

Development Seminar Series

Workshop 2: Project Selection

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under contract to NY DHCR/HTFC



Overview of the Seminar Series

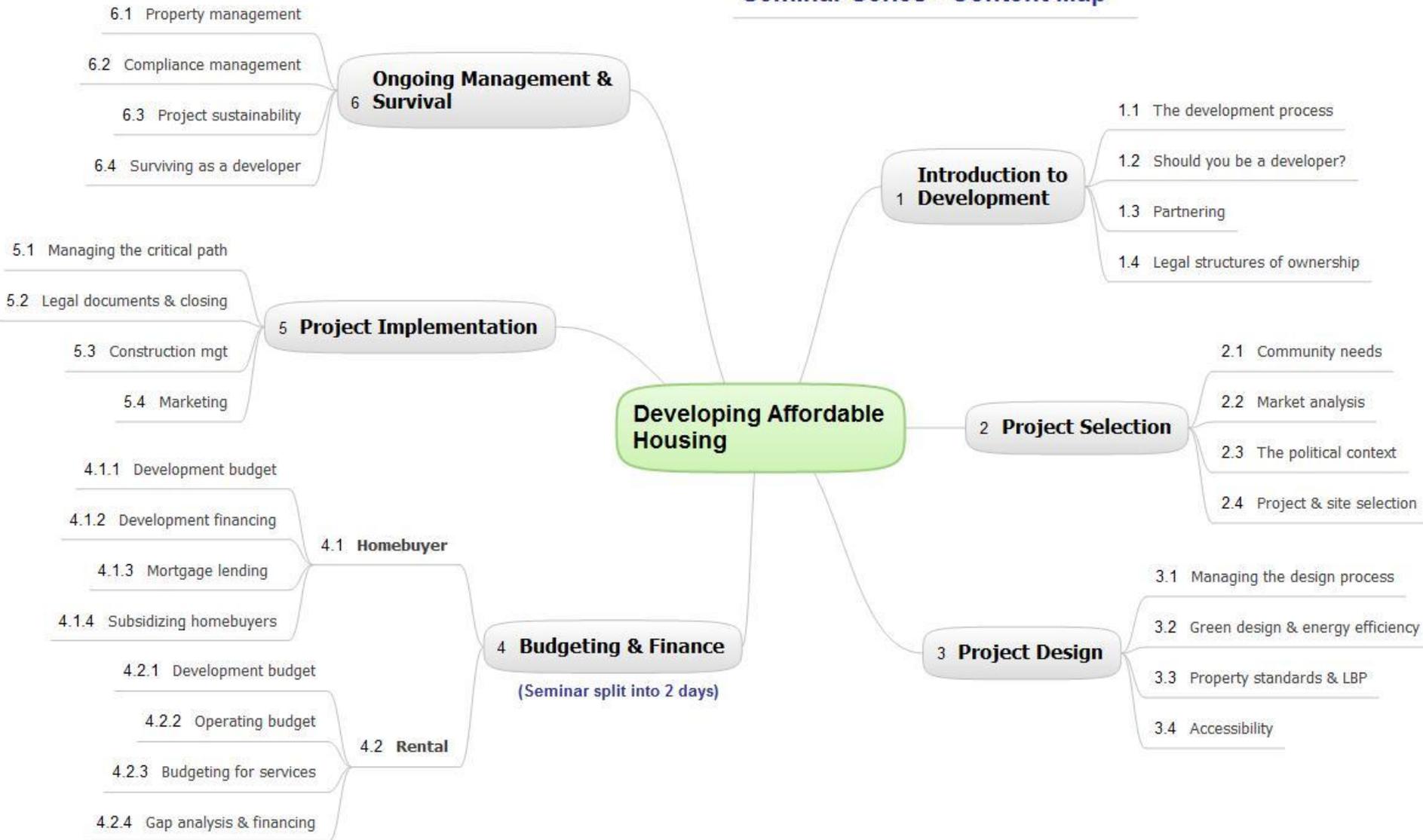
- 6 workshops:
 - Introduction to Development – last month
 - Project Selection
 - Project Design – July
 - Project Finance – September (split: Rental & Homebuyers)
 - Project Implementation – October
 - Ongoing Management & Org Survival - November



LPA Mini-Series

- Working with Homebuyers - June
- Lead Based Paint Overview – July/August
- Managing Housing Rehab Programs - October

