

HOUSING MARKET STUDY

EAGLE RIDGE APARTMENTS PHASE II
121 Stumer Road
Rapid City, South Dakota

Prepared for:

Land Rush Properties
2700 West Main Street
Rapid City, South Dakota

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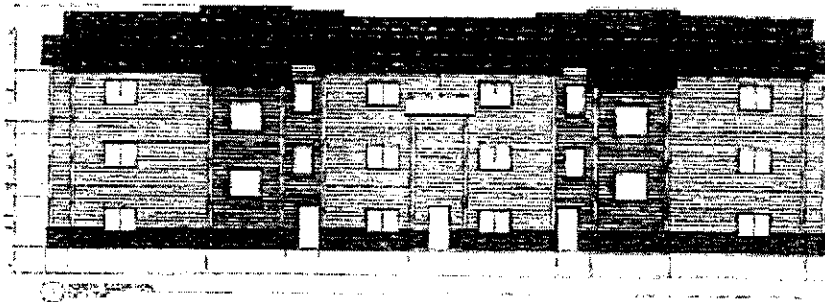
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I. EXECUTIVE SUMMARY

A. Project Description

- The subject of this report is the market feasibility of the construction of Eagle Ridge Apartments II, the 60-unit, income-restricted second phase of Eagle Ridge Apartments at 121 Stumer Road in Rapid City, South Dakota.
- The subject will be a family community. The units will be in five three-story walk-up structures that have steel siding exteriors with brick accents, pitched asphalt shingle roofs, and uniform facades.



- The subject's common amenities and security features will include courtyards, secure access entrances, a playground, picnic area and management office. In addition, the subject's tenants will have access to the basketball court located at the subject's first phase.
- Each unit will have central air conditioning, mini-blinds, carpet, a frost-free refrigerator, stove, dishwasher, disposal, patio or balcony, coat closet, ceiling fan, high-speed Internet connection and washer/dryer connection.
- The subject will be developed through the Federal Low Income Tax Credit (LIHTC) program and targeted to low-income households. The following table describes the subject's unit distribution by type, size, income restriction and proposed rent.

SUBJECT SUMMARY				
Unit Type	Number of Units	Approx. Square Footage	% of Median Income	Pro Forma Rent
2BR/1BA	3	1,000	40%	\$436
2BR/1BA	6	1,000	50%	\$565
2BR/1BA	21	1,000	60%	\$610
3BR/2BA	3	1,330	40%	\$501
3BR/2BA	6	1,330	50%	\$650
3BR/2BA	21	1,330	60%	\$725

Source: Project Sponsor

B. Site Evaluation

- Rapid City is along Interstate 90, 320 miles west of Sioux Falls and 310 miles northeast of Denver, Colorado.
- Rapid City has a population of 62,098 and is the central city of the Rapid City MSA, which has 119,988 residents.
- The subject is located in a growth corridor in the southern portion of Rapid City. The site is located within a master planned community, which will include single-family homes, multifamily residential, offices, commercial businesses and retail shopping at build-out.
- The subject's surrounding land uses include single-family residential, institutional and multifamily residential land uses. These uses are in average to above average condition for the area and are compatible with the subject's multifamily development.
- In comparison to most market area projects, the subject's location is slightly superior, due to its proximity in a master planned community.

C. Market Area

- The subject's primary market area (PMA), Rapid City, has 62,098 residents and covers 44.7 square miles.

D. Regional Economy

- The subject is in Pennington County, which has a regional economy based on government, education and health services, trade, transportation and utilities, and leisure and hospitality. The county has had an average annual employment growth rate of 1.4% since 1998.
- The government sector accounts for 27.0% of the total earnings in the county, which suggests that government is the primary driver of the area economy.
- During the past year, employment in the MSA has increased less than 0.1%, but is projected to increase 1.7% annually through 2014.
- According to HUD, continued economic growth in Rapid City over the past 12 months has allowed the rental market to remain balanced and that there are opportunities for market-rate and tax credit developments throughout the city.
- In addition, the subject is in a high growth area that will likely experience significant commercial and residential development in the long-term.

E. Demographic Trends

- The market area's population is increasing 0.5% per year, and it is projected to gain 80 renter households annually through 2013.

- However, the Rapid City Economic Development Department has a 2007 population estimate for the PMA that is 12% higher than that of Claritas for 2008 and projects a 0.9% population increase through 2010, which suggests that the Claritas projections likely understate the actual number of persons and households in the PMA.
- Of the PMA's renter households, 42% have one person, 26% two, 24% three or four, and 8% have five or more.
- In 2000, 35% of the PMA's tenants were rent overburdened, a high percentage that indicates a need for additional low-income rental housing.
- The project will appeal to households with annual incomes between \$13,080 and \$39,900, a group that comprises 48.8% of the PMA's renter households.
- The subject will need to capture 4.1% of the income- and size-qualified renters within its target income range to attain full occupancy.
- Its capture rates by AMI threshold are achievable because of the low vacancy rates and extensive waitlists at surveyed LIHTC projects. In addition, based on the experience of the subject's first phase, the subject will likely attract tenants with Section 8 vouchers, which will widen its target income band.
- The existing LIHTC units in the PMA have a penetration rate of 30.7%. Completion of the subject and all other units in the development pipeline will increase the penetration rate to 34.8%.
- The PMA's level of demand is sufficient to absorb the 232 new rental units, including the subject, in the development pipeline.

F. Housing Trends

- From 1998 to 2007, permit-issuing jurisdictions in the Rapid City MSA authorized the construction of 6,783 new residential dwellings. Multifamily permits averaged 195 units per year and accounted for 28.7% of the development activity during this period.
- The rate of single-family construction in the county has decreased significantly since 2005 due to the sub-prime mortgage crisis, while multifamily development remained stable. Over the last three years, an average of 269 multifamily permits were issued in the MSA.
- The PMA has added approximately 87 new rental units per year since 2006. The market-rate and income-restricted projects that reported lease-up information had average absorption rates between nine and 16 units per month during lease-up without the use of concessions.
- In addition to the planned subject, there is one market-rate project with 278 new rental units in the PMA's development pipeline. This project is not directly comparable to the subject in terms of income restriction. This project has 172 units under construction or in lease-up that will need to be absorbed.

- During the past year, two surveyed projects reported an increase in occupancy and nine reported no change.
- In November 2008, the average vacancy rate at 12 surveyed LIHTC and market-rate apartment projects in the PMA was 1.9%, including 1.7% in market-rate projects, 2.5% at LIHTC properties, and 0.0% at deeply-subsidized developments.
- Seven surveyed projects maintained waitlists with between four and 180 applicants. Four of the seven surveyed LIHTC developments maintained waitlists with between 20 and 180 applicants, while three of the four surveyed market-rate projects maintained waitlists with between four and 50 applicants.
- When the subject comes online in 2010, there will be an overall demand for 441 units, which is sufficient to absorb the 232 confirmed rental units, including the subject, in the PMA's development pipeline.
- Completion of the subject and the other units that are planned or under construction in the PMA will cause vacancy rates to rise slightly, to 2.6%, over the next two years.
- Of the 12 surveyed projects, seven reported rent increases between \$15 and \$40 during the past year, and five reported no change in rents.
- No surveyed projects were offering concessions in November 2008.

G. Analysis of Comparable and Competing Rental Properties

- The subject's unit mix has a lower percentage of two-bedroom units, but a higher percentage of three-bedroom dwellings compared to the overall surveyed unit mix. The subject's unit mix is generally comparable to its primary competitors.
- However, the subject's unit mix is not the most appropriate for a PMA where 42% of renter households have one person, while only 11% of surveyed units have one bedroom.
- Its unit sizes are 1% to 11% larger than the surveyed weighted average unit sizes.
- The subject's amenity package is generally inferior to surveyed LIHTC projects that offer a community room or sports court. Its project amenities will be inferior to most market-rate projects that typically have a pool, community room and exercise room.
- Its unit features are generally superior to LIHTC projects, which do not always offer washer and dryer connections in the units, but comparable to market-rate projects that offer similar appliances, including washer/dryer connections.
- The subject's tenant utility costs will be generally higher than surveyed LIHTC and market-rate projects, many of which have owner-paid heat and hot water.

- Compared to its primary competitors, the subject has a superior location, inferior project amenities, superior in-unit amenities, larger unit sizes and comparable rents. Moreover, its rents represent a significant discount from the rents attained at surveyed market-rate projects, which typically have less desirable locations, but lower tenant utility costs.
- Overall, the subject's location will compensate for its higher than average utility costs and allow it to attain its proposed rents and compete effectively for tenants over the long-term.
- If the subject had no rent or income restrictions, it could attain market rents of \$752 for a two-bedroom unit and \$944 for a three-bedroom dwelling. The subject's proposed rents are 19% to 47% lower than the market rents and provide a good value.

SUBJECT'S PRO FORMA AND DERIVED MARKET RENTS					
Unit Type	Sq. Ft.	% AMI	Pro Forma Rent	Market Rent	% Difference
2BR/1BA	1,000	40%	\$436	\$752	-42.0%
2BR/1BA	1,000	50%	\$565	\$752	-24.9%
2BR/1BA	1,000	60%	\$610	\$752	-18.9%
3BR/2BA	1,330	40%	\$501	\$944	-46.9%
3BR/2BA	1,330	50%	\$650	\$944	-31.1%
3BR/2BA	1,330	60%	\$725	\$944	-23.2%

Source: Analysis by Prior & Associates

- The subject's proposed rents are comparable to the LIHTC rents attained in the PMA, which are generally set at the maximum allowable levels based on their respective tax credit applications, and are attainable. Additionally, its proposed 60% AMI rents are equal to the 60% AMI rents being attained at its first phase, which is 98% occupied.

H. Conclusions and Recommendations

- The PMA's pent-up demand of 272 rental units and its anticipated gain of 160 renter households suggest that the PMA can absorb 432 units over the next two years. This level of demand is sufficient to absorb the 232 new units, including the subject, in the development pipeline.
- The sponsor should consider the addition of one-bedroom units to its mix, which would allow it to target the 42% of PMA renter households that have one person.
- The subject can attain its required market share because:
 - Its location in a master planned community near new retail shopping, offices, commercial buildings, a planned Wal-Mart and new high-end single-family homes, is generally superior to its competitors.
 - Surveyed LIHTC projects are 98% occupied, including the subject's first phase, and four of the seven LIHTC developments maintain waitlist with up to 180 applicants.
 - Its location, in-unit amenities and unit sizes are superior compared to its primary LIHTC competitors.

- Its proposed rents, which are 19% to 47% below its derived market rents, provide a good value to potential tenants.
- We estimate that the subject will fill 11 units per month and be 95% occupied within six months. It will not need concessions during its lease-up period.
- After it completes lease-up, the subject should match the overall market and have an average stabilized annual occupancy rate of 95% or better, an annual turnover rate of 10%, and average yearly rent increases of approximately 3%.

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