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Model Content Standards for Rental Housing Market Studies Frequently Asked Questions (FAQ)

INTRODUCTION/PURPOSE

The National Council of Market Analysts (NCHMA) considers its resource documents including the Model Content Standard, White Papers, and Market Study Terminology to be living documents, expecting them to be expanded upon and/or updated from time to time. To this end, NCHMA has created this Frequently Asked Questions (FAQ) as a mechanism to discuss matters concerning the Model Content Standards in a fluid and timely manner. This FAQ is intended to expedite NCHMA's response to user and member feedback and to clarify key points in the Model Content Standards, as needed. Ultimately, discussion points generated by FAQ may be used as a basis for future versions of the Model Content Standards or other key resource documents.

PROJECT DESCRIPTION/PROJECT TYPES

Q: Should there be references identifying PMA reliance on student populations?

A: A market study completed in a market area largely influenced by colleges or universities should discuss the impact of these institutions on the demographic composition and competitive rental environment. Analyzing the population and age of householder can provide significant insight into how student populations influence demographics and thus demand. Generally speaking, only students living off-campus year round are accounted for in census household figures. Student oriented rental communities including those rented by the bedroom should be analyzed separately, if at all, from general occupancy communities.

In instances where student housing dominates the competitive environment or the subject property will compete directly with student housing, the market study should describe the institution's current and projected enrollment, on-campus housing policy, as well as its existing and planned on-campus housing inventory. The market analyst also should discuss the impact of students on the rental housing market, and, where possible, identify the ratio of students at comparable rental properties.

Q: For rehabilitation projects, should the analysis consider improvements, the timing of the improvements and the extent to which those amenities are reasonably expected to be maintained through Year 15?

A: The purpose of the market study is to determine the subject property's ability to reach stabilization at the time of market entry based on estimated demand, economic conditions,

competitive environment, and the appeal of the proposed development in terms of product and rents. This purpose is no different for a newly constructed community or the renovation of an existing community. When evaluating the proposed rehabilitation of an existing community, the market analyst, in nearly all cases, lacks the expertise to identify all areas of need and evaluate whether the proposed scope of work is sufficient to cure all physical defects through Year 15. The analyst should review the proposed scope of work to determine if the planned improvements will significantly improve the condition of the units and overall community or alter the subject property's market position. These factors are specifically important criteria for estimating post-renovation rents, especially in cases where the developer plans to increase the existing rents following the renovations. Market analysts are not responsible for evaluating the ability of the community to maintain improvements through Year 15 as the required scope of work is based on a physical needs assessments and the maintenance of the improvements is based on management practices rather than market or demand related issues.

Q: LIHTC/Affordable Specific: Should the PMA description demonstrate there is precedent in the market for LIHTC households renting in mixed-income projects where LIHTC households are only a fraction of the overall units in a partially assisted development?

A: The market study should include an analysis of all comparable housing communities in the market area. If the subject of the study is a mixed income project, the analysis should discuss the performance of any comparable mixed-income communities. If the market area does not have any comparable mixed-income projects, the market analyst must use all available resources and data to determine if the proposed development can achieve stabilization including performance of like-kind communities located outside of the market area, but in comparable markets.

LOCATION

Q: How should the “presence” of crime, drugs, etc. be treated within a market study? Likewise, how should the “perception” of the subject property due to crime be treated?

A: The market analyst needs to evaluate the subject site's surrounding land uses and neighborhood conditions and their affect on the ability of the subject property to achieve stabilized occupancy. Market analysts should comment if specific amenities/design criteria such as perimeter fences/security gates would be necessary in light of crime or perceptions of crime. The market study should also address the condition of the subject site's immediately surrounding land uses relative to existing multi-family rental communities in the market area. The market study should address whether the conditions of the surrounding land uses are a significant deviation from the remainder of the market area, identify any adjacent land uses that negatively affect the site and recommend feasible mitigation measures. Market analysts should discuss any site and location related issues that have or are likely to have a negative impact on the subject property's ability to achieve or maintain stabilized occupancy.

Q: Should an economic discussion about the immediate area surrounding the property be included in the market study? (e.g., where do people work, what revitalization is occurring, home prices, schools, etc.)?

A: All of these factors should be addressed as appropriate in the applicable section of the market study.

- The types and condition of surrounding land uses should be discussed in the location/neighborhood analysis section of the report.
- Commuting patterns and proximity of employment concentrations should be included in the economic analysis section of the report.
- Home prices/values of the market area versus the county/region provide context for the income/affluence of a given area. An analysis of home pricing should also be included when determining if for-sale housing will be potential competition for the subject property.
- Proximity to schools should be addressed in the location section. School scores should be evaluated as needed in market studies.

