

## Capital Needs Assessment Defined

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**W**ith increasing frequency, USDA Rural Development multifamily properties are facing ownership changes. Many owners, often the original project developers, are looking to sell, reorganize ownership, or reorganize finances of their property. Before these things can happen, however, USDA requires that the owner obtain a Capital Needs Assessment.

### What is a Capital Needs Assessment?

A Capital Needs Assessment (CNA) is much like having an inspection performed before buying a house. CNAs are inspections performed by experienced professionals who document the current condition of all major building components and organize this data into a report. These reports are a way for USDA Rural Development and the individual property owner to understand the future capital expenditures facing their building over the next twenty years.

### Why is a CNA required?

The information contained in a CNA is essential for the USDA Rural Development to budget and underwrite financing for their buildings ensuring that each property is economically self-sustaining. Also, because standardized forms and methods for inspecting each property are used, CNAs ensure that information on all properties is recorded in a consistent method.

### When is a CNA required?

USDA Rural Development requires a CNA to be performed whenever an owner wishes to:

- Obtain a new construction loan
- Obtain a rehabilitation loan
- Transfer ownership of a project
- Reamortize a loan
- Write down a loan
- Comply with the Multifamily Housing Preservation and Revitalization Program

### What can I expect?

The qualified CNA provider selected by the owner will perform an on-site inspection to document the

required information. At a minimum, this will involve viewing:

- **25 percent** of all dwelling units (if less than 50 total units)
- **20 percent** of all dwelling units (if 50 to 99 total units)
- **15 percent** of all dwelling units (if greater than 100 total units)
- **All** accessible units
- **All** common facilities
- **All** site improvements
- **All** building exteriors

Depending on the project size, on-site work can often be completed in no more than four hours. In order to get a good understanding of the building's condition, it is helpful for the CNA provider to talk with property managers, on-site caretakers, and residents. The remaining work to generate the CNA report and file it with USDA Rural Development usually takes one to three weeks.

### How much does a CNA cost?

Several factors can impact the cost of a CNA, such as:

- Availability of maintenance information
- Availability of architectural drawings
- Location of property
- Scope of services provided (in addition to the CNA report)

Because no two projects are exactly alike, owners should expect a range in CNA costs of approximately \$90 to \$190 per unit. For example, a 24-unit building may cost \$100 per unit, or \$2,400 total.

*Miller Hanson Partners is a full-service architectural firm based in Minneapolis. For more than forty-five years, we have been designing, renovating and assessing multifamily communities. This year alone, we have performed USDA Rural Development CNAs for more than twenty buildings in Minnesota. If you'd like more information about CNAs or our services, please contact Vice President Kent Simon, at 612-877-7070 or [ksimon@millershanson.com](mailto:ksimon@millershanson.com).*