Developing Affordable Housing Seminar Series - Content Map





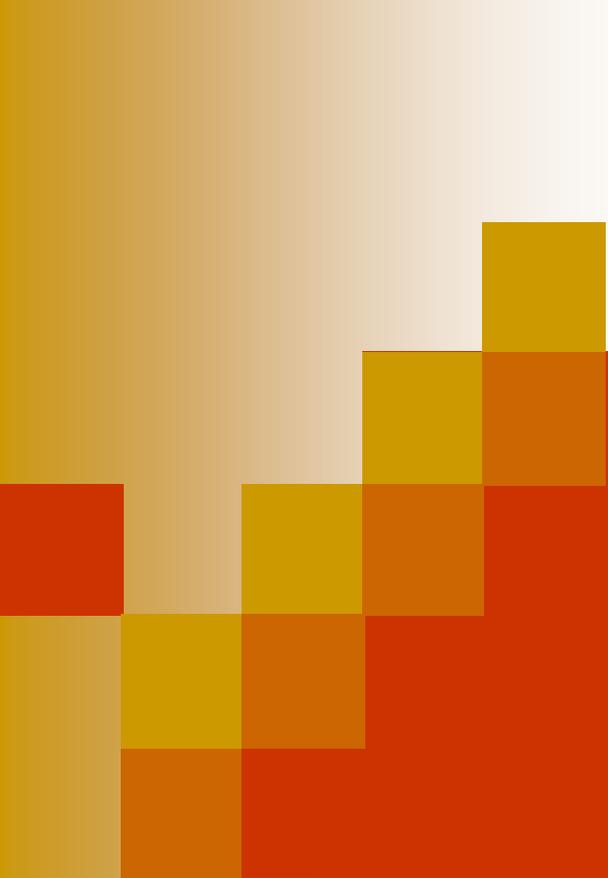
Materials

- Reference manual
 - Supplemental discussions of institute topics
 - For review outside of class
- Each seminar, add:
 - Overheads for note-taking
 - Tools for project planning



Seminar 2 Topics

- Community needs & priorities
- the political context
- Market analysis
- Project selection
- Environmental review



Community Needs & Priorities



Key Issues

- It's not just about housing needs
- Need to be compatible with community needs & priorities
- Revitalization strategies needed, not just housing strategies
- Need to face political realities



Context for Project Selection

- Market conditions
- Community needs and priorities
 - Competition for scarce resources
 - Relationship of housing to other community needs
- Political situation and NIMBY

Sources of Data

- Sources of data, strategies, resources
 - Local housing strategy
 - Community plan
 - Economic development plan

Community Assets/Needs

The Economy

- Income
- Employment
- Essential services

Infrastructure

- Utilities
- Roads/transportation

Services & Facilities

- Education
- Public safety
- Child / adult / health care
- Libraries and information
- Parks and recreation
- Government services
- Social / gathering / worship
- For special populations

Community Priorities

- Strategies & resources
- Compatibility of project to overall strategy
 - Targeting/concentration
 - Synergy
- Smart growth principles
 - Infill existing communities
 - Mix of uses
 - Range of housing
 - Walkable neighborhoods
 - Transportation choices
 - Efficient design



Revitalization Strategies

- Housing is “necessary but not sufficient” component: housing alone can’t revitalize neighborhoods
- Underlying economic & social vitality necessary
- Location choices driven by perceptions of schools, safety, access to jobs & access to social/cultural institutions/ties
- Make sure other partners are at the table

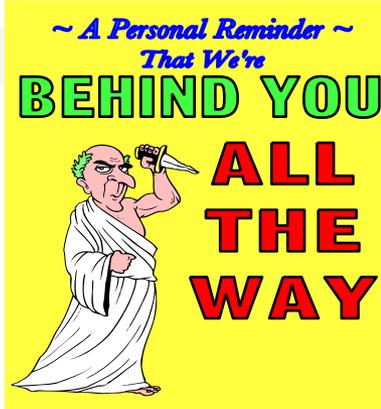
Revitalization Strategies, cont.

