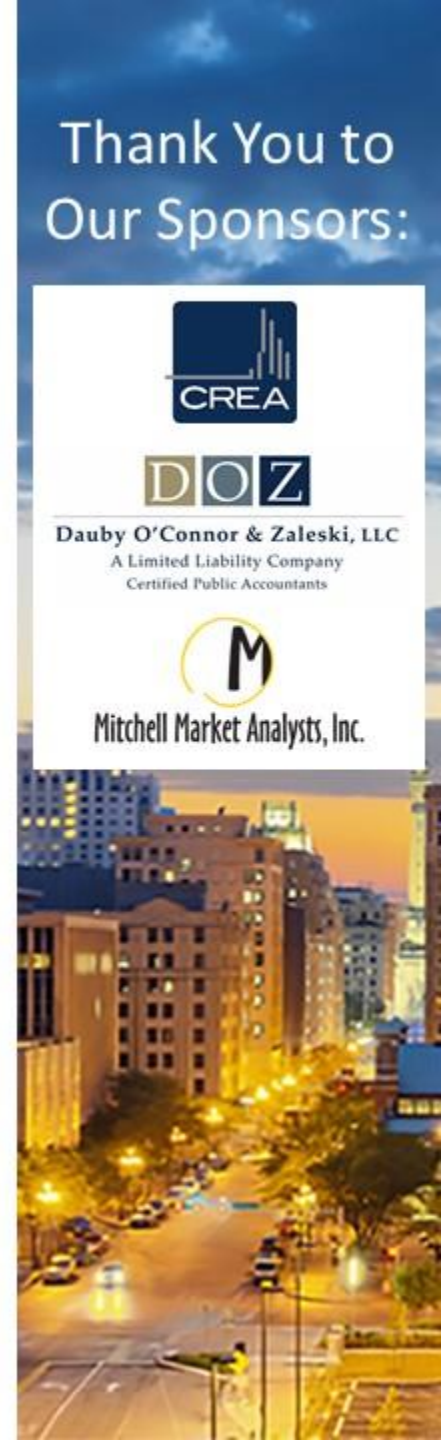
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4. Local market mixture of complementary, non-redundant and appealing uses nearby and in submarket.
5. Impact of residential units on feeding demand for specific retail use types.
6. Commercial Leases and Commercial/Retail use market analysis.
 - a. Rental Comparable Analysis
 - i. Usual Elements of Comparison: Physical Conditions (size, interior finish, amenities, site, functionality), location (time-distance, complimentary uses)

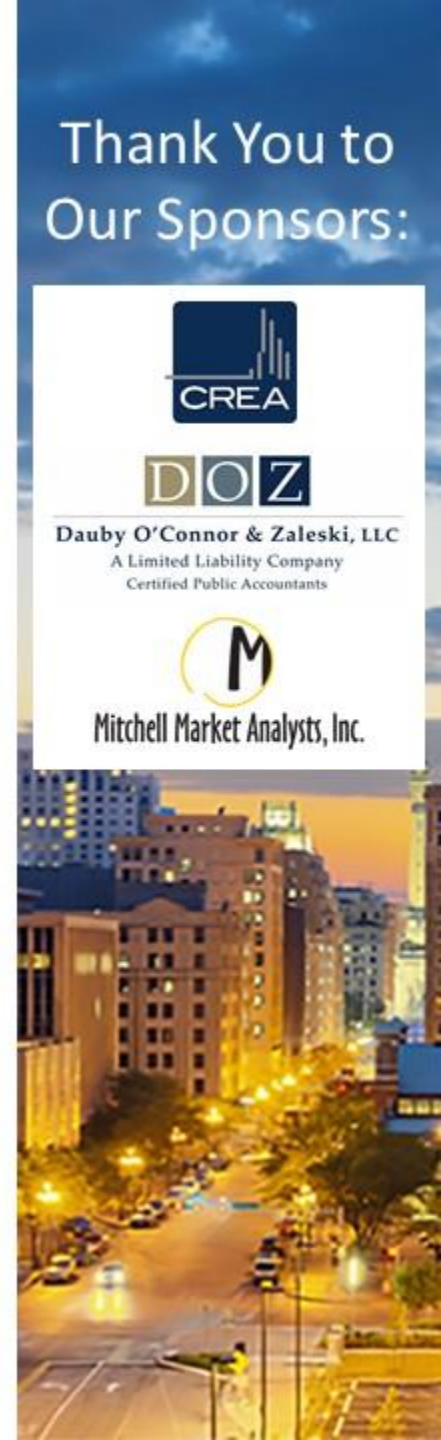
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II. Commercial Elements
Comparison: Age of lease,
Expense responsibility (CAM,
Reserves, taxes, utilities), fit-
out, franchise, owner/brand
tenant mix.

