

Getting the Most Out of Your Market Study

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1. Introduction

Applications submitted for DHCR/HTFC project funding must include an independent market study or a market analysis. The goal of this guide is to help applicants understand DHCR/HTFC requirements and make better use of the information provided by a market analysis or study, and also to avoid investing time and money on projects that do not have sufficient market support to be considered for DHCR/HTFC funding.

1.1. What is Market Analysis?

With limited resources for the development of affordable housing, we need to make informed judgments about the types and locations of housing that are needed. We can't predict the future of housing projects, but we can and must look at evidence in the housing marketplace that lends support to the demand for additional units of housing. While we don't know the actual households that will occupy a proposed project, we can do research to explore and quantify the characteristics of the segments of the population that are the likely customers of a particular type of housing, and to specify the type of development that needs to be carried out to meet the housing demand. That is market analysis.

DHCR/HTFC requires market analysis for all projects, but the requirements vary depending upon the funding source:

- ♦ **Market studies** – Market studies are formal presentations of the market data, analysis and conclusions, typically by an independent professional with respect to a specific development project or type of housing under consideration. Market studies are required by DHCR/HTFC for projects requesting Low Income Housing Tax Credits (LIHC).
- ♦ **Evidence of market support** – When HTF or other funding is requested without LIHC, independent market studies are not required. However, market analysis is still an essential element of project planning and the application for funding, although the analysis may be done in a less formal and comprehensive manner by in-house staff. The evidence of market support can include waiting lists, surveys or other customer information collected by the applicant, along with information from existing studies or report.

1.2. Why Is Market Analysis Important to Affordable Housing Development?

Like all other types of housing, affordable housing is developed and sold or rented in a marketplace. Just because the conventional housing market does not, or cannot, deliver affordable housing does not mean that low-income housing escapes the influence of market forces. The success of an affordable housing project is determined by the supply and demand conditions in the market, although the market is more targeted or focused on low-income segments of the population. And, our affordable housing resources are so limited that we cannot afford to invest in housing that will not be quickly filled and remain full.

A basic misconception has long existed about affordable housing: **“If we build it, they will come.”** Because we are confronted with enormous, almost overwhelming, needs for affordable housing, some developers assume that any affordable housing can be quickly filled. While this may appear true in extremely tight housing markets, nevertheless there are vacant affordable units in many locations – units that were built in the wrong locations, in unsuitable environments, at the wrong prices, offering the wrong unit types and amenities.

The problem is: we mistakenly confuse *need* with *demand*. Need is a social concept; demand is an economic concept. While we can all agree that all low-income households need decent and affordable housing, each household still gets to choose how and what to spend on housing. If we don’t deliver what they want and are willing and able to pay for (i.e., demand), they may exercise other choices.

While we may not agree with all of their choices, and their choices may be more limited than the choices enjoyed by households of higher income, low-income people nevertheless have choices. As we look to build affordable housing, we need to consider those choices or options that low-income households have, and make certain that we provide what they “demand”, not just what we think they “need.” That is why a market study or market analysis is so important to affordable housing.

So market studies or analysis are not just a funding application requirement. They are the source of critical information needed to inform our development funding decisions so we can be sure to deliver what low-income people want and are willing and able to pay for.

1.3. What Will I Find In a Market Study?

1.3.1 What Are the Contents of a Market Study?

The contents and quality of market studies have varied widely, particularly in recent years as the requirement for a market studies for LIHC applications caused a substantial

increase in the number of analysts. However, there has been recent movement toward enhancing the professionalism of the industry.

The National Council of Affordable Housing Market Analysts has developed a draft set of standards for rental housing market studies. The draft model contents are attached as an appendix to this guide. Although these are draft standards and are only advisory, a quality market study should contain all of the critical items listed, although the organization of the study report may vary.

1.3.2 What Are the Results or Conclusions of a Market Study or Analysis?

Market analysis and market studies evaluate historical trends and current conditions in housing supply, housing prices, and population to make professional predictions regarding:

- ♦ Whether there is sufficient demand among income and age qualified households in the market to support a project or type of housing under consideration; and
- ♦ Whether the project – its unit mix, amenities and rents – are competitive with the housing existing in the marketplace.

Market studies and analyses utilize a combination of data sources, including Census and Census updates, local economic and housing market information from a variety of sources, data from comparable projects, and any available information on potential applicants/occupants. When completed, the market analysis should address:

- ♦ The size, location and boundaries of the selected geographical target area known as the primary market area;
- ♦ The depth and breadth of housing demand;
- ♦ The supply of competitive housing and how the proposed housing compares to the competition; and
- ♦ Conclusions about the marketability of the project, including capture rates, absorption rates and marketing challenges.

1.3.3 What Are the Key Sources of Information?

Good market studies rely on a mix of primary and secondary data to create this picture of the supply and demand characteristics of the local market. Primary sources of information include:

- ♦ Surveys, interviews, applications, waiting lists and other information directly from or about potential consumers
- ♦ Surveys or direct contact with rental agents, property managers, lenders and other professionals in the housing market

Secondary sources of information include:

- ♦ Census data
- ♦ Updates and projections of Census data by third party research firms
- ♦ Local housing office records
- ♦ Consolidated Plans and CHAS data
- ♦ Local comprehensive plans and other planning documents
- ♦ Real estate agencies
- ♦ University and research centers
- ♦ City planners

Whether you are doing in-house market analysis or hiring a market study analyst, make sure your analysts have compiled and analyzed data from primary sources where available instead of simply relying on existing studies by others. If you have any primary information on the potential clients – from community group meetings, membership surveys, or other source – be sure to provide those to the analyst. While market analysis prices generally do not include the conduct of original surveys of potential customers, analysts should be able to incorporate any data you can make available. Analysts are expected to collect data directly from comparable projects.

