

Market Study Standards

Lead Office: HUD-MF

Participating Offices: USDA-RD, HUD-MF, HUD-PIH, HUD-CPD, HUD-OSHC, Treasury-IRS

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Issue Statement:

While some excellent model practice standards exist for market studies, there is no national standard of practice for market studies comparable to Uniform Standards of Professional Appraisal Practice (USPAP) for appraisals and no broadly acknowledged 'keeper' of such standards comparable to the Appraisal Foundation, which promulgates and periodically amends USPAP. The absence of a national practice standard is not for lack of effort. There are two primary sources of best practices or standards for market studies for rental housing. One of these is the code of ethics and practice guidance for rental housing market studies published by the National Council of Affordable Housing Market Analysts (NCAHMA), which have been adopted by a number of State housing agencies and endorsed by the Affordable Housing Investors Council (AHIC)¹. This guidance is specific to affordable housing, but also broadly applicable to all rental housing. Indeed, NCAHMA has been and remains an advocate of a national practice standard with broad applications. Another is the market study portion of HUD's Multifamily Accelerated Processing Guide (MAP Guide), which addresses market study guidance for both affordable and market rate multifamily housing, but in the context of HUD's multifamily mortgage insurance programs.

The absence of a fully developed, national practice standard and guide for market analyses results in a wide disparity in the content, methodology, quality and reliability of studies that are used for three primary purposes:

1. By State Housing Finance Agencies (HFAs) to allocate Low Income Housing Tax Credits and establish feasibility for new development of rental housing;
2. By HUD-FHA and USDA-RD lenders and field staff to underwrite applications for mortgage insurance or direct loans; and
3. By developers, investors and lenders to identify investment opportunities in rental housing.

Among states, practice varies widely, with some States prescribing sound but unique methodologies, while others have only loosely defined standards and others, as noted, have adopted NCAHMA's guidance in whole or in part. In spite of existing guidance provided by HUD-FHA and USDA-RD, studies prepared in support of applications for Federal mortgage insurance and direct loan programs are inconsistent in content, methodology, quality and reliability. HUD-FHA has taken a significant step forward by preparing new guidance as a portion of the revised Multifamily Accelerated Processing Guide (MAP Guide), which is presently in HUD clearance, with publication expected in mid-2011. The revised MAP Guide provisions for market analyses closely parallel in substance the guidance published by NCAHMA.

¹ A table of States which have adopted (either fully or partially) NCAHMA Market Study Guidelines is included at the end of this report.

The effects of disparate market study practice and quality can be both specific and cumulative. Specific effects include confusion, loss of time and extra expense for developers and owners who pay for market studies that may add little value to the quality of real estate decision making. Sometimes, these developers and owners may be required to pay for additional market studies when a study prepared for one purpose proves unacceptable for another. Cumulative results include higher and/or unforeseen risks of failure, with losses for developers and investors and loan defaults for lenders, with consequent impacts on HUD-FHA and USDA-RD mortgage insurance pools rising from poor or uninformed real estate decisions.

Subject matter experts indicated that a major obstacle to formation of an independent 'keeper entity' for market study practice standards has been inadequate economies of scale. Relative to the entire appraisal profession, independent market analysis engages a small number of practitioners. The effort to form and sustain a 'keeper entity' exceeds the resources of the profession when the range of interests is limited to rental housing. An independent, privately-supported, but widely-recognized 'keeper entity' for market study practice requires a broader base of practitioners engaging in specialties beyond rental housing. But even with a broader base of practitioners, the feasibility of a 'keeper entity' is uncertain. Accordingly, the immediate and primary means of aligning rental housing market study practices is found by assuring consistency and quality of Federal agency guidance in cooperation with State and private sector entities that wish to participate.

Proposed Alignments:

Alignment Summary: Federal agency coordination of market study standards based on revisions to existing HUD-MF guidance, with the advisory influence of USDA-RD, NCAHMA, and National Council of State Housing Agencies (NCSHA) Best Practices guidance would establish a baseline useful for current rental housing practice and consistent with longer term, private sector efforts to develop a 'keeper entity' for a comprehensive national standard.

