

# North East Markets and the Draft Chapter 7

Moderator: Cortney Mauldin, *Director / Berkadia*

Panelist: Patrick Dieter, *Senior Underwriter / HUD Baltimore*

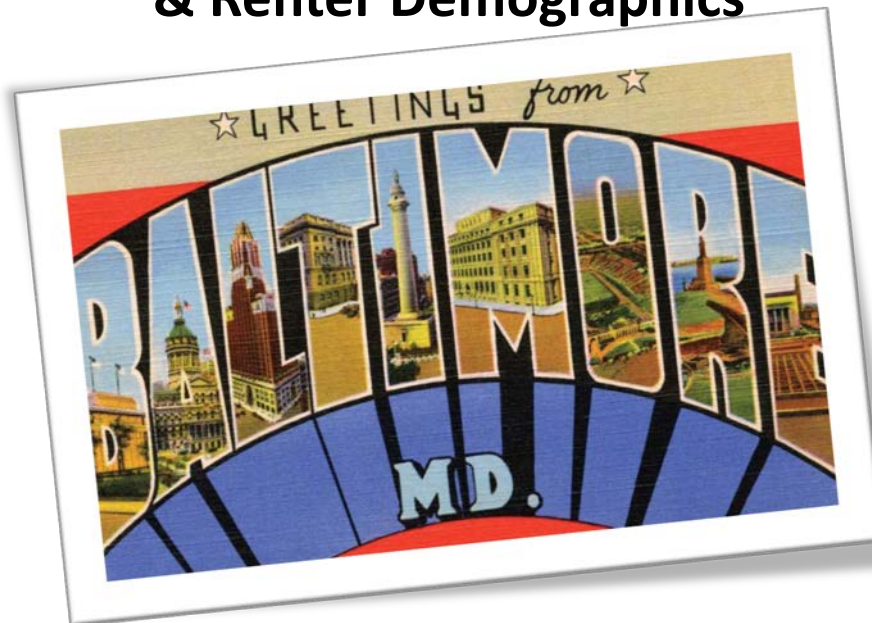
Panelist: Patricia Moroz, *Regional Director / EMAD*

Panelist: Bob Lefenfeld, *Founding Principal / RPRG*

Panelist: Scott Allen, *Executive Vice President / Newmark Knight Frank*

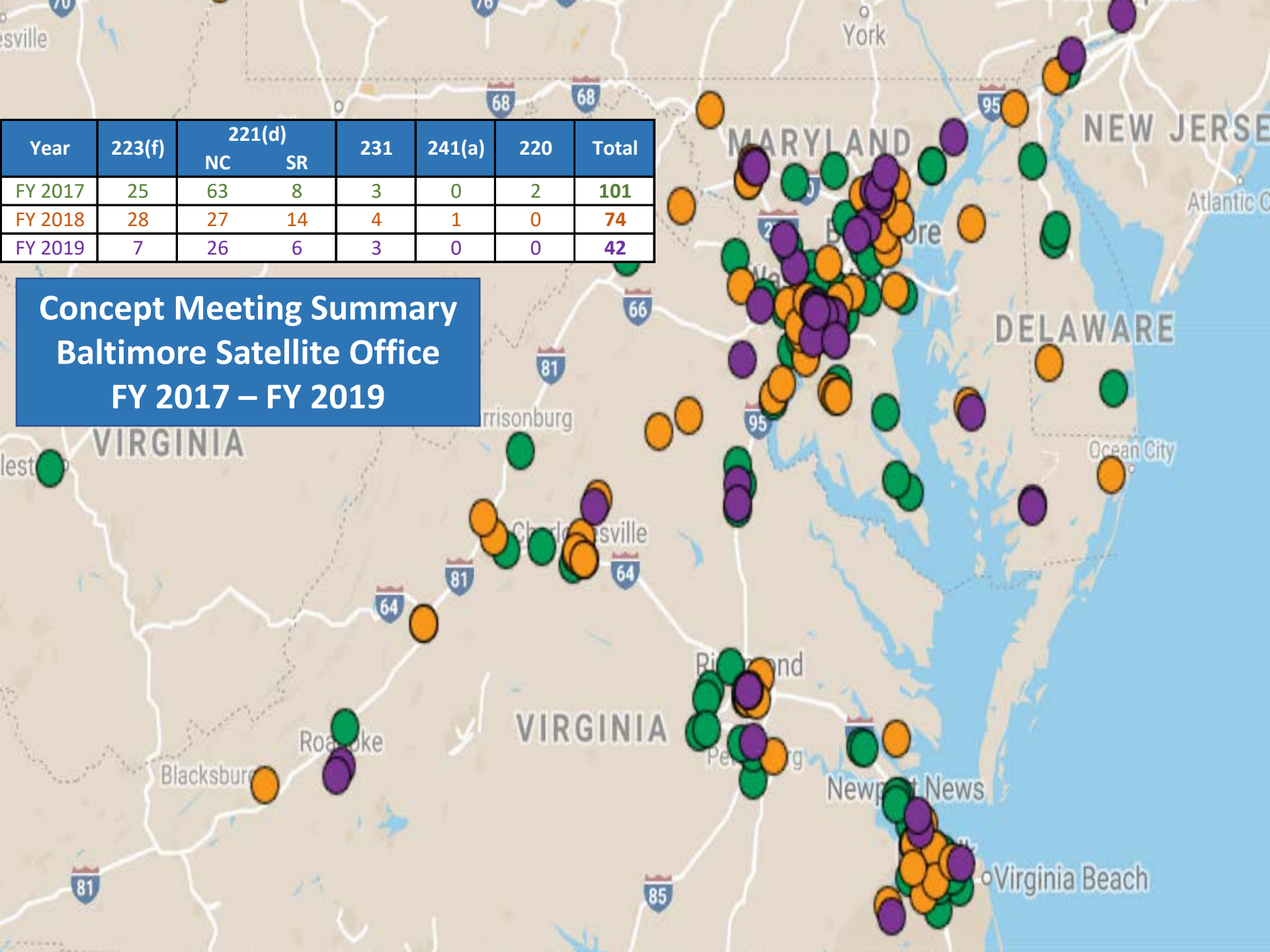


## Mid-Atlantic Multifamily Markets & Renter Demographics



Year	223(f)	221(d)		231	241(a)	220	Total
		NC	SR				
FY 2017	25	63	8	3	0	2	101
FY 2018	28	27	14	4	1	0	74
FY 2019	7	26	6	3	0	0	42

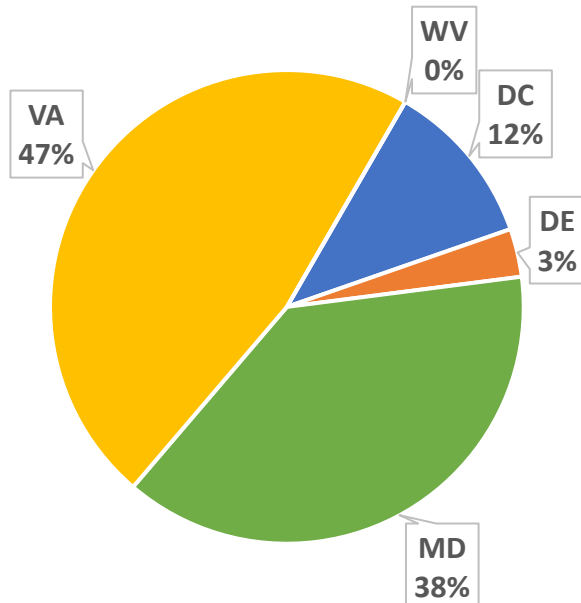
**Concept Meeting Summary  
Baltimore Satellite Office  
FY 2017 – FY 2019**



