



# **2017 Housing Tax Credit & 2016 Senior Rental Housing Pilot Program Market Study Guidelines**

*April 2016*



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## Chapter 1 – General Information

Minnesota Housing requires a comprehensive market study of the housing needs of low-income individuals in the area to be served by Low-Income Housing Tax Credit and Senior Pilot projects. The market study is at the developer's expense and must be conducted by a disinterested party. A developer must choose a disinterested party from Minnesota Housing's [Authorized Contract List](#).

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

The study must be a concisely written, bound report that includes pictures and tables. The market study must have an effective date within six months of the Housing Tax Credit (HTC) or Senior Pilot application due date. An update may be accepted if the effective date of the original market study is within 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. It must also 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 these changes have occurred and, if so, provide detailed explanations of the changes and their resulting effects on the market area and the proposed project.

## Chapter 2 – Content Standards for Market Studies for Rental Housing

### 2.01 Purpose

The purpose of these standards is to provide uniform content for market studies of affordable rental housing submitted to Minnesota Housing for projects applying for HTC and the Senior Pilot. Other funding requested from Minnesota Housing should be taken into consideration when completing the market study. The standards outline the content, data, analysis and conclusions to be included in market studies for rental housing. The market study must include the following sections and be written in the exact order outlined below:

### 2.02 Executive Summary

Each market study should contain 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

- A brief description and support of the defined Primary Market Area (PMA)

- A summary of market-related strengths and/or weaknesses that may influence the subject property's marketability, performance, lease-up, including compatibility with surrounding uses, the appropriateness of the subject property's location, unit sizes and configurations, number of units, rent levels, amenities and points that will mitigate any negative attributes

- Recommendations or suggested modifications to the proposed project, if appropriate

- A brief summary of key economic and demographic factors for the PMA

- A brief comparison of the subject property to comparable affordable and market rate properties

- A summary of key conclusions of market feasibility including stabilized occupancy rates, achievable rent levels and the forecasted absorption period for the subject property. If changes to the subject property are recommended, the forecasted absorption should specify whether or not the estimate assumes changes are made.

### 2.03 Introduction and Scope of Work

The introduction of the market study should summarize the report's purpose and scope of work conducted during the preparation of the report. This section must include:

- A Comprehensive Market Analysis Full Narrative Report, a Comprehensive Summary Report, a Market Advisory Report, or other (explain)

- Name of client and project developer

- Intended use and users of the report

Steps taken in completion of the report. If any significant steps were not taken, identify and explain

Date of field work and site visit

Person conducting field work

Primary analyst reaching conclusions of report

## **2.04 Project Description**

The market study report should include a project description to show the analyst understands the project at the 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 and rent limits as a percent of Area Median Income (AMI)

Each unit size in net square feet (the living area of a unit, exclusive of common areas)

Proposed contract rents

Utility allowance documenting utilities to be paid by the tenant

### **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

Exterior finishes

Unit features and common amenities

Parking options including number of spaces and any fees

Developer's projected dates for construction start and completion, and start of pre-leasing

A copy of the floor plans and elevations 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. Provide a brief profile of current occupants 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, new rent structure on current tenants and whether the proposed rehab supports post-rehab rent increases

An estimate of total construction costs and cost per unit, including a breakdown of hard and soft costs, if available

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

If occupancy has averaged less than 90 percent 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 subsidies will remain available at the project, or of the availability of additional rental subsidy at the project (e.g., additional Rental Assistance (RA) units for Rural Development (RD) 515 projects), such as a copy of the applicable portion of the Housing Assistance Payment (HAP) contract or a letter from the RD showing that the RA units at the subject project 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, identify this condition on the market study.

## **2.05 Location and Market Area Definition**

### **1. Primary Market Area (PMA) and Secondary Market Area (SMA)**

For the purpose of market studies, the 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 project. Identify PMA boundaries by census tracts, school districts, jurisdictions,

street names, or other geographic information forming the boundaries. Also include a map that clearly shows the borders of the PMA and its major features (towns, cities, counties, MSAs, major roadways and the location of the subject project).

Defend the composition and extent of the PMA. Provide a written narrative detailing the rationale for the PMA, including market specific information rather than generic factors or concepts considered. This narrative should specifically address any 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 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 provide 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 other new private or public investments.