b. Field Work-sourcing comparable
rents:

I. Client or managers portfolio

II. Call/Visit local brokers

III. CBRE, C&W other national firms
in metro areas.

IV. Call from Signs/Listings

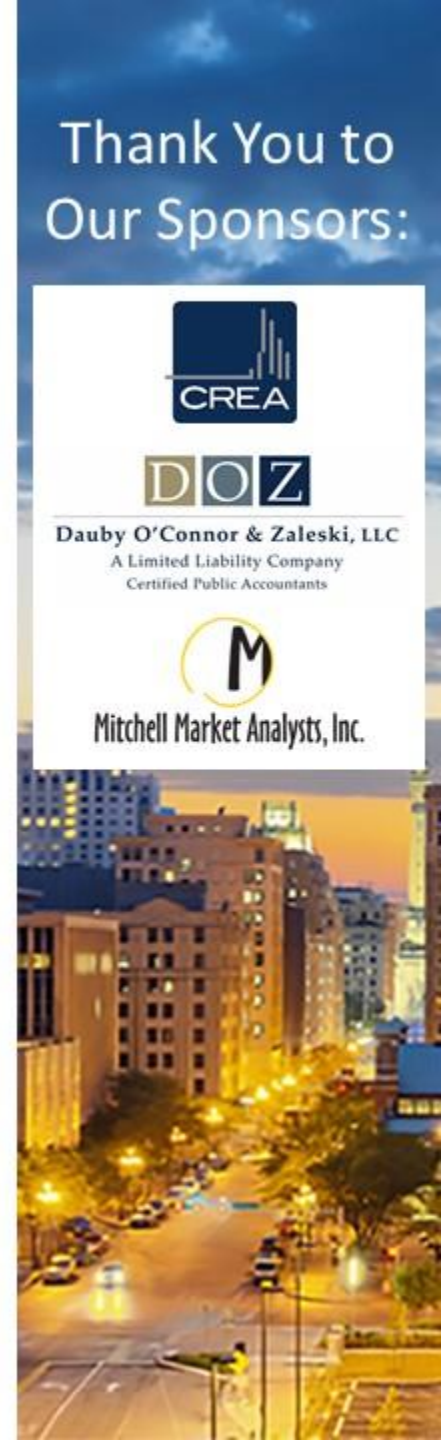
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- V. National sites for smaller towns:
<http://www.loopnet.com/>,
www.remaxcommercial.com/,
<http://commercial.century21.com>

7. General underwriting suggestions/standards from national industry organizations and GSE's.
- a. Commercial income accounting for more than 25% of Effective Gross Income may be classified as "special risk" requiring additional guarantees and reserves by lenders.

