2019 Market Study Guidelines

The Internal Revenue Code and the Qualified Allocation Plan (“QAP”) of Virginia require the submission of a market study in connection with an application for Low Income Housing Tax Credits (LIHTC).

VHDA, in accordance with Section 42(m)(1)(A)(iii) of the Internal Revenue Code, requires that the entity preparing the market study be a disinterested party, approved by VHDA (“the credit agency”). Accordingly, the analyst cannot have any interest in the development or have a relationship with the owner of the development.

All applicants applying for Low-Income Housing Tax Credits (LIHTC) are 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.

Only VHDA-approved market analysts will be allowed to complete market studies for developments seeking a LIHTC reservation. A complete listing of VHDA-approved market analysts can be found on the VHDA website. New requirements for those analysts wishing to be added to the list will include being a NCHMA member and providing evidence of such.

A developer submitting an application for a development that will be funded with both 9% and 4% tax credits, must submit a separate market study for the 9% project and the 4% project.

VHDA has no contractual relationship with the preparer of the market study. Market studies are procured directly by the LIHTC applicant and accordingly, the applicant is the client of the market analyst. Therefore, the market study should be addressed directly to the client and any representations made by the market analyst should not directly or indirectly communicate that the market analyst is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA. The analyst, however, must identify VHDA as an authorized user of the market study, noting that VHDA may rely on the representations made therein.

The market study must be submitted to VHDA by the LIHTC applicant and included within the pdf Application Tab.

The market study should be in electronic, PDF format. VHDA should be able to select, copy and cut text. In reviewing any LIHTC application and the corresponding market study, VHDA at its sole discretion may request supplementary market data from the analyst or
commission an additional market study. The market analyst conducting 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 applicant may be required to bear the cost of additional market studies/inquiries.

Any market study submitted to VHDA in connection with a LIHTC 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 LIHTC applicant and the market study analyst or firm.

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

No LIHTC reservation will be made until VHDA has determined that a sufficient analysis of demand for the proposed development has been completed. Each report must meet all market study requirements, including, the inclusion of specific data, required calculation methods and report format. Furthermore, reports must be written and contain sufficient information, analysis and supporting documentation to provide VHDA with an understanding of the market data presented, the analysis of the data, and the conclusion(s) of such data and its relationship to the subject property. The market study should lead the reader to the same or similar conclusion(s) reached by the analyst. If these requirements are not met, then the study and the entity which prepared it may not be approved.

For VHDA purposes, the date of the site inspection is the Effective Date of the report. The Effective Date must be obviously stated on the cover page or in the Executive Summary section of the report. For a market study with an Effective Date that is 6 to 12 months old at the time of submission, if there are no material changes to the development and/or market, the analyst can provide a letter stating “No material changes since last report dated...” If there are material changes, the market study must be updated to include detailed discussion about those changes. No market study greater than 12 months old will be accepted, meaning a site inspection by the market analyst must occur within 12 months of VHDA’s application deadline.
Market studies for LIHTC developments will model the National Council of Housing Market Analysts’ (NCHMA’s) Model Content Standards (Version 3.0), as well as its Market Study Terminology, Market Study Index and FAQs (for Model Content Standard).

Section A (VHDA & NCHMA Model Content Standards): Executive Summary

Section B (VHDA & NCHMA Model Content Standards): Introduction and Scope of Work

Section C (VHDA & NCHMA Model Content Standards): Project Description

In addition to NCHMA requirements under this section, the analyst must discuss:

1. Construction Type - New Construction, Rehabilitation, Adaptive Reuse
2. Occupancy Type - Family, Elderly
3. Indicate if the proposal is a scattered site development
4. Income Restrictions: Use the applicable income restrictions of the proposed development. Analysts must take the income and occupancy restrictions indicated in the LIHTC application into account when estimating demand.
5. Site amenities of one phase of a development cannot be included as amenities in subsequent phases of a development.

Section D (VHDA & NCHMA Model Content Standards): Location

Section E (VHDA & NCHMA Model Content Standards): Market Area Definition

In addition to NCHMA requirements under this section, the analyst must consider:

1. All sites in a scattered site development must be within the boundaries of the primary market area.
2. Primary market areas are prohibited from being defined using concentric rings.
3. Analysts are encouraged to be conservative in defining the primary market area.
4. Include secondary or tertiary markets.
5. Primary market areas deemed to be inappropriate by VHDA will cause the market study/analyst to be rejected and thereby cause the application to be disqualified.

