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## MSHDA Guidelines for Market Studies

Updated for 2011



**Approved Market Analyst List For Conducting Market Studies for Affordable Housing Projects in Michigan, 2011:**

**Bowen National Research**

**Shaw Research and Consulting**

**Lea and Company**

**Novogradac and Company**

**Market Analyst Professionals**

**Baker Tilly Virchow Krause LLC**

**Mitchell Appraisals, Inc.**

**Real Property Research Group**

# MSHDA Market Study Guidelines 2011

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## I. PURPOSE

The purpose of market studies for the Michigan State Housing Development Authority (MSHDA) is to help staff determine whether a market exists for a given low or moderate income rental housing proposal. The study should contain information, including statistics on demographics, income and current rental market conditions, necessary for that conclusion. In addition to supporting data, it is vital that the market study contain analysis that makes the findings relevant to the marketability of the proposal as described in the sponsor's application. Since the market study is of such importance, it is incumbent on the market analyst to provide a thorough analysis of the data that is presented. While data is a necessary part of the analysis process, it is not enough to merely describe the data and expect a reader or reviewer to automatically follow the logic of the argument. First, to the extent possible an analyst must explain trends in the data, weigh their importance and describe what they imply for the success of the project under study. Second, the analyst must provide support for the conclusions that they put forward.

In addition to the general questions that a market analysis answers, a few specific ones come to mind that the Authority has grappled with in its work. These include the absorption rate of higher-targeted (60% AMI) units at proposals relative to their lower-targeted units, how projects with Section 8 or other rental subsidies would reposition themselves in the market if the subsidies would become unavailable, the rehabbing of older conventional properties into LIHTC projects, scattered-site single-family projects and the importance of various types of amenities to a successful absorption and continued marketability. Market studies submitted to the Authority should strive to answer these and other questions as they relate to the subject property.

In order to provide the counsel that MSHDA staff require, each market study submitted to the Authority shall contain the following information, ***in the order presented below***. MSHDA is making available a market study template which also contains the following information.

## II. CONTENT

### A. Executive Summary.

Each market study should include a concise summary of the data, analysis and conclusions, including the following:

- A concise description of the site and the immediately surrounding area;
- A brief summary of the project including its proposed target market;
- A precise statement of key conclusions reached by the analyst;

- A precise 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;
- A set of recommendations and/or suggested modifications to the proposed project;
- A summary of market related strengths and weaknesses which may influence the subject development's marketability , including compatibility with surrounding uses, the appropriateness of the subject property's location, unit sizes and configuration, and number of units.

### **B. Project Description.**

The market study should include a project description to show the analyst's understanding of the project at the point in time the market study is undertaken. In addition, analysts should fill out the project description form. It is in Excel format, and is available on the SkyDrive.

The project description should include:

#### **PROJECT STRUCTURE:**

- Number of units by unit mix (bedrooms and baths);
- Targeted income limit as a percent of AMI;
- 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.

#### **PROJECT DESCRIPTION:**

- Target population, including income restrictions and any special needs set-asides;
- The number of buildings;
- Design type (walk-up, elevator, etc.);
- 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.

#### REHABILITATION EFFORTS:

- Identify of any existing assisted housing program at the property such as Section 8, Section 202, Section 811, BMIR, Section 236, etc, as well as current occupancy levels;
- Describe the current rent structure at the project and compare it to the proposed rents. Comment on the effect of any changes on the project's marketability;
- Describe the methodology for the rehabilitation, including the phasing of rehab activities, impact of the rehabilitation work and new rent structure on current tenants, and information on needed relocation of tenants (if necessary);
- Describe the scope of work, including the specific updates planned by the sponsor. Call out changes in amenity provision, such as the addition of laundry hookups or dishwashers;
- Include 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. If the income data is old, the Consumer Price Index (CPI) can be used to inflate incomes to current dollars; an inflation calculator can be found on the US Bureau of Labor Statistics' site ([www.bls.gov](http://www.bls.gov)). An analysis of this information is also needed, to indicate how many of the current tenants would be overburdened by the proposed rents, or would be over- or under-qualified for the income limits at the property post-rehab;
- Document the length of time that subsidies will remain available at the project, or of the availability of additional rental subsidy at the proposal (i.e, additional Rental Assistance units for RHS 515 projects), such as a copy of the applicable portion of the HAP contract, or a letter from the Rural Housing Service showing that the RA units at the subject will remain after rehab efforts are finished;
- 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 the plans are not completed at the time of the analysis, the market analyst should so state.

