



2011 Market Study Requirements

Section 42(m)(1)(A)(iii) of the Internal Revenue Code and the 2011 Qualified Allocation Plan ("QAP") of Virginia require the submission of a market study in connection with an application for Low Income Housing Tax Credits. The following sets forth VHDA's specific requirements and standards.

All applicants applying for 2011 tax credits will be required to submit a market study at the time of application. **Failure to submit the market study by the stated deadline will disqualify the application.**

Section 42 of the Internal Revenue Code requires that the entity preparing the market study must be a disinterested party approved by the credit agency in order to submit a study. Accordingly, VHDA requires that the preparer not have any interest in the development or relationship with the ownership entity.

VHDA deems each entity preparing a market study to be approved subject to the submission of a report which meets all market study requirements, including, but not limited to, the presence of specific data, required calculation methods and report format. If these requirements are not met, then the study and the entity which prepared it may not be approved. Furthermore, VHDA may, at its discretion, request additional information from the analyst prior to approving the market study.

It will be understood that VHDA has no contractual relationship with the preparer of the market study. Market studies are procured directly by the tax credit applicant, and accordingly, the tax credit applicant is the client of the market study firm/analyst. The market study itself should be addressed directly to the client and any representations made by the market study firm/analyst should not directly or indirectly communicate that the market study firm/analyst is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA.

In reviewing any tax credit application and the corresponding market study, VHDA at its sole discretion may commission an additional market study or supplementary market data. No reservation of tax credits will be made until VHDA has determined that a sufficient analysis of demand for the proposed development has been completed. The market analyst/firm to conduct this additional work will be commissioned and compensated directly by VHDA, and in such transaction VHDA will be the client of the market study preparer.

The market study must be no more than six (6) months old at the time of submission to VHDA. Studies more than six (6) months old must be updated. (If the study has no material changes the market study analyst may send an update letter.) No study over 12 months old will be accepted.

Any market study submitted to VHDA in connection with a tax credit application will remain VHDA's possession and may continue to be relied upon by VHDA in determining the market feasibility of the proposed development, regardless of any circumstances that might exist between the tax credit applicant and the market study analyst or firm.

On occasion there are inconsistencies between certain representations in the tax credit application and representations in the market study pertaining to various development attributes, such as architectural features, unit amenities, site amenities, etc. Note that in these instances VHDA will rely only upon representations made in the tax credit application, including supporting application documentation, as the basis for any allocation of tax credits. However, in those instances where the degree of inconsistency implies a disconnection between the tax credit applicant and the market analyst, then the market study may not be approved and the tax credit application may be disqualified.

The market study must be submitted in electronic format to VHDA directly from the applicant.

A complete market study must provide the following information:

A. Executive Summary

1. Provide a brief description of the subject property including target population (family/elderly), special needs population, income targeting, construction type, number of buildings, number of units, as well as a physical description of the site, existing buildings (if any) etc.
2. Indicate the average vacancy rates at reported comparables in the Primary Market Area (PMA); this must include all tax credit properties located within the PMA.
3. Provide a brief statement regarding the capture rates and absorption period based on the proposed rents, unit mix and income targeting.
4. Provide a conclusion about the strength of the proposed property in that market area.
5. State any recommended modifications to the proposed property and indicate the impact of those changes on the capture rates and absorption period.

B. Property Description

1. Property Location
2. Construction Type - New Construction, Rehabilitation, Adaptive Reuse
3. Occupancy Type - Family, Elderly
4. Target Income Group
5. Special Population - if applicable
6. Number of Buildings
7. Number of Stories
8. Structure Type - Garden Apartments, Townhouse
9. Number of Units By Bedroom Size
10. Indicate If The Proposal Is A Scattered Site Development
11. Proposed Rents and Utility Allowances

12. Proposed Site and Unit Amenities. Note that site amenities of one phase of a development cannot be included as amenities in subsequent phases of a development.

C. Site Evaluation

1. The market analyst must visit the site and the market area in general. The date of the visit should be noted in the study.
2. Describe the physical features of the site and adjacent parcels. Any negative attributes of the site should be indicated in terms of how they may impact development feasibility. Also describe surrounding land uses, employment, transportation and other services.
3. Include good quality color photographs of the subject property and surrounding areas.
4. Include a map which clearly identifies the location of the subject property. This map should also identify retail centers, schools (family developments only), employment, healthcare and other local amenities which would be important to the subject property's tenant population. Distance of these from the subject property should also be indicated.
5. Include a map identifying all existing and pipeline properties representing competitive developments which could affect lease-up of the proposed property.
6. State a conclusion of the site in terms of overall development marketability.

