

# Ten Things Developers Should Know About Market Studies

BY BOB ROGERS

**M**aking sense of market studies can be challenging. People often wonder what to look for when they read one. It would be impossible to identify everything that might possibly be important to any particular study, but here are 10 things that will help developers and owners better understand the market studies they read.

**Market areas:** In rural locations, market areas should be set to include only the community where the project will be located, plus some surrounding area. In urban locations, the market area should reflect the area where prospective tenants are most likely to be drawn from. This should not encompass the area where all potential tenants will come from, just the region where the proposed project and comparable apartments will compete for tenants. Market areas for small cities sometimes include the whole city, but in larger cities, market areas are only portions of the city.

**Demographic and economic data:** Demographics and other statistics give you background information on the market area and how it relates to larger areas (like the county and the state). Some of the demographic data also is used in estimating demand.

**Projections:** Household projections form the basis for many demand calculations. In our experience, household projections from reputable sources tend to be fairly accurate at the market-area level. Income projections tend to be fairly accurate for the middle class, but not particularly accurate for low-income households.

**Market survey:** A survey of all (or a large portion) of the apartments in the market area is needed to understand where the proposed property fits in the context of the entire market, to identify marketwide

trends, and to understand geographical submarkets. Sometimes the survey is called an inventory.

**Comparables:** The comparables are selected from the market survey as the apartments in the area that most closely resemble the proposal. The comparables will be used in establishing market rents, evaluating bedroom mix, and estimating absorption periods. Comparables are selected based on rents, tenant profile, physical characteristics, and location.

**Market rents:** There are many different approaches used by analysts to determine “market rents.” Be sure to understand what is meant in the context of the study. The National Council of Affordable Housing Market Analysts’ (NCAHMA) definition of “market rent” is the rent the subject could attain in a market without subsidies or restrictions. Many analysts calculate an “achievable” rent, which is an estimate of the rent level that the subject is likely to actually stabilize at. This calculation may be made in addition to, or in lieu of, the market rent calculation. In many markets, the achievable rent is determined by the existing tax-credit comparables. In all cases, market rents should take into consideration concessions, utilities, location, design, amenities, and features.

**Three analyses:** Three different approaches are reconciled in a good market study: statistical, comparables, and interviews. When there is a conflict between the approaches, a good market study will explain why.

**Components of demand and methodology:** Many different approaches exist to estimate demand for low-income apartments, but the details are beyond the scope of this article. What is counted makes as much difference as how it is counted. For instance, some market studies look at the households already located in the area, and others look at projected household growth

when they analyze where potential demand is coming from. In 2004, NCAHMA reviewed the methodologies of eight different states and applied those methodologies to a particular market area with a hypothetical proposal. It was found that demand estimates varied from as little as 27 units to as many as 4,025 for the same market area.

**Capture rates:** Not everyone agrees on what should be used as either the numerator or the denominator for calculating the capture rate. Regardless of how it is calculated, it is still just one indicator of many that a good market analyst considers. The NCAHMA review mentioned above also found that capture rates (for the same proposal) varied from 1.7 percent to 35.7 percent. (Some states do not specify a capture rate calculation.)

**Study author:** It is important that the person who does the field work has experience in the field. An inexperienced analyst easily can miss important details that are material to the conclusions. Market analysts also should stay current with industry trends, and it goes without saying that your analyst needs to be trustworthy.

These 10 areas are not the only important aspects to a market study, but if you understand these issues, they can help you to better understand the analyst’s conclusions. Some of the areas, like market rents, demand, and capture rates, can vary widely depending on who the analyst is and/or whose market-study guidelines are followed. All these various methods can have their place when used appropriately. Being aware of these issues can make comparisons between various studies more meaningful. ■

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