TAB C

MSHDA Guidelines for Market Studies

Updated for 2017
Approved Market Analyst List For Conducting Market Studies for Affordable Housing Projects in Michigan, 2017:

Baker Tilly Virchow Krause
Bowen National
Market Analyst Professionals, LLC
Novogradac & Company, LLC
Real Property Research Group
Shaw Research and Consulting
Michigan State Housing Development Authority

Market Study Guidelines

January 1, 2017
Table of Contents:

INTRODUCTION
I. GENERAL MARKET STUDIES................................................................. 5
   A. EXECUTIVE SUMMARY................................................................. 6
   B. PROJECT DESCRIPTION ............................................................ 6
   C. LOCATION AND MARKET AREA DEFINITION .................................. 7
   D. SITE FACTORS ............................................................................. 8
   E. DEMOGRAPHIC FACTORS .......................................................... 10
   F. ECONOMIC FACTORS ................................................................ 11
   G. SUPPLY FACTORS ........................................................................ 12
   H. LOCAL PERSPECTIVE OF RENTAL HOUSING MARKET AND HOUSING ALTERNATIVES ............................................. 14
   I. DEMAND ANALYSIS ................................................................... 14
   J. OTHER REQUIREMENTS .............................................................. 17

II. LIHTC 9% MARKET ANALYSIS ............................................................. 17

III. REDUCED SCOPE STUDIES ............................................................... 19

IV. UPDATE LETTER ............................................................................ 20

ADDENDUM 1: RENT REASONABLENESS TESTS ........................................ 21
ADDENDUM 2: PRELIMINARY ANALYSIS GUIDELINES .............................. 23
ADDENDUM 3: PASS-THROUGH SHORT-TERM BOND PROGRAM GUIDELINES .......... 24
ADDENDUM 4: UNDUPLICATED DEMAND FOR AUTHORITY MARKET STUDIES ......... 25
INTRODUCTION
The purpose of market studies for the Michigan State Housing Development Authority (MSHDA, the Authority) 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.

The Authority will cooperate in the completion of the market study and provide data on rental housing inventory in the PMA financed or assisted by the Authority 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. MSHDA accepts four different types of market analysis, the requirements for which are found in this document. The four types include:

- **General Market Studies.** These are market studies required when funding is sought under MSHDA’s Direct Lending Programs. This is a robust market analysis, and some may recognize it as essentially the same one used by MSHDA for the past several years. Some modest changes were made to the General Market Study requirements in 2017.

- **LIHTC 9% Market Analysis.** These are market studies required when funding is sought under the Low Income Housing Tax Credits program (the “9%” program) or under the Pass-Through Short-Term Bond Program. These studies, new in 2017, are an abbreviated version of the General Market Study.

- **Reduced-Scope Studies for Preservation Proposals.** If a market study is submitted for the preservation of a deeply-subsidized project, a reduced-scope study might be accepted. The proposal must have subsidies on at least 95% of its units and meet other qualifications specified in the guidelines. The requirements for this type of study have not changed since 2016.

- **Update Letter.** Under certain circumstances, the Authority will accept an update to a study which was previously submitted, rather than require a new study. Updates are accepted for both 9% LIHTC and the Authority’s Direct Lending programs.

I. GENERAL MARKET STUDIES

In order to provide the counsel that the Authority’s staff require, each market study submitted to the Authority shall contain the following information, *in the order presented below*. The Market studies not in the following order, or those that do not provide the requisite analysis, will be returned for correction.
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 clear, explicit and bolded recommendation of the project as proposed showing support, opposition or the analyst’s suggested modifications to the project, if any.
- 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 available upon request.

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, including the amount of any fees for carports or similar amenities;
- 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.
• Occupancy history over the last three years, as well as the current occupancy rate, is required;
• 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 (additions or subtractions to current amenity package, and the analyst’s opinion of the effects on marketability deriving from these changes);
• 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). 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 Authority 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. The Authority 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.

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

For scattered site, single family projects, the Authority 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 2000 Census, 2010 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 2000 and 2010 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 Authority 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. The data should be taken from the 2010 Census, as well as the latest version of the American Community Survey and the year of market entry.
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.

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. Comment on how concentrated the local economy’s employment is on an industrial sector basis.

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 (the American Community Survey, for example).
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.

This data must also be provided in an Excel spreadsheet format.
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, Authority 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. Provide a map of these properties, including 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. The Authority will provide this information to the analyst upon request. 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 Authority-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 the Authority’s market studies, large households contain more than four persons.

