

Heavy (f)'s and Recently Completed Projects Panel

March 3, 2022

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Moderator:

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Agenda

Heavy 223(f) Projects

Advantages/Disadvantages

Repair Levels/Scope of Work

Challenges/Solutions

Best Practices - Different Year Same Issues

Recently Completed Projects aka Three Year Rule

Mortgagee Letter 2020-03

The Appraiser's Perspective

Bart's Hot Topics and Best Practices

Advantages of the Heavy 223(f)



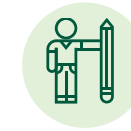
Much improved processing speed over a D4 (**However, largely dependent upon owner/GC provided documentation)



Depending on SOW, possibly no need for an architect or GC



Works great with 4% LIHTC



Lesser construction administration requirements



Largely, no Davis-Bacon wages

Disadvantages of the Heavy 223(f)



The Cost Limit glass-ceiling (a threshold in more ways than 1...)



Determining the required level of design and GC documents



The 12-month time from for completion of repairs



Coordination between architect plans and GC scope/costs



Incomplete, morphing, or VE'ed scopes of work



Tenant relocation concerns

Repair Levels for Refinance

- “Heavy F” deals can include all repair types
- Routine Maintenance, Level 1, 2, and 3 Repairs
- Aggregate cost of repairs exceeds \$15,000/unit X HCP (excluding GC fees)
- Architect/GC is typically required if:
 - Level 3 Reconfiguration of space
 - Greater than 3 trade contractors have significant involvement

PROGRAM	CLASS OF WORK	SERVICES AND DOCUMENTS		
		CNA	DESIGN	CONSTRUCTION
223(a)(7)	Repairs & Level 1 Alterations not exceeding routine maintenance and <=\$1,500 per unit	Required	n/a	List of Immediate Repairs/Costs, bids for trade or component items >\$25k, dimensioned sketches of accessibility remedies, and work by qualified tradesmen
223(f)	Repairs & Level 1 Alterations <\$15,000/unit	Required	n/a	Same as above
223(f)	Level 2 Alterations or any repairs and alterations =>\$15,000/unit	Required	Project Architect	Itemized Repairs/Costs, Dimensioned drawings of reconfigured spaces, GC & HUD 2328 needed as determined by Project Architect
223(f)	Level 3 Alterations	Required	Project Architect	Itemized Repairs/Costs, Dimensioned drawings of reconfigured spaces, GC and HUD 2328 required for Level 3 Alterations
220,221, 231,241(a)	All classes of work	Required	Project Architect	Full drawings and specifications, Architect administration of work, GC & HUD 2328, Davis-Bacon wage standard

Development of Scope of Work (Critical & Non-Critical Repairs)

- Initial assessment by CNA provider, Architect, and GC
- Scope must include ALL proposed improvements/repairs
- Consideration to other funding sources (e.g. LIHTC, soft funds etc.)
- Coordination of scope (owner, CNA, GC scope & construction costs)

What is needed for the AEC 3rd party review of a Heavy F project?

2328 replaced with the “223(f) Repairs and Alterations Cost Worksheet”

MAP Guide Appendix A.5.12

Summarizes all cost included (Hard Costs, GC Soft Costs, Design Fees, Other Fees)

A.5.12 WORKSHEET FOR SUM OF COSTS OF REPAIRS & ALTERATIONS IN 223(f) APPLICATIONS

(When hard costs exceed \$15,000/per unit or include Level 2 or Level 3 Alterations)

Project Name:

Honest Acres

FHA #: 111-58941

All Units:

164

Address/City/State/Zip:

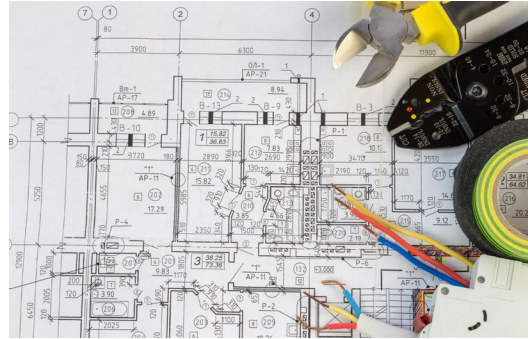
Category or Description of Cost	When Paid		C \$ Total Cost	D % of Total Cost
	A \$ Before Endorsement (Note 1)	B \$ After Endorsement (Note 2)		
A. Repairs Hard Costs				
1. <u>Critical Repairs</u>				
a. Life Safety (see CNA e-Tool list of repairs)	\$ 7,600		\$ 7,600	
b. Accessibility (see CNA e-Tool list of repairs)	\$ 4,200	\$ 117,000	\$ 121,200	
c. Subtotal All Critical	\$ 11,800	\$ 117,000	\$ 128,800	
2. <u>Non-Critical Repairs (see CNA e-Tool list of repairs)</u>	\$ -	\$ 2,587,000	\$ 2,587,000	
3. Total Hard Costs	\$ 11,800	\$ 2,704,000	\$ 2,715,800	
4. <u>GC's General Requirements (itemize, Note 3)</u>		\$ 20,600	\$ 20,600	
			\$ 2,736,400	
B. Repairs Fees				
5. <u>General Contractor</u>				(Note 4)
a. Overhead		\$ 27,000	\$ 27,000	0.99%
b. Profit		\$ 270,000	\$ 270,000	9.87%
c. Subtotal GC Fees (5a + 5b)		\$ 297,000	\$ 297,000	10.85%
6. <u>Architect's Fees</u>				(Note 4)
a. Design	\$ 30,000		\$ 30,000	1.10%
b. Supervision		\$ 15,000	\$ 15,000	0.55%
c. Subtotal Architect's Fees (6a + 6b)	\$ 30,000	\$ 15,000	\$ 45,000	1.64%
7. <u>Other Fees (itemize, Note 3)</u>	\$ 60,800	\$ 325,000	\$ 385,800	
8. Total General Requirements + Fees	\$ 90,800	\$ 657,600	\$ 748,400	
C. Calculations Total				
9. TOTAL COSTS	\$ 102,600	\$ 3,361,600	\$ 3,464,200	

Project Name: _____
Date: _____



Challenges and Solutions

- Delayed starts
 - Examples: Labor disruption, supply chain, HEROs clearance
- Tenant relocation concerns
- Project oversight
- Supporting documentation
- Contingency (*or more specifically, the lack of...*)
- Changes in budget and scope
- LIHTC and Soft Funds
 - Added SFHA QAP rules
 - Fixed submission deadlines
 - CNA e-tool approach: If LIHTC involved, much more like a D4 for tool entry



Northeast Technical Team

Special Thanks to the Northeast CA/CM Technical Team who participated in the development of this presentation.

TOP 3 DEFICIENT ITEMS for 223f Heavy F Applications

1. Accessibility Requirements for Federally Funded Properties
2. Construction, Costs Contracts and/or Reports
3. E-tool and Associated Reporting is Incomplete



Common UFAS Exemptions Requested in the NE Region:

1. If the architect provides acceptable drawings and structural reports that demonstrate that **there is no accessible route into the building**, then no accessibility upgrades will be required. *Review Complete.*
2. If the architect provides acceptable drawings and structural reports that demonstrate that **there is an accessible route into the building**, which could include installing a ramp or lift, then the required number of units must be upgraded per the level determined below; *(review continues, see 3 and 4)*
3. If architect determines that the property **does not meet the load bearing wall exemption**, then all unit alterations must be completed. *(All UFAS items should be identified in the CAP Plan and architectural drawings attached per Appendix 5)*
4. If an architect can demonstrate through drawings and structural that the building **does meet the eligibility requirements for a load bearing wall exemption**, then the property will not be required to be fully UFAS compliant. **Please Note: this does not eliminate the responsibility of the owners to implement UFAS improvements to units without impacting the load bearing wall to the greatest extent feasible to meet UFAS compliance.**



Construction, Costs, Contracts and Reports

- MAP GUIDE 5.3.3.1 – **Architect** Aggregate costs are greater than \$15,000 per unit of repairs (excluding GC fees), accessibility repairs (5.3.3.1.c) and/or Level II & III Repairs. Architectural Plans and AIA B104 Contracts should be attached to the E-tool.
- MAP Guide 5.3.3.2 **GC is required** if: Aggregate costs are greater than \$15,000 per unit, (excluding GC Fees), 3 licensed trades and/or Level 3 Alterations, an AIA A104 and construction cost review budget must be attached to the E-tool.
- Repairs do not address possible Environmental hazards and the cost to mitigate them.
- Incomplete Scope of Work – accurately defining the scope of work required & applying costs to the proposed scope of work, especially if there is not an architect and/or GC.
- **Bids** for repairs that exceed \$35K are not submitted or the costs lack detail. MAP GUIDE 5.3.3.3 – Licensed trades.
- Lender's 223(f) Repairs & Alterations Cost Worksheet form is missing or not used. (MAP GUIDE Section A.5.12)



E-tool and/or Reporting is Incomplete

All these requirements can be found in the 2020 MAP GUIDE

Common Missing Exhibits

- Narratives and Photos are Missing
- Required reports identified in the E-tool are not attached or not completed.
- No Relocation – prepared by an independent 3rd party relocation specialist. (Report must incorporate the construction schedule)



Incomplete Reporting

- The mitigation expenses associated with the possible disturbance of hazardous materials should be included in the E-tool. Repairs to the property (built pre-1980) should comply with 40 CFR 61 Subpart M.
- Incomplete or unsatisfactory Intrusive Reporting.

