



Unit Quality and the Rental Market

A laymen's explanation of a statistical concept

Or “It looks worse than what I live in so it must be junk.”

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Introduction:

This document is designed to help clients come up with a defensible five point rating system for grading properties. It does not take the place of HQS requirements.

Apartment units are highly variable in both appearance and function. Perception of a unit is often governed by the housing history of the individual grading the unit. In addition, each market area will exhibit a different profile of apartment unit styles and condition. By evaluating the unit on non-subjective criteria, it is possible to achieve uniform quality grading of units *regardless* of who grades the unit. In this paper, the approximate percentage of the market described for each category demonstrates a “bell curve” distribution rather than defining an actual rent market.

Two sample grading forms are provided at the end of this document.

Excellent:

Excellent units will generally be high quality new units. Depending upon the market, “new” should apply to the most recently constructed units. In a rapidly developing area, new might mean less than three years old, while in a slower growth area, units might be considered new for as long as 10 years. *Some areas have no new units!*

Also to be considered is the quality of the new unit in comparison with other units available in the market. A new construction property with minimal typical amenities may not be excellent for the market if other new or recently new construction complexes provide luxury amenities.

Excellent units are extremely unlikely to qualify as affordable under the HUD Fair Market Rent*¹ structure of the typical housing market.

Before classifying a unit as **Excellent**, consider:

- Year of construction.
- Presence of other newer construction in your market
- Does the unit provide excellent amenities compared to other new properties on the market.
- If the unit really is **Excellent**, determine why it is on this program.

¹ **HUD Fair Market Rents** are published annually. The Fair Market Rent for a given area is intended to represent the **40th** percentile gross rent for a specified unit size. This means the top 60% of all units will not be affordable under the HCV program! The term “Fair Market Rent”, therefore, **does not** mean “good or reasonable market price for a unit.”



A note about **Tax Credit Properties:**

In many markets, the federal government has subsidized new construction of affordable housing by offering tax credits to developers creating new affordable units. In exchange, the developers agree to set rents to be affordable for people having incomes as some percentage of the area median income.

In some markets, these units may, in fact, be excellent, or even the only excellent units on the market. The true market rent value of these units may be more than double the listed rent prices. For this reason, tax credit properties are not to be included in the data collection of comparable units since their rent prices do not reflect the market, but rather the contract between the developer and the government.

According to Jerry Benoit of HUD, the rent reasonableness test of tax credit properties need only prove that the contract rent is less than or equal to the market value for the units. This is nearly always true, due to the nature of these properties.

Excellent properties typically make up approximately 5% of any given market. In rural stagnate markets, they may not exist. In dynamic markets, there may be a higher percentage of these units.

Above Average:

The above average units in a market may come from newer properties, where previously new units have aged and been replaced by new construction, or from older properties, where average units have been significantly renovated.

If a unit is modern, but no longer new, look for a well maintained unit which reflects good appeal in the local market. Although newer units may exist, the above market unit can find a tenant with little difficulty. The kitchen cabinets, appliances and layout of the unit are modern. Depending upon the market, these units might be from 6 to 20 years old.

If the unit is in an older property, above average condition will be reflected in the level of renovation present compared to the age of the building. If the building is 50 years or older, the renovation should be total, meaning new systems, new finishes, new kitchen cabinets and appliances, new bathroom appliances and finishes. A property less than 50 years old should have been upgraded with completely new kitchen and bath. The layout of an above average unit should also reflect modern tastes for larger rooms and well functioning flow.

There are always old units in a market where someone has completely rehabbed the units, with new systems, kitchen and bath, but the layout is poor due to the date or quality of the original construction of the building. These units should not be considered above average. Remember these categorizations are intended to reflect both age and appeal of a unit.



Before classifying a unit as **Above Average**, consider:

- Year of construction.
- Level of renovation
 - Total – 100% new unit interior
 - Partial – 100% new kitchen and bath
- Layout and function. Is the unit appealing and functional.
- Above Average** units will not be affordable if the client tenant is very low income.

Approximately 20% of any given market is above average in quality, condition and appeal.

