

RECOMMENDATIONS IN CONSIDERING MODIFICATIONS TO THE REQUIRED MARKET STUDY PROCEDURES

- 1) **Derive Achievable LIHTC Rent:** The market analyst should derive their own recommended LIHTC rent based on their perspective on both affordability constraints and the market for competitive LIHTC properties in the market area.
- 2) **Create and Use a Derived Rent and Programmatic Rent Comparison Chart:** Specifically, a chart that shows the ratio of pro forma and achievable rents to maximum Section 42 rents, derived market rents, the current FMR rents, the local PHA payment standards and any other specified rents (Section 8 contract rents or other subsidized rent levels)
- 3) **Integrate Market Study Conclusions and Analysis into the OHFA Underwriting Process:** Potential Areas for integration - factors related to the site, neighborhood, building, market, demand and supply situation, demographic and capture rate analyses, rent derivations and occupancy allowance and absorption projection suggestions.
- 4) **If OHFA decides to underwrite existing Section 8 projects to reflect the possibility of loss or decrease of the HAP contract, the market study guidelines will require that market study reports contain the following rent assumptions: HUD fair market rent; the actual PHA payment standard rent, the achievable tax credit rent; the market rent; and the maximum tax credit rents at the set AMGI level.**
- 5) **Recommend that market analysts calculate a capture rate/ penetration rate using a straightforward basic formula.** This requirement would not preclude the market analyst from also showing a calculation using a different formula. Adopting this formula/format would also not reduce the market analyst's obligation for a comprehensive demand analysis discussion.
- 6) **The proposed Capture Rate format, methodology and guideline should require a map, a description of the size of the market area and a clear delineation of boundaries**
- 7) **OHFA should adopt a standard format for listing elements of demand relative to the specifically proposed development.** OHFA could provide an Excel based chart that shows the calculations and formulas and another excel chart that lists key indicators of demand-(occupancy statistics, wait list statistics, demographic projections, etc.)
- 8) **OHFA should implement a formal review process, for at least the first year after implementation of any revised Market Study Guidelines.** If OHFA implements a formal review process it should publish a review checklist similar to

the current review checklist but updated, revised and coordinated with the suggested market study reporting format.

- 9) **Develop a Site Review checklist and commentary format so each market study has a common site analysis format**
- 10) **Develop more specific guidelines for market analyst disclosure, property analysis and comparable rental analysis for properties with existing or proposed Section 8 rental assistance contracts.** The consultant suggests that the Rent Comparability Studies be made available to the Market Analysts and that the Market Analysts also compare all existing rent roll, derived, pro forma and contract rents to the FMR.
- 11) **Recommend that market analysts use the OHFA asset management database performance data when that system becomes operational.** The performance data used will need to be decided upon after completion of the database project and after consultation with Stakeholders.
- 12) **Adopt a procedure for encouraging market analysts to provide additional or supplemental data, supplemental methodologies and analyses in order to further substantiate their conclusions.** Encouraging supplemental information/analyses will increase the number of methodologies/approaches, encourage dialogue, and stimulate competition among the small number of market analysts currently providing market studies to OHFA.
- 13) **Publish, and distribute to the market analysts the review criteria OHFA or a third party reviewer will use to analyze the market studies.**
- 14) **The eventual Executive Summary format should include a reference to the major checklist compliance items considered important by OHFA reviewers. Positive and negative attributes of the development should be highlighted.**
- 15) **Develop more robust and specific market study guidelines for rental market description, comparable property analysis and market, achievable tax credit and tax credit rent deviation.** While a more comprehensive and specific guideline is necessary, the consultant does not believe it is necessary to develop one consistent format because (1) most of the market analysts have some components of the analysis that are superior to the others; (2) a guideline will allow the market analysts to work within the constraints of their current field work, confirmation, analysis and write-up process and (3) the Executive Summary will have a section which will force consistent “outputs” and conclusions relative to the components considered necessary.

16) Recommend that market analysts provide population/household, income, and housing data for a site or local market area. None of the market studies provided local market area (neighborhood or site level) demographic data, nor did they consistently describe the socio-economic and physical nature of the immediate local market area (neighborhood.) It makes no sense to know how many miles away the subject property is from a CVS, Hospital and Senior Center and not know that the percentage of senior residents in the immediate local market area is only 10% of what the distribution is in the PMA!

17) Adopt a common physical description format similar to those that have been identified in a “best practice” review. The consultant suggests an additional conclusion on how the property’s physical nature affects marketability.

