NSP WEBINAR

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NSP Program
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WHAT WE WILL COVER:

- Calculating Program Income for Rental Properties
  - Note that this applies only to Subrecipients - Developers may treat profits differently

- Marketing Strategies for Resale Properties
PROGRAM INCOME
Income for Rental Properties

- Program Income = Net Operating Income
  \[= \text{gross income less necessary costs to generate the income}\]

- Debt service is not counted as an eligible operating expense (Note: developers may deduct debt service as operating expense when calculating proceeds)
Income for Rental Properties Cont.

- If more than one funding source is used in the project, the NSP Program Income is proportionate to the share of NSP funds relative to total sources.

**Example:**

- Project Financing: NSP $100,000 \( (62.5\%) \)
- Private Loan $60,000
- Net Operating Income: $5,000
- NSP Program Income: $3,125 \( (5,000*62.5\%) \)
Calculating Rental Program Income

Example:

Gross Rent $6,000
Less Bad Debt (−) $ 120
Less Vacancies (−) $ 300
Effective Gross Income (=) $5,580

Replacement Reserves (−) $ 250
Operating Expenses (−) $5,320
Program Income/NOI (=) $ 10
Eligible Operating Expenses

- All reasonable fees and payments related to operation - incl.
  - Utilities, maintenance, marketing, administrative costs....
  - Management fees
  - Replacement/Capital Reserves
  - Operating Reserves – if have debt, and is required by the lender and in accordance with industry standards - are allowed as an initial deposit, but not as an ongoing expense
Calculating Reasonable Operating Expenses

When creating a multi-year proforma:

- Industry standard is to assume a 5 to 7 percent vacancy
- Industry standard is to increase operating expenses by 2 to 3 percent each year
- Rents can be assumed to increase by 1-2 percent each year
- Try to keep 1-1/2 percent differential between the income/expenses escalators to allow for utility cost fluctuations, snow removal, etc.
Eligible Uses of Rental Program Income

- Follows the same NSP guidelines – must be used for an NSP eligible project, following all relevant NSP contract requirements (NSP activities, census tracts, etc.)

- Can be used for DEBT SERVICE only when
  - The private loan(s) was used for the NSP project and was made at the same time as the NSP grant funds
  - The loan was made from an external lender (subrecipient can’t lend itself the funds)
  - All NSP requirements were followed in the use of the loan funds
Resources

- NSP TOOLKITS
  http://hudnsphelp.info/index.cfm?do=viewToolkitsHome
  Sample Single Family and Multi-Family Rental Operating Proformas
  - http://hudnsphelp.info/media/resources/RentalDevBasics-Attachment.xls
Resources, cont’d

- Policy Alert – Program Income in the Neighborhood Stabilization Program:

- Policy Alert – Allocating Real Estate Development Costs in the NSP
MARKETING STRATEGIES
Requirements for Effective Marketing

- Understand the market – conduct market research
- Develop a concrete, specific marketing plan (and budget for it) – track progress and make adjustments when needed
- Make sure the price is right – use market research to determine pricing and provide assistance if needed
- Train counselors in what lenders require & locate lenders familiar with assistance products in your area
- If all else fails, consider lease-purchase or scattered site rental
- Address NSP specific barriers
Marketing Plans

- Typical Marketing Budgets Include
  - Branding (if needed)
  - Printing
  - Web Maintenance
  - Paid Ads
  - Site Signs
  - Sales Agents
  - Legal Work
  - Staff Time

- Plan for an average of 7-10% per home sale (6% for a broker, 4% for the campaign)

*(Marketing costs are an eligible NSP expense)*
Common Barriers to Address

- NSP requirements are unfamiliar to buyers and may take more time to explain
- Difficult to identify eligible buyers (particularly in the <50% CMI category)
- Negative neighborhood perceptions
- Buyer difficulty obtaining loan
- Over supply of homes at rock bottom prices
Marketing Strategies

- Use your reputation – organizational branding
- Define your message – why should people buy NSP homes?
  - Highlight available homebuyer assistance
  - Calculate final PITI and show comparison with typical home buyer costs or average rents
  - Play up amenities and special features
- Qualify more buyers through credit counseling and NSP friendly lenders – research what financing options are available in your area
- Find lenders in your area familiar with WHEDA and other assistance programs
- Use a professional (and hungry/creative!) real estate agent – agent fees are an eligible NSP expense
Strategies cont.

- Establish a loan loss reserve – a pool of funds as a guarantee against losses to lenders (an eligible use of NSP funds, or can seek other sources)
- Use incentives such as homebuyer subsidies (better than cost write-downs to improve neighborhood values)
- Increase amount of homebuyer assistance you leave in the unit
- Highlight unique features, such as Energy Star certification
Modes of Marketing

- Website & Links
- Print Ad
- Utility Bills
- Bus Signs
- Events & Showings (consider food)
- Realtors® (and Realtors’ tours)
- Public Service Announcements
- Press Releases (free)
- Community Newspapers
- Talk Radio
- Signs with take-aways at local venues
- Cross Marketing
- Referral Programs
- Yard Signs
- Realtor® sale bonus (ex. $1,000)

- Social Networks (Facebook, Craigslist, YouTube)
- Billboards
- Grocery Stores
- Online (www.owners.com, fsbo.com)
- Multiple Listing Service
- Face to Face
  - Employers (check with Chamber of Commerce)
  - Broker Breakfasts
  - Church or PTA meetings
  - Mall/Schools/Tradeshows
- Door Hanger/Flyers
- Direct Email
- 2-part flyer w/detachable stamped “interest” card to return to agency
A Note About Materials

- Ensure marketing materials are up-to-date
- Provide info about availability of homebuyer assistance & what monthly payment would be
- Use visuals
- Make sure to target buyers at 80 – 120% CMI who are not typically eligible for subsidy programs
- Be clear and simple, translate when needed
Things to Remember

- NSP requires income certification
- Home buyer education is a requirement
- Proper disclosure of recapture/resale provisions is required
- Pay attention to Fair Housing and Affirmative Marketing requirements
Resources

- NSP Toolkit, Guide to Marketing and Selling Homes: http://hudnsphelp.info/media/resources/GuideToMarketingAndSellingNSPHomes.doc
UPCOMING MINI-WEB TOPICS


- Other ideas?? Let us know!