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 (landfills, 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

## **2.06 Demographic Characteristics**

Provide recent census demographic data for the PMA (and SMA if appropriate) using current year estimates and a 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, provide an analysis of trends indicated by the data, and provide a copy of the demographic source data in the appendix.

Detail on the following demographic topics is required:

Population and household trends

Population and households 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 renter and owner households that are headed by seniors (aged 65 and over) and non-seniors

Income by tenure

Household by tenure, household type, and household size

Provide a breakdown of households by incomes in \$5,000-\$10,000 increments by tenure, for the 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.

Summarize any specific demographic trends that positively or negatively affect rental housing demand.

## **2.07 Employment and Economy**

Provide data and analysis on the employment and economy of the PMA to give an understanding of the overall economic health of the community in which the PMA 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 PMA or smallest geographic area available that includes the PMA, and compare the data to the larger geographic area (e.g., City, County, Labor Market Area, Metropolitan Statistical Area (MSA)).

List major employers in the PMA, the type of business and the number employed. Compare the data to the larger geographic area (e.g., City, County, Labor Market Area, (MSA)).

Show the historical unemployment rate for the last 10 years (or other appropriate period) for the PMA and appropriate geographic areas and compare to the larger geographic area (e.g., MSA, county, SMA).

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.

## **2.08 Existing Rental Housing Stock**

Provide information on other multifamily rental housing in the PMA and any rental housing proposed to be developed in the PMA. Include:

### **1. Overview**

Provide an overview of the rental housing market in the PMA or the larger region, if appropriate.

Describe the size of the overall rental market in the PMA or region, including the percentage of Market Rate and Affordable Housing properties.

Provide occupancy statistics for the larger market, if available.

Provide a 5-year history of building permits, and if available, by housing type, and comment on building trends in relation to household trends included in the study.

### **2. Rental Market Information**

Identify comparable market-rate and affordable multifamily rental projects in the PMA. The projects should include all comparable affordable apartments and a sufficient sample of comparable market-rate apartments to draw conclusions. Provide a list of affordable projects identified but excluded from the analysis and the reason for the exclusion. Note that apartments with project-based rental assistance should not be considered comparable to subject properties without project-based assistance.

Provide the following information for each comparable project:

- 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
- Unit features (kitchen equipment, air conditioning, in-unit washers and dryers, etc.)
- Type of utilities (state whether paid by tenant or owner and energy sources for hot water, heat, and cooking)
- Site amenities included
- Site staffing
- Occupancy rate by unit size and AMI, if applicable

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- 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
- Photos of the property that are large enough to be useful to reviewers

Include a map identifying the location of each property in relation to the subject property with a useable scale and a northern directional arrow.

In markets with limited multi-family rental communities or low-density subject properties, provide an analysis of available scattered site rentals, including pricing and other available/pertinent data.

Provide a narrative evaluation of the subject property in relation to both the PMA's comparable market rate apartments and the comparable affordable properties.

- Evaluate the subject site in comparison to the competition.
- Provide tables showing how each comparable property compares to the subject property based on unit size (square feet), unit features, common amenities, tenant paid utilities, location and parking. Separate comparisons should be made between the subject property and market rate units and the subject property and affordable units. Provide a weighted average rent comparison between the subject property and comparable market-rate and affordable properties, and address its ramifications related to the marketability of the subject property. Note that in many markets the level of rent charged in HUD-assisted properties is often not attainable without the provision of rental subsidy, and apartments with project-based rental assistance should not be used as comparable properties to the subject property unless the subject property also includes project-based rental assistance.
- Discuss any current rental concessions and trends in rent increases or decreases.
- Calculate the vacancy rate by: (1) product type (e.g. market rate, Low Income Housing Tax Credit, and Project-Based Rent Assistance); (2) type of occupancy (e.g. family, seniors, special populations); and (3) unit size.
- Discuss the availability of affordable housing options, including the purchase or sale of homes and future trends. Include an analysis of the cost to rent versus to own and the impact of foreclosures and the shadow single-family and condominium rental market. This is important in the case of rural markets or subject properties that contain a high number of larger (3- or 4-bedroom) units and for senior projects, in that homeowners must sell their existing homes before moving to the subject property.

If the subject property has 3- or 4-bedroom units that account for at least 20 percent of its total units, use single-family rentals for comparison purposes in markets that do not have multifamily rental stock with 3 or more bedrooms.

Discuss rental projects planned or under construction in the market area, providing as much detail as possible.

Discuss the impact of the subject project on the existing housing stock in terms of conventional multifamily projects and affordable projects.

## **2.09 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 project and to evaluate the local perception of the 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 project's proposed rents to local payment standards or median rents.

## **2.10 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.

Forecast an achievable market rent and an achievable restricted rent for each floor plan and then compare them to the developer's proposed rent. Quantify and address 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 that may come on line at the same time as the subject property; declining population in the PMA), and unusual conditions and mitigating circumstances. Evaluate the 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 were to retain its current subsidy, if applicable.

**2.11 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 that 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 include the level of employment in unskilled and semi-skilled occupations. Supportive work settings should be identified and their capacity of providing additional work opportunities addressed.

Provide estimates on the current income of the targeted population, and indicate 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 that 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 either investor influence or significant increases in area rental rates.

Identify other proposed developments that focus on 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.

## **2.12 Additional Senior Requirements**

Market studies prepared for senior projects should include the following, in addition to the other requirements contained in Minnesota Housing’s Market Study Guidelines:

### **General Market Information**

For projects designed for the elderly, the study must define the age restrictions, the anticipated household configuration and any anticipated household services. The study must also estimate the number of elderly households with sufficient incomes to afford the type of housing and services (if any) under study, any expected change in the number of such households, the proportion of those households that would need and demand such housing, and the number of units that the market could reasonably absorb and sustain over the forecast period. In addition:

- Include senior general market information – turnover, vacancy, population estimates
- Describe household size, frequency of homeowner to renter, age at entry

Describe proximity to senior services such as a senior center, public transportation, and medical facilities

Age-restricted properties should be analyzed separately from general occupancy communities when evaluating rents, occupancy, services, etc.

### **Demand Projections**

If the development includes services the study should include information on number of households in the market area that currently qualify for the elderly waiver, will qualify for the elderly waiver once their assets meet the elderly waiver threshold (Spend Down units), or will have the ability to privately pay for services. Demand projections should include a breakdown of demand by these three categories of households.

If the development includes services, the study should also identify the frailty acuity levels expected to be served.

### **Market Comparables**

Senior housing market comparables must include/describe:

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- services provided
- site amenities
- vacancy rate
- service income mix & reimbursement sources
- restriction on the number of elderly waiver participants
- number of people on waiting list with breakdown of number of elderly waiver to private pay individuals
- acuity levels served
- service fees charged to residents
- when available should include average age of residents at entry, frequency of previous homeowners becoming renters, and household size.

Describe how the subject's features and amenities that are designed to address seniors compare to the comparables.

Describe how the subject's rent assistance, services, and service fees compare to the comparables.

### **2.13 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 résumé

List of sources for data in the market study

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

## Addendum A - Market Study Checklist

*Attach this fully completed checklist as an Addendum to the submitted Market Study.*

The checklist references the components of the market study and is intended to assist in locating information relevant to its analysis. Please note the page number(s) where each component is fully addressed. Where the item is not relevant, indicate NA or Not Applicable. Where a conflict or variation from Minnesota Housing Market Study Guidelines exists, indicate a V (variation), and provide a comment explaining the conflict.

	<b>COMPONENT</b>	<b>PAGES</b>
1.	Unit mix and pro forma rents	
2.	Description and justification of Primary Market Area (PMA)	
3.	Income band for subject property	
4.	Demand projections	
5.	Comparison of subject property to comparable market rate properties	
6.	Comparison of subject property to comparable affordable properties	
7.	Forecasted achievable market rents for the subject property	
8.	Required capture rate	
9.	Forecasted lease up schedule	
10.	Recommended changes to the subject property	

## Addendum B – 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.

By: \_\_\_\_\_  
(Market Analysts)

By: \_\_\_\_\_  
(Authorized Representative)

Title: \_\_\_\_\_

Date: \_\_\_\_\_