EMPLOYMENT – ECONOMY

Q: Should a market study include an analysis of the availability of jobs in the targeted income range consistent with the Subject’s proposed unit mix?

A: Users of market studies should not confuse wages and salary ranges of nearby jobs with household income distribution as wage data does not take into household composition as many households have more than one wage earner. Ultimately, affordability and demand estimates are based on income distributions derived from 2010 Census and American Community Survey data. If an analysis of jobs by salary/wage is included, it should provide the number of jobs within specific ranges rather than merely a median or average salary/wage. Even areas with relatively high median salaries may have significant percentages of low to moderate salaries/waged jobs.

Income/wages discussion.

Q: How should a market study treat seasonal factors (e.g. duration of tenancies such as migrant farm workers and resort workers and leasing concessions in the PMA)?

A: Market studies should address seasonality as it relates to the competitive environment in terms of rents and occupancy rates. When available, market studies should include trends for rents, concessions and vacancy levels during peak and non-peak months. Furthermore, the market study can evaluate At-Place Employment and Resident Employment on a monthly or quarterly basis to determine the true impact of seasonality on the area’s economy.

DEMOGRAPHIC

Q: Should the market study include a Secondary Market Area (SMA) description?

A: Not always. It is appropriate to use a secondary market area when empirical data is available that a project will attract supplemental demand from a specific geographic area, rather than disparate, non-contiguous locations. Secondary market areas are generally included for a comparison of demographic trends and characteristics. In most cases, demand estimates are based solely on the Primary Market Area as secondary market areas (particularly those used to account for demand from dispersed locations) can often erroneously inflate demand estimates. If a market analyst feels that a particular site/project will draw residents from a larger than usual

area, demand from the secondary market area should be included but easily identifiable. The market analyst must describe the secondary market area and provide evidence that the subject property will attract a significant percentage of its residents from this larger area.

COMPETITIVE ENVIRONMENT

Q: Should the market study specifically address market rate (and as applicable FMR and OCAF) past and projected rental trends in the area?

A. When available and applicable, the market study should include rent trend data for the region and the market area, as well as comparable communities in the market area. The FMR is a programmatic figure for large regions and may not be comparable with trends in individual submarkets; thus, analyzing FMR trends is not necessary. Operating costs (OPAF) is not a market study function. Although rent appreciation is an important consideration to investors, it is not explicitly required by NCHMA's Model Content Standards.

Q: If the data is available, how should the market study address utility allowance trends of other comparable properties?

A. Utility allowance analysis is not a market study function. The utility allowances used in most market studies/LIHTC applications are dictated by the state allocating agency. Utility allowance trends also are not the best way to forecast or support operating expense growth forecasts, which are not covered by the Model Content Standards and are outside the scope of most market studies.

Q: Should the market study confirm the source(s) for most of the comparable's rental traffic at both the time of lease-up and long-term (i.e. walk-ins, rent.com, ads, drive-by visibility, flyers, referrals, senior center referrals, etc.)?

A. The market study cannot "confirm" the source of rental traffic other than asking property managers how most tenants find the community. This is not related to market feasibility, but rather the marketing plan of the subject property.

Q: How should the availability of public transportation as well as how often it is utilized by the prospective tenant base be treated within the market study?

A. The availability and proximity of public transportation to the subject site should be addressed in the market study. In the event that public transportation is not readily available at the subject site, the market analyst should opine on the potential impact on the subject property. The inclusion of public transportation utilization rates or vehicle ownership rates, especially among a specific target market, should not be included as a general requirement in market studies, but should be included where relevant to an assignment.

Q: How should the market analysis address the comparable properties that were not selected (i.e. if the selected comparables are the not the closest properties to the subject)? For example, should the study address why those proximate comparables were rejected and why the selected comps are more representative?

A. The market study should explain in narrative form why and how the comparables were selected. In the event that the communities in closest physical proximity to the subject site were not included as comparables, the market analyst should explain the reason for their exclusion. Often there is no difference in the value that tenants place on alternate locations within a market area. Therefore, the comparability analysis grids should only include quantitative location adjustments that are supported by empirical data.

Q: Should the market study include a full rent adjustment grid that shows how the analyst arrived at the adjusted achievable LIHTC and market rent for each unit type?

A. Estimate of market rent and the resulting market advantage should be included for each unit type. In many cases, market analysts are evaluating the ability of a proposed development to achieve application LIHTC rents. If a derivation of achievable LIHTC rent is necessary for that analysis, it should be included. NCHMA does not require rent adjustment grids or qualitative comparison charts, but rather recommends their use when necessary to communicate effectively the rent analysis. The study should describe the basis for all quantitative adjustments and qualitative rankings and describe the reasons for the achievable market-rent and LIHTC rent conclusions.

AFFORDABILITY-DEMAND

Q: How should the market study treat capture rates?

A: See NCHMA White Paper entitled "[Demand and Capture Rate Methodology](#)".

The study should determine if the market area has sufficient income qualified households to fill the proposed units. It should calculate the project's overall capture rate, as well as the capture rate for each unit type by proposed income targeting. While capture rates are measures of the strength of proposed development, a determination of a project's viability should not be based solely its capture rates. A low capture rate does not automatically support demand for the proposed development, especially a poorly designed product in a weak market. Conversely, a higher capture rate may be acceptable if the project is properly positioned or the market area is experiencing or about to experience rapid growth.

The market study should not use the capture rate as the sole measure of the demand for a proposed project. It also should address the impact of its proposed units on existing rental communities in the market area, consider how effectively a planned project can compete for tenants and address the planned development's ability to achieve stabilization at its proposed rent levels.

Although we are sympathetic to the desire for uniform capture rate standards concerning rent-to income ratios, the use of net or gross rents, and occupancy standards, there is a wide divergence in the practices of LIHTC property managers in different geographic regions and market areas. Ideally, each market study would reflect the standards used with the primary market area. However, in nearly all cases, they contain varying, user-specific standards because allocating agencies, investors, lenders, syndicators have different underwriting criteria. Market

analysts should explain their rationale for assumptions used in the determination of demand and capture rates.

Q: How does NCHMA define “Penetration Rate”?

A. See NCHMA definitions.

Q: How does NCHMA define “Saturation Rate”?

A. NCHMA does not specifically define “Saturation Rate” and a methodology for its calculation. NCHMA defines “Saturation” as “The point at which there is no longer demand to support additional units. Saturation usually refers to a particular segment of a specific market.”

Q: For projects without rental assistance, should the feasibility study draw conclusions about the following?

- a) Physical condition and functional obsolescence.
These items should be addressed in the evaluation of scope of work and analysis of the project’s attributes and competitive position.
- b) Marketability in the absence of the assistance.
This would be addressed by demand estimates without PBRA and the analysis of the rents (estimate of market rent/achievable LIHTC rent).
- c) Political and legal framework for opt-out/re-tenanting.
Although the market study function does not address legal issues, the project description should describe the current and proposed regulatory agreements that set the project’s occupancy standards.

Q: LIHTC/Affordable Specific: Should comparable properties with project-based rental subsidies be identified within the study?

A. If the subject property does not have PBRA, communities with these additional subsidies should not be considered comparable. Even if the subject property has PBRA, any communities with project-based subsidies should be evaluated separately as they may not be reflective of market conditions for properties without these additional subsidies.

Q: LIHTC/Affordable Specific: If the subject property is unsubsidized, should the study explain why a subsidized property is selected as a comparable?

A. Subsidized communities should not be selected as a comparable if the subject property does not have similar subsidies. A overview of these communities can be included if necessary to frame the competitive environment; however rents and occupancies at these communities should not be used in analysis of the subject.

Q: LIHTC/Affordable Specific: For subsidized projects, should an analysis to determine marketability in the absence of such rental subsidy be conducted?

A. Yes. This analysis would include capture rates without PBRA and an analysis of achievable rents without PBRA.

Q: Senior Specific: Should the maximum income limits for senior communities be based on a maximum household size of one person? How should maximum income limits be treated if there is specific targeting of larger households and evidence in the market supporting such demand?

A. In most cases, maximum income limits for senior communities should be based on 1.0 person for efficiency units and 2.0 persons for all other bedroom types. Market analysts must realize that lowering the income limits for senior units has a detrimental impact on the ability of the community to attain rents near maximum LIHTC levels, which are based on an average of 1.5 persons per bedroom. Ideally, the market study will use market-extracted data that reflects the household size and rent-to-income ratios used by properties in the primary market area. However, in nearly all cases, these criteria are user-specific as allocating agencies, investors, lenders, and syndicators have different underwriting criteria that may not reflect local market practices.

ANALYSIS

Q: What is the definition of stabilized occupancy?

A. NCHMA definition is “The underwritten or actual number of occupied units that a property is expected to maintain after the initial rent-up period, expressed as a percentage of the total units”. Generally speaking, a property is considered to be stabilized once it reaches 90 to 95 percent occupancy.

Q: LIHTC/Affordable Specific: How should the need for voucher support or other subsidy contracts be evaluated?

A. The demand analysis for a LIHTC community without project-based subsidies should be conducted without the assumption of demand from voucher holders. The market study should discuss the number of vouchers managed by the local housing authority and note if all vouchers are not utilized. It also should indicate the frequency of vouchers at comparable properties and discuss whether the project will rely on vouchers to fill some of its units. The conclusion of the market study may note that demand from voucher holders would be necessary given the lack of renter households able to pay the proposed rents, but demand from voucher holders should not be included in the base demand estimates and capture rates.