- Strategies must address causes, not just symptoms
 - Address blighting factors first
 - Anchor: build activity on existing assets and activities
 - Synergize: multiple activities can impact larger problems
- But be realistic!
 - Not all problems can be readily impacted
 - Your capacity & resources are limited
 - You can't address needs without understanding market



Assess the Political Situation

- Local government
 - What you want from them & what they want from you
 - Approval process
 - Staff technical support
- Political situation
 - Elected & appointed officials
- Supporters and opponents
 - Who they are & what their commitment is
- Media



Deal with NIMBYism

1. Anticipate: Consider NIMBY when selecting
2. Be proactive: Make sure they hear it from you 1st
 - Don't proselytize
 - "Put a face on it": the Reagan strategy
 - Think/talk community: be a good & concerned neighbor
3. Listen: Seek 1st to understand
 - Don't take it personally; remain polite, cordial, respectful
4. Respond: To fears/concerns; validate & address negatives
5. Negotiate: Think win-win; seek the 3rd alternative
6. Deliver: Make sure you deliver what you promise

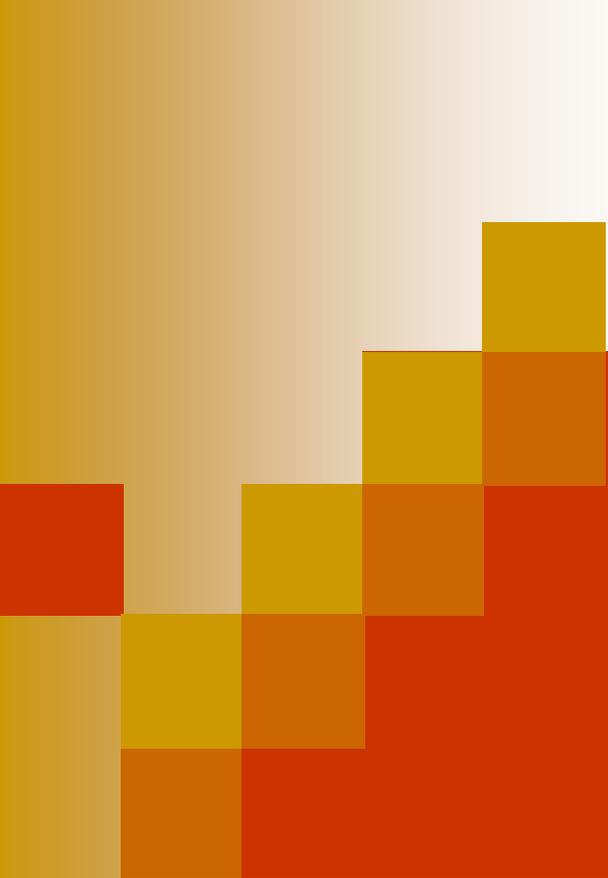
Focus on Process

- It starts and ends with people
 - Engage the Stakeholders
 - Early, frequent, consistent contact
 - Incorporate their position
 - Consider both problems and assets/resources
 - Community Assets model: Build from assets, not liabilities
- Do your homework
 - Be able to state need & opportunities clearly
 - Be able to find win-win



Final Word: Needs, Priorities, Politics

- More than just housing; not in a vacuum
- Know what came before
- Connect to community priorities
- Understand the political landscape
 - Keep your opponents in sight
 - Nurture your allies
- Be ready to negotiate