KEYS TO A SUCCESSFUL CA 223F Heavy Repair Processing

THE LENDER IS THE KEY TO SUCCESS!

1. READ THE 2020 MAP GUIDE AND PROVIDE SUPPORT/DOCUMENT for the Conclusions
2. READ ALL the 3rd PARTY REPORTS – From Cover to Cover ARE COMPLETE AND CORRECT!
3. REPORTS MUST HAVE A CONCLUSION
4. A DETAILED CONSTRUCTION PLAN IS REQUIRE FOR REPAIRS (WHO, WHAT, WHERE and HOW MUCH)
5. SUBMIT COMPLETE APPLICATIONS WITH CONCLUSTIONS THAT POINT THE HUD REVIEWERS TO “YES”





Recently Completed Projects

- Appraisal Considerations

Valuation – Best Practices Income Analysis

- A current, up-to-date rent roll is imperative
- Thoughtful analysis and discussion of the most recent leases is needed
- A thorough survey of rent comparables is important to understand market nuances
- In high rent growth markets, recent leases and rent comps provide primary support for PRI.
- To avoid review issues, include a lease-up history, a detailed discussion of the subject's absorption, and absorption comparables.
- Discussion and analysis of concessions. When do they burn off? Are concessions prevalent in the market?
- Subscription services such as MPF provide valuable details that may supplement organic research

Analysis of Expenses

- It is important to estimate stabilized expenses and not reflect un-stabilized operations from the lease-up period that may over- or under-estimate stabilized operations.
- A deep dive into the subject's expense statements to identify and explain anomalies associated with lease-up is recommended.
- When stabilized historical statements are not available, it is imperative to have great expense comparables.
- The best expense comps typically come from other stabilized assets the sponsor may own in the market, or other assets the appraiser has valued. For instance, Colliers completed roughly 27,000 valuations in 2021, of which 35% (9,500+-) were multifamily. That's a lot of great data!
- Other sources include subscription services such as Trepp and agency databases (Freddie/Fannie).
- Stabilized real estate taxes are usually a hot button. Every market is different and local knowledge is critical.

Expense Comparable Selection

- Selection of expense comps mirrors the process of selecting rent comps.
- Comps with a detailed breakout of PGI, utility reimbursements, and other income (storage, parking, etc.) helps to justify concluded market additional income for the subject.

Main Factors to Consider in Expense Comp Selection:

- Asset type (Garden/Mid-rise/High-rise)
 - Elevator or Interior Corridors
- Location
- Overall Project Size
- Project Type/Density
- Common Amenity Package
- Interior Finish
- Overall Quality
- Unit Mix
- Utility structure
- Year Built/Overall condition



Locational Factors

- Rural locations may have decreased operating and R&M expenses related to lower labor costs
- Urban locations may have expenses related to elevators, parking garages, etc.

Overall Project Size

How can this effect your conclusions?

- Economies of scale
- Larger or smaller amenity package
- Landscaping costs

Density/Project Type

- Low density assets and garden-style communities may have higher grounds expenses on a per unit basis
- Valet Trash (Garden) vs Trash Shoots (Mid-/High-Rise)
- Mid- & High-Rise Communities often include specialized line items, such as elevator expenses and increased payroll for concierge-type services.

Common Amenity Package, Interior Finish, & Overall Quality

- Common Amenities May increase utilities expense (heated pools, fitness center, clubhouse, etc.)
- Interior Finish and Overall Quality may increase R&M and turnover costs, as repairs and replacement of higher quality items are more costly.

Utility Structure

- In a perfect world, all expense comps would have similar utility structure, as it makes the analysis cleaner
- In reality, this rarely occurs, but having the majority with the same utility structure makes life easier for everyone
- In cases where Utilities are baked into the rental rate, rather than sub-metered, overall Utilities expenses will be higher, thus the importance of having a detailed breakout of income to fully analyze the expense comparables.
- Locationally, overall Utility expenses may be higher or lower based on the service provider (water / trash / electric / gas).

Unit Mix

- Larger units benefit from economies of scale

Year Built / Overall Condition

- Newer properties, or those in above average condition, typically result in lower R & M expenses.

Cap Rate Comparables

- It is important to analyze cap rates on an apples-to-apples basis.
- For instance, RE Taxes and Reserves for Replacement should be handled similarly for each comp.
- Distance from the subject is often not as important as other factors (Age, Quality, Size, Project Type, etc.)
- Supplemental comps may help justify your cap rate conclusion.





HUD Appraisal Hot Topics

- Income
- Vacancy
- Expenses
- Cap Rates



QUESTIONS?

Moderator:

Michelle Smee, Snr FHA Deputy Chief Underwriter, CBRE

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