Section F (VHDA & NCHMA Model Content Standards): Employment & Economy
Section G (VHDA & NCHMA Model Content Standards): Demographic Characteristics
In addition to NCHMA requirements under this section, the analyst must discuss:

1. Elderly is defined as 55 and older.
2. If elderly population serving 55 and older, account for that population.
3. The number of owner and renter households (if appropriate, breakout by elderly/non-elderly)
4. Households by income (if elderly development, indicate income distribution of elderly households only)
5. Renter households by number of persons in the household
6. At a minimum, use the current year's estimate and a five-year projection (i.e. if your study is completed in 2019, you will use 2019 estimates and projections for 2024).

Section H (VHDA & NCHMA Model Content Standards): Competitive Environment
In addition to NCHMA requirements under this section, the analyst must consider the following:

1. All comparable LIHTC developments located within the primary market area must be included in the analysis; LIHTC communities targeting a different tenant base (elderly, family, and/or PBRA) may be excluded from the analysis but identified.

2. Provide a detailed analysis of the impact of the proposed project on existing and comparable LIHTC properties in the primary market area.

3. Proposed rural developments for which a sufficient number of comparable properties does not exist, the analyst must select at least three (3) comparable developments in adjacent localities with similar characteristics to be included in its analysis. Analysts should explain any socio-economic or housing market differences between the comparable properties’ and the subject project’s markets.

4. Family and elderly developments should not be considered as competitive with each other. However, in cases where there are no comparable senior projects in the primary market area or region, analysts may consider using family projects with bedroom types similar to those proposed at the subject project as comparable properties.
total housing costs (rent plus utilities). The demand analysis must clearly indicate the minimum and maximum income range for each targeted group.

For applicants proposing developments with project-based rental assistance (Section 8, Public Housing, USDA Rental Assistance) analysts should use the lesser of maximum allowable LIHTC rents or proposed rents based on income targeting indicated in the application in determining affordability. Analysts should provide demand estimates and capture rates both with and without additional project-based subsidies.

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.

For applicants submitting an application for a development that will be funded with both 9% and 4% tax credits, the capture and penetration rate analyses should be done for the total number of units expected to come online between both the 4% and 9% projects.

4. 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. Demand, Supply, Net Demand and Total Absorption Period should be indicated as follows:
**New Rental Households:** determine new units in the primary market area based on projected rental household growth. The projected household base **must be** limited to the target group, age and income appropriate. Demand for each target group must be shown separately.

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

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<tr>
<th>Income Restrictions</th>
<th>Up to 40% (min. income to max. income)</th>
<th>Up to 50% (min. income to max. income)</th>
<th>Up to 60% (min. income to max. income)</th>
<th>Market Rate (min. income to max. income)</th>
<th>Project Total (min. income to max. income)</th>
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<tbody>
<tr>
<td>New Rental Households</td>
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<td>Existing Households - Overburdened</td>
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<td>Existing Households - Substandard Housing</td>
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<td>Elderly Households - Likely to Convert to Rental Housing</td>
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<td>Existing Qualifying Tenants - to Remain After Renovation</td>
<td>(+)</td>
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**TOTAL DEMAND**

| Supply (includes directly comparable vacant Units completed or in pipeline in PMA) |
|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|

**NET DEMAND**

| Proposed Units |
|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|

**CAPTURE RATE**

| Absorption Period |
|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|

- Project Wide Capture Rate - LIHTC Units
- Project Wide Capture Rate - Market Units
- Project Wide Capture Rate - All Units
- Project Wide Absorption Period (Months)
- Over-burdened’ is defined by VHDA as households paying more than 35% of gross income (40% if elderly) for gross rent. Analysts are encouraged to be conservative.

- Households in substandard housing (i.e. 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.

- 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.

- Existing qualifying tenants likely to remain at the subject property after renovation: This component of demand applies only to existing developments undergoing rehabilitation.

In addition to the above, 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, e.g. pent-up demand, tertiary demand, or demand from existing tenants in other rental properties.
Section J (VHDA & NCHMA Model Content Standards): Local Perspective of Rental Housing Market and Housing Alternatives

Section K (VHDA & NCHMA Model Content Standards): Analysis/Conclusions

Section L (VHDA & NCHMA Model Content Standards): Other Requirements

NOTE: #5 in this Section is not required by VHDA.

In addition to NCHMA requirements under this section, the analyst must include and affirm (by signature) the following:

1. I have made a physical inspection of the site and market area.
2. The appropriate information has been used in the comprehensive evaluation of the need and demand for the proposed rental units.
3. 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 VHDA.
4. Neither I nor anyone at my firm has any interest in the proposed development or a relationship with the ownership entity.
5. 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.
6. Compensation for my services is not contingent upon this development receiving a LIHTC reservation or allocation.

_____________________________________   ____________________
Market Analyst                          Date