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To: Bob Burleigh, Technical Specialist, HQ-Multifamily Technical Support, HUD
From: Thom Amdur, Bob Lefenfeld, Tad Scepaniak
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Re: MAP Market Study Guideline Recommendations

The National Council of Housing Market Analysts (NCHMA) is pleased to present the following comments concerning revisions of Chapter 7 of the MAP guidelines for Market Studies. These comments are based on correspondence with HUD personnel over the past months and recent listening sessions with Market Analyst Practitioners, Chief Underwriters with MAP lenders and HUD personnel as well as a session dedicated to MAP Chapter 7 at the NCHMA Spring Conference in Atlanta on April 5th, 2019. The following are the key items that were discussed along with an overview of the discussions and NCHMA's recommendation when applicable.

Effective Date: Based on a July 5th, 2016 clarification memo from Dan Sullivan, the effective date for the market study can be the date the analyst completes his/her research on active and proposed competitive properties, but not to exceed 30 days from the date of the site inspection. NCHMA recommends that this language be added to the guide directly.

Cite HUD as Intended User: All studies should designate HUD as an intended user, along with lender and sponsor/developer. NCHMA recommends that this language be added to the guide directly.

Limited Scope Market Study - Effective Date: Some time period should be designated for limited scope market study updates, be it 90, 120 or 180 days from the submission date. NCHMA recommends specific timing requirements for full market study updates and limited scope market study updates be added to the guide directly.

Limited Scope Market Study – Content: Most HUD offices have accepted a limited scope update report that focuses on revisiting the demographic and competitive environment, a recalculation of Net Demand and Effective Demand, and a discussion of subject property's proposed rents in the current competitive environment. This limited scope addresses key issues without requiring updating all contextual information included in the original market study and can typically be conducted as a desktop analysis. This approach saves the borrower money, saves HUD time of reviewing another 100+ page report, but provides necessary updated information.

An alternative brought up from a HUD Lender is a letter from the market analyst confirming that there have been no material changes in the market since the completion of the most recent market study. Analysts pointed out that such a letter would require the analyst to conduct significant research including updated competitive surveys, pipeline research, and any related impacts on the Net Demand Estimate. HUD Lenders felt the need for updated market data was less important for projects that had significant net demand at the pre-application stage than tight markets. NCHMA does not recommend an abbreviated update without the supporting documentation to confirm overall market conditions and demand have not materially changed.

Net Demand Analysis

Forecast Period for Market Study: Forecast period for the Net Demand Analysis should be a three-year period starting at the effective date. Extenuating circumstance may require construction and lease up to significantly stretch to a fourth year or the regulatory environment in the subject market is typically elongated due to nature of construction in an area (Dense, high rises in CBD's). If demand period exceeds three years, demand should be "normalized" to reflect potential long-term pipeline. NCHMA recommends a standard three-year demand period from effective date remain in the MAP Guide with language stating the longer demand periods must include an estimate of new supply beyond three years.

Occupancy Rate Assumption: One component of the Net Demand analysis is targeted occupancy levels for the multifamily inventory. Regardless of the financial underwriting criteria, the demand analysis typically reflects a 95 percent market-wide occupancy level, which often matches a 93 percent economic occupancy. HUD should specifically state the desired occupancy level to be utilized in the Net Demand Analysis to insure consistency. NCHMA recommends 95 percent occupancy for the purposes of the Net Demand estimates as physical occupancy can be higher than economic vacancy; furthermore, a market may be considered stable at 93 percent but is not considered indicative of a tight rental market.

Impact of Demand on Occupancy Levels: Analysts should comment on the potential impact of net demand conclusion on future occupancy levels in the market by the end of the forecast period. It is also important to stress that the combination of Effective Demand (affordability and penetration), Net Demand, and other factors including market and economic conditions need to be considered to fully understand the market. NCHMA recommends that this language be added to the guide directly.

Capture Rate

Renter Capture Rate: Capture Rate should be designated as renter capture rate rather than total income qualified households. NCHMA recommends that this language be added to the guide directly.

SMA Capture Rate: SMA demand was specifically and intentionally removed from the MAP Guide during the 2016 update as inclusion of additional demand from a larger area simply artificially inflates demand. Household projections should reflect the household growth in the Primary Market Area, whether households are migrating from neighboring areas or from the other side of the country. If the market analyst feels projections are underreporting projected household growth in a market, the demand analysis should reflect reasonable adjusted household projections, which should be fully explained in the body of the market study. NCHMA does not recommend the inclusion of SMA demand in the standard demand model nor the requirement of a SMA Net Demand Estimate as a secondary calculation.

