Market Analysis:
Does your Project Have a Market?

Franke Consulting Group
for
NYS DHCR / HTFC

Agenda

- Background & DHCR Requirements
- Defining market areas
- Analyzing demand
- Looking at the competition
- Family & elderly project case studies

Materials

- Overheads
- Getting the Most Out of Your Market Study
  - Attachment: NCAHMA draft standards
- Case Studies
- Evaluation Form

What Makes a Project Successful?

- What are the things that contribute to a project's success?
- What role does "market" play?

Success: Feasible & Viable

- Feasibility – project is "doable"
  - Development funds sufficient to get it built
  - Rents/revenues sufficient to cover costs
  - *Sufficient demand & rent competitiveness to reach breakeven*
- Viability – project is "sustainable"
  - Physically maintainable
  - Economic health maintainable
  - Maintaining compliance over time
  - *Ongoing marketability: sustained market demand*

Projects begin with market

- *"If we build it, will they come?"*
  - Confusing "demand" with "need"
  - Low-income housing doesn't have to compete
- *"Design for a market…don't market a design"*

The Underwriter's Perspective

- Primary risks: completion & default
- Risk analysis categories:
  - Market risk
  - Borrower risk
  - Project risk
- Ranges of acceptable predictions/risks

Layering of risks

- Highest risk occurs in projects with multiple minor risks
  - Synergistic effect of risks
- Humans tend to see the big risks, but not recognize the synergy
  - If single risk, borrower can focus & address it
- Market risk must be viewed in the context of other risks

What are our concerns?

- Quality of market studies
  - Dilution of talent due to LIHC requirements
- Analysts need to understand & respond to DHCR/HTFC metrics
  - Many out of state firms
- Cost effective use of your application funds
  - The more you get out of market studies, the better projects you'll do
- DHCR/HTFC needs the best available information to make good decisions
  - Can't afford to invest in projects that will fail or negatively affect market/other assisted developments

Market Studies

What do you want to know about market?

- Your group is a nonprofit developer thinking about your next project
- Tasks:
  1. Make introductions
  2. Pick a project to talk about
  3. Develop a list of questions you want to answer about your market

Market Study

- Key market questions:
  - What is the market area?
  - What are the demographic, economic & housing trends?
  - What's the size of "target customer pool"?
  - How do you compare with the competition?
  - Conclusion: Will the market support the project?

Market Study Data

	Primary	**Secondary**
Demand	Waiting lists, surveys focus groups	Census analysis & projections
Supply	Survey of comparable properties	General market trends, conditions

When to do it?

- Study should inform the development decision, not just "justify" it
  - Do analysis before development decisions are made
  - If done just before application submission, it is just an "expensive application requirement" or a foregone conclusion

If Hiring a Market Analyst

- How well do they know your market?
- How well do they know DHCR/HTFC underwriting metrics?
- How do they propose to identify/survey comparable properties?
- How much will they be on site?
- How much will it cost?
- Can they do a preliminary analysis early in your process (& what is the cost)?

DHCR/HTFC Requirements

DHCR Requirements

- LIHC: independent market study
  - Market area
  - Income-eligible households
  - Analysis of supply & competition
  - Sources of data
- HTF w/out LIHC: "evidence of market support"
  - Waiting lists, commitments, referrals, surveys
  - Other studies, research reports & plans

DHCR Market Analysis

1. Is the market area reasonably defined?
2. Are there enough income-eligible HHs in the service area which can afford the rents and can be expected to live in the project?
3. Is the project competitive with market units?
4. Will the project adversely impact existing affordable housing in the market area?

Net Effective Demand

- Target pool narrowed by:
  - Income level – affordability range 30 -48%
  - HH type (elderly, large family, etc.)
  - Owner/renter
    - 10% conversion of elderly homeowners
- Reduced by the # of assisted units

Impact on Assisted Housing

- Concern: Proposed project may have an adverse effect on existing affordable housing (DHCR or other)

- Policy: DHCR will wait until any comparable project under development is built and rented prior to funding an additional project in the market area

Analyzing Market Trends

Trends

- Trends are important as "context"
  - Note: trends are not used by DHCR to project demand pool
- Key trends:
  - Population & households
  - Employment
  - Income
  - Housing market

Demographic Trends

- Population/HH growth:
  - Growing, stable, declining population
  - HH formation: HH economic unit for housing
  - Projected changes
- Household mix:
  - Aging population – empty nesters; downsizing; alternative housing models
  - Childless households
  - Non-white and immigrant growth