While the Comprehensive Plan developed by your local or State government is a good source of information for your preliminary needs assessment, a professional analysis will include examination of the original census data itself and reach its own conclusions. The ConPlan conclusions should support the market study, but not be the basis of the market conclusions.

1.4. When Should I Do the Market Study or Analysis?

The best time to do a market study is at the very beginning of the process – when you have just identified a potential project or parcel, and want to consider the best development options for the site. You want to do the market study before your plans are finalized, but you have some sense of the desired uses and likely funding sources (as these define the income band of affordability.)

If you are further along in the planning of your project, you still should complete the market study as soon as possible, and be open to the results of the study, as they may point you toward important changes in the project plan.

If you complete the market study just before the funding applications are due, you have lost much of the utility of the market data. The study has become merely a costly application requirement – and you run the risk that its findings might undermine everything you have done to plan the project.

2. DHCR/HTFC Market Analysis Requirements

DHCR/HTFC market analysis requirements are summarized below, and are stated in the HTFC Capital Projects Manual. These are subject to revision, so be sure to check for Manual updates at the DHCR website: <http://www.dhcr.state.ny.us/ocd/pubs/cpm0.htm>.

Bottom line: The applicant is required to provide evidence that a sufficient number of income-eligible households exist in the service area which can afford the project rents and which can be expected to live in the project. The market analysis must consider:

- ♦ the geographic area (or primary market area) from which households are expected to be drawn
- ♦ the number of income-eligible households within that area able to afford the proposed monthly housing expense (including allowance for tenant paid utilities)
- ♦ rents of similar housing in close proximity to the proposed project
- ♦ availability of project-based rent subsidies to the project and the competition
- ♦ current vacancy rates
- ♦ identification of other comparable housing that is planned or under development
- ♦ the impact of the project on other housing stock (including other publicly assisted housing)

Applicants may submit a market analysis or a comprehensive market study, depending on the source of funding requested.

For those projects utilizing LIHTC, applicants must submit a **professional market study** conducted by an independent party approved by the Division. (Applicants proposing projects located in the City of New York may prepare an analysis utilizing data from the most recent "Housing NYC: Rents, Markets and Trends" report issued by The Rent Guidelines Board for inclusion in their application.)

The market study must substantiate that the proposed number and type of units meet an existing and identified need of low-income individuals and can be readily absorbed by existing need in the local area. Key elements of the analysis include the following:

- Definition of the **market area boundaries**, giving any physical, social, governmental and/or economic reasons for the selected boundaries (note: market demand must be documented from within New York State, so market areas outside of the state are not to be included.)
- Estimates of the **number of income-eligible households** in the market area (and any specific subset which the project is intended to serve) which are prospective tenants,

describing their characteristics (e.g., age, income, household size, special requirements, etc.) and analyzing any relevant socio-economic, demographic and housing information in the context of current economic conditions. [Note: This estimate is not required for projects entailing preservation of existing housing which is fully occupied (i.e., occupancy of 90% or more)].

- Estimates of the **available housing supply** in the market area through analysis of the current housing inventory and anticipated additions, giving the number, vacancy levels, type, condition, age, rent levels, and other relevant information.
- **Sources of statistics** used in the analyses and, when statistics are not from public sources, includes means for verification (e.g., list of contacts with telephone numbers or attachment of source documents), and the reasoning behind any assumptions used in the analyses.

For those projects which do not involve LIHTC, an independent market study is not required. However, the applicant is required to submit **Evidence of Market Support** at the time of application, which may include:

- Information on **waiting lists** from other projects in the market area providing housing of the same general type and with comparable rents;
- **Lease commitments and/or referrals** of households financially assisted by social services or public health programs; and
- **Surveys** identifying potential tenants and/or **housing studies** recently conducted by public agencies.

Only projects proposed having projected rents which are less than or equal to comparable rents will be considered feasible.

DHCR/HTFC underwriting staff will carefully review the full analysis and conclusions of a market study, and will give particular attention to the following:

- Reasonableness of the geographic market area proposed;
- Net demand capture rate – the percentage that the proposed number of units represents of: (a) the number of age and income-eligible renter households paying between 30% and 48% of income for rent (inclusive of utilities) minus (b) the number of assisted units already in the market area.
- The competitiveness of proposed rents and units with “street” rents in the marketplace; and
- The impact of the proposed development on the market, particularly other assisted units in the market area.

The burden of proof is on the developers and market analysts to provide adequate support to their methodology and conclusions for these topics, particularly when the method of analysis varies from DHCR/HTFC procedures. DHCR/HTFC staff will contact local officials, federal funders, owners and managers of existing facilities, and other resources to verify information, and may result in a conclusion other than that represented by the

applicant or the study. Failure to provide accurate information or adequate support and documentation may result in a determination of infeasibility due to a lack of documented market, eliminating the proposed project from consideration for funding.

Furthermore, ***in areas with comparable housing under development, DHCR/HTFC will wait until any project under development is built and absorbed prior to funding an additional project in the market area.*** An exception to this will be those projects that are part of a housing/community development strategy or serving a special needs population.

