

Market Analysis
Rivermont School Apartments
Covington, Virginia

Prepared for:

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March, 2022

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March 7, 2022

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Sam,

Attached is our full market report for the proposed adaptive reuse of the former Rivermont School building. While the Alleghany Highlands has had limited growth in recent years, there are several new business expansions in a marketplace with a pent-up demand for new housing. No new apartments have been built in the market area in two decades.

Once built, Rivermont School Apartments would be the most attractive apartment community in the region. The attached market report is positive in terms of demand and the development proposal.

Sincerely,

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Section I Introduction

Following is the detailed full narrative market study for the proposed 49-unit Rivermont School Apartments, an adaptive-reuse of a former school building. This will be a fully-affordable apartment complex that consists of a rehabbed historic school building with 17 apartment units and an adjacent new construction elevator-served apartment building with 32 apartment units. Construction is expected to begin in mid-2023 on this complex located at the northeastern intersection of N. Rockbridge Avenue and E. McAllister Street on the north side of the City of Covington, Virginia and less than one mile east of the expansive WestRock paper mill, the largest employer in the region. Once built, Rivermont School Apartments will have rent and income restrictions, but no age restrictions. Although it will be a general occupancy complex, Rivermont School Apartments will be an elevator-served community that is likely to attract area seniors.

Rivermont School Apartments is designed for low- and moderate-income families and proposed to be financed with 9% Low-Income Housing Tax Credit (LIHTC) through Virginia Housing. To follow the market study guidelines of Virginia Housing, the report to follow is presented in three sections. The first section is the Introduction, which provides a detailed analysis of the study site and its setting in the City of Covington. Included in the site description is an analysis of adjacent land uses, particularly commercial and public facilities that are needed to serve new resident population.

The site development plan is also presented, which describes the number and types of apartment units being planned at Rivermont School Apartments. This analysis studies the types of amenities and building features to be built. A key to the description of the development is the identification of the target market for the apartment building, with particular emphasis of how the proposal meets the HUD income guidelines for LIHTC apartment properties in the City of Covington.

Section I has a second subsection, an economic overview of the market area economy. The key factors studied in this subsection are at-place jobs and employment growth, as these two economic factors are the best determination of the region's economic stability. Additionally, at-place jobs and employment growth are the basis for determining population and household

growth, including the type of housing under study. The economic overview includes trends on at-place jobs and employment, but also presents data on new development proposals that are expected to generate net job growth.

The second section is the supply/demand analysis for new affordable housing. First presented is a demographic analysis of a market area defined for Rivermont School Apartments. The demographic analysis “solves” for the number of market area households earning 40% of AMI (\$16,600 to \$25,360), 50% of AMI (\$21,360 to \$31,700) and 60% of AMI (\$24,000 to \$38,040). These income categories are based on the proposed rents, as will be described below. The demographic analysis is studied to a forecast date of 2023, as Rivermont School Apartments are likely to be started in early-2023 and open for occupancy in 2024.

The second part of Section II is the analysis of the competitive general occupancy apartment properties in the market area. We identified five properties that would be most competitive with Rivermont School Apartments, based on rent and income restrictions. Two of these “comps” have income restrictions in place, though both are now mature. The four market rate apartments under study are the only market rate apartments in the market area.

These apartment properties are studied for rents, occupancy, unit sizes, characteristics, apartment amenities and features. These project characteristics are compared with the Rivermont School Apartments proposal to determine the subject’s competitive position.

The third and final section of the report is the Conclusions, which is the net demand analysis for new affordable apartment units for families in the defined market area. Also within this section is the determination of the achievable rents for the proposed apartment units, expressed in constant 2022 dollars, and the lease-up period for the 49 proposed apartment units.

Rivermont School Apartments

Site Description

The study site consists of the vacant Rivermont School property located at 1011 North Rockbridge Avenue in the northern end of the City of Covington. The site is located less than one mile east of WestRock’s Covington paper mill and approximately one mile north of Downtown Covington. The nearby paper mill is the largest employer and economic generator in the region with a combined 1,150± employees, mixed between employees in Covington and in nearby Low Moor. Within this total are 1,030± hourly waged employees. The site location is shown in Map A below.