Analysts should use the Excel worksheet provided on the Authority’s 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), on table HCT11 for family projects, and on the HUDUser website (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:

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Detroit Metro</th>
<th>City of Detroit</th>
<th>Midwest Region</th>
<th>National Elderly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>2.9%</td>
<td>3.8%</td>
<td>3.7%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Renters</td>
<td>20.0%</td>
<td>20.0%</td>
<td>25.0%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Calculations for the penetration rate, capture rate, and saturation rate are also on the worksheet provided on the Authority’s website. Information on the Authority’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 Authority methodology in addition to any other data that the analyst feels is appropriate. In addition, the Authority’s 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 Authority 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 Authority-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.
REQUESTS FOR FURTHER INFORMATION
Occasionally, a project is located in a market where statistical information from the American Community Survey indicates that demand might be too small to absorb its units in a timely manner. When these situations arise, the Authority will specifically request answers to the following questions. The request will accompany the initial assignment notification. The answers should be placed in the Executive Summary of the report:

--Pipeline considerations: What is the status of recently-allocated LIHTC projects (within last two years) that may exist in the market? Please list these, along with placed-in-service updates, premarketing success (if any), absorption information, or other items of note. Are there affordable housing units that have been funded by other programs (local HOME, NSP1-2-3, or others) which may compete against the proposal?

--Shadow rental market: What is your best estimate of the size of the “shadow market” of single-family rental units in the area? To what extent do they represent a threat to the absorption of the property? Please provide information as to how important this source of competition is to the set of most-comparable properties in your comparable survey. Interviews with staff at those complexes can be used, as could other data points.

--Site-specific considerations: Are there aspects of the project’s site, neighborhood, marketing plan or design that would make it compete more effectively in the marketplace than other newly-constructed units? If these exist, they must be explicitly called out, with an explanation of why they would do so.

--Project-specific considerations: What is different about the subject’s units that would make them compete more effectively than existing projects, or fill a market need that is currently unmet?

--Demographic estimates: Do the demographic estimates from the third party providers make sense in light of past Census patterns? If abrupt changes cannot be explained, or if counterintuitive trends are indicated, these must be called out in the narrative. Also, your strategy for dealing with them when demand is calculated must be spelled out. Additionally, what if all sources agree that the demographic indicators of demand are declining? Is there still a market for the project as proposed?

Finally, please note any key issues throughout your market analysis that bear on answering the question, “Are additional units in this market likely to be absorbed in a timely basis?” For example, how do your calculations of capture and penetration rates affect your answer to this question? How common are concessions in the market? Is there anything notable in the pattern of vacancy in the market that would tend to affect the subject’s performance?
Please note that very little of this information and analysis is different from what is asked for in other portions of the study. The Authority calls it out here to highlight the importance of these questions to its analysts, and to organize the report in a more useful manner to Authority reviewers.

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;
- The submission of the rental market information in an excel spreadsheet, including addresses, unit mix, rents, amenities and square footage.

II. LIHTC 9% MARKET ANALYSIS
Applicants under the Authority’s 9% LIHTC funding rounds and Short-Term Pass-Through Bond program must submit an abbreviated market analysis that includes the information below. (This information is a subset of the General Market Study requirements.)

- **Project Description:**
  - A paragraph summarizing the basic parameters of the proposal, including its address, number of proposed units, rents, income targeting, unit mix, and amenities. MSHDA’s Project Description form must be used to present this data. (This is an Excel file available upon request.);
  - If the project is a rehab, then the sponsor’s description of the work to be done must be included;
  - Rent rolls showing tenant incomes must also be included, as well as a three-year vacancy history where applicable;
  - The analyst must estimate the potential for displacement of current tenants due to changes in the project configuration.

- **Primary Market Area (PMA):** A brief description and defense of the PMA used in the analysis, including a map that clearly shows its boundaries.

- **Economic Trends:** A very brief discussion (no more than one paragraph) of major economic trends in the PMA, including local unemployment trends, major business openings or closings, and any other highly significant information that the analyst deems will influence market feasibility.

- **Site Visit:** A site visit is not within the scope of work for an abbreviated market analysis. However, the analyst is expected to provide a basic site analysis drawn from aerial photos and other easily-accessible information. The market analysis does not have to draw a conclusion about the acceptability of a site, but is expected to identify
broad strengths and weaknesses, and take a site’s apparent quality into account in its rent and other recommendations.

- **Demographic Data:** Demographic data must include the information below, broken out by age where appropriate. Please keep in mind that MSHDA marketing defines seniors as being at least 65 years of age. For congregate care projects, the analysis must be based on seniors 75 years of age and older.
  - Population totals in the PMA from 2010, current year estimate, and five-year projection;
  - Household count in the PMA from 2010, current year estimate and five-year projection;
  - Number of renters in the PMA from 2010, current year estimate and five-year projection;
  - Median household income in the PMA from 2010, current year estimate and five-year projection;
  - Household income by tenure in the PMA for the current year; and
  - A discussion of commuting patterns in the PMA and how they relate to demand for the subject property.

- **Competitive Market:** 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 rents and occupancy rates broken out by bedroom size and funding type (LIHTC, conventional, subsidized, etc.) in specific projects, compared to the subject property;
  - A table comparing the amenity offerings at the market area’s developments to the ones proposed for the subject;
  - An identification of those properties which are most similar to the proposed development. The analyst should state why these comparables have been selected, which are the most directly comparable, and explain why certain projects have not been referenced. Pictures, if available to the analyst without a site visit, must be provided for the properties deemed most comparable. Provide a map of these properties which includes the location of the subject property.
  - Information about development pipeline, if applicable; and
  - The analyst’s estimate of the rent at which a similar, non-assisted unit would lease on the open market. This estimate should be given for each unit type at the subject property.

- **Demand Analysis:** A demand analysis, including an absorption rate for the property, using Authority methodology (See Addendum 4); and

- **Conclusion and Recommendations:** A concluding paragraph summarizing the results of the analysis. This conclusion must include any analyst-recommended changes to the project that are deemed necessary.
III. REDUCED SCOPE STUDIES
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.
IV. UPDATE LETTER
The Authority will now accept updates for market studies submitted for both 9% LIHTC and the Authority’s 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 the Authority, or completed by a firm on our current approved list (in Tab C of the Combined Application on the Authority’s 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.), changing more than three amenities on offer, changing a family-targeted proposal to senior (or vice versa), or other changes.

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 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 properties, not LIHTC, HOME-assisted or subsidized units;
- 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 the Authority’s 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 are no longer accepted by the Authority.
Addendum 3: Pass-Through Short-Term Bond Program Guidelines
See the section for LITHC 9% Market Analysis for the Pass-Through guidelines.
Addendum 4: Unduplicated Demand for Authority 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:

<table>
<thead>
<tr>
<th>% AMI</th>
<th># Units</th>
<th>Contract Rent</th>
<th>Gross Rent</th>
<th>Lower Limit</th>
<th>Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>35%</td>
<td>10</td>
<td>$320</td>
<td>$344</td>
<td>$10,320</td>
<td>$14,770</td>
</tr>
<tr>
<td>40%</td>
<td>10</td>
<td>$350</td>
<td>$374</td>
<td>$11,220</td>
<td>$16,880</td>
</tr>
<tr>
<td>45%</td>
<td>10</td>
<td>$380</td>
<td>$404</td>
<td>$12,120</td>
<td>$18,990</td>
</tr>
<tr>
<td>50%</td>
<td>10</td>
<td>$420</td>
<td>$444</td>
<td>$13,320</td>
<td>$21,000</td>
</tr>
</tbody>
</table>

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:
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:

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

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:

<table>
<thead>
<tr>
<th>Lower Limit</th>
<th>Upper Limit</th>
<th>Split of Overlap</th>
<th>New Lower Limit</th>
<th>New Upper Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,320</td>
<td>$14,770</td>
<td>$1,775</td>
<td>$10,320</td>
<td>$12,995</td>
</tr>
<tr>
<td>$11,220</td>
<td>$16,880</td>
<td>$2,380</td>
<td>$12,996</td>
<td>$14,500</td>
</tr>
<tr>
<td>$12,120</td>
<td>$18,990</td>
<td>$2,835</td>
<td>$14,501</td>
<td>$16,155</td>
</tr>
<tr>
<td>$13,320</td>
<td>$21,000</td>
<td>$3,550</td>
<td>$16,156</td>
<td>$21,000</td>
</tr>
</tbody>
</table>

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:

These estimates result in the following demand calculation:

<table>
<thead>
<tr>
<th>Income Distribution</th>
<th>Qualifying Percentages of Each Income Band</th>
<th>Number of Qualifying Households in Each Band (Tenure and Movership Included)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35% 40% 45% 50% Total LIHTC</td>
<td>35% 40% 45% 50% Total LIHTC</td>
</tr>
<tr>
<td>Income Range</td>
<td>Renters Owners</td>
<td>Renters</td>
</tr>
<tr>
<td>$0 to $9,999</td>
<td>624 304</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
<tr>
<td>$10,000 to $14,999</td>
<td>651 469</td>
<td>53.5% 30.1% 10.0% 0.0% 93.6%</td>
</tr>
<tr>
<td>$15,000 to $19,999</td>
<td>457 596</td>
<td>0.0% 0.0% 23.1% 76.9% 100.0%</td>
</tr>
<tr>
<td>$20,000 to $24,999</td>
<td>268 544</td>
<td>0.0% 0.0% 0.0% 20.0% 20.0%</td>
</tr>
<tr>
<td>$25,000 to $29,999</td>
<td>150 653</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
<tr>
<td>$30,000 to $39,999</td>
<td>110 450</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
<tr>
<td>$40,000 to $49,999</td>
<td>64 704</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
<tr>
<td>$50,000 to $74,999</td>
<td>45 484</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
<tr>
<td>$75,000 +</td>
<td>30 332</td>
<td>0.0% 0.0% 0.0% 0.0% 0.0%</td>
</tr>
</tbody>
</table>

These estimates result in the following demand calculation:

<table>
<thead>
<tr>
<th>Number of Qualifying Households in Each Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Demand:</td>
</tr>
<tr>
<td>35% 40% 45% 50% Total LIHTC</td>
</tr>
<tr>
<td>84 60 55 136 336</td>
</tr>
<tr>
<td>Capture Rate:</td>
</tr>
<tr>
<td>11.9% 16.5% 18.1% 7.3% 11.9%</td>
</tr>
</tbody>
</table>

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. The Authority’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.