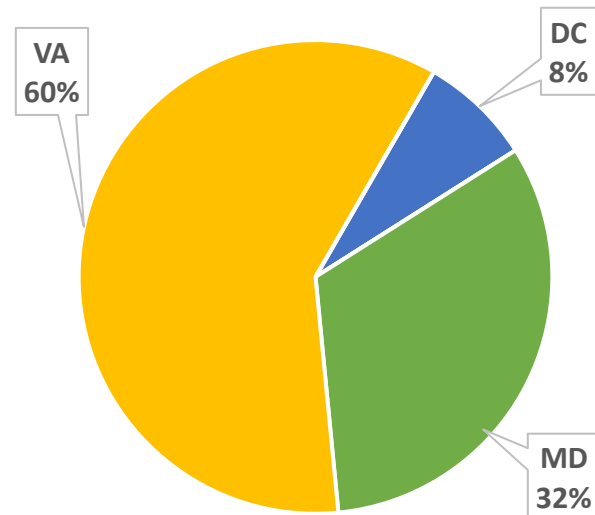
### Proposed New Construction Units by State

	DC	DE	MD	VA	WV	Total
FY 2017	1,566	454	5,288	6,502	0	<b>13,810</b>
FY 2018	146	192	2,030	3,504	140	<b>6,012</b>
FY 2019	372	0	1,570	2,898	0	<b>4,840</b>
FY 2020 (5 months)	0	0	180	2,477	0	<b>2,657</b>

**FY 2017 Concept Meetings - Units  
Proposed for New Construction**



**FY 2019 Concept Meetings - Units  
Proposed for New Construction**



# NEW CONSTRUCTION PROPOSALS

STATE	FY 2017				FY 2018				FY 2019			
	Meetings	Invited	Submitted	Approved	Meetings	Invited	Submitted	Approved	Meetings	Invited	Submitted	Approved
DC	8	6	4	1	2	2	1	1	3	2	0	0
DE	2	2	0	0	1	1	1	1	0	0	0	0
MD	23	19	13	11	3	3	2	1	14	14	1	1
VA	29	28	11	10	9	8	3	3	15	12	1	1
WV	0	0	0	0	1	1	1	0	0	0	0	0
<b>TOTAL</b>	<b>62</b>	<b>55</b>	<b>28</b>	<b>22</b>	<b>16</b>	<b>15</b>	<b>8</b>	<b>6</b>	<b>32</b>	<b>28</b>	<b>2</b>	<b>2</b>
		89%	45%	79%		94%	50%	75%		88%	6%	100%

# NEW CONSTRUCTION PROPOSALS

## Metro DC

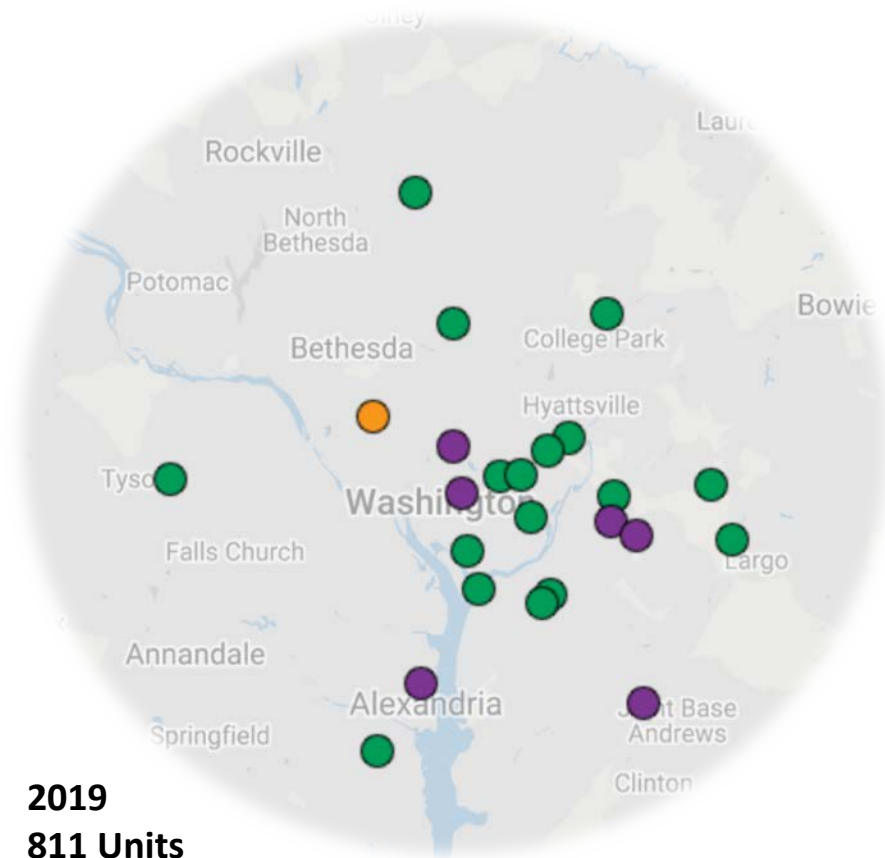
Concept  
Activity

FY 2017 - 2019

● 2017  
3,800  
Units

● 2018  
150  
Units

● 2019  
811 Units



# MARKET DEMOGRAPHICS – DC METRO

	2010-18	Renter Households					
	Avg Annual HH Growth	2010 Renter %	2018 Renter %	Net Growth	Total Net Change	Avg Annual Growth	Avg Annual Change
<b>Washington, DC</b>	1.2%	56.5%	58.2%	18,313	<b>12.6%</b>	2,289	<b>1.6%</b>
<b>Frederick County</b>	1.2%	23.2%	25.2%	3,683	<b>19.0%</b>	460	<b>2.4%</b>
<b>Montgomery County</b>	0.6%	30.7%	34.6%	19,602	<b>18.1%</b>	2,450	<b>2.3%</b>
<b>Prince George's County</b>	0.3%	35.7%	38.0%	9,428	<b>8.7%</b>	1,179	<b>1.1%</b>

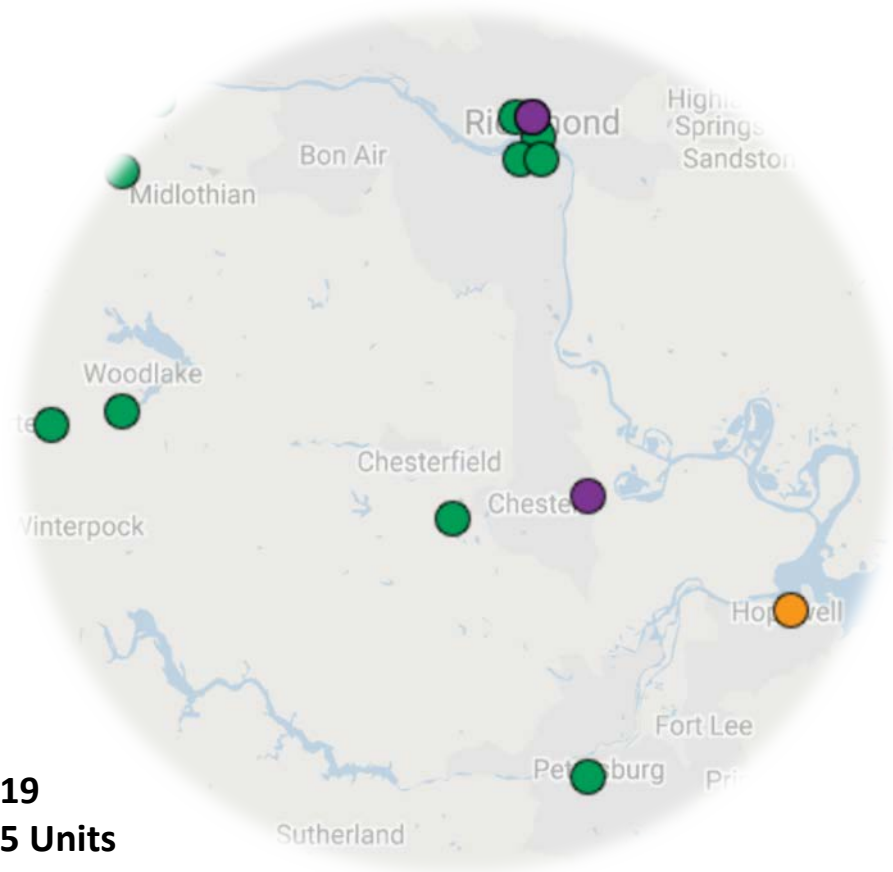
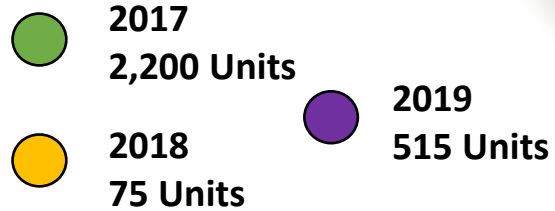
	2010-18	Median Renter Income		Median Monthly Rent 2010-18		Rent Burden >35%	
	Median HH Income Change	Total Net Change	Avg Annual Change	Total Net Change	Avg Annual Change	2014	2018
<b>Washington, DC</b>	3.0%	19.6%	2.4%	22.0%	2.8%	37.9%	35.9%
<b>Frederick County</b>	-0.2%	-1.1%	-0.1%	7.4%	0.9%	38.7%	38.5%
<b>Montgomery County</b>	-0.1%	2.6%	0.3%	7.3%	0.9%	39.2%	39.7%
<b>Prince George's County</b>	0.0%	1.5%	0.2%	9.7%	1.2%	40.4%	40.0%

