

# **MARKET STUDY GUIDELINES** **FOR HOUSING TAX CREDIT PROGRAM**

## **GENERAL – WHAT EACH APPLICANT MUST SUBMIT**

These market study guidelines apply to all applicants seeking Housing Tax Credit under California's Low Income Housing Tax Credit program, irrespective of size, location, and whether the applicant is seeking competitive, 9% credit or credit used in conjunction with tax exempt financing. All market studies must be completed by a disinterested third party, and at the expense of the developer, and must include the following, completed by the market analyst, in addition to the market study:

The Committee's Market Study Summary sheet (Attachment 14B of the tax credit application), and

a resume describing the author's experience and background must be provided with **each** market study.

The market study must address **all** of the items listed below and must document sufficient demand in the market area to support the proposed housing. Each study must provide up-to-date demographic information from a clearly identified source. Additionally, each study must also include an **analysis** of such data, identifying assumptions, estimates, and projections, used in the analysis. Recommendations should, of course, be based on market conditions, and not simply build a case for the developer's proposal.

The market study should separately address each housing type and specific population to be served by the development, in separate subsections. For example, if a development is intended to be partially Special Needs and partially Large Family, separate subsections of the study must address the population/household trends, the demand estimate and absorption rate for each of these population types. Similarly, if a development is intended to be partially market rate and partially affordable, different subsections should address the population/household trends, household income distribution, demand and absorption rate, etc. for both the market rate units and the affordable units.

## **I. PROJECT DESCRIPTION**

Sponsor's name

Development's Location (**including color photos**)

Total project units/Total tax credit units

Occupancy Type (family, elderly, special needs, etc.)

New Construction/Rehabilitation

A detailed description of the location, including closest streets, number of acres and map, indicating site configuration and contiguous land use and zoning

Tenant paid utility schedule and source of that schedule

Proposed unit amenities

Proposed development amenities

Locational amenities and their distances from site

For rehabilitation proposals, current occupancy levels, rents being charged, and tenant incomes, if available, as well as detailed information with regard to the scope of work planned (new kitchen counters, for example).

## **II. DELINEATION OF MARKET AREA**

Identify the geographic market area from which potential renters are expected to come and provide a reasonable rationale for the suggested market area, taking into account political and natural boundaries, experience of nearby comparable developments, etc. Provide a scaled for distance map of the suggested market area that identifies the proposed development, the locational amenities, and the comparable rental developments.

## **III. MARKET AREA ECONOMY**

For all proposals except elderly, provide the following:

Employment by industry – numbers and percentages (For example, services – 150,00 (20%)). The major current employers and anticipated expansions, contractions in their workforces, as well as newly planned employers and their impact on employment in the market area.

Unemployment trends for the market area and, where possible, the county – total workforce figures and number and percentage unemployed.

## **IV. POPULATION AND HOUSEHOLD TRENDS**

Provide the following demographic information for **both** the market area and the minor civil division (city, village, township, etc.) in which the proposed project will be located. Projections must be prepared by one of the national proprietary data providers, for example, CACI, Claritas, etc. U.S. Census data, unless current, is only acceptable as historical data. If the market analyst does not agree with these projections, s/he must provide the reasoning, along with substitute projections. Population and households should be projected to the estimated time of market entry. For elderly proposals, data should be based on households ages 65 years plus. (Although the statutory requirement is younger, for purposes of the market study, TCAC will require use of age 65, since it more typically reflects the move-in age of tenants for elderly developments.)

### **A. Population Trends**

1. Total Population.
2. Population by age group.
3. Number of elderly and non-elderly

B. Household Trends

1. Total number of households.
2. Household by tenure; that is, the number of owner and renter households by elderly and non-elderly.
3. Average household size.
4. Renter households by number of persons in the household.

V. **HOUSEHOLD INCOME DISTRIBUTION:**

Present an estimate of household income by tenure projected to the expected time of the development’s market entry. (Elderly proposals should reflect the income distribution of elderly households only.) Make income projections based upon reasonable assumptions, which assumptions must be provided.

VI. **DEMAND ESTIMATE:**

Use the applicable incomes and rents in the development’s tax credit application. The estimated demand must be based upon current households and projected household growth. Assume that market rate households will spend up to 30% of their income for gross rent, and lower income households up to 40% for their gross rent. Demand should be calculated for each proposed rent level and each bedroom size. Income qualified households should not be double counted.