Map A - Site Location

Shown next is a northern aerial of the school property, which is rectangular in shape. The school building measures approximately 25,090± square feet and was constructed in 1938. The building is historic and will be listed on the National Register of Historic Places. The site is zoned R4, which allows apartment unit development as currently proposed. It is situated on a rectangular-shaped parcel that measures approximately 3.5 acres. The site has access to City water and sewer.

The vacant school building is situated on the southern side of the property, and is generally bounded by N Rockbridge Avenue to the west, N Pocahontas Avenue to the east and E McAllister Street to the south. On the east side of the property is a small surface parking lot that formerly served the school building. The northern portions of the parcel contain a playground, basketball court and baseball diamond. This recreational area will be the location of the new construction component of the Rivermont School Apartments proposal.

The aerial shows the site to be located in a residential setting. Mature single-family homes largely built between the 1940's and 1960's are located closest to the site. These homes are in varying states of upkeep. The aerial shows only one nearby non-residential developments, which is the expansive WestRock Covington paper mill, which will be described in greater detail below. Several support businesses are located adjacent to the paper mill that account for much of the City's employment. These include Rescar and Ingevity Carbon.



Northern Aerial

Shown next are photos of the Rivermont School site and its setting. As shown, the property is surrounded on all side by single-family homes in a quiet residential setting. The

school building is shown to be in good condition. The basketball court, playground and baseball diamond are shown to be well maintained.



Front View of School Building from N Rockbridge Avenue



Playground Area from E Sycamore Street



Rear of School Building from N Pocahontas Avenue



Playground Area from N Pocahontas Avenue



Side of School Building from E McAllister Street

Shown next is a drone photograph of the school building and recreation areas. The photos shows that the school has multiple wings and a large central building. Each wing is accessed by sidewalks.