To align market study practices, the Team recommends:

- A. Using HUD-MF Multifamily Accelerated Processing Guide (MAP Guide) market study guidelines as the starting point for alignment efforts, given the fact that HUD-MF has recently completed a stakeholder feedback process in tandem with guideline development and that the HUD-MF guidelines substantially conform to National Council of Affordable Housing Market Analysts (NCAHMA) standards, the Team will work to align USDA-RD and create an interagency Federal standard which could be available to State and local housing agencies for adoption in the future; and
- B. Provide technical assistance as needed to support emerging 3rd party market study standardization efforts, such as those currently underway by NCAHMA.

NOTE: The Team effort has been limited to rental housing without special, assistive or health services. Subsequently, no consideration has been given and there is no intent expressed here to align market study practices unique to assisted living, sheltered housing, or the various types of senior care facilities.

The anticipated market study practice recommendations probably do not involve Code of Federal Regulation (CFR) changes, but may result in revised guidance to be published consistent with HUD and USDA-RD clearance processes. Implementing these recommendations does contemplate use of significant personnel resources.

Specific actions to effect alignment:

- A. Agency and stakeholder staffing for this review and drafting effort is essential and should be formalized by the appointment of a working group or 'drafting team' composed of subject matter experts from HUD, USDA-RD and key stakeholders to the extent permitted by law.
- (1) HUD and USDA-RD should designate subject matter experts to participate on the guidance review team. HUD participants should include at least HUD-FHA Multifamily and the Policy Development and Research (PD&R)-Economic and Market Analysis Division (EMAD).
 - (2) Interested State agencies who wish to participate should be identified and invited to designate a subject matter expert.
 - (3) Relevant stakeholder groups, notably lenders and market study practitioners should be invited to designate subject matter experts.
- B. USDA-RD shall be designated as the agency lead for the short-term alignment of market studies; HUD shall be designated as the agency lead for providing federal technical assistance to emerging 3rd party market study standards.
- C. Assuming that interagency consensus can be and is achieved on the content of market study practice standards for rental housing, the results should be published as:
- Agency guidance with appropriate adaptations by HUD, USDA and as many State agencies who choose to do so, as the market study recommendations will be optional with allocation of tax credits LIHTC by State agencies.

Resource Estimate for Implementation: The resource needed for implementation is time; time of Federal and State agency staff as well as time of private practitioners and subject matter experts. It is reasonable to assume that several agency lead staff will spend 20% of work hours available in a year on this project; other non-lead entities will spend significant but perhaps lesser levels of effort. Agency processes to adapt and adopt the proposed practice standards will consume additional staff hours.

Estimated Cost Savings for Owners, Investors and Lenders: Market studies typically are needed during the development process and occasionally when a property is refinanced or repositioned. Accordingly, the minimum number of market studies conducted in a year approximates the number of multifamily housing starts, about 2,600 in an average year. (The current economic climate has made such 'averages' problematic.) However, market studies are often conducted for proposed developments that are never built. So, the number of studies prepared each year is a function of the number of new starts times a factor for development proposals that never get to closing.

The price for a study depends on the complexity of the development proposal and the market for which it is proposed, but a typical LIHTC-oriented market study likely would cost \$4,000 to \$6,000. An estimated 700 transactions per year have multiple funding sources that result in duplicate studies. If this duplication could be eliminated by alignment of study requirements, the savings to owner/developers would be in the range of \$3,500,000 (700 x \$5,000). Generally, lenders and investors do not pay for market studies but charge these costs to their clients.

Estimated Cost Savings to State, local and Federal governments: Governments generally do not pay for market studies. There will be no direct dollar benefit to government. However, high quality market analysis is essential to sound real estate decision making, and useful in working to minimize failure and poor performance in rental housing assets. To the extent that decision making is improved, all parties will experience fewer losses and government agencies will see fewer claims on government mortgage insurance funds or other credit enhancements.

Schedule for Implementation: The preparation of a national practice standard for market studies is technically straightforward and already well-developed, given the existing guidance. Nonetheless, the process of reconciling agency guidance, securing stakeholder participation and agreement, multiple editing steps, and agency clearance procedures will certainly require 12 to 18 months to complete. The implementation of a national 3rd party market study standard is assumed to be several years away.

Challenges to effecting proposed alignments:

- Agency and stakeholder inertia.
- Securing agency commitment of personnel resources required to coordinate and draft revisions to existing guidance.

