

A Reviewer's Perspective on Key MS Issues

New Renter Households (HHs)

- PMA from Which Renter Households are Drawn is Logical
- New Renter Households are the Key Source of Demand
- Income Qualified Renter HHs are Extracted Correctly:
 - **Income Qualified Renter HHs . . .**
 - Use Appraised Rents (MAP Guide)
 - Percentage of Income Applied to Rent
 - 30%-35% of Median Renter HH Income
 - Income Band (use a maximum)

Things to Watch Out For

- Kickers to Household Creation:
 - In-Migration
 - Job Creation
 - Cumulative Demand
- Incorrect Application of Pent-Up Demand
 - Pent-Up Demand After Year 1
 - Balanced Market Rate > 5%
- Forecast Period Exceeds 3 Years
- Overstated CINCH Rate

Calculating Income Qualified Renter HHs

Incorrect Method

Total Households 50,049
 % Income Qualified x 58.8%
 % Renters x 30.3%
 Inc. Qual. Renter HHs = **8,917**

Correct Method

Gross Rent	Annually	% Income	Min. Inc.
\$1,461	\$17,532	35%	\$50,091

Use \$50,000 as an easy cut-off
 Column in **red** adds to **6,787**

Incorrect Method Overstates Inc.
 Qual. Renter HHs by 2,130 HHs or
 31.4%!

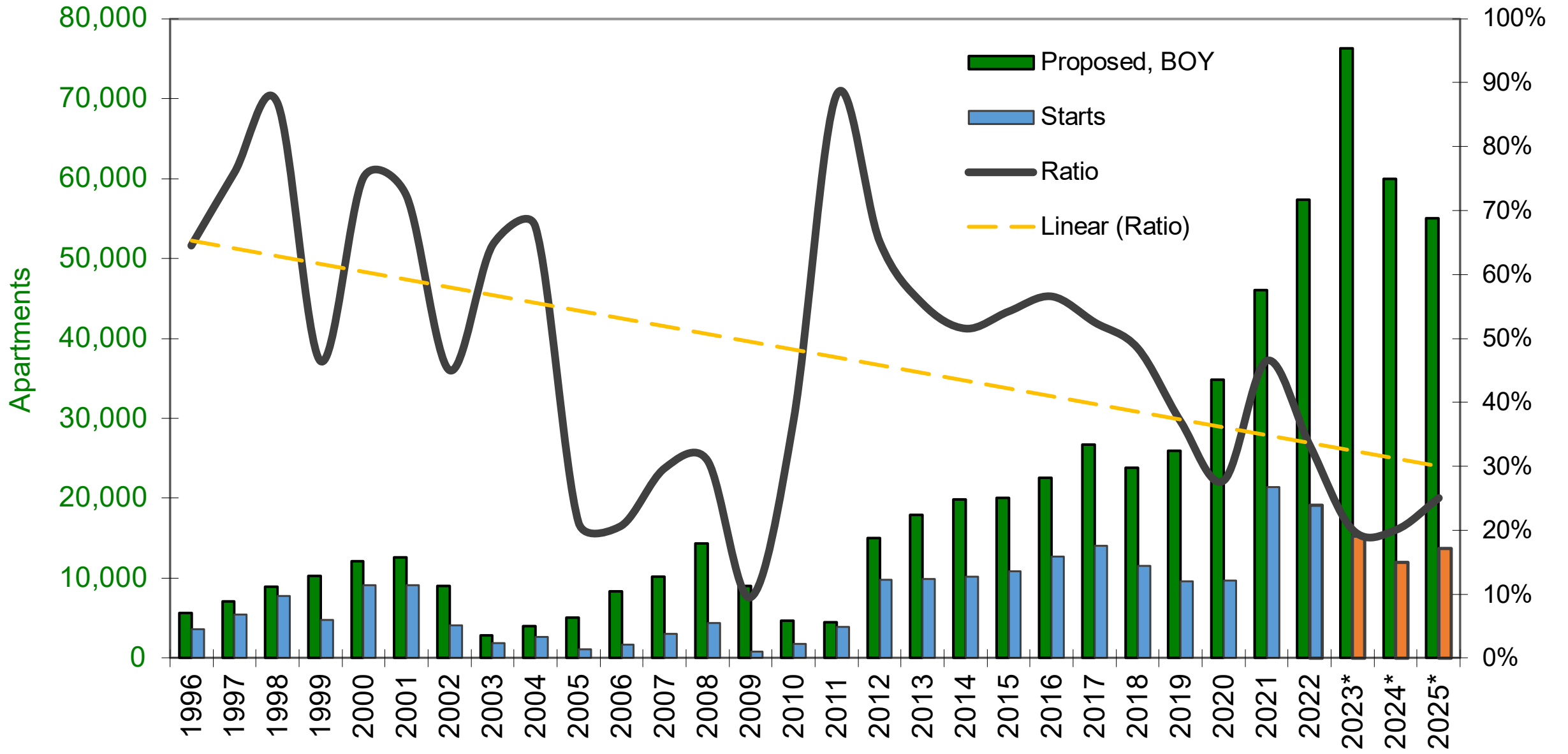
Estimated 2022 HH Income		Renter Households		Owner Households	
Market Area		#	%	#	%
less than	\$15,000	2,351	15.5%	2,621	7.5%
	\$15,000	2,016	13.3%	2,247	6.4%
	\$25,000	1,674	11.0%	3,047	8.7%
	\$35,000	2,325	15.3%	4,358	12.5%
	\$50,000	2,865	18.9%	6,712	19.2%
	\$75,000	1,673	11.0%	5,426	15.5%
	\$100,000	1,616	10.7%	6,511	18.7%
	\$150,000	633	4.2%	3,975	11.4%
Total		15,153	100%	34,896	100%
Median Income		\$44,904		\$69,274	

Analyzing the Supply Pipeline

- Need to Carefully Analyze the Supply Pipeline in the Current Market
 - Developers Honestly Believe Their Project Will Still Go Forward
- Historically, about 50% of announced projects began construction within 12 months (so competitive within the 3 year forecast)
- Last several years there has been a declining conversion or success ratio (getting from announcement to construction)
 - Pandemic, Labor Issues, Supply Chain Issues, Financing (you know the drill)
- **The following slide is used by permission of Scott Rathbun of Apartment Appraisers & Consultants (AA&C)**
 - It represents the Seven County Denver-Boulder Metropolitan Area
 - Other large markets in the West are experiencing similar issues



Success/Conversion Rate (Following 12 mo. Starts)



EMAD, CoStar & REIS vs. the Market Analyst

- EMAD uses a county-based model focused on under construction or likely to begin within the next 3 months (approximately)
 - A fairly certain pipeline & likely limited to about 2 years
- REIS focused on “same store” analysis of stabilized properties
- CoStar strongly considers new entrants from the pipeline
 - Differences were traditionally small . . .
- How do we resolve this?
 - HUD May Ask the Market Analyst to Widen the PMA to (Cast a Bigger Net) to Make Sure We Don't Have Surprises from Outside the PMA
 - Underwrite a Higher Vacancy Rate (reducing the mortgage amount) for long term vacancy issues
 - Increase the Initial Operating Deficit or IOD for short term vacancy spikes