Average:

The average unit is the prevailing unit in any market. Fully 50% of the units in any given market are average. Average units may be higher quality in urban markets than in rural markets. Average units may be newer in some markets, and significantly older in other markets. Average units may be more likely to be in a complex in some markets and more likely to be in single family residences and attached or row homes in another market.

To remain competitive, most average units are typically maintained. Vacant units will be painted and re-carpeted between tenants. Roofs and other critical systems will be replaced as needed. Appliances will be kept in good repair or replaced as needed. In more dynamic urban and suburban markets, average units may be significantly upgraded sooner than in a rural market. A unit considered average could reflect a very different overall condition from one market to the next.

Before classifying a unit as **Average**, consider:

- Is the unit properly maintained?
- Is the maintenance level of the unit *typical* for your market?
- Is the appeal of the unit typical for your market?
- Layout and function. Is the unit appealing and functional like most other units in your market?
- Average** units are excellent choices for the Housing Choice Voucher program because they tend to be affordable and maintained.

Most of the units in the market are, by definition, *average*.

Below Average:

Below average units tend to be obvious upon first inspection. These units appear dated, with neglected maintenance and old appliances. A unit may be maintained, but



poorly laid out or lacking typical amenities for the size. The unit may be very small for the number of bedrooms or lacking a full kitchen in a family sized property. Some rental markets are very stagnant. In these markets, many units will age to below average condition because there is no financial incentive to maintain them.

If a below average unit can pass an HQS inspection, the below average unit may be suitable for the Housing Choice Voucher program. These units can be an affordable choice for the very low income tenant, since the voucher will generally cover the full cost of the unit.

Before classifying a unit as **Below Average**, consider:

- Is the unit exhibiting neglected maintenance?
- Is the maintenance level of the unit below typical for your market?
- Is the appeal of the unit below typical for your market?
- Layout and function. Is the unit aging and not as appealing as most other units in your market?
- Below Average** units may work for the Housing Choice Voucher program because they tend to be affordable for the very low income. The unit should pass the HQS inspection.

Below average units may typically exist in 20% of any given market.

Poor:

A poor unit is unusually so out of date and poorly maintained that it is unsuitable for the Housing Choice Voucher program. These units may exhibit gross neglect or merely extreme age. These units may lack basic functional features. Some markets, for instance, still have single room occupancy hotels of 75 to 100 years old. These one room units share bathroom facilities and have no kitchens. Other examples of poor units are basement units with no windows, or illegal units. These units should never be considered by the HCV program as they are typically unsafe and unsanitary.

This is not to say that all single room occupancy situations reflect poor units. Some rooming houses are well maintained and attractive. Some exist in historic properties and may have amenities appealing to the single person who does not cook.

If a unit is poor, it is recommended that the unit be rejected for the program.

This completes the discussion on unit quality and condition. On the next two page are two examples of property ranking systems known to be in use by housing authorities.



Example One – Ranking System by Rural Housing Authority

Excellent Unit

Unit is fully compliant reflecting brand new or modern construction. The unit fully conforms to all building codes.

Above Average Unit

1. Unit must have more than one receptacle on each wall.
2. Floor covering throughout must be in new condition.
3. The kitchen cabinets and sink, and the bathroom toilet, wash basin and tub surround must be in new condition.

Average Unit

1. Every window must work as originally designed.
2. Three receptacles required in the bedroom, living room and dining room.
3. Starter kitchen required, 6' sink base plus 2 small wall cabinets.
3. Cosmetically comparable to the neighborhood.

Below Average Unit

1. Must meet the minimum regulations, such as one working window, one receptacle and/or one ceiling light, be in decent, safe, sanitary and in good repair.
2. Not all windows work.
3. Does not have three receptacles in the bedroom, living room and dining room.
4. Cosmetically not comparable to the neighborhood.

Poor Unit:

1. Very Aged, cosmetically poor.



Example Two – Ranking System by Large Urban Housing Authority

Unit Address: _____ Landlord Name: _____

Date of Inspection: _____ Inspector Name: _____

Please check all conditions that apply to the building and rate the property as indicated.

EXCELLENT

Select if the building was constructed new 2001 or later.

