



SELECTING COMPARABLE PROPERTIES

DEVELOPED FOR
NATIONAL COUNCIL OF AFFORDABLE HOUSING MARKET ANALYSTS

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Comparable Properties

INTRODUCTION:

According to the National Council of Affordable Housing Market Analyst's (NCAHMA) *Market Study Terminology*, a **comparable property** is "A property that is representative of the rental housing choices of the subject's Primary Market Area and that is similar in construction, size, amenities, or age. These comparable properties and Competitive Properties are generally used to derive market rent." A **competitive property** is "A property that is comparable to the subject and that competes at nearly the same rent levels, and tenant profile, such as age, family or income."

Any given market area may include many rental properties in its housing stock. The existing rental housing stock may include a wide range of properties in terms of age, price position, amenities, and curb appeal/condition. A survey of the entire rental spectrum is important to understand the overall health of the market area's rental market, but the properties at similar price points and targeting the same tenant base are the most relevant to the subject property. These most relevant rental communities are identified as comparable properties. Just as all renter households are not potential tenants, all rental properties are not comparable properties. It is important to distinguish between comparable properties and "surveyed rental stock."

Comparable properties are an important aspect of a market study. No study is complete without considering the proposed property in contrast to the comparable properties.

Comparable properties are used for several purposes within a market study. They are used to help evaluate the market, they are used to evaluate the subject's position within a market, and they are used to determine market rents. The more similar the comparable properties are to the proposed property, the more reliable the conclusions that may be drawn.

The purpose of this paper is to investigate the concepts involved in selecting comparable properties, and to identify some of the ways comparable properties are used in a study. Before a market analyst can derive market rents, s/he must select comps. Issues regarding market rents are addressed in the white paper on market rents, which can be found on NCAHMA's website, www.housingonline.com. Throughout this paper, the use of the word "proposal" includes new construction, rehabilitation, and adaptive reuse.

IMPACT OF COMPARABLE PROPERTIES ON STUDY:

Selected comparable properties influence the analysis and the conclusions of the market analyst. Various aspects of the study that are directly influenced by the comparable properties include:



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- **Market Rents:** When market rents are derived, then the rents are influenced by the selection of comparable properties. This is especially true if only a few comparable properties are used in the analysis. Additionally, if the comparable properties are all in significantly more (or less) desirable locations, the market rent could be skewed.
- **Bedroom Mix:** When the market analyst suggests a bedroom mix, the performance of the comparable properties will be taken into account. The market analyst should distinguish between the numbers of bedrooms for each unit type, especially when considering vacancy rates.
- **Absorption:** The market analyst will consider the comparable properties when estimating the lease up period of the proposed property. Good comparable properties with recent absorption histories can be used to estimate the likely performance of the subject. When the market lacks recently built comparable properties, then the market analyst will consider the vacancy rates and concessions offered by the comparable properties and other factors, such as time to rent a comparable vacant unit.

FACTORS THAT INFLUENCE COMPARABILITY

Factors to consider in ranking comparable properties:

Four primary aspects of a potential comparable property are considered: rents, tenant profile, physical characteristics (including age), and location. In a competitive property, one would expect most, if not all, of these factors to be similar to the proposal. In a comparable property, none of the factors needs to match the proposal, but one or more often does.

- **Rents:** Housing choices with similar rents can be comparable properties.
- **Tenant Profile:** The profile of the tenants in the comparable properties should be similar to the proposed property. Proposed senior housing should be evaluated in terms of comparable senior housing, for instance. Rental developments with project based rental assistance should be considered separately from conventional and tax credit properties that lack project based rental assistance. Similarly, in tax credit properties, 30% AMI units cannot be directly compared to 60% AMI units.
- **Physical Characteristics:** Characteristics such as size of unit, number of bedrooms, size of development, general condition and curb appeal, and unit and complex amenities are considered, regardless of rent. A new complex with similar amenities, unit square footage and a “look and feel”, might be considered a comparable



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property. Design and amenities are two of the physical characteristics of the proposed property that should be considered separately. Design features include aspects like size of units, number of bedrooms and bathrooms, and number of units, while amenities include features like swimming pools, business centers, and covered parking. The age of a property is a factor in selecting comparable properties, mainly as a proxy for other characteristics because older apartments may lack modern features and may lack amenities.

- **Location:** Location plays the final role in selecting comparable properties. In a large city, there may be several comparable properties in walking distance, while in a small rural town properties further away may be considered. The best comparable properties from the standpoint of rents or characteristics might not be very close to the proposed property. When a proposed property offers scarce and highly sought after amenities comparable properties might be found further away than in other cases. An example could be a high-rise senior housing proposed property.

Choosing the most comparable property:

The more closely the comparable property matches the subject in terms of the factors above, the more appropriate it is as a comparable property. The perfect comparable property would be a newly built (assuming the proposed property is new construction), recently leased, complex with the same number of units, the same unit sizes and features, and the same rent¹, built in the same location. Perfect comparable properties are sometimes found when a second phase is built, but exactly comparable properties are rare.

Considering the geographical relationship of the comparable property relative to the comparable property is important. One may find, for instance, that rents are lower or that vacancy rates are higher in certain area within a particular apartment market.

Pricing variations may be found when patterns in vacancy rates and amenities among various comparable properties are examined. The vacancies may cluster in a particular rent range or rents above certain levels may require certain amenities.

The rents and locations of comparable properties are evaluated in the same manner as comparable property features.

By selecting some comparable properties that are near the subject (even though their rents and features are different), some comparable properties with rents that are similar (even though they are not near the subject and have different features), and some comparable properties that have similar features (even though they are far away with different rents), contrasting elements and pricing patterns may be found that improve the quality of the

¹ If the analyst determines the *pro forma* rents are not attainable, then the perfect comp would have the same rent that the subject is expected to achieve.



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analysis. This is true even when none of the comparable properties, considered alone, is good enough to be considered a Competitive Property.

In some cases single family rental properties may be considered in a comparable analysis. If the proposed property is for single family rental, then the most comparable units will likewise be single family. Single family rental properties may also be helpful if deriving market rents when the proposed property has unit types (three, four and/or five bedroom units) that traditional apartment buildings may lack. Also, some rural areas may lack comparable properties. There might be no apartments at all, or the apartments might be very dissimilar. Special care needs to be taken when using single family comparable properties in a multifamily study, and *vice versa*. Many single family rentals require the tenant to maintain the property to some extent (for instance, mowing the lawn), which is usually not the case in an apartment complex.

How many comparable properties are necessary?

The appropriate number of comparable properties examined and profiled in a market study depends on the purpose of the study, the variety of unit types at the proposed property and the depth, diversity and size of the apartment market examined. In a small town, it is usually good practice to survey every apartment in the market area because there usually are not that many, and it helps to really understand the housing choices in the town. In a larger city there could be hundreds of apartments in the market area, and surveying them all is unnecessary. Surveying the apartments that are nearest to the site, the apartments that are most similar in rent, and the ones that are most similar in condition, amenities and design will allow the market analyst to draw accurate conclusions. It will usually require more than three or four, unless the comparable properties are nearly a perfect match to the proposed property.

PRESENTING INFORMATION ON COMPARABLE PROPERTIES

Different market analysts will present information about comparable properties in different ways, but there are some guidelines provided in NCAHMA's *Model Content Standards for Market Studies for Rental Housing*. Section F, Existing Rental Housing Stock, lists the type of information that should be provided, along with some of the analysis that should be performed.

- Photo sheets: Usually detailed information will be provided for each comparable property, along with a photograph, in one section. Photo sheets will usually provide rents and vacancies by bedroom size, project and unit amenities, included utilities, specials, *etc.* The analyst should indicate any applicable government program or financing source, including any income or rent restrictions.



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- Tables: Various aspects of the comparable properties (such as vacancy rates or amenities) will be summarized in tables for all the comparable properties. The comparable properties will be evaluated relative to the proposed property.
- Maps: one or more maps will be presented that will show the comparable properties and various other aspects of the market area, like grocery stores, hospitals, and schools to help the reader understand how the proposed property will fit into the market.
- Ranking comparable properties: Sometimes it is useful to rank comparable properties either individually or in groups, especially when there are many comparable properties. Specific recognition might include labeling a comparable property as the “most” or “best” comparable. Surveyed apartments can be ranked broadly as Class A, B, or C. New LIHTC apartments are typically Class B, while luxury apartments are Class A. Class C apartments are generally older stock with some deferred maintenance. Other ranking systems could be used including scoring the comps, or ordering them numerically.

POTENTIAL RED FLAGS

The following issues or characteristics of a market do not necessarily indicate a problem in the market analysis, but they are areas where problems may exist.

- Too Few Comparable properties: The market may be portrayed inaccurately if comparable complexes with problems or well-performing comparable properties are excluded.
- Too Many Comparable properties: Problems in truly comparable properties might be masked by an overwhelming number of comparables that are performing much better. Also, too many comparables, presented in a disorganized fashion with no distinguishing examination of the relevance of their features, may be confusing.
- Too Far Away: Apartments in a different sub-market (or a different market all together) may not have any bearing on the proposed property.
- No Comparable properties: In some rural markets, or with some unusual proposed properties, it may be difficult to find comparable properties that are similar, or have enough similar features, relative to the proposed property. In those cases, a market analyst might evaluate other types of rental property or other market analysis methodologies may be appropriate.



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- Rent Structure: Properties with different rent structures might be doing better than apartments similar to the proposed property. For example, properties with rental assistance (either in the form of nearly 100% project-based rental assistance or with a high proportion of housing choice vouchers) may be performing better and inaccurate conclusions may be drawn if the market analyst fails to acknowledge the reason for the superior performance.
- Utilities: The analyst should consider the value of utilities included in the rent and the type of utilities used for heating and cooking (i.e. electric vs. gas).
- Specials: The analyst should consider the value of concessions.
- Mixed Income: When the proposed property has unit types that target mixed income households, the rents and unit types targeting each income level needs to be evaluated separately, with comparable properties considered for each aspect of the proposed property.