

## Kentucky Housing Corporation Market Study Requirements

*These guidelines are for all rental projects of 12 units or more and all Housing Credit projects. Projects of less than 12 units and not requesting Housing Credits are required to submit market information according to the Needs Analysis requirements.*

### **Overview and Background**

Rental housing projects funded by Kentucky Housing Corporation (KHC) will serve low- to moderate-income tenants. It is the utmost importance that KHC be assured that a demand exists for rental units financed by KHC and there is no adverse affect on other viable affordable rental projects in the target market area.

### **Requirements**

The marketing research firms will be required to complete marketing demand studies that will ascertain the need and demand for rental housing units. The study must contain a statement by the analyst that the report was written according to KHC's market study requirements.

The market study is a narrative report with appropriate charts and graphs. The feasibility analysis will utilize well tested methodologies and principals that have industry acceptance and lead to logical conclusions that are well supported.

### **Site Evaluation:**

This section must include a detailed description of the project's site, any improvements and the surrounding area. The analyst must:

1. Physically visit the site and the market area in general.
2. Describe the physical features of the site and adjacent parcels. Discuss both positive and negative attributes of the site in relation to their possible impact on the overall market demand. Some of the items to discuss are the curb appeal, surrounding land uses, the physical relationship of the site to the surrounding roads, amenities, employment, services, etc.
3. Include pictures of the site.
4. Include a map clearly identifying the site and surrounding amenities such as schools, shopping, medical facilities, employment centers, etc.
5. Include a map clearly identifying existing subsidized low-income housing within the market area that could impact the lease-up of the proposed project. Indicate in miles, the proximity of these projects.
6. Describe all developments on either side of the property as well as the front and back of the site and their present condition.

## Target Market Area

The target market area (TMA) is defined as the primary market area and the secondary market area. The analyst will describe a basis for defining the boundaries of the TMA. Use of geographic boundaries such as roads, rivers, and residential districts are encouraged. The primary market area is the most likely geographic area from which a property would draw its tenants. Secondary market area is the portion of a market area that supplies additional tenants to a project beyond that provided by the primary market area. The study should include the basis for considering the secondary market area.

The economy of the target market area should be addressed with a minimum of the following information:

- ✓ Employment by industry
- ✓ The major current employers and any anticipated expansions, closures or any new employment planned for the market area.
- ✓ Unemployment trends for the market area and, where possible, the county total workforce figures and number and percentage unemployed.
- ✓ A map of the area indicating the site and location of major employment concentrations.
- ✓ A narrative analysis of data provided with conclusions that relate the data to any potential impact it will have on the housing demand.

## Demographic Data

The purpose of this section is to identify the number of potential households within the Target Market Area (TMA) that should be considered as renters for the proposed project.

Provide the following demographic information for the TMA, giving historical data as well as current data. Include data on population and households projecting five years out. Projections must be prepared by a reputable source. U.S. Census data prior to the 2000 census is only acceptable as historical data and trending. Please include a narrative description of the data presented including overall conclusions.

### 1. Population Trends

- ✓ Total population
- ✓ Population by age group
- ✓ Number of elderly and non-elderly (for elderly projects)
- ✓ If a special population is proposed for the project, provide additional information on population growth patterns specifically related to this population.

### 2. Households Trends

- ✓ Total number of households and average household size.
- ✓ Household by tenure (i.e. the number of owner and renter households including the ratio of owner to renter households).
- ✓ Households by income. Elderly proposals should reflect the income distribution of elderly households only.
- ✓ Average household size.
- ✓ Renter households by number of persons in household.

## **Competitiveness and Comparability**

The analyst should supply descriptions and occupancy levels of other existing affordable rental projects that would be direct competition for the proposed project, those under development and those in the pipeline to be constructed that would be direct competition for the proposed project and serving the same income group. The following information should be included for these projects:

1. Name, address and phone number of the comparable project.
2. Photograph
3. Breakdown of unit sizes by bedroom count.
4. Square footage of each comparable unit type.
5. Monthly rents and what utilities are included in the rent, if any.
6. Project age
7. Description of amenities such as washer/dryer hookups, laundry facilities, community room, etc.
8. Number of units receiving rental assistance, description of assistance as project or tenant based.
9. In areas lacking sufficient three and four bedroom rental comparables, provide data on three and four bedroom single-family rentals or provide information on other rental options in the community in order to try to identify where potential tenants are currently living.
10. A map showing the comparables in relation to the proposed project.
11. For developments in the planning or construction stage, provide the name, address/location, number of units, unit configuration, rent structure, estimated date of market entry, any absorption history to date and any other data considered relevant. If there are no projects in the planning stages or under construction, a statement to that effect must be provided.
12. A discussion should be provided that addresses the impact the proposed project will have on the occupancy of other competitive projects in the area. The analyst shall examine whether the proposed property will significantly reduce the tenancy of such established properties.
13. A discussion of any other risk or mitigating circumstances that may impact the proposed project.

Describe the other affordable housing in the area that may not have been considered above because it was not considered competitive. Also discuss why the housing was not considered competitive to the subject.

## **Market Rent**

The analyst shall determine the market rent for the proposed units and distinguish what utilities, if any, the rent includes. The HUD form 92274 rental grid must be used to determine market rent. Explanations should be given for any unusual adjustments that are not self explanatory. An unusual adjustment may also include the fact that an adjustment was not made where it would appear one is needed. A discussion should be provided of the reconciliation process used to determine the final market rent.

Compare the market rent determined for each bedroom type and the proposed rent for each bedroom type. Discuss the market rent advantage, if any, this project may have using the proposed rental structure.

