

III. EXECUTIVE SUMMARY

This study evaluates the market potential of the 50-unit Rapid City Good Samaritan Housing low-income housing Tax Credit project for elderly tenants age 62 or older in Rapid City, South Dakota.

The proposed site is in the southern portion of Rapid City, South Dakota. Specifically, the site is on the south side of Minnesota Street 0.2 mile east of 5th Street (main north/south thoroughfare).

The proposed 50-unit Tax Credit project (restricted to elderly tenants age 62 +) will include 40 one-bedroom and 10 two-bedroom garden units within a three-story elevator equipped building. The rents at the project will be based on 30%, 40%, 50%, and 60% of the area median household income. The developer plans to offer 2 (4.0%) of the proposed units to households with incomes up to 30% of the area median household income, 4 (8.0%) units to households with incomes at or below 40% of the area median household income, 15 (30.0%) units to households with income at or below 50% of the area median household income, and 29 (58.0%) units to households with incomes at or below 60% of the area median household income.

The Rapid City Good Samaritan project will also include services tailored towards elderly residents including safety and crime prevention, social and recreational activities, educational activities, information and referral services, transportation, health services, and one daily meal service (extra cost). The project will also include free wireless Internet service and each resident will also receive a Lifeline personal emergency response system.

The proposed Rapid City Good Samaritan Housing is anticipated to be completed and open by May 1, 2015.

Our conclusions for the market potential of the subject project are based on a thorough analysis of the Effective Market Area (EMA). EMA refers to a methodology developed by The Danter Company to describe areas of similar economic and demographic characteristics.

Based on these factors, it is our opinion that a market exists for the 50-unit rental housing development at the subject site, assuming the project is developed as detailed in this report. Changes in the project's site, rent, unit mix, amenities, floor plans, or opening date may invalidate these findings.

The project is proposed as follows:

**RAPID CITY GOOD SAMARITAN HOUSING
MINNESOTA STREET
RAPID CITY, SOUTH DAKOTA**

UNIT TYPE	PERCENT OF MEDIAN HOUSEHOLD INCOME	NUMBER	SQUARE FEET	MAXIMUM ALLOWABLE GROSS RENT	RENTS AT OPENING*			
					GROSS	UTILITY ALLOWANCE	COLLECTED	NET
ONE-BEDROOM/ 1 BATH GARDEN	30%	2	600	\$343	\$343	\$0	\$343	\$268
	40%	3		\$458	\$457	\$0	\$457	\$382
	50%	12		\$571	\$571	\$0	\$571	\$496
	60%	23		\$686	\$670	\$0	\$670	\$595
TWO-BEDROOM/ 1 & 2 BATH GARDEN	40%	1	820	\$549	\$549	\$0	\$549	\$456
	50%	3		\$686	\$686	\$0	\$686	\$593
	60%	6		\$823	\$805	\$0	\$805	\$712
TOTAL		50						

*March 2015

- Rents will include electric heat, gas hot water, electricity, water, sewer, and trash collection. Tenants will be responsible for phone and cable. Because the monthly rent at the subject site will include electric heat, hot water, and electricity, the collected rents at the proposed Rapid City Good Samaritan project have been adjusted (to net rents) \$75 for every one-bedroom unit and \$93 for every two-bedroom unit to reflect the value of landlord paid electric heat, hot water, and electricity. Additionally, all rents within the Rapid City EMA have been adjusted to net rent for comparison purposes.
- These rents are meant as guidelines. Actual rents may vary based on the area median income and utility costs at the time of opening. It should be noted, however, that incomes sometimes increase at a greater rate than market area rents, and arbitrarily increasing rents whenever income guidelines allow may result in a development becoming less of a value. Future increases must always be considered within the context of the existing rental market. Within the Rapid City MSA, recent median income (as established by HUD) has increased at an annual average of 3.2% compared with the Site EMA's established rent increase of 2.3% between March 2011 and January 2013.

- Each unit in the proposed development will include the following amenities:
 - Range
 - Frost-free refrigerator
 - Microwave
 - Central air conditioning
 - Lifeline emergency response system
 - Dishwasher
 - Intercom entry system
 - Window blinds
 - Carpeting

- Project amenities will include the following:
 - Community room
 - Kitchenette
 - On-site management
 - Supportive services
 - Transportation
 - Gathering room
 - Elevator
 - Community patio
 - Wireless Internet
 - Laundry facility on each floor

- The site will include 3 washers and dryers on each floor that will be free of charge to residents.

Supportive services at the project will include the following:

- Resident's council and safety/crime prevention, social and recreational activities, educational activities, information and referral, transportation, health services, and a daily meal service.

- Based on our site inspection, the site is appropriate for the proposed development. A detailed site description and evaluation is on the proceeding pages.

ABSORPTION

When responding to only age and income-qualified tenants, absorption for the 6 Tax Credit units at the 30% and 40% will be complete within 1 month after opening.

Absorption for the 44 Tax Credit units at the 50% and 60% income levels is expected to average 5.0 to 6.0 units per month, resulting in a 7.0 to 8.4-month absorption period to achieve a 95% occupancy level.

HOUSEHOLD AND POPULATION GROWTH

POPULATION AND HOUSEHOLDS
RAPID CITY, SOUTH DAKOTA
SITE EFFECTIVE MARKET AREA

YEAR	POPULATION	HOUSEHOLDS	POPULATION PER HOUSEHOLD
1990	49,469	19,447	2.54
2000	53,474	21,699	2.46
CHANGE 1990-2000	8.1%	11.6%	-
2010 CENSUS	55,686	23,747	2.34
CHANGE 2000-2010	4.1%	9.4%	-
2012 (ESTIMATED)	56,938	24,190	2.35
2017 (PROJECTED)	60,619	26,000	2.33
CHANGE 2012-2017	6.5%	7.5%	-

Sources: The Danter Company, Incorporated
2000 Census
ESRI, Incorporated

- As the above table illustrates, the total population and households within the Rapid City Site EMA increased between 1990 and 2000. During this time period, the total population grew 8.1% from 49,469 in 1990 to 53,474 in 2000. During this same time period, households grew 11.6% from 19,447 in 1990 to 21,699 in 2000. Both the total population and households are expected to continue to grow; however, at a slower pace through 2017. The population is expected to grow by 3,681 (6.5%) between 2012 and 2017 while households are expected to grow by 1,810 (7.5%) from 24,190 in 2012 to 26,000 in 2017.

FIELD SURVEY OF CONVENTIONAL APARTMENTS

- A total of 4,395 conventional apartment units in 55 projects were surveyed in the Rapid City, South Dakota Site EMA. A total of 3,246 of these units are in 35 market-rate and Tax Credit developments. The remaining 1,149 units are in 20 subsidized developments. There are no vacancies among the subsidized units. (Government subsidized units have not been included in the following analysis.)

- Following is a distribution of market-rate, Tax Credit, and government subsidized units surveyed by unit type and vacancy rate:

SUMMARY OF CONVENTIONAL MARKET-RATE, TAX CREDIT, AND
GOVERNMENT SUBSIDIZED APARTMENTS
RAPID CITY, SOUTH DAKOTA
SITE EFFECTIVE MARKET AREA
JANUARY 2013

MARKET-RATE UNITS

UNIT TYPE	MARKET-RATE UNITS		VACANCY RATE	MEDIAN RENT
	NUMBER	PERCENT		
STUDIO	102	3.7%	0.0%	\$363
ONE-BEDROOM	753	27.0%	0.9%	\$627
TWO-BEDROOM	1,623	58.1%	2.3%	\$705
THREE-BEDROOM	315	11.3%	2.2%	\$840
TOTAL	2,793	100.0%	1.8%	

TAX CREDIT UNITS

UNIT TYPE	TAX CREDIT UNITS		VACANCY RATE	MEDIAN RENT
	NUMBER	PERCENT		
ONE-BEDROOM	106	23.4%	1.9%	\$482
TWO-BEDROOM	168	37.1%	1.2%	\$605
THREE-BEDROOM	171	37.7%	1.8%	\$692
FOUR-BEDROOM +	8	1.8%	0.0%	\$661
TOTAL	453	100.0%	1.5%	

GOVERNMENT SUBSIDIZED UNITS

UNIT TYPE	GOVERNMENT SUBSIDIZED UNITS		VACANCY RATE
	NUMBER	PERCENT	
STUDIO	65	5.7%	0.0%
ONE-BEDROOM	590	51.3%	0.0%
TWO-BEDROOM	354	30.8%	0.0%
THREE-BEDROOM	127	11.1%	0.0%
FOUR-BEDROOM	13	1.1%	0.0%
TOTAL	1,149	100.0%	0.0%

- The overall vacancy rate within the market is 1.8%. The market-rate units have an overall vacancy rate of 1.8% and the Tax Credit units in the market have an overall vacancy rate of 1.5%. Overall, vacancies are very low in the market area.
- There are no vacancies among the 1,149 subsidized units in the market.
- The above distribution of units by bedroom size indicates that the market is in good balance by unit type.
- Rents in the EMA increased at an established average of 2.3% per year between March 2011 and January 2013.

INCOME-APPROPRIATE HOUSEHOLDS

- In 2015, there will be an estimated 2,037 total households age 62 or older within the Site EMA with incomes between \$8,230 and \$29,280.
- The 50 Tax Credit units being proposed at the subject development will represent a rental housing alternative for 2.5% to 2.7% of all age and income-appropriate households, depending on management's criteria for qualifying potential renters.
- These are excellent ratios and indicate a good supply of potential household (age 62 or older) support. These ratios have been considered in establishing the anticipated absorption rates at the site.
- There are 7 Tax Credit properties in the site EMA with a total of 453 Tax credit units.
- Proposed and existing Tax Credit units will represent a rental housing alternative for 7.5% to 8.0% of all income-appropriate households, depending on management's criteria for qualifying potential renters. These ratios are considered excellent and have been considered in establishing the anticipated absorption rates at the site.
- Proposed and existing Tax Credit units restricted to those age 62 or older will represent a rental housing alternative for 7.9% to 8.6% of all age and income-appropriate households, depending on management's criteria for qualifying potential renters. These ratios are considered excellent and have been considered in establishing the anticipated absorption rates at the site.

- The 2010 Census indicated that 44.9% of the area households were rentals. Of the estimated 10,669 renter households in 2010, an estimated 20.3% are age 62 or older. The reality is that at lower income levels, a higher ratio of renters is likely compared to the overall market. Within the Rapid City Site EMA, this is reflected.
- Considering the renter to total households' ratio established for households with lower incomes, the estimated number of renter households within the Site EMA that are age 62 or older and income-qualified for the proposed Rapid City Good Samaritan (\$8,230 to \$29,280) is estimated at 1,004. The 50 Tax Credit units proposed for Rapid City Good Samaritan represent 5.0% of their potential age and income-qualified renter base. This is an excellent ratio of proposed units to potential income-qualified renter households.
- As noted earlier, there are 110 existing Tax Credit units within the Site EMA that are restricted to tenants age 62 or older. Combined with the 50 proposed units, these properties total 160 Tax Credit units. When the existing Tax Credit units in the Site EMA that are restricted to those 62 or older are also considered, the appropriate household income range remains \$8,230 to \$29,280. The number of renter households age 62 or older and income qualified is estimated to be 1,004. The 160 proposed, existing, and under construction Tax Credit units in the market that are restricted to households age 62 or older represents 15.9% of the age and income-qualified renter base. This ratio is considered good.

COMPARABLE MARKET RENT ANALYSIS

- The following table compares the market rent at opening with the proposed Tax Credit rent at the subject site for one- and two-bedroom units. Rents are net, including only water/sewer and trash removal.

UNIT TYPE	PERCENT OF MEDIAN HOUSEHOLD INCOME	MARKET RENT AT OPENING AT 24.0 COMPARABILITY RATING	PROPOSED TAX CREDIT OPENING RENT	TAX CREDIT RENT AS A PERCENT OF MARKET RENT
ONE-BEDROOM	30%	\$755	\$268	35.5%
	40%		\$382	50.6%
	50%		\$496	65.7%
	60%		\$595	78.8%
TWO-BEDROOM	40%	\$850	\$456	53.6%
	50%		\$593	69.8%
	60%		\$712	83.8%

- With the proposed rents at the 30%, 40%, 50%, and 60% income levels ranging from 35.5% to 83.8% of market-driven rents, the proposed units will be perceived as an excellent value within the market.