#### **C. Location and Market Area Definition:**

For the purposes of MSHDA market studies, the Primary Market Area 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 are similar among multifamily complexes in that area.

Given this definition, the analyst must define the Primary Market Area (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 and cities included, major roadways, and the location of the subject).

Defend the composition and extent of the PMA. To the extent possible, the PMA should be based on real-world data, such as the experience of other complexes in the area. This is especially applicable if the proposal is for a new phase of a successful project. It is important to note that PMA boundaries based on radii are not accepted by the Authority. 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. MSHDA reserves the right to ask for changes or alterations to the PMA, taking into account analyst input.

#### **D. Site Factors:**

Provide a description of the site characteristics including its size, shape, general topography and vegetative cover.

Provide photographs of the site and neighborhood (defined as an area within two blocks of the proposal), and a map clearly identifying the location of the project. Analyze its location vis-à-vis the following:

- Closest transportation linkages;
- Community anchors such as a central business district, neighborhood commercial zones, places of worship, schools and community centers, among others;
- Medical services;
- Public transportation;
- Municipal services such as libraries, police and fire service
- Commercial services such as banks, grocery stores, pharmacies and others;

Map these locations as well. 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:

- Curb appeal of the site (or the project itself, if it is a rehab proposal);
- An analysis of the linkages between the project and local amenities noted in the PMA map described previously;
- 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. In cases of poor curb appeal, poor linkages or poor quality of

housing stock, discuss these deficiencies and their likely effect on the marketability of the project.

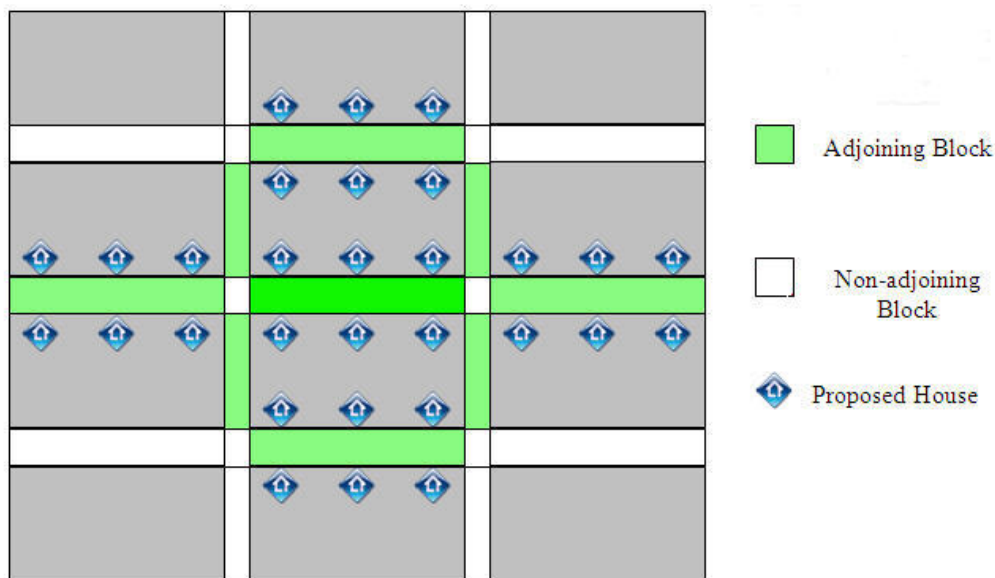
Describe and **evaluate** the visibility and accessibility of the site. Important aspects of this include the following:

- 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;
- Self-advertising quality of the site, by virtue of its visibility from roadways;
- Adequate visual separation from adjacent land uses;
- Potential for adequate signage, lighting and landscaping.

MSHDA has a set of site criteria on its website, [www.michigan.gov/MSHDA](http://www.michigan.gov/MSHDA). Analysts should look at these criteria, and determine how well the proposal's site meets them.

For scattered site, single family projects, MSHDA has added site considerations that must be met in addition to those above. They are:

- No less than 20% of total units must be located on a single block (defined as both sides of a street; i.e., the north and south sides of May Street between First and Second Avenues);
- Blocks must be adjoining, as shown in the diagram below;



- There cannot be more than four existing housing units between proposed units all of which must be of good quality (good-quality units are either new, or display a minimum need for rehabilitation of major structural systems such as roofing, porches, or windows);
- There cannot be any blighted structures (defined as one that exhibits objectively determinable signs of deterioration sufficient to constitute a threat to human health, safety, and public welfare) between any two proposed units regardless of the distance between them.

