Minnesota Housing
Finance Agency

Market Study Guidelines
2013 Housing Tax Credit Program

April 2012

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Minnesota Housing Market Study Guidelines

General Information

Minnesota Housing Finance Agency (Minnesota Housing) requires a comprehensive market study of the housing needs of low-income individuals in the area to be served by the developer's low-income housing tax credit project conducted by a disinterested party at the developer's expense who is on the Minnesota Housing Authorized Contract List.

NOTE: The submittals for the market study should be apart of the Common Application with original signature plus three (3) copies, and one set of the original required attachments (with signatures, as necessary) plus three (3) copies of all attachments.

To assist project owners, developers and consultants, Minnesota Housing has prepared market study guidelines that must be used for a study to be considered. These guidelines establish the minimum information and analysis required for an acceptable market study. Meeting these guidelines does not ensure acceptance of the study. The methodology used and conclusions drawn must be reasonable. Minnesota Housing in determining whether a market exists for a proposed project will consider market factors other than market study. Minnesota Housing reserves the right to deny any application based on such factors.

The study must be a concisely-written bound report including pictures and tables. The market study must have an effective date within six (6) months of the Housing Tax Credit (HTC) application due date. An update may be accepted if the effective date of the original market study is within twelve (12) months of the application date. Market studies submitted in HTC Round 1 will be accepted for Round 2 in the same allocation year.

If an update is submitted, it must identify and analyze the impact of additional developments not identified in the prior report and include any changes in the occupancy and rent structure in the marketplace. The analyst must address other factors that may have significant impact on the proposed development, such as economic changes and/or demographics. The analyst must specify in the update whether or not any of the changes listed above have occurred, and provide detailed explanations of the changes and their resulting effects on the market area and the proposed project.

Content Standards for Market Studies for Rental Housing

I. Purpose

The purpose of these standards is to provide standardized content for market studies of affordable rental housing submitted to Minnesota Housing for projects applying for HTC. Other funding requested from Minnesota Housing should be taken into consideration in completing the market study. The standards outline the content, data, analysis and conclusions to be included in market studies for rental housing. The format and presentation of the market study report must follow the guidelines established by the Market Study Index (Addendum A).

II. Content

A. Executive Summary

Each market study should include a summary of the data, analysis and conclusions, including the following:
- A concise description of the site and the immediately surrounding area.
- A summary of the project including the proposed number of units, rent levels and population to be served.
- Precise statement of key conclusions reached by the analyst.
- Concise statement of analyst's opinion of market feasibility including the estimate of the long-term performance of the property, given housing and demographic trends and economic factors.
- Recommendations and/or suggested modifications to the proposed project if appropriate.
- A summary of market related strengths and/or weaknesses which may influence the subject development's marketability, performance, lease-up, including compatibility with surrounded uses, the appropriateness of the subject property's location, unit sizes and configuration, number of units, rent levels, amenities and points that will mitigate any negative attributes.

B. Project Description

The market study should include a project description to show the analyst understands the project at the point in time the market study is undertaken. The project description should include:

1. **Project Structure**
   - Number of units by unit mix (bedrooms and baths).
   - Targeted income limit as a percent of AMI.
   - Each unit size in net square feet (the living area of a unit, exclusive of common areas).
   - Proposed contract and gross rents.
   - The utilities expected to be paid by tenants and energy sources for tenant paid hot water, heat and cooking, as well as the utility allowances for tenant paid utilities and the type of heat provided.

2. **Project Description**
   - Target population, including population served, income restrictions and proposed housing assistance (refer to Additional Requirements for Projects Involving Special Needs Populations, Housing for Homeless/Long-term Homelessness Households and Supportive Housing, if applicable).
   - Number of buildings.
   - Design type (e.g. walk-up, elevator, townhomes).
   - Number of stories.
   - Unit and development amenities.
   - Parking.
   - Developer's projected dates for construction start and completion, and start of pre-leasing.
   - A copy of the floor plans and elevations should be included as an attachment to the report.*****

3. **Additional Requirements for Rehabilitation**
   - Identification of any existing subsidized housing program at the property such as Section 8, Section 202, Section 811, BMIR, Section 236, etc, as well as current occupancy levels, current rents and proposed rents. A brief profile of current occupants should be provided that includes typical income, household size, age, etc.
   - Description of program income and rent limits, and analysis of where current and proposed subsidized rents are relative to market level.