3. Interpreting Market Study Information

If you are paying a market study professional for their analysis and judgment, you expect their analysis and professional judgment with regard to the following areas:

- ♦ Determination of the market area
- ♦ General market trends that may affect your development
- ♦ The size of the your target pool of customers
- ♦ How your project compares to the competition

3.1. What Is the Market Area and How Is it Determined?

The analysis must include a delineation of the geographic market area. Market analysts define the **Primary Market Area** or **Effective Market Area** as the geographic area from which a *substantial majority* of the customers are expected to be drawn. In other words, what is the area from which you can expect to draw most, but not necessarily all, of your customers?

Market Areas are defined by expected patterns of consumer behavior, not political boundaries. The key determinant of market area is on how far typical consumers will move to take advantage of a particular housing opportunity.

- Market areas don't necessarily correspond to jurisdiction or agency service area boundaries. Urban market areas are likely to be smaller than a city's boundaries for most generic housing opportunities. In rural areas, it might include multiple smaller communities, or even parts of proximate counties.
- Market Areas generally are delineated by natural (e.g., rivers and mountains) and man-made (e.g., roadways, political, socio-economic and cultural) boundaries.
- Consumer decisions often are influenced by identification with neighborhoods, church parishes and school districts, and proximity to jobs, services and amenities. The choices may also reflect familial, ethnic and cultural ties. These patterns are best determined by past behavior. One method is to look at the previous addresses of occupants in comparable properties. This should be analyzed for rehabilitation projects with an existing tenant base.
- For affordable housing, the concentric circle approach typical of consumer market research is not the preferred method of delineating market area. Instead, due to the need to analyze Census demographic data, the use of Census tract boundaries is more often the appropriate building block of Market Areas. Census tract maps are available by county at: http://ftp2.census.gov/plmap/pl_trt/st36_NewYork/.

For presentation purposes, a map clearly illustrating the Market Area should be included in the study report.

The delineation of the market area is critical to the market study and its conclusions. The pool of eligible customers cannot be determined until the boundaries of the market area are delineated. If the market area is under-defined, then it might not fully reflect the potential demand for your project. On the other hand, when the market area is defined to be larger than is reasonable given human behavior, market support might be indicated by study data, but the project is vulnerable to marketing problems and may ultimately fail. Some market studies done late in a project planning process may propose a larger-than-reasonable market area in order to justify or rationalize a development decision that has already been made. For example, a market study for an elderly development that proposes a multi-community market area would be subject to close scrutiny, because elderly households generally prefer to relocate within familiar community areas.

Your observations and experience in your local community are relevant to the market study. Notwithstanding this guidance and the professionalism of most market study analysts, the delineation of a market area is still somewhat subjective. When hiring a market analyst, be sure to share your perceptions and experience of how far people will move to live in the project area. If you already operate housing in the market area, examine the previous addresses of current tenants to gain some insight into consumer movement patterns, and share this with the analyst. And, when reviewing a market study, test it against observed patterns of movement, or ask potential customers living just within the fringes of the market area whether they would consider moving to the proposed project. If it seems highly questionable, then question it. You will not be served by faulty market delineation.

3.2. What General Market Trends May Affect Your Development?

The second key category of information provided by a market study is an analysis of the trends and conditions in your community that might affect the development. The general demand for real estate in an area, including housing, is usually recognized to be largely a function of three factors: employment, population and households and income. The trends of growth (or decline) in these factors help to predict overall demand for housing, and create a context for analyzing vacancy rates and housing supply in the community.

There are four basic sources of demand for new rental housing units:

- ♦ Movers within the market – Occupancy coming from normal unit turnover and households looking for better or more cost effective housing is the primary source of potential customers for a new or newly renovated project.
- ♦ Net household growth, formation or aging – Although many upstate areas are not experiencing growth, it may be a factor in a few markets that are growing. The general trend of households getting smaller does not offset population stagnation or decline in many communities. However, for elderly housing, the aging of the

- population may be contributing to a significant growth in the number of elderly households even when the population overall is not growing.
- ♦ Conversions from ownership – The entry into the housing market by households who sell owner-occupied homes is not considered a primary market factor for family rental units, but some conversions might occur within the elderly housing market from elderly households no longer wanting or able to maintain homeownership. Some studies suggest that this may be responsible for 10 – 20% of elderly rental housing demand. The safe harbor indicated by DHCR/HTFC underwriters is that up to 10% of existing elderly homeowners may be considered part of the potential pool.
 - ♦ In-migration – Again, few communities upstate are experiencing significant in-migration at a level that does anything more than offsetting emigration. However, where in-migration is a significant factor, particularly where targeted subpopulations are moving into the market area, this may contribute to project demand. (However, please note that DHCR/HTFC will not include this in their analysis.)

Whenever any of these last three sources (household formation, conversion or in-migration) is included in the estimate of the customer pool as discussed in 3.3, adequate support should be provided of the significance of this factor in the local market area to justify the inclusion in the estimates.

3.2.1 Overall Population and Household Trends

Market analysts should examine overall population and household trends within the market area. Key data are:

- ♦ Population by Age (cohorts)
- ♦ Households by Age of Householder
- ♦ Households by Tenure (i.e., renters vs. owners)
- ♦ Renter Households by Age of Householder
- ♦ Renter Households by Household Size

Since the household is the economic unit purchasing housing, household trends are perhaps more significant in this analysis than population trends.

Typically, these data elements are noted for 1990 and 2000 (and perhaps a Census update to the current year and five-year projections) in table format. The percentage change between each date is to be noted as well.

Sources of data for this analysis tend to be:

- ♦ 1990 and 2000 Census data, supplemented by the CHAS data available from HUD analyze key HUD-eligible income levels (at 30/50/80% of Area Median Income.)

