

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

- I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing
 - 3. Development Topics
 - i. "236 Housing Projects", no date

236 Housing Projects

- I. More and more of the building process for multi-family housing involves the tedium of paper work in miserable detail and the glamour parts of land search, negotiation, design and construction represent less and less of the management function. The hardware of building is being further complicated by new sets of software. Nothing is more complex or more challenging to a resourceful developer than 236 housing.
 - A. 236 housing is an attempt to modify the cash flow requirements of family housing so that the moderate income family can afford newly constructed units. A narrow segment of the market is the intended beneficiary - those with too much income for public housing and not enough income to pay market rents without spending more than 25% of their income. Further their income cannot exceed 1.35 the public housing maximum.
 1. These maximums differ according to a table ranging from one adult and no children to three adults and ten children or more. FHA publishes the household limits for each community but they are changing constantly.
 2. The number of units per apartment, or more appropriately the number of bedrooms is related to the number of adults and the number of children per household.
 3. The number of persons receiving the subsidy in each project is now being held to about 20% of the tenants.
 4. The projects are being distributed throughout a community and a region so as to disperse housing for the moderate income family to the suburbs where the jobs are.
 - B. The developer of 236 housing must have an awareness and the patience to deal with social problems without losing sight of profit incentives. One of his toughest problems is dealing with HUD software:
 1. Project Selection Criteria
 2. 2013 Financial Summary Report
 3. The Management Plan
 4. Affirmative Fair Marketing Requirements
 5. The Environmental Impact Statement
 6. The A95 Clearance
 - C. On Monday Steve Valinet will concentrate on the financial feasibility report. Before Monday I urge you to read the material on Gene Glick & Company and the article by Pfeiffer and Schwartz so that you understand the basic concept of the "front door" and "back door" approach to financial feasibility.
- II. Perhaps the single most important software submission to HUD for a rent supplemented project is the project selection criteria questionnaire, form # 3165-A. Under this system HUD area offices break down their jurisdictions into market areas and each area is sufficiently large to permit competing proposals but small enough to result in geographic dispersal within a metropolitan area. A project proposal competes within a single market area based on selection criteria.

- A. For example, area office might designate a particular county as a market area and then identify a need for 250 units of 236 housing. In some ways this is an allocation of a subsidy allowance to the area office and a political distribution of assistance to the area. In some ways it is influenced by analysis of market data - just like the allocation of turnkey housing support such as the recent 180 elderly housing units allocated to Madison.
- B. The system then provides for priority group ratings which take into consideration all project areas and all properties already in the pipeline that have funding reservations or have been funded.
- C. A sponsor or developer begins with a preliminary interview with the appropriate HUD office and receives the required questionnaire which provides the basis for the HUD multi-family coordinator completing form 3165. "Evaluation of Request for Reservation of Contract Authority"
- D. There are eight categories to be rated as superior, adequate, or poor. A rating of poor on any one criteria is grounds for rejection. The eight categories are:
1. Need for lower income housing
 2. Minority housing opportunities
 3. Improved location for lower income families
 4. Relationship for orderly growth development
 5. Relationship for proposed project to physical environment
 6. Availability to perform
 7. Project potential for creating minority employment and business opportunities
 8. Provision for sound housing management

Even if a project receives adequate or better there may be no funding available for the market area. In that case the sponsors advise his application will be held until funding is available but at that point the proposal would have to compete against all qualified proposals for the market area.

- E. Categories 2 & 3 often provide the most trouble to developers - minorities housing opportunities and improved location.
1. For example a project could not receive a superior rating for minority housing if it is an area of minority concentration unless it is part of an official state or a local plan and unless sufficient comparable opportunities for minority families to be served exist outside areas of minority concentration. In short, the low income family is to have some choice. A poor rating would be the result if the project would cause a significant increase in minority concentration in a racially mixed area.
 2. HUD also wishes to avoid concentrating subsidized housing in any one section of the metropolitan area regardless of whether or not minority concentration is involved. IN addition their underwriting experience in certain areas may be so bad that they may need to put some project in secure areas for middle class families just to improve their delinquency and default rate.