- Description of the methodology for the rehabilitation and the scope of work, including the phasing of rehab activities, impact of the rehabilitation work and new rent structure on current tenants and whether proposed rehab supports post-rehab rent increases.
- Information on tenant relocation (if necessary), such as number of tenants to be either permanently and/or temporarily displaced, for how long and where.
- An analysis of the income qualification of existing residents with the proposed rent changes.
- A three-year description of the property's occupancy/vacancy must be presented.
- If occupancy has averaged less than 90% over the last 12 months, address any of the issues identified as contributing to this.
- A rent roll showing tenant incomes for all affordable units at the subject, as well as the household size occupying the unit and the unit's number of bedrooms.
- Documentation of the length of time that subsidies will remain available at the project, or of the availability of additional rental subsidy at the proposal (e.g., additional Rental Assistance units for RD 515 projects), such as a copy of the applicable portion of the HAP contract, or a letter from the Rural Development showing that the RA units at the subject will remain after rehab efforts are finished.
- Include the status or date of architectural plans, name of the architect and/or a copy of the floor plans and elevations.*****
- The market analyst should review site and architectural plans and give a rough opinion on their effects on the marketing of the completed project.*****

  *If plans are not completed at the time of the analysis, it should be identified on the market study.

C. Location and Market Area Definition

1. **Primary Market Area and Secondary Market Area**
   - For the purposes of market studies, the Primary Market Area (PMA) is the local area from which the subject will draw potential renters. It implies that households within the PMA would be willing to move to, or shop for, housing located therein, and that rents, amenities and other aspects of housing would be similar among multifamily complexes in that area.
   - Given this definition, the analyst must define the PMA that pertains to the subject. Identify PMA boundaries by census tracts, school districts, jurisdictions, street names, or other geography forming the boundaries. Also, include a map that clearly shows the borders of the PMA, and its major features (towns, cities, counties and MSAs included, major roadways, and the location of the subject).
   - Defend the composition and extent of the PMA. Provide a written narrative detailing the rationale for the primary market area. This narrative should specifically address any specific issues with the market area including the exclusion of nearby areas or justification for geographically large market areas. In addition, PMAs that cross state borders are allowed only if convincing evidence of cross-border interaction (migration, commuting, shopping, experience of other projects in the market, etc.) is presented in the study.
   - Define the Secondary Market Area (SMA) if applicable. Provide as needed to complete your market conclusions, the same data and information relative to the SMA that was given for the PMA.

2. **Site Characteristics**
   - Provide a description of the site characteristics including its size, shape, general topography and vegetation and proximity to adverse conditions. For scattered site projects, note the differences in quality that may occur between parcels, as well as a map of the parcels showing their geographic distribution.
   - Provide photographs of the site and neighborhood, and a map clearly identifying the location of the project and the closest transportation linkages, shopping, schools, services, public transportation, and other services such as libraries, community centers, banks, etc. In situations where it is not feasible to show all the categories on a map, the categories may be addressed in the narrative.
   - Where applicable, provide evidence of new private or public investment in the area near the proposal. This could include community revitalization plans, other housing developments, new commercial enterprises, or others.
   - Describe the marketability of the proposed development. Aspects of this include the following:
     a. Curb appeal.
     b. Non-residential land uses contiguous to the site (dumps, auto salvage yards, heavy industrial uses or other land uses that are generally not compatible to the proposed development).
     c. An analysis of the linkages between the project and local amenities.
     d. An analysis of the surrounding neighborhood, including the analyst's perception of its residential

character, non-residential land uses (if any), the quality of the housing stock, its level of upkeep, and its effects on the market performance of the proposal.

- Describe and evaluate the visibility and accessibility of the site. Important aspects of this include the following:
    a. Ease of ingress and egress, including a discussion of traffic controls around the site, difficult left-hand turns against prevailing traffic, excessive curb cuts surrounding the entrance to the development, and unreasonable lines of sight at the entrance. Excessive traffic congestion should be avoided, such as around major employment parking lots, large shopping malls and multi-screen theaters.
    b. Self-advertising quality of the site, by virtue of its visibility from roadways.
    c. Adequate visual separation from adjacent land uses.
    d. Potential for adequate signage, lighting and landscaping.

D. DEMOGRAPHIC CHARACTERISTICS

Present recent census demographic data for the Primary Market Area (and SMA if appropriate)using current year estimates, and a five (5) year projection using reputable sources. Data from third-party demographic data providers, such as Claritas, CACI, ESRI and others is acceptable. Indicate the source for all data, and provide an analysis of trends indicated by the data.