#### **E. Demographic Factors.**

Provide total population, age and income target data for the Primary Market Area using the 1990 Census, 2000 Census, current year estimates, and projected market entry (usually one to two years after the current year). 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. This is especially important if the trends noted in the Census figures do not match those coming from the third-party sources (i.e., Claritas or ESRI). When they differ, the analyst must offer a plausible explanation for the difference with proof; as a last resort, if one cannot be made, then straight-line estimates and projections using the 1990 and 2000 data should be used. In addition, the market analyst's own estimates can be used, but these must be accompanied by a detailed description of their derivation, and enough data to allow MSHDA staff to recreate them, if needed.

Detail on the following demographic topics is necessary:

#### **POPULATION AND HOUSEHOLDS:**

- Population trends;
- Population by age, including the number of non-elderly (0-64) and elderly (65 and over). If sufficient evidence is introduced, younger elderly populations might be accepted; this will depend greatly on the product type proposed by the developer;
- 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 size by tenure (both the average number of persons per household and tenure group, and a breakdown of households by number of persons per household and tenure group);
- For congregate care projects, ages used (for both population and household information) should be 75 and over.

#### **INCOME BY TENURE:**

Provide a breakdown of households by incomes in \$5,000-\$10,000 increments, by household size and by tenure for 1990 and 2000 Census, current year, and the year of

market entry. If necessary, the 2000 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 attract senior renters. Proof of this contention is necessary.

The data for independent elderly proposals should be based on households 65 years and over, while congregate care housing should be based on households 75 years and over.

#### FOCUS GROUPS:

For projects in uncertain markets or for proposals whose market appeal is questionable, MSHDA can, under its sole discretion, order a focus group analysis. The purpose of this research will be to test the market for the proposal, its rent levels, amenity provision, and other factors. MSHDA will pay for the initial cost of the study, and if the project moves forward, will be reimbursed by the developer through the inclusion of the cost of the study in eligible basis.

#### CRIME DATA:

Provide information or statistics on crime in the Primary Market Area relative to data for the overall area. Where the data on crime is limited, information for the jurisdiction where the proposal is located can be substituted for PMA data. However, interviews with local law enforcement officers should be used to put those numbers in context; this is very important for proposals located in larger cities where a jurisdiction-wide figure can mask local detail. In larger cities, links to crime statistics in local areas might exist; Detroit for example has a very useful site (<http://detroit.mi.crimeviewcommunity.com>) that will allow more local analysis of crime trends. Address any local perceptions of crime or problems in the Primary Market Area, as well as how the subject plans to overcome any negative perception associated with the incidence of neighborhood crime.

#### SCHOOL PERFORMANCE DATA:

Information pertaining to school performance should also be analyzed, including:

- Math and English standardized test results, compared to the state's average;
- Graduation rates, compared to the state's average;
- An analysis of how this information might affect the market performance of the subject;
- The website [www.schoolmatters.com](http://www.schoolmatters.com) contains this information.

## **F. Economic Factors.**

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 be sure to relate all findings to the market performance of the subject property.

### **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, or MSA.

List major employers in the PMA, the type of business and the number employed and compare the data to the larger geographic area (i.e. MSA, County, etc.).

Show the historical unemployment rate for the last ten years (or other appropriate period) for the PMA and compare to the larger geographic area (i.e. MSA, County, 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. Provide proof of your contentions.

### **EMPLOYEE HOUSING:**

If relevant, comment on the availability of affordable housing for employees of businesses and industries that draw from the PMA.

### **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.

### **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.

## **G. Supply Factors.**

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:

### **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.

### **RENTAL MARKET INFORMATION:**

Identify a list of existing multifamily rental projects in the PMA, including:

- name;
- street address;
- population served;
- type of design (i.e. townhome, walk-up, duplex, etc.);
- 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.
- For senior properties that offer services, give the types of services included in the rent or available for an additional fee. The costs of any for-fee services MUST be provided.

Include a map identifying the location of each property in relation to the subject, identifying its funding type or subsidy source (9% LIHTC, Conventional, Section 8, Section 236, Section 515, MSHDA 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.

**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.

**COMPETITIVE ENVIRONMENT:**

Discuss the availability of affordable housing options, including purchase or sale of homes. This is very important in the case of rural markets, or subject properties that contain a large number of larger (three or four bedroom) units. It is also important 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.

