

NSP WEBINAR

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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
(= 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	<u>\$ 60,000</u>
		\$160,000
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
<u>Operating Expenses</u>	<u>(-)</u>	<u>\$5,320</u>
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=viewToolskitsHome>

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:
 - http://hudnsphelp.info/media/resources/NSP%20Policy%20Alert_ProgramIncome.pdf
- Policy Alert – Allocating Real Estate Development Costs in the NSP
 - http://hudnsphelp.info/media/resources/NSPPolicyAlert_AllocatingDevelopmentCosts.pdf

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 (particular 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

- Marketing tips for Energy Star homes:
http://www.energystar.gov/index.cfm?c=bldrs_lenders_raters.nh_marketing_resources
- NSP Toolkit, Guide to Marketing and Selling Homes:
<http://hudnsphelp.info/media/resources/GuideToMarketingAndSellingNSPHomes.doc>
- Cornerstone Interactive Tool for Setting Resale Price: <http://affordableownership.org/wp-content/uploads/2011/09/Resale9-Webinar.swf>



UPCOMING MINI-WEB TOPICS

- Cost effective alternative energy housing elements – presented by Matthew Schmidt, Residential Renewable Energy and Conservation expert at West Central Wisconsin Community Action Agency, Inc.

- Other ideas?? Let us know!