Detail on the following demographic topics is necessary:
- Population trends.
- Population by age, including the number of non-elderly (0-64) and elderly (65 and over).
- Building trends in relation to household trends.
- Tenure by age of householder, including the number of renters and owners that are headed by seniors (aged 65 and over) and non-seniors.
- Household by tenure.
- Provide a breakdown of households by incomes in $5,000-$10,000 increments, by tenure for 2010 Census, current year, and the year of market entry. If necessary, the current income distribution by tenure can be applied to the market-entry estimate of households.
- In most cases, elderly households must be removed from these totals when analyzing family projects, and non-elderly households must be removed with senior subject proposals. The only exception for this rule concerns markets where the subject, by virtue of market or unit size (for example, markets with a lack of senior housing, or proposals that feature one and two bedroom unit mixes), might indeed attract senior renters. Adequate evidence supporting the exception must be provided.

E. Employment and Economy

Provide data and analysis on the employment and economy of the Primary Market Area to give an understanding of the overall economic health of the community in which the Primary Market Area is located. List sources for the data and methodology for the analysis and relate all findings to the market performance of the subject property.

1. **Employment and Unemployment**
    - Provide a description of employment by industry sector for the Primary Market Area or smallest geographic area available that includes the Primary Market Area and compare the data to the larger geographic area (e.g. the city, county, labor market area, MSA).
    - List major employers in the PMA, the type of business and the number employed and compare the data to the larger geographic area (e.g. the city, county, labor market area, MSA).
    - Show the historical unemployment rate for the last ten years (or other appropriate period) for the PMA and appropriate geographic areas and compare to the larger geographic area (e.g. MSA, County, SMA, etc.).
    - Show employment growth over the same period. Compare to the larger geographic area.
    - Comment on future trends for employment, as well as general economic conditions, in the PMA in relation to the subject property. This would include expected employer expansions or contractions, plant openings and closings or other similar information. Adequate supporting evidence must be provided.

2. **Workforce Housing:** If relevant, comment on the availability of affordable housing for the local workforce that draws from the PMA.

3. **Wages by Occupation:** Provide a breakdown of typical wages by occupation. These are usually available on an MSA-wide basis, but some sources might exist for smaller areas.

4. **Commuting Patterns:** Provide commuting patterns for workers such as how many workers in the PMA commute from surrounding areas outside the PMA. Comment on what these patterns mean for the marketability of the subject proposal.

F. Existing Rental Housing Stock

Provide information on other multifamily rental housing in the Primary Market Area and any rental housing proposed to be developed in the Primary Market Area. This section of the Market Study should include:

1. **Building Permit Trends:** A 5-year history of building permits, if available, by housing type and comments on building trends in relation to household trends will be included in the study.

2. **Rental Market Information:**
   - Identify a list of existing multifamily rental projects in the PMA, including:
     - Name
     - Street address
     - Population served
     - Type of design
     - Age and condition
     - Number of units by bedroom type
     - Rent levels
     - Number of bedrooms and baths for each unit type
     - Size in square footage of units
     - Kitchen equipment
     - Type of utilities (state whether paid by tenant or owner and energy sources for hot water, heat and cooking)
     - Unit and site amenities included
     - Site staffing
     - Occupancy rate by unit size and AMI, if applicable
     - Rental absorption history within the last two years
     - Concessions currently offered
     - Number of households on waiting list
     - Name, address and phone number of property contact
     - Date of data collection
   - Include a map identifying the location of each property in relation to the subject, identifying its funding type or subsidy source (LIHTC, Conventional, Section 8, Section 236, Section 515, MN Housing financing, or other).
   - Describe the size of the overall rental market in the PMA, including the percentage of Market Rate and Affordable Housing properties.
   - Provide a narrative evaluation of the subject property in relation to the market's multifamily properties.

3. **Most Comparable Properties**
   - Identify those properties, which are most similar to the proposed development. The analyst should state why these comparables referenced have been selected, which are the most directly comparable, and explain why certain projects have not been referenced.
   - Pictures must be provided of the properties deemed most comparable to the subject. These must be of a size large enough to be useful to reviewers.
   - Include a map of these properties, with a usable scale and the location of the subject property.
   - A table showing each Comparable Property comparisons to the subject rents based on the Comparable Property Amenities, Tenant Paid Utilities, location, parking, concessions and rent increase or decrease trends.
   - The Market Vacancy Rate for the Primary Market Area rental housing stock by population served (e.g. market rate, Low Income Housing Tax Credit, and Project Based Rent Assistance) and type of occupancy (e.g. family, seniors, special populations) and unit size.