States which have adopted (either fully or partially) NCAHMA Market Study Guidelines

| State | <u>Utilizes NCAHMA Standards</u> | <u>Level of NCAHMA Standards Usage</u> |
|----------------------|---|--|
| Arizona | x | If ADOH Market Study Guidelines have not been followed, then the analyst followed NCAHMA model. |
| California | x | 2010 California Market Study Guidelines use very similar language to MCAHMA standards throughout - in certain places, identical language is used. |
| Georgia | x | DCA would prefer the Principal(s) of the firm to be certified members of the National Council of Affordable Housing Market Analysts |
| Indiana | x | The Preferred Market Study Provider Application asks if the applicant belongs to NCAHMA. |
| Kansas | x | Incorporates NCAHMA's full Model Content Standards and Checklist |
| Kentucky | x | In its 2010 RFQ, KHC lists as a preferred requirement: "Professional affiliations, such as National Council of Affordable Housing Market Analysts, that contribute to the ability to complete the work described in this proposal." |
| Louisiana | x | Consultant must include the following in application packet: Proof of membership to the National Council of Affordable Housing Market Analysts |
| Maine | x | The study must be prepared by a qualified professional acceptable to Maine Housing in accordance with the MCAHMA Model Standards for Market Studies for Rental Housing in effect 120 days prior to the deadline for Applications for the applicable Credit round. |
| Maryland | x | Applications must include a market study prepared by an independent professional who has experience with multifamily rental housing and/or tax credit housing in Maryland and whose firm appears either on the list of acceptable market analysts maintained by the Department or on the list of firms who have undergone peer review by NCAHMA. |
| Massachusetts | x | The Department will accept membership in the NCAHMA organization as indication that the market analyst is a qualified professional acceptable to the Department. DHCD strongly encourages sponsors to direct their market analyst to produce a market study consistent with NCAHMA guideline materials and standards. |

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| Minnesota | x | These guidelines were adopted in part from NCAHMA recommended practices. |
| Mississippi | x | |
| Missouri | x | A statement is inserted in market studies prepared by market analysts that are members of NCAHMA. Signed by the analyst that prepared the market study, the statement will certify that the analyst has no financial interest in the project and that the market study has been prepared in conformance with NCAHMA's Market Study Terminology and Model Content Standards (and, in areas where it does not conform, the reasons for non-conformance). |
| New Jersey | x | Requires a statement of the competency of the analyst conducting the study, certifying that he or she is a certified member of NCAHMA. |
| New Mexico | x | Verbatim language used to make up a majority of NM's requirements. |
| Ohio | x | The Preferred Market Study Provider Application asks if the applicant belongs to NCAHMA. |
| Oklahoma | x | References NCAHMA's definition of Capture Rate |
| Rhode Island | x | Prior to closing, Rhode Island Housing requires that a comprehensive market study conforming to NCAHMA standards be conducted as a condition of credit allocation analyzing the market area, including the depth and breadth of demand, comparable properties and rates, comparable operating expenses, market absorption rates as well as a study of the needs of the prospective population. |
| South Carolina | x | Prefers the Principal(s) of the firm to be a certified member, in good standing, with NCAHMA. |
| Vermont | x | Market Study Standards uses language very similar to NCAHMA's - and in some cases, identical - throughout its text. |
| West Virginia | x | Notes that NCAHMA's website provides guidance on the determination of the market area. |
| Wisconsin | x | WHEDA Market Study Guidelines uses very similar, and in some cases identical language to NCAHMA's Model Content Standards. |

Purpose

This document is part of an ongoing effort to better align Federal rental policy across the Administration and is sponsored by the Rental Policy Working Group. The Rental Policy Working Group is composed of the White House Domestic Policy Council (DPC), National Economic Council (NEC), Office of Management and Budget (OMB), and the U.S. Departments of Housing and Urban Development (HUD), Agriculture (USDA), and Treasury.

The specific areas of concern identified herein emerged from July 2010 stakeholders gathering at the White House on areas of Federal rental policy inconsistency across the administration. The revised conceptual proposals for alignment articulated within this report are preliminary in nature and have not been endorsed by any Federal agency or office.

With any questions, please contact the Rental Policy Working Group Agency Alignment Leads: Larry Anderson, Director of Multi-Family Housing Preservation and Direct Loans at USDA-Rural Development, Ben Metcalf, Senior Advisor at HUD's Office of Multifamily Housing Programs; or Michael Novey, Associate Tax Legislative Counsel in Treasury's Office of Tax Policy.