

HOME Sales Planning & Self-Assessment Tool

As the national real estate market continues to recover, some HOME-funded homebuyer units are sitting unsold. These unoccupied and unsold units are of concern to HUD. They are not serving the housing needs of low-income households and can contribute to neighborhood distress. At the same time, unsold units create pressure at several points in the HOME delivery system, as CHDOs and other developers struggle with unfunded carrying costs and delayed receipt of developer fees and HOME PJs face potential repayment for ineligible units.

In addition, the FY 2012 HOME Appropriations Law imposes a 6-month sales deadline on all 2012 HOME homebuyer units. Specifically, it requires HOME-funded homebuyer units that cannot be sold to income-eligible buyers within 6 months of construction completion either to be converted to HOME rental units or for the HOME funds expended on the project to be repaid.

Yet, not every HOME unit sits unsold, and many developers have continued to sell homes and create affordable housing. This tool is intended to provide an analytic framework by which developers and PJs can both plan new homebuyer development projects and work together to re-assess their efforts and identify strategies to consider as “course corrections” when sales are slow.

Good program design requires not only solid market assessments prior to commitment (another FY 2012 HOME Appropriations Law requirement) but having plans in place to constantly track progress and adjust tactics before units end up sitting unsold and result in rental conversion or repayment.

So, this tool is intended as a guide to the big questions:

1. Is the product right?
2. Is the pricing right?
3. Is the deal structure right?
4. Are marketing efforts effective and properly targeted?
5. Do potential buyers have access to credit?

Each section on the following pages includes key questions, tips, and space for you to summarize how these issues will be addressed by the initial project plan, how you’ll measure progress, and what additional steps or contingency plans you can take moving forward.

Tips for use:

- Take a step back, and take a fresh look. Too often we are so deeply involved in the day to day challenges that we forget to go back to fundamentals, re-examine our initial assumptions, and be sure that the whole team is using the same game plan.
- Include as many internal and external perspectives as reasonably possible. Seek input from realtors, lenders, appraisers, homeownership counselors, other local developers, etc.
- Engage your customers directly. Talk to prospects who looked at homes but chose not to buy. Find out why they passed.
- Do the same with people who did buy. Who are they, and where did they come from? What attracted them, why did they buy?
- Remember, markets are dynamic and constantly changing. Establish internal timetables by which you’ll track and re-assess what’s going on and whether your efforts are effective.

PRODUCT

Key Questions:

- Is the scope of work adequate to make the home marketable and competitive?
- Does the design (including size, layout, etc.) fit the needs/expectations of target buyers?
- Does the home have curb appeal?
- Is the location marketable? Is the neighborhood an asset, or does its appeal rely on other promised or planned improvements that have not yet materialized?

Tips:

- Be sure to properly secure and manage the property while trying to sell. Address needed repairs or vandalism issues promptly. Maintain the yard and landscaping.
- Consider additional improvements or amenities to meet or exceed market expectations. Don't skimp on features buyers expect such as central air, an appliance package, etc.
- Offer opportunity for buyer selected finishes, and consider allowances for modest upgrades (e.g. stainless steel appliance package, tile floor in kitchen, etc.).

Plan: *Describe how the project is designed in terms of the product being built.*

Track: *How will we know if we are succeeding? What feedback have we received?*

Adjust: *What will we do differently if progress is not adequate?*

PRICE

Key Questions:

- How will you establish the sales price?
- How will you evaluate and/or adjust pricing over time?
- What thresholds will you use to consider price adjustments?
- What threshold will you use to consider offers for less than the asking price?

Tips:

- Don't start and end with price reductions. Consider the impact of reductions on the next sale and neighborhood values.

Plan: *Describe the plan for setting the price and how changes to the price will be considered over time.*

Track: *How will we know if we are succeeding? What feedback have we received?*

Adjust: *What will we do differently if progress is not adequate?*

DEAL STRUCTURE

Key Questions:

- What is the HOME structure of the transaction? Recapture or Resale?
- Should you reconsider resale models that limit buyer's upside or that may "scare" buyers concerned about their ability to sell in the future?
- Is there adequate homebuyer subsidy available to make the purchase feasible and attractive?
- Does the structure of the homebuyer subsidy help sell the house?

Tips:

- Be sure you understand the practical "floor" for buyer income based on likely lending terms and the amount of homebuyer subsidy available. Ensure you can serve an adequate range of potential buyers.
- Consider increasing the availability of buyer assistance to make the transaction more attractive or feasible to a broader range of buyers. For example, consider whether you should use subsidy to bring buyers' front-end housing ratio down to 20% to make the transaction more sustainable and more attractive to low income buyers who may be concerned about their ability to afford the home.
- Consider more generous terms on buyer subsidy assistance—deferred rather than amortizing, forgivable over time rather than full recapture.
- Market the consumer protections built into the HOME program and your local design. Recapture is limited to net proceeds of sale, protecting buyers from being underwater. Counseling requirements and first mortgage standards protect against predatory lending.

Plan: *Describe the amount and terms of proposed/requested homebuyer assistance and how this shapes the market for the homes.*

Track: *How will we know if we are succeeding? What feedback have we received?*

Adjust: *What will we do differently if progress is not adequate?*

MARKETING

Key Questions:

- Have you identified your target customers? Who are they, and how will you reach them?
- Are you marketing to the right clientele? Are there niches you should reach out to more specifically?
- Have you engaged a realtor experienced in affordable housing?
- Are you working with local counselors?
- Are you on the web? Are your materials professional, appropriate, and approachable?

Tips:

- Take control of the message. Review and approve the “script” and written materials being used to describe the home and the transaction.
- Facilitate relationships between counseling staff, lenders, and realtors.
- Educate realtors and lenders on the structure of your subsidy.
- Engage other neighborhood stakeholders and anchors that may represent natural segments of your market (e.g. local churches whose members may be interested in living in the neighborhood, employers whose employees might want to live closer to work).
- Make smart use of social media and web-based marketing. Focus on clean, accurate, and up-to-date information more so than making use of the “newest” technological tools.

Plan: *Describe how the project will be marketed.*

Track: *How will we know if we are succeeding? What feedback have we received?*

Adjust: *What will we do differently if progress is not adequate?*

ACCESS TO CREDIT

Key Questions:

- Do lenders understand the homebuyer assistance?
- Are specific loan officers ready and willing to work with your clients/referrals?
- Do you understand the lenders' products and credit criteria?
- Do potential buyers coming through the door have bad credit? How bad?

Tips:

- Establish relationships with specific loan officers (e.g., "Joe Smith at the National Bank branch on 3rd") who have a track record working with low income buyers and affordable housing. Don't require use of specific lenders or loan officers, but make it easy to get the "right one."
- Reassure lenders that public processes won't slow down the closing, and deliver on this.
- Prescreen prospects. Make sure they are prepared, and don't send clients who clearly won't qualify for a mortgage.

Plan: *Describe the plans in place to ensure that potential buyers have access to acceptable mortgage financing.*

Track: *How will we know if we are succeeding? What feedback have we received?*

Adjust: *What will we do differently if progress is not adequate?*