4. **Competitive Environment**
   - Discuss the availability of affordable housing options, including purchase or sale of homes and future trends. This is important in the case of rural markets, or subject properties that contain a large number of larger (three or four bedroom) units and for senior projects, in that homeowners must sell their existing homes before moving to the subject.
   - If the subject property has three- or four-bedroom units that account for at least 20% of its total units, use single-family rentals for comparison purposes in markets that do not have multifamily rental stock with three or more bedrooms.
   - Discussion of rental projects planned or under construction in the market area giving as much detail as possible.
   - Discuss the impact of the subject development on the existing housing stock, in terms of conventional multifamily projects, affordable projects
   - The market vacancy rate for the PMA rental housing stock by population served (e.g. market rate, Low Income Housing Tax Credit, and Project Based Rent Assistance), type of occupancy (e.g. family, seniors, special populations) and unit size must be computed.
   - Provide an average rent among comparable properties in the area, and discuss its ramifications for the marketability of the subject. Note that in many markets the level of rent charged in HUD-assisted properties is often not attainable without the provision of rental subsidy.

G. **Local Perspective of Rental Housing Market and Housing Alternatives**

The market study should include a summary of the perspective on the rental market, need for the proposed housing and unmet housing need in the market. The local perspective should consider:
   - Interviews with local planners, housing and community development officials and market participants to estimate proposed additions to the supply of housing that would compete with the subject and to evaluate the local perception of need for additional housing.
   - Interviews with local Public Housing Authority (PHA) officials to seek comment on need for housing and possible impact of the proposed development on their housing inventory and waiting lists for assisted housing. Include a statement on the number and availability of Housing Choice Vouchers and the number and types of households on the waiting lists for Housing Choice Vouchers. Compare subject's proposed rents to local payment standards or median rents.

H. **Analysis / Conclusions**
   - Provide a detailed analysis of the income levels of the potential tenants for the proposed units. State and support the minimum household income used for total housing expenses to set the lower limit of the targeted household income range.
   - Calculate the capture rate for each income limit in the subject property incorporating any housing finance agency or other regulating agency restrictions such as age, income, living in substandard conditions, renters versus home owners, household sizes, etc.
   - Calculate the penetration rate that includes all competitive properties.
   - Define and justify the absorption period and absorption rate for the subject property.
   - Provide documentation and descriptions that show the methodology for calculations in the analysis section and relate the conclusions to the data.
   - Derive a market rent and an achievable rent and then compare them to the developer's proposed rent. Quantify and discuss market advantage of the subject and impact on marketability.
   - Project and explain any future changes in the housing stock within the market area.
   - Identify risks (e.g. competitive properties which may come on line at the same time as the subject property; declining population in the PMA, etc.), unusual conditions and mitigating circumstances. Evaluate need for rental assistance or HUD contracts.
   - Evaluate the demand in two ways: one as a tax credit project only without any subsidy and the other as if the project was to retain its current subsidy, if applicable.

I. Additional Requirements for Projects Involving Special Needs Populations, Housing for Homeless/Long-term Homelessness Households and Supportive Housing

- Identify and describe the population to be served by the proposed housing as well as the amount and type of subsidy, which will be made available to make this rental housing more affordable to the target population. If no such subsidy will be made available, state that fact, and justify the rents based on the incomes of the target population.
- Location of relevant support service providers and the distance in miles from the site. Detail on the types of services to be provided, experience at providing these services, and the ability of the service provider to sustain these services over time. Indicate any other entities, which will have involvement in providing services to the targeted population.
- Provide data on the current number of persons and households in the special needs category or categories to be served. Identify the sources for these estimates (e.g. service providers, human service agencies, Wilder Survey). Indicate changes in these populations and household counts from previous years, and provide projections for future years. To the extent possible, provide data on household size, age distribution, current place of residence and tenure
- The overview of the local economy should pay close attention to the level of employment in the unskilled and semi-skilled occupations. Supportive work settings should be identified, and their capacity of providing additional work opportunities discussed.
- Provide estimates on the current income of the targeted population indicating the sources of income.
- Estimate the time it will take to fill all of the proposed units. Explain how this estimate was derived.
- Identify any existing rental housing specifically targeted to meet the needs of the targeted population. This includes conventionally-financed rental housing which serves a significant special needs population and those in the target market who currently live in group quarters/facilities. Identify any existing special needs housing where leases may not be renewed due to investor influence or significant increases in area rental rates.
- Identify other proposed developments that will be targeted to the same target population or have the potential to be competitive. Describe each in detail, including information on location, unit types, and rents. If there are no other potentially competitive developments in the planning stages, a statement to that effect must be provided.