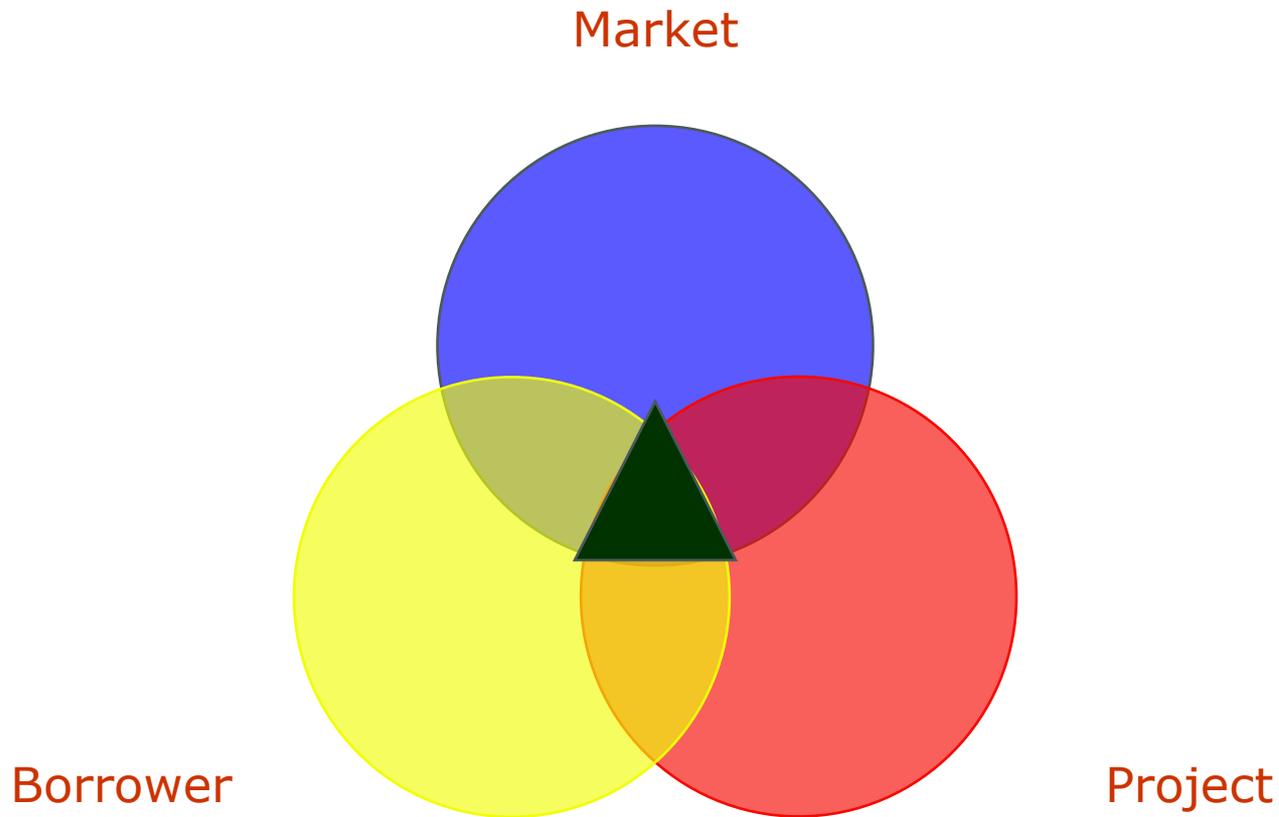


Market Analysis

Projects Begin & End with Market

- *“If we build it, they will come!”*
 - Confusing “demand” with “need”
 - Believing low-income housing doesn’t have to compete
- *“Marketing a design rather than designing for a market”*

Underwriting & Market Risk



Elements of Market Analysis



When To Do Market Analysis?

- Analysis should “inform” the development decision, not just justify or rationalize it after the fact:
 - Do analysis before development decisions are made
 - If done just before application submission, it is just an “expensive application requirement” or a foregone conclusion
- Why do market analysis if you have a site and site control?

If Hiring a Market Analyst...

- How well do you know your market?
- How well do you know funder/program guidelines & underwriting metrics?
- How will you identify/survey comparable properties?
- How much will you be on site?
- Can you do a preliminary analysis early, & a final update?
- How much will it cost? And when do you need payment?



If You Are Doing Your Own Analysis

- Set your preconceptions aside, and follow the data.
- Explore all areas of analysis. No shortcuts!
- Put yourself in your lender's position. Ask the questions they would ask.
- Be sure to add in primary data where possible.
- Test your results on someone knowledgeable. Check with potential customers.

Market Study Data

	Primary	Secondary
Demand	Waiting lists, surveys focus groups	Census analysis & projections
Supply	Survey of comparable properties	General market trends, conditions

Data Sources

- 2000 Census: demographic (HH) characteristics, income, housing problems
- Local government general and comprehensive plans, local housing strategies, local economic development studies
- State & local ConPlans, Indian Housing Plans, & HUD CHAS database: housing issues by key income levels (30%/50%/80% AMI)
 - <http://www.huduser.org/datasets/cp.html>
- NLIHC Out of Reach Database
 - www.nlihc.org/oor/oor_current/

Data Sources, cont.

- National Housing Conference Ctr for Hsg Policy: Paycheck to Paycheck database
 - www.nhc.org/chp/p2p/
- Assisted housing stock:
 - HUD, DHCR, RD, local PHAs, nonprofits, local ConPlans
- Market sales: MLS or other realtor sources
 - Delinquencies/foreclosures: foreclosures.com
- Local rent surveys
- Appraisals & market studies

General Market Trends

- Trends are important as “context”
 - Population & households
 - Employment
 - Income
 - Housing market
- General market conclusions
 - Current overall demand (by income & age)
 - Projected future growth in demand
 - Housing market standards for competitiveness



Current Homebuyer Market Conditions

- Declining prices / price corrections
- Foreclosures
- Access to credit
- Is this good or bad for 1st time buyers?