- ♦ A nationally recognized demographic provider (e.g., Claritas and ESRI Business Information Solutions, etc.) for the current year estimates and 5-year projections.

As we get further and further from the 2000 Census, the need to update or project Census data becomes more critical. The projections should address the expected date of bringing the project into occupancy. A project proposed today may be entering the marketplace in 2005 or 2006. Projections, if used, should be defensible.

Consider the key trends: Is population growing, static or declining? Is the population aging or are there significant numbers of households with children? Is the distribution of owners and renters changing?

Some of the key nationwide demographic trends that are projected for this decade include:

- ♦ Aging of the population, particularly among non-minority households;
- ♦ The increase in households being largely in single person households and households without children; and
- ♦ The increase in minority and immigrant households as the majority of household growth.

These are national trends that may or may not be reflected in your community. The analysis should identify whether these trends apply.

In some states, significant in-migration can be considered as a distinct and separate factor contributing to overall demand, especially when that in-migration is significantly concentrated in the low-income range. However, for New York State, in-migration generally is not considered a significant demand factor, and will not be considered by DHCR/HTFC reviewers.

3.2.2 Household Income Trends

The distribution of Household Income within the Market Area is a very important part of the analysis, as most assisted programs have income eligibility limits. Growth in the number of low-income households is an important consideration, even when overall growth of the population might not be visible.

The distribution should be analyzed for 2000, and (where available from projections) for the current year and 5-year projections. The 2000 median household income among all households, owner households, and renter households should be noted.

For this analysis, income cohorts of no more than \$5,000 should be used, when applicable and where available. Households with income over \$50,000, or the applicable maximum eligible income, usually can be condensed into a single cohort for this analysis without impact.

Some key data sources include:

- 2000 Census data available from Census 2000 Summary File 3 (SF 3), Table HCT11.
- The ConPlan may be a useful source of information for this analysis, as estimates for the ELI/VLI/LI (30/50/80% AMI) populations are available for 2000 via the updated special tabulations of the CHAS Data (see <http://socds.huduser.org/scripts/odbc.exe/chas/index.htm>.)

Keep in mind that the indicated “income band of affordability” as will be discussed below very seldom is in round thousands of dollars, and so won’t match up with the income cohorts. Interpolation must be done. Straight-line interpolation is the accepted practice, unless there is documented evidence for skewing. For example, if the income cohort is for \$15,000 - \$20,000, and the maximum income is calculated as \$19,500, then 90% (\$4,500/\$5,000) of the households in that category should be included in the count.

3.2.3 Employment and Economic Trends

It is important for the market analysis to consider any prevailing economic and employment trends and major changes from year to year. Job opportunities and economic growth can directly affect housing markets. The lack of job opportunities and economic growth raises questions about the need for additional housing units. Relative economic strength and job growth usually lead to future higher incomes and greater demand for housing units. Stagnation and job loss would point to softening demand and ability to pay.

A market study should document the following:

- The major employers in the immediate area, the status of the employers in terms of growth and stability, the approximate salary range of the employees, and the approximate number of employees earning income within the appropriate income range for residency at the proposed development.
- The overall MSA/County distribution of (non-farm) employment by major industry classification (e.g., Mining – 9.5%, Construction – 24.5%, etc.).
- The average annual number of persons employed and unemployment rate (for the past five years), with particular focus on the number of persons employed and unemployment rates for the most recent month (because monthly data is not seasonally adjusted, the study should note the number of persons employed as well as the unemployment rate for the corresponding month in the previous year.)

You will probably be confronted with a large volume of economic and job data. The important thing is to look at the overall conclusion of the analyst: do economic trends point toward a strengthening or weakening of demand for housing units for your market area in the future? These trends may be critical to the future viability of your housing development.

3.2.4 Overall Housing Market Trends

The market study should include an analysis of the overall housing market, and the general trends in housing supply, vacancy rates and pricing (rents). This analysis of overall housing market trends (and the underlying survey) should establish the basis for identifying and analyzing the competition, and determining how the proposed project will compete in the marketplace.

While Census data comprise the basis for analysis of the overall market, including numbers and types of units, much of the housing market data is time sensitive and must come from more current and regular real estate sources. This would include vacancy information, housing starts, rental and for-sale pricing and housing in the pipeline (i.e., in planning or development.)

Much of the data on the “competition” must come from a survey of the existing rental housing product within the Market Area.

- The survey should include market-rate properties, plus all subsidized developments and Tax Credit developments in the market area. (A survey of available single-family rental homes within the Market Area should be included if the proposed development includes single-family rental homes.)
- Survey data should be aggregated separately for: (1) market-rate and non-subsidized Tax Credit projects; and (2) government subsidized developments with rental assistance.
- The market study should provide, in table format, the distribution of units, and vacancy rates by unit type (i.e., number of bedrooms). It should also include a distribution of market-rate and non-subsidized Tax Credit developments and units by year opened/substantially renovated.
- The study should note the median rents by unit type for the market-rate and non-subsidized Tax Credit units. In determining the median rents, the collected rents at each property should be adjusted to a gross rent basis, using the local housing authority’s Utility Allowance Worksheet (and included as an Addendum.)
- In addition to the table summaries, the analysis should include a narrative summarizing the overall condition of the rental housing market within the Market Area, including:
 - Absorption rates experienced at all properties opened within the past 3 years
 - Waiting lists
 - Rent concessions
 - Vacancy rate and rental rate trends
 - Seasonality of the market
 - Under construction or planned rental housing development
- The study should also identify any significant housing developments in the planning stages or under construction, or if there are none in the pipeline, provide a statement to that effect.