18) OHFA should develop a simple affordable housing model which will pull all the neighborhood condition indicators together to draw a conclusion on market feasibility. Such an affordable housing test or a test for housing cost should be incorporated into the standard OHFA format because it: (1) provides a good rent underwriting tool by comparing the monthly cost of owning a modest single family home/local condominium with the average pro forma and achievable tax credit rent and with the achievable and pro forma rent for the largest tax credit unit. Additionally, such a test provides a good gauge of neighborhood condition since gathering sales and listings concentrated near the subject site will force the analyst to display nearby housing sales/listing trends. If the neighborhood is deteriorated and it produces low sales/listing prices and the rent comparables are all outside the neighborhood then the contrast will be apparent and will have to be discussed.

19) Refrain from using bullet-point statements with limited explanatory narrative. Any new OHFA market study guideline should specify that all conclusions require more than a mere statement relating to supporting analysis.

20) Any new OHFA market study guideline/procedure system should consider a minimum period for market study review:

- **Recommend that the market analyst be engaged at least 10 weeks before the tax credit application due date with an additional requirement that the final complete report submittal date be at least one week before the application due date.**
- **In order to further encourage a more uniform and earlier market study analyst ordering process, encourage integration of market study analysis with OHFA underwriting and encourage more OHFA interface with market analysts, the consultant suggests that the market analysts be engaged early enough to have an opportunity to meet with OHFA representatives involved in development underwriting at least 10 weeks before the application due date. The**

type of meeting (video conference, in-person at OHFA offices or a conference call with a planned agenda) can be decided at a later date.

Three of the five market studies sampled had formatting, analytical or conclusion statements which lead a reviewer to believe that the reports were ordered late in the development process and possibly were not properly reviewed by the persons completing the tax credit applications and the property underwriting. Incomplete information on fundamental items like site location and building descriptions, and commentary that seemed contrary to the development's underwriting indicates that the market analyst was engaged late in the development and application process. This provision could be monitored during the Partner notification process and reinforced during the Partner meetings. The Certification Statement can be amended to include a date of submission in order to monitor this process.

21) Require market analysts to certify, in the market study report, that they have followed all of the guidelines set forth in the report.

22) The use of a standard Executive Summary format would help OHFA underwriters and reviewers in quickly discerning key points and conclusions in the market study. Additionally, a standard format will impose discipline on the market analysts. The consultant found a wide variety of Executive Summary formats, even within market studies completed by the same market study company.

23) The market study guidelines should specifically be revised by the following to reflect the difficulty in underwriting scatter-site projects*:

- **Market study analyst inspections of every site in a scatter-site development**
- **Market study site descriptions of every site in a scatter-site development)**
- **Market study descriptions of every property within a scatter- site portfolio.**
- **A derivation of rent for every unit type for each scatter-site project**
- **A neighborhood description and local demographic analysis for each block containing one or more of the subject scatter- site properties (see #16)**
- **Photographs of at least a front view and the adjoining land uses for each scatter-site subject property**
- **A capture rate analysis for the accumulated number of units for each subject scatter-site property located in contiguous blocks**
- **A map and property list identifying each of the subject properties by address, # of units and unit type**

This recommendation came about after the consultant's review of two scattered-site market analyses which indicated an inadequate site analysis, market analysis and property market position determination guideline regarding scattered-site properties. *Based on the consultant's review of numerous LIHTC portfolios and their reviews of investor, syndicator and developer surveys regarding the tougher deals, scattered-site developments are consistently cited as the weakest performers and the most difficult to underwrite.

- 24) There should be a comprehensive conclusion about the market position of the proposed property under analysis.** The conclusion should synthesize conclusions on the suitability of the site, property, neighborhood, demand, and rental market relative to the overall potential market position of the proposed property.
- 25) The Capital Needs Analysis for a proposed rehabilitation should be provided to the market analyst.** The consultant suggests adopting a guideline that requires the market analyst to state: "We requested a copy of the (draft/final) Capital Needs Study and received (did not receive) a copy of the (draft/final) CNA within the required one week period before the submission of this market study report. This disclosure is necessary because the review and analysis of a CNA would change the market analyst's analysis and conclusions."
- 26) There needs to be a clear and robust "Site Suitability" conclusion based on the facts and analyses that will result from the adoption of Recommendations # 9, #25 and #22.**
- 27) The market analysts should have access to elevations, unit plans, basic building plans and a site plan, as well as a description of the basic utility arrangement. Access to this information should be coordinated with OHFA's in-house architect.**
- 28) The issue of senior homeowners shifting to LIHTC renters needs to be studied further.**
- 29) If a property is not undergoing 100% gut rehabilitation and if a majority of the tenants are expected to remain in place then the rent roll, the revenue data from the latest operating statement, traffic reports and other performance or marketing reports should be reviewed and commented on in the market study.**