**Income Figures Are Normalized and Adjusted to 2018 Dollars per BLS CPI Conclusions**

Sources: 2010 Census; American Community Survey (5yr Estimates; 2018)

# NEW CONSTRUCTION PROPOSALS

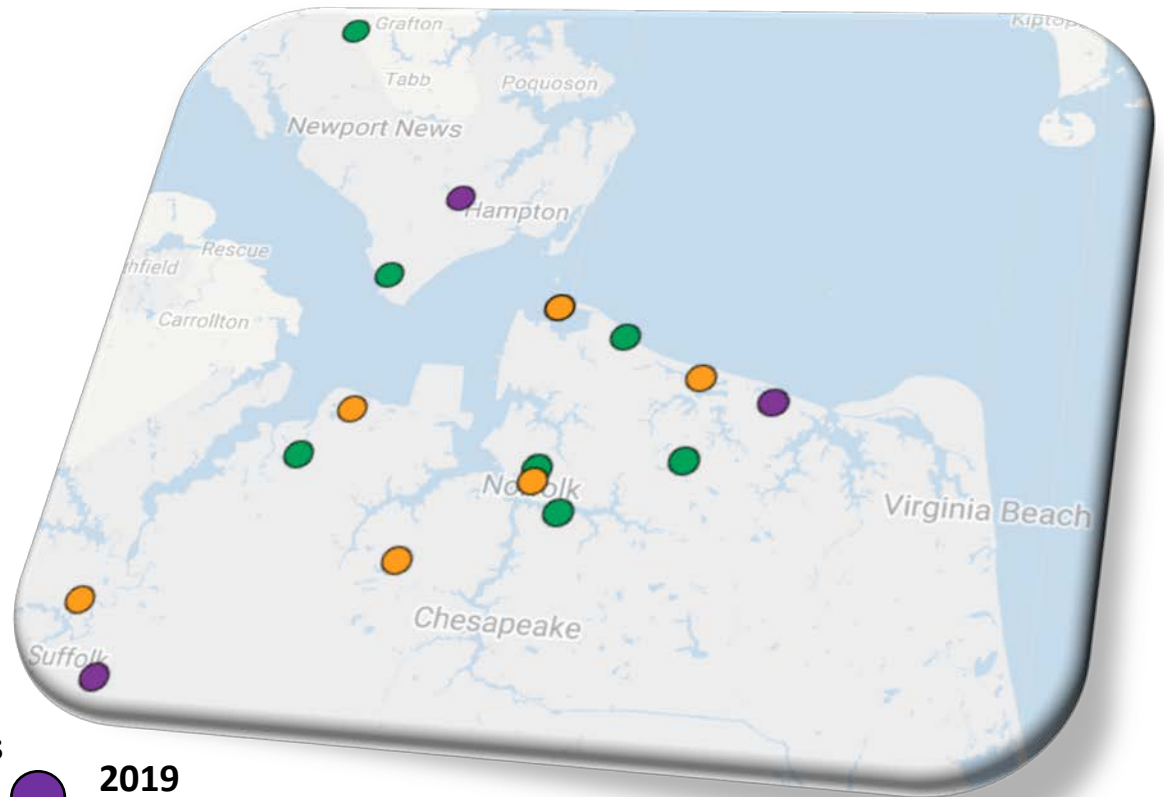
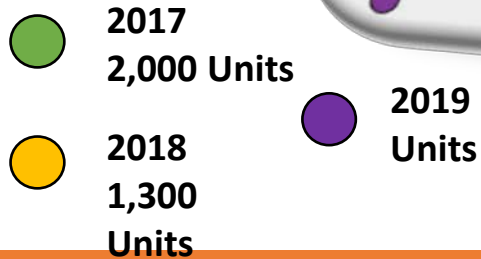
**Metro  
Richmond**  
Concept Activity  
FY 2017 - 2019





# NEW CONSTRUCTION PROPOSALS

Hampton  
Roads  
Concept Activity  
FY 2017 - 2019



# MARKET DEMOGRAPHICS – VIRGINIA SAMPLE

	2010-18	Renter Households					
	Avg Annual HH Growth	2010 Renter %	2018 Renter %	Net Growth	Total Net Change	Avg Annual Growth	Avg Annual Change
Charlottesville City	0.5%	58.7%	56.8%	421	4.1%	53	0.5%
Albemarle County	2.2%	34.6%	37.5%	2,272	17.5%	284	2.2%
Norfolk City	1.3%	53.4%	56.9%	4,740	10.4%	593	1.3%
Suffolk City	4.5%	24.9%	30.7%	2,709	36.2%	339	4.5%
Virginia Beach City	1.4%	33.5%	35.9%	5,959	10.9%	745	1.4%
Richmond City	1.6%	55.1%	57.8%	5,899	12.8%	737	1.6%
Chesterfield County	3.0%	21.6%	23.8%	5,876	24.2%	735	3.0%
Hanover County	2.7%	16.1%	18.4%	1,273	21.9%	159	2.7%
Henrico County	2.2%	33.1%	37.3%	7,145	17.7%	893	2.2%

	2010-18	Median Renter Income		Median Monthly Rent 2010-18		Rent Burden >35%	
	Median HH Income Change	Total Net Change	Avg Annual Change	Total Net Change	Avg Annual Change	2014	2018
Charlottesville City	2.7%	19.3%	2.4%	9.0%	1.1%	40.4%	40.5%
Albemarle County	0.2%	11.2%	1.4%	5.3%	0.7%	36.2%	36.3%
Norfolk City	0.1%	-1.5%	-0.2%	6.4%	0.8%	44.9%	43.0%
Suffolk City	-0.7%	7.1%	0.9%	15.8%	2.0%	42.6%	41.2%
Virginia Beach City	0.0%	2.2%	0.3%	2.2%	0.3%	39.9%	37.3%
Richmond City	0.4%	9.2%	1.2%	6.1%	0.8%	43.9%	44.6%
Chesterfield County	-0.2%	7.5%	0.9%	8.3%	1.0%	36.2%	35.0%
Hanover County	0.1%	3.7%	0.5%	3.1%	0.4%	34.9%	30.4%
Henrico County	-0.1%	8.6%	1.1%	4.7%	0.6%	39.0%	36.3%