## **Demand Analysis**

Use the applicable incomes and rents in the project's application. Analysts must take the income restrictions designated in the application into account when estimating demand. The study should include data for each income group targeted by the project as described in the application. For example, if the project targets families of various income groups, demand projections using the above methodology should be provided for each group and bedroom size.

Analysts should assume no family households are able to pay more than 35% of gross income towards total housing expense and that no elderly households are able to pay more than 40% of gross income towards total housing expenses. The demand analysis should clearly indicate the minimum income and maximum income range for each targeted group. For projects with project based rental assistance, (Section 8, Rural Development, etc.) two separate demand analyses must be shown. One with the rental assistance, thereby allowing \$0 for the minimum income and one without the rental assistance. The income band should not consider the minimum income as \$0 unless the rental assistance is project based. For projects with market rate units, the analyst must make some reasonable determination of a maximum income level beyond which a household would not likely be a participant in the rental market. The analyst should clearly state the assumptions used in making this determination.

Demand will be broken down by household size and the following standards should be used:

- One Bedroom Units – 1-2 person households
- Two Bedroom Units – 2-4 person households
- Three Bedroom Units – 4-6 person households
- Four Bedroom Units – 5 or more person households

For bedrooms larger than 4, please explain the methodology used for determining the household size. When a project has multiple unit types an overlap of demand will occur. In this instance, once the capture rate has been determined for each bedroom type, a weighted average should be used to calculate the overall capture rate for the project.

### **Demand from new households:**

New units required in the market area due to projected household growth should be determined. This should be determined using 2000 census data and projecting forward to the anticipated lease up date of the project using a growth rate established from a reputable source. The population projected must be limited to the age and income group being targeted by the project. Projections should be projected for a 5 year period. If the number of proposed units exceeds the growth then the analyst must provide additional documentation of demand that does not include cannibalization of existing affordable projects.

### **Demand from existing households:**

**Rent over-burdened households**, if any, within the age group, income groups and tenure (renters) targeted for the proposed development. This calculation must exclude households that would be rent over-burdened in the proposed project. (i.e. paying more than 35% of their income toward rent)

**Households living in substandard housing.** Substandard housing is defined as units that lack complete plumbing or kitchen facilities, have no source of heat and were built prior to 1940. Households in substandard housing should be adjusted for age, income range and tenure as applicable.

If the proposed project is a rehabilitation of an existing occupied project, then the market study must indicate the anticipated number of existing tenants who meet the program requirements and will elect to remain at the project through the rehabilitation.

The analyst should use their own knowledge of the market area and project to determine if households from substandard housing and rent over-burdened households would be a realistic source of demand. A reasonable capture rate for these groups should be used when calculating the total demand. No more than 10% of turnover from existing households that are not from the two segments mentioned above should be considered in the total demand calculation. If the analyst believes there are other indicators that are not considered in the methods above, they can be considered if the analyst can justify the reason. Any such additional indicators should be calculated separately and be easily added or subtracted from the demand analysis described above.

**Elderly homeowners likely to convert to renter-ship**

Due to the difficulty of extrapolating elderly owner households from elderly renter households, analysts may use the total figure for elderly households in the appropriate income group in order to derive this demand figure. **Interviews with property managers of active projects regarding renters who have come from homeownership should be used to refine the analysis.**

**Capture rate**

The two overall demand components (new households and existing households) added together should represent the total demand for the project. **Comparable units under construction and projected to be placed in service prior to or at the same time as the proposed project must be subtracted to calculate net demand.** Capture rates should be calculated by dividing the number of units in the project by the net demand. Demand and capture rate analysis must be completed for targeted income groups and each bedroom size proposed as well as for the project overall. Please include a narrative on what the capture rate means for the proposed project given the market area. (i.e - Is this an average capture rate or one that should cause concern?)

At a minimum, the demand and capture rates should be presented in a grid format containing at least the following information:

|  | Primary Market Area |  | Secondary Market Area |  |
|--|---------------------|--|-----------------------|--|
| <b>Unit Type by Bedroom</b>                |                     |  |                       |  |
| <b>AMI</b>                                 |                     |  |                       |  |
| <b>Proposed Units</b>                      |                     |  |                       |  |
| <b>Net Demand from Household Growth</b>    |                     |  |                       |  |
| <b>Net Demand from Rent Overburdened</b>   |                     |  |                       |  |
| <b>Net Demand from Substandard Housing</b> |                     |  |                       |  |
| <b>Required 10% Turnover Allowance</b>     |                     |  |                       |  |
| <b>Total Housing Demand</b>                |                     |  |                       |  |
| <b>Units under Construction</b>            |                     |  |                       |  |
| <b>Remaining Demand</b>                    |                     |  |                       |  |
| <b>Subject Proposed Units</b>              |                     |  |                       |  |
| <b>Capture Rate</b>                        |                     |  |                       |  |

**Absorption rate**

Absorption rates should be provided in the market study which give an estimation of the time required for the property to reach sustaining occupancy or at least 93% occupancy. The absorption period is considered to start as soon as the first units are released for occupancy.

## **Conclusion and Recommendation**

- The analyst should state his/her professional opinion regarding the subject project's feasibility from a market perspective and what effect the subject project's units would have on the existing market.
- The analyst must specify the absorption period and the time needed to reach sustained occupancy.
- The analyst should point out any other information s/he believes to be important to the overall market demand for the TMA including commenting on the appropriateness of the unit mix and proposed rents.
- The analyst should make recommendations for any modifications to the project that would make the project more marketable than proposed.

## **Certification**

The analyst must provide a certification stating:

- There is no conflict or identity of interest with the developer/owner of the project.
- The results, recommendations and conclusions stated in the study are based solely on professional opinion and reliable data.
- The study was prepared in accordance with acceptable market study practices and with KHC's market study guidelines.