

## PROJECT FEASIBILITY ANALYSIS: How to Evaluate, Structure & Market Your Housing Deals with NSP



Mansfield, Ohio  
September 15-16, 2009



Department of  
Development



### NSP Project Feasibility Objectives

1. Learn how to combine financial feasibility analysis with NSP & ODOD compliance requirements for single-family rehab sale and rentals
2. Employ feasibility benchmarks to determine whether your NSP-assisted house should be homebuyer purchase, rental or lease purchase in your market
3. Marketing Strategies - How to Sell Value, Functionality, Affordability and Quality of Life
4. Track NSP Funds in For Sale & Rental Projects.
5. Consider Ways to Link Buyers with Accessible and Affordable Mortgages & Down Payment Assistance
6. Incorporate ODOD compliance documentation to feasibility analysis process.



## Training Agenda – Day One

9:00	<b>Welcome &amp; Introductions: How's It Going?</b>
10:00	<b>Introduction to Project Feasibility Analysis</b> <ol style="list-style-type: none"> <li>1. Defining Neighborhood Stabilization and its components</li> <li>2. Getting Started: An Initial Inspection and Assessment of Your Potential NSP Projects</li> </ol> <b>Welcome to the Project Feasibility Analysis Tool:</b> <ul style="list-style-type: none"> <li>• Case Study Approach: An REO Agent tells you about a Property...</li> </ul>
12:00	LUNCH
1:00	<b>The Project Feasibility Analysis Tool: Setting it up to begin analysis</b> <ul style="list-style-type: none"> <li>• Program Guidelines, Rules and Policies of Your NSP</li> <li>• Financial Feasibility Criteria</li> </ul> <ol style="list-style-type: none"> <li>1. Program Partner Incentives</li> </ol>
4:30	ADJOURN and Thank you!



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## Training Agenda – Day Two

9:00	<b>Welcome &amp; Review</b>
9:30	<b>Ohio Department of Development: NSP Update</b>
10:30	<b>The Project Feasibility Analysis Tool: Structuring Your Deal</b> <ol style="list-style-type: none"> <li>1. Consumer-driven Model vs. Developer-driven Model</li> <li>2. Development Budget</li> <li>3. Homebuyer Affordability Analysis</li> <li>4. Sources &amp; Uses Budget</li> </ol>
12:00	LUNCH
1:00	<b>Getting Your NSP-assisted Units Sold in a Slow Economy</b> <ol style="list-style-type: none"> <li>1. Strategies to sell your Neighborhood and Product</li> <li>2. Rehab Standards to make Your Home the “Nicest on the Block”</li> <li>3. Viral Marketing and Your Local Networks</li> <li>4. Homebuyer Financing</li> </ol>
2:30	<b>Let's Analyze Your Deals</b> <ol style="list-style-type: none"> <li>1. Tipping Point Neighborhoods</li> <li>2. Redevelopment Areas</li> <li>3. Consumer-Driven Models</li> </ol>
4:30	ADJOURN and Thank you!



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## Tell Us About Your NSP

1. Describe Market Conditions in Target Neighborhoods: What's Selling? Who's Buying?
2. What are your planned uses of acquired properties?
  - % Demolition, % Homebuyer, %Rental?
3. What challenges and opportunities have you encountered?
  - Acquisition
  - Rehab
  - Marketing for sale or rent
4. What would you like to get out of this training?



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## Begin with the End in Mind

What do you seek to achieve with Your NSP?

- Affordable Housing
- Community Development
- Get the NSP money out the door
- Do well on the Compliance Audit

Who are Your Target Markets? How are you reaching out to them?

What do you want your finished product to be?

Where are you focusing acquisition?



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## ***“Neighborhood Stabilization” Defined for Ohio’s Market Challenges***

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HOME, CDBG and other Federal, State and Local Community Development Programs, traditionally, focused on:

- 1. Preservation**
- 2. Revitalization**
- 3. Redevelopment**

This economic recession and housing crisis redefined our profession and switched our focus to ***“Stabilization.”***



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## **Stabilizations Strategies based on Neighborhood Type**

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**Redevelopment Area**

**Tipping Point Area**

- **What is your definition?**
- **How do Neighborhood Types impact Marketability?**



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### What is the **PROGRAM** Focus of Your NSP Allocation?