ABOVE AVERAGE

Select if the building was constructed new 1996 or later *OR* Select if the building was substantially rehabbed 2001 or later with at least **FOUR (4)** of the following improvements installed **NEW** using good and workmanlike quality; all work to **CODE**.

Lot/Yard	Exterior	Interior	Systems
<input type="checkbox"/> Paved driveway	<input type="checkbox"/> Siding <input type="checkbox"/> Gutters/ downspouts <input type="checkbox"/> Roof	<input type="checkbox"/> Total rewiring <input type="checkbox"/> Windows/storms/screens <input type="checkbox"/> Kitchen & Bath GFI	<input type="checkbox"/> Furnace or Central AC <input type="checkbox"/> Total re-piping <input type="checkbox"/> Circuit Breakers

AVERAGE

Select if the building is **MAINTAINED**, exhibits good workmanship and the following are true.

Lot/Yard	Exterior	Interior	Systems
<input type="checkbox"/> Yard attractive, landscaped <input type="checkbox"/> Drive and walks in good condition. <input type="checkbox"/> Garage is painted and sound.	<input type="checkbox"/> No leaks <input type="checkbox"/> No obvious cracks <input type="checkbox"/> Roof new or in good condition, no missing or damaged shingles. <input type="checkbox"/> Painted surfaces intact with no peeling.	<input type="checkbox"/> Walls/Ceilings clean, unbroken painted surfaces. No evidence of leaks. <input type="checkbox"/> Floor coverings clean, in good condition. <input type="checkbox"/> Windows and doors seal tightly, screens and storms in place. <input type="checkbox"/> Kitchen and Bath clean, functional, all fixtures in good condition.	<input type="checkbox"/> Electric meets code. <input type="checkbox"/> Plumbing meets code. <input type="checkbox"/> Furnace and A/C (if present) work.

FAIR

Select if unit is aging, **NEEDS MAINTENANCE**, or is below average in workmanship and the following are generally true.

Lot/Yard	Exterior	Interior	Systems
<input type="checkbox"/> Yard weedy, lacking proper maintenance <input type="checkbox"/> Drive and walks cracking. <input type="checkbox"/> Garage in need of repair.	<input type="checkbox"/> Does not stand out from other buildings on same block.	<input type="checkbox"/> Walls/Ceilings patchy, cracks and defects visible. <input type="checkbox"/> Floor coverings aging/worn but intact. <input type="checkbox"/> Windows, screens and storms need updating <input type="checkbox"/> Kitchen and Bath aging but functional.	<input type="checkbox"/> Electric may be under old code. <input type="checkbox"/> Plumbing may be under old code. <input type="checkbox"/> Heating and A/C (if present) work, aging.

POOR (Unit must pass HQS)

Select if unit is old, unattractive, **NEEDS MAINTENANCE** and the following are generally true.

Lot/Yard	Exterior	Interior	Systems
<input type="checkbox"/> No landscaping, bare earth <input type="checkbox"/> Drive and walks need replacing. <input type="checkbox"/> No access to RTA, shopping or recreation/ services.	<input type="checkbox"/> Poor appearance needs paint <input type="checkbox"/> Needs new roof. <input type="checkbox"/> Poor location.	<input type="checkbox"/> Walls/Ceilings patchy, cracks and defects visible.. <input type="checkbox"/> Floor coverings deteriorated/dirty. <input type="checkbox"/> Old repairs patchy or poorly executed. Interior surfaces in need of paint.	<input type="checkbox"/> Electric old, knob and tube. <input type="checkbox"/> Plumbing old. <input type="checkbox"/> Heating and A/C (if present) work, aging.

Multifamily structures look for dirty common areas, poor condition mailboxes and intercoms. Note lack of security such as motion lights, exterior lights poor or could be subject to forced entry.

Check if the following amenities are noted in the unit.

<input type="checkbox"/> Special Needs/Accessibility features	<input type="checkbox"/> Fenced Private Yard	<input type="checkbox"/> Garage/Carport	<input type="checkbox"/> Elevator
<input type="checkbox"/> Central A/C	<input type="checkbox"/> Fireplace or Woodstove	<input type="checkbox"/> Finished Basement	<input type="checkbox"/> View of Water/Other