- The actual survey is to be included as an Addendum to the Market Study. The effective date of the survey should be clearly noted.
- A map (scaled for distance) illustrating the location of each property surveyed and the subject property should be included with the survey.

The conclusions of this survey and the housing supply analysis should be an indication of how the proposed project compares to existing units – a key indicator of the likely success or failure of the project.

As you review a market study, consider the projects included in the survey. Do they accurately represent the local rental market? Are they the most likely competition for your project? How does your project compare? What does their success in rents and occupancy levels predict for your project? Can you succeed...and can they continue their success with you competing for the tenant pool?

3.3. What Is The Size of the Pool of Potential Customers?

The next critical element of market analysis is the determination of the size of the pool of potential customers. The determination of the customer pool is one of the key pieces of data used in the determination of the capture rate – one of the major pieces of information used by DHCR/HTFC underwriting staff (see the discussion of conclusions below.)

3.3.1 The Market Area Household Base

In the previous section, the overall population, household count and growth trends were examined. In general, the household count is the critical data element for the analysis of the pool of potential customers, since the household is the economic unit purchasing housing. Each household should represent the purchase/rental of one housing unit in the market. The market study should attempt to provide the best estimate of the number of households that will exist in the market area at the time the project is ready for occupancy.

Within many markets in upstate New York, population growth is not a significant factor, and therefore any potential growth in the number of households between now and the opening of the project is not a primary consideration. Therefore, the analysis often can be conducted based on current population, and the 2000 Census data is presumed to be sufficient in a stable population environment.

However, there may be markets where it is reasonable to expect significant changes in the number of target households, and include the projected changes in households in the analysis, particularly when the housing is projected to be ready for occupancy more than a year from now:

- Elderly housing – in cases where the overall elderly population is expanding at a significantly greater rate than the population;

- Small household formation – in cases where new household formation is occurring at a rate that is significant;
- Growth areas – in suburban or urban areas experiencing documented growth patterns, including urban gentrification areas; and
- Declining populations – in urban markets where the trends point to significant declines in population and households.

In these cases, it is reasonable for the market study to project the change in target households from the time of the data base (2000 Census or updated Census projection) to the expected time of occupancy of the project. Otherwise, projections to the date of occupancy are not necessary.

3.3.2 Customer Profile(s) or Demographic Segments

The overall household base also needs to be reduced to reflect the characteristics of targeted customers, including age, tenure, family composition, and other demographic characteristics. This step in the analysis is sometimes referred to as “*demographic segmentation.*”

Customers may be targeted in several different ways:

- ***Tenure*** – For a family rental project, the likely pool includes existing renters, but not owners, who are unlikely to give up ownership to enter the rental project. For elderly projects, particularly those that serve frail elderly, there may be some elderly homeowners who are no longer willing or able to maintain their own home, and might give up homeownership. As a general rule, no more than 10% of the age- and income-appropriate homeowners within the Market Area should be included in the Senior Capture Rate analysis, and homeowners should not be included in the Family Capture Rate analysis.
- ***Family v. elderly*** – For a family development, even though age discrimination is prohibited, elderly households are unlikely to be considered a primary market. For elderly developments, age qualification in publicly assisted housing is generally permitted and does not violate discrimination. Therefore, the analysis should exclude the age segment of the population not targeted by the development. The Senior Capture Rate Analysis must focus on the targeted age group (e.g., age 55+ for HTFC, or age 62+ in the case of federally subsidized units).
- ***Size of household*** – If the project consists of large family units, small households might not be considered the primary target, and vice versa. It is reasonable for the primary market analysis to exclude the households that are disproportionately sized for the planned units.
- ***Special needs populations*** – Housing for special populations are permitted to be reserved or prioritized to the population without running afoul of discrimination laws (provided that the housing is open to all persons in the special population,

not just the clients of a particular provider). It is appropriate in such cases to focus the analysis exclusively on the targeted special needs group. See the later discussion of special populations.

Look at the market study with your target population in mind. Did the study exclude the demographic segments of the market area population that are obviously outside of the target group? If not, the market analysis may overstate the size of the customer pool. However, if the study carefully focused in on the target group based on key demographic characteristics, then a higher capture rate still might be considered feasible.

3.3.3 The “income band of affordability”

Income obviously is a key determinant of the target pool for an affordable housing development. It narrows the pool in two ways:

- **Maximum eligible and affordable incomes** – Program income limits set a maximum income above which no household is eligible for occupancy. This is true of LIHTC, HTF, HOME and most other programs. However, DHCR/HTFC further targets its housing to the lowest possible incomes, and so focuses on the top of the income band to be based on the proposed rents. *DHCR/HTFC determines the maximum income by multiplying the proposed rent (inclusive of tenant paid utility allowance) multiplied by 12 and divided by 0.30.*
- **Minimum affordable incomes** – While everyone below an eligible income limit might be eligible, the rents might not be affordable to some at the lowest income levels, unless project-based rental assistance is available. Underwriters cannot make assumptions about tenant-based rental assistance, as there is no guarantee that applicants will have certificates. Therefore, a minimum income requirement is used to establish the lower end of the income band. *To establish the lower end of the band of affordability, DHCR/HTFC determines the minimum income by multiplying the maximum rent (inclusive of tenant paid utility allowance) multiplied by 12 and divided by 0.48.*

Example: On an HTF project with a one bedroom renting at \$325 per month and \$25 in monthly tenant paid utilities, the upper income limit would be \$14,000:

$$\$325 + \$25 * 12 \text{ months} / .30 = \$14,000$$

A lower limit is established by the requirement that a household not spend more than 48% of their adjusted income towards housing costs or in this same case \$ 8,750:

$$\$325 + \$25 * 12 / .48 = \$8,750$$

The market study then could only recognize those households with earnings between \$8,750 and \$14,000 as part of the potential pool.