D. Primary Market Area

1. The primary market area is to be defined solely by the market analyst and must conform to all requirements.
2. The primary market area must be the area from which the development would reasonably be expected to draw the majority of its tenants.
3. The market study must include a map which outlines the primary market area.
4. All sites in a scattered site development must be within the boundaries of the primary market area.
5. The analyst must provide a narrative statement describing the reasoning used in making the primary market area determination.
6. Primary market areas are prohibited from being defined using concentric rings.
7. Secondary and tertiary markets are strongly discouraged for purposes of calculating demand. If used, must provide detailed explanation of reasoning and source of demand. This will be closely scrutinized by VHDA staff.
8. Analysts are encouraged to be conservative in defining the primary market area.
9. Primary market areas deemed to be inappropriate by VHDA will cause the market study/analyst to be rejected, and may cause the tax credit application to be disqualified.

E. Market Area Employment Trends

1. Employment by industry - indicate the number employed and percentage of total in PMA.
2. Major current employers, workforce size and anticipated expansions or contractions. Also indicate any planned new employers and their impact on employment in the area.
3. Employment and unemployment trends in the PMA and, where possible, locality total workforce figures. Provide annualized figures on trends. (Ex: average annual increase in employment of 1.3%)
4. Provide a narrative analysis of the data, including a conclusion relating the data to demand for the proposed housing.

F. Market Area Demographic Data

Provide the following demographic information for the market area, giving historical data as well as current data and estimates. Include data on population trends and household trends from 2000 to 2010, with projections to 2013. Reputable sources of data should be used. Those sources should be clearly identified in the report. Both numbers and percentages must be shown for the data below. Annualized growth figures must be included. Provide a narrative analysis of the data indicating conclusions regarding the impact of these trends on demand for housing. For these purposes elderly is defined as 65 and older.

1. Population Trends

- a. total population
- b. population by age group
- c. number of elderly and non-elderly (elderly proposals only)

2. Household Trends

- a. total number of households and average household size
- b. the number of owner and renter household (if appropriate, breakout by elderly/non-elderly)
- c. households by income (if elderly development, indicate income distribution of elderly households only)
- d. renter households by number of persons in the household

G. Development-Specific Demand Analysis

1. **Income Restrictions:** Use the applicable income restrictions of the proposed development. Analysts must take the income and occupancy restrictions indicated in the tax credit application into account when estimating demand.
2. **Affordability:** Analysts should assume that family households are able to pay no more than **35%** of gross income towards total housing costs and that elderly households are able to pay no more than **40%** of gross income towards total housing costs. The demand analysis must clearly indicate the minimum and

maximum income range for each targeted group, as reflected in the table shown at paragraph II.G.4.

For applicants proposing developments with Section 8 project-based rental assistance analysts should use the lesser of maximum allowable tax credit rents or proposed rents based on income targeting indicated in the application in determining affordability.

For applicants proposing developments with market rate units, the analyst must make a reasonable determination of a maximum income level beyond which a household would not likely be a participant in the rental housing market. Assumptions used in making this determination must be clearly stated in the report.

3. Demand: Data used in deriving demand must come from reputable sources, such as Claritas, the U.S. Census, etc. Demand must be derived from the following sources:

a. **Demand From New Rental Households:** Determine new units in the primary market area based on projected rental household growth. This is to be determined using 2010 as the base year and projecting forward to 2012. The projected population must be limited to the target group, age and income appropriate. Demand for each target group must be shown separately, as reflected in the table shown at paragraph II.G.4.

Demand estimates for proposals for elderly developments must be derived from household population aged 65 and older.

In instances where a significant number of proposed units (more than 20%) are comprised on three- and four-bedroom units, the analyst must refine the analysis by factoring in the number of large households, typically four or more persons. Failure to account for this may result in overstated demand.

b. **Demand From Existing Households:** To be derived from the 2000 census:

- **Rent over-burdened households**, if any, within the age group, income group and renters targeted for the proposed development. Over-burdened should be assumed to mean those households paying more than 35% of gross income (40% if elderly) for gross rent. Analysts are encouraged to be conservative in this regard.
- **Households in substandard housing** (overcrowded and/or lack of plumbing): Must be age and income group appropriate. Analysts must use their knowledge of the market area and the proposed development to determine if demand from this source is realistic. Analysts are encouraged to be conservative in this regard.

- **Elderly homeowners likely to convert to rental housing:** This component may not comprise more than 20% of total demand. The analyst must provide a narrative describing how these numbers were derived. Analysts are encouraged to be conservative in this regard.
- **Existing qualifying tenants likely to remain after renovation:** This component of demand applies only to existing developments undergoing rehabilitation.