When relevant, include a list of LIHTC projects with allocations in or near the market area that are not placed in service, giving as much detail as possible on estimated Placed-In-Service dates, unit mix and income levels to be served. As noted in Section III MSHDA is expected to provide this information to the analyst. If there are no comparable projects in the pipeline, the analyst must state this fact.

Discuss the impact of the subject development on the existing housing stock, in terms of conventional multifamily projects, affordable projects (including RHS, HUD and others where applicable), and MSHDA-financed properties (including those that have not yet reached stabilized occupancy).

The market vacancy rate for the PMA rental housing stock by population served (i.e. market rate, Low Income Housing Tax Credit, and Project-Based Rental Assistance), type of occupancy (i.e. family, seniors, special populations) and unit size must be computed.

Provide both an achievable market rent and an achievable LIHTC rent derived from 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 achievable without the provision of rental subsidy. If rent grids are used, be sure to identify the reasons for adjustments.

A rent reasonableness test is also mandatory for those projects without existing project-based rental assistance covering all of their units (either through HUD or USDA). More information on this is found in the first addendum to these guidelines.

#### **H. 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, evaluate the local perception of need for additional housing and obtain information on any redevelopment plans that cover the site's location;
- 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.

#### **I. Demand Analysis:**

For the purposes of these analyses, it is assumed that market-rate households will pay up to 30% of their incomes toward gross rent, and that lower-income households will pay up to 40% of their incomes toward gross rent. For market-rate units, an upper income limit of \$50,000 will be used, since homeownership would be more likely among households with that level of income or higher. If evidence from the market exists, it is possible that a higher income levels or income-to-rent ratios may be used for senior projects; however, evidence supporting this contention must be presented in the study.

It is further assumed that for family proposals there will be 1.5 persons per bedroom; senior projects will rely on an assumption of two person households. Demand estimates for proposals that contain a significant proportion of larger rental units (three and four bedrooms) will need to take into account the relatively small number of large households that would choose such unit sizes; the analyst must state how this circumstance has been accounted for. For the purposes of MSHDA market studies, large households contain more than four persons.

Analysts should use the Excel worksheet provided on the MSHDA website for the calculation of demand estimates for each income limit at the subject property. These demand estimates should be constructed so as to eliminate double counting stemming

from overlapping income qualification limits. Be sure to use income-specific renter propensities for demand estimation, to recognize the fact that more low-income households rent. This information is available from the US Census ([factfinder.census.gov](http://factfinder.census.gov)), on table HCT11 for family projects, and on the HUDUser website ([www.huduser.org](http://www.huduser.org)) for senior proposals. The use of other data sources (such as the HISTA dataset) is also acceptable. Movership rates that will be used to determine demand estimates are as follows:

Tenure	Detroit Metro	City of Detroit	Midwest Region	National Elderly
Owners	2.9%	3.8%	3.7%	1.4%
Renters	20.0%	20.0%	25.0%	7.1%

Calculations for the penetration rate, capture rate, and saturation rate are also on the worksheet provided on the MSHDA website. Information on MSHDA’s preferred methodology on creating non-duplicated demand estimates is included in an addendum to these guidelines.

**SCENARIOS:**

A scenario approach to gauging the depth of demand for a specific proposal is welcome, but all studies shall include the basic MSHDA methodology in addition to any other data that the analyst feels is appropriate. In addition, the MSHDA demand figures will form the basis for decisions on particular markets, unless persuasive evidence to the contrary is presented. Scenarios can contain changed values for movership, different rents, varying income targeting plans, absorption of other product in the market, differing rates of pre-leasing activity, and other items. If a scenario approach is used, persuasive justification for any modifications to basic MSHDA methodology must be included in this section of the study, including proof of the validity of alternate assumptions.

**ABSORPTION RATE:**

Define and justify the absorption period and absorption rate for the subject property. While the specific methods used to generate this are left to the analyst to determine on the basis of market conditions, demographic change, the performance of earlier phases of the same development, and other factors, a guideline of five units per month for an average absorption rate can be used as a starting point. Weaker markets (characterized by high vacancy rates, large numbers of pipeline units, or other factors), senior projects or higher demand ratios would tend to slow absorption by some factor (resulting in fewer units absorbed per month). As a general guideline, new MSHDA-financed properties are leasing at a current rate of about three units per month, regardless of whether they are elderly-targeted projects or not.

**FUTURE COMPETITIVE ENVIRONMENT:**

Project and explain any future changes in the housing stock within the market area, and their effects on the marketability of the subject proposal. Identify risks (i.e. 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 voucher support or HUD contracts.

#### **J. Other Requirements**

- Date report was prepared, date of site visit and name and telephone number of analyst preparing study;
- Certification of no identity of interest between the analyst and the entity for whom the report is prepared;
- Certification that recommendations and conclusions are based solely on professional opinion and best efforts;
- Statement of qualifications, including a resume;
- List of sources for data in the market study.

#### **III. INFORMATION TO BE PROVIDED BY MSHDA**

MSHDA will cooperate in the completion of the market study and provide data on rental housing inventory in the PMA financed or assisted by MSHDA or which has received preliminary approval or reservations of funding of Low Income Housing Tax Credits and is expected to become available in the market. This data should include property address, number and type of units, rents by unit type and income limits, and other relevant information. This information will be made available on the MSHDA website.

### ***Addendum 1: Rent Reasonableness Tests***

The following information must also be included in market studies:

Information on three (3) comparable properties for each unit type at the subject property. Comparability is defined as the following:

- Comparable properties must be market-rate, LIHTC or HOME-assisted units, not subsidized;
- Comparable properties must be the same construction type (garden style for proposals that are garden style apartments). Single-family comparables are not allowed for townhouse or garden-style apartment units.

Information on comparable properties must be presented on form MSHDA-37, one for each comparable and proposed unit type. A blank copy of this form is available on the SkyDrive. The same project attributes must be noted for the project. Acceptable comps are those that are within five points of the value of the project.

These analyses aid MSHDA staff in determining a reasonable rent for project units, should they be chosen to receive project-based vouchers. In that circumstance, proposed gross rents are deemed reasonable if they are less than those found in comparable properties of similar quality.

The data included in this section must reflect the state of the market within one year of the signing of the HAP contract for the property. If the information is out-of-date, an update must be furnished.

If there is a lack of suitable comparable properties to use in the PMA, then the search can be extended out of the market area, to include a county or group of counties that make up a survey area. The use of survey areas for comparable properties, rather than the original market area, must be explained in the study; and the use of local comparables is preferred. The components of the survey areas are:

- Area 1 – Huron, Sanilac Tuscola
- Area 2 – Lapeer, Lenawee, Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw, Wayne
- Area 3 – Berrien, Branch, Cass, Hillsdale, St. Joseph
- Area 4 – Barry, Calhoun, Jackson, Kalamazoo, Van Buren
- Area 5 – Clinton, Eaton, Ingham
- Area 6 – Bay, Genesee, Midland, Saginaw
- Area 7 – Gratiot, Ionia, Isabella, Mecosta, Montcalm, Newaygo, Oceana, Shiawassee
- Area 8 – Allegan, Kent, Muskegon, Ottawa

- Area 9 – Alcona, Alpena, Antrim, Arenac, Cheboygan, Clare, Crawford, Gladwin, Iosco, Kalkaska, Lake, Manistee, Mason, Missaukee, Montmorency, Ogemaw, Osceola, Oscoda, Presque Isle, Roscommon, Wexford
- Area 10 – Benzie, Charlevoix, Emmet, Grand Traverse, Leelanau, Otsego
- Area 11 – Alger, Baraga, Chippewa, Delta, Dickinson, Gogebic, Houghton, Iron, Keweenaw, Luce, Mackinac, Marquette, Menominee, Ontonagon, Schoolcraft

## ***Addendum 2: Preliminary Analysis Guidelines***

Preliminary analyses commissioned by MSHDA for developers previous to application for MSHDA Direct Lending programs or the 9% Tax Credit funding rounds must include a brief analysis of the following information, which is a subset of the general market study requirements:

- A paragraph summarizing the basic parameters of the proposal studied, including its address, number of proposed units, rents, income targeting, unit mix, and amenities. If no specific project is given, then a brief description of the area studied will suffice;
- A brief description and defense of the PMA used in the analysis, including a map that clearly shows its boundaries;
- If a site visit is ordered, the analyst should inspect the site and neighborhood of the proposal, and give an analysis of its marketability, access, visibility, and other features mentioned in the general market study guidelines in part C.2;
- Population totals in the PMA from 1990, 2000, current year estimate, and five-year projection;
- Household count in the PMA from 1990, 2000, current year estimate and five-year projection;
- Number of renters in the PMA from 1990, 2000, current year estimate and five-year projection;
- Median household income in the PMA from 1990, 2000, current year estimate and five-year projection;
- Household income by tenure in the PMA for the current year;
- Analysis of the competitive rental market, including
  - A table describing the multifamily rental projects in the market area, showing total number of units, unit type, year built, and occupancy rate;
  - Tables showing the occupancy rate broken out by bedroom size and funding type (LIHTC, conventional, subsidized, etc) in specific projects;
  - A table showing the amenity offerings at the market area's developments;
  - Information about development pipeline, if applicable;
- A table summarizing the analyst's suggested project profile, including:
  - Family or Senior Designation;
  - Number of units;
  - Income targeting;
  - Suggested rents;
  - Amenities needed to achieve suggested rents;
  - Projected absorption period, including factors that affect it (i.e., new employment opportunities, lack of similar housing, etc.);
- A demand analysis, using MSHDA methodology and the suggested project profile detailed in the previous point;
- A concluding paragraph summarizing the results of the analysis.

As part of the deliverable, a meeting (either in-person or over the phone) between the analyst, developer/sponsor and MSHDA staff will be held, to go over the results of the analysis.

This analysis is meant to provide a brief summary of information that will aid both the developer and MSHDA staff in determining the likely success of a proposal, or the strength of a particular market. Therefore, the analysis should be kept to an eight-page maximum, including both text and charts.

### ***Addendum 3: Modified Pass-Through Guidelines***

In keeping with the more streamlined approach to the Pass-Through program, a subset of the normal market study requirements is needed for these projects. These include:

- Part A, Executive Summary;
- Part C.1., Primary Market Area;
- Part F.3., Most Comparable Properties;
- Part F.4., Competitive Environment;
- Part H, Demand Analysis.

Unduplicated demand estimates must be prepared for each proposed rent level (e.g., units at 30%, 40%, 50% or 60% of Area Median Income). Further, the number of units at each of these rent levels must meet the threshold criteria for capture, penetration and saturation rates based upon the unduplicated demand estimate. These criteria are:

- Penetration Rate: 3% or less for elderly, 6% or less for family
- Saturation Rate: 10% or less for elderly, 20% or less for family
- Capture Rate: 50% or less for all proposals

A completed Demand Calculation worksheet (which includes these rates) is also mandatory. In computing demand for these projects, seniors aged 65+ should be used for independent elderly rental housing. For elderly congregate housing, seniors 75+ should be used. The market analyst may deviate from these minimum age requirements, only if reasoning is provided in the text which clearly demonstrates the validity of the deviation.

Movership ratios are to be based on the most recent data from the US Census. Data may be provided at the regional, Metropolitan Statistical Area, county or city level, depending on data availability.

***Addendum 4: Reduced Scope Studies for Preservation Proposals***

If the market study's subject proposal is for the preservation of a deeply-subsidized project with rent subsidies that cover at least 95% of its units, is at least 90% occupied, features rent increases of less than 10%, AND has more than five years remaining on the property's HAP contract, then the study can utilize a reduced scope. The necessary components in this case include:

- Part A—Executive Summary, numbers 1-3, 5 and 6;
- Part B—Project Description, including vacancy and turnover rates at the subject over the last three years;
- Part C—Location and Market Area Definition;
- Part F—Existing Rental Housing Stock;

If the above requirements are not met, then the sponsor of the proposal must submit a full market study.

***Addendum 5: Update Memoranda***

MSHDA will now accept updates for market studies submitted for both 9% LIHTC and MSHDA Direct Lending programs. To qualify, the project must meet all of the following conditions:

- The study must be dated within six months to one year of the application due date in which the proposal will compete (market study updates cannot be “updated”, a full study is needed for those proposals);
- The study must have been assigned by MSHDA, or completed by a firm on our current approved list (in Tab C of the Combined Application on the MSHDA website);
- The project that is described in the study has not undergone any major changes since the study was completed and submitted. Major changes include rent increases of more than 10%, including more targeted units at higher Area Median Income bands (more 60% AMI units, more market-rate units, etc.), and changing more than three amenities on offer.

If all of these conditions are met, then an update can be ordered. The update will take the form of a letter, stating that no material changes have occurred in the market since the completion of the first study, and the recommendation given previously, in light of any minor changes planned for the current proposal, is still supportable (if these assertions are correct).

**Addendum 6: Unduplicated Demand for MSHDA Market Studies**

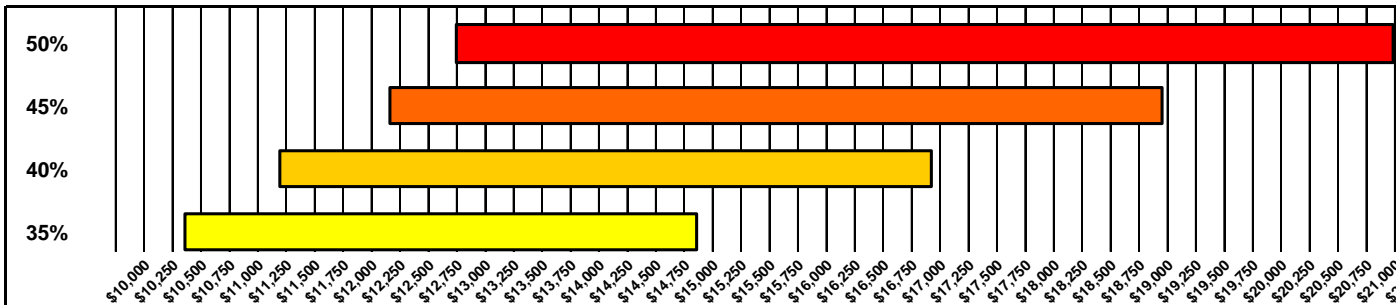
Unduplicated demand estimates segment the market for a project into separate AMI bands. This is a basic approach, done so that comparisons between competing proposals can be judged more completely, and that any double- (or triple-, or quadruple-) counting between AMI bands is removed from the analysis.

The steps used to do this are simple. First, the analyst determines the amount of overlap present between AMI levels (usually, this exists between the upper limit of one income band and the lower limit of the next-affluent band). Second, the analyst divides that overlap in half. Finally, the analyst allocates each half to the AMI bands in question. The graphics below will hopefully illustrate how this is done:

Take a hypothetical proposal, with the following income targeting, rents, and household income distribution:

% AMI	# Units	Contract		Lower Limit	Upper Limit
		Rent	Gross Rent		
35%	10	\$320	\$344	\$10,320	\$14,770
40%	10	\$350	\$374	\$11,220	\$16,880
45%	10	\$380	\$404	\$12,120	\$18,990
50%	10	\$420	\$444	\$13,320	\$21,000

The overall income band for LIHTC units in this case stretches from \$10,320 to \$21,000. As you can see, the example displays a great deal of overlap; in fact, those households that earn between \$13,320 and \$14,770 qualify for all of the units at once. The income bands in the table are graphically displayed below:



If demand by AMI band is computed and added together, the resulting figure will overestimate the total LIHTC demand by a large factor, due to the large amount of overlap present. To rid the analysis of this effect, the first step is to compute the amount of overlap between the bands—in effect, taking the upper limit of the lower income band, and subtracting from it the lower limit of the next-lowest band. This is illustrated in the following table:

% AMI	Lower Limit	Upper Limit	35% and 40% Overlap	40% and 45% Overlap	45% and 50% Overlap
35%	\$10,320	\$14,770	<b>\$3,550</b>	<b>\$4,760</b>	<b>\$5,670</b>
40%	\$11,220	\$16,880			
45%	\$12,120	\$18,990			
50%	\$13,320	\$21,000			

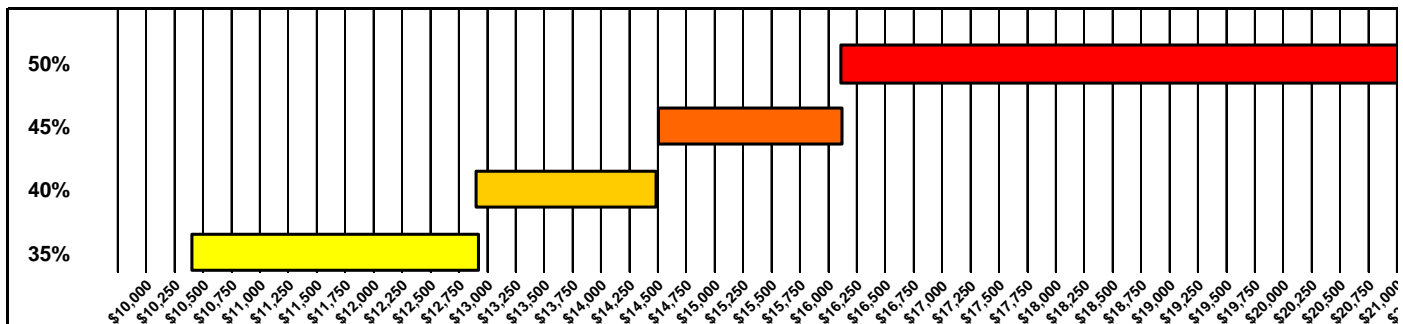
In this example, \$14,770 - \$11,220 = \$3,550, and so on.

The next step involves allocating 50% of this overlap to both income bands. The calculations are in the table below:

Lower Limit	Upper Limit	Split of Overlap	New Lower	New Upper
\$10,320	\$14,770	\$1,775	\$10,320	\$12,995
\$11,220	\$16,880	\$2,380	\$12,996	\$14,500
\$12,120	\$18,990	\$2,835	\$14,501	\$16,155
\$13,320	\$21,000		\$16,156	\$21,000

So, the overlap between the 35% and 40% bands is \$3,350. One half of that is \$1,775. Taking that amount from the old 35% upper limit leaves \$12,995. This is the new upper limit for the 35% units. The new lower limit for the 40% units is set at one dollar more than this, or \$12,996. This is done for all of the overlaps in the example.

A chart showing the new income limits is below:



Using these new limits will give you the following demand estimates, using the usual statewide movership rates for Michigan:

<i>Income Distribution</i>			<i>Qualifying Percentages of Each Income Band</i>					<i>Number of Qualifying Households in Each Band (Tenure and Movership Included)</i>				
<u>Income Range</u>	<u>Renters</u>	<u>Owners</u>	<u>Total</u>					<u>35%</u>	<u>40%</u>	<u>45%</u>	<u>50%</u>	<u>Total</u>
			<u>35%</u>	<u>40%</u>	<u>45%</u>	<u>50%</u>	<u>LIHTC</u>					
			\$10,320	\$12,996	\$14,501	\$16,156	\$10,320	\$10,320	\$12,996	\$14,501	\$16,156	\$10,320
			\$12,995	\$14,500	\$16,155	\$21,000	\$21,000	\$12,995	\$14,500	\$16,155	\$21,000	\$21,000
\$0 to \$9,999	624	304	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0
\$10,000 to \$14,999	651	469	53.5%	30.1%	10.0%	0.0%	93.6%	84	60	20	0	165
\$15,000 to \$19,999	457	596	0.0%	0.0%	23.1%	76.9%	100.0%	0	0	35	117	152
\$20,000 to \$24,999	268	544	0.0%	0.0%	0.0%	20.0%	20.0%	0	0	0	19	19
\$25,000 to \$29,999	150	653	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0
\$30,000 to \$39,999	110	450	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0
\$40,000 to \$49,999	64	704	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0
\$50,000 to \$74,999	45	484	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0
\$75,000 +	30	332	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	0

These estimates result in the following demand calculation:

<i>Number of Qualifying Households in Each Band</i>					
	<u>35%</u>	<u>40%</u>	<u>45%</u>	<u>50%</u>	<u>Total</u>
					<u>LIHTC</u>
<b><i>Present Demand:</i></b>	<b>84</b>	<b>60</b>	<b>55</b>	<b>136</b>	<b>336</b>
<b><i>Capture Rate:</i></b>	<b>11.9%</b>	<b>16.5%</b>	<b>18.1%</b>	<b>7.3%</b>	<b>11.9%</b>

We are assuming for the purposes of this analysis that household growth did not occur in this market, and the demand is made entirely of current households.

Speaking of assumptions, these numbers represent the unduplicated demand for the project based on a number of them, namely the accuracy of HUD's income limits, the current household count, the current household income distribution, movership differences between tenure types, and the homogeneity of households throughout the income bands themselves in terms of desired monthly rent payments.

Keeping these things in mind, here are a few guidelines concerning how to use these estimates to determine market depth for a project:

- First, the concept of excess demand is important, since it will likely exist in most studies. In our example, an excess demand of 74 units exists for 35% units, 50 at the 40% level, 45 at the 45% AMI level and 126 at 50% AMI. Obviously, this example shows a project that has plenty of theoretical market to cover its units. In other situations, individual income bands can show a capture rate closer to 100%. In these cases, some of the excess at the next-lower income band can carry over, since households can qualify at more than one income level. Carrying a lower band's excess demand through more than one adjacent band is more risky.

- Second, it is possible to use these statistics to guide recommendations about income targeting. If demand indicators (capture, penetration and saturation rates) are strong in some levels, more room in the market might exist. If indicators are tight, then a reduction in units is probably warranted.
- The more conservative approach to assigning income limits in a demand analysis is to add more of the overlap to lower bands, rather than enlarging the top bands to lower their capture rates. MSHDA's experience with leaseup has shown that in most projects it is the 60% units that tend to stay on the market longer, so showing large amounts of theoretical demand for them can be misleading in terms of absorption and, as a result, financial underwriting.