Income Figures Are Normalized and Adjusted to 2018 Dollars per BLS CPI Conclusions

Sources: 2010 Census; American Community Survey (5yr Estimates; 2018)



## Questions on the Mid-Atlantic Markets? (DC, DE, MD, VA, WV)

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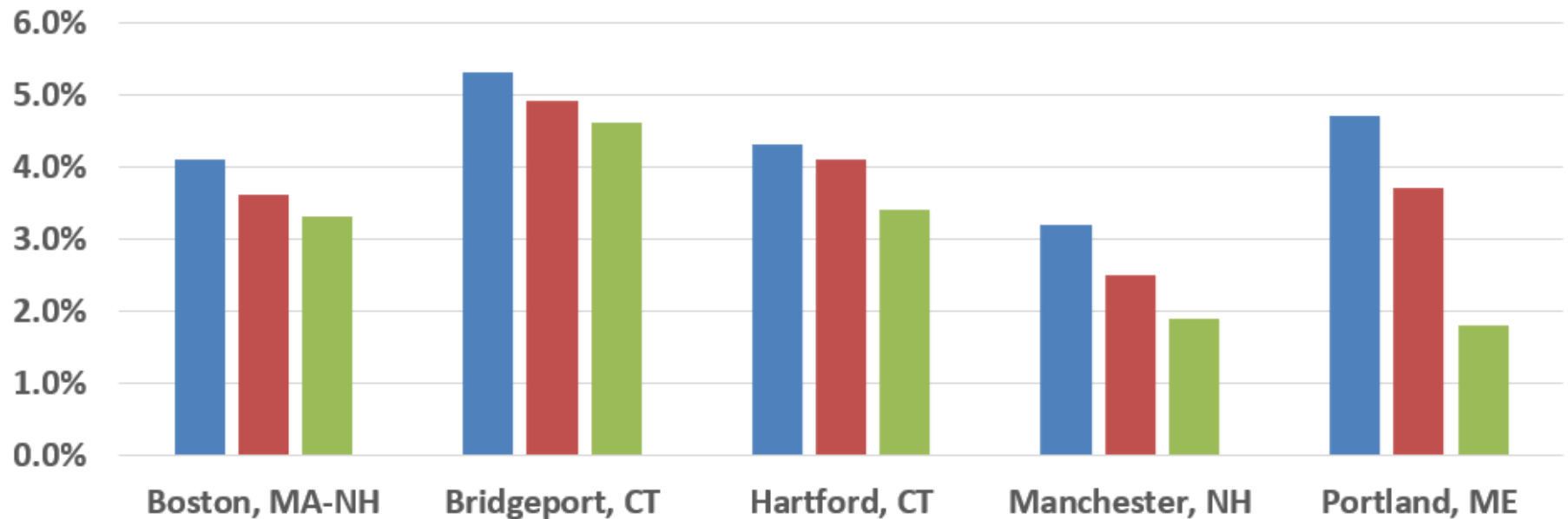