Below is an example of a demand analysis. Reliable local sources are preferable to regional sources. *TCAC staff should be able to reconstruct your estimate of demand – step by step. The percentages used are for example only - market studies must use percentages based upon actual market data or other reliable sources.*

A. Demand From Existing Households:

1.	Number of existing households for current year.	40,000
2.	Number of renters.	x 30% = 12,000
3.	Number of income-qualified renter households.	12,000 x 18% = 2,160
4.	Movership or turnover rate. (Using identified, reliable data sources, estimate the percentage of renter households that move into different rental units in a given year.)	2,160 x 35% = 756
5.	Estimated annual demand from existing rental households.	756

B. Demand from New Households:

1.	Estimate the number of new, additional renter households by the time the project enters the market	200
2.	Estimate the annual growth. This is the number of new households divided by the number of years between the current household number and the market entry number.	$200 \div 2 = 100$
3.	Number of income-qualified renter households.	$100 \times 18\% = 18$
4.	Estimated annual demand from new households.	18

C. Total annual demand from existing and new renter households:  $756 + 18 = 774$

**VII. ABSORPTION RATE:**

The market study should provide an estimate of the expected absorption rate, including the time required to reach 95% occupancy. The absorption rate determination should consider such factors as the overall estimate of new household growth, the available supply of competitive units, observed trends in absorption of comparable units, and the availability of subsidies and rent specials. (The absorption period is considered to start as soon as the first units are released for occupancy.)

**VIII. COMPETITIVE RENTAL MARKET:**

The market study must identify what developments are currently available to serve the target market, and provide sufficient information on existing developments to allow a reviewer who is unfamiliar with the area to understand the current market conditions.

At least three (3) comparable rental properties within one mile (or, in the case of rural projects where comparables do not exist within one mile, in the market area) of the subject property should be included in the market analysis. The analysis should include information on all rental developments that can be considered “true comparables” available to serve the target market. This includes those existing developments with comparable financing, developments serving the same market, developments of comparable age, and developments with comparable amenities. The analyst must indicate which developments in the market area s/he determines to be the most directly comparable, and why. Further, a rent comparability must be done, and a demonstration made that the tenant paid rents for each tax credit unit type in the proposed development will be at least 10% below rents for the same unit types in the comparable rental properties.

The following information must be provided for competitive rental developments in the market area.

- A. Name, address, and telephone number of the development.
- B. Age of the development.
- C. Number of units by bedroom size and structure type

- D. Square footage for each comparable unit type. Indicate if square footage is gross or net.
- E. Current contract rent for each comparable unit type. Where possible, provide rent history for past 3 years.
- F. Tenant-paid utilities.
- G. Heat source.
- H. Amenities (both unit and development.)
- I. Vacancy rates, waiting lists, and turnover rates by bedroom size and structure type.
- J. If the proposed development represents an additional phase of an existing housing development, include a tenant profile as well as additional information related to households on a waiting list of the existing phases.
- K. In rural areas lacking sufficient three and four bedroom rental comparables, provide data on three and four bedroom single-family rentals, showing that the tax credit rents will be at least 20% below rents for these single family homes.
- L. Rent comparisons for each unit type in the comparable and the subject development.

For developments in the planning or construction stages, provide the number of units, unit configuration, rent structure, estimated date of market entry, and any other relevant market analysis information. If there are no developments in the planning stages or under construction, a statement to that effect must be provided.

## **IX. IMPACT ON EXISTING AND PLANNED AFFORDABLE HOUSING**

Provide specific data relating to already existing or planned affordable housing developments in the market area and the impact that the proposed development will have on such housing. This analysis should include a consideration of the age of existing affordable units, amenities offered, as compared to those proposed at the subject development, and whether there is sufficient market demand for the existing affordable housing and the proposed affordable housing.

## **X. RECOMMENDATIONS/CONCLUSIONS:**

The study must include the market analyst's recommendations and conclusions, supported by the data contained in the market study. The analyst should provide an evaluation of the proposed development, given the target population and market conditions. This analysis should include market justification for the proposed development, including the proposed rents by unit and population type, estimated absorption rate, and should further evaluate the proposed unit, development, and locational amenities given the market. Finally, the market study should provide an objective review of past, present, and future demographic and economic trends in the defined market area. and include an estimate of how the proposed development will be integrated into the market area based on existing rental comparables and anticipated pipeline additions to the rental base.