Economic Trends

- Bottom line: employment & income
- Economic trends
  - Major employers
  - Overall job growth & changes
  - Sector changes
  - Commuting patterns
- Household income
  - General distribution & changes in income
  - LI/VLI/ELI – ConPlan data

Housing Trends

- Housing market
  - Ownership trends
  - Rents
  - Occupancy/vacancy
  - Survey of comparable projects
    - Market rate, LIHC, other subsidized
    - Absorption, occupancy, waiting lists, rents

Conclusions

- Overall Demand
  - Segmented by income & age
  - Note: DHCR does not include future growth in demand analysis
- Housing market standards for competitiveness

Markets in Revitalization Areas

- Trending won't show improvements
  - DHCR analysis won't reflect expected changes
- Comprehensive strategies & the role of housing
  - Housing strategies alone cannot bring back a neighborhood
  - Underlying economic & social vitality necessary
  - Location choices driven by schools, safety, access to jobs & social

Defining the Market Area

Market Area

- Primary or effective market area
  - Geographic area of the majority of customers
- Based on expected customer behavior
  - How far will typical households be willing to move to occupy your project?
- Look at existing patterns:
  - For existing projects, prior address of existing residents
  - Survey of comparable properties; waiting lists

Market Boundaries

- Market doesn't necessarily correspond to jurisdiction or service area
- May be defined by:
  - Natural boundaries
  - Manmade physical boundaries (e.g., highways)
  - Political (school districts) & cultural (parishes)
  - Accessibility: transportation routes; access to jobs
- Census tracts preferred to concentric ring

Critiquing the Market Area

- Would people move from the fringe to the development?
- Answer may depend on uniqueness or competitive advantage of project
- Don’t expand market area to get large enough pool of households!

Estimating Demand: The Target Customer Pool

Analyzing Demand

- Demand pool is focused by:
  - Geography: market area
  - Income: maximum & minimum
  - Demographic characteristics
- Net Effective Demand: the "bulls eye"
  - Target pool adjusted for existing aff units
- Metric: capture rate
  - DHCR: ≤ 20% (really 17 – 22% range)

DHCR Income Range

- Based on proposed housing cost, not income limits:
  - rent + tenant-paid utilities per BR size
- Maximum income:
  - Annualized to income: x 12 / .30
  - Use maximum rent
- Minimum income:
  - Annualized with 48% of income for housing cost
  - Use minimum assisted unit rent

Example

Rent = $525; tenant-pd utilities = $40

Max Income = $565*12/.30 = $21,000

Min Income = $565*12/.48 = $14,125

Income range = $14,125 - $21,000

Demographic segmentation

- After income range, segment further by:
  - Tenure: owners v. renters
    - DHCR permits ≤ 10% conversion of eld owners
  - Age (if elderly) or
  - HH size (if family) : Large v. singles/sm HH
    - Household size ranges: p. 17
  - Other segments? (e.g., special population)
- Integrity/consistency of adjustment factors

Adjust for assisted units

- DHCR adjustment for net effective demand
- Deduct assisted units from target pool
  - Take out only elderly units for elderly project, family units for family project
  - Not adjusted for units outside effective income range
  - Could result in negative effective demand calculation: saturation of that market?
- Alternative method: burden of proof on you

Analyzing the Competition

Survey of Comparables

- Identify the "comparables"
  - Assisted housing
  - Private housing
  - For-sale housing – relevant as competitive housing opportunity
- Collect & analyze data: survey of property owners/managers

Analyzing the "Competition"

- Factors to consider
  - Unit mix & configuration
  - Location & amenities
  - Rent levels and rental assistance
  - Evidence of demand: occupancy, waiting lists

Market Study Conclusions

- Evidence of sufficient unmet demand
  - Capture rate
- Predicted market success of project
  - Rent competitiveness
  - Absorption rate
- Impact on existing affordable housing
  - Effect on existing assisted housing
  - Other projects in pipeline

Family Project Case Study

- In small groups:
  - Review the market study
  - Answer questions
  - Report out conclusions

Elderly Project Case Study

Elderly & Special Needs

- Elderly:
  - Target pool can include +/-10% of elderly homeowners
  - Not necessary to differentiate income range by household/unit size
  - Consider evidence of supportive services

- In small groups:
  - Review the market study
  - Answer questions
  - Report out conclusions

7 Habits for Effective Use of Market Studies

1. Do market study early in the planning process
2. Utilize primary data (surveys, waiting lists)
3. Critique the market area delineation
4. Check income band of affordability calc.
5. Watch the capture rate
6. Consider "two-way" impact of competition
7. Be aware of risk layering

Wrap-up

- Evaluation
- Ideas for future seminars
- DHCR's CDTA funds