Only those households falling within this income “band of affordability” should be considered as part of the targeted pool of customers.

However, not all households within the computed “income band” are appropriately sized to fit within the units. For example, it is inappropriate to consider large households in the customer pool when only 1BRs and 2BRs are being constructed. For an LIHTC project, the applicable maximum eligible income limit is based on the program regulatory standards that population per household will equal 1.5 persons times the number of bedrooms. However, for purposes of defining the range in household size that might occupy a particular unit, DHCR/HTFC uses the program guidelines in the Capital Projects Manual at 7.06.01:

No. of Bedrooms	MINIMUM HH Size	Maximum HH Size
0	1	2
1	1	2
2	2	4
3	3	6
4	5	8
5	7	10

For market-rate units that might be included in a mixed-income development, the market study must make some reasonable determination of a maximum income level beyond which a household will not likely be a participant in the rental market and this project. The study should note the assumptions used in determining the appropriate income range for the proposed market rate units.

When reviewing the market study results, consider the following:

- ♦ Did the analyst utilize DHCR/HTFC’s 30% - 48% of income guideline to establish the minimum and maximum incomes?
- ♦ Did the analyst adjust the pool for minimum and maximum household sizes?
- ♦ Was the proposed rent adjusted to include tenant-paid utilities?
- ♦ If multiple rent levels are involved, did the market study note the appropriate income range for each targeted rent?

3.3.4 Considerations for Targeted Special Populations

For housing with predetermined client groups such as special populations, certain elements of the extended Market Analysis will not be necessary. If the proposed project is to serve people with special needs, the market analysis should focus on these residents, and rely on public or service provider data bases and analyses to specify the target population.

Market studies addressing a proposed development serving persons with disabilities are to include the 2000 distribution of Non-institutionalized Population with Disabilities by Type of Disability. This data is available from the Census 2000 Summary File 3 (SF 3), Table P41. The Consolidated Plan or the local Continuum of Care are possible sources of information on some special populations.

Alternatively, a project that establishes a contractual relationship with a service provider that guarantees a long-term demand for units in the development can rely upon identification of the exact customers to be served (with privacy protected) or an analysis of the client base of the provider substantiating the adequacy of the pool of clients to fill the project.

Market studies addressing a proposed development serving an age-restricted population should conduct the analysis only for those age cohorts applicable to the proposed development (i.e., age 55+ or age 62+).

3.4. How Does Your Project Compare to the Competition?

Market studies should include a survey of existing rental housing in the market area, and identify those properties considered most comparable. Comparable properties are those developments with similar financing, developments serving the same target population, developments offering similar amenity packages, and/or developments offering similar rents. Both assisted and unassisted units should be examined as part of this comparison.

As a general rule, at least 3 market-rate properties should be included as Comparable Properties for the purpose of establishing Comparable Market Rent. Otherwise, Section 8 FMRs will be used.

The study should include a table noting each income-restricted rental housing property in the market area, its current vacancy rate, and anticipated vacancy rate at the subject property's projected date of stabilized occupancy.

For each Comparable Property selected, the following information should be provided in a summary sheet format:

- Color photograph (of a representative residential building)
- Name, address, telephone number of the development
- Contact person, date of contact, and mode of contact (in-person or telephone)
- Year of opening and year of significant renovation (if applicable)
- Amenities (both unit- and project-related – see list below)
- Source of heat, water heating, and cooking (i.e., electric, natural gas, propane, etc.)
- Utility responsibility (i.e., tenant-paid or owner-paid)
- Number of units distributed by structure type (e.g., townhouse, garden-style, etc.) and unit type (i.e., number of bedrooms and baths within the unit)

- Net (heated) square footage of units
- Collected rents and estimated gross rents (including tenant-paid utilities based on the applicable Utility Allowance)
- Vacancy rates by unit type
- Public program participation (e.g., HUD Section 8, RD Section 515, Tax Credit, etc.), if any
- Tenant profile (e.g., family, elderly, persons with special needs, etc.)
- Waiting lists (the number of households or names on the list)
- Turnover rate
- Absorption rate (if the property is less than 3 years of age)
- Distance from the subject property (in miles based on travel distance)
- Proximity to Community Services & Site Detractions – see below

Typical amenities that should be included for consideration are listed below:

Unit Amenities		Project Amenities	
	Range		On-site management
	Refrigerator		Community bldg/room (__ net SF)
	Dishwasher		Laundry
	Disposal		Resident Business Center
	Washer & Dryer		Day care center
	Washer/Dryer Hookups		Exercise Room
	Carpeting		Swimming Pool
	Window Coverings		Playground
	Patio/Balcony		Tennis Court
	Basement		Basketball Court
	Carport/Garage		Raquetball Court
	Intercom system		Walking Trail
	Security system		Lake
	Other:		Other:

Access to jobs and services should take into account the following:

COMMUNITY SERVICES	NAME	TRAVEL DISTANCE* FROM SITE (IN MILES)
Major highways		
Public bus stop		
Major employers/employment centers		
Convenience Store		
Grocery		
Discount Department Store		
Shopping center/mall		
Schools: Elementary Middle/junior high High		
Hospital/medical center		
Police		
Fire		
Post office		
Bank		
Senior center		
Recreational facilities		
Other:		

Consideration of environmental negatives or detractions should include the following

<i>SITE AREA DETRACTIONS</i>	DIRECT DISTANCE* FROM SITE (IN MILES)
Active Railroads	
Freeways	
Natural wash areas	
High tension power lines	
Landfill/garbage dumps	
Oil Refinery/Chemical Plant	
Power Plant	
Other:	

The market study should compare the proposed project to the Comparable Properties, and determine competitive advantages and disadvantages that might affect the marketability of the proposed project. Some of the key factors in the comparative analysis are:

- Rents – The analysis should determine the Comparable Market Rent(s) for the proposed units, and establish the proposed development’s competitive rent advantage over comparable properties. The study should include the comparison tables used in the determination (e.g., HUD form 92273 or functional equivalent) and an explanation of the methodology used. Any market-rate properties in the market area should be used in the Comparable Market Rent analysis.
- Unit Configuration – The bedroom, sizes and configurations of units (including accessibility by elevator, walkup or ground level) should be examined for comparative advantages and responsiveness to market demand.
- Amenities – The analysis should address the comparative attractiveness of the amenities package, both within the unit and the development overall, to identify any competitive advantages or disadvantages.
- Location – The analysis should look at locational factors, including accessibility, and visibility, and the impact on marketability.
- Evidence of demand – The comparable projects should be examined to determine whether the demand is sufficient for those units and would indicate adequate demand for the proposed units.

In reviewing the results of the survey or comparison, you should consider the following questions:

- ♦ Did the analyst identify all of the most logical comparable projects in the area?
- ♦ Was the comparison inclusive of all facets: i.e., rents, unit configuration, amenities, location?
- ♦ How does our proposed project compare to the competition? Will we have a competitive advantage or be at a disadvantage?

4. Examining the Market Study Conclusions

Based on the analyses described above, the market study analyst should present conclusions about the proposed development's strengths and weaknesses, as a predictor of the project's success or to define how the project can achieve market success. This section addresses some of the key conclusions of the market study, and how DHCR/HTFC looks at the conclusions of the market study.

4.1. Is there sufficient unmet demand?

The answer to this question is usually determined through capture ratio analysis, which is a core part of the DHCR/HTFC analysis.

The capture rate is determined by dividing the number of units in the proposed project by the number of households in the primary pool, after adjusting for the number of assisted units in the market area. A low capture ratio means that there are a large number of households from which to fill the proposed units, and the project is more likely to achieve success. High capture ratios mean the opposite.

4.1.1 Adjusting for Existing Assisted Units

While the capture rate or ratio is based on the relationship of the proposed number of housing units to the total number of households that fit the income and demographic profile in the market area, the capture rate should not be computed until the target household pool is adjusted to reflect those in the income band that may already be in assisted housing.

It is recognized that many of the assisted units – such as public housing, Section 8 housing, Section 202/811 – have rent subsidies attached, and may serve households that are above or below the calculated income band. However, DHCR/HTFC uses the conservative assumption that all assisted units are available to the proposed income band, and adjusts the demand downward by the number of assisted units. If the study proposes an adjustment to reflect assisted units occupied by persons outside the income band, evidence must be provided.

This approach requires a detailed inventory of assisted units, usually assembled through discussions with the local government, state housing agencies, HUD, Rural Development and the local housing authorities. The HUD Buffalo office has published an inventory for its jurisdictions. Sometimes the local government has assembled a good inventory for purposes of the Consolidated Plan.

4.1.2 Acceptable Capture Rates

The rules of thumb for DHCR//HTFC projects is that projects should have a capture ratio below 20%.

Example: A 36-unit affordable rental project is proposed in an upstate smaller city. Based on the market study there is a target pool of 200 families (300 total units minus 100 assisted housing units.) Therefore, the capture/absorption rate is 18% ($36 \div 200$). Is this an adequate absorption rate?

This is not an absolute standard. Anything above 17% is reviewed carefully, and projects in roughly the 17% - 22% range may be approved or disapproved depending upon the results of closer evaluation. Some of the factors that are considered in these borderline cases are:

- ♦ The extent to which the market study narrowly targeted the customers through demographic segmentation analysis
- ♦ Overall stability and growth of households in the local market area
- ♦ Stability of jobs and economic opportunities in the market area
- ♦ Level of occupancy and waiting lists at comparable projects
- ♦ Direct evidence of demand for this particular project, including current occupancy (for acquisition/rehab projects), waiting lists or survey information from potential customers
- ♦ Availability of project-based operating assistance or extremely favorable rent structures for this project relative to competing projects
- ♦ Level of improvements, amenities, unit configurations and other factors that give this project a competitive advantage over other projects in the market area

In other words, for projects on the borderline, the market area must have overall favorable conditions for stability and growth, and the project should have a distinct competitive advantage. Primary data support (i.e., information from and about the potential customers) is also important to making the case for borderline projects.

In reviewing the market study conclusion:

- ♦ Is the market area reasonably defined?
- ♦ Did the analyst correctly identify the income band of affordability as described earlier?
- ♦ Did the analyst adjust for household size?
- ♦ Did the analyst adjust the gross demand for existing affordable units in the market area?
- ♦ Is the capture rate within DHCR/HTFC parameters?