Current Rental Market Conditions

- Some rental market has been soft
 - Competition from single-family homeownership market
 - Competition from single-family rental market
 - Investors & owners can't sell
 - Median rents stagnant in relation to income
 - “Affordable” rents stagnant
 - Limited income increases
 - Competition from market-rate units

Development Risk in Slowing Market

- HB development risk at peak:
 - 18-month supply in Maricopa County
 - Foreclosures adding to stock
 - New home builder discounts and incentives
 - Increased competition for credit-worthy borrowers
- Rental development risk
 - Competition from single-family
 - Investor/builder owners renting for less than cost to purchase
 - Condo complexes foreclosed/on market as “projects”

Defining “Market Area”

- Primary or effective market area
 - Geographic area of the majority of customers
- Based on expected customer behavior
 - How far will typical households be willing to move to occupy your project?
- Look at existing patterns:
 - For existing projects, prior address of existing residents
 - Survey of comparable properties; waiting lists

Market Boundaries

- Market may not = jurisdiction or service area
 - Market area varies by type and uniqueness of project
- May be defined by:
 - Natural boundaries
 - Manmade physical boundaries (e.g., highways)
 - Political (school districts) & cultural (parishes)
 - Accessibility: transportation routes; access to jobs
 - Availability of supportive services for special populations
- Census tracts preferred to concentric ring

Analyzing Demand

- Demand pool is focused by:
 - Geography: market area
 - Income: maximum & minimum
 - Demographic characteristics
- Net Effective Demand: the “bulls eye”
 - Target pool adjusted for existing aff units
 - Metric: capture rate (project units/NED HHs)



Demographic Segmentation

- After income range, segment further by:
 - Tenure: owners v. renters
 - Owner/renter conversions
 - Age (if elderly) or
 - HH size (if family) based on unit sizes
 - E.g., large family v. singles/small HH
 - Other segments? (e.g., special population)
- Segmentation by inclusion or exclusion
- Integrity/consistency of adjustment factors

Net Effective Demand

- Some of eligible HHs already in assisted housing
- Deduct assisted units in market from target pool
 - Deduct elderly or family units as appropriate
 - Not adjusted for units outside effective income range
- Result is “net effective demand”
- Capture rate: ratio or %

$$\frac{\text{Project Units}}{\text{NED HHs}}$$

Alternative Demand Analysis

- If the target pool is known, use primary data rather than pool analysis:
 - Waiting lists, client lists, membership lists
 - Survey for unit sizes, prices, amenities, location, services
 - Focus groups and “two-way” education
 - Program criteria
 - Beliefs, attitudes, behaviors

Survey of Comparables

- Identify the “comparables”
 - Assisted housing
 - Private housing
 - For-sale housing – competitive housing opportunity
- Collect data: survey of properties
 - Getting cooperation
- Analysis: price, amenities, locational advantages (environment & access), other differences

Analyzing the “Competition”

■ Factors to consider

- Unit mix & configuration
- Location & amenities
- Rent levels and rental assistance
 - For-sale housing: sales prices
- Evidence of demand: occupancy, waiting lists
 - For-sale housing: listing time



Analyzing Special Populations

- General LI market analysis info not useful
 - Special housing won't serve general population pool
- Providers may have detailed “primary” info on population (summary statistics on clients needs)
 - Protect privacy
- Examine alternatives – other supported housing, non-project independent living w/ services



Market Study Conclusions

- Evidence of sufficient unmet demand
 - Capture rate
- Identification of “niche” in supply
- Predicted market success of project
 - Rent/price competitiveness
 - Absorption rate



Effective Use of Market Studies

1. Do market study early in the planning process
2. Utilize primary data (surveys, waiting lists)
3. Critique the market area delineation
4. Check income band of affordability calc. & capture rate
5. Consider “two-way” impact of competition
6. Update study before submission: current & consistent
7. Address market risks (& risk layering) in proposals



