

# The Affordable Housing Development Process



Downlow @ 130 2nd - Albuquerque, NM



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# The Development Process

- Housing development is chaotic, non-linear
- So, you need a way to help structure, define the work and reduce risk
- So, developers created a process with five (5) stages
  - Each stage includes tasks, deliverables, and decisions related to the market, site, financing, and your team
  - The Process can be used for Homeownership and Rental, New and Rehab projects

# The Development Process

(continued)

## The Five Stages

1. Program Planning/Concept
2. Design and Feasibility
3. Deal Making
4. Construction
5. Operations or Sale

# 1. Program Planning/Concept

Designing your project around today's opportunities and risks

- What housing need are we filling?
  - What the vacancy rate in our neighborhood now?
- What new policy or law/regulations are in place that will help or hurt our efforts?
  - Can we get site control in time for the 2014 MFA LIHTC application under the city's new property acquisition process?
- Will there still be funding available for my project and when I need it?
  - More competition, fewer resources

# 1. Program Planning/Concept

(continued)

Results in a description of what you intend to do.....

1. a specific use (rental, homeownership, mixed-use, etc.)
2. of a designated site (where? lot, acreage)
3. for an identified market (homeowners, renters, income limits, etc.)
4. with a particular development team (do we need a LEED architect?)
5. using a detailed financial program (a preliminary budget with sources and uses)

# 1. Planning: tasks and deliverables

## ➤ Market

- ✓ Research the need and demand for your product; meet with the community, talk with other developers to estimate how many units will you rehab/build? What incomes will you serve? What services will you provide? Are there services here or do we need to include commercial, retail?
- ✓ Hire the market assessor, perhaps appraiser

# 1. Planning: tasks and deliverables (continued)

## ➤ Site

- ✓ Find out who owns it and what is its value; what approvals are needed to build, lease or buy it
- ✓ Conceptual site plan

# 1. Planning: tasks and deliverables (continued)

## ➤ Financing

- ✓ Get rough estimates of project costs; talk with lenders, MFA to find out what, and when, sources are available.
- ✓ Preliminary budget

## ➤ Team

- ✓ What are we able to do and what do we need others to do?
- ✓ Internal capacity assessment



# 3 Steps to Building a Development Team

1. Make a list of the skills needed for the Project
2. Assess your internal capacity—staff and board to fill the roles, carryout the approach
3. Partner, venture, and hire and manage other team members to fill the “gaps” at the appropriate development stage.

# Case Study – Energetic Housing Corporation

# Who will you hire to fill the gaps?

- Accountants
- Appraisers
- Architects & Engineers
- Attorneys
- Broker/Sales Agent
- Contractors
- Consultants
- Financial Packagers
- Project and Construction Managers
- Market Assessors
- Property Manager/Leasing Agent
- Leasing Agent
- Social Service Providers
- Title Company
- Turn Key Developer

# Building a Development Team

- Venture/Partner or Turn Key if:
  - a new “business line” or substantial production increase, new market or funders would demand it
- Hire consultants for discrete, specialized expertise, if:
  - due to your time constraints
  - no in-house expertise,
  - expertise is not needed on a regular basis
  - or where 3<sup>rd</sup> party is funder required
- Hire new staff if business line can support it

# What makes for good team dynamics?



- Appropriate, required accreditation, licensing
- Skills, experience that match the project needs
- Collaborative, collegial and responsive
- Similar objectives, goals

# 1. Program Planning: decisions

## ➤ Go

- ✓ Project “pencils out”, market is there
- ✓ Apply for predevelopment \$\$
- ✓ Assign staff/hire consultants

## ➤ No go

- ✓ Strong Community opposition/lack of support
- ✓ Zoning

## 2. Design and Feasibility...*test your assumptions with hard data*

- **Market:** Market Study
- **Site:** Environmental Assessment/Review and Preliminary:
  - ✓ Site Control: Purchase Option/Lease
  - ✓ Public Approvals: Zoning
  - ✓ Design: Standards and Schematics

## 2. Design and Feasibility... *test your assumptions with hard data (continued)*

- **Finance:** Updated budget/ Sources and Uses, preliminary commitments, make sure financing is available when you need it, apply for financing.
- **Team:** Contract with team members, delegate staff



# 2. Design and Feasibility: decisions (continued)

## ➤ Go

- ✓ Accept feasibility analysis, and continue
- ✓ Decide how much will be done by us vs. others, prepare needed RFP/RFQ; Hire EA, A & E, etc.

## ➤ No go

- ✓ We have a gap in financing we cannot fill
- ✓ High vacancy, no market
- ✓ Costly EA issues
- ✓ “go back” and revisit the project design and concept and or wait till another day

# 3. Deal Making... *finalizing the agreements*

## ➤ Market

- ✓ Develop marketing plan

## ➤ Site

- ✓ Acquire site, final design and construction documents

## ➤ Financing

- ✓ Prepare final budget; final commitments; close on financing

## ➤ Team

- ✓ Bid, select and contract with contractor and property manager

# Deal Making: decisions

## ➤ Go

- ✓ Final design
- ✓ Final team selection
- ✓ Accept financing package
- ✓ Approve management and marketing plan

## ➤ No go

- ✓ Loss of financing or terms change, deal no longer feasible
- ✓ Major change in team in key team member

# 4. Construction: tasks and deliverables

## ➤ Market

- ✓ Market to renters/homeowners; deliver homebuyer education and counseling and home maintenance training; homeowners association set-up

## ➤ Site

- ✓ Construct/rehab units and monitor consistency with plans, specifications and applicable green standards and codes
- ✓ Field testing

# 4. Construction: tasks and deliverables (continued)

## ➤ Financing

- ✓ Process requisitions, monitor budget and compliance with funding (eligible uses, e.g.,)

## ➤ Team

- ✓ Oversee Contractors (with A & E), review and approve change orders
- ✓ Rental: Get Cost Certification

# 4. Construction: decisions

## ➤ Go

- ✓ Changes to design/construction work within contingency

## ➤ No go

- ✓ Changes to design/construction work are NOT within contingency
- ✓ Lose financing or financing is seriously reduced

# 5. Operations/Sales.... *move-in, manage and maintain*

## ➤ Market

- ✓ Market, close on homes or lease homes, walkthroughs with homeowners, renters, post purchase counseling

## ➤ Site/Units

- ✓ Complete punch lists; inspections, maintain and repair
- ✓ Performance tests—e.g., energy

# 5. Operations/Sales.... *move-in, manage and maintain* (continued)

## ➤ Financing

### ✓ Rental

- Final requisitions; repay interim loans, close on permanent financing; monitor financial performance, audits, reports

### ✓ Homeownership

- Close on homes, repay interim loans



# 5. Operations/Sales.... *move-in, manage and maintain* (continued)

## ➤ Team

- ✓ Rental: Property manager in place
- ✓ Homeownership: Warranties, post purchase education, HOA in place

# 5. Operations/Sales: decisions

## ➤ Rental

- ✓ Replace general partner
- ✓ Lower operating costs or find another source if we lose our subsidy?
- ✓ Change rental policies or marketing plan
- ✓ Change property management or vendors
- ✓ Refinance
- ✓ Dispose/sell rental property

## ➤ Homeownership

- ✓ Lease homes, if we can't sell them