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## Memorandum

To: Market Study Providers and Users

From: National Council of Housing Market Analysts (NCHMA) Executive Committee

RE: COVID-19's Impact on Field Work for Market Studies

Date: April 7, 2020

### Introduction and Purpose

Since its inception in 2001, NCHMA has served as a resource for providers and end-users of market studies for residential housing development and preservation. NCHMA's membership is comprised of a variety of entities including market study providers, state and local housing agencies, housing developers, lenders, and Low Income Housing Tax Credit (LIHTC) syndicators. This expansive representation of the industry provides a broad and collective understanding of current market conditions and topics affecting the housing industry. Over the years, NCHMA has developed a body of knowledge including our Model Content Standards for Rental Housing Market Studies, Scope of Work and Reporting Options, Code of Ethics and Standards of Professional Practice and many white papers addressing specific topics. This body of knowledge has helped shape standard market study practices and content at the national, state and local level.

NCHMA's Executive Committee realizes and acknowledges that the real estate industry is experiencing unprecedented challenges in conducting standard due diligence because of personal contact and public gathering restrictions, stay-at-home orders and office closures stemming from governmental and public health restrictions due to the COVID-19 pandemic. Many individual entities within the industry are adjusting their standard procedures to adapt to these restrictions (See Addenda). Market studies are also impacted as the completion of a comprehensive market study is often dependent on the ability to conduct field work and collect data at the local level. This memorandum details the scope and importance of field work during the completion of market studies and provides suggestions on how to conduct and evaluate a market study completed under these unique and limited conditions.

### Field Work – Definition and Purpose

Traditional field work includes two primary components: understanding the **physical characteristics** of the site/neighborhood/competitive communities and **collecting data** in-person from a variety of sources including property managers, government officials and members of the community. These two components are mutually exclusive and not intertwined; one can be completed without the other. The scope and extent of field work required for the completion of a market study is largely dependent on the scope of the assignment, complexity of the market and the analyst's experience and familiarity with a specific market or region. Physical field work can be conducted by an experienced field analyst without leaving a vehicle or interacting with others in-person even in normal times; this analysis is often referred to as a "windshield analysis" due to the barrier between the analyst and surrounding environment. Data generally collected in-person during a field work can also be conducted on a remote basis via telephone or email; in-person

interviews are preferred in ideal circumstances based on the local perspective garnered from such interaction, but are not mandatory. Unlike an appraisal that concludes to a specific value as of a specific date, a market study is less dependent on a recent site visit other than providing a local perspective and to verify and augment information obtained from other sources.

### **Field Work and its Relevance for Various Reports**

Numerous standard procedures exist for conducting field work for a residential market feasibility analysis including evaluating the site, surrounding land uses, neighborhood amenities and comparability of existing residential communities. However, the scope of the work conducted can vary based on the type of report:

- **Acquisition and Rehabilitation Assignments:** Field work for proposed rehabilitations includes a more extensive review and evaluation of an existing housing community often including an inspection of both the building exteriors and interiors. The importance of this inspection is increased if the use of the subject property is changing, such as a conversion from a deeply subsidized community to a LIHTC or market rate community without the continuation of deep rental subsidies. In this instance, the specifics of the unit interiors are more relevant as they often reveal functional obsolescence that will be a limiting factor in achievable LIHTC or market rate rents. The importance of interior inspections is lowered for an existing community that will continue to offer deep rental subsidies and/or will not have a significant rent increase post renovation.
- **Market Rate versus Affordable:** The required field work for a market study evaluating upscale and high-priced market rate communities is generally more extensive than for a market study addressing affordable housing, although this is dependent on the subject property's income target and price position. Market complexities including proximity to employment concentrations, local commuting patterns, surrounding amenities and local perceptions of a specific site are more relevant factors when evaluating market rate communities with rents near the top of the market compared to affordable communities including LIHTC with rents positioned below most market rate communities. The inherent advantage of affordable communities is a rent advantage compared to market rate options.
- **Market Area Characteristics:** The importance and scope of field work is higher for the completion of market studies conducted in dense and dynamic markets than static or rural markets. Field work including physical inspection and local interviews is used to determine and verify the market area boundaries. Characteristics of dense urban markets and/or rapidly expanding markets are often limiting factors in the market area definition with neighborhood characteristics often changing on a block-by-block basis. Conversely, the market area for a property in a smaller market is often clear and apparent without the completion of extensive interviews.
- **Report Updates:** The completion on an updated market study for which a site field visit has already been conducted is less dependent on a new physical site inspection. For these assignments, market analysts already have experience in the local market. Field work is often limited to confirmation that nothing has changed that would impact the conclusions of the market study; these changes are rare.
- **Recently Studied Markets:** Market analysts often work in the same market for multiple assignments and have a strong understanding of market area dynamics without conducting a site-specific inspection. In these instances, field work is generally only utilized to verify the physical characteristics of the subject site but is not necessary to understand market dynamics.