# New England Apartment Markets

# Vacancy rates declined in...

## Apartment Vacancy Rate Trends - New England

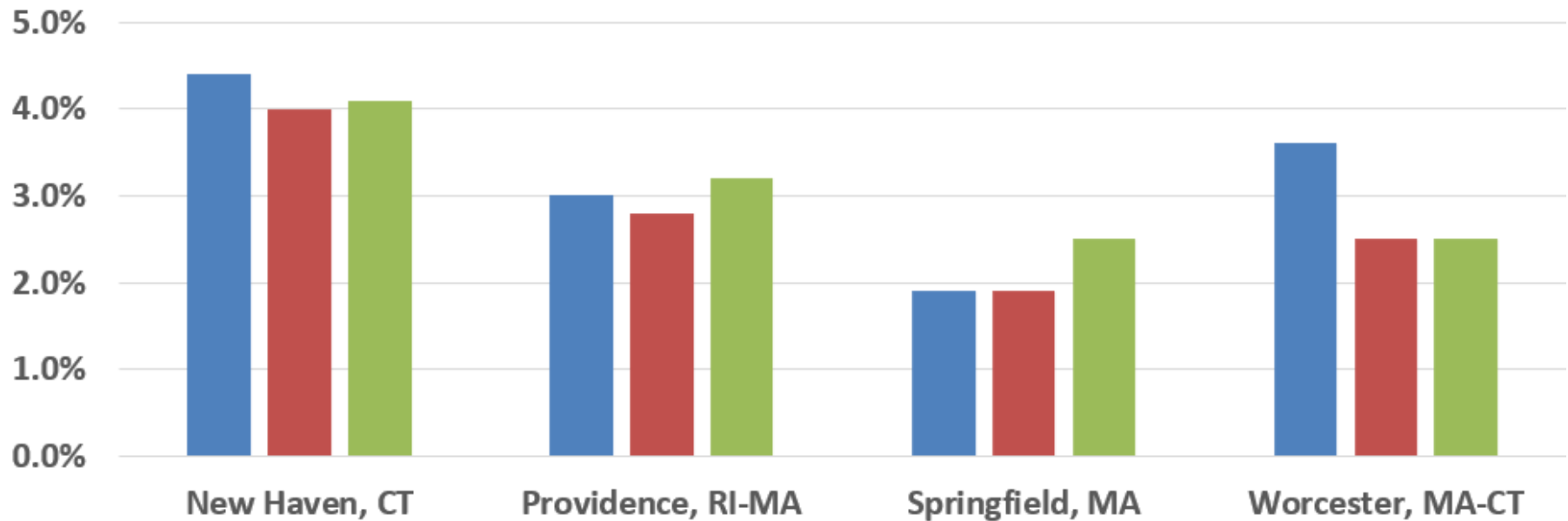
■ 4Q 2017 ■ 4Q 2018 ■ 4Q 2019



# Vacancy rates were steady or increased in...

## Apartment Vacancy Rate Trends - New England

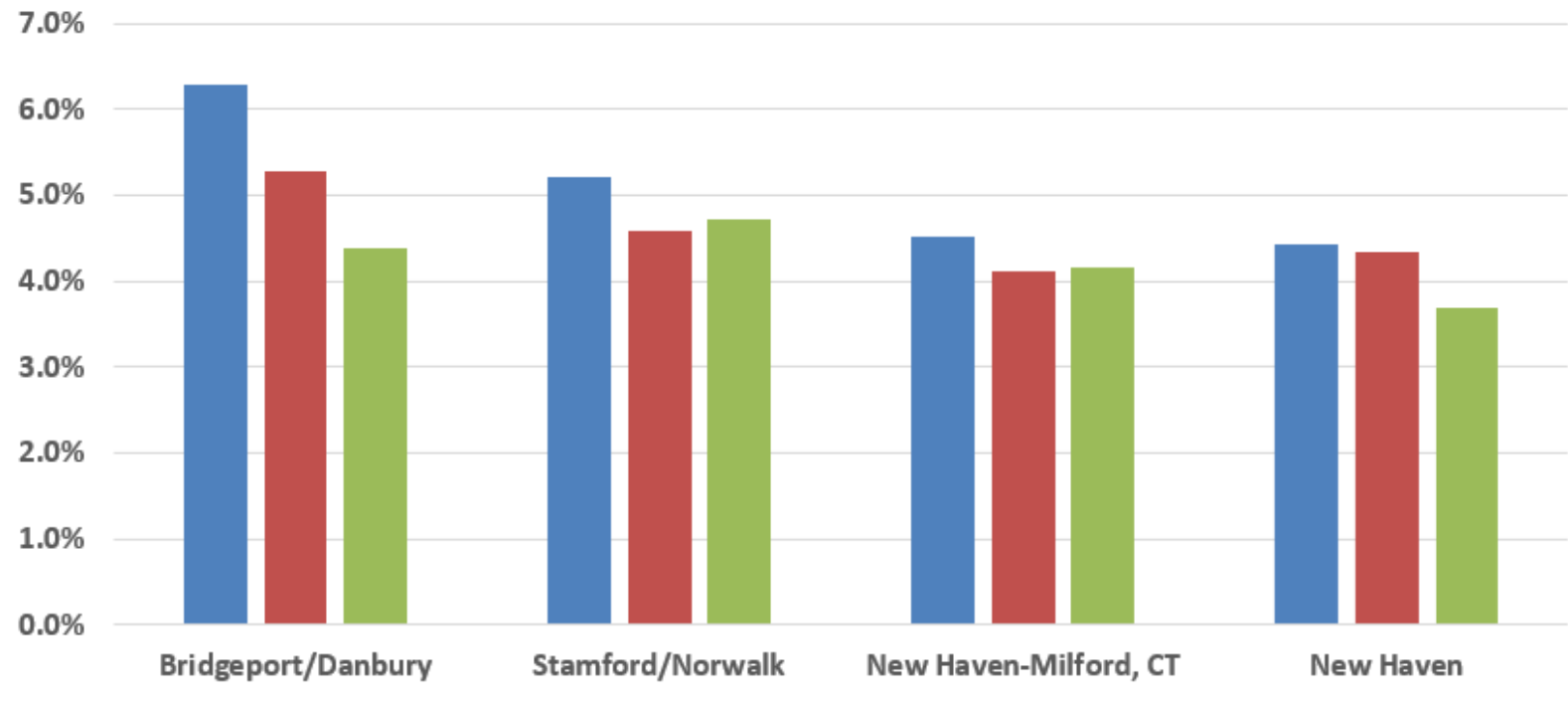
■ 4Q 2017 ■ 4Q 2018 ■ 4Q 2019



# The rate rose in Stamford and fell in New Haven

## Apartment Vacancy Rate Trends Connecticut - Detail

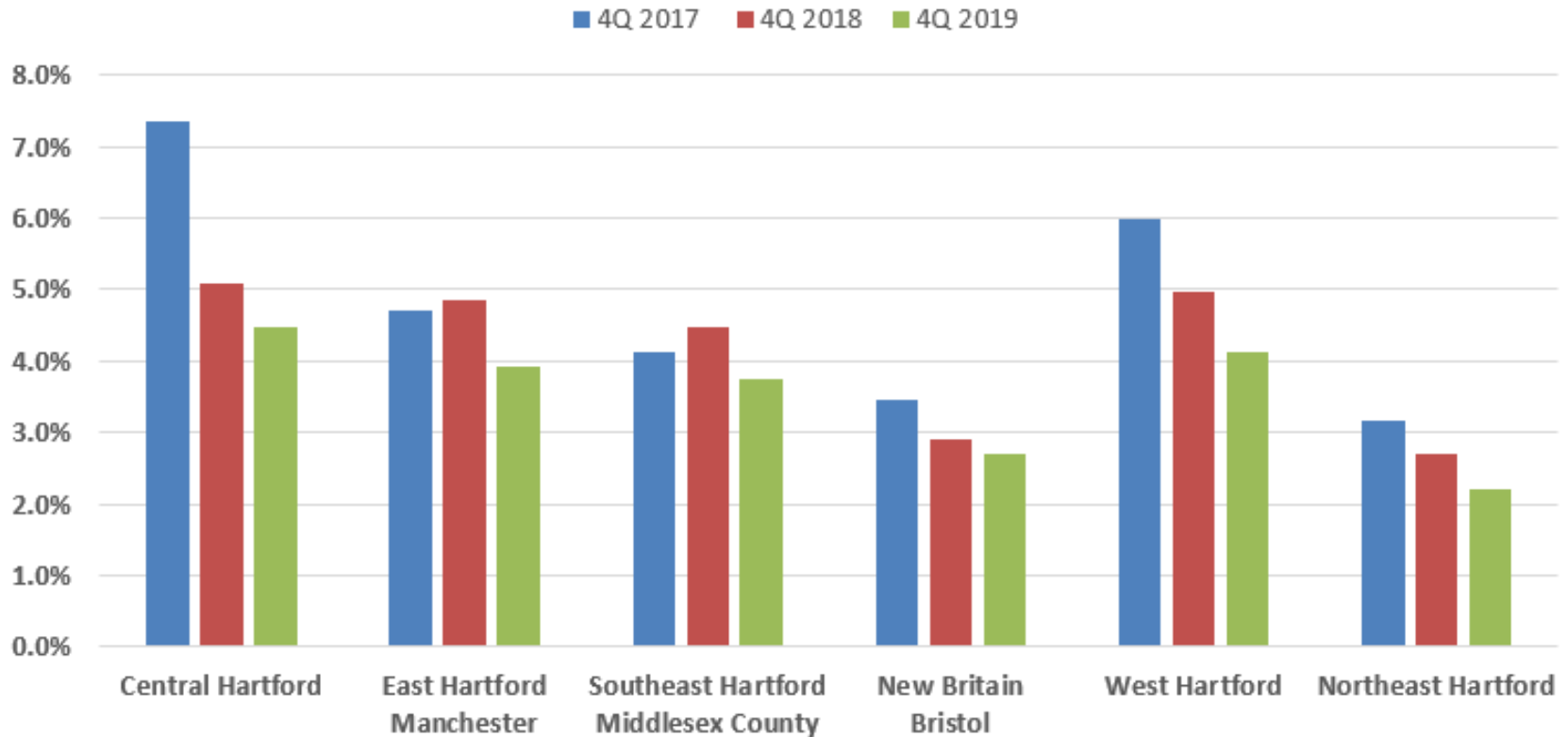
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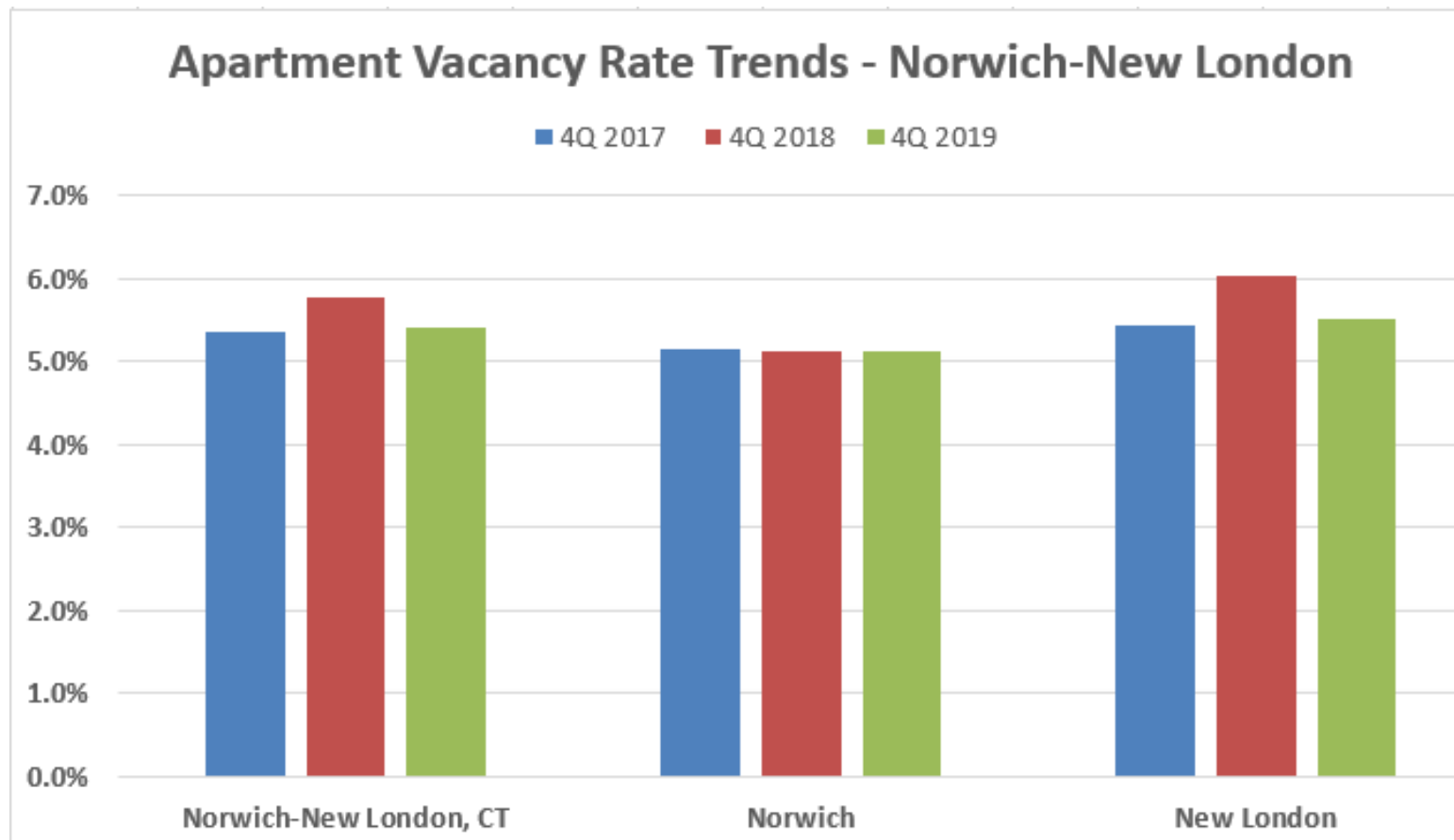