Drone Photograph of School Building



Drone Photograph of Recreation Area

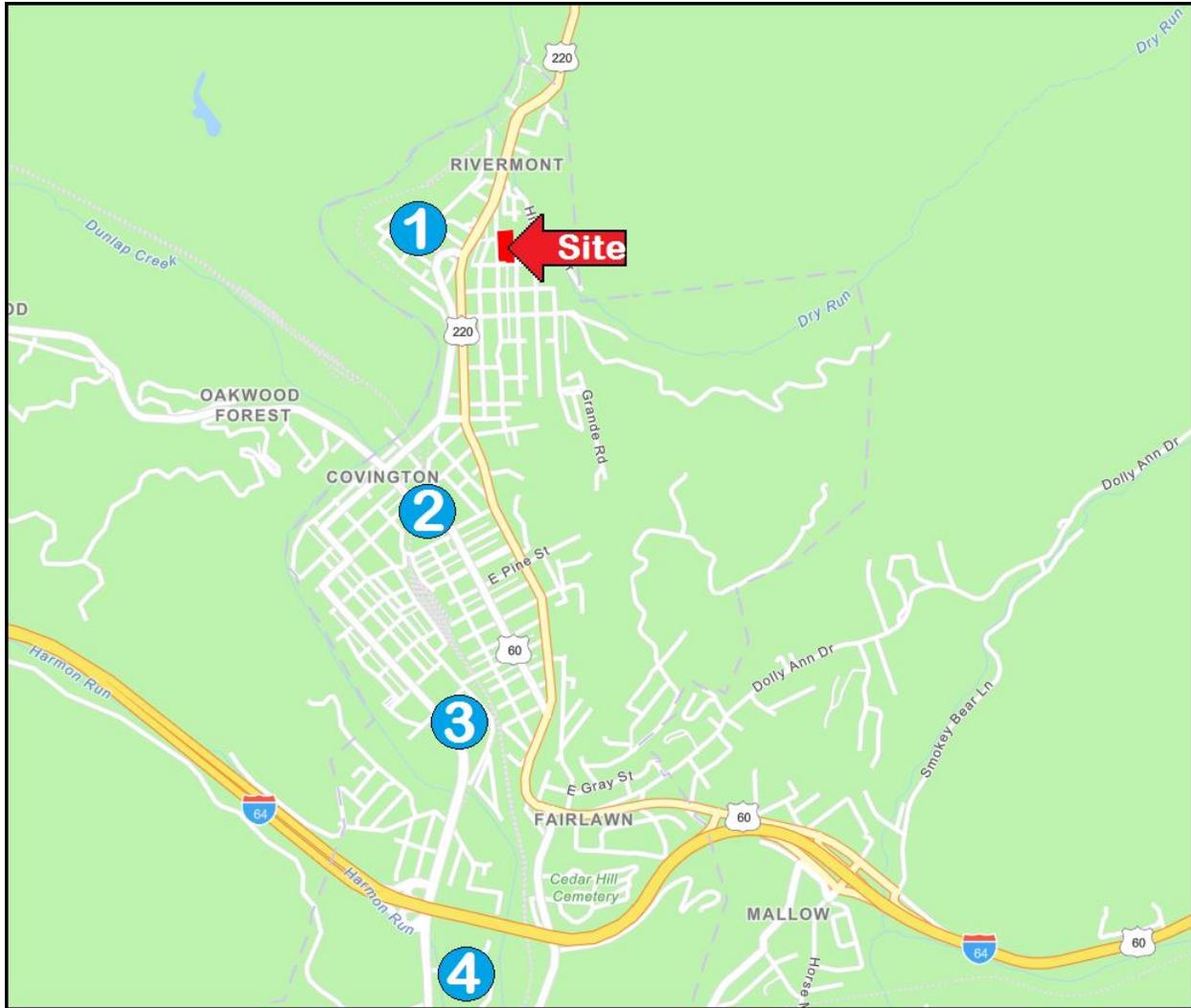
Site Setting

Map B shows the site setting of the proposed Rivermont School Apartments at the northeastern edge of the City of Covington. All of the adjacent roadways access the nearby single-family homes that surround the property. Several of these streets, including N. Rockbridge

Avenue and E. Cedar Street, access U.S. Route 220 to the west. This is a major north-south state highway that extends from the North Carolina state line through Roanoke to the West Virginia state line. Within Covington, the roadway accesses the nearby WestRock paper mill (Note 1), to be described in greater detail below.

U.S. Route 220 also accesses Downtown Covington (Note 2), which is the second largest employment cluster in the City and includes government offices, some retailers and restaurants. Map B also shows that U.S. Route 220 has a full interchange with I-64 approximately four miles south of the study site. I-64 quickly accesses other employment clusters in the Alleghany Highlands, most notably Low Moor (8.5 miles east) and Clifton Forge and (12.1 miles east).

Also shown in Map B is the site's close proximity to most of the larger retailers in the region. These include the Food Lion-anchored Alleghany Square Shopping Center (Note 3) and the Walmart-anchored Riverbend Shopping Center (Note 4).



Map B - Site Setting

Following are brief descriptions of the public and commercial facilities that will serve the resident population at Rivermont School Apartments.

Community Facilities. The nearest post office is located at 211 W. Main Street, approximately one mile southwest of the site. The closest fire station is located at 435 W Hawthorne Street, approximately 1.7 miles southwest of the study site. The Allegheny Highlands Regional Library is located 1.2 miles southwest of the study site at 406 W. Riverside Street.

Medical Care. The only hospital in the Allegheny Highlands is LewisGale Hospital Allegheny. It is located approximately 8.6 miles east of the study site at 1 Arh Lane in Low Moore.

The hospital opened in 1979 with 204 beds and underwent major renovations with a 43,330± square foot expansion in 1993. The hospital employs approximately 230 people and offers a full array of medical care.

Education. Covington City Public Schools and Alleghany County Public Schools agreed in September, 2020 to merge the two school systems into one, setting into motion a plan to combine the two divisions in 2022 and have students attend in 2023. Thus, it is not yet determined where future school-aged children at Rivermont School will attend school.

Parks and Recreation. Several parks are located near the Rivermont School Apartments site. These are briefly detailed below.