## NCHMA Executive Committee Recommendations and Guidance

- Market Study Timing: If necessary and/or appropriate, NCHMA's Executive Committee suggests delaying the completion of a market study if the limiting effects the COVID-19 pandemic would prevent the market analyst from conducting a thorough analysis or being able to certify the conclusions of the market study. This delay would not only allow for the completion of thorough field work in a safe and responsible manner, but would also provide additional perspective of the ramifications of the COVID-19 related economic slowdown.
- Follow National and Local Guidelines: NCHMA's Executive Committee *does not* advocate violating any shelter-in-place orders that are currently in effect and strongly urges our members and clients to be *fully* compliant with the principles of social distancing. As such, we urge our members to seek alternatives to traditional methods of field work and data collection whenever possible until the crisis has abated. We recommend that market analysts and market study users continue to follow relevant federal, state and local legal requirements and adjust their practices and protocols as appropriate.
- Scope of Work: NCHMA compliant market studies include a Scope of Work provision providing a detailed explanation of the methodologies and data used in the completion of the market study. This Scope of Work should prominently feature a detailed accounting of how the completion of the market study including field work and data collection were impacted by restrictions associated with the COVID-19 pandemic.
- Limit In-Person Contact: NCHMA's Executive Committee recommends limiting field work to a "windshield analysis" and eliminating in-person interviews and contact, including in jurisdictions that do not have a stay-at-home order in place. This includes the elimination of interior site inspections for existing communities, in-person interviews with local stakeholders and general interaction with the public.
- State Housing Finance Agency (HFA): Many State HFA's that had not completed their competitive nine percent application cycles before the outbreak of the COVID-19 pandemic have extended their application deadlines and thus market study requirements. NCHMA's Executive Committee endorses the delay of application deadlines when possible to allow for the safe completion of comprehensive market studies. Some states have recently adopted policies to forbid or restrict field work, which is their prerogative.

### **Final Recommendation Regarding Field Work for the Preparation of Market Studies during COVID-19**

NCHMA's Executive Committee acknowledges the challenges of completing real estate analysis including site inspections during the current environment with office closures and travel restrictions. **NCHMA's Executive Committee advises limiting field work as much as possible including the cessation of all in-person data collection including interviews and interior building inspections.** All field work completed should comply with all local, state and federal law; NCHMA strongly advises that all field work be restricted to a "windshield analysis" while social distancing and stay-at-place orders are in effect.

When possible and necessary, market analysts should employ alternative options for data collection including relying on recent data/photos, internet research and/or other third-party data providers, which may include site visits by proxy. Each market study should prominently feature a detailed Scope of Work for all market studies completed under this environment clearly detailing the methodologies employed as it relates to field work, data collection and other affected portions of the study.

## **Addenda**

Federal government entities and financial institutions have adopted temporary guidelines advising other site and field work professionals regarding personal visitation, inspection and Scope of Work limitations. While this guidance is not absorbed into the NCHMA Executive Committee's suggestions above, they do provide context and may be specifically applicable to other real estate professionals involved with the project financing for a NCHMA analyst's subject property. Provided below are various references.

**Appraisal Foundation:** [Real Property Interior Inspections during a National Health Emergency](#) (03.17.20)

**Appraisal Foundation:** [Modification of a "Standard" Appraisal Form with a Fixed Certification and Scope of Work](#) (03.23.20)

**Appraisal Foundation:** [Personal Property Inspections During a National Health Emergency](#) (03.24.20)

**Fannie Mae:** [Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions, and Certification for Desktop Appraisals](#) (03.23.20)

**Fannie Mae:** [COVID-19 Frequently Asked Questions](#) (03.23.20)

**Fannie Mae:** [Impact of COVID-19 on Appraisals](#) (03.31.20)

[FHFA Directs Enterprises to Grant Flexibilities for Appraisal and Employment Verifications](#) (03.23.20)

**Freddie Mac:** [Selling Guidance Related to COVID-19](#) (03.23.20)

**Freddie Mac:** [Property Inspection Guidance for Third-Party Reports](#) (03.25.20)

**Freddie Mac:** [COVID-19 Selling-related Frequently Asked Questions](#) (03.31.20)

**HUD/FHA:** [Exterior-Only and Desktop-Only Appraisal Scope of Work Options](#) (03.27.20)

**HUD/FHA:** [Questions and Answers for Office of Multifamily Housing Stakeholders](#) (04.02.20)

[USDA Grants Temporary Exceptions to Interior Inspection Appraisals](#) (03.27.20)

**Dept. of Veterans Affairs:** [Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions and Certifications for Desktop Appraisals](#) (03.27.20)

**Dept. of Veterans Affairs:** [Valuation Practices during COVID-19](#) (03.27.20)