

Analyzing a Market Study

A Step-by-Step Review of Market
Feasibility Analysis and Reporting

Presented By:

Tim Williams

VWB Research

Key Evaluation Elements:

- Essential market study components
 - Market area delineation
 - Calculation & Evaluation of market rents
 - Capture & penetration rates
 - Absorption projections
- Identifying saturated markets

Components to the Market Study

- Executive Summary
 - Absorption
 - Precise statement of key conclusions
 - Market strengths/weaknesses
 - Recommendations/modifications
- Project summary
 - Matches application
 - Project design
 - Target population
 - Income limitations
 - Unit/project amenities
 - Review of Project Plans

Market Study Components

Site/Market Area Description

- Site description
 - ID objectionable uses
 - Community services
 - Visibility and access
- Crime information
 - Is it an issue?
 - Impacts market area
- Description of Market Area
 - Competitive properties
 - Natural boundaries
 - Jurisdictional boundaries
 - Accessibility
 - Area perceptions
 - Target market

Market Study Components

Market Area Analysis

- Population/
household counts
 - New hshld = new unit
 - Market area impact
 - Reliability of data
- ◆ Households by
tenure
 - Impacts absorption
 - Seniors
- Income
 - 2000/current/5-yr.
 - ABI
 - HISTA
- Employment by
industry
 - Dominance by one
 - Manufacturing
- Area major
employers

Market Study Components

Market Area Analysis (cont.)

- Historic unemployment
- Five-year history
 - Correlation with vacancies
 - Check with hslg growth
- Wages by occupation
 - Significance in small markets
- Commuting patterns
 - Issue in high growth and high income areas
- Pipeline considerations
 - Planned & proposed
 - Building Permits

Market Study Components

Area Housing Analysis

- Description of overall rental housing market
 - Note if secondary data
 - Housing continuum
- Rental housing supply
 - Field survey
 - Area vacancies including LIHTC/GS
 - Waiting lists
- Inventory of existing and proposed LIHTC
 - Critical!
 - 4% vs. 9%
 - Pipeline allocations
- Comparable properties
 - Profiles/photos/maps
 - Compare to subject
 - Basis for comparable rents

Market Study Components

Analysis of Support

- Allowable income levels
 - Impacts capture rate
- Capture rate
 - Note denominator
- Penetration rate
- Market rent advantage
- Other affordable housing options
 - Homeownership
 - High-end market-rate
- Impact on existing housing
 - Tax Credit
 - Market-rate

Market Study Components

Calculate Market Rents-Market Advantage

- Proposed proforma rents
- Programmatic rents
 - Maximum allowable rent levels
- Market rents
 - The unit's achievable rent in the open market w/o restrictions of LIHTC program
- Method of establishing
 - Identify comparables
 - ◆ Should be similar in age, location, design and amenities
 - Derive adjustments
 - Apply adjustments
 - ◆ Per unit or per sq. ft.

Rent Comparability Grid

Unit Type →

THREE BEDROOM

Subject's FHA #:

Subject	Comp #1	Comp #2	Comp #3	Comp #4	Comp #5
Anson Park Phase II	Timber Ridge	Riatta Ranch	Warwick Apts.	Chimney Square	Mill Creek
Old Anson Road	3602 Rolling Green	1111 Musken Rd.	2400 Arrowhead	3201 S. 23rd St.	5249 US Hwy 277
Abilene, TX	Abilene TX	Abilene TX	Abilene TX	Abilene TX	Abilene TX
A. Rents Charged	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj
1 \$ Last Rent / Restricted?	\$729	\$709	\$799	\$914	\$825
2 Date Last Rented	Apr-01	Mar-01	Mar-01	Apr-01	Mar-01
3 Rent Concessions	no	no	no	no	no
4 Occupancy for Unit Type	100%	79%	100%	100%	100%
5 Effective Rent & Rent/ sq ft	\$729 0.6615	\$709 0.57	\$799 0.68	\$914 0.52	\$825 0.61
<i>In Parts B thru E, adjust only for differences the subject's market values.</i>					
B. Design, Location, Condition	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj
6 Structure / Stories	2/WU 2,3/WU	W/WU	2/WU	2,3/TH	2/WU
7 Yr. Built/Yr. Renovated	2006 1983 \$23	1972/1999 \$21	1982/2003 \$10	1978 \$28	1984 \$22
8 Condition/Street Appeal	E G \$10	G \$10	G \$10	G \$10	A \$15
9 Neighborhood	A E (\$15)	G (\$10)	E (\$15)	G (\$10)	G (\$10)
10 Same Market? (mi. from site)	N (6.1) (\$10)	Y	N (6.3) (\$10)	N (4.6) (\$10)	N (5.0) (\$10)
C. Unit Equipment/ Amenities	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj
11 # Bedrooms	3 3	3 3	3 3	3 3	3 3
12 # Baths	2 2	2 2	2 2	2 2	2 2
13 Unit Interior Sq. Ft.	1102 \$62	1234 (\$31)	1171 \$13	1743 (\$387)	1350 (\$112)
14 Balcony/ Patio	Y Y	Y Y	Y Y	Y Y	Y Y
15 AC: Central/ Wall	C C	C C	C C	C C	C C
16 Range/ refrigerator	R/RF R/RF	R/RF R/RF	R/RF R/RF	R/RF R/RF	R/RF R/RF
17 Microwave/ Dishwasher	M/D M/D	D \$5 D \$5	D \$5 D \$5	D \$5 D \$5	D \$5 D \$5
18 Washer/Dryer	HU/L HU/L	L \$15 HU/L	L \$15 HU/L	L \$15 W/D	W/D (\$20)
19 Floor Coverings	C C	C C	C C	C C	C C
20 Window Coverings	B B	B B	B B	B B	B B
21 Cable/ Satellite/Internet	Y Y	Y Y	Y Y	Y Y	Y Y
22 Garbage Disposal/Icemaker	Y/Y Y/N \$3	Y/Y Y/Y	Y/Y Y/Y	Y/Y Y/Y	Y/Y Y/Y
23 Ceiling Fans/Fireplace	Y/N Y/Y (\$3)	Y/Y (\$3)	Y/Y (\$3)	Y/Y (\$3)	Y/Y (\$3)
D Site Equipment/ Amenities	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj
24 Parking (\$ Fee)	LOT/\$0 LOT/\$0	LOT/\$0 CARPORT (\$20)	CARPORT (\$20)	CARPORT (\$20)	LOT/\$0
25 On-Site Management	Y Y	Y Y	Y Y	Y Y	Y Y
26 Security Gate	Y N \$3	N \$3	N \$3	N \$3	N \$3
27 Clubhouse/ Meeting Rooms	Y/Y Y/N \$3	Y/N \$3	Y/N \$3	Y/N \$3	Y/N \$3
28 Pool/ Recreation Areas	Y/Y Y/Y	Y/N \$3	Y/Y	Y/N \$3	Y/Y
29 Business Center	Y Y	Y Y	N \$3	N \$3	N \$3
30 Tennis Court	N Y (\$3)	Y (\$3)	N	N	N
31 Playground	Y N \$3	N \$3	N \$3	N	Y
32 Social Services	Y N \$10	N \$10	N \$10	N \$10	N \$10
E Utilities	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj	Data \$ Adj
33 Heat (in rent?/ type)	N/GAS N/ELEC	N/ELEC	N/ELEC	N/ELEC	N/ELEC
34 Cooling (in rent?/ type)					
35 Cooking (in rent?/ type)	N/ELEC N/ELEC	N/ELEC	N/ELEC	N/ELEC	N/ELEC
36 Hot Water (in rent?/ type)	N/GAS N/ELEC	N/ELEC	N/ELEC	N/ELEC	N/ELEC
37 Other Electric	N N	N N	N N	N N	N N
38 Cold Water/ Sewer	Y/Y N/N \$23	Y/Y	N/N \$23	Y/Y	N/N \$23
39 Trash	Y N \$10	Y	Y	Y	N \$10
F. Adjustments Recap	Pos Neg	Pos Neg	Pos Neg	Pos Neg	Pos Neg
40 # Adjustments B to D	8 4	9 4	9 4	9 4	7 5
41 Sum Adjustments B to D	\$117 (\$31)	\$73 (\$47)	\$60 (\$48)	\$80 (\$427)	\$61 (\$155)
42 Sum Utility Adjustments	\$33	\$23	\$23	\$33	\$33
	Net Gross	Net Gross	Net Gross	Net Gross	Net Gross
43 Net/ Gross Adjmts B to E	\$119 \$181	\$26 \$120	\$35 \$131	(\$347) \$507	(\$61) \$249
G. Adjusted & Market Rents	Adj. Rent	Adj. Rent	Adj. Rent	Adj. Rent	Adj. Rent
44 Adjusted Rent (5+ 43)	\$848	\$735	\$834	\$567	\$764
45 Adj Rent/Last rent		116%	104%	104%	62%
46 Estimated Market Rent	\$795	\$0.67	← Estimated Market Rent/ Sq. Ft		

