

2019 FHA MAP MARKET STUDY GUIDELINE REVIEW

NCHMA FHA WORKING GROUP

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REVIEW PROCESS

- Compile list of issues that have come up over the years
- Listening sessions with:
 - Practitioners (Market Analysts)
 - Chief Underwriters of FHA Lenders
 - HUD Personnel
 - Appraisers and Underwriters
 - Chief Technical Specialists
- Developed Memo for Discussion at Atlanta NCHMA Meeting – Pg. 17 of Conference Book
- Transmit comments to HUD

LIMITED SCOPE MARKET STUDY UPDATES

- Designate maximum time of effective date from date of submission (120 days).
- State when further update is required if issuance of firm commitment is more than X days from update effective date.
- Definition of limited scope update report
 - Revisiting the demographic and competitive environment
 - Recalculation of Net Demand and Effective Demand
 - Discussion of subject property's proposed rents in the current competitive environment

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.

NET DEMAND ANALYSIS

- Forecast period should not exceed 120 days except for extenuating circumstances. If demand period exceeds three years, demand should be “normalized” to reflect potential long term pipeline.
- Regardless of the financial underwriting criteria, the demand analysis should reflect a 95 percent market-wide occupancy level.
- State when further update is required if issuance of firm commitment is more than X days from update effective date.
- 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.

Net Demand, and other factors including market and economic conditions need to be considered to fully understand the market.

EFFECTIVE DEMAND ANALYSIS (Capture and Penetration Rate)

- Capture Rate should be designated as RENTER capture rate rather than total income qualified households.
- Household projections should reflect the household growth in the Primary Market Area from Secondary Market area and whether households are migrating from neighboring areas or from the other side of the country.
- Capture rate by household size should be addressed on an as-needed basis.
- HUD should not be designating benchmark capture rates.
- 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.

EMAD COMMENTS

- 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
- Most comments are general or vague without any specific data or geography cited, which limits the ability to provide a meaningful response..
- Recognizing HUD's concern about disseminating proprietary information from data services. it is difficult to discuss trends without the transparency of understanding the data on which EMAD's judgement is made.
- If specific data is not available, at a minimum, we should understand the geography and some summary of the data on which an analysis is conducted. That will enable the lender and analyst to best address concerns.

RENTS USED IN STUDY

While it is the appraiser's prime responsibility to set rents, it is useful that both the appraiser and market analyst provides independent view of rents to the lender's underwriter.

Typically, the market study is initially conducted based on the developer's proposed rents which are often different than the developer's rents. Two potential approaches of how the market study submitted to HUD should treat rents

- Market analyst uses appraiser's rent in the report in Effective Demand Calculations, rent position evaluation and absorption estimate. Analyst delivers draft evaluating developer's rents. Then issues final report with Effective Demand and Absorption based on Appraisers Rents.
- 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

MIXED USE STUDIES- COMMERCIAL COMPONENT

Definition of Appropriate Scope

- Traffic counts
 - Trends in commercial vacancy rates
 - Commercial rents in the submarket
 - Inventory of competitive centers
 - Sample of rents presently available in the market pipeline of commercial properties
 - Gaps in the retail market
 - Opinion on commercial development opportunities
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- Should scope be dependent on the size of the commercial space?
 - Is it necessary to conduct any analysis if a project has limited commercial square footage (less than 5,000 sq. ft.)?

HOUSEKEEPING

- All studies should designate HUD as an intended user, along with the lender and sponsor/developer.
- Effective date for the market study can be the date the analyst completes his/her research on active and proposed competitive properties, but should not exceed 30 days from the date of the site inspection.