



Tab C

MSHDA Guidelines for Market Studies

Updated July, 2021

Table of Contents

- I. Market Study Procurement and Submission Process..... 2
 - A. The 9% Competitive Tax Credit Rounds. 2
 - B. Submissions to the 4% Competitive Tax Credit Rounds. 3
- II. Market Study Types..... 3
 - A. Full 9% Tax Credit Market Study 3
 - B. Full 4% Tax Credit Market Study 3
 - C. Reduced Scope study. 3
 - D. Update Letter. 3
- III. Market Study Requirements: Full Market Studies (9% and 4%) 4
 - A. Executive Summary..... 4
 - B. Scope of Work. 4
 - C. Project Description. 5
 - D. Site Factors/Location..... 6
 - E. Market Area Definition 8
 - F. Employment and Economy..... 8
 - G. Demographic Characteristics..... 9
 - H. Competitive Environment 10
 - I. Demand Analysis 15
 - J. Analysis and Conclusions. 16
 - K. Other Requirements 16
- IV. Market Study Requirements: Reduced Scope Studies 16
- V. Update Letters 17
- Attachment 1. Approved Market Analyst List..... 18
- Attachment 2. Scattered-Site Criteria. 19
- Attachment 3. Unduplicated Demand for Authority Market Studies 20

Introduction

The *MSHDA Guidelines for Market Studies* present MSHDA's requirements for market studies submitted when applying for tax credits under the Low-Income Housing Tax Credit (LIHTC) program. The purpose of market studies is to help MSHDA staff determine whether a market exists for a given low- or moderate-income rental housing proposal. These guidelines for analysis are loosely based on the National Council of Housing Market Analyst *Model Content Standards* and differ from those standards in sometimes substantial ways. The *MSHDA Guidelines* also provide information about the processes of procuring and submitting market studies to the Authority when seeking tax credits.

I. Market Study Procurement and Submission Process

Beginning in the February, 2021 competitive round MSHDA changed its market study process for 9% Low-Income Housing Tax Credits (LIHTC). In prior years, sponsors seeking 9% tax credits had worked through MSHDA to obtain their market studies, with MSHDA directly overseeing the creation of the studies. In 2021 the Authority rolled out a new system under which the type of market study completed and the process for procuring them are different for 9% tax credit and 4% tax credit proposals. Now, sponsors can procure their own market studies for a 9% application, but not for a 4% or combination 4%/9% application. A third option allows a 4% market study to be submitted for 9% tax credits. A 9% study can never be submitted for 4% credits. The text below describes the two systems.

A. The 9% Competitive Tax Credit Rounds.

Until 2021 applicants worked through MSHDA to obtain their market studies, with MSHDA directly overseeing the creation of the studies. This process changed in the first 9% tax credit round of 2021, as applicants were given the option of interacting directly with approved firms for the purchase of their studies. (See Attachment 1.) Also changed was the due date for market studies (which in the past has been in advance of the tax credit applications); they are now due the same day as tax credit applications. These changes apply to 9% competitive LIHTC and Pass-Through Bond Program applications. For sponsors who choose to submit a 9% market study, details of the requirements follow:

- **Market Analyst Selection.** Applicants have the option of selecting a market analyst from the approved list of firms and working directly with their chosen firm without MSHDA involvement. The sponsor will contact the firm directly and work with them without MSHDA involvement.
- **Market Study Payment.** Tax credit applicants will pay their chosen market study firm directly for the market study. The price and other terms related to the study are to be decided between the applicant and the market study firm.
- **Market Study Threshold Requirements.** To be accepted for threshold, studies must do the following:
 - Comply with the *MSHDA Guidelines for Market Studies* set forth in this document for either a 9% tax credit market study or a 4% tax credit study.
 - The project proposal in the market study must be the same as the one proposed in the 9% LIHTC application; **the market study's rents, amenities, site, and other elements that impact a property's market potential must be identical to those in the application.**
 - Submit the study **in electronic format by 5:00 on the date on which the 9% LIHTC application is due.** No market studies will be accepted after 5:00 p.m. on the application due date. Market studies submitted after 5:00 p.m. on the due date, or delivered in hard copy, will not meet the 9% LIHTC threshold requirements, and will not be processed. (Please make sure that the electronic version of the study is editable in Adobe Acrobat so market study reviewers can search the text.)
- **Site Selection.** At least 60 days in advance of the tax credit application due date, project sponsors will indicate to MSHDA where their proposal is located by sending their site information to MSHDA-MarketStudies@michigan.gov.

- **Other Submission details:**

- Market studies must be submitted in electronic form to the following email address: MSHDA-MarketStudies@michigan.gov. Only **one study per email should be submitted**.
- The filename for each study should communicate the name of the project, the community in which it is located, and the tax credit round for which the application is being made. For example, if an application for River Pines Apartments in Townsville, Michigan was submitted in a 9% tax credit round in February of 2021, a possible name for the study could be: "River Pines Apartments—Townsville—9%Feb2021.pdf."

B. Submissions to the 4% Competitive Tax Credit Rounds.

Market studies that have not been ordered by MSHDA cannot be submitted for 4% tax credits or for proposals with a combination of 4% and 9% tax credits. If a sponsor is would like to submit a market study that can be used interchangeably in either type of tax credit program, they should request a study through MSHDA, which will then hire and provide oversight to the study. Sponsors have the option of ordering a 4% study to be submitted in the 9% round, with the advantage that if 9% tax credits are not awarded, the same study could then be submitted for 4% credits instead.

To order a study through MSHDA, applicants need to submit a *Market Study Initiation Request* with details of their proposal to MSHDA for a market study to be ordered. Please see Tab C of MSHDA's *Combined Application for Rental Housing Programs* found at www.michigan.gov/mshda or contact Lori Sykes at MSHDA-MarketStudies@michigan.gov.

II. Market Study Types

MSHDA accepts four different types of market analysis, the requirements for which are found in this document. Full studies can be of two types: a full 9% tax credit study or a full 4% tax credit study. The 9% tax credit study can be submitted only in the competitive 9% tax credit rounds or for the Pass-through Bond Program. The 4% tax credit study applies a stricter standard for the analysis and can be submitted for any type of tax credit or for the Pass-Through Bond Program. **As a reminder, full 4% studies must be ordered through MSHDA, while full 9% and Pass-through program studies may be ordered directly from the market study firm.** (See *Market Study Process Procurement and Submission* section above.) Below is a general description of each type of study.

A. Full 9% Tax Credit Market Study

A complete market study of the type submitted with most 9% tax credit applications. Applicants for the Pass-Through Bond Program can also submit this type of proposal. The criteria for a full 9% study is spelled out under the *Market Study Requirements: Full Market Studies* section.

B. Full 4% Tax Credit Market Study

These are market studies required when funding is sought under MSHDA's Direct Lending Programs or under the 9% tax credit program if 4% credits are also requested. This is a robust market analysis, and there are additional criteria beyond the criteria for 9% studies. The criteria for a full 4% study is spelled out under the *Market Study Requirements: Full Market Studies* section.

C. Reduced Scope study.

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. See "Section IV. Reduced Scope Studies" for the full set of requirements.

D. Update Letter.

The Authority will accept updates for market studies submitted for both 9% LIHTC and the Authority's Direct Lending programs. It is an abbreviated study that updates the information in a previously

approved full market study and is submitted between 6 and 12 months of the original study. Please be aware that updates are for proposals that are fundamentally unchanged from their last application. See “Section V. Update Letters” for the full set of requirements.

III. Market Study Requirements: Full Market Studies (9% and 4%)

Below are the market study guidelines for the content of the full market studies, which are the majority of studies submitted to MSHDA. Each market study submitted to the Authority should 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. **Some of the criteria will differ somewhat between full 9% study and the full 4% study;** these are called out in each section that contains such differences.

Analysts must include the MSHDA *Market Study Key Data Spreadsheet* following the Table of Contents. The MSHDA *Market Study Key Data Spreadsheet* summarizes key information from the study and can be found in the Housing Market Research section of the MSHDA webpage: https://www.michigan.gov/mshda/0,4641,7-141-5587_106252---,00.html.

A. Executive Summary.

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

1. A concise description of the site and the immediately surrounding area/surrounding land uses;
2. A brief summary of the project including the proposed target population to be served;
3. Brief summary of economic conditions;
4. Brief description of and support for the defined primary market area.
5. Summary of key demographic data;
6. Summary of competitive market conditions;
7. Summary of the demand analysis which states the analyst's conclusion about the sufficiency of theoretical market demand based on the analysis;
8. A summary of market related strengths and weaknesses that will affect the property's marketability, performance, and lease-up. Mitigating factors of negative attributes should be identified, if any;
9. Precise statement of key conclusions reached by the analyst. This statement should provide a definitive evaluation of the proposed development and its prospect for success as proposed. This statement should reconcile any conflicting data indicators among the various sections of the report.
10. Clear, explicit, and bolded recommendation for whether the project should move forward as proposed, should move forward only with the analyst's specific suggested modifications, or should not proceed at all.
11. Absorption estimate for the subject property. If the report recommends any changes to the proposal, it should be clear if this absorption estimate is for the property as proposed or assuming the analyst's recommended changes are followed.

B. Scope of Work.

Please identify the following:

- The type of report (Full 4% Market Analysis, Full 9% Market Analysis, Reduced Scope Study, or Update Letter). For a Reduced-Scope Study or Update letter, please explain how the proposal qualifies based on the criteria in this document.
- Client name and the name of project developer. If the client is MSHDA, as for a Full 4% Market Study, be sure to also include the name of the project sponsor.
- Intended use and users of the report.

- Identify steps taken in completion of the report. If any significant steps were not taken, identify and explain.
- Date of field work and site visit.
- Person conducting field work.
- Primary analyst reaching conclusions of report.

C. Project Description.

The market study should include a project narrative to show the analyst's understanding of the project. The Project Description should also include:

1. Project Structure. Analysts should supply a project description that includes:

- The proposed income targeting, unit mix including bedrooms and bathrooms, estimated utility costs, and proposed net rents and gross rents. Include maximum and minimum allowable incomes by AMI level;
- Identify project-based rental subsidies to be offered and the units to which the subsidy applies;
- Unit size in net square feet (the living area of a unit, exclusive of common areas);
- The utilities 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;
- Age restriction (55+, 62+, 65+) for the community. Analysts should discuss the appropriateness of the age restriction in light of local market conditions and the location, design, layout, and service-provision at the property.

2. General Information. Provide a description of the proposed/existing development including:

- The community's target market and any tenancy restrictions. This may include income restrictions, age restrictions, or special needs;
- The number of buildings, number of stories, and building design type (walk-up, single-story, mid-rise, high-rise, etc.);
- Exterior finishes. Unit features and finishes (if available).

3. Common area and site amenities.

- List and describe the analyst's understanding of the proposed amenities. Pull cords or other personal emergency response system (PERS) should be offered in all senior properties, and analysts should call out the fact that they have been omitted if a sponsor has not proposed them. Please also see the "Standard Amenities" requirements under *Section H. Competitive Environment* for a discussion of amenities that should be included.
- **Additional Requirements for Full 4% Tax Credit Studies.** Check to see whether the proposal includes the following amenities, which are required for proposals seeking 4% tax credits, and add a statement that they are missing if not offered:
 - For new construction properties - dishwashers in all units with more than one unit
 - For new construction properties - in-unit washers/driers and garbage disposals in all units.

4. Rehabilitation Efforts

- Identify any existing assisted housing program at the property such as Section 8, Section 202, Section 811, BMIR, Section 236, etc.;
- Provide occupancy history over the last three years, as well as the current occupancy rate;
- Compare the current rent structure to the proposed rent structure. Comment on the effect of any changes on the project's marketability;
- If there is a broad range of unit sizes in the proposal, an average square footage may be used for the analysis. However, in these cases, a list of individual unit sizes showing the square footages

by bedroom size for each unit should be provided. If this list cannot be obtained from the sponsor, a range of square footages (e.g., 300 to 700 s.f.) should be provided by bedroom size.

- Describe the methodology for the rehabilitation, including the phasing of rehab activities, impact of the rehabilitation work and on current tenants, and information on needed relocation of tenants (if necessary);
- Describe the scope of work, and include an estimate of total construction cost, cost per unit, and a breakdown of hard and soft costs, if available.
- Call out changes in amenity provision, including the 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, the household size occupying the unit, 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 should be provided that indicates how many of the current tenants would be overburdened by the proposed rents and estimates the number of households that could be displaced;
- 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 of their effects on the marketing project. Include the status or date of architectural plans, name of the architect, and/or a copy of the floor plans and elevations. If the plans are not completed at the time of the analysis, the market analyst should so state.

D. Site Factors/Location

The Authority has criteria for site analysis that can be found in Tab CC of the MSHDA Combined Application for Rental Housing Programs (www.michigan.gov/MSHDA). Analysts should look at these criteria when determining how well the site will aid or hinder marketability. Please note that MSHDA has a higher level of expectation for sites for Full 4% Market Studies than for Full 9% Market Studies. Additional requirements for 4% studies are listed at the end of this section.

Provide a **description of the site characteristics** including its size, shape, general topography, and vegetative cover, and adverse conditions. Identify land uses directly surrounding the subject site. In addition, provide the following:

- 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 and map the property's 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;
- In situations where it is not feasible to show all the categories on a map, the categories may be addressed in the narrative.

A **description of the marketability of the proposal**, including at least 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.
- Provide analysis of public safety issues including information or statistics on crime in the vicinity of the site and in the PMA relative to data for the overall area. Address any local perceptions of crime or problems in the PMA.
- 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.
- For 9% proposals that are located closer than 400 feet to an active railroad track, specifically assess the impact on the feasibility of the proposal, including such things as the impact on rent levels and estimated absorption period. It may be useful to review MSHDA's site criteria in Tab CC of the *MSHDA Combined Application for Rental Housing Programs* when identifying negative site factors for this adjustment.
- For proposals that lack residential character, specifically assess the impact on the feasibility of the proposal, including such things as the impact on rent levels and estimated absorption period.
- **Additional Site Requirements for Full 4% Market Studies.** For Full 4% Tax Credit Market Studies state whether each of the items below is true or not for the proposal. MSHDA will not review market studies for projects seeing 4% or a combination of 4% and 9% tax credits for which the answer to the following questions is "no":
 - Is it located farther than 400 feet from an active railroad track?
 - Is it located farther than 300 feet from negative site factors such as garbage dumps, truckyards, high-tension power lines, industrial land uses, drilling rigs, and other disamenities? (It may be useful to review MSHDA's site criteria in Tab CC of the *MSHDA Combined Application for Rental Housing Programs* when identifying negative site factors for this adjustment.)
 - Is it near existing residential uses, preferably single family, which are in good condition and reinforce the feeling of "neighborhood" or, if not, is it the subject of a realistic plan to improve any blighted homes or structures to a good condition? (Central city walkable proposals may be still accepted if lacking residential character.)
- 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.
- For **scattered site, single family projects**, the Authority has added site considerations that must be met. Analysts should look at the scattered-site criteria in Attachment 2 of this document and determine how well the proposal's site meets them.

Provide a conclusion concerning the suitability of the proposed site for the proposed use.

E. 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.

For proposals to be submitted for 4% or for a combination of 4%/9% credits, analysts must submit their proposed primary market area definitions to our shared MSHDA mailbox at MSHDA-MarketStudies@michigan.gov for Authority approval before proceeding with the analysis. For proposals submitted for 9% credits, analysts may choose to seek Authority approval of the PMA at the above email above before proceeding with subsequent analysis, but it is not required.

F. Employment and Economy

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 proposal 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 the information described below for the 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 data sources and describe the methodology for the analysis. The following should be provided:

- A description of employment by industry sector.
- A list of 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.).
- 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.).
- Information that pertains to the number of jobs within the study geography:
 - Total At-Place Employment for the same period. “At-Place Employment” measures the number of jobs located within a specific geography and should not be confused with the Employed Labor Force. Compare to the larger geographic area. Recent trends (job loss/gain) in At-Place Employment should be identified and discussed.

- At-Place Employment by Sector and Employment Change by Sector. Identify the most important employment sectors in the area, potentially including share of employment and employment growth.
- A discussion of future trends for employment, as well as general economic conditions, in the PMA in relation to the subject property.
- Discuss recent or planned major employment expansions or contractions, plant openings or closings or other similar information including potential impact on demand for rental housing.
- Comment on how concentrated the local economy's employment is on an industrial sector basis.
- If relevant, comment on the availability of affordable housing for employees of businesses and industries that draw from the PMA.
- 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).
- 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.
- **Provide a conclusion** stating whether economic conditions will have a significant positive or negative impact on the subject property.

G. Demographic Characteristics

Provide total population, age, and income target data for the Primary Market Area and the smallest available comparison area, (which may include a county or MSA) using data from the most recent decennial Census, American Community Survey information, and/or data provided by third-party providers. It should include current year estimates and estimates projected to market entry (usually one to two years after the current year).

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 data from the previous two decennial censuses (for example, 2010 and 2020). 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:

1. POPULATION AND HOUSEHOLD COUNTS AND CHARACTERISTICS. Population and household counts for the appropriate age classification should be provided for the year of the most previous decennial Census, the current year, and projections for five-year growth or anticipated placed in service date. Counts for elderly persons and households (65 and older) should be broken out.

- 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 and type 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);
- Include population by age, including the number of non-elderly (0-64) and elderly (65 and over). For congregate care projects, ages used in the analysis (for both population and household information) should be 75 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.

2. INCOME BY TENURE. Provide a breakdown of households by income in \$5,000-\$10,000 increments by household size and by tenure. The data should be taken from the most recent decennial 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 for senior 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.

3. BUILDING PERMITS. 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.

4. OTHER. Information on substandard housing and an analysis of rent as a percent of income (rent burden) should be presented.

5. ANALYSIS. Provide an analysis of the demographic trends indicated by the data described above being sure to relate the findings to the market performance of the subject property. Clearly identify any specific trends that that positively or negatively affect rental housing demand.

H. Competitive Environment

A market study should include a comprehensive description and analysis of the rental market serving the primary market area. The scope of the survey/analysis should be sufficient in breadth to evaluate where the subject property fits within the overall rental market. If available and relevant, an overview of the regional rental market including number of units planned/under construction and recent trends in rents and vacancies should be provided.

As the tenant-paid rents at communities with project based rental assistance (Section 8, Public Housing, USDA) are based on income, they are not generally an accurate representation of market conditions. As such, the contract rents and vacancies at these communities should be presented independently of properties without these subsidies. Unless stated otherwise, the following requirements pertain to both Full 9% and Full 4% studies, with additional requirements for 4% studies listed separately.

1. RENTAL MARKET INFORMATION

This purpose of this section is to understand the competitive environment in the market area and assess the proposal's competitiveness when compared to competing multifamily rentals. Please conduct a market survey and provide an overview of the primary market area's housing stock including the information listed below. Provide this information for all properties (rather than solely for the most competitive properties) unless indicated otherwise. The proposed rents, amenities, and features of the

subject property should be shown in comparison to existing communities in tabular form. Specifically, the information provided should include:

- a. Name and street address, population served (senior/general occupancy/special needs), year built, property contact information, etc.), and rent structure. For the most comparable properties, also provide the age, condition and street appeal and the type of design (i.e. townhome, walk-up, duplex, etc.).
- b. Unit mix including number of bedrooms and bathrooms, square footage, and rents.
- c. Provide the current occupancy. And, if available, add the historical occupancy and absorption history (if recent/available) for the most comparable properties.
- d. Number of households and date of any waiting lists.
- e. Current concessions being offered.
- f. Unit features and amenities such as ceiling fans, patios, washer/dryer connections, parking, etc. Include additional details such as high-end finishes, hardwood/carpet flooring, high-efficiency appliances, etc., for at least the most comparable properties.
- g. Community amenities such as on-site management, recreation, laundry, and parking. Include the cost of any fees charged for laundry, parking, or any other amenity.
- h. For the any most comparable 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 should be provided.
- i. Type of utilities (state whether paid by tenant or owner and energy sources for hot water, heat and cooking);
- j. 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.)
- k. 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).

B. Vacancy Rates. Present the vacancy rates for the surveyed rental stock. As appropriate, vacancies should be broken up by property classifications and target market, which may include market rate, LIHTC, deeply subsidized (rent based on tenant income), senior, special needs, etc. As available, vacancy data should be provided by bedroom type (unit size).

- Vacancy trends should be provided and discussed if available/relevant.
- Significant seasonal variations in vacancy rates should be discussed if applicable.
- Any vacancy or absorption problems should be identified and discussed, particularly among the most comparable rental communities.
- Identify any significant variances in vacancy rates that exist among price point, location, bedroom size, product type, target market, etc.

C. Most Comparable Properties. Identify the most comparable properties to the subject property and provide a narrative evaluation of the subject property in relation to these communities. Market studies should identify the most comparable affordable communities and market rate comparables used for a comparison of rents. The study should explain how these communities were selected as the most comparable and why other projects were excluded. Photographs must be provided of the properties deemed most comparable to the subject, as well as a map of these properties that includes the location of the subject property.

D. Recent Development Activity and Pipeline. Discuss recent development activity in the market area including recently constructed rental communities and those planned or under construction in the market area. The market study must include separate estimates of the numbers of rental units currently under construction and the numbers of units in the planning and development stages that are likely to enter the housing market during the specified forecast period. These estimates should

include all rental developments known, not solely those determined by the analyst to be comparable and competitive. The location of each pipeline community relative to the subject site should be presented. The report should contain estimates of:

- a. The number of projects currently under construction, expected completion date, the total number of units, unit mix breakdown by bedroom and income target, and structure type.
- b. The number of projects in planning stages that are likely to be developed, including but not limited to those with building permits or firm financial commitments, including details on the number of units by bedroom size, rents, locations, and stage of development.
- c. Identify any projects that will specifically compete with the subject property.
- d. When relevant, include a list of LIHTC pipeline projects with allocations in or near the market area that are not yet placed in service, giving as much detail as possible on estimated placed-in-service dates, unit mix, and income levels. The Authority may be able to provide a list of properties that were recently approved for funding by the MSHDA upon request. If there are no comparable projects in the pipeline, the analyst must state this fact.

- E. Scattered Sites.** In markets with limited multi-family rental communities or lower-density subject properties, provide an analysis of available scattered site rentals including pricing and other available/pertinent data.
- F. Comparison and Analysis.** Compare and analyze the subject property to the surveyed rental communities in terms of amenities, tenant paid utilities, unit sizes, location, parking, concessions, rents, and other relevant considerations. This analysis may be refined to include only the most comparable communities.
- G. Standard Amenities.** MSHDA considers any amenity which is offered by more than 60% of comparable properties to be a standard amenity for that market. Identify any amenities absent from the subject's amenity offerings that are provided by at least 60% of either of the following: 1) the most comparable properties or 2) the newest comparable properties (properties constructed within the primary market area in the past 10 years). For any such amenity, discuss the amenity's prevalence among competing properties and the potential impact on the subject's market feasibility given that it lacks this offering. Also, include a statement to the effect that MSHDA considers standard amenities to be a necessity in all proposals and may condition the addition of any missing standard amenity or require a rent reduction due to its absence. Please note that MSHDA may make an exception for rehabilitation projects that do not offer certain amenities due to the building's existing structure and layout.
- H. Impact on Existing Housing.** Discuss the impact of the subject development on existing housing in the market area, in terms of conventional multifamily projects and affordable projects (including RHS, HUD and others where applicable). Further, discuss the impact on Authority-financed properties, including those that are active in the Authority's pipeline or that have been constructed, but not have not yet reached stabilized occupancy.
- I. Absorption Rates.** Absorption experience of recently completed rental developments as available, including units per month estimates for each project, with particular emphasis on comparable and competitive projects that have entered the market within the past 24 months.
- J. Effective Rents.** Current effective rents should be provided for each of the most comparable rental communities by bedroom size when available. Effective rents should account for any current incentives and should be adjusted to reflect a consistent utility policy.
- K. Upgrades.** Any options/upgrades available to renters should be identified with the associated costs.
- L. For-Sale Homes.** Discuss the availability of non-rental 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 and including an analysis of the cost to rent versus to own.

2. ACHIEVABLE AND MARKET RENTS

Provide a market rent and an achievable LIHTC rent derived from comparable properties in the market area and discuss their ramifications for the marketability of the subject. The following are specific requirements of this section of the guidelines:

A. Derivation of the Rents/Rent Comparability Grids.

Analysts should use a rent comparability grid to estimate the achievable and market rents. **Analysts are now required to submit the rent comparability grids for each market study in spreadsheet form to MSHDA** that includes the formulas for all calculations and the weights applied to the adjusted rents of each property in order to derive the Estimated Market Rents. The purpose of this requirement is for MSHDA to be able revise the spreadsheet with different adjustment amounts or to add/delete comparables in order to see the impact on the Estimated market Rent.

When compiling rent comparability grids, please keep the following requirements in mind:

- Analysts should add the following adjustments to their rent comp grids when applicable:
 - A rent adjustment for any property that is sited less than 600 feet from a railroad track. For Full 9% Market Studies, explain, using information from existing comparables or other justifications, why the market study supports the proposal (if it does), given that it is located so close to an active railroad track. (For proposals for 4% tax credits, see *Additional Requirements for 4% Studies*, below.)
 - A rent adjustment for proximity to any other type of site-related dis-amenity, such as high-power tension lines, truck yards, drilling rigs, or other negative site factors. It may be useful to review MSHDA's site criteria in Tab CC of the *MSHDA Combined Application for Rental Housing Programs* when identifying negative site factors for this adjustment.
 - An adjustment for sites that are not near existing residential land uses, preferably single family, which are in good condition and reinforce the feeling of "neighborhood. However, central city walkable proposals may be still accepted if lacking residential character.
- For each estimated rent, a ratio of the adjusted rent to the last rent must be provided. MSHDA's preferred range for this ratio is 90% to 110%; properties that yield adjustments outside of this range are considered not to be comparable to the subject property. In cases where this ratio cannot be achieved due to a lack of comparables, the analysts should call this out, discuss the limits to the analysis of such a lack of true comparables, and take these limits into consideration in their analysis/recommendations.
- Senior properties that offer services (assisted living facilities, congregate care facilities, continuum of care retirement communities, etc.) should not be used as comparable properties for independent senior apartments. If, due to a lack of comparable properties, senior properties that offer services are used as comparable properties for independent senior apartments, the costs of the services at the comparable properties must be adjusted for in the grid.
- Continuum of Care Retirement Communities (CCRC's) or other senior housing complexes housed in a campus-like setting that offer multiple levels of care are not comparable to independent living or congregate-care senior properties. However, if there are no other senior comparables available, and if performance data about the independent-living portion of a CCRC can be isolated from the other levels of care on the campus, it may be used as a comparable; in

these cases an adjustment should be made in the grids in recognition of the fact that senior renters will pay more for CCRC housing based alone on the benefit of being able to age in place at a multi-level of care campus.

- Luxury or high-end apartments (those offering luxury finishes, premium amenities, etc.), should not be used as comparables for affordable housing proposals offering a more modest product type.
- **Additional Requirements for 4% Studies.** Full 4% Market Studies will not be reviewed by MSHDA for properties that are:
 - Located less than 400 feet from railroad tracks;
 - Located closer than 300 feet to negative site factors such as garbage dumps, truckyards, high-tension power lines, industrial land uses, drilling rigs, and other dis-amenities. (It may be useful to review MSHDA's site criteria in Tab CC of the *MSHDA Combined Application for Rental Housing Programs* when identifying negative site factors for this adjustment.)
 - Not near existing residential land uses, preferably single family, which are in good condition and reinforce the feeling of "neighborhood. However, central city walkable proposals may be still accepted if lacking residential character.

B. Analysis of Rent Advantage

Quantify and discuss the market advantage of the proposed rents and the resulting impact on market feasibility. Include a table that shows the proposed rents, estimated achievable market rents, and the ratio of the proposed rents to estimated market rents. Discuss the feasibility of the rents, stating whether the proposed achievable and market rents (if applicable) are reasonable and achievable given the competitive market and the specifics of the proposal. And, if not, recommend alternate rents. When conducting this analysis, keep in mind the following MSHDA preferences:

- **For Full 9% Market Studies:**
 - For 60% of AMI units: Proposed rents should offer at least the industry-standard 10 percent discount from the estimated market rents
 - For 80% of AMI units: State the analyst's preferred percentage discount for 80% rents (generally between 5% and 10%) and explain the reasoning for the chosen discount level.
- **For Full 4% Market Studies:**
 - For 60% of AMI units and 80% of AMI units: All proposed rents should offer at least a 10 percent discount from the estimated market rents.

3. SENIOR REQUIREMENTS

- Age restricted properties should be analyzed separately from general occupancy communities when evaluating rents, occupancy, services, etc.
- Senior properties that offer services (assisted living facilities, congregate care facilities, continuum of care retirement communities, etc.) should be analyzed separately from independent senior communities.
- Examine features and amenities that are specifically designed to address seniors. Pull cords or other personal emergency response system (PERS) should be offered in all senior properties, and analysts should call it out if a sponsor has not proposed them.

4. ADDITIONAL LIHTC/AFFORDABLE REQUIREMENTS

- Provide a list of all affordable housing communities including LIHTC communities and deeply subsidized communities (Section 8, Public Housing, USDA). Any LIHTC communities not included in the analysis should be identified with an explanation of its exclusion.
- To accurately understand rent structure, rents of the subject property and existing LIHTC communities should be broken out by AMI level.
- Vacancy among existing LIHTC communities should be provided by AMI if available. Furthermore, vacancies for units with and without project-based subsidies should be included.

- Proposed rents should be evaluated for each proposed income level, rather than an average by bedroom type.
- Analysts should comment if specific units (bedroom/AMI) will lease significantly faster or slower than the remainder of the project.

5. LOCAL PERSPECTIVE. 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 \$60,000 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 account for this in the analysis. For the purposes of the Authority's market studies, large households contain more than four persons.

Analysts should use the Excel spreadsheet (the "*Demand Estimation Sheet with New Movership Rates 2020*") 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. (Information on the Authority's preferred methodology on creating non-duplicated demand estimates is included in Attachment 3 to these guidelines.) 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.

Analysts should compare the findings of the analysis to MSHDA's preferred demand ratio thresholds, shown in the table below. Please note that senior housing with services, such as under the MSDHA Congregate Care model, may be feasible despite having capture rates above 50% in some markets. MSHDA may accept capture rates of up to 75% to 100% for certain proposals, depending on their specifics.

Type of Rate	Open-Occupancy	Senior
Penetration Rate	6%	3%
Capture Rate	50%	50%
Saturation Rate	20%	10%

J. Analysis and Conclusions.

The analysis and conclusions section of the market study should summarize salient points from each section of the market study used by the analyst to reach the final conclusion. Estimate the absorption rate for the subject property and the corresponding lease-up period. The absorption period should be based on stabilized occupancy rather than 100 percent occupancy. Please note that the Authority has observed that lease-up times for senior housing with services are significantly longer than those for other types of housing.

- Compare the proposed development to comparable rental communities including:
 - Unit distribution
 - Community amenities
 - Included utilities
 - Unit features and finishes
 - Unit square footage
 - Location
- Identify any significant competitive advantages or disadvantages of the proposed development.
- Discuss the proposed price position relative to the existing rental market. Comment on the appropriateness of the proposed rents in light of the proposed location and product to be constructed. 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.
- Discuss any impact (short/long term) the subject property will have on the overall rental market and comparable rental communities.
- The final conclusion of the report should reconcile any conflicting data in the report. For example, experience of comparable properties may indicate less/more demand than indicated in the demand section of the report.

K. Other Requirements

- Date report was prepared, date of site visit and name and telephone number of the 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;

IV. Market Study Requirements: Reduced Scope Studies

If the 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.

Please explain how the proposal qualifies based on the criteria below. If the requirements below are not met, then the sponsor of the proposal must submit a full market study.

The necessary components from the *III. Market Study Requirements* section of this document include:

- A. Executive Summary (for information relevant to reduced-scope studies);
- B. Project Description, including vacancy and turnover rates at the subject over the last three years;
- C. Site Factors/Location (Sufficient analysis to identify significant issues that could impact marketability. No site visit required.)
- D. Market Area Definition;
- H. Competitive Environment
- F. Analysis and Conclusions

V. Update Letters

The Authority accepts updates for market studies submitted for both Full 9% and Full 4% Market Studies. For an Update letter, please explain how the proposal qualifies based on the criteria below. To qualify, the project must meet all of the following conditions:

- 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% or 80% AMI units, more market-rate units, etc.), changing more than three amenities, changing a family-targeted proposal to senior (or vice versa), changing the availability of deep subsidies, or other changes.
 - Changes to the proposal that clearly improve its marketability (lower rents, fewer units, increased number of units with project-based subsidy, for example) usually qualify for an update. Questions can be submitted to MSHDA-MarketStudies@michigan.gov.
- The study must be dated within six months to one year of the application due date in which the proposal will compete.
- Studies more than a year old cannot be updated; new studies are needed in that case.
- After one update, a new (full) study is needed; an update cannot be updated.
- For any proposal that is submitted for 4% credits or a combination of 4% and 9% credits, the study being updated must have been assigned by the Authority.
- For market studies submitted in support of an application for 9% tax credits or under the Pass-Through Bond program, the original study may have been hired directly by the project sponsor from the list of approved firms. (See Attachment 1.)

If all of these conditions are met, then an update can be ordered. The update will take the form of a letter, comparing the original proposal to the updated proposal and updating all information necessary to assess whether the more recent proposal is still feasible in the market. If supported by the data, include a statement asserting that no material changes have occurred in the market since the completion of the original study, and that the recommendation given previously is still supportable.

Attachment 1. Approved Market Analyst List

Baker Tilly:

David Haviland, Senior Manager
Baker Tilly Virchow Krause, LLP
Ten Terrace Ct., Madison WI 53718
Phone: 608-240-2358
Fax: 608-249-8532
david.haviland@bakertilly.com

Market Analyst Professionals

Chris Vance
222 South 9th Street, Suite 1600
Minneapolis, MN 55402
PH: 248-515-0496
cavance@mindspring.com

Shaw Research & Consulting, LLC

Steven R. Shaw
P.O. Box 38
Bad Axe, MI 48413
Phone: (989) 415-3554
Fax: (989) 803-5904
steveshaw@shaw-research.com

Real Property Research Group, Inc.

Tad Scepaniak
Managing Principal
(v) 770-517-2666 x 6201
(f) 877-243-5057
(M) 678-662-0576
tad@rprg.net

Bowen National Research

Desiree Johnson
Director of Operations
Phone: 614-833-9300
Fax: 614-829-6916
desireej@bowennational.com

Novogradac & Company LLP

K. David Adamescu
Manager
4449 Easton Way, 2nd Floor
Columbus, OH 43219
614.934.1139
david.adamescu@novoco.com

Vogt Strategic Insights (VSI)

Andrew W. Mazak
Partner
1310 Dublin Road
Columbus, OH 43215
Ph: (614) 224-4300
Email: andrewm@VSInsights.com
Website: www.VSInsights.com

Attachment 2. Scattered-Site Criteria.

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.

Attachment 3. Unduplicated Demand for Authority Market Studies

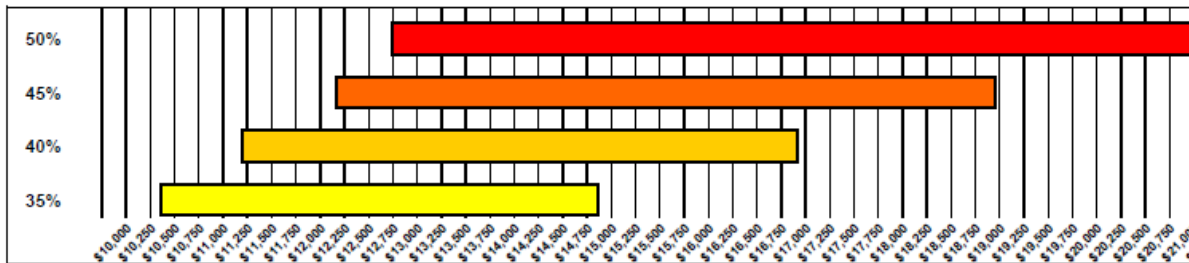
Unduplicated demand estimates segment the market for a project into separate AMI bands. This is a basic approach, done so that comparisons between competing proposals can be judged more completely, and that any double- (or triple-, or quadruple-) counting between AMI bands is removed from the analysis.

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:

% 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. These income bands are graphically displayed below:



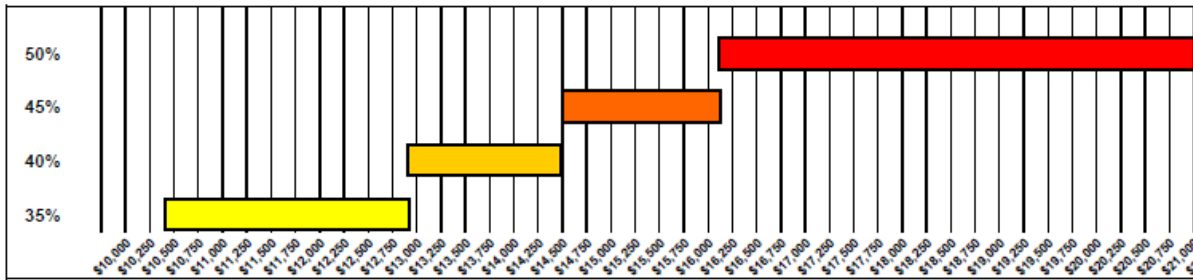
If demand by AMI band is computed and added together, the resulting figure will overestimate the total LIHTC demand by a large factor due to the large amount of overlap. To rid the analysis of this effect, the first step is to compute the amount of overlap between the bands—in effect, taking the upper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

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

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:

Income Distribution			Qualifying Percentages of Each Income Band					Number of Qualifying Households in Each Band (Tenure and Movership Included)				
Income Range	Renters	Owners					Total					Total
			35%	40%	45%	50%	LIHTC	35%	40%	45%	50%	LIHTC
			\$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	488	53.5%	30.1%	10.0%	0.0%	93.6%	84	60	20	0	165
\$15,000 to \$19,999	457	598	0.0%	0.0%	23.1%	78.9%	100.0%	0	0	35	117	152
\$20,000 to \$24,999	288	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:

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

Number of Qualifying Households in Each Band

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 presents more risk.
- 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 lease-up 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.