- III. The 2013 form is a financial summary statement of rents, expenses, debt service and capital budget. Originally it was intended to show that the project was a viable one at market rents with or without a subsidy and that the subsidy merely brought the base rents within the purchasing power of eligible tenants. We will spend more time on this on Monday but of particular note are the following:
 - A. Flat percentage allowances for indirect costs which provide the efficient developer with additional profit centers.
 - B. Flat general ~~general~~ contracting profit percentage as a percentage of certified costs.
 - C. The estimated construction time is a significant fudge factor as a properly staged project will have secured considerable rental income before that date, a date which fixes costs for certification which in turn is required before closing on the permanent loan which in turn pays off the construction loan. Since no debt service other than interest on construction loan is due the developer may apply these cash proceeds to offset the points paid for the FHA loan as these points are not a recognized indirect expense.
 - D. The various items in 2013 are treated a simultaneous equation as they are interrelated & derivative. The result is the developer sometimes fills in certain expenses or costs at a number which will make the numbers add up rather than predict actual experience. The profit is in the land, construction, and sale of the equity partnership so that operational feasibility takes second place. Often utility expense for repairs and maintenance are significantly understated and real estate taxes are sometimes optimistically estimated in the hope that the community won't regressively tax the lower income family too heavily.
 - E. Refer to 2013 handout

- IV. At HUD the pendulum has swung from a priority on production ability to management ability. A recent circular reads:

"Absence of management considerations and requirements during the planning and development of insured multi-family projects (particularly in insured subsidized multi-family projects) has been found to be a prime cause of defaults and other deficiencies."

 - A. At each area or insuring office there is a director of housing management who is on a par with the production director. At the pre-application conference the sponsor receives a questionnaire, another for the managing agent, a suggested management plan and list of requirements, a suggested property management agreement, and a sample certificate for the management agent to indicate that he considers the project feasible. HUD also plans to issue management fee guidelines.
 - B. Section E of the 2013 form provides for the operating expense budget and the HUD management man must also prove rents, rent increase application, etc.

- C. However, the major factor is review of the management plan which includes such items as:
1. Role and responsibility of the sponsor to the managing agent
 2. Personnel policies
 3. Staffing with emphasis on minority employment
 4. Plans for early occupancy
 5. Plans for rent collection policies and tenant management relations
 6. Plans for certification for tenant eligibility in other social service programs
 7. Plans for accounting and record keeping
 8. Details of proposed management agreement
- D. Item 60 of Form 2013 permits a supplemental management fund of up to \$100 per unit to be included in the replacement cost. The fund is to supplement management services during construction and during the initial rent-up period. It would include such things as special programs to achieve a better socio economic mix, provide counseling before and after occupancy, or assistance to tenants to organize themselves and programs such as day care centers, adult education, etc. The supplemental funds are drawn down at the initial loan closing and deposited in a bank account under the control of HUD so the draws may be made only on approval of the local office.
- E. In February of 1972 HUD announced all applications for multi-family loans must include an affirmative fair housing ~~fair~~ marketing plan. The plan is reviewed by the Equal Opportunities staff relative to HUD circular 8,000.4 .
1. The circular defines minority as:

"Negro, Black, Spanish American, Oriental. American Indian or other groups in the SMSA or housing market area which are subjected to housing discrimination on the basis of race, color, religion or national origin."
 2. The plan requires the marketing program to make a special outreach effort to contact those not likely to apply for housing because of neighborhood or ethnic patterns, price, or other factors.
 3. A monthly report must be filed during the rent-up period to see if the marketing plan is working in terms of the socio-economic mix.
 4. The marketing program must list the type of newspapers, radio and television, brochures, signs, and community presentation to be used in the program.
 5. Recently HUD issued housing guidelines which describes such matters such as the equal opportunity logo type which must be used in advertising and the types of words, phrases, sentences and visual aids which HUD seems to have a discriminatory effect. These guidelines were published in the Federal Register on April 1 so the developer has to look sharp to pick up the changing emphasis, viewpoints, and criteria of federal housing authorities.
 6. Compliance is always on the basis of what HUD determines to ~~be~~ be a good faith effort rather than whether the program succeeded in bringing a bout results.

