

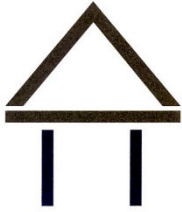
**Revised Market Analysis for Renovation**  
**Green Hills Apartments**  
**Lexington, Virginia**

**Prepared for:**

**Mr. David Koogler**  
**Mark Dana Corporation**

**February, 2019**

**S. Patz and Associates, Inc.**  
**46175 Westlake Drive, Suite 400**  
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■ S. PATZ & ASSOCIATES, INC ■  
■ REAL ESTATE CONSULTANTS ■

March 1, 2019

Mr. David Koogler  
Mark-Dana Corporation  
26302 Oak Ridge Drive  
Spring, Texas 77380

Dear Mr. Koogler:

Attached is our updated market study for the proposed renovation of Green Hills Apartments in Lexington, Virginia, under the federal LIHTC program, using 9% credits. This report will be submitted to officials of VHDA during the 2019 competitive round. It is an update of our 2018 report, as you requested additional tax credit financing from VHDA for the renovation of the 40-unit apartment complex.

Green Hills Apartments is fully occupied and all tenants are expected to remain. All residents require "RD" rental assistance to afford current rents, and that condition will not change, during and after renovation.

Given that fact, the market report to follow studies market support for the 40 apartment units at Green Hills Apartments for rents without rental assistance. That report is positive, as presented in the following attached market analysis.

The detailed market and economic data that support these findings and conclusions are provided in the attached report. Please call if additional data or clarification are needed.

Sincerely,

Stuart M. Patz  
President

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## **Section I Introduction**

Following is our revised full narrative market report for the proposed renovation of the 40-unit, former Green Hills Apartments, in Lexington, Virginia, that will be renamed, Maury River Place, as part of an extensive renovation plan, which includes upgrades estimated at a cost of \$50,000 per apartment unit. The apartment complex is a rent restricted apartment property under the Section 515 RD program, and the current rent restrictions will remain after the proposed renovation is completed. Once renovated, as is now the case, Green Hills Apartments will have rent and income restrictions, but no age restrictions.

The purpose of this updated market report is to secure additional funds for the proposed renovation, which was approved during the 2018 competitive tax credit round. The maximum incomes and rents have been increased in the market area. Thus, additional tax credits may be feasible and necessary for the proposal.

The report to follow has been prepared under the current market study guidelines established by Virginia Housing Development Authority (VHDA) for financing for affordable housing. The report will be submitted to officials of VHDA in support of additional 9% Low Income Housing Tax Credit application, under the 2019 competitive “round”. The report due date is March 14, 2019. The report closely follows the VHDA report requirements.

To stay within the VHDA guidelines, the report is presented in three sections. The first, the Introduction, is a detailed analysis of the apartment site, to be referred to as Green Hills Apartments, and the tenant characteristics of the apartment complex. The site setting is in a location just north of the City of Lexington and the public services available to the site are part of the site description. Also included in the Introduction is a detailed explanation of the renovation proposal.

The second part of the Introduction is an Economic Overview of the Rockbridge County economy, with the County defined as the market area for Green Hills Apartments. The economic overview analyzes at-place job growth and trends, including employment and labor force data. Job and employment growth are the key factors supporting population and household growth, and the resulting area housing unit demand, including the type of housing under study.

Section II is the Affordable Housing Market Analysis that “solves” for the number and growth of earlier households who can afford the post-renovation rents at Green Hills Apartments, as will be described below. There will be a wide income range for the defined target market, as Green Hills Apartments has one- and two-bedroom apartment units. The LIHTC proposal has rents at or below 40%, 50% and 60% of AMI for the greater Lexington market area.

The rent categories will be defined as affordability for gross rents, base rent plus utility costs, based on 40 percent of income allocated to gross rents.

All current residents of Green Hills Apartments meet the required rent restrictions and most do not pay the full base rent. All have incomes below \$23,000. Most residents rely on rental assistance from “RD” to pay full rent. At the current rate, or increased rent, after renovation, most residents will continue to pay rents below market due to disability, family, or other issues that reduce their ability to pay base rent.

Based on input from the on-site manager at Green Hills Apartments, all/most residents will remain at the apartment complex after renovation, as the area apartment market offers few options, and all residents pay below market rent. Current turnover at the property is under five annually. **Thus, we evaluate the ability of management to lease units after renovation, if the RD subsidies are removed, but with the understanding that limited (if any) turnover is expected.**

The forecast date for the market study is 2021. Renovation of Green Hills Apartments will likely start by late-2019, with residents in place. The renovation of the 40 units may require up to one-year to complete, given the complex's full occupancy. Any turnover will likely occur prior to 2020. By 2021, the renovation of any new lease-up should be complete.

The second part of Section II is the competitive apartment market. We identified 11 apartment properties for study, including Green Hills (AKA Green Hills Apartments). These are predominately rent-restricted properties. Only one is a market rent complex, but is mature. Two properties under study are age-restricted. These were included in the study, as 25 percent of the current residents at Green Hills Apartments are older adults and the apartment property competes for senior residents.

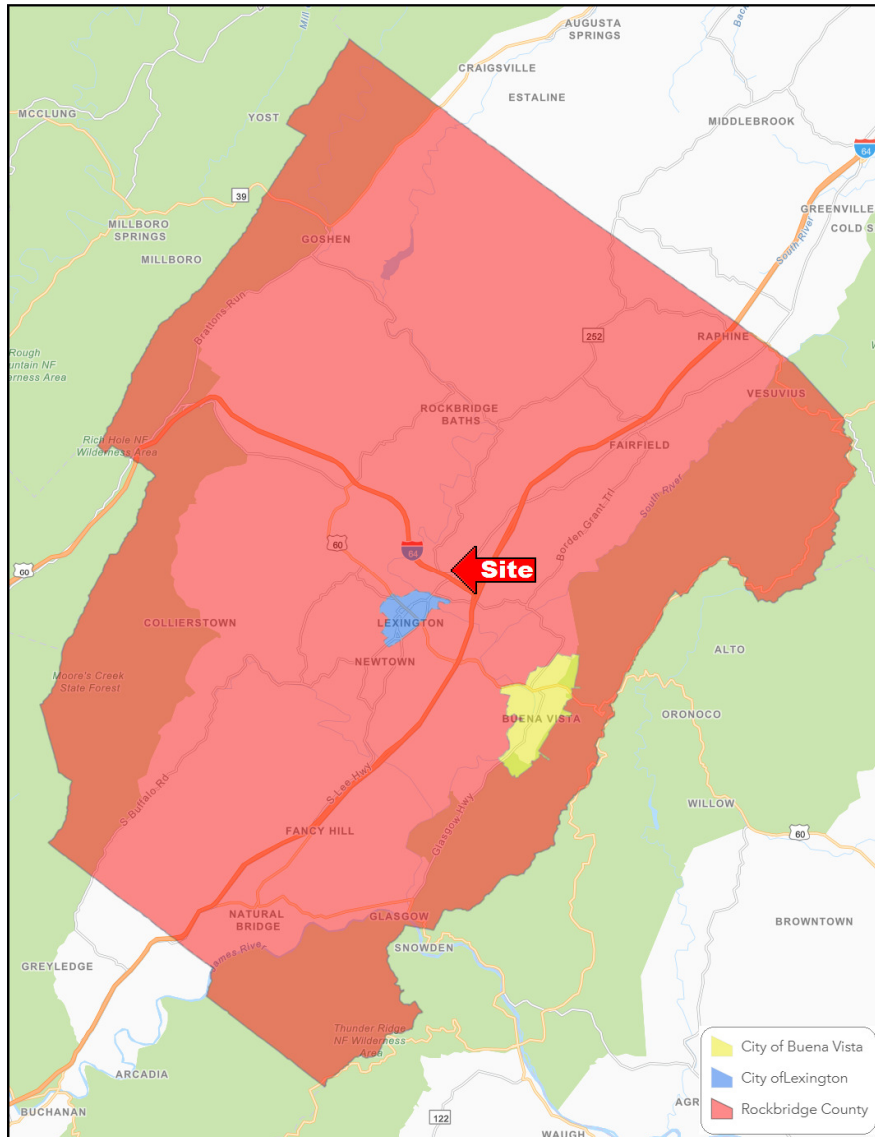
The competitive apartment properties are studied for rents, occupancy, unit mix and features and project amenities. One (senior) property is proposed for renovation under the LIHTC program. Market data from these properties are compared with Green Hills Apartments, as is and after renovation.

The third and final report section is the Conclusions. It includes an evaluation of the renovation proposal, with recommendations for achievable base rents. The demand analysis is presented in the VHDA Demand Chart.

### **Market Area Definition**

The market area defined for Green Hills Apartments is Rockbridge County, including the Town of Glasgow, as well as the City of Lexington and City of Buena Vista (see Map A). The market area was defined by input from the on-site manager at the Subject, based on prior residences of current and past residents. The market area has apartment properties in the County, and in the two cities, Lexington and Buena Vista, in Glasgow, in the Raphine area on the north end of the County and in the Natural Bridge

area of the south side of Rockbridge County. Apartment properties also are located in Rockbridge County near the City of Lexington.



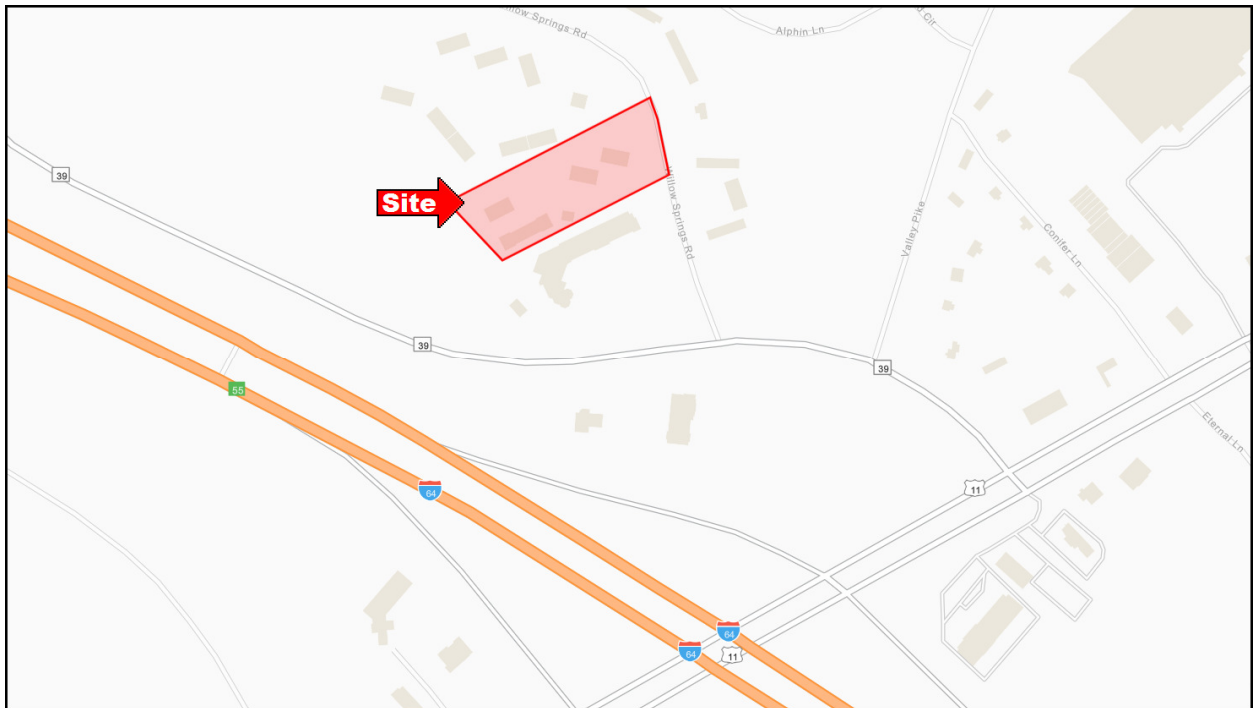
**Map A - Green Hills Apartments Market Area**

**Property Description**

Green Hills Apartments is a mature garden apartment complex with 40 apartment units. The apartment community was built in 1985, with RD financing, but without rent subsidies. It was converted to rental assistance in mid-2016. Prior to receiving rent

subsidies, the apartment community had considerable vacancies, due to low incomes in the area and the inability of residents to pay market rents.

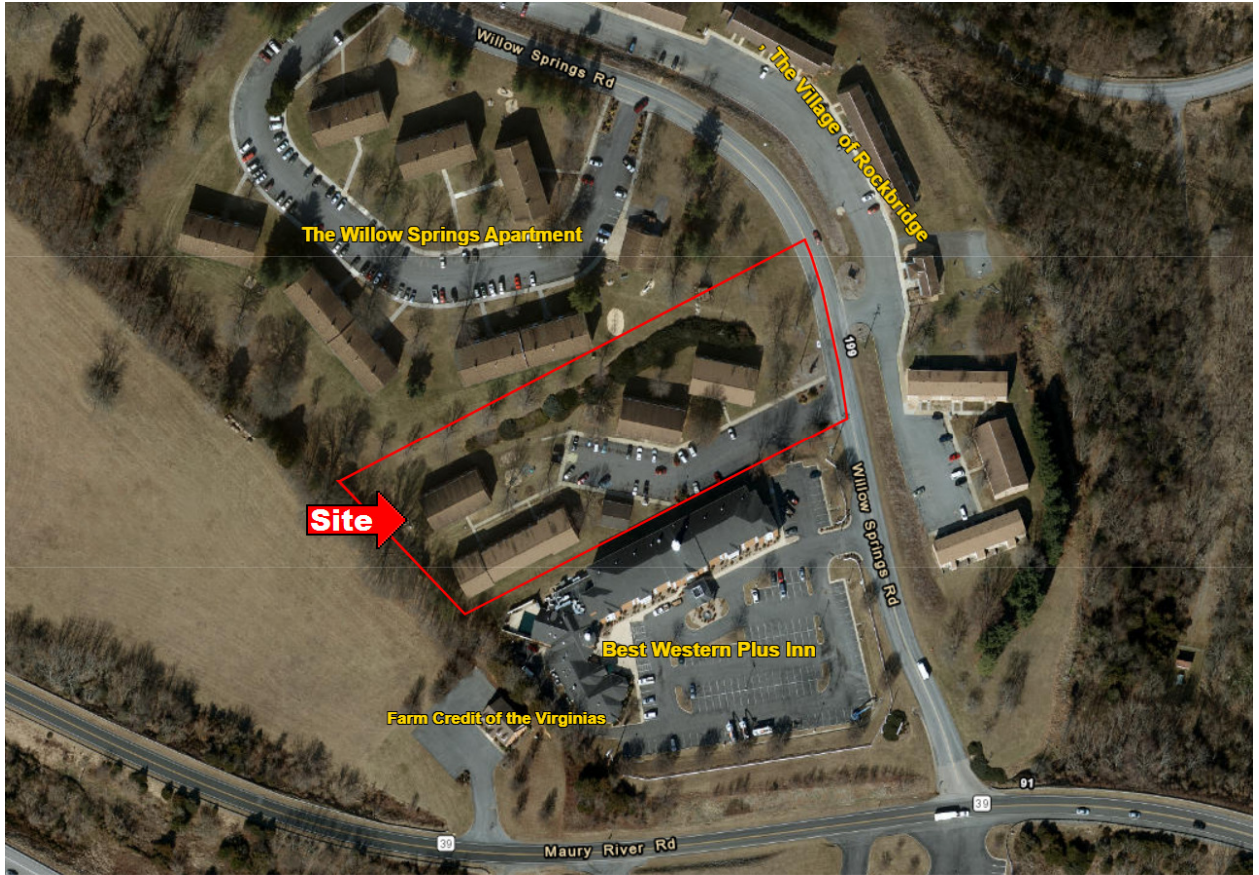
The site is located at 45 Willow Springs Road, which is within the northwest quadrant of I-64 on the south and U.S. 11 on the east and in Rockbridge County. The site location is shown in Map B below.



**Map B - Site Location**

The aerial to follow shows the site to be rectangular in shape and located off of Willow Springs Road. Willow Springs Road is accessed by CR 39, west from U.S. Route 11 and north to the property. As shown, The Willow Springs Apartment complex is adjacent to Green Hills Apartments on the north; a best Western Plus Inn abuts the property on the south. The area on the north side of Willow Springs Road is also developed with an apartment complex, The Village of Rockbridge. Behind this apartment complex is a large undeveloped wooded area.





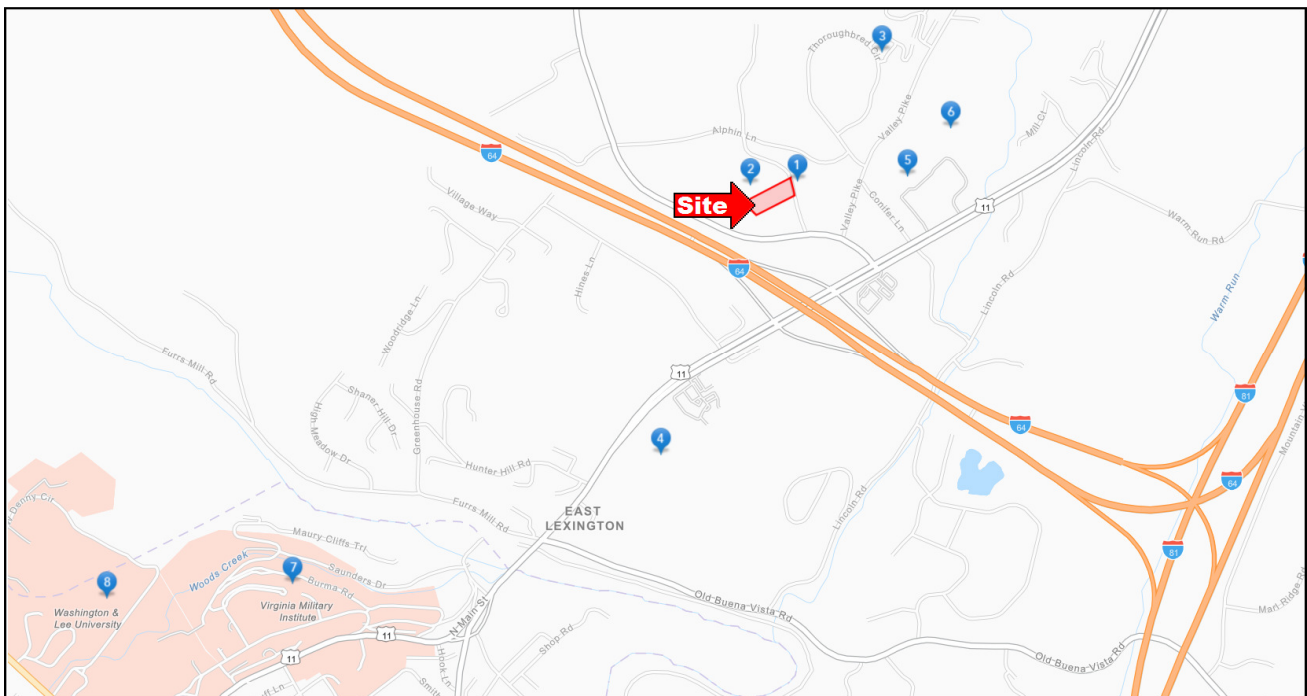
**Northern Aerial View of Green Hills Apartments**

Map C shows the site location off of Maury River Road and north on Willow Spring Road. Willow Spring Road is also the setting of the Village of Rockbridge Apartments (Note 1) and Willow Spring Apartments (Note 2). An active subdivision, Saddlebrook Ridge, is located along Valley Pike and is being developed with a mix of new housing, both single family and townhome for-sale, and recently built apartment units called Hunt Ridge Apartments (Note 3).

At the U.S. 11/I-64 interchange is a cluster of hotels and some retail buildings, including a Waffle House, Country Cookin' Restaurant, a medical building with Augusta Health, Family Dentistry and Eye Care. Along U.S. 11 at this location is the College Square Shopping Center (Note 4), among other retail centers. This 144,540± square foot shopping center is anchored by Peebles, with smaller tenants including YMCA, Tractor Supply, and

DaVita Renal Healthcare. Also near the study site is the Walmart Supercenter-anchored Lexington Crossing (Note 5) and a free-standing Lowe's Home Improvement (Note 6).

The site setting is unique in that it is very close to an interstate intersection where considerable employment exists, is situated along U.S. Route 11; the primary north-south arterial highway in the region; and it is low-density suburban setting, but close to the City of Lexington, Virginia Military Institute (Note 7) and Washington & Lee University (Note 8) are located along the Route 11 corridor, slightly south of the study site.



**Map C - Site Setting**

The site is 2.94± acres in size and is fully-developed with five garden apartment buildings. Three buildings are “stand alone” and two are attached. The apartment buildings are two-story, basic gardens, and standard in design for moderate rent gardens buildings built in the 1980's. Buildings A, B & C, the stand-alone buildings, have eight units per building, with four units per floor. Buildings D & E, the attached buildings, all have eight units per building. Each stairwell serves eight apartment units.

Following are photos of the apartment buildings at Green Hills Apartments. The buildings are two-story garden walk-ups with one staircase per eight apartment units. The buildings are all brick with pitched roofs and an enclosed entry and stairwell. The building exteriors are well maintained.



**Typical Residential Buildings**



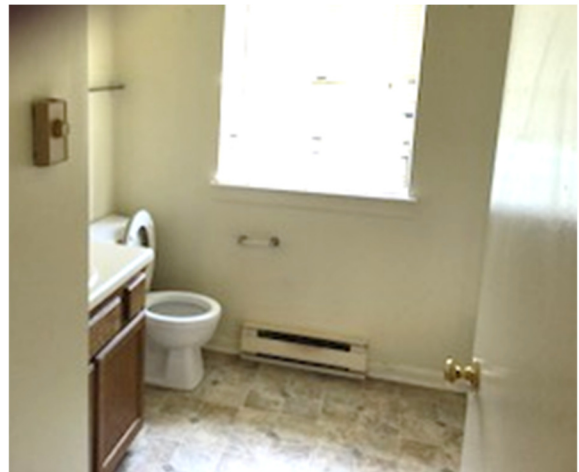
**Typical Residential Buildings**

Surface parking is located in front of the buildings. Shown next is a typical parking area.



**Typical Parking Area**

Next shown are the apartment unit interiors. The apartments are modest in size with a small kitchen area, small single bathroom and small hallway from the living area to the bedrooms. A few units have been upgraded over time, and this is due to tenant neglect and/or turnover. Some units have new carpeting and new appliances, as needed. There is some cracking of walls from settling in several apartment units. Overall, the apartment units have very usable floor plans, and while mature, most units remain well maintained.



**Apartment Interiors**



**Apartment Interiors**

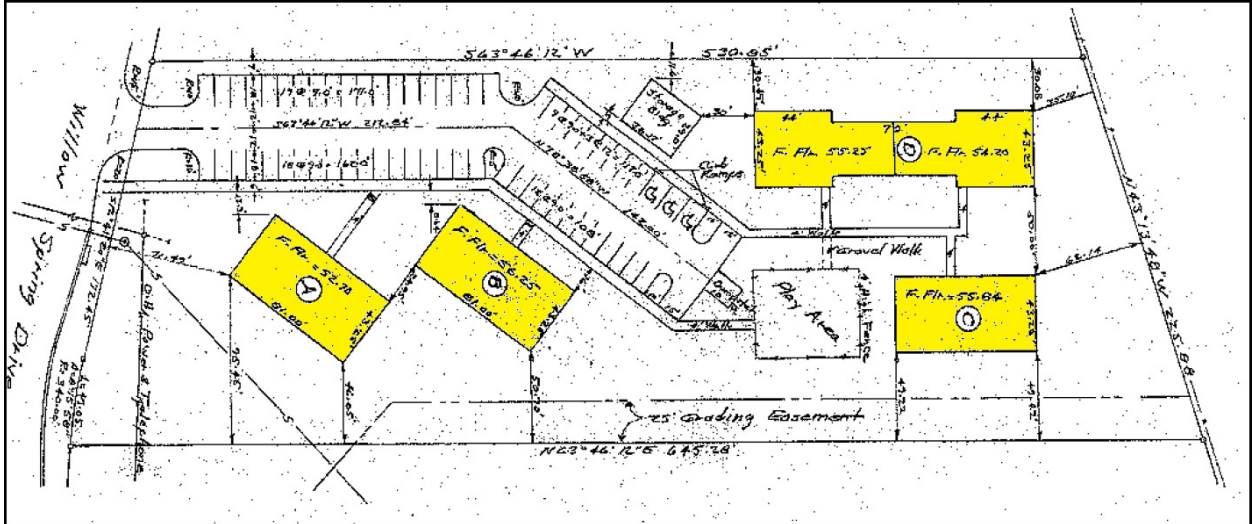
The next photo shows the first-floor hallway. The hallways are light and have good “curb” appeal.



**Interior Hallway**

### **Site Plan**

The site plan is shown next. It shows a driveway into the site with 60 surface parking spaces along the driveway and two apartment buildings on the north end (and entrance to) the apartment site and three buildings at the south end of the site. A play area is located at the end of the driveway/parking lot and consists of a slide and swing. Considerable grass areas surround the apartment buildings. A row of trees separates the apartment buildings from the adjacent Willow Springs Apartments on the north.



**Green Hills Apartments Site Plan**

Following is a second site aerial that is a better view of the apartment site. The site is small and fully developed and there is little landscaping, but numerous mature trees. The parking lot is in good condition and no holes or asphalt cracks were noted. Curb appeal is quite good for a mature, affordable property.



**Green Hills Apartments Aerial View**

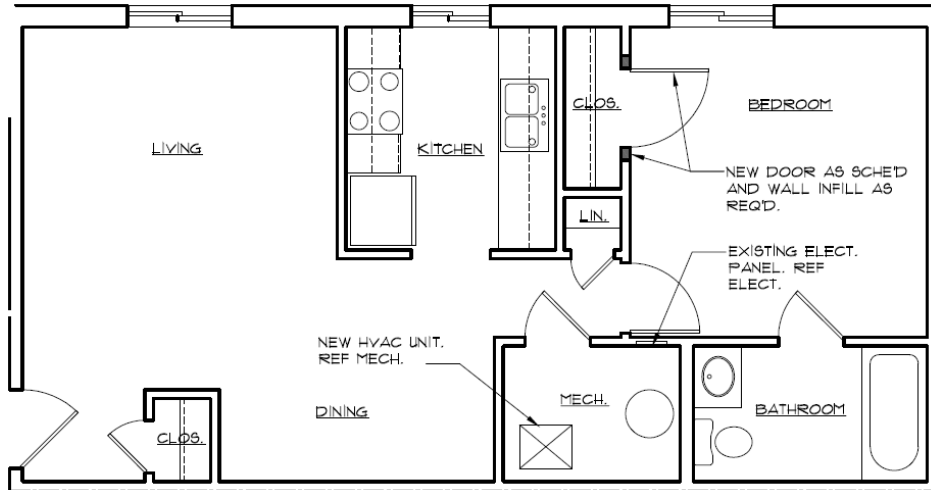
## Apartment Unit Characteristics

Table 1 details the existing unit characteristics at Green Hills Apartments. The complex has a mix of eight one-bedroom units and 32 two-bedroom units. The one-bedroom units measure 576 square feet while the two-bedroom units measure 712 square feet. These are small units with a typical “RD” design. The unit mix, sizes and base rents are shown in Table 1.

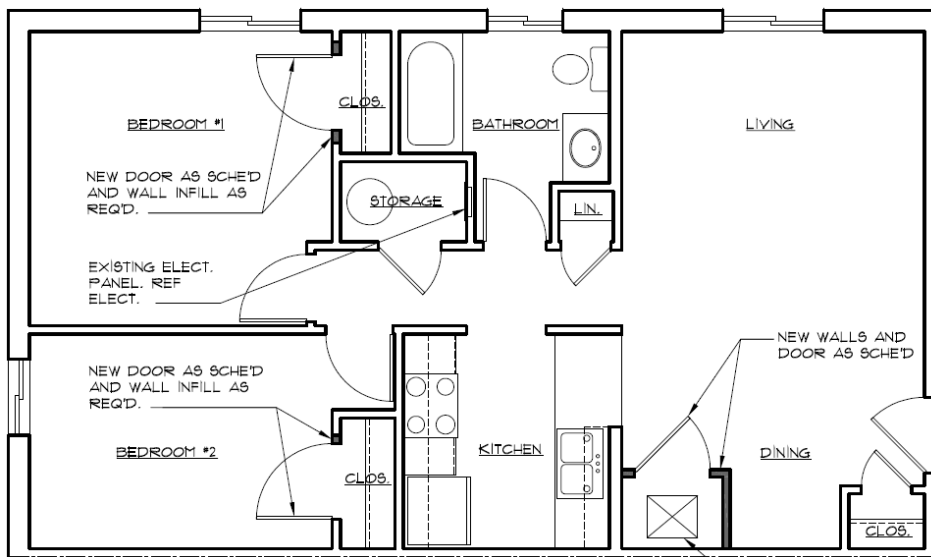
<b>Table 1: <u>Apartment Unit Characteristics of Green Hills Apartments, February, 2019</u></b>			
	<u>Unit Mix</u>	<u>Unit Sizes</u>	<u>Base Rent</u> 1/
One-Bedroom	8	576	\$494
Two-Bedroom	<u>32</u>	712	\$549
<b>Total</b>	<b>40</b>		
Note: 1/ Includes cold water, sewer and trash; includes Rental Assistance.			
Source: Green Hills Apartments Management Office			

All units have only one full bathroom. The apartment units are small, but competitive for area income-restricted apartment properties. The rents include cold water, sewer and trash collection. These are the current “base” rents. As noted above, most residents do not pay these rents, but pay a reduced/restricted rent.

**Apartment Unit Floor Plans.** The apartment unit floor plans are shown next. The units are rectangular in shape. The kitchen areas are open and adjacent to a dining/living area. Each unit has one full bathroom, a standard closet in each bedroom and a small mechanical room. The kitchens have a dishwasher and standard appliances. Each apartment unit has three or four windows for an abundance of light and air.



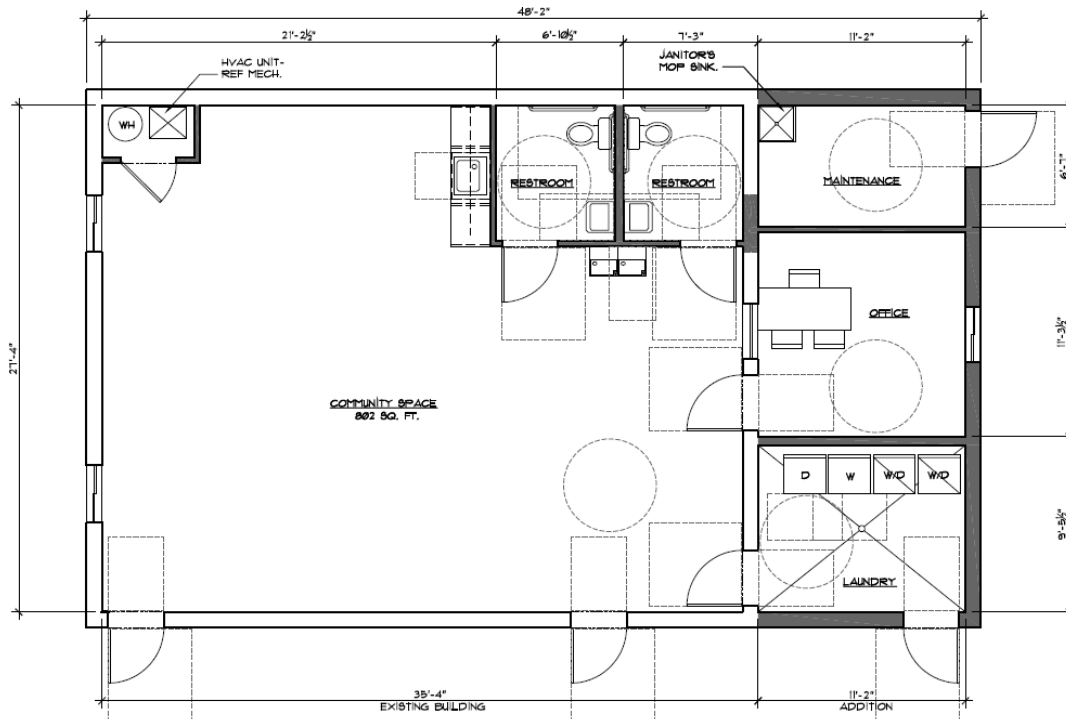
**One-Bedroom**



**Two-Bedroom**

**Community Building.** An 800± square foot maintenance building is located at the front of the site. The building is a “bland” red brick structure with no front windows and no curb appeal. It is used for maintenance but will be renovated as a community building and will contain community space, restrooms, an office, a laundry facility and a maintenance room. The building will be expanded for greater residential use, with one expansion and addition of a community room.





**Community Building Floor Plan**

**Current Resident Characteristics**

Green Hills Apartments is fully-occupied and management keeps a small waiting list that currently totals four prospective tenants. Of the 40± residents, 10± moved into Green Hills Apartments after mid-2016, at the time that rental assistance became available for all residents. Twenty-nine residents remained in place with rents lowered to the “RD” levels. Turnover has been minimum since that time.

Residents of Green Hills Apartments represent a wide mix of household types. Nine are seniors over 70 years of age and 22 have some level of handicap. Most residents are single-person households and there are no children on site. Only one apartment unit is occupied by a couple. The age distribution of current residents is:

<b><u>Age Distribution</u></b>	
	<b><u>Number of Residents</u></b>
Under 30	6
31 to 39	0
40-49	7
50-59	9
60-69	9
70 and Over	<u>2</u>
<b>Total</b>	<b>40</b>

The next chart shows the incomes of residents. Nearly 70 percent have incomes under \$15,000. Four have incomes over \$20,000, with \$23,500± being the highest income. Residents with incomes under \$10,000 fall into the \$8,000 to \$10,000 income range.

<b><u>Income Distribution</u></b>	
	<b><u>Households</u></b>
Under \$10,000	15
\$10,000-\$14,999	12
\$15,000-\$19,999	9
Over \$20,000	<u>4</u>
<b>Total</b>	<b>40</b>

Overall, the residents at Green Hills Apartments are mature, many with disabilities and most are single-person households. The majority pay less than \$300 in rent, plus the cost of electricity, but get rental assistance to reach base rent. Rent is based on 30 percent of adjusted income, with adjustments made for disabilities, age, prior debt, etc.

**Summary.** Green Hills Apartments, once renovated, will be a very competitive affordable apartment property in the greater Lexington marketplace. The apartment has rent subsidies and a “loyal” tenant base, as 29 residents remained from the period prior to the conversion to RD rents.

Residents are largely mature and/or disabled. They are not likely to move. Most only require a smaller apartment unit, as most are single-person households. The setting includes two other low-rent apartment communities, so this part of the County is a satisfactory location for the type of housing under study.

The renovation plan is presented next. Once completed, Green Hills Apartments will be renamed and will be one of the better market area affordable apartment properties.

**Renovation Plan**

The renovation proposal includes an approximate \$50,000 per unit investment, or a total of \$1.7 million cost. The base upgrades include:

- Replacing windows, flooring, cabinets, countertops doors, roofing, appliances, HVAC systems, plumbing lines/plumbing fixtures and light fixtures;
- Repairing drywall and painting;
- Increasing insulation for the property to be Earthcraft Gold Certified;
- Five units will be completely remodeled to be fully handicap accessible;
- New paving and landscaping in parking lot.

Again, the renovation will be undertaken with residents in place. Some additional upgrades may be added. Foundation repairs will be done. The apartment property does not now attract households with children due largely to the small size of the apartment units.

The LIHTC application “proposes” that residents will likely pay the same base rent as they do now, but management will likely increase base rents after renovation, as described below. The rents are based on the following LIHTC income categories that closely coincide with RD rent restrictions.

<b><u>Income Restriction</u></b>	<b><u>Number of Units</u></b>	<b><u>Maximum Gross Income (two people)</u></b>
40% of AMI	4	\$17,880
50% of AMI	16	\$22,350
60% of AMI	<u>20</u>	\$26,820
<b>Total</b>	<b>40</b>	

Current residents do not pay “basic” or “market” rents. All are at lower rent categories. This will also be the case once the proposed renovation is completed, based on market data presented below, and the fact that the RD rent restrictions will still apply.

Thus, for the market study, we “solve” for the level of market support that exists for rents, as shown, but acknowledge that the current income levels of residents will remain and all or most residents will have rent subsidies.

The next chart shows the proposed post-renovation RD rents for Green Hills Apartments. The proposed rents are at the maximum allowable rates under RD and reported in 2018 dollars. Rents above LIHTC rates are paid by RD.

	<b><u>Gross Rent</u></b>
One-Bedroom	\$650
Two-Bedroom	\$685
Two-Bedroom	\$685

The 4 40% units have lower rents compared with the current rates. The two’s have higher rents at \$64 to \$137.

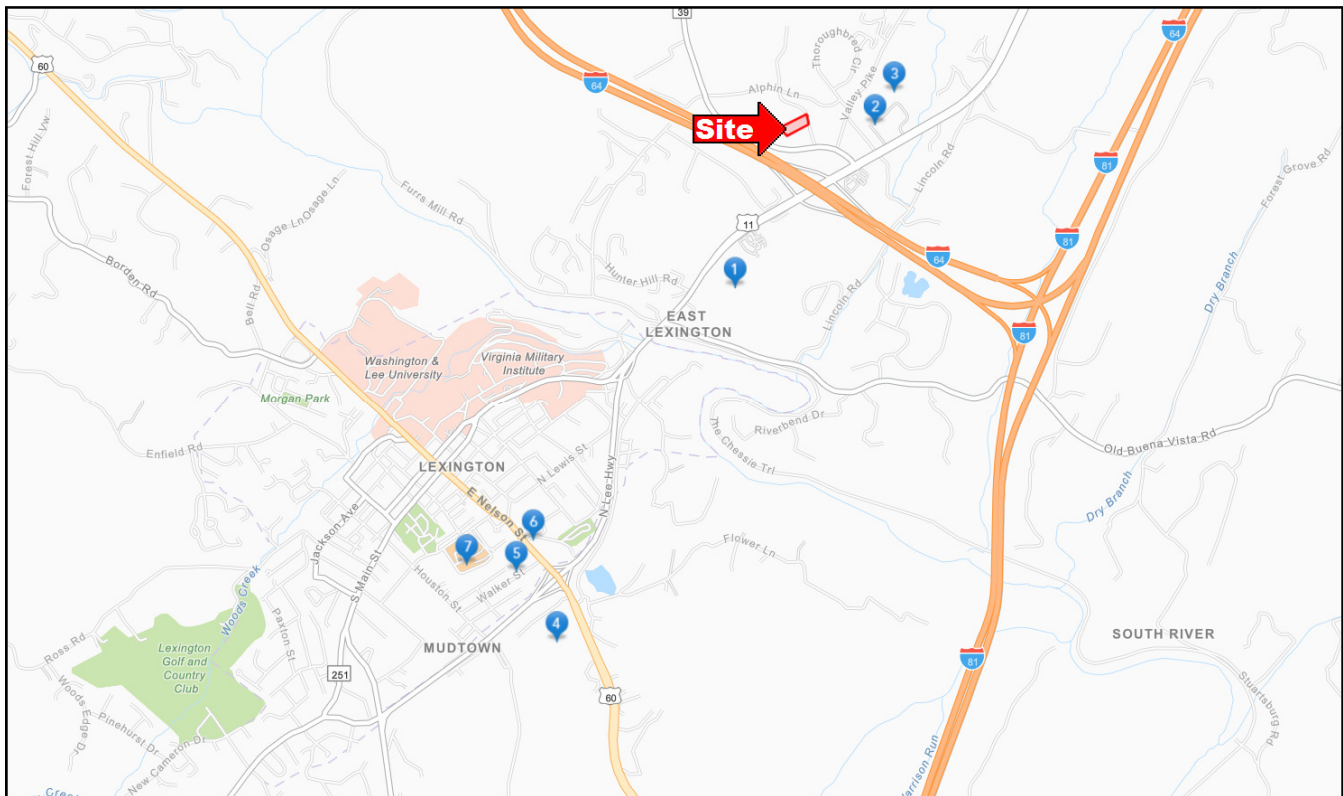
**Site Setting**

Map D shows the site setting of Green Hills Apartments, within Rockbridge County and along the U.S. Route 11 corridor north of Lexington. This is a suburban highway-oriented area. It is the location of an abundance of hotels and some highway commercial uses. It is a setting that has supported apartment renters for over 40 years. As shown, Green Hills Apartments is located near Downtown Lexington, Washington & Lee University and Virginia Military Institute.

Several shopping centers are located close by, including the Peebles-anchored College Square (Note 1), the Walmart Supercenter-anchored Lexington Crossing (Note 2) and free-standing Lowe’s Home Improvement, (Note 3) that were previously identified. Two additional shopping centers also serve the Lexington area, both of which are located at the intersection of Route 60 and Route 11. One is the 176,680±± square foot Stonewall Square (Note 4), which was built in 1990 and is anchored by Food Lion and Ollie’s Bargain Outlet. The second is Rockbridge Square (Note 5), which is anchored by Schewels and

Dollar General. Across the street from Rockbridge Square is a free-standing Kroger grocery store (Note 6).

Map D also shows the site's proximity to Carilion Stonewall Jackson Hospital (Note 7), on the south side of Spotswood Drive, near the intersection with U.S. Route 60, East Nelson Street. CSJH is a 25-bed critical access hospital offering inpatient and outpatient care as well as outreach activities. The hospital also offers an extended care recovery program. On site are 24/7 emergency services, imaging and lab diagnostics, rehabilitation, Fit for Life and other outpatient services. The hospital's imaging area includes nuclear medicine, digital mammography, 64-slice CT, bone densitometry and ultrasound. Carilion Clinic general surgery physicians are on staff, as are specialty physicians for Cardiology, Gastroenterology, Gynecology and Orthopaedics. Specialty physician offices are located near the main lobby. The hospital is the third largest employer in Lexington.



Map D - Site Setting

There is employment nearby and access to the area's primary commercial areas is good. However, most current residents are not employed.

### **Economic Overview Analysis**

This part of Section I presents the Economic Overview of the Rockbridge County marketplace. Data presented in this analysis include both cities that are located within the County and other incorporated and non-incorporated communities in the County. The Economic Overview Analysis will show at-place job growth and employment trends. While these are not directly applicable to the Subject proposal, as few residents at Green Hills Apartments work, they show the level of economic stability that exists in Rockbridge County that supports new investments, of the type planned.

### **At-Place Employment**

As shown in Table 2, the market area (Rockbridge County) contains just over 13,100 at-place jobs as of year-end 2017. 2018 data are not yet available and will not be released until the summer of 2019. The current employment total is 1,090± below the peak year of 2008, prior to the recession. The market area's at-place job totals, the number of jobs within the County, decreased to by 1,530± to 12,740± by 2014. Net job growth began to increase in 2015. For the past three years, at-place jobs have increased, albeit slowly. Approximately 440 jobs were added during the past three-year period, with 120± jobs added in 2017.

Because the market area economy is small with few employers, there are considerable non-disclosure (ND) issues in Table 2. The annual totals are correct, but employment data are not made available by the Bureau of Labor Statistics (BLS) for many employment sectors that may show employment data related to a private or single business.

**Table 2: Trends in Average At-Place Employment, Rockbridge County-Lexington City-Buena Vista City, Virginia, 2008-2017**

<b>Industry</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Agr./ Forestry/ Fishing	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Mining	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Utilities	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Construction	ND	ND	ND	ND	473	453	443	561	447	447
Manufacturing	ND	ND	ND	ND	ND	1,872	1,834	1,770	ND	ND
Wholesale Trade	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Retail Trade	1,655	1,560	1,521	1,526	1,563	1,551	1,534	1,532	1,652	1,725
Transport. & Warehousing	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Information	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Finance/Insurance	229	247	245	240	236	224	210	214	228	229
Real Estate	124	119	106	ND	ND	ND	ND	84	78	80
Professional/Tech. Services	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Management of Companies	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Admin./Waste Services	246	219	224	302	ND	ND	ND	ND	ND	ND
Educational Services	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Health Care	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Arts/Enter./Recreation	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Accommodations/Food	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Other Services	ND	ND	ND	404	433	419	388	421	453	ND
Local Government	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
State Government	ND	ND	ND	ND	ND	ND	ND	ND	ND	ND
Federal Government	<u>109</u>	<u>107</u>	<u>114</u>	<u>102</u>	<u>97</u>	<u>92</u>	<u>92</u>	<u>94</u>	<u>97</u>	<u>86</u>
<b>Total</b>	<b>14,271</b>	<b>13,582</b>	<b>13,112</b>	<b>13,052</b>	<b>13,079</b>	<b>12,909</b>	<b>12,744</b>	<b>13,002</b>	<b>13,065</b>	<b>13,185</b>

Notes: ND = Data do not meet BLS or State agency disclosure standards.

Source: United States Department of Labor, Bureau of Labor Statistics

Retail Trade jobs and Manufacturing jobs are two of the largest area employment industries. Retail employment accounts for approximately 13.1 percent of total employment in the county, a number that has grown by 70± over the past decade. Manufacturing employment likely accounts for a similar percentage of market area jobs. State Government and Educational Services employment are also likely to be plentiful, with two private and one public institutes of higher education. Except for jobs at the area universities, as described below, much of the market area employment is made up of hourly wage jobs.

For 2017, total at-place jobs are broken down by jurisdiction, as follows:

- Rockbridge County - 6,095
- Lexington City - 4,599
- Buena Vista - 2,491

## Employment

Employment refers to the number of persons in the market area who are employed. At-place jobs refer to actual jobs physically located in the market area. Table 3 shows employment, which is considerably larger than at-place jobs, meaning that a large percentage of residents commute outside of the market area for work, most likely to Roanoke, Lynchburg and Staunton/Waynesboro.

As of 2017, the market area has 15,460± employed residents. This total is a decrease of 1,110± from the peak total of 16,570 in 2008 and prior to the recession. As with at-place jobs, employment began to “rebound” in 2014 with continued, albeit slow, growth since that time. Total employment has grown by 500± during that period, with employment growing by 250± in 2017.

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Percent Unemployed</u>
2008	17,377	16,571	806	4.9%
2009	17,599	16,312	1,287	7.9%
2010	16,690	15,314	1,376	9.0%
2011	16,543	15,290	1,253	8.2%
2012	16,315	15,201	1,114	7.3%
2013	15,981	14,959	1,022	6.8%
2014	15,878	14,959	919	6.1%
2015	15,866	15,059	807	5.4%
2016	15,980	15,211	769	5.1%
2017	16,169	15,463	706	4.6%
<b>Net Change</b>	<b>-1,208</b>	<b>-1,108</b>	<b>-100</b>	<b>-0.3%</b>

Source: United States Department of Labor, Bureau of Labor Statistics

The market area’s unemployment rate is low, at 4.6 percent, its lowest rate in over a decade. The unemployment rate was 4.9 percent in 2008, but climbed to 9.0 percent in 2010 as a result of the recession. The unemployment rate has decreased steadily since that time.



## Economic Development Activity

Following is a brief description of current economic development in the market area, as a prelude to likely future job and employment growth.

- **Rockbridge Area Health Center**. Ground was broken in May, 2018 on the expansion of this medical center. The expansion will add an additional 13,000± square feet to the current 9,000± square foot building on Northridge Lane off U.S. 11. The renovation will increase the number of patient exam rooms, dental operatory, counseling rooms and patient education spaces that will help serve the ballooning number of visitors to the health center. The health center treats both insured and uninsured patients in Rockbridge County. The health center will continue to operate during the 17 months of construction and administrative offices will be housed temporarily in trailers behind the current building. The addition is set to be complete in June, 2019.
- **Kendal at Lexington**. Ground was broken in February, 2018 on the expansion phase of this CCRC that will add more independent living cottages and to enhance person-centered care at its skilled care nursing facility. The project will bring 30 additional cottages to Sunrise Ridge. Also, during the next two years, Kendal at Lexington's Borden Health Center and Webster Assisted Living centered will be renovated.
- **Devils Backbone Brewing Company** is recently completed construction on a 50,000± square foot packaging and shipping/receiving facility, upgrading equipment, including the addition of a barrel aging system. Devils Backbone is also tripling the size of the existing taproom, which currently can serve about 50 people.
- **Mohawk Industries**, a global manufacturer of residential and commercial flooring products, announced in January, 2018 that it would expand its Glasgow manufacturing operation with a new extrusion compounding line. The project will create 15 new jobs.
- **Columbia Gas of Virginia** announced in November, 2018 that it had purchased six acres of land and become the first tenant in Buena Vista's long-vacant industrial park. Columbia Gas will build a mobile operating deployment facility, where it can deploy both workers and equipment to regional work sites. About a dozen people will work at the facility, which is expected to open in December, 2019.
- **NIBCO**, a valve and flow control device manufacturer, announced in November, 2018 that it had purchased a former auto parts plant on Green Forest Avenue in Buena Vista. The 173,000± square foot facility was a former plant of Ohio-based

auto parts manufacturer Dana Corp., which shuttered in 2005. NIBCO plans to employ between 30 and 40 people at its new facility.

These job announcements total approximately 140± jobs, plus any construction jobs. They are in addition to job growth at the three area universities, to be briefly described below.

### **Area Universities**

The market area has three universities that generate considerable economic growth and stability for the region that may not be fully evident in the economic data presented above. Following is a brief description of the universities and the economic impacts on the community.

- **Southern Virginia University** a private liberal arts college located in Buena Vista. The university enrolls approximately 980 students as of the Fall, 2018 semester, which represents a 30.2 percent growth (230± students) since 2010. It is defined as a residential college, but one that continues to expand. The school expects enrollment to grow by 40 percent by 2022 and eventually grow to 1,800 students. Enrollment growth will generate employment growth.

Construction was most recently completed in October, 2017 on the 10,000-seat Knight Stadium that serves Southern Virginia's athletics teams

- **Virginia Military Institute (VMI)**, located in Lexington, is the country's first state-supported military college. Enrollment in the Fall, 2018 semester totaled 1,685, an increase of 120 over the Fall, 2010 enrollment total. There are 550 employees at the campus that is being upgraded based on a new master plan, with a \$40+ million goal for new on-campus facilities. Some of the large on-campus development projects include:
  - Expansion of Crozet Hall
  - Upgrades to Cameron Hall
  - Fixing problems with Clark King Pool
  - Renovations to Old and New Barracks

- **Washington & Lee University** a private liberal arts university in Lexington. 2,220± students are currently enrolled, which is an increase of 100± over the 2010 enrollment count. Enrollment is not expected to grow in the near- or mid-term. The University is currently constructing the

Richard L. Duchossois Athletic and Recreation Center, as well as renovate the adjoining Doremus Gym, and plans to demolish the Warner Center.

### **Summary**

The market area has been a slow growth marketplace in recent years, but the economy has expanded since the recession of the late-2000's. The community has three universities that generate positive local economic stability and growth impacts. Overall, the market area is "stable" and is expected to continue to expand with new jobs.

A key point in the economic data presented above is that employment in the market area is now expanding. Employment is a better indication than at-place jobs for housing unit demand as it refers to where people live.

## **Section II Affordable Apartment Analysis**

Section II is presented in two parts. It is the supply-demand analysis for the Subject proposal. The first part of Section II is the demographic analysis which solves for the number and growth of renter households who are eligible and can afford market rate rents for the market area, with the non-rent restricted RD rents nearly equal to the LIHTC allowable rents. Income and rent data are presented in constant 2018 dollars and the income categories under study are presented below.

The second part of the analysis is the competitive apartment market study. We identified 11 apartment properties to study. Most of these have rent restrictions; three are age-restricted. All multifamily apartment communities in the market area are included in the competitive analysis, except properties with 100 percent project-based Section 8 rents. These “competitive” properties are compared with Green Hills Apartments, “as is” and as renovated for both rents and occupancy to determine project feasibility.

### **Demographic Analysis**

#### **Population Trends and Projections**

The current market area population, as of 2018, and based on recent population estimates by Weldon Cooper Center for Public Service, totals 36,250±. The market area’s population was approximately 32,000 in 1990. It increased to 34,020± in 2000 and 36,000± in 2010. The current estimate shows slower growth compared with the past, partly due to the large negative impact of the recession of the late-2000’s. The population growth forecast to 2021 is also modest and will total 330±

The market area population is divided by the three jurisdictions. Rockbridge County has a larger population compared with the two local cities. Rockbridge County and Lexington are realizing some modest growth. The population in the City of Buena Vista is stable. Growth at Southern Virginia University, as well as from some employment expansions will bump up the population of Buena Vista slightly by 2021.

There is very little new housing development in the market area. Saddlebrook Ridge is an active community, but with a limited number of new homes being built at this time. A second small single-family community is being developed near Carilion Stonewall Jackson Hospital, but only a few homes are being added at this time. There are no active apartment developments at this time. Thus, population growth beyond 2019 is expected to be modest.

<b>Table 4: Trends and Projections of Population and Households by Tenure and Income, Green Hills Apartments Market Area, 1990-2021</b>					
(Constant 2018 Dollars)					
	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2018</b>	<b>2021</b>
Market Area Population	31,720	34,020	36,000	36,250	36,580
Rockbridge County	18,350	20,810	22,310	22,540	22,650
Lexington City	6,960	6,870	7,040	7,360	7,480
Buena Vista City	6,410	6,350	6,650	6,350	6,450
Group Quarters Population	2,770	2,760	3,140	4,090	4,100
Household Population	28,950	31,260	32,860	32,160	32,480
Persons Per Household	2.46	2.36	2.28	2.26	2.25
Households	11,780	13,270	14,400	14,230	14,440
Renter Households	3,460	3,650	4,340	4,610	4,790
Percent of Households	29.3%	27.5%	30.2%	32.4%	33.2%
<b>Target Market</b>					
50% of AMI (\$22,300-\$25,600)					
Total Households	140	190	280	340	380
Percent of Renter Households	4.0%	5.2%	6.4%	7.4%	8.0%
60% of AMI (\$27,400-\$30,800)					
Total Households	150	170	220	240	280
Percent of Renter Households	4.4%	4.7%	5.0%	5.3%	5.8%
Notes: 1/ Between 2010 and 2018, on-campus residence hall occupancy rose by 320± at Washington and Lee University, rose by 120± at Virginia Military Institute and rose by 510± at Southern Virginia University.					
Source: 1990, 2000 and 2010 U.S. Department of Commerce, Bureau of the Census; Weldon Cooper Center for Public Service; S. Patz and Associates, Inc.					

### **Group Quarters Population**

The market area does have a sizable Group Quarters population. Much of the Group Quarters population are college students in on-campus residence halls. The market area has three area universities. The Group Quarters population has increased with new dorm beds added at all

three universities. The subtraction of the Group Quarters population from total population generates Household Population, which is the basis for the analysis of new housing unit demand.

Household Population has grown at a small pace compared with total population. In 2018, the market area had 32,160 persons living in households. This is below the 2010 count, indicating that since 2010, net population growth was college enrollment.

### **Renter Households**

Approximately one-third of market area households are renters. The 32.4 percent shown in Table 3 is slightly below the national and state averages, though the percentage of renters has increased since 2000. A net growth of 180± renters is projected by 2021. Net growth of renters have occurred steadily since 1990, yet limited new apartment unit construction has been realized.

### **Renter Households by Income**

Green Hills Apartments will have four apartment units at rents below the current rate. These will be occupied by current residents who may not need rental assistance.

The number of renters with incomes for the 50% and 60% rents in the market area are presented in the table. The number of renters by income are reported. The market area has 340 renters in the target 50% income range in 2018. This total is expected to increase by 40 to 380 by 2021, based, in part, by expected employment growth.

The 60% income category contains 240 renters in 2018. An increase in this income category is also expected, based on enrollment growth, by 40.

In total, the market area will have 660 renters with incomes of \$22,300 to \$30,800. Only 70± renters at competitive apartment properties are in this rent category.

## Renter Household Size

In 2010, Census data showed that over 40 percent of renter households are single person. That is a “big jump” from the 27+percent in 2000.

<b><u>Trends in Renter Household Size, Green Hills Apartments Market Area, 2000-2010</u></b>				
	<b><u>2000</u></b>		<b><u>2010</u></b>	
	<b><u>#</u></b>	<b><u>%</u></b>	<b><u>#</u></b>	<b><u>%</u></b>
<b>Renter Households</b>	<b>3,650</b>	<b>100.0%</b>	<b>4,342</b>	<b>100.0%</b>
1-person household	1,432	27.6%	1,790	41.2%
2-person household	1,007	15.9%	1,183	27.2%
3-person household	581	10.5%	630	14.5%
4-person household	385	4.8%	430	9.9%
5-person household	177	1.3%	195	4.5%
6-person household	49	0.5%	73	1.7%
7-or-more-person household	19	39.2%	41	0.9%

Source: 2000 and 2010 U.S. Department of Commerce, Bureau of the Census

## Competitive Apartment Analysis

We identified 11 apartment properties in the market area. All but one are rent subsidized with RD and/or LIHTC rents. Willow Springs, located adjacent to Green Hills Apartments, is the only area apartment property without rent subsidies, but 14 of the 96 units there have project-based vouchers. Three of the 11 apartment properties are age-restricted. These were included in the analysis, as Green Hills Apartments has a considerable number of seniors. All senior properties are fully rent-restricted. All of these apartment properties, except Willow Springs, would attract the same type of tenants as rent at Green Hills Apartments.

**Table 5: Rent Program of Competitive Apartments, Green Hills Apartments Market Area, February, 2019**

<u>Family</u>	<u>Program</u>
Green Hills	RD
Hillcrest Manor	LIHTC
Hunt Ridge	LIHTC
Lakeside Manor	LIHTC
Skyline Manor	LIHTC
Treemont Apartments	LIHTC
Village at Rockbridge	LIHTC
Willow Springs	Market Rate 1/
<b><u>Age-Restricted</u></b>	
Lexington House	HUD
Windermere Apartments	RD
Vista Apartments	RD
Skyline Manor	RD

Notes: 1/ 14 units with project-based vouchers.  
Source: S. Patz & Associates, Inc.

**Apartment Community Characteristics**

Table 5 lists the competitive apartment properties and shows the date built, total units and vacant units. Hunt Ridge Apartments, located near Green Hills Apartments, is the newest area apartment property, being built in 2007. It has 70 apartment units and was financed by VHDA with LIHTC’s. It has rents at 60 percent of AMI and is the highest rent apartment property in the market area. Approximately 40 percent of the residents at Hunt Ridge are voucher holders.

Windermere Apartments, located within the City of Lexington, was built in 1994. It is a rent-restricted and age-restricted property with all one-bedroom units. Skyline Manor, in Glasgow, was built in 1996 with 32 units. It too is an age-restricted property. Skyline Manor received tax credit financing for renovation in 2018. Renovation has not yet started; management has one or two one-bedroom units available.

All of the remaining nine area apartment properties were built between the early-1970’s and late1980’s, and are therefore over 30 years old. Of these, only Willow Springs has some market rent apartment units. A handful of units at this complex are offline for



renovations. There is minimal diversity in these properties. Most are small or modest in size, with few or no community amenities. Hunt Ridge is the only “better” area apartment complex, but it has a large percentage of income-restricted apartment units. Lakeside Manor is located in Raphine and offers some amenities. It was renovated in 2012 and generates higher rents.

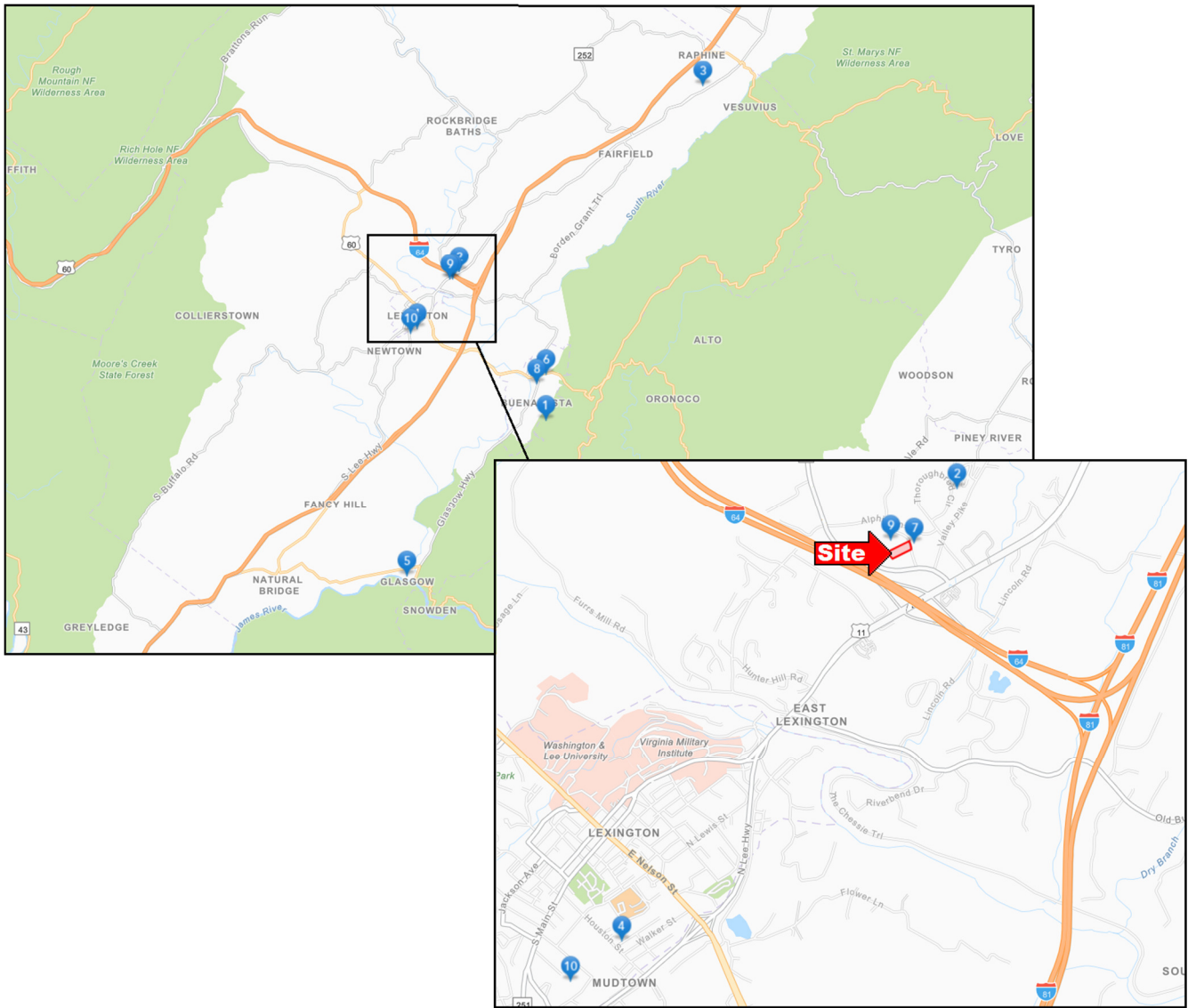
Overall the market area has a vacancy rate of only 3.7 percent, with six of the comps having one or no vacant units. About 60 percent of the vacant units are at Willow Springs; these are offline and being renovated. Management there reports that most of the prospective tenants for these units will be at lower incomes and will require rent subsidies. Management has a waiting list for these units. **Excluding these units, the market area vacancy rate is 1.5 percent.** Green Hills Apartments is fully-occupied with a four-person wait list.

Of note is that while some apartment properties show full occupancy, currently, some are advertising for near-term move outs.

Overall, the competitive apartment market has limited diversity. All four age-restricted apartment communities are fully rent restricted with RD and Section 8 rents. The family properties have a mix of residents who pay “market rents” and rent-restricted rates.

<b>Table 6: <u>Characteristics of Competitive Apartments,</u> <u>Green Hills Apartments Market Area, February, 2019</u></b>				
	<b><u>Map E</u></b>	<b><u>Year</u></b>	<b><u>Total</u></b>	<b><u>Vacant</u></b>
	<b><u>Key</u></b>	<b><u>Built</u></b>	<b><u>Units</u></b>	<b><u>Units</u></b>
Green Hills Apartments	--	1985	40	0 1/
Hillcrest Manor	1	1988/09	40	4
Hunt Ridge	2	2007	70	2
Lakeside Manor	3	1990/12	23	0
Lexington House	4	1976/14	78	0
Skyline Manor	5	1996	32	2
Treemont Apartments	6	1993/11	60	0
Village of Rockbridge	7	1978/16	64	1
Vista Apartments	8	1980	66	1
Willow Springs	9	1976/18	96	14 3/
Windermere Apartments	10	1994	<u>75</u>	<u>0</u>
<b>Total 2/</b>			<b>644</b>	<b>24</b>
Notes: 1/ Wait list (four people).				
2/ Excludes Mountain Terrace Apartments. No contact available for this Section 8 community.				
3/ Units offline for renovations.				
Source: S. Patz & Associates, Inc.				

Map E shows the locations of each of the competitive apartments. Three “comps” plus Green Hills Apartments, are located along Maury River Road, just north of I-64. Two properties are located in the center of Lexington. Three apartments – Hillcrest Manor, Treemont Apartments and Vista Apartments – are in or near Buena Vista. Skyline Manor is in Glasgow and Lakeside Manor is located at the far north part of Rockbridge County in Raphine.



**Map E - Locations of Competitive Apartments**

Following are photos of these properties, which show the following:

- **Hunt Ridge** has a modern design, but with only two stories. The site has room for expansion. This is the best area apartment property.
- **Tremont** Apartments was fully renovated in 2011/12. The exteriors are new and all interiors were renovated, to the same degree as planned for Green Hills Apartments. This is a project-based Section 8 property.
- **Village of Rockbridge, Willow Springs Hillcrest Manor & Lakeside Manor** are two-story gardens with 1970's designs. These are all comparable with Green Hills Apartments. Lakeside Manor has been renovated and generates market rents.

- **Vista Apartments** is a three-story elevator building that was built in 1979. It has a more contemporary design compared with some of the older buildings. It is project-based Section 8 for seniors.
- **Windermere** has a unique design in the market area, with exterior corridors. It has all one-bedroom units for seniors.
- **Skyline Manor**, located in Glasgow, is a converted school building for seniors. LIHTC renovations will start by Spring, 2019 or shortly after.



**Hillcrest Manor**



**Hunt Ridge**



**Lakeside Manor**



**Lexington House**



**Skyline Manor**



**Treemont Apartments**



**Village at Rockbridge**



**Vista Apartments**



**Willow Spring**



**Windermere Apartments**

## Net Rent Analyses

Table 7 shows the basic net rents at four of the 11 comps. These properties have residents who pay base rents. Rents include cold water, sewage and trash collection and represent base rents without rent subsidies. As shown, the market area average rent for the one-bedroom units is \$590, compared with an average of \$670 in rent for the two-bedrooms and \$750 in rent for the three-bedroom units. The listed rates are being paid for some residents at these properties.

Only 150± residents of the 640± apartment units (25± percent) pay these rents. The remaining apartment units are occupied by tenants with considerable rent subsidies.

The four “4%” one-bedroom rental units proposed for Green Hills Apartments are well below market. The 50% two-bedroom net rent at \$558 is well below the market area average by \$110. Hillcrest Manor, Hunt Ridge, Lakeside Manor, and Willow Springs have higher two-bedroom rents compared with the 50% of AMI rents at Green Hills Apartments. The 60% two-bedroom rents at Green Hills Apartments are basically at the market area average, but below rents at Lakeside Manor. Lakeside Manor is located in Raphine.

<b>Table 7: <u>Base Rental Rates 1/ at Competitive Apartments, Green Hills Apartments Market Area, February, 2019</u></b>			
	<b><u>One-Bedroom</u></b>	<b><u>Two-Bedroom</u></b>	<b><u>Three-Bedroom</u></b>
Hillcrest Manor	\$525	\$620	--
Hunt Ridge	\$575	\$665	\$755
Lakeside Manor	\$646	\$742	--
Willow Springs	\$610	\$660	\$740
<b>Average</b>	<b>(\$590)</b>	<b>(\$670)</b>	<b>(\$750)</b>
Notes: 1/ Include cold water, sewage and trash collection. Source: S. Patz & Associates, Inc.			

## Unit Sizes

Unit sizes for the properties where data are available are shown in Table 8. The units at Green Hills Apartments are smaller than most of the comps. One-bedroom units

are smaller than the market area average by 72 square feet while two-bedroom units are smaller than the market area average by 177 square feet. These smaller units, however, have not created any leasing issues in the past.

<b>Table 8: <u>Unit Sizes at Competitive Apartments,</u> <u>Green Hills Apartments Market Area, February, 2019</u></b>		
	<b><u>One-Bedroom</u></b>	<b><u>Two-Bedroom</u></b>
Green Hills Apartments	576	712
Hillcrest Manor	599	728
Hunt Ridge	899	1,115
Lexington House	572-578	--
Skyline Manor	442-625	--
Vista Apartments	750	--
Willow Springs	700	1,000
Windermere Apartments	550	--
<b>Average</b>	<b>648</b>	<b>889</b>
Source: S. Patz & Associates, Inc.		

### **Apartment Unit Mix**

The following table shows the apartment unit mix at the competitive apartments where management made the data available. Most communities, including Green Hills Apartments, have only one- and two-bedroom units. Lexington House, Skyline Manor, Vista Apartments and Windermere Apartments offer only one-bedroom units. The high percentage of one-bedroom units (64.4 percent) at competitive apartment properties is due to four of these comps being senior properties. The unit mix at Green Hills Apartments is “at market” for general occupancy apartments.

**Table 9: Unit Mix at Competitive Apartments,  
Green Hills Apartments Market Area, February, 2019**

	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>	<u>Total</u>
Green Hills Apartments	8	32	0	40
Hillcrest Manor	10	30	0	40
Hunt Ridge	8	42	20	70
Lakeside Manor	13	10	0	23
Lexington House	78	0	0	78
Skyline Manor	32	0	0	32
Vista Apartments	66	0	0	66
Willow Springs	24	56	16	96
Windermere Apartments	75	0	0	75
<b>Total</b>	<b>314</b>	<b>170</b>	<b>36</b>	<b>520</b>
<b>Percent of Total</b>	<b>60.4%</b>	<b>32.7%</b>	<b>6.9%</b>	<b>100.0%</b>

Source: S. Patz & Associates, Inc.



### **Section III Conclusions**

This market study is an update of a study completed last year. Over that year, there has been some employment/job growth in the defined market area, plus announcements for new job growth in the post-2019 period.

The competitive apartment market has remained steady, with near full occupancy. Management at Willow Springs is renovating units and Skyline Manor, like Green Hills Apartments, received tax credit financing for renovation in 2018. Renovation is planned to start at Skyline Manor shortly.

HUD has increased maximum allowable tax credit rents in Rockbridge County over the past year, indicating an improving local economy. In spite of that, there have been no new pipeline apartment properties in the market area.

Following is the demand analysis for the proposed renovation at the proposed rents. Our analysis shows that the proposed post-renovation rents are at market and are comparable with rents at the few better apartment properties in the market area.

Current residents are expected to remain at Green Hills Apartments, as few options exist in the market area and virtually no vacancy exists. Green Hills Apartments will continue to have "RD" rental assistance. The Demand Chart to follow will show full market support for the 40 renovated units at Green Hills Apartments, at the proposed LIHTC rents, and without rental assistance.

#### **Demand Chart Analysis**

The Demand Chart is separated into two income categories, as shown. Both categories have a projected net growth of 40 households. For the "rent overburdened" category, we included 20 households at the below 50% range. This small "add on" is accounted for by the small waiting lists at area apartment properties (based on interviews with management).

We know that the market area has substantial substandard housing, but we have no up-to-date numbers. We estimate a small number, because the waiting lists at area apartment properties are small. This add-on is only for the under 50% rent category.

There are virtually no available units that are ready for occupancy. Thus, the total demand essentially equals supply.

Given the fact that the market area vacancy rate is near zero, and that management at Green Hills Apartments expects no turnover, the apartment complex should remain full during and after renovation.

<b><u>Demand Table</u></b> <b>(2018-2021)</b>				
Income Restrictions		<b><u>Up to 40%</u></b> <b><u>&amp; 50%</u></b>	<b><u>Up to 60%</u></b>	<b><u>Combined</u></b> <b><u>Total</u></b>
New Rental Household & Growth		40	40	80
PLUS				
Existing Households - Over-Burdened (waiting list)		20	0	20
PLUS				
Existing Households-Substandard Housing (estimate)		10	0	10
PLUS				
Elderly Households-Likely to Convert to Rental Housing		0	0	0
PLUS				
Existing Qualifying Tenants – to Remain After Renovation		40	--	40
MINUS				
<b>Supply</b> (includes directly comparable vacant units completed or in pipeline in PMA)		0	0	0
<i>EQUALS</i>				
<b>NET DEMAND</b>		110	40	150
MINUS				
<b>ABSORPTION PERIOD 1/</b> (see write-up above)		0	--	0

The expected absorption period is zero, as all units are expected to be rented prior to the completed renovation.

The “capture rate” is zero as no units are expected to be available for rent.

**VHDA Capture Rate**

	<b><u>Number</u></b>
Project Wide Capture Rate - LIHTC Units	0
Project Wide Capture Rate - Market Units (80% units)	--
Project Wide Capture Rate - All Units	0
Project Wide Absorption Period (in months)	0 1/

Note: 1/ Units expected to retain all resident or prelease new residents.

I affirm the following:

1. I have made a physical inspection of the site and market area.
2. The appropriate information has been used in the comprehensive evaluation of the need and demand for the proposed rental units.
3. To the best of my knowledge, the market can support the demand shown in this study. I understand that any misrepresentation in this statement may result in the denial of participation in the Low Income Housing Tax Credit Program in Virginia as administered by the Virginia Housing Development Authority.
4. Neither I nor anyone at my firm has any interest in the proposed development or relationship with the ownership entity.
5. Neither I nor anyone at my firm nor anyone acting on behalf of my firm in connection with the preparation of this report has communicated to others that my firm is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA.
6. Compensation for my services is not contingent upon this development receiving a LIHTC reservation or allocation.



March 1, 2019

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Market Analyst

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Date