HUD Rent Grid

Influencing factors

- Concessions
- Utilities
- Location
- Design
- Unit and project amenities
- Tenant services

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Calculating Market Rents

➤ Influencing factors

- Concessions
- Utilities
- Location
- Design
- Unit and project amenities
- Tenant services

➤ Potential red flags

- No existing market rents at estimated levels
- Lack of comparable properties
- Lack of market-rate properties

Evaluating Market Rent Advantage

Tax Credit

Rents should be no greater than 90% of market-driven rent.

Market-Rate

Rents should be comparable to market-driven rent.

Market Study Components

Conclusions

- Absorption rate
 - Perception of value
 - Capture rate
 - Penetration rate
 - Future changes to housing population
- Discussion of mitigating issues
 - Local employers
 - Crime
 - Infrastructure
- Date of report
- Date of field work

Market Study Components

Capture & Penetration Rates

- **Capture Rate** – Represents the proposed subject units divided by the number of eligible households.
- **Penetration Rate** – The number of comparable units (including the subject units) divided by the number of eligible households.
- Lower rates are better.
- ✿ **BEWARE** – Acceptable rates depend on the methodology used by analyst.

Market Study Components

Calculating Income Limits

- ◆ Maximum income determined by HUD
 - <http://www.novoco.com/products/rentincome.php>
 - ◆ Minimum Income=
 - Monthly gross Rent X 12 divided by 35%* for Families or 40%* for Seniors
 - ◆ Example: $\$600 \times 12 = \$7200 / 35\% = \$20,571$
- * Ratio of rent towards income

Additional Elements

- Certification
 - Accountability
 - Required?
- Statement of qualifications
 - Experience
 - NCAHMA member
 - References
- Sources of data
 - National?
 - Adjustments by analyst?
- Utility allowance worksheet
- Checklist

Absorption Projections – Factors Impacting Absorption Projections

- ◆ Absorption history of comparable properties in the market
- ◆ Current vacancy rates
- ◆ Rent advantage

Identifying Saturated Markets

- **High Vacancy Rates**
 - At specific price points
 - Among product types
 - Within a particular neighborhood
 - Lack of waiting lists among subsidized projects
- **Rent Specials/Concessions**
 - Type of Specials
 - Depth of concessions
 - Duration
- **High Capture Rate**
 - The higher the percent = lower potential support

Contact Information:

Tim Williams

VWB Research

869 W. Goodale Boulevard

Columbus, Ohio 43212

Ph: 614-225-9500

E-mail: timw@vwbresearch.com