- **Fort Young Park** is located at 1600 South Conrad Street. It includes a basketball court, shelter, playground and tennis courts.
- **Main Street Park** is located at 708 West Main Street. This park has an athletic field, shelter, basketball court, playground and gazebo. The six-acre community park is bordered by the scenic Jackson River.
- **Reservoir Park** is located at 500 North Pocahontas Street. This park has a basketball court, playground and athletic field.

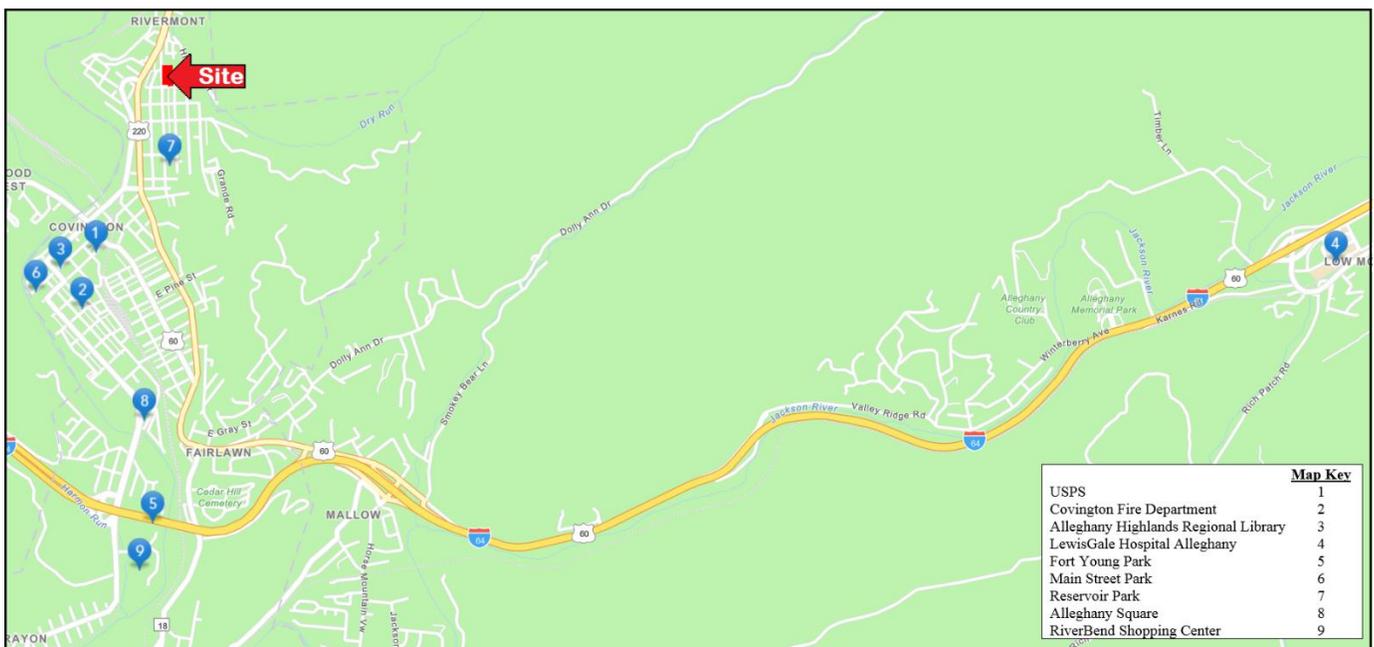
Religious Institutions. Several churches are located near the study site. These are listed in the chart below.

<u>Location of Nearby Churches</u>	
<u>Name</u>	<u>Address</u>
Mt Carmel United Methodist Church	1200 N Alleghany Ave
Mc Allister Memorial Church	900 N Alleghany Ave
First Church of the Nazarene	411 E Hemlock St
Covington Baptist Church	280 W Riverside St
Pine Street Baptist Church	347 E Pine St
Emmanuel Episcopal Church	138 N Maple Ave
Source: S. Patz & Associates, Inc.	

Shopping. As previously noted, most of the area shopping centers are located in the south side of Covington near I-64. These two shopping centers are detailed in the paragraphs below.

