# APPENDIX A

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# MARKET STUDY CRITERIA

## A. Market Study Process:

1. An electronic copy of the market study must be submitted with the Tax Credit Application.

2. Upon receipt of the application, the Authority will forward a copy of the market study to the Authority's third party market analyst.

3. The Authority's third party market analyst will notify the applicant and the market analyst that prepared the market study via email of any deficiencies. All issues must be resolved to the satisfaction of the Authority's market analyst and Authority staff. The Authority is not bound by the conclusions or recommendations of the applicant's market study submitted and may disqualify any application if it determines an acceptable market does not exist.

## B. Requirements:

1. Applicants must use an Authority approved market analyst to complete market studies.

2. All market analysts must adhere to the National Council of Housing Market Analysts' Market Study Terminology list available at: www.housingonline.com/Resources.aspx.

3. The market study must include complete Exhibit S-2 form, S-2 Calculation sheet, and the table provided in the S-2 Worksheet. Submitted market studies must conform to Exhibit **S-2**.

4. The market study should reflect conclusions based on the proposed development, including capture rates, absorption periods, and market advantage.

5. The Applicant's market analyst must indicate within the conclusion and recommendations section a conclusion regarding the ability of the market area to support the proposed development, the depth of the rental market, and whether the proposed development will have a negative long-term impact on existing rental communities.

6. **Project Description**
   This section must include the following information, as provided by the LIHTC Applicant:
   a. Development Location;
   b. Construction Type: New Construction, Rehab, Acquisition and Rehab, Adaptive Reuse;
   c. Occupancy Type: Family, Older Persons;
   d. Target Income Group: e.g., 30% AMI, 50% AMI, 60% AMI, Market Rate;
   e. Special Needs Population (if applicable);
   f. Number of units by bedroom/bathroom;
   g. Number of buildings and stories and if there will be an elevator;
   h. Unit Size(s);
   i. Structure Type/Design: Townhouse, Garden Apartment;
   j. Proposed Rents and Utility Allowances including energy source (Gas, Oil, Electric) and if utility is Tenant or Owner's responsibility;
   k. Status of Project Based Rental Assistance: None, Existing, Proposed;
   l. Proposed Development Amenities;
   m. Proposed Unit Amenities; and

n. For rehab proposals, current occupancy levels, current rents being charged (versus proposed rents), tenant incomes, as well as detailed information about the scope of work planned and how the rehabilitation will be carried out.

7. **Site Description**
This section must:
   a. Include the date(s) the senior analyst/market study author visited the site and surrounding market area developments.
   b. Describe physical features of the site, adjacent parcels, surrounding structures and neighborhoods. Give a brief description of the surrounding land uses. Note any obvious environmental concerns or any other visible detrimental characteristics that are either next to or in close proximity to the site that could be considered detrimental, harmful or have a possible damaging effect on the site.
   b. Give the site's general physical location to surrounding roads, public transportation, community amenities, employment, and services. Identify the closest shopping areas, schools, and employment centers, medical facilities and other amenities that would be important to the targeted population.
   c. Indicate if there are any road or infrastructure improvements planned or under construction in the proposed market area;
   d. Provide information or statistics as well as local perceptions of crime in the neighborhood, if applicable.
   e. Comment on access, ingress/egress, and visibility to site.
   f. Describe overall positive and negative attributes about the site as they relate to marketability.

8. **Market Area**
   a. A map of the Primary Market Area (PMA) including the subject site. Identify boundaries by census tracts, jurisdictions, street names, or other geography forming the boundaries. Define the larger geographic area in which the PMA is located (i.e. city, county, MSA).
   b. A physical description of the PMA including the methodology used to define it.
   c. A detailed narrative that includes market specific language rather than a list of generic concepts or factors considered. The narrative must also:
      - explain how the market area was determined; and
      - discuss whether prospective tenants within the PMA will be able to afford the Pro Forma rents and if they cannot provide further comments on where eligible demand will come from.
   d. Identify the borders of the market area and approximate distance from the subject property/site.
   e. Census tracts that encompass the PMA.
   f. The analyst may provide information about the secondary market area, however demand should be based solely on the PMA.

9. **Market Area Economy**
   a. A map of the site as compared to the locations of major employment concentrations.
   b. Employment by industry--numbers and percentages (i.e. Manufacturing: 150,000 (20%)).
   c. The major current employers and anticipated expansions, contractions in their workforces, as well as newly planned employers and their impact on employment in the market area.
   d. Total workforce figures and employment and unemployment trends for the county and, where possible, the PMA. Provide numbers and percentages for both. Provide annualized figures for these trends (i.e. average annual increase of unemployment of 1.2%).

e.  If relevant, comment on the availability of housing for low- to very low-income employees of businesses and industries that draw from the PMA.

f.  Provide commuting patterns for workers such as how many workers in the PMA commute from surrounding areas outside the PMA.

10. **Community Demographic Data**

Provide the following demographic information for the market area, giving historical data as well as current data and estimates. Include data on population and household trends from 2010 to current year and projected to the placed-in-service year. Historical 2000 Census data can also be included to provide further insight into the historical demographic trends but is not required. Projections must be prepared by a reputable source such as Nielsen, ESRI, or Ribbon Demographics. U.S. Census data prior to the 2010 Census is only acceptable as historical data. If the Market Analyst does not agree with these projections, s/he must provide the reasoning, along with substitute projections. Both numbers and percentages should be shown for the data below. Annualized growth figures should be included. Please include a brief narrative of overall conclusions.

a.  Population Trends
- Total Population;
- Population by age groups;
- Number of older persons (for older persons projects); and
- If a special population is proposed for the development (e.g., homeless), provide additional information on population growth patterns specifically related to this population.

b.  Household Trends
- Total number of households, average household size, and group quarter;
- Households by tenure (If appropriate, breakout by older persons and non-older persons);
- Households by income. (Older person(s) proposals should reflect the income distribution of those households only); and
- Renter households by number of persons in the household.

11. **Project-Specific Demand Analysis**

a.  Income Restrictions: Use the applicable incomes and rents in the subject's application. Analysts must take the income restrictions designated in the application into account when estimating demand.

b.  Affordability: Analysts must assume that no family households are able to pay more than 35% of gross income towards gross rent and no elderly households are able to pay more than 40% of their gross income toward gross rent. Any such additional indicators should be calculated separately and be easily added or subtracted from the required demand analysis.

c.  Demand: The demand analysis should clearly indicate the minimum and maximum income range for each targeted group. In cases where the proposed rents for projects with Project Based Rental Assistance are higher than the maximum allowable LIHTC rents, the demand analyses must show with the rental assistance (thereby allowing $0 for the minimum income) and without. For the second demand calculation without rental assistance, analysts should use LIHTC rents regardless of market conditions. For projects with market rate units, the analyst must make some reasonable determination of a maximum income level beyond which a household would not likely be a participant in the rental market. The analyst should clearly state the assumptions used in making the aforementioned determination.

The demand should be derived from the following sources using data established from a reputable source:

- Demand from New Renter Households: New rental units required in the market area due to projected renter household growth. Determinations must be made using the current base year of 2023 and projecting forward to the anticipated placed-in-service date of 2025. The household projections must be limited to the age and income cohort and the demand for each income group targeted (i.e. 50% of median income) must be shown separately.
- In instances where more than 20% of proposed rental units are comprised of three-bedroom units or larger, analysts must also conduct an additional refined large-household capture rate analysis by considering the number of large households (three-persons and larger).
- Demand from Existing Households: The second source of demand should be determined using 2010 census data or the most current American Community Survey (ACS) data and projected from:
- Rent over-burdened households, if any, within the age group, income cohort and tenure targeted for the proposed development. Analysts should assume that the rent-overburdened analysis includes households paying greater than 35% or in the case of elderly 40% of their gross income toward gross rent rather than some greater percentage.
- Households living in substandard housing. Households in substandard housing should be adjusted for age, income bands and tenure that apply. The analyst should be conservative and use their own knowledge of the market area and project to determine if households from substandard housing would be a realistic source of demand.
- Elderly Homeowners likely to convert to rentership: A narrative of the steps taken to arrive at this demand figure should be included. The elderly homeowner conversion demand component shall not account for more than 20% of the total demand.
- The analyst may also use other indicators to estimate demand (such as household turnover rates) if fully justified (e.g., an analysis of an under-built or over-built market in the base year). Any such additional indicators should be calculated separately and be easily added or subtracted from the demand analysis described above.

d. Method:
- Demand: The two overall demand components added together 11a and 11b above represent demand for the project.
- Supply: Comparable/competitive units funded, under construction, or placed in service since 2022 must be subtracted to calculate net demand. Vacancies incomparable/competitive projects placed in service which have not reached stabilized occupancy (93%) must also be considered as part of the supply.
- Capture rates: Capture rates must be calculated for each targeted income group and each bedroom size proposed as well as for the project overall.
- Absorption rates: The absorption rate determination should consider such factors as the overall estimate of new renter household growth, the available supply of comparable/competitive units, observed trends in absorption of comparable/competitive units, and the availability of subsidies and rent specials.

e. Supply Analysis (Comparable/Competitive Rental Developments):
The senior analyst/market study author must visit all
- LIHTC;

- Bond;
- USDA;
- HUD;
- small rental with units at similar income targets, rent levels and targeted age cohorts;
- other projects that would compete with or be affected by the proposed project; and
- developments now existing, under construction, and/or in the pipeline.

The following information should be included for each comparable/competitive development:

- Name, Address, and Phone Number;
- Contact Person's Name and phone number of the comparable/competitive property development;
- Photograph;
- Monthly Rents and utilities included in the rent, if any;
- Type of development (RD, LIHTC, conventional, Bond with LIHTCs, small rental development);
- Breakdown of unit sizes by bedroom/bathroom count;
- Square footage for each comparable/competitive unit type;
- Project age and Condition;
- Population Served;
- Description of unit amenities (include kitchen equipment) and site amenities;
- Concessions given, if any;
- Current vacancy rates broken down by bedroom size. Vacancy rates are to be determined using the most current information provided by property management.
- Waiting list information, if any;
- Number of units receiving rental assistance, description of assistance as project or tenant based;
- For developments in the planning or construction stages, provide the name, address/location, name of owner, number of units, unit configuration, rent structure, estimated date of market entry, and any other relevant market analysis information. If there are no developments in the planning stages or under construction, a statement to that effect must be provided; and
- If the proposed project is an additional phase of an existing project, include a tenant profile as well as any information about a waiting list.

The above information should be provided in a comparative framework including the proposed project and those projects under construction and/or in the pipeline. For example, in addition to providing a page of information along with a picture for each comparable/competitive development, the analyst should also provide comparative charts that show such factors as the proposed project's rents, square footages, amenities, etc. as compared to the other projects.

A map showing the comparable/competitive developments in relation to the proposed site. The map should have an identifiable usable scale.

If applicable to the proposed development, provide data on three and four bedroom single-family rentals or provide information on rental trailer homes and single family homes in rural areas lacking sufficient three and four bedroom rental units to identify where potential tenants are currently living.

Derive the market rent and compare them to the proposed development's rents. Quantify and discuss market advantage of the subject and impact on marketability. Market advantages should be provided for each unit type and the project overall.

Calculate the overall market vacancy rate, the overall comparable/competitive vacancy rate, and the overall vacancy rate for all LIHTC, Bond, small rental development projects in the market area. (Do not include new projects in the process of "renting up" in vacancy rate.)

The cost and availability of homeownership and mobile home living, if applicable.

Conclusion as to the immediate and long term impact that the proposed project will have on the occupancy of comparable rental communities in the PMA, specifically other LIHTC communities.

7. **Interviews**
   The results of formal or informal interviews with property managers, town planning officials or anyone with relevant information relating to the overall demand for the proposed development should be summarized in this section. Include the name and phone number of the person with whom you talked.

8. **Recommendations**
   Market Analysts must provide a recommendation that clearly states whether a proposed project should be approved as proposed. The Market Analyst must provide a brief summary of all the major factors that led to their conclusion.

## C. Signed Statement Requirements:

The signed statement must include the following language:

I affirm that I have made a physical inspection of the market and surrounding area and the information obtained in the field has been used to determine the need and demand for LIHTC units. I understand that any misrepresentation of this statement may result in the denial of further participation in the South Carolina State Housing Finance & Development Authority's programs. I also affirm that I have no financial interest in the project or current business relationship with the ownership entity and my compensation is not contingent on any project being funded. This report was written according to the SCSHFDA's market study requirements. The information included is accurate and can be relied upon by SCSHFDA to present a true assessment of the low-income housing rental market.