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- Acquisition, Demolition and Redevelopment
- Scattered-Site Purchase Rehab and Sale
- Scattered-Site Purchase Rehab and Rental
- Multifamily Rental
- Acquisition and Land Bank Until a Market and Use Emerges



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### What is the **GEOGRAPHIC** Focus of Your NSP Allocation?

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- Describe Your Target Neighborhoods
- What Properties are You Targeting?
- How's Your NSP Acquisitions going?

#### ☐ Tipping Point Neighborhoods

1. Difficult Acquisition, but Easy Re-sell
2. If competing with private market, maybe focus just outside this "hot" market

#### ☐ Redevelopment Areas

1. Easily acquire, but Difficult Re-sell
2. Can you reach a critical mass for redevelopment?



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### Capital Access, Inc. Approach to *"Neighborhood Stabilization"*

- ☐ Re-use of Foreclosed and Abandoned Property to Stabilize Targeted Blocks. *"Make the NSP Home the Nicest on the Block!"*
- ☐ Code Enforcement on Vacant and Rental Property. Challenge Mortgagees to Maintain their properties.
- ☐ Homeowner and Rental Rehabilitation
- ☐ Streetscape Improvements
- ☐ Multifamily Rental where feasible
- ☐ Community Policing and Organizing



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### The Components of *"Neighborhood Stabilization"* (cont'd)

Make the *NSP Home the Nicest and Highest Value Home* on the Block!

Incorporate in your Rehab Specs:

- Code Compliance
- Energy Efficiency
- Marketability



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***“Practical Eco-Groovy”:***  
**Making a House Energy Efficient with NSP**

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- HVAC
- Insulation
- Roof
- Windows and Doors
- Appliances
- What best practices do you utilize?



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**Making a House Marketable with NSP**

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- Add a covered porch
- Add a bathroom to make it 2-bath
- Upgrade the Exterior Finishes
- Landscaping
- Appliances
- Interior Finishes
- Hardwood instead of Carpet, Tile instead of Linoleum
- What do you use to attract homebuyers?



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## Results of Coordinated *“Neighborhood Stabilization”*

Affordability + Function + Safety +  
Gorgeous = Value

**VALUE = HOME SALES**

- **Goals:**

- A Brand New 50-Year Old House that's in Move-In Condition
- Work in neighborhoods with a “There There”
- Demo & Land Bank where you need to Start Over



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## Getting Started: Initial Examination of Your Potential NSP Projects

- Conduct your due diligence/inspection on properties in your existing portfolio or those you want to acquire
- Seeks to answer:
  - Property marketable after improvements?
  - Neighborhood have amenities attractive to a range of buyers?
  - Project completed cost effectively?
  - Meet NSP requirements?



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## Step 1: Narrowing Down the List by *GEOGRAPHY*

- Compile and Map your Existing Portfolio or Listing in Your Focus Areas
- Is the Property in a **Tipping Point** or **Redevelopment** Area?
  - Vacancy and Homeownership Rates
  - Trends in Sales Activities and Prices
  - Competition with Other Investors
  - Proximity to Anchors and Amenities
  - Recent Public Investment and/or Planning



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## Step 2: Examine the Multiple Listing Service (MLS)

The screenshot displays a real estate MLS interface with three property listings. Each listing includes a photo of the property, a map showing its location, and a detailed description of the property's features and specifications. The listings are for properties in Philadelphia, PA, and include information such as the number of bedrooms, bathrooms, and the overall condition of the property. The interface also includes a search bar and various filters to help users narrow down their search.



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### Step 3: The Property Inspection

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- “Seeing is Believing.” Drive around to view targeted listings and its surroundings
- Access to Property for Inspection
  - *Ensure vacancy!*
  - Confirm structurally sound
  - Indicate potential environmental issues
  - Rough estimate for scope of work and cost



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### Step 4: Using the NSP Team

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- Determining and Coordinating Your Team to **Assess** and **Access** the Property
  - Rehab Developer or Buyer
  - Code Inspector or Architect
  - Environmental Risk Assessor
  - Appraiser
  - Title Company



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## Step 5: Make a Decision

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- Upon Inspection of Neighborhood and Housing Unit, you should have:
  - Rehab Scope of Work (*based on Code Compliance, Energy Efficiency & Marketability*)
  - Targeted Sales Price
  - Target Buyer
  - Understanding if After-improved Unit will stabilize neighborhood block
- Give it an initial “**GO**” if it fits within NSP Subsidy Guidelines and Your Program Goals