J. Other Requirements

- Date report was prepared, date of site visit and name and telephone number of analyst preparing study.
- Minnesota Housing Market Study Checklist. (Addendum B)
- Minnesota Housing Market Study Certification. (Addendum C)
- Statement of qualifications, including a resume.
- List of sources for data in the market study.

Note: These guidelines were adopted in part from the National Council of Affordable Housing Market Analysts recommended practices.

Addendum A

Market Study Index

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Addendum B
Market Study Checklist
(Attach this Checklist, fully completed, as an Addendum to the submitted Market Study)

A. <u>INTRODUCTION</u>

As part of the Market Study, the Analyst must provide a checklist referencing the components of the Market Study. This checklist is intended to assist readers on the location and content of issues relevant to the evaluation and analysis of the Market Study.

B. <u>DESCRIPTION AND PROCEDURE FOR COMPLETING</u>

The following components have been addressed in this market study. The page number of each component is noted below. Each component is fully discussed on that page or pages. In cases where the item is not relevant, the author has indicated 'N/A' or not applicable. Where a conflict with or variation from Minnesota Housing Market Study Guidelines exists, the author has indicated a 'V' (variation) with a comment explaining the conflict.

	COMPONENT	PAGES
1.	Executive Summary	
2.	Concise description of the site and adjacent parcels	
3.	Project summary	
4.	Precise statement of key conclusions	
5.	Recommendations and/or modification to project discussion	
6.	Market strengths and weaknesses impacting project	
7.	Lease-up projection with issues impacting performance	
8.	Project description with exact number of bedrooms and baths proposed, income limitation, proposed rents and utility allowances	
9.	Utilities (and utility sources) included rent and paid by landlord or tenant?	
10.	Project design description	
11.	Unit and project amenities; parking	
12.	Public programs included	
13.	Date of construction/preliminary completion	
14.	Reference to review/status of project plans	
15.	Target population description	
16.	Existing building – Rental assistance programs and assistance availabilities	
17.	Existing building – Income and rent limits	
18.	Existing building – Impacts of rehab work and new rents on current tenants	
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25.	Special Needs/Homelessness/Supportive housing - description and location of relevant support services	
26.	Special Needs/Homelessness/Supportive housing – special needs/homelessness/supportive housing PMA	
27.	Special Needs/Homelessness/Supportive housing - special needs/homelessness/supportive housing statistical data	
28.	Special Needs/Homelessness/Supportive housing - special needs/homelessness/supportive housing employment opportunities	
29.	Special Needs/Homelessness/Supportive housing – competition to proposed special needs/homelessness/supportive housing	
30.	Market area/secondary market area description	
31.	Description of site characteristics	
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64.	Discussion of future changes in housing population	
65.	Discussion of risks or other mitigating circumstances impacting project projection	
66.	Preparation date of report	
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68.	Certifications	
69.	Statement of qualifications	
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Addendum C
Minnesota Housing Market Study Certification
(Attach this Certification, fully completed, as an Addendum to the submitted Market Study)

The undersigned certify that the following is true and correct:

1. That the Market Analyst is knowledgeable and experienced in the development of affordable rental properties.
2. That the Market Analyst conducted and was the primary author of the attached low income housing tax credit market study report ("Report") for _____(Project name) ("Project") for _____(Developer/owner name).
3. That the Report was completed on _____.
4. That to the best of the Market Analyst knowledge, all data contained in the Report is accurate.
5. That the Market Analyst has made a physical inspection of the area in which the Project will be located, reviewed all relevant data, and independently established the conclusions for the Report.
6. That all projections contained in the Report were based on current professionally accepted methodology.
7. That the Market Analyst has no financial interest in the proposed Project.
8. That the Market Analyst 's fee for conducting the Report, and the findings and conclusions contained therein , were not contingent upon the proposed Project being selected by the Minnesota Housing Finance Agency.
9. That it is the Market Analyst's unbiased and professional opinion that there is sufficient demand for the Project as of the completion date of the Report.

By: _____
    (Market Analysts)

By: _____
    (Authorized Representative)

Title: _____

Date: _____