# Vacancy rates were down in the Hartford area

## Apartment Vacancy Rate Trends - Hartford Area



# New London accounted for the decrease

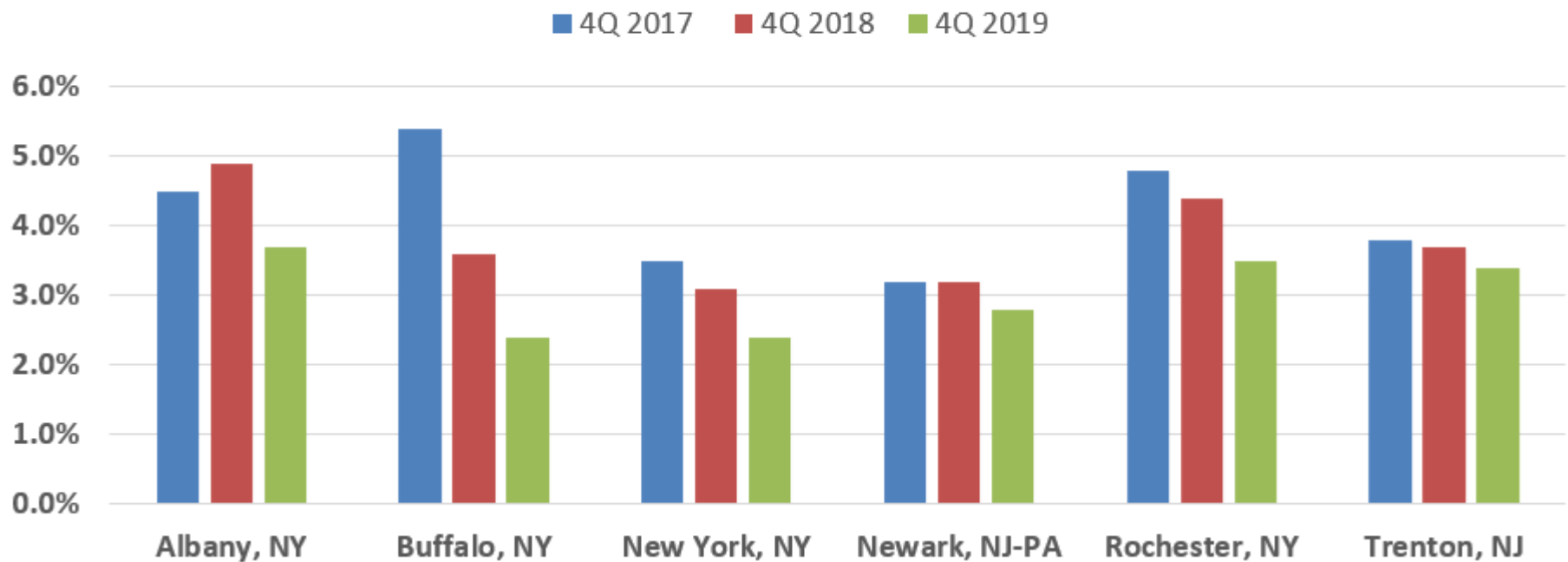


# **New York – New Jersey Apartment Markets**



# Vacancy rates decreased in...

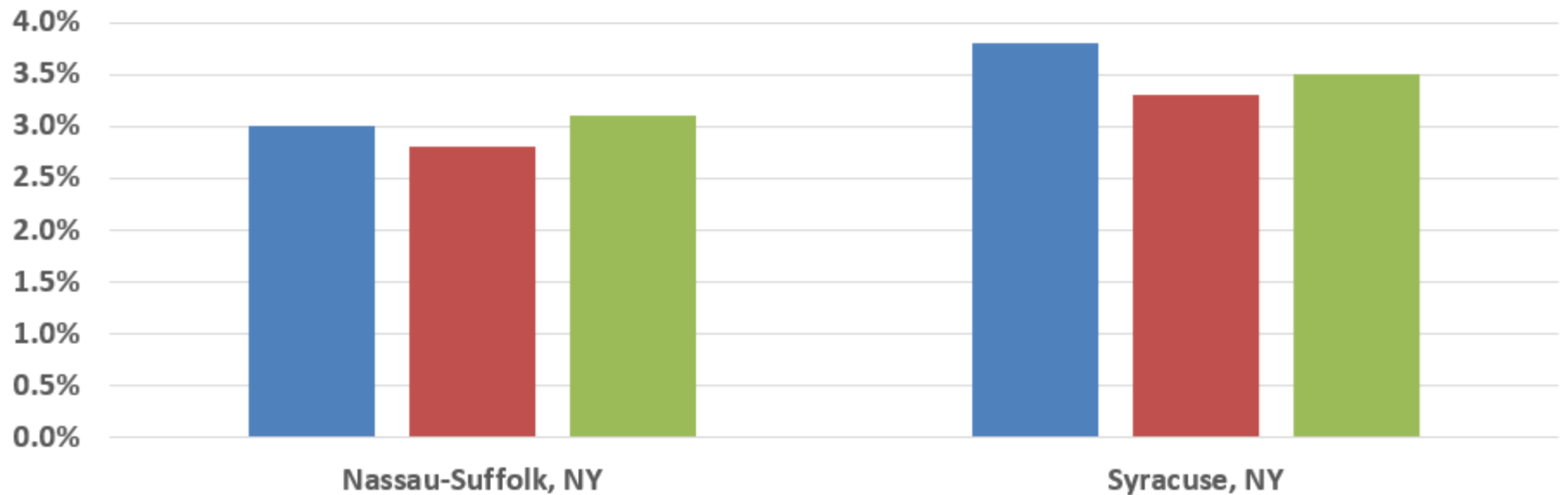
## Apartment Vacancy Rate Trends - New York-New Jersey



