Market Study Requirements
Revised August 2022

INTRODUCTION

Kentucky Housing Corporation (KHC) requires a professional market analysis for funding applications for all rental housing projects. These reports are commissioned by applicants (developers, nonprofit organizations, etc.) for KHC at the applicant's expense.

KHC is the state housing finance agency and a political subdivision of the Commonwealth of Kentucky. Created by the General Assembly in 1972, KHC's mission is to provide safe, quality, and affordable housing opportunities for 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 KHC's Managing Director of Multifamily Programs at multifamily@kyhousing.org.

General Information

1. KHC maintains a list of Approved Market Analysts who meet the qualifications to prepare market studies for submission with applications for KHC funding, including allocation of Low-Income Housing Tax Credits. The list is located on the KHC website under Partners, Developers, Multifamily Development, Underwriting Resources. Developers must select an approved 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. A market study is required for all projects; however, projects of four units or less may submit a market needs analysis instead of a full market study. Projects of four units or less are required to submit market information according to the Needs Analysis Requirements, located on KHC's website under Partners, Developers, Multifamily Development, Underwriting Resources under the Market Study dropdown. **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 six months 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 rental application.

PURPOSE

KHC seeks professional analysis of the local and regional markets for proposed rental developments. In general, KHC expects market studies 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 market study offer analysis and findings relevant to the marketability of the proposed development as described in the applicant's funding application to KHC.

It is incumbent on the market analyst to provide a thorough **analysis** of the data and trends presented in the report. Data is a necessary part of the market study process, but it is not enough to merely describe the data. Analysts must explain trends in the data, weigh their importance, and describe their implications for the success of the proposed project.

CONTENTS

Market studies submitted to KHC shall contain the following information to be presented **in the following order:**

A. Cover Page

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

B. Executive Summary

Each market study/needs analysis should include a concise summary of the data, analysis, and conclusions in the report. All market study-related scoring criteria identified in the Multifamily Guidelines, Qualified Allocation Plan, and Scoring Workbook must be addressed within the Executive Summary. Additionally, the following must be included:

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

Market studies 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 Community Transportation Options
7. Proximity to Amenities
8. Primary and Secondary Market Area Definition
9. Demographics
10. Economy
11. Housing Market
12. Competitiveness and Comparability with Other Rentals
13. Demand Analysis: Capture Rate and Absorption
14. Project Strengths and Weaknesses
15. Findings and Recommendations
16. Scoring Criteria *(as identified in the current year's scoring workbook)*
17. Certification
18. Other Requirements

D. Summary Information Table

Market studies must include a Summary Information Table that inventories key information in the report. For greater clarity on what KHC is seeking in the table, please read the Market Study Requirements in full before attempting to complete the Summary Information Table. **All scoring items must be detailed in the market study and included in 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 Partners, Developers, Multifamily Development, Underwriting Resources.

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, 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.

d. Provide evidence of any new private or public investment in the area near the proposed project. This may include community revitalization plans, other housing developments, new commercial enterprises, etc.

e. Describe the marketability of the proposed development. Aspects include the following:
   - Curb appeal.
   - Adjacent or nearby land uses incompatible with residential development.
   - Analysis of linkages between the project and local amenities.
   - Analysis of surrounding neighborhood, including perception of its residential character, land uses, quality of the housing stock, and overall effect on marketability.

f. Describe and evaluate the visibility and accessibility of the site, including the following:
   - Ease of ingress and egress, including a discussion of traffic controls around the site, excessive curb cuts surrounding the entrance to the development, and unreasonable lines of sight at the entrance. Sources of traffic congestion should be noted.
   - Self-advertising quality of the site, by virtue of its visibility from roadways.

F. Community Transportation Options

Project sites located near a fixed transit stop (defined as buses or trolleys serving local destinations, available to all populations, and which offer service during normal business hours for most desired destinations) must have the walking distance from the entrance of the project site to the public transit stop documented in the market study. If a publicly operated or sponsored transit service is not in a community, identify if there is a privately-operated taxi service available which is affordable to low-income households.

G. Proximity to Amenities

Projects that are located in an area that is within close proximity to amenities (including grocery store, department store, public school/Head Start/daycare (if a family project), pharmacy, bank or credit union, post office, fire/law enforcement department, public library, general health care practitioner's office or walk-in clinic (not specialists), hospital, or community services relevant to the project's target population) must have the radius, walking, and driving distance from the entrance to the project site to each of the destinations documented in the market study. A scattered site project must include the proximity to all listed amenities for each site.

H. Primary and Secondary Market Area Definition

For the purposes of KHC market studies, 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 market studies 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 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 ratio of owner to 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 elderly (62 years and over) and non-elderly.

    g. Household size for homeownership and rental households.

3. INCOME BY TENURE

    a. Provide a breakdown of households by incomes in $5,000-$10,000 increments, by household size, 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 elderly 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 elderly housing, or proposals that feature one- and two-bedroom unit mixes), might indeed attract elderly renters. Proof of this contention is necessary.

    c. Data for elderly proposals should be based on households 62 years of age and over.

4. CRIME DATA

Provide information or statistics on crime in the PMA relative to data for SMA. Where the data on crime is limited, information for the jurisdiction where the proposal is located can be substituted for PMA data. Address any local perceptions of crime or problems in the PMA.

5. SCHOOL PERFORMANCE

Information pertaining to school performance should also be collected and analyzed.

    a. Math and reading standardized test results, compared to the state's average.

    b. An analysis of how this information might affect the market performance of the subject.

    c. A Great School (GS) rating for the assigned schools for the project. This can be located at https://www.greatschools.org/kentucky. If there is not a GS rating, the Kentucky Department of Education rating is available. To access the rating, go to https://applications.education.ky.gov/src/Default.aspx.

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.

1. 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 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.

2. **COMMUTING PATTERNS**

a. Non-PMA residents commuting from surrounding areas into the PMA for employment. Indicate from where workers commute.

b. PMA residents commuting outside the PMA for employment. Indicate where PMA residents commute for work.

c. PMA residents who work inside the PMA.

d. Comment on what these patterns mean for the marketability of the subject proposal.

K. General Housing Market

1. **NATIONAL, STATE, AND REGIONAL HOUSING MARKETS**

a. Recent Trends and Short-Term Forecast

b. Multifamily Trends: Housing Starts, Rents, Vacancy, etc.

c. Single-Family Trends: Housing Starts, Home Sales, Pricing, Mortgage Interest Rates

2. **HOUSING TENURE**

a. Owner-Occupancy Rates

b. Renter-Occupancy Rates

3. **HOUSEHOLD EXPENDITURES ON HOUSING**

a. HUD Housing Cost Burden Data (CHAS data available at www.huduser.org)

4. **INTERVIEWS WITH LOCAL DEVELOPMENT AND REAL ESTATE PROFESSIONALS**

Include interviews with local real estate agents, non- and for-profit developers, and community development officials regarding housing trends, unmet housing needs, types of demand in the market, housing developments that might compete with the proposed project, and how the proposed project will affect existing properties in the PMA.

5. **INTERVIEWS WITH PUBLIC, SUBSIDIZED, AND MARKET RATE RENTAL PROPERTIES**

a. Interviews with local multifamily property owners/mangers to evaluate the local perception of need for additional housing, type of demand in the market, estimated absorption rates, tenant expectations, and preferences, etc.

b. 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.

L. Competitiveness and Comparability with Other Rental Properties

Provide information on existing and proposed multifamily rental housing in the PMA. Supply descriptions and occupancy levels existing affordable 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.

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. **RENTAL COMPARABLES INFORMATION:**

a. Identify those PMA properties most similar to the proposed development. The analyst should state why these comparables have been selected, which are most directly comparable, and why others have been excluded from comparison. An inventory of competitive existing multifamily rental properties should include:

- Name, address, and phone number of the comparable project
- Photograph, project age, and condition
- Population served
- Breakdown of unit sizes by bedroom and bathroom count
- Square footage of each comparable unit type
- Monthly rents and what utilities are included, if any
- Unit amenities such as washer/dryer hookups, kitchen design
- Development amenities such as laundry facilities, community room, parking, etc.
- Number of units receiving rental assistance and description of rent assistance
- Occupancy rate by unit size and AMI, if applicable
- Rental absorption history within the last two years
- Concessions currently offered (rent discounts, waived deposits, first month free, etc.)
- Waiting list, if applicable
- Contact person interviewed and date of data collection

b. If the subject property has 3- and 4-bedroom units that account for at least 20 percent of its total units, provide data on single-family and mobile home rentals for comparison purposes in markets that do not have multifamily rental stock with 3 or more bedrooms.

c. In addition, single-family home and mobile home rental comparisons should be included if these represent a significant portion of rental units in the PMA – even where multi-family comparisons are also available.

    d. Include a list of LIHTC projects with allocations in or near the PMA that are not placed in service, giving estimated Placed-In-Service dates, unit mix, income levels to be served, and distance from proposed site. If no such projects are in the pipeline, the market analyst must state this fact.

    e. For developments in the planning or construction stage, provide the name, address/location, number of units, unit configuration, rent structure, estimated date of market entry, any absorption history to date and any other data considered relevant. If there are no projects in the planning stages or under construction, a statement to that effect must be provided.

    f. Include a map showing existing and planned comparables in relation to the proposed project. Clearly identify existing subsidized housing that could impact lease-up of the proposed project. Indicate proximity of these projects to subject in miles.

2. DISCUSSION OF LOCAL RENTAL MARKET AND COMPETITIVE ENVIRONMENT

    a. Describe the overall rental market in the PMA, including the percentage of market rate and affordable housing properties. Discuss the availability of affordable housing options, including purchase or sale of homes.

    b. Market vacancy rate for the PMA rental housing stock should be computed by population served, type of occupancy (i.e. family, elderly, special needs), and unit size.

    c. 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.

    d. Provide a narrative evaluation of the subject property in relation to the market's multifamily properties.

    e. 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.

    f. 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.

    g. 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.

3. 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.

Compare the analyst-determined market rent and the proposed rent for each bedroom type. 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.

M. 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.

1. **DEMAND CALCULATION REQUIREMENTS**

   a. <u>Income Groups</u>: 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. <u>Housing-to-Income Ratio</u>: Analysts should assume no family households are able to pay more than 35 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 income 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. <u>Household Size</u>: Demand calculations should us 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

   on a case-by-case basis, KHC may consider allowing a 3-6 person household size to be used for 3 bedroom units, with appropriate supporting justification

   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. <u>Acceptable Sources of Demand</u>:

   - <u>Demand from New Households</u>: New units required in the market area due to projected household growth 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 for a 3-5-year period. If the number of proposed

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units exceeds the growth, 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 35 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 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 market study 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 rentership: 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) must consider 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			
Unit Type by Bedroom	**1BR**	**2BR**	**3BR**	**4BR**
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 Partners, Developers, Multifamily Development, Underwriting Resources.

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), elderly 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. The absorption period is considered to start as soon as the first units are released for occupancy.

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    4. **ADDITIONAL DEMAND SCENARIOS**

While the 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.

N. Summary of Project Strengths and Weaknesses

<u>KHC maintains that ALL projects possess both strengths AND weaknesses</u>. These should be 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.

O. 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. Analyst must specify the absorption period and time needed to reach sustained occupancy.

3. 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.

4. The analyst should make recommendations for any modifications to the project that would make the project more marketable than proposed. In particular, the analyst should detail recommended changes related to rents, unit design/amenities, and the overall project.

P. Scoring Criteria

For competitively funded projects, KHC may have certain scoring incentives or selection criteria based on elements to be identified in the market study. **It is the responsibility of the developer and market analyst to identify the applicable scoring incentives or selection criteria that must be documented in the market study**, based on the current year's scoring workbook or as identified in a Notice of Funding Availability (NOFA). The scoring workbook can be found on KHC's website under Partners, Developers, Multifamily Development, Applications, Guidelines, and Scoring, under the Applications and Scoring dropdown.

Q. 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 market study guidelines; and

4. Date report was prepared, date of site visit, and name and telephone number of analyst.

R. Other Requirements

1. List of sources for data in the market study, including websites, publication information, list of interviews, and phone numbers for any persons interviewed.

2. Statement of qualifications, including a resume.