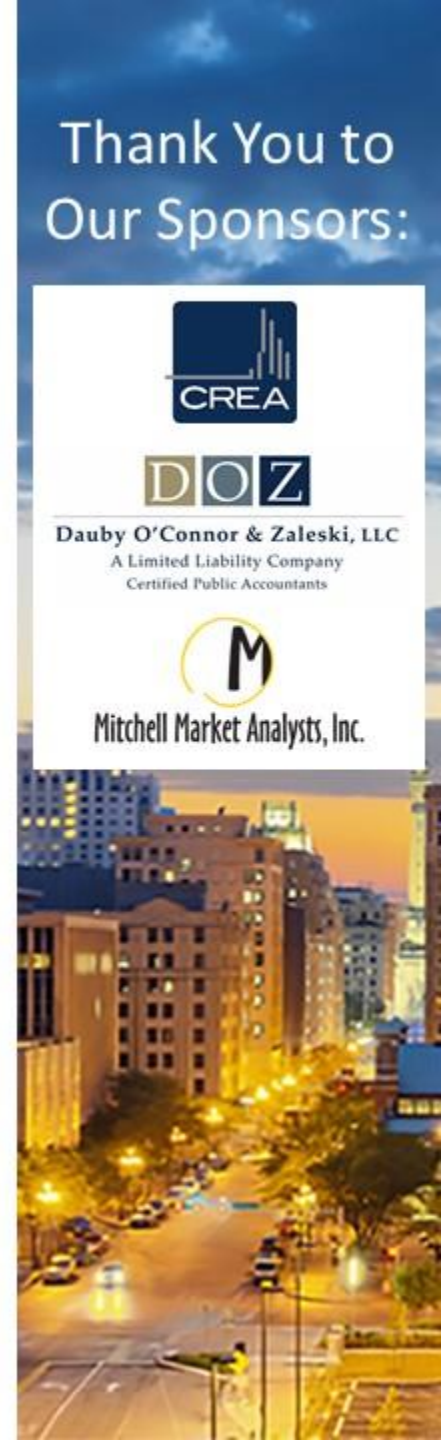
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b. Many investors will not rely on commercial income to size debt and will require commercial space to be legally separate and excluded from the LITHC partnership agreement.*

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- c. Rental revenue from commercial units is often required to be:
 - i. tightly tied to actual contractual monthly rental rate from the borrower's certified rent roll,
 - ii. with rent step-ups and escalations only included if documented in the contract,
 - iii. and considered normal in the market.

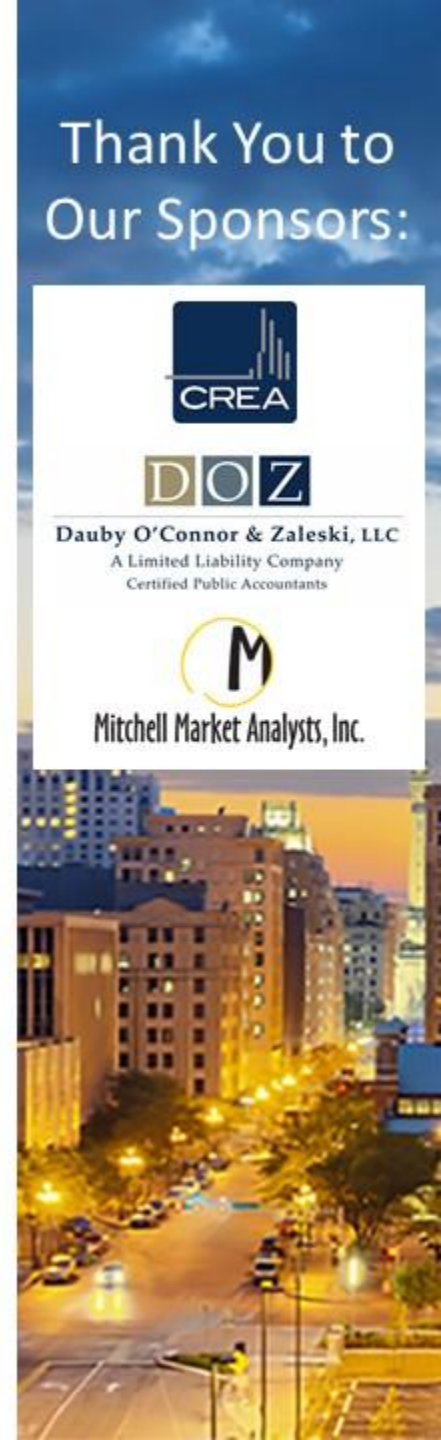
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- d. Commercial vacancy and turnover in occupied properties or those considered mid-term during a holding period, should be
 - i. isolated by tenant, with
 - ii. turnover & tenant fit up costs calculated & shown separately ,
 - iii. allocated by actual year of lease expiration in a multi-year cash flow projection based on market conditions & lease terms, and
 - iv. not shown as an assumed deduction to income or as an ordinary expense line item.

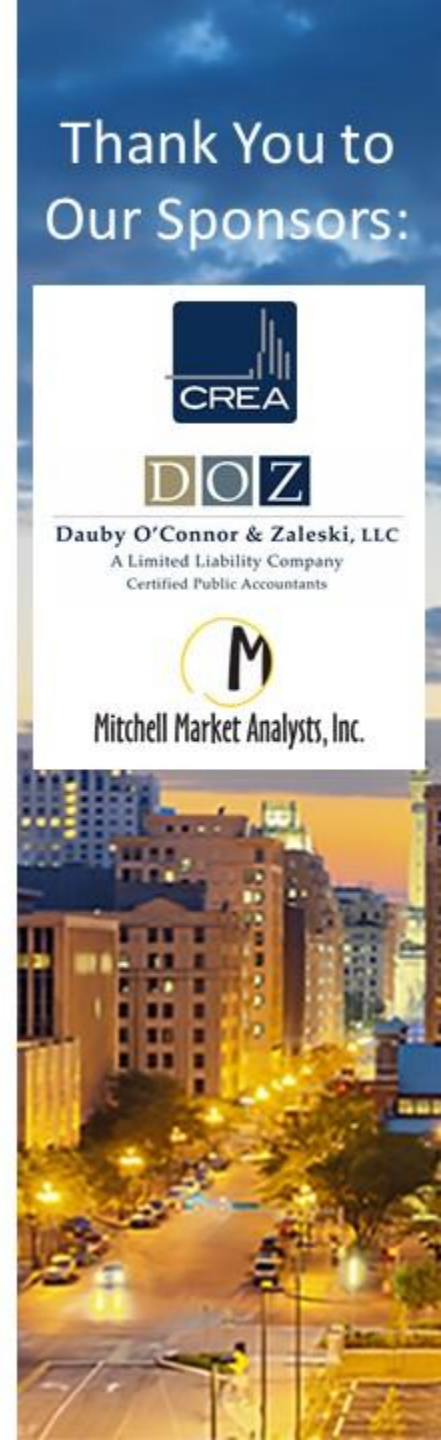
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- e. Some industry organizations suggest the use of a discounted rent from market rent, when establishing an initial proforma rent.
- f. Verify acceptability of commercial space costs included in qualified basis.*

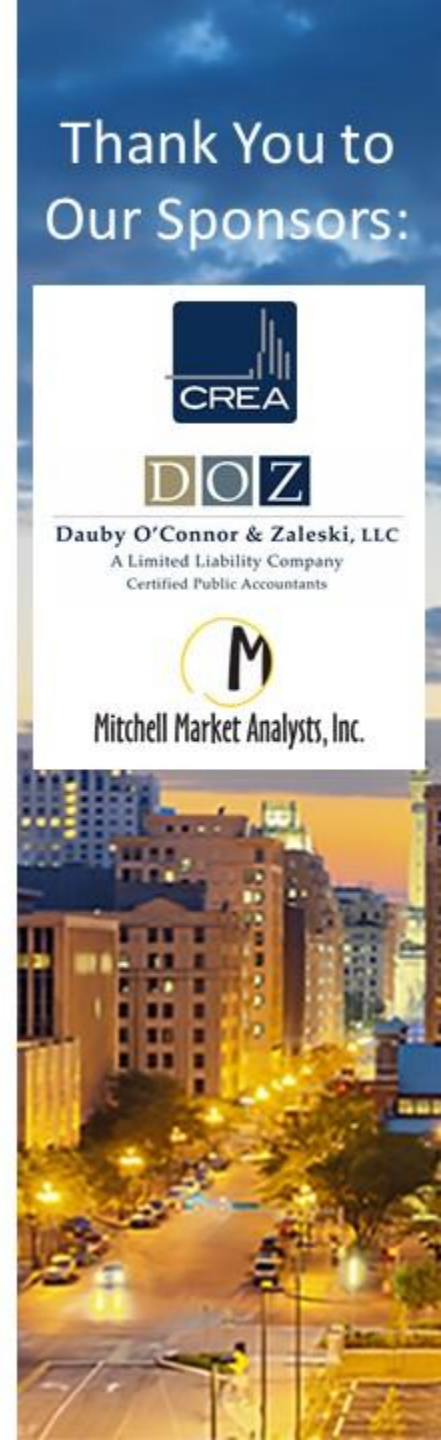
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