# Vacancy rates increased in...

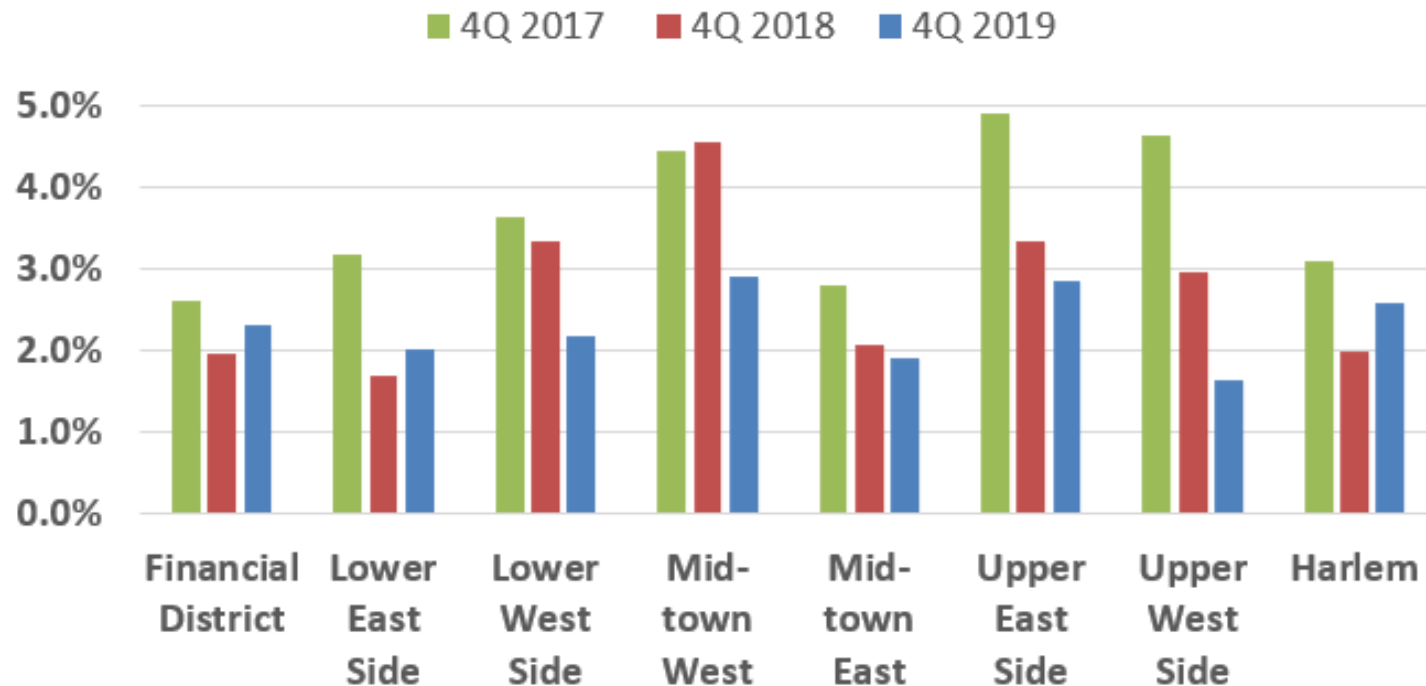
## Apartment Vacancy Rate Trends - New York-New Jersey