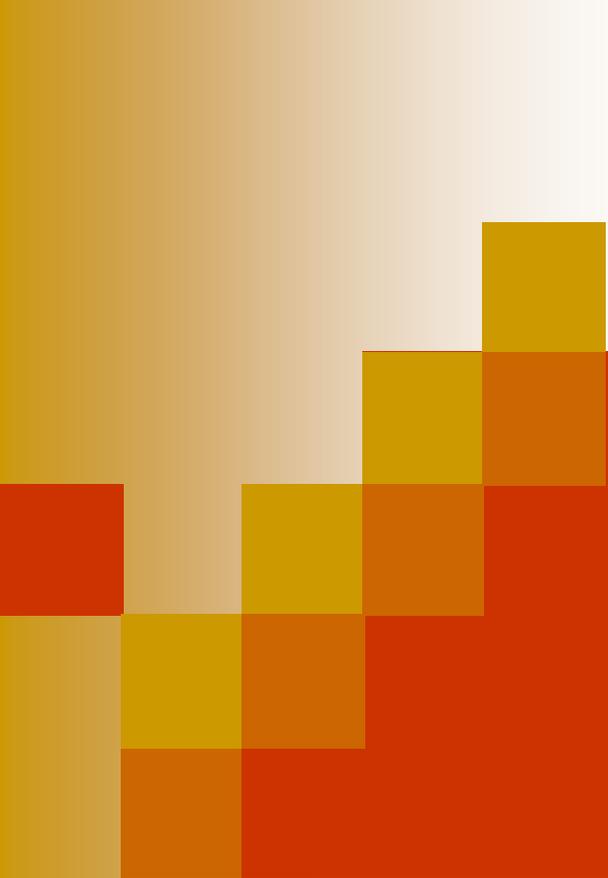
HTFC Application Flaws - Market

- Market study doesn't demonstrate convincing need for the housing type
- Primary Market Area not clearly defined/supported
- Incomplete information on competition
- Assisted housing units not in net demand
- Proposed rents exceed "street rents"



What Do You Know About Your Market?

- Define your market area
- What do you know about local market trends?
- Define the target households (demographics)
- Identify the competition
- Determine what else you need to know about your market & how you are going to find it



Selecting & Evaluating the Project & Site

What's a "Good" Aff. Housing Project?

- Same as any other housing project:
 - Project meets identified need/demand
 - Compatible with ConPlan priorities
 - Project is feasible:
 - Project is within organization/team capacity/financial ability
 - Costs are reasonable; funds are sufficient
 - Project likely to be completed on time & within budget
 - Project is viable for at least compliance period
 - Project is ready!

Feasibility v. Sustainability

- Feasibility: getting it built & occupied
 - Funding, approvals, management, marketing
- Sustainability: making it last
 - For at least the compliance period & loan period
 - Going beyond minimum improvements, not maxing out debt
 - Quality of management, planned maintenance, reserves, ability to increase rents to cover costs, etc.
 - Sustainability is even more critical given the HUD position on repayment of HOME funds in the event of foreclosure

What's Not a Good AH Project?

- Projects no one else will do
 - Nonprofits aren't developers of last resort!
 - Whose monkey is it?
- Projects with no clear, sustainable market
 - Revitalization projects in search of a market
- Project too complex for your capacity
 - Reality check: Do you have the capacity/resources?
- Projects with viability issues

Selection/Evaluation: Quick Tips

- Seven things to keep in mind as you evaluate different development options
- Bottom line: you must pick your projects carefully!



1. Pick your project; don't let it pick you

- Beware the setup:
 - Whose monkey is it?
 - Free sites: if not suitable for market, why LI housing?
- What are the costs...and opportunity costs?
- Give yourself some choices
- Pick a project w/ hi probability of success

2. Recognize the full acquisition cost

- Beware free and cheap “problem” sites
 - May be a difficult market; extra marketing time/effort
- True cost = price + costs for “shovel ready”
 - Environmental remediation + site prep + infrastructure + relocation + demolition
- Don't forget time cost of prep
- Don't hide or ignore costs
 - How are you going to pay if there is no “source”?

3. Beware occupied sites

4. Approach occupied sites with caution

- HOME/CDBG: trigger URA & Section 104(d)
 - Notice requirements, advisory services & moving costs, replacement housing payments
 - New URA rules (1/4/05) in effect
- How should you respond?
 - Identify tenants & approx income levels
 - Do any tenants have to be displaced – temporary, permanent & economic displ?
 - What should you budget for relocation costs

4. Assess the NIMBY cost

- Will the neighbors be behind us...or in front of us?
- Seek sites where development is a “matter of right”
- Factor in approval times to schedule
- Include some “remediation” costs in budget
- Consult community early in process
 - Stay ahead of the rumor; frame the discussion
 - We will discuss NIMBY in depth later

5. Assess environmental “impacts”

- Avoid project sites with environmental impacts
 - Sites with environmental problems have serious “time cost”
- Schedule cost & time to complete env clearance
- Budget for environmental remediation
- Remember limitations before clearance:
 - Jurisdictions can’t commit Fed & non-Fed funds until clearance
 - Developers: no “limiting actions” before clearance
 - Impact on site control & acquisition
 - Pre-application acquisition may be okay



6. Avoid complexity

- Here or in project selection?