4.2. What is the Predicted Market Success of the Project?

4.2.1 Rent Competitiveness

To determine if the project will be competitive, DHCR/HTFC examines the proposed rents relative to “street rents” in the market area. The market study is reviewed for its conclusions about the street rents for comparable unassisted housing units. The key determinant for this part of the analysis is that the proposed rents should be below comparable street rents. The proposed rents are also examined in relation to the area FMRs.

In some cases, there may be justification for the proposed project rents to equal or be slightly higher than street rents, particularly when the comparable housing is substandard or lacking in the amenities of the proposed project. However, the evidence in such situations is examined closely.

4.2.2 Absorption Rates

Market studies usually project an absorption rate, and also estimate a stabilized occupancy rate (e.g., 95%, 93%, etc.) and turnover rate for the subject development as proposed (using proposed operating budgets, if available, or standard operating data.)

The absorption rate or period is the estimate of how long it will take to achieve sustaining occupancy of the project upon completion of development. (The subject property’s absorption period is considered to start as soon as its first unit is certified for occupancy.) It is based on the capture ratio analysis, along with an assessment of household mobility and growth in the market area. The resulting conclusions are expressed either as a number of units per month that are expected to be rented and occupied, or a total number of months to reach the sustaining occupancy level.

While DHCR/HTFC does not specify absorption as a required element of the market study, it is nevertheless essential to the developer because it helps the developer to estimate the initial operating deficit or rent-up reserve that is required in the development budget. It also helps the developer to address slow markets through more aggressive and early marketing.

Similarly, projected turnover rates for the subject development will help the developer to anticipate the level of ongoing marketing and size of waiting list that will be needed over time to maintain sustaining occupancy. It also may affect vacancy/collection loss projections in the operating budget.

Furthermore, if the anticipated absorption rate causes the proposed development’s initial absorption period to extend beyond one year, “replacement absorption” (i.e., the need to

re-rent vacated units due to tenant turnover) needs to be factored into the Market Analyst's projection.

For renovation projects, the study should take into consideration the anticipated number of existing (program-eligible) residents who will elect to remain at the property through its renovation, or return after rehabilitation. With respect to the anticipated absorption period of renovation projects, the study should offer the projection in two ways: (1) using the anticipated retention level; and (2) using the assumption that no residents will elect to remain at the property.

If an unusually slow absorption rate and/or unusually low stabilized occupancy rate is anticipated, the study should identify market-related or product-related issues that produce this conclusion, and include recommendations (if any) as to how the proposed development could be better structured to succeed within the market.

4.3. What will the impact be on existing affordable housing in the market area?

Market studies look at the competition primarily to determine how the proposed project will fare against the competition. This is obviously an important concern.

However, DHCR also recognizes that newer projects sometimes can attract customers out of other affordable housing projects, and have a negative impact on those pre-existing projects. This is an important public lending issue, as limited public funds should be invested only where they can meet "unmet" or incremental housing needs. The public good is not served by funding new units that only drain older assisted units of their tenants, or two publicly assisted projects needing to compete for the same limited pool of customers. Such scenarios increase the viability risk of the proposed development or the pre-existing developments.

To estimate the impact of the proposed development on the existing market, the following should be considered:

- ♦ The amount of unmet demand for affordable housing in the market place relative to the existing supply of affordable housing and the proposed project addition to supply (which is determined by reducing the target customer pool by the number of assisted units);
- ♦ Current affordable housing projects in the funding or development pipeline, and the timing of the absorption of those projects relative to the proposed project; and
- ♦ The overall market need for additional units, and whether the proposed units are incremental or replacement/rehabilitation units.

4.3.1 Impact on the Market Area: the Need for Incremental Housing Units

While primary focus is on affordable, assisted units, DHCR also has to consider the overall housing market and whether additional units are indicated by the study data. In many upstate markets, stable or declining populations would discourage the need for additional housing units, but might support a strategy of rehabilitation or replacement of substandard units. The production of incremental assisted units in such an environment might cause additional vacant and abandoned structures, which would have a negative impact on the proposed project and the market area overall. The need for additional units in the market area is evaluated by considering:

- (a) Number of boarded or abandoned housing units
- (b) Number of substandard housing units
- (c) The occupancy rate in the target area
- (d) The type of housing demanded (as reflected in unmet demand)
- (e) Financial constraints

It is reasonable to focus on new construction if factors (a) and (b) are low as compared to factor (c), and if the type of housing demanded is not available in the existing housing stock. However, it may be advisable to focus on rehabilitation if factors (a), (b), and (c) are sufficiently high, and if the type of housing demanded matches the existing housing stock in need of rehabilitation.

4.3.2 The Impact on Projects in the Pipeline

The market study should also note income-restricted or affordable housing projects in the pipeline that are expected to come on line before or at the same time as the proposed project. This affects the absorption rate analysis, as noted below.

However, there is a larger concern for DHCR/HTFC that assisted projects not compete with one another for a limited pool of customers. If the creation of additional units through the proposed project, can be anticipated to have a direct, negative impact on the marketing of a project under development, or vice versa, then that cannot be considered a responsible investment of limited public funds for housing.

As a matter of DHCR/HTFC policy, in areas having comparable housing under development, DHCR/HTFC will wait until any project under development is built and rented prior to funding an additional project in the market area. Exceptions will be considered on a case-by-case basis for those projects that are part of a housing and community development strategy or are serving an identified special needs population with documented unmet needs.

Appendix 1. NCAHMA Standards

**Draft Model Standards
for Market Studies for Rental Housing
by the
National Council of Affordable Housing Market Analysts**