■ 4Q 2017 ■ 4Q 2018 ■ 4Q 2019



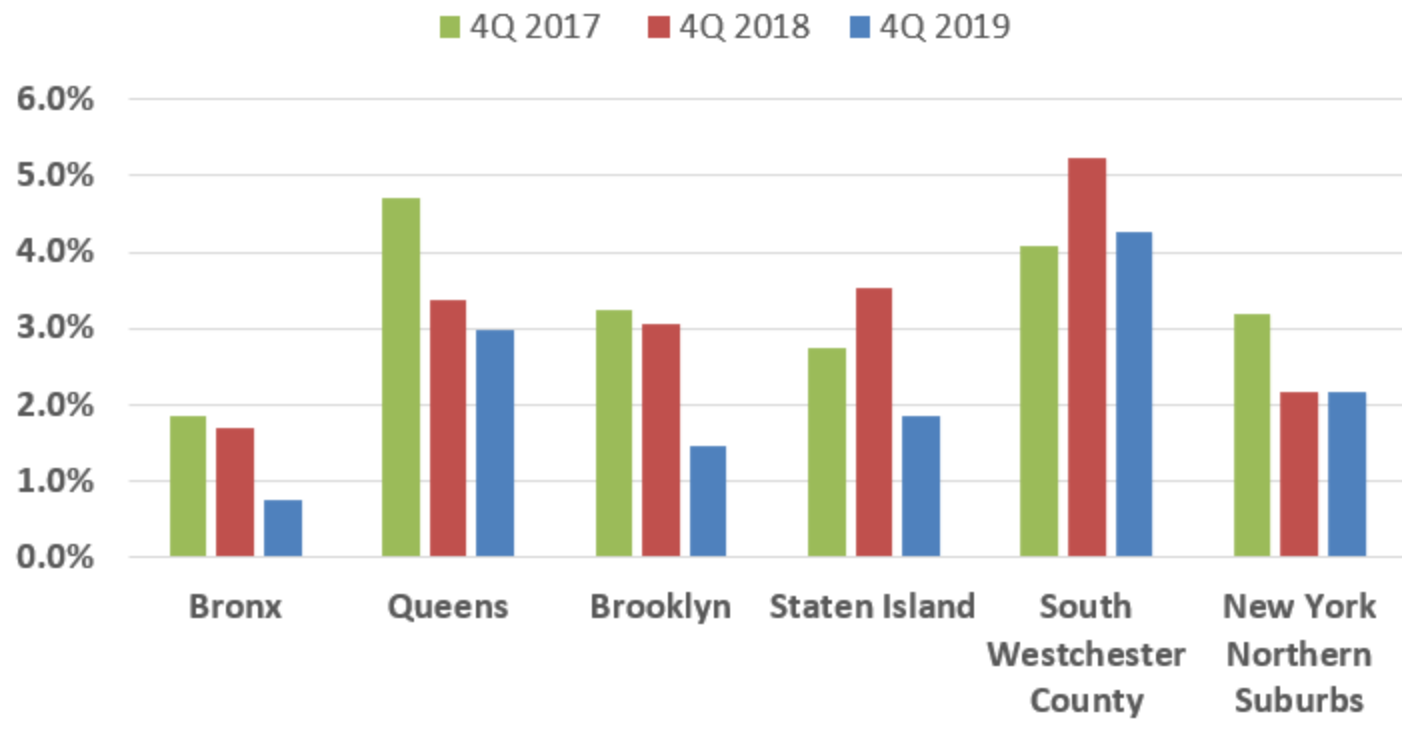
# Vacancy rates were mixed in Manhattan

## Apartment Vacancy Rate Trends Manhattan



# Vacancy rates decreased or were steady in...

## Apartment Vacancy Rate Trends NYC Boroughs & Suburbs



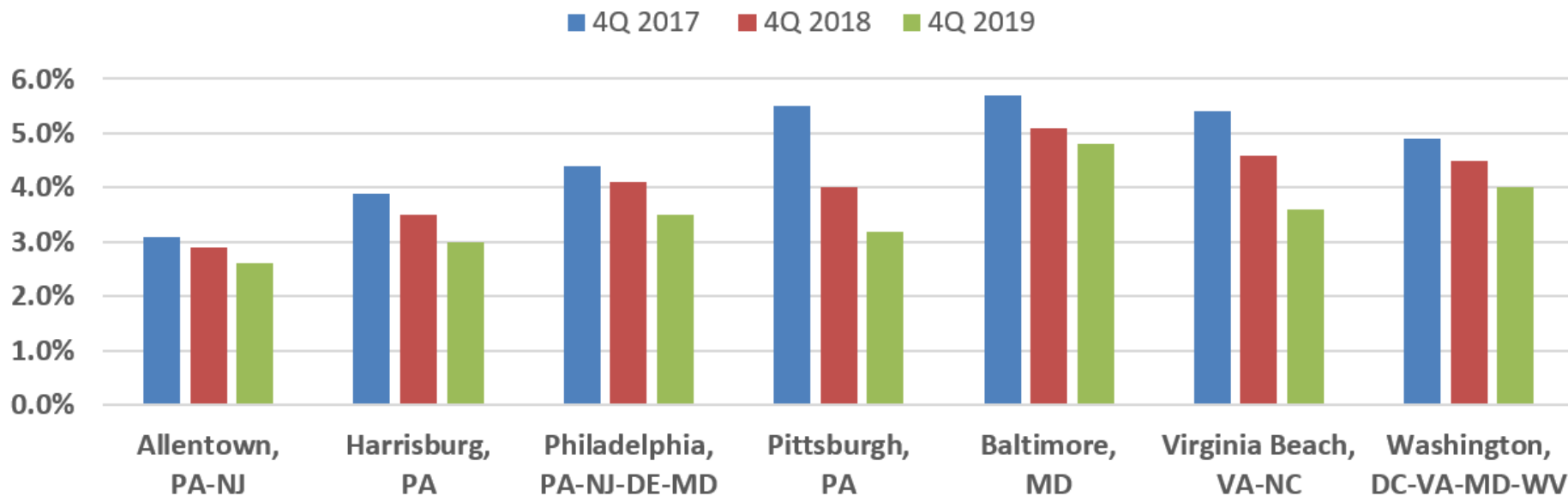
# Mid-Atlantic Apartment Markets





# Vacancy rates were down in...

## Apartment Vacancy Rate Trends - Mid-Atlantic



# Vacancy rates were up in...

## Apartment Vacancy Rate Trends - Mid-Atlantic

■ 4Q 2017 ■ 4Q 2018 ■ 4Q 2019



**Thank You**



# 2020 MAP Guidelines: Chapter 7 Market Study Issues

Eastern Lenders Association  
Baltimore, Maryland  
March 12, 2020

Chapter 7 draft guidelines posted Feb 12, 2020 with comments back to HUD by February 28<sup>th</sup>.

### **Color Key for this presentation:**

- **7.4.B Section reference to Map Guide**
- Proposed wording in Draft Chapter 7.
- ~~Effective date cannot to exceed 30 days~~ NCHMA proposed deletions
- NCHMA proposed additions.....
- Comments on NCHMA's proposed additions

## 7.4.B Effective Date

- Effective date is of the site inspection or date the analyst completes his/her research on active and proposed competitive properties.
- Effective date cannot to exceed 30 days from the date of the site inspection.
- The effective date pre-application submission within 120 days pre-application package.
- The date for study for a firm commitment application submission must be within 180 days prior to the issuance of the Firm Commitment.

## 7.4.B Limited Scope Market Study

NCHMA proposes adding a definition of the Market study requirement for Firm Commitment submission:

Limited Scope Market Study – At firm commitment application, a limited scope update report may be requested focusing on:

- Updating the demographic and competitive analysis
- Net Demand and Effective Demand, and
- A discussion of subject property's proposed rents in the current competitive environment.

Addresses key issues without requiring updating all contextual information; can typically be conducted as a desktop analysis.

## 7.4.D Project Rent Used in Market Study

- The rents as determined by the appraisal are to be used compared to those concluded in the final market study. ....
- The market analyst must evaluate the rents for the subject and must provide a separate estimate of market rent. Rents projected by the market analyst must be compared with the independent analysis completed by the appraiser and reconciled by the lender.

Current draft asks for two separate opinions on rent position. Still under discussion with HUD.



## 7.4.K.1 Current Housing Market Conditions

The analysis should include:

- An estimate of the current competitive rental inventory of ~~both single-family and multifamily~~ professionally managed units in the PMA, with data on the number of units by structure type, number of bedrooms, rent levels, year built and location.

NCHMA suggests adding:

- If appropriate in markets where there isn't a significant inventory of professionally managed rental inventory, provide an overview of the scattered site rental market that might compete with the subject property, including type of structure, units available, and rents.

## 7.4.M.1 Net Demand Analysis

- a. Renter household growth
- b. Recent trends in tenure breakdown
- c. Replacement due to demolition, conversion or shifting of
- d. The effect of any current excess vacant supply based on an estimate of the balanced market vacancy rate ...which is typically assumed at five percent.
- f. (**Newly added by HUD**) Impact of Demand on Occupancy Levels. Analysts must comment on the potential impact of the net demand conclusion on future occupancy levels in the market by the end of the forecast period, especially if net demand indicates supply and demand are concluded to be in balance.

## 7.4.N Findings and Conclusions

- 2. The absorption rate is defined as a projection of the pace of unit lease up as units become available for occupancy. The study should also include an estimate of the absorption period needed for the project to reach sustaining occupancy based on current market data and the ~~quantitative and qualitative~~ Net and Effective Demand estimates. Sustaining Occupancy ~~is defined as having sufficient income to pay all operating expenses, monthly debt service, escrow and reserve for replacement requirements is~~ may be defined market's typical stabilized occupancy level.

## 7.4.N Findings and Conclusion

- **5. Projects with Commercial Component:** The market analyst shall acknowledge and describe the presence of any commercial space. The description should include the size in square feet and number of projected and/or actual units along with a conclusion specifically as to how this space complements the residential portion of the project. A more detailed analysis will be completed by the MAP Appraiser.

NCHMA comments:

- Commercial components are generally including the more active and complex submarkets; an understanding of demand for all components is beneficial.
- How can we conclude how space complements without a thorough understanding of the intended use and the commercial market?
- If the market analyst does not believe in market demand for commercial space, the presence of significant vacant ground floor space could impact the viability of the residential units.

## 7.4.N Findings and Conclusion

### 5. Projects with Commercial Component:

- NCHMA recommends commercial analyses of a mixed-use project includes:
  - information on traffic counts,
  - trends in commercial vacancy rates and commercial rents in the submarket in which the subject site is located,
  - inventory of competitive centers in the immediate vicinity of the subject site,
  - representative sample of rents presently available in the market,
  - pipeline of commercial properties,
  - evaluation of expenditures compared to supply to determine retail gaps in the market for retail,
  - an opinion on commercial development opportunities on subject site,
  - Opinion of achievable rent levels for such space.
- NCHMA recommends commercial studies for space over a threshold of 5,000 square feet.



# Key Variables/Factors

- Net Demand vs Effective Demand
  - Is one more reliable than the other
  - Can there/should there be overlap in the methods.
  - Is there a specific correct way to evaluate each.

# Key Variables/Factors

- Net Demand:
  - Does a negative result correlate to lack of market support?
  - Does it signify an automatic rejection from HUD.
  - Markets with Limited HH Growth, but active Pipeline activity
    - Case examples: Albany NY area, Jersey City area

# Key Variables/Factors

- Pipeline:
  - Can and should variables be applied to:
    - Degree of comparability
    - Likelihood of completion during the forecast period:
      - Status of approvals
      - Advancement prospects
      - All or only part of the project



# Key Variables/Factors

- Do all Market Analysts evaluate similarly?
  - PMA
  - Approaches to Net Demand and Effective demand.
  - We don't see many reports; HUD and the HUD lender do.
    - Discussion and evaluation among parties on a consistent basis.

# Key Variables/Factors

- HUD review:
  - Are each of the offices being consistent?
  - Projects funded in markets with limited HH growth and active recent/planned development.

# Key Variables/Factors

- Other Factors:
  - How to and can we evaluate job growth
  - Modification to census data by the analyst
  - Mobility/Turnover/market transition
  - Affordable housing variations.
  - Shifts in tenure ratio

# Chapter 7/Appraisal

- Major Variations/Changes:
  - Cap Rate Selection (7.5, I-3)
  - Reconciliation (7.5, J)
  - Occupancy Requirements (7.6, G)
  - Other income (7.6, L)
  - Ground lease section (7.14)
  - No real change to REL

# Questions