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## HUD, State & Local Program Guidelines: It Affects Project Feasibility

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## HUD NSP Policy

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### 1. Eligible Uses

- A – Financing Mechanisms
- B – Purchase & Rehab Abandoned or Foreclosed Homes
- C – Establish and Operate Land Banks
- D – Demolition of Vacant & Blighted Property
- E – Redevelopment of Vacant & Blighted Property

### 2. CDBG Activities

- Acquisition
- Rehabilitation
- Demolition
- Redevelopment
- Homebuyer Assistance



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## HUD NSP Policy

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### 3. Area of Greatest Need

### 4. Eligible Property

- Foreclosed
- Vacant

### 5. Beneficiaries

- 120% AMI
- 25% Set-aside for Households at or below 50% AMI
- Homebuyers must attend 8 hours of housing counseling

### 6. Purchase Price Discount and Appraisal

- 1% Discount of Appraised Fair Market Value
- Appraisal completed within 60 days prior to entering final contract



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## State NSP Policy

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1. Subsidy Limits
  - Construction Financing
  - Developer Subsidy
  - Homebuyer Subsidy
2. Financial Feasibility
3. Geographic Targeting within Area of Greatest Need
  - Tipping Point Neighborhood
  - Redevelopment Area
4. Program Design
  - Rental vs. Homebuyer
  - New Construction vs. Rehab
  - Scattered Site vs. Single Site



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## Local NSP Policy

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1. What did you say you would accomplish in your application to ODOD?
2. Choosing Your Programs:
  - Market Considerations
  - City Staff & Program Partners
  - Quality of Project
  - Politics



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## Strategies to Consider

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### 1. Subsidy Limits on the Back End:

- Homebuyer Assistance
- Developer Subsidy

### 2. Incentives for Your Program Partners:

- Developer Fee (Rental & Homebuyer)
- Management Fee (Rental)
- Housing Counseling (Homebuyer)
- Sales Referral Fee (Homebuyer)



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## Homebuyer Cultivation and Marketing

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## Viral Marketing

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Days of Developer and Realtor-Driven “Build and They Will Come” are gone.

You have to go to the prospective Buyers and make the home purchase pitch.

**De-Mystify The Home Purchase Process!**

Do The Extra Work To Link Buyers With Accessible and Affordable Home Purchase Mortgages and Down Payment Assistance

**Sell “A Move-Up Home At A Starter Home Price.”**

Sell houses in move-in condition at a monthly payment comparable to rent payment.



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## What are Your Worries About Getting NSP-Assisted Houses Sold?

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List the issues specific to the neighborhoods where you have NSP houses for Sale

Categorize the issues in terms of:

- The Local Economy
- The Neighborhood
- The NSP-Improved Houses



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## What Sells a House?

List the Three most important considerations that influence the home purchase decision.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

How well do your NSP-Improved Homes Address these Considerations?



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## CAI Approach to Marketing Your Houses

- **Sell the House, Affordability, Sense of Community, and Quality of Life for the neighborhood, city and region**
- **House:** Move up home at a starter home price, where your mortgage payment is less than what you paid in rent
- **Community:** Introduce them to neighbors receiving homeowner rehab
- **Quality of Life:** Give them a list of the amenities and assets of the neighborhood, city and region



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## Constituencies to Cultivate

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- Sell the “vision” to and tour blocks with **City Elected Officials and Key Department Heads** for them to understand your program and goals, spread the word to their constituents, and provide political support
- **Homeowners, Neighborhood Associations and Block Captains** that can market the neighborhood and “sell” the sense of community
- **Recent Homebuyers** who purchased an NSP-assisted house and/or received assistance to purchase and rehab.



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## Who Are Prospective Buyers To Cultivate In Your Community?

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- **First Time Homebuyers** (*Stimulus Homebuyer Tax Credit ends in November 2009*)
- **DINKS, Urban Pioneers, Empty Nesters**
- **Adjacent Property Owners**
- **Immigrant Populations & 1st-Generation Citizens**
- **Veterans**
- **Habitat for Humanity Families** (for 50% AMI Set-aside)
- **Buyers Who Lost Their Home To A Sub-Prime Loan or Defensible Set of Circumstances.**



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## Generate A Profile of Your Target Markets

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- Demographics and Family Structure
- Where do your target markets live now?
  - House Payment
  - Amenities
  - Why did they choose to live there?
- Income
  - What can they afford? (*Exercise: Sample Affordability Analysis*)
  - In your market, what can they buy with that?