7. Beware the revitalization setup

- Housing alone can't revitalize neighborhoods
 - Band-aids don't fix broken arms, even if bleeding
- Need to address, economic, social & infrastructure questions as well (back to community analysis)
- If neighborhood viability issues, you must use comprehensive approach
 - Get all the parties to the table
 - Anchor to existing assets and activities
 - Concentrate geographically for visibility & impact
 - Sequencing: housing has to follow other activities

8. Be prepared to walk away!!!

- Bad projects are your brick & mortar legacy
 - Loss of community goodwill & damage to reputation
 - Beware: “We’ve gone too far to back out now”
 - Changing markets can affect feasibility/viability
- Bad choices have high opportunity costs
 - Missed development opportunities
 - Draining time & money from other needs
- There’s always another opportunity...go find it!

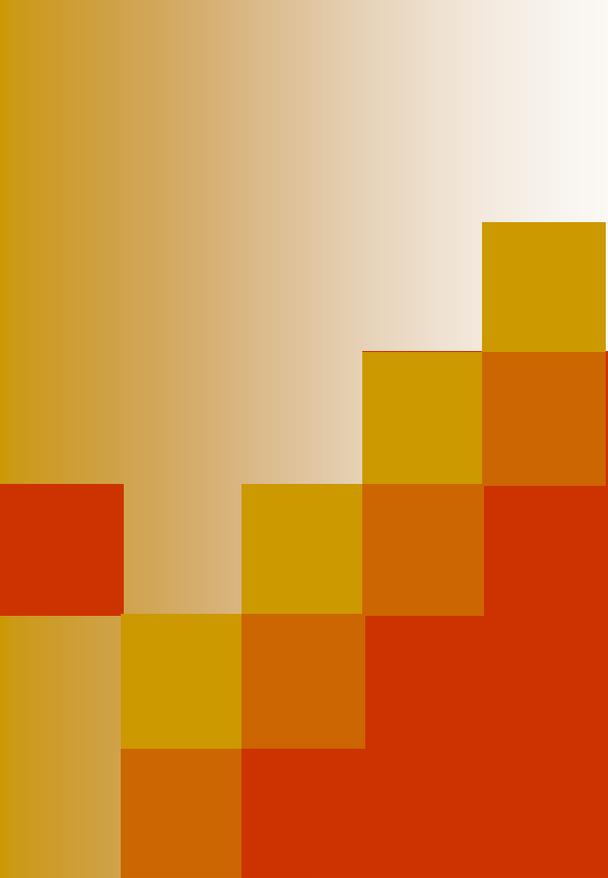
Summary

- Pick the right project:
 - Appropriate to your organization's skills & resources
 - Identifiable target market
 - Reasonable effort to gain timely approvals
 - Reasonable total development costs
 - Competitive in a changing market
- If not, move on....Remember opportunity cost!
- See project selection tool (handout)



Discussion

- Do the “selection tips” relate to your project?
- What issues might cause you to “walk away”?
- What are the opportunity costs? Are there other potential project opportunities to consider?



Environmental Review



Regulations

- NEPA Regulations: 40 CFR 1500-1508
- HUD Env Review regs: 24 CFR Part 58
 - Responsible Entities (RE) – proximate level of govt
 - HOME: RE = PJ or State Recipient (SRs)
 - CDBG: local government
 - Approval authority: HUD or State for State CDBG/HOME SRs
 - In essence, 2 levels of governmental review
 - Applies to most HUD funds (& program income)
- SEQR: 6 NYCRR Part 617

Guidance/Reference

■ HUD

- <http://www.hud.gov/offices/cpd/environment/review/>
- Handbook 1390.2: Envir. Assessment Guide for Housing Projects (HUDClips)
- Envir. Review Guide for CDBG (1986 “Green Book”)

■ DHCR:

- Env Assessment Unit:
<http://www.dhcr.state.ny.us/ocd/units/eau/ocdeau0.htm>
- Environmental Review Procedures for LPAs (8/05)

Key Terms/Acronyms

- National Environmental Policy Act (NEPA)
- Responsible Entity (RE)
- Compliance Determination (CD)
- Environmental Assessment (EA)
- Phase 1 Environmental Site Assessment (ESA)
- Environmental Impact Statement (EIS)
- Environmental Review Record (ERR)
- State Environmental Quality Review Act (SEQRA)
- Environmental Assessment Form (EAF)