- V. Environmental Policy Act of 1969 requires that an impact statement be prepared on every federally assisted project which affects the quality of human environment.
- A. The HUD form covers matters of land use, water systems, sewage, trash pickup, soil, noise, smoke, landscaping and erosion.
 - B. Allied to the impact statement is the A95 clearance procedure, a number which refers to a circular issued relative to the Inter-governmental Cooperation Act of 1968 whose purpose is to "foster and encourage the coordination of federal and federally assisted projects and programs with state, regional, and local planning in order to facilitate the orderly growth and development of local areas."
 - C. A95 establishes a project notification and review system. In Dane County the county board and one of its committees have the final say with the advice and assistance of the county regional plan board. The area office must forward the impact statement to the appropriate clearing house which then has 15 days to make its comment on various aspects of compatibility ~~of/with~~ with development plans for the area or with environmental concerns.
 - D. HUD processing still proceeds and after 15 days could issue a feasibility letter. While not bound by the comments of the clearing house HUD generally ~~generally~~ gives great weight to its opinion.
- VI. After all of the social and environmental concerns have been reviewed for project selection there still remains the problem of creating a physical design which meets both LUI requirements of HUD and the detailed minimum standard specification for construction and equipping of the project. Needless to say it is an expensive, uncertain, and prolonged phase of the project, probably as long as the construction phase. While the profit on the approved project can be substantial, say 150% on your money in less than 2 years, the risks are real because good projects may not be in market areas where subsidy allocations are available or the purchase of ground may be premature if it is necessary to wait for several years before funding is available on a feasible project. ~~On~~ more application the developer can have in different market districts and in different parts of the country, the higher the probability that one or more projects will be approved. Even then funding is at the mercy of everything from presidential politics to local patronage and many of the best builders want no part of the sweepstakes.
- A. In an effort to reduce the red tape a paper work short cut procedure has been developed in San Francisco HUD office and is being tried in several parts of the United States.
 - 1. The plan requires payment of a feasibility fee of \$1000 per million of mortgage loan requested refundable if the proposal is rejected and credited against the underwriting fee of \$3 per thousand due when a firm letter of commitment is issued. This is designed to discourage fishing expeditions to get projects in the hopper in order to have a shot at future funding.

- 2. The developer is given credit for being able to work out the economics and the design to suit the underwriter after he has received approval of the social software aspects of the application.
- 3. Assuming a proposal is found acceptable on these scores it receives a short technical processing.

B. Technical processing determinations include:

- 1. The value of the site
- 2. Acceptability of the site for the market to be served by the specified mix of units
- 3. The LUI number and a letter of certification by the architect of compliance of MPS (Multifamily Performance Standard)

C. A conditional letter of feasibility is then issued which clearly warns the developer that a viable project in terms of costs and expenses are his problem to work out for insurance. FHA will qualify architects and developers on the basis of their track record so that an experienced architect and established developer should be able to sail through the underwriting process.

D. Finally the San Francisco plan provides for essential control record be maintained on decisions and reasoning behind these decisions to be available to sponsor, mortgagees, and other persons directly concerned to insure fairness in processing and to indicate that each case is decided on its own merits.

E. In Los Angeles County the county department of Urban Affairs has created a non-profit office to advise builders and non-profit sponsors how to get into subsidized housing. The office is also involved in research and education because there is tremendous ignorance on both the programs and the amount of work and time involved in application for a loan.

- 1. For example, neighborhoods are fearful of the people which 235 or 236 projects will attract to the neighborhood. Thus, it surveyed all 28 completed 236 projects in the county. The results indicated:
 - a. All projects equal or superior to nearby market rate apartments
 - b. Vacancy rates less than 0.8%, turnover 1%, eviction less than 0.7%
 - c. All but one project were operating at breakeven or above
 - d. There was no ethnic migration from one part of town to another
 - e. Citizens in the neighborhood were generally at ease of the project after being violently opposed to the original proposal
- 2. More research should be done on preconstruction fears versus after construction opinions should be done in other parts of the country as well to see how well 236 projects have adopted to the socio-economic mix of the neighborhood as well as the tenant.