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## What Do Your Target Buyers **NEED**?

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### House Functionality for Household:

- Flow and Functionality of Floor Plan.
  - i.e. Washer & Dryer on 2<sup>nd</sup> floor close to bedrooms
- # of Bedrooms and Baths
- Location. Proximity to services, schools, employment and quality of life.
- Security
- Accessibility



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## What Do Your Target Buyers *DEMAND*?

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- What are the Amenities that help make a House special for Your Target Buyer?
  - A Move-Up Home at A Starter Home Price
  - “Like New” Move In Condition
  - Quality Appliance Package
  - Porches
  - Quality Finishes: Flooring, Counters and Cabinets
  - Upgraded and Low Maintenance Landscaping
  - Affordable Homeownership: Low Maintenance and Manageable Utility Costs



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## Your Available Housing Stock

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- Opportunities of Your Housing Stock
  - Historically Significant and Well-built
  - Size and Floor Plan promotes Sustainability
- Opportunities of Your Neighborhoods
  - Street Grid with Sidewalks and Mature Trees for Sustainability
  - Access to Downtown and Employers
  - Sense of Community
  - Committed Homeowners



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## Aligning Your Target Markets with What You Acquired

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- Promoting Pre-Sales in Weak Markets
- Custom Rehab Home of Your Own
  - Reduce surplus housing units and prevents speculation
  - Allows Homebuyers to customize and upgrade their home (*Think HGTV*)
  - Encourages Realtors and Developers to find the Buyer first
  - Promotes Value: Buyers pay less than what they rent
  - Traditional Neighborhood fosters Community



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## Test Your Assumptions

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After you have generated your Profiles of Target Buyers and your strategies to reach them, **meet with a few Realtors and Appraisers** and have them test your assumptions and ask them What they think will work best.



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## Homebuyer Cultivation & Marketing Delivery System: What's the work to do?

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## Outreach to Target Markets

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*Where do they...*

- Work • Live • Pray • Play • Shop

*Who should you talk to...*

- Housing Counselors
- Neighborhood Associations
- District Elected Officials
- Local Employers
- Ministers, Priest, Rabbis & Imans



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## Outreach to Housing Professionals

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- Realtors
- Lenders
- Developers
- Social Service Providers
- Housing Counselors

*Get them on board to help with Marketing!*



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## What is Your Marketing Package to Reach Them?

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- Use Your Affirmative Marketing Plan
- Realtor Listing
- Viral Marketing
- Website
- Brochures
- Newspaper, Radio, & Local TV
- Make It an Event!

*Example: City of Fort Wayne*



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## Affirmative Marketing Plan

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### *A Requirement and a Framework*

- Who are Your Target Markets?
- What Can They Afford?
- What Housing Product and Amenities do they need and desire?
- How will You Reach Them?
- What Mortgage Product and DPA do they need?



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## Homebuyer Education

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- Assist to get Potential Buyers interested and enrolled in NSP
- Mandatory Homebuyer Education
- Income Certification & Affordability Analysis
- Pre-Approved for Financing
- Homebuyer Subsidy (if Applicable)
- Housing Needs and Preferences
- Pair them with a Realtor to find a house



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## Linking the Buyer with a House

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- Get them linked to a Realtor
- Assist in choosing an NSP-eligible House
- Develop the Scope of Work based on their preferences and needs
- Enter an Agreement with Buyer to purchase NSP-house
- Have financing lined up for Private First Mortgage &/or DPA



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## Show Them The Money!

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- Cultivate Sources of Home Purchase Mortgages
  - FHA & VA
  - Ohio State Housing Development Authority
- Embrace “Old School” Community Homebuyer Mortgage Terms
  - 28% to 33% Housing To Income Ratio
  - 38% to 42% Total Debt To Income Ratio
  - \$1,000 to 3% Cash From Buyer
- Explore Creative Uses of NSP to help Buyer affordability. Such As???



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## Compliance Systems

- Homebuyer Education
  - Proof received mandatory 8 hours
  - Verified taught by HUD-certified Counselor
- Income Certification
  - 120% AMI or below
  - 25% Set-aside for 50% AMI or below
- Affordability Requirements (if Homebuyer Subsidy)
- Ensure Private First Mortgage meets NSP financing requirements



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