Terms & Acronyms, cont

- Project & Activity
- Aggregation
- Tiering
- Re-evaluation
- Finding of No Significant Impact (FONSI)
- Request for Release of Funds (RROF)
 - Notice of Intent (NOI/RROF)
 - Release of Funds (ROF) 7015.16

Federal Levels of Review

- Exempt: planning activities
 - No review required
- Categorically excluded, not subject to 58.5
 - DPA, counseling, TBRA
 - Compliance determination for 58.6 authorities
- Categorically excluded, subject to 58.5
 - Acquisition, minor rehab, most single family (1 – 4) actions
 - Compliance determination 58.5 & 58.6 authorities
- Subject to NEPA: EA, maybe EIS

Federal Environmental Review

Project Action	NEPA	Other Authorities
<u>Multi-Family (5+ units)</u> New Construction	Environmental Assessment	Compliance Determination
Major Rehab (5+) >75% RC; 20%+ density; convers	Environmental Assessment	Compliance Determination
Minor Rehab/Acquisition	Excluded	Compliance Determination
<u>Single Family (1-4)</u> Density > 4 un; land use Δ; wetland/floodplain footprint Δ	Environmental Assessment	Compliance Determination
Density < 5 un; no land use Δ; wetland/floodplain footprint	Excluded	Compliance Determination

SEQR

- Type 1: new construction
10/50/250/1000/2500 units
(dep on juris. Size); SHPO
- Type 2: defined by agency,
excluding most rehab &
replacement, construction/
expansion of 1-3 family
- Unlisted
- Env Assessment Form
 - Type 1 long form
 - Unlisted short form
- EIS
- See CPM 5.01 – 5.03 &
UF Application
Attachments

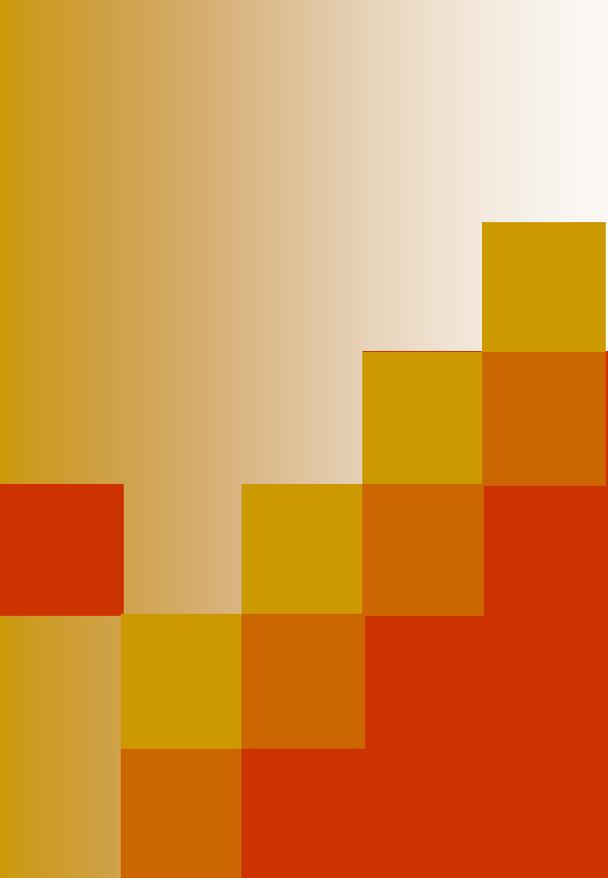
Things to Remember

- Public agencies can't commit state or federal funds until clearance
 - Can make conditional commitment
- Choice limiting actions include acquisition as well as physical action
 - Such actions can disqualify for funding
- It's a time and money cost – assess upfront; contact public funder for guidance



HTFC Application Flaws - Environment

- Incomplete information/attachments
 - Site/building info
 - Zoning/local approvals
 - SHPO consultation
- Environmental study/remediation costs omitted
- SEQR form incomplete/missing



Wrap Up & Evaluation

- Final questions?
- Evaluation
- MLFranke@aol.com
- Next development seminar

3. Project Selection

- Albany: 7/22
- New York City: 7/23
- Buffalo: 7/29
- Syracuse: 7/30

LPA series:

- Working with Homebuyers
 - Albany 6/26
 - Rochester: 6/27
 - Poughkeepsie: 6/30
- Lead-Based Paint
 - Albany: 7/11
 - NYC: 7/18
 - Buffalo: 8/4
 - Syracuse: 8/5