- **Allegheny Square.** This is a 122,290± square foot shopping center that is located at 1005 S. Craig Avenue and was constructed in 1986. It is anchored by a Food Lion grocery store. Smaller tenants include CVS, Family Dollar and Subway.
- **RiverBend Shopping Center** is located at 313 Thacker Avenue. It is anchored by a Walmart supercenter. Smaller tenants include Dollar Tree, Virginia ABC and Cato.

Map C shows the location of the community facilities that will serve Rivermont School Apartments. Most important is that the setting has a full array of basic services for area residents.



Map C - Location of Area Community and Public Facilities

Rivermont School Apartments Development Program

Table 1 provides a detailed description of the 49-unit Rivermont School Apartments proposal, with data on apartment unit sizes, unit mix and proposed rents. The complex will contain a mix of 17 adaptive-reuse units in the former Rivermont School building alongside 32 new construction units. Both buildings will have elevators. Within this total will be a mix of nine one-bedroom, 28 two-bedroom units and 12 three-bedroom units. All of the one-bedroom

bedroom units will be located in the school building, which will also contain eight two-bedroom units. The new construction building will contain 20 two-bedroom and 12 two-bedroom units.

The unit sizes proposed for the rehabbed school building will be slightly smaller than the new construction building, but relatively large for an elevator-served adaptive-reuse building. One-bedroom school building units will average 725 square feet while two-bedroom school building units will average 956 square feet. The two-bedroom units in the new construction building will average 885 square feet while the three-bedroom units in the new construction building will average 1,228 square feet. All one-bedroom units will have a full bathroom. The two-bedroom units in the school building will have 1.5 bathrooms. The two- and three-bedroom units in the new construction building will have two full bathrooms.

Table 1 shows a mix of income and rent restrictions. Five of the units will be restricted to 40% of AMI, while 20 units will be restricted to 50% of AMI and 24 units will be restricted to 60% of AMI. 20 of the units that will be income restricted to 60% of AMI will have rents at 50% of AMI levels. These rents will include cold water, sewage and trash collection.

Also shown in Table 1 are the proposed rents, which will include cold water, sewage and trash collection. The one-bedroom 40% units will have net rents of \$415. The remaining one-bedroom units will have net rents ranging between \$534 (50% rents) and \$600 (60% rents). The two-bedroom units with 40% rents will have net rents of \$499. The other two-bedroom units will rent for \$600 for the 50% units and for \$650 for the 60% units. The 40% three-bedroom unit is proposed to have a net rent of \$574. The remaining three-bedroom units will rent for between \$700 (50% rents) and \$775 (60% rents).

Table 1: Proposed Apartment Unit Characteristics, Rivermont School Apartments 1/

	<u>Units</u>	<u>Rent Limit</u>	<u>Income Limit</u>	<u>Size (Sq. Ft.)</u>	<u>Net Rent</u>	<u>Utility Allowance</u>	<u>Gross Rent</u>
<u>School Building</u>							
1BR/ 1BA	3	40% of AMI	40% of AMI	725	\$415	\$60	\$475
1BR/ 1BA	3	50% of AMI	50% of AMI	725	\$534	\$60	\$594
1BR/ 1BA	3	60% of AMI	60% of AMI	725	\$600	\$60	\$660
2BR/ 1.5BA	1	40% of AMI	40% of AMI	956	\$499	\$72	\$571
2BR/ 1.5BA	3	50% of AMI	50% of AMI	956	\$600	\$72	\$672
2BR/ 1.5BA	4	60% of AMI	60% of AMI	956	\$650	\$72	\$722
(Subtotal)	(17)						
<u>New Construction</u>							
2BR/ 2BA	10	50% of AMI	50% of AMI	885	\$600	\$72	\$672
2BR/ 2BA	10	60% of AMI	60% of AMI	885	\$650	\$72	\$722
3BR/ 2BA	1	40% of AMI	40% of AMI	1,228	\$574	\$85	\$659
3BR/ 2BA	4	50% of AMI	50% of AMI	1,228	\$700	\$85	\$785
3BR/ 2BA	7	60% of AMI	60% of AMI	1,228	\$775	\$85	\$860
(Subtotal)	(32)						
Total	49						
Notes: 1/ Rents to include cold water, sewage and trash collection.							
Source: