

COLORADO DIVISION OF HOUSING ADVANCES

Knowing Your Market

When seeking financing for a housing development, the fundamental question is: is there a market for your proposed project? Investors may ask you to justify many market assumptions: why is your vacancy rate estimated to be only five percent; why are you building only 48 instead of 52 one and two bedroom apartments; and shouldn't you offer a washer and dryer in your new rental development?

The success of your housing proposal is determined by the assumptions contained in your market study. The study should be current, no more than 6 to 12 months old. It should be prepared by an independent professional market analyst, that is, an individual whose primary occupation involves market analysis and who has no business relationship with the owner and/or general contractor except for the performance of market research, planning or appraisal services.

In many instances, lenders have a list of approved market study consultants, so ask your lender for their list before contracting for a market study.

To more clearly define what to look for in a market study these guidelines have been developed. The guidelines represent only a basic framework for the market study and are not intended to limit the scope of any market analysis.

1. **Location Analysis:** Examination of the regional, intermediate, and local area. A detailed description of the proposed site, including street map of the site's location. Location amenities: employment centers, shopping and services, transportation and major traffic arteries. Location characteristics: neighborhood housing types, zoning patterns, and new infrastructure changes.
2. **Market Area Identification:** Delineate the geographic area from which potential renters/homeowners could be expected. The description of this area should include the political and natural boundaries, socioeconomic characteristics, and the experience of nearby developments.
3. **Demographic Data:** Demographic data should be categorized into historical data of at least five years, a current profile, and forecasts of no more than five years.
 - Population trends by age groups
 - Household trends by number of households, income, and size
 - Employment trends by number of jobs, type, wages, expansions or cutbacks, and unemployment rate.

4. **Demand Estimate:** This analysis should be based on current households and

forecasted household growth. The concluding calculation (capture rate) is the number of how many renter households you will need to capture to fully occupy your property.

- Demand from Existing Households. To determine the demand from existing households you need to know the following information:
How many households currently reside in your market area?
How many of these households are renters?
What are their household incomes?
Can you determine the average time renters live in the same property?
- Estimate demand from current renters.
- Demand from New Households. To determine the demand from new households you need to know the following information:
What is the annual estimate of new households in your community?
Estimate of the number of renters in your community?
What is the income of these new households? Apply the percentage of households that could qualify for your property.
- Estimate demand from new renter households.
- Capture Rate - Of the total number of potential qualified renters within your market area, what percent will you need to "capture" to fully occupy your property.

5. ***Existing Comparable Housing Developments:*** The study should compare potential competitors by rental rates, unit mix, size and type of units, vacancy rates, amenities, leasing policies, other expenses (security deposits, utilities)
6. ***Anticipated Comparable Housing Developments:*** A careful comparison of future competition should be summarized by the characteristics noted above. Local building and planning departments can provide this information to the market analyst. This comparison should include the availability and proximity of land in the proposed market area which is zoned or could be zoned for competing uses.

[[State Home](#) | [DOH Home](#) | [DOLA Home](#)]

last modified 04-11-03

Contact: [Department of Local Affairs](#)