Capture Rate by Household Size: In terms of renters by household size, a typical project offers multiple floor plans, addressing a broad spectrum of household sizes and types. To make judgements on households by household size seems disproportionate given the limited household income by size data available and the scale of one-unit type vs. the broad population base.

NCHMA recommends that the MAP Guide be updated to state that if a project has a large percentage of studios or three+ bedroom units, the capture and penetration rate analyses should factor in household sizes evident in the market.

Designating Capture Rate Benchmarks: The question arose whether benchmarks or thresholds for capture and penetration rates should be established by HUD. NCHMA opposes setting any capture rate (or other) benchmarks. The capture rate should be evaluated in the context of the primary market

area and other data points. A 10 percent capture rate would likely be too high in a dense urban market, but would may be completely acceptable for an income restricted community or even a market rate community in an emerging market with limited direct competition.

EMAD

EMADs (Economic and Market Analysis Division) role is to evaluate the housing market from a MACRO vantage point. EMAD typically comments on the overall market demand for rental housing in the Housing Market Area, which is typically a metropolitan area or county. While we acknowledge the difficulty of discussing individual market dynamics, it is important that lenders and analysts are cited specific data or geographic trends to allow a meaningful response. NCHMA requests that correspondence from HUD regarding their opinions on market and demand include as much detailed information as possible. At a minimum, the data source and geography would be extremely helpful in evaluating HUD's comments as it relates to the market study.

Project Rents Used in Market Study

HUD recognizes that while it is the appraiser's prime responsibility to set rents, it is useful that both the appraiser and market analyst provide independent view of rents to the lender's underwriter. Typically, the market study is initially conducted based on the developer's proposed rents and rents derived by the appraiser are often different than the developer's rents. Two potential approaches of how the market study submitted to HUD should treat rents have been discussed:

- Market analyst uses appraiser's rent in the report in Effective Demand Calculations, rent position evaluation and absorption estimate. This can be accomplished by the market analyst first evaluating developers rents and determining the appropriateness of those rents with recommendations, if needed. The analyst can then update the report to reflect appraiser's rents, updating the price position of the project in the market, calculating Effective Demand based on the appraiser's rents, and opining on absorption based on the final product. A concern that has arisen by some underwriters is that this might take additional time in getting the final market study.
- Market analysis and appraisal are conducted as separate activities and charge the lender's underwriter to reconcile any variations between the rents. Under this approach, the market study's effective demand analysis (affordability and penetration), evaluation of price position and absorption estimate will not reflect the final appraiser's rents of the project. With a limited variance between rents studied in the market study and concluded in the appraisal, the impact on effective demand and absorption would be negligible. However, a significant rent differential can result in vastly different Effective Demand and may change market analyst's view of absorption.

NCHMA recommends the use of the appraisal rents in the final market study. A variation in rents between the market analyst and appraiser may only have a minor impact on effective demand indicators. However, that variation may have a significant impact on the market analyst's opinion on absorption, which should be reflected in the final report. NCHMA further recommends that the MAP Guide be amended to include language requiring evaluation of the rents for the subject property by the market analyst but should not specially require a derivation of achievable rent, which is being conducted by the appraiser through rent grids.

Mixed Use Studies- Commercial Component

It would be helpful to get guidance from HUD as to what information would be useful in the commercial component of a MAP market study, be it retail or office uses.

Typically, commercial analyses of a mixed use project includes information on traffic counts, trends in commercial vacancy rates and commercial rents in the submarket in which the subject site is located, inventory of competitive centers in the immediate vicinity of the subject site, representative sample of rents presently available in the market, pipeline of commercial properties, evaluation of expenditures compared to supply to determine retail gaps in the market for retail, an opinion on commercial development opportunities on the subject site, and an opinion on achievable rent levels for such space.

Is this scope of analysis appropriate or too extensive? Comments from HUD lenders indicate that HUD's review of the commercial components of mixed-use development generally focuses on higher-level concepts including overall appeal of the site, accessibility, and visibility. Should the scope of the retail analysis be dependent on the size of the commercial space. Also, is it necessary to conduct any analysis if a project has limited commercial square footage (less than 5,000 sq. ft?).

NCHMA recommends the MAP Guide be amended to include specific requirements for the commercial analysis and the establishment of a minimum amount of commercial space that requires such a section in the market study. NCHMA recommends a threshold of 5,000 square feet.

We hope these comments and recommendations are helpful to HUD as you reevaluate Chapter 7 market study guidelines. We look forward to an ongoing dialog about the agency's approach to market feasibility analysis.