

Tax Credit Market Study Analysts Group

C&A

September 14, 2011

Lefenfeld – IN and IL require analysts to let HFA know 30 days prior so they can judge capacity rather than limiting the # of studies. We could ask that with VA's LNI, the developer give us info on what analyst they want to use so avoid having rush jobs.

VHDA prefers to keep the LNI process and Market Study process separate to keep flexibility in the process (i.e. developers may engage analysts b/f LNI due)

Allen – What will VHDA's response be to one analyst recommending a deal be killed and then the developer notifies us they want to choose another analyst?

VHDA will know b/c first analyst requested is expected to complete study; if second analyst is requested, it will raise a red flag to VHDA

Lefenfeld – Perhaps the 2nd analyst would choose to let the deal go through and that study would be the correct one – the first analyst could have been wrong...

VHDA will have to consider on a case by case basis

James Woods – For the previous studies completed for VHDA, use past 24 months instead of 12 months, so that fewer recommendation letters would need to be completed –

VHDA agrees to this change

Patz - There should not be a secondary market area as it's not valid for housing

VHDA guidelines currently allow for very limited use of secondary market data

Patz - 10 years of building permit data is not useful as now there is new census data

Analyst's discretion to use one or the other or both

Patz - \$5,000 - \$10,000 income increments are not good to use – would get false data – sees lack of analysis for the income ranges and it would be faulty to use ranges suggested by NCAHMA – suggests using MD's method to define income and capture rates

Analyst's analysis of the data is important here

Kincer – Asked about VHDA standards for subsidized vs. non-subsidized properties.

Lefenfeld – Other states ask for cap rates for both types of deals.

At this time, VHDA is interested in the capture rate analysis, including subsidy; also will rely on its EUA

Lefenfeld – Properties in the pipeline – how should analysts address these? If both are new construction should both deals be counted in the analysis. Again, give up-front instructions on handling.

VHDA wants to know about all competing pipeline projects

Kincer – Noted that the fewer analysts approved would give VHDA more control over the process/results.

Bowen – NCAHMA is a minimum – would VHDA have additional requirements?

Yes. 2012 Market Study Guidelines

Anna (with Miller) – asked question about commercial space in proposed buildings

The commercial area of a residential building should be discussed, so far as it is often used as a marketing tool to draw tenants to a building

Joseph – does VHDA have a model market study?

No

Post-Forum (through 9/27/11 Comment Period)

I agree that the NCAMHA guidelines should be used as a minimum standard for VHDA's market studies. NCAHMA established its Model Content Standards to meet Section 42 of the IRS Code's requirement for a "comprehensive" report. Further, NCAHMA established certain Ethical Standards to meet the Code's requirement that market studies be conducted by a "disinterested" party.

My biggest concern is the possibility of limiting the number of studies that each analyst performs.

We recommend modifications to about 40% of the development proposals we review. You normally do not see this interchange; about half the time the developer adopts our recommendations. The remaining deals either die, or the developer looks for another analyst to work with.

1. I agree with your thoughts to limit the number of market studies per firm.

2. We should agree to remove the concept of SMA. It is an incorrect concept. That would mean the phrase PMA is no longer valid, as we have a market area only. This really is a major issue and should be addressed.

3. The NCAHMA list of market study requirements is extensive (with considerable duplication and

redundancy) and is not that much different from the current VHDA requirements. If you call this the minimum requirements, that could cause market study fees to increase, if VHDA staff uses a checklist. Perhaps one option is to note the NCAHMA requirements as a guide for this year and see if that generates improvement.

We recommend keeping the number of analysts on the approved list low. The benefits to VHDA in keeping the list low include:

- a. VHDA can develop close relationships with providers and an understanding of underwriting criteria and attitudes will grow from more frequent communication.
- b. VHDA will benefit from having to review fewer different ways of writing a report. All analysts have different formats/templates and seeing the same analysts work repeatedly will aid in reviewing reports.
- c. VHDA will have greater control and better understand each analysts strengths and weaknesses.
- d. VHDA will become a more important part of that analysts annual revenue and it will be in their best interest to preserve a strong relationship versus a firm doing only a handful of reports.

In addition, we recommend you use caution on the “demand” side as indicated by the demographics. We believe analysis of local property performance is a very important aspect of the market study. An over reliance on demographic data can skew the conclusions.