The sum of demand from rental household growth and demand from all components of existing households will constitute **Total Demand**.

4. **Net Demand Methodology For Capture Rate and Absorption Period:** Analysts are required to use net demand in calculating capture rates and the absorption period. Net demand should be determined by subtracting the supply of vacant comparable units in the PMA, completed or pipeline, from total demand. Vacancies in developments placed in service that have not yet reached stabilized occupancy (95%) must also be included in supply.
 - a. **Capture Rate:** Calculated by dividing the number of units in the proposed development by net demand. Demand and capture rates must be calculated for each income target group and bedroom size being proposed. Analysts must provide a narrative analysis of this data as it pertains to market feasibility of the proposed development.
 - b. **Absorption Period:** This will be defined as the estimated time for the development to reach occupancy of 95%. This analysis should consider new rental household growth, the supply of competitive units, trends in stabilization rates of comparable properties, etc.

Demand, Supply, Net Demand and Total Absorption Period should be indicated in the following format:

	Up to 40%	Up to 50%	Up to 60%	Market Rate
Income Restrictions	(min. income to max. income)	(min. income to max. income)	(min. income to max. income)	(min. income to max. income)
New Rental Households				
PLUS				
Existing Households - Rent Overburdened				
PLUS				
Existing Households - Substandard Housing				
PLUS				
Elderly Homeowners Likely To Convert To Rental Housing				
PLUS				
Existing qualifying tenants likely to remain after renovation				
EQUALS				
TOTAL DEMAND				
MINUS				
Supply (includes directly comparable vacant units completed or in pipeline in the PMA)				
EQUALS				
NET DEMAND				
ABSORPTION PERIOD				

In addition to the above statement of Net Demand, the analyst is free to state other measures of demand in the body of the report. These statements must be fully explained as to where such demand is being derived, i.e. pent-up demand, tertiary demand, or demand from existing tenants in other rental properties.

H. Supply Analysis (Comparable Rental Properties)

The analyst must provide an analysis of comparable multifamily developments in the PMA which adequately describes the conditions in that market area. The analyst must contact all developments listed in the analysis, and must indicate the date, individual contacted and method of contact made at each property. All Low Income Housing Tax Credit developments located within the primary market area must be included in the analysis. All other properties that would compete with, or be affected by the proposed development must also be included in the analysis. The analyst must discuss the current level of demand for these developments and indicate the impact that the proposed property would have on the occupancy of these developments.

The analyst must describe all multifamily housing developments located within the PMA which are under construction, or otherwise in the pipeline. Proposed rural developments for which a sufficient number of comparables does not exist, the analyst must select at least three (3) developments in adjacent localities with similar characteristics to be included in the analysis.

Properties selected to be comparables must be appropriately deemed so. The analyst must state which developments are most directly comparable and why. Family and elderly developments should not be considered as competitive with each other.

The following information must be listed for each comparable property:

1. Name, address & phone number of the development
2. Indicate family or elderly
3. Photographs
4. Breakdown of unit sizes by bedroom count
5. Square footage of each comparable unit type
6. Monthly rents and utility allowances
7. Age of development
8. List of amenities
9. Concessions offered, if any
10. Vacancy rates by bedroom count
11. Number of units receiving project based rental assistance
12. Federal or state assistance to the development should be noted

Data should be provided in a chart or table so as to facilitate comparison among the properties.

- I. **Conclusions and Recommendations:** Market analysts must provide a conclusion of the development as proposed in terms of market feasibility. If the analyst determines that modifications to the proposal could enhance market feasibility of the development, then those recommendations should be indicated in this section of the report. Any changes to capture rates or the absorption period resulting from those recommendations should be indicated as well.
- J. **Market Study Analyst Statement of Experience:** The study must contain the preparer's résumé and statement of experience.

K. Statement and Signature Requirements: The market study must conclude with the following specific language and signature of the analyst:

I affirm that I have made a physical inspection of the site and market area. I also affirm that the appropriate information has been used in the comprehensive evaluation of the need and demand for the proposed rental units. To the best of my knowledge the market can support the demand shown in this study. I understand that any misrepresentation in this statement may result in the denial of participation in the Low Income Housing Tax Credit Program in Virginia as administered by the Virginia Housing Development Authority. I also affirm that neither I nor anyone at my firm has any interest in the proposed development or relationship with the ownership entity. In addition, I affirm that neither I nor anyone at my firm nor anyone acting on behalf of my firm in connection with the preparation of this report has communicated to others that my firm is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA Finally, I affirm that compensation for my services is not contingent upon this development receiving a reservation or allocation of tax credits.

Market Analyst

Date