

Needs Analysis Requirements

INTRODUCTION

Kentucky Housing Corporation (KHC) requires a Needs Analysis for funding applications for rental housing projects consisting of four units or less. These reports are commissioned by applicants (developers, nonprofit organizations, etc.) to KHC at the applicant's expense.

KHC is the state housing finance agency and a political subdivision of the Commonwealth of Kentucky. KHC's mission is to provide safe, quality, and affordable housing opportunities for very low-, low- and moderate-income Kentuckians. KHC works extensively with programs of the U.S. Department of Housing and Urban Development. It is of utmost importance that KHC be assured that a demand exists for rental units financed by KHC and there is no adverse effect on other viable affordable rental project in the target market areas.

Questions regarding this document should be directed to Joyce Fordjour, multifamily project specialist, toll-free in Kentucky at 800-633-8896 or 502-564-7630, extension 418; TTY 711; or e-mail jfordjour@kyhousing.org.

Please note:

1. KHC maintains an [Approved Market Analysts List](#) located on its [website](#) under Development, Multifamily, [Underwriting Resources](#), under the Market Study dropdown. Developers must select an appropriate firm or individual from this list; these market analysts are eligible to perform market studies and needs analyses following KHC guidelines. However, KHC reserves the right to remove individuals/firms from this list for any reason. Market analysts submitting a report that materially fails to comply with KHC's requirements or is otherwise unacceptable may, at the sole discretion of KHC, be removed from the list.
2. The [Needs Analysis Requirements](#) are for projects of four units or less. **A rent comparison study must be included in all market studies/needs analyses in order to determine the market rents, regardless of the project size.** KHC reserves the right to request a market study or additional market information on any project or to waive the market analysis requirement for projects of four units or less if other supporting documentation, such as a waiting list, can be provided.
3. **A market study/needs analysis is only valid for one year from the date of the report.**
4. A market study or needs analysis will not be required for proposed transitional housing projects; however, a narrative describing the need for the project must be included with the application.

PURPOSE

KHC seeks professional analysis of the local and regional markets for proposed rental developments. In general, KHC expects to answer the following questions:

1. What is the demand for the proposed units? Is it sufficient? What types of units are most in demand or most needed?
2. What impact will the proposed development have on other affordable rental properties in the Primary Market Area (PMA)? (Note: PMA is defined later in this document.)

In addition to presenting data, it is vital that the needs analysis offers analysis and findings relevant to the marketability of the proposed development as described in the sponsor's application.

CONTENTS

Needs Analyses submitted to KHC shall contain the following information to be presented **in the following order:**

A. Cover Page

Needs Analyses shall include a cover sheet indicating subject property/project, client for whom the study was prepared, effective date, and firm/author of report.

B. Executive Summary

Each needs analysis should include a concise summary of the data, analysis, and conclusions in the report, including the following:

1. A concise description of the site and the immediate surrounding area.
2. A brief summary of the project including its proposed target market.
3. Precise statement of key conclusions reached by the analyst.
4. Summary of demand analysis, including capture rate(s) and absorption rate(s).
5. Precise statement of analyst's opinion of market feasibility including estimates of:
 - a) Marketability and likely success of the proposed units
 - b) Impact on existing conditions
6. Summary of market-related strengths and weaknesses that may influence the proposed development's marketability.
7. Recommended modifications to the proposed project to increase marketability.

C. Table of Contents

Needs Analyses shall use the following Table of Contents:

1. Cover Page
 2. Executive Summary
 3. Table of Contents
 4. Summary Information Table (form available on KHC's [website](#))
 5. Project and Site Description
 6. Availability of Public Transportation
 7. Proximity to Important Destinations
 8. Primary and Secondary Market Area Definition
 9. Demographics
 10. Economy
 11. Competitiveness and Comparability with Other Rentals
 12. Demand Analysis: Capture Rate and Absorption
 13. Project Strengths and Weaknesses
 14. Findings and Recommendations
 15. Certification
 16. Other Requirements
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D. Summary Information Table

Needs Analyses shall include the following table that inventories key information in the report. For greater clarity on what KHC is seeking in the table below, please read the Market Study Requirements in full before attempting to complete the Summary Information Table. When completed, this table should consume no more than three pages in a market study report. The [Summary Information Table](#) is located on KHC’s [website](#) under Development, Multifamily, [Underwriting Resources](#), under the Market Study dropdown.

| Market Analysis Summary Information Table | | | | |
|---|--------------------|--------------------------------|--|--------|
| Information Area | Findings | | | Page # |
| Project Name | | | | |
| Project Address | | | | |
| Sponsor/Developer | | | | |
| Project County | | | | |
| Brief Project Description | | | | |
| Rent Subsidy Proposed? | | | | |
| Proposed Unit Information | <u># of Units</u> | <u>Developer Proposed Rent</u> | <u>Market Analyst Recommended Rent</u> | |
| Studio | | | | |
| 1 BR | | | | |
| 2 BR | | | | |
| 3 BR | | | | |
| 4 BR | | | | |
| Other | | | | |
| PMA Boundaries | | | | |
| SMA Boundaries | | | | |
| Population Trends | <u>2000 - 2010</u> | <u>2010 - Current Year</u> | <u>Projection</u> | |
| PMA Pop. Growth/Decline | | | | |
| SMA Pop. Growth/Decline | | | | |
| PMA Household Growth/Decline | | | | |
| SMA Household Growth/Decline | | | | |

| | | | | |
|---|------------------------------|-----------------------------|--------------------------|--|
| PMA Unemployment | | | | |
| SMA Unemployment | | | | |
| Targeted Household Types | | | | |
| Rental Vacancy Rates | <u>Rent Subsidized Units</u> | <u>Other Assisted Units</u> | <u>Market Rate Units</u> | |
| | | | | |
| Summary of How Project Compares to: | | | | |
| Subsidized Properties | | | | |
| Market Rate Properties | | | | |
| Capture Rate | | | | |
| HOME | | | | |
| LIHTC | | | | |
| Other: | | | | |
| Other: | | | | |
| Absorption Rate/Lease Up (to reach 93% occupancy) | | | | |
| Primary Project Strengths | | | | |
| Primary Project Weaknesses | | | | |
| Impact on Existing Properties | | | | |
| Recommended Changes | | | | |
| Rent Changes | | | | |
| Unit Changes | | | | |
| Overall Changes | | | | |

E. Project and Site Description

KHC requires analysts to visit and survey the project site and market area in general. This section must explain the proposed project and detail findings from the site visit(s), including:

1. PROJECT STRUCTURE:

- a. Number of units by unit mix (bedrooms and baths),
- b. Targeted income limit as a percent of AMI,
- c. Unit size in net square feet (the living area of a unit, exclusive of common areas),
- d. Proposed contract and gross rents,
- e. Utilities expected to be paid by tenants and energy sources for tenant-paid hot water, heat and cooking. Utility allowances for tenant-paid utilities and type of heat provided.

2. PROPOSED DEVELOPMENT DESCRIPTION:

- a. Target population, including income restrictions and any special needs set-asides.
- b. Number of buildings.
- c. Design type (walk-up, elevator, etc.) and number of stories.
- d. Unit amenities.
- e. Development amenities, including parking, laundry, storage, recreation, etc.
- f. Developer's projected dates for construction start, completion, and start of pre-leasing.
- g. Copy of site plan, floor plans, and elevations/renderings should be included as an attachment to the report. Analyst should indicate if plans are not completed at the time of the analysis.

3. SITE CHARACTERISTICS

- a. Provide a description of the site characteristics including its size, shape, general topography, and vegetation. For scattered site projects, note the differences in quality that may occur between parcels, as well as a map of the parcels showing their geographic distribution.
- b. Provide photographs of the site and surrounding neighborhood and a map clearly identifying the location of the project and the closest transportation linkages, shopping, schools, medical services, public transportation, places of worship, and other services such as libraries, community centers, and banks. In situations where it is not feasible to show all the categories on a map, the categories may be addressed in the narrative.
- c. Describe surrounding properties, including land uses, zoning, occupancy, and condition.

F. Availability of Public Transportation

Project sites located near a fixed transit stop (defined as buses or trolleys serving local destinations and which offer service during normal business hours for most desired destinations) must have the distance from the entrance to the project site to the public transit stop documented in the market study.

G. Proximity to Important Destinations

Projects that are located in an area that is within close proximity to destinations important to the course of daily living (which includes a grocery store, public school, pharmacy, bank or credit union, post office, retail store, general health care practitioner's office, public library, hospital or significant places of employment) must have the distance from the entrance to the project site to each of the destinations documented in the market study.

Convenience stores, restaurants and other food service establishments are not considered a destination important to the course of daily living.

H. Primary and Secondary Market Area Definition

For the purposes of KHC needs analyses, the Primary Market Area (PMA) 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.

The Secondary Market Area (SMA) is a larger, more regional area surrounding the PMA; SMA trends are highly relevant to market realities in the PMA and should be presented in needs analyses submitted to KHC.

1. Define the PMA and SMA that pertains to the subject. Identify boundaries by census tracts, school districts, jurisdictions, street names, or other geography forming the boundaries.

Please Note: PMA and SMA boundaries based on radii are no longer acceptable. In addition, PMAs that cross state borders are allowed only if convincing evidence of cross-border interaction (migration, commuting, shopping, etc.) is presented in the study.

2. Include a map that clearly shows the borders of the PMA and SMA and its major features (towns and cities included, major roadways, and the location of the subject).
3. Specifically defend the PMA and SMA selections. This should be based on market realities, such as the experience of other complexes in the area, conversations with local officials and real estate professionals, and market data regarding commuting, migration, etc.

Please Note: While analysts may also offer their standard methodology for PMA selection, KHC expects a specific explanation for the subject property's PMA selection.

I. Demographics

Provide total population, age and income target data for the PMA and SMA using the 2010 Census, American Community Survey, current year estimates, and projections (usually 3-5 years after current year).

Data from third-party demographic data providers, such as Claritas, CACI, ESRI and others is acceptable. Indicate the source for all data, and provide an analysis of trends indicated by the data. This is especially important if the trends noted in the Census figures do not match those coming from the third-party sources (e.g., Claritas or ESRI). When they differ, the analyst must offer a plausible explanation for the difference with proof, even if evidence is anecdotal.

Detail on the following demographic topics is necessary:

1. POPULATION TRENDS

- a. Total population, growth/decline, and projected future trends.
- b. If a special population is proposed for the project, provide additional information on population growth patterns specifically related to this population.
- c. Population by age. For elderly projects, include the number of non-elderly and elderly (62 years 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. HOUSEHOLD TRENDS

- a. Total number of households, growth/decline, and projected future trends.
- b. Average household size, growth/decline, and projected future trends.
- c. Household by tenure (i.e. the number of owner and renter households including the percentage of owner and renter households).
- d. Households by income. Elderly proposals should reflect the income distribution of elderly households only.
- e. Renter households by number of persons in household.
- f. Tenure by age of householder, including the number of renters and owners that are headed by seniors (62 years and over) and non-seniors.

3. INCOME BY TENURE

- a. Provide a breakdown of households by incomes in \$5,000-\$10,000 increments, by household size and by tenure for 2010 Census, current year, and projections.
- b. In most cases, elderly households must be removed from these totals when analyzing family projects, and non-elderly households must be removed with senior subject proposals. The only exception for this rule concerns markets where the subject, by virtue of market or unit size (for example, markets with a lack of senior housing, or proposals that feature one and two bedroom unit mixes), might indeed attract senior renters. Proof of this contention is necessary.
- c. Data for elderly proposals should be based on households 62 years and over.

J. Economy

Provide data and analysis on the employment and economy of the PMA and SMA to give an understanding of the overall economic health of the community in which the PMA 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

- a. Describe employment by industry sector and by occupation for the PMA or smallest geographic area available that includes the PMA and compare the data to the larger geographic area, e.g. the city, county, labor market area, or SMA.
 - b. Major employers, the type of business, and number of employees and compare the data to the larger geographic area (i.e. SMA, MSA, county), state, and U.S.
 - c. A map or narrative description (including distance from subject property) of the location of major employers and/or employment concentrations.
 - d. Unemployment rate for the last ten years (or other appropriate period) for the PMA and compare to the larger geographic area, state, and U.S.
 - e. Employment growth over the same period. Compare to larger geographic areas.
 - f. Comment on future trends for employment, as well as general economic conditions, in the PMA in relation to the subject property. This would include planned/anticipated
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employer expansions/contractions, plant openings/closings, or other similar information. Provide proof of your findings.

- g. A narrative analysis of economic data provided with conclusions regarding impact on housing demand.

K. Competitiveness and Comparability with Other Rental Properties

Provide information on existing and proposed multifamily rental housing in the PMA. Supply occupancy levels of existing affordable rental projects and market rate rental properties, those under development, and those in the pipeline to be constructed that would be direct competition for the proposed project and serving a similar income group.

Provide information on existing multifamily rental housing vacancies for both the primary and secondary market areas (number of units per property, number of vacant units, vacancy rates).

Please note: KHC recognizes that many low-cost rental markets contain unsubsidized rental properties that are affordable to low-income households. Analysts are expected to include both subsidized/income-restricted and market rate/unrestricted properties in the inventory of competing properties.

1. DISCUSSION OF LOCAL RENTAL MARKET AND COMPETITIVE ENVIRONMENT

- a. Provide an average rent among comparable properties in the area, and discuss its ramifications for marketability of the subject. Note that in many markets the level of rent charged in HUD-assisted properties is often not attainable without the provision of rental subsidy. Identify the reasons for any adjustments.
- b. Provide a narrative evaluation of the subject property in relation to the market's multifamily properties.
- c. Project and explain any known or anticipated future changes in PMA housing stock and their likely impact on marketability of the subject proposal. Identify risks (i.e. competitive properties, which may come online at the same time as the subject property; declining population in the PMA), unusual conditions and mitigating circumstances. Evaluate need for voucher support or HUD contracts.
- d. Discuss the impact the proposed project will have on income-restricted and conventional competitive properties. Analyst shall examine whether the proposed property will significantly reduce the tenancy and/or affect rents of such established properties.
- e. For elderly projects, discuss the current and projected market for single-family homes sales, as homeowners must sell their existing homes before moving to a rental.

2. MARKET RENT

The analyst shall determine the market rent for the proposed units and distinguish what utilities, if any, the rent includes. The form HUD 92273 rental grid must be used to determine market rent. Explanations should be given for any unusual adjustments that are not self-explanatory.

An unusual adjustment may also include the fact that an adjustment was not made where it would appear one is needed. A discussion should be provided of the reconciliation process used to determine the final market rent.

Discuss how proposed rents compare to market rents and whether the subject property possesses a market advantage or if rents will have to be discounted to remain competitive.

L. Demand Analysis

Analysts should use the worksheet that follows for the calculation of demand estimates for each income limit at the subject property.

Demand estimates should be constructed so as to eliminate double counting stemming from overlapping income qualification limits. Be sure to use income-specific renter propensities for demand estimation to recognize the fact that more low-income households rent. This information is available from the U.S. Census (www.factfinder.census.gov), on table HCT11.

1. DEMAND CALCULATION REQUIREMENTS

- a. Income Groups: Use the applicable incomes and rents in the project's application. Analysts must take income restrictions designated in the application into account when estimating demand. Include data for each income group targeted by the project as described in the application. For example, if the project targets families of various income groups, demand projections should be provided for each group and unit size.
- b. Housing-to-Income Ratio: Analysts should assume no family households are able to pay more than 30 percent of gross income towards total housing expense and that no elderly households are able to pay more than 40 percent of gross income towards total housing expenses. The demand analysis should clearly indicate the minimum and maximum income range for each targeted group.

For projects with Project-Based Rental Assistance (Section 8, Rural Development), two separate demand analyses must be shown: one with the rental assistance (thereby allowing \$0 for the minimum income) and one without rental assistance. The income band should not consider the minimum income as \$0 unless the rental assistance is project-based. For projects with market rate units, the analyst must make a reasonable determination of a maximum income level beyond which a household would not likely participate in the rental market. The analyst should clearly state the assumptions used in making this determination.

- c. Household Size: Demand calculations should use the following standards:

| Unit Size | Acceptable Household Size |
|-----------|-----------------------------|
| Studio | 1 person households |
| 1 Bedroom | 1-2 person households |
| 2 Bedroom | 2-4 person households |
| 3 Bedroom | 4-6 person households |
| 4 Bedroom | 5 or more person households |

For bedrooms larger than 4, please explain the methodology used for determining the household size. When a project has multiple unit types, an overlap of demand will occur. In this instance, once the capture rate has been determined for each bedroom type, a weighted average should be used to calculate the overall capture rate for the project.

- d. Acceptable Sources of Demand

- Demand from New Households: New units required in the market area due to projected household growth should be determined. This should be determined using current year population estimates and population growth projections from an acceptable source. The population projected must be limited to the age and income group being targeted by the project. Projections should be projected for a 3-5 year period. If the number of proposed units exceeds the growth then the analyst must

provide additional documentation of demand that does not include cannibalization of existing affordable projects.

- Demand from Existing Households:

- Rent over-burdened households, if any, within the age group, income groups and tenure (renters) targeted for the proposed development. This calculation must exclude households that would be rent over-burdened in the proposed project (i.e., paying more than 30 percent of their income toward rent).
- Households living in substandard housing: Substandard housing is defined as units that lack complete plumbing or kitchen facilities, have no source of heat and were built prior to 1940. Households in substandard housing should be adjusted for age, income range and tenure as applicable.

Acceptable Turnover Rates: Analysts should use their own knowledge of the market area and project to determine if rent over-burdened households or those living in substandard housing would be a realistic source of demand. A reasonable capture rate for these groups should be used when calculating the total demand.

- Other Existing Households

- Existing Tenants (if rehab project): If the proposed project is a rehabilitation of an existing occupied project, then the needs analysis must indicate the anticipated number of existing tenants who meet the program requirements and will elect to remain at the project through the rehabilitation.
- Other Tenants Who Would Move From Existing Rentals: For all other existing households, a maximum of 10 percent turnover may be considered in the demand calculation. If the analyst believes there are other indicators that are not considered in the methods above, they can be considered if the analyst can justify the reason.
- Elderly homeowners likely to convert to renter-ship: Due to the difficulty of extrapolating elderly renter households from elderly owner households, analysts may use the total figure for elderly households in the appropriate income group in order to derive this demand figure. Interviews with property managers of active projects regarding renters who have come from homeownership should be used to refine the analysis.
- Demand from Large Households: Demand estimates for proposals that contain a significant proportion of larger rental units (3 and 4 bedrooms) will need to take into account the relatively small number of large households that would choose such unit sizes; the analyst must state how this circumstance has been accounted for.

2. CALCULATING CAPTURE RATE

Demand and capture rates should be calculated in a table using the following format. The two overall demand components (new households and existing households) added together should represent the total demand for the project. Competing units under construction and proposed must be subtracted to calculate net demand. Capture rates should be calculated by dividing the number of units in the project by the net demand. The demand and capture rate calculation must be completed for targeted income groups and each bedroom size proposed as well as for the project overall. Please include analysis as to the capture rate's implications in the PMA.

KHC Market Study Demand & Capture Rate Calculation

| | Primary Market Area | | | |
|--|---------------------|-----|-----|-----|
| | 1BR | 2BR | 3BR | 4BR |
| Unit Type by Bedroom | | | | |
| Proposed Rent | | | | |
| AMI Range Targeted | | | | |
| # of Units at Subject Property | | | | |
| Demand from Household Growth | | | | |
| Average Annual Household Growth | | | | |
| % Income Qualified | | | | |
| % Likely to Rent | | | | |
| Net Demand from Household Growth | | | | |
| Demand from Rent Overburdened | | | | |
| Total Rent Overburdened Households | | | | |
| % Appropriate for Household Size | | | | |
| % Annual Turnover | | | | |
| Net Demand from Rent Overburdened | | | | |
| Demand from Substandard Housing | | | | |
| Total Households in Substandard Hsng | | | | |
| % Appropriate for Household Size | | | | |
| % Annual Turnover | | | | |
| Net Demand from Substandard Housing | | | | |
| Demand from Other Existing Households | | | | |
| Total Renter Households (current year) | | | | |
| % Income Qualified | | | | |
| % Appropriate for Household Size | | | | |
| % Annual Turnover | | | | |
| Net Demand from Other Existing Households | | | | |
| TOTAL DEMAND | | | | |
| Demand from Household Growth | | | | |
| Demand from Rent Overburdened | | | | |
| Demand from Substandard Housing | | | | |
| Demand from Other Existing Households | | | | |
| Total Demand | | | | |
| Units under Construction in PMA | | | | |
| Remaining Demand | | | | |
| Subject Proposed Units | | | | |
| Capture Rate | | | | |

**Demand and Capture Rate Calculation Table is located on KHC's website under Development, Multifamily, Underwriting Resources under the Market Study dropdown.*

3. ABSORPTION RATE

Define and justify the absorption period and absorption rate for the subject property. Analysts should explain their specific methods used to determine absorption rate. Weaker markets (characterized by high vacancy rates, large numbers of pipeline units, or other factors), senior projects, or capture rates would tend to slow absorption.

Absorption rates should be provided in the report, giving an estimation of the time required for the property to reach sustaining occupancy or at least 93 percent occupancy. The absorption period is considered to start as soon as the first units are released for occupancy. This should be a best estimate with the limited amount of information gained in this needs analysis.

4. ADDITIONAL DEMAND SCENARIOS

While the above-described KHC methodology for demand and capture rate calculation is required, KHC welcomes additional demand calculation scenarios. Scenarios can offer changed values for movership, different rents, varying income targeting plans, absorption of other units in the market, differing rates of pre-leasing activity, and other items. Three scenarios should be provided—a “best case” scenario, the KHC methodology, and a “worst case” scenario. If a scenario approach is used, persuasive justification for any modifications to basic KHC methodology must be included, including proof of the validity of alternate assumptions.

M. Summary of Project Strengths and Weaknesses

KHC maintains that ALL projects possess both strengths AND weaknesses. These should be briefly summarized in a frank manner to assist KHC in making underwriting and funding decisions. Strengths and weaknesses may include a wide range of factors, including location, project design and amenities, unit design and amenities, transportation, competitiveness, compatibility with existing demand, crime, etc.

N. Findings and Recommendations

1. Analyst should state his/her professional opinion regarding the subject project’s feasibility from a market perspective and what affect the subject would have on the existing market.
2. The analyst should point out any other information important to the overall market demand for the PMA including commenting on the unit mix and proposed rents.
3. The analyst should make recommendations for any modifications to the project that would make the project more marketable than proposed. In particular, analyst should detail recommended changes related to rents, unit design/amenities, and the overall project.

O. Certification

The analyst must provide a certification stating:

1. There is no conflict or identity of interest with the developer/owner of the project;
2. The results, recommendations and conclusions stated in the study are based solely on professional opinion, reliable data;
3. The study was prepared in accordance with acceptable market study practices and with KHC’s guidelines; and
4. Date report was prepared, date of site visit and name and telephone number of analyst.

P. Other Requirements

1. List of sources for data in the needs analysis, including websites, publication information, list of interviews, and phone numbers for any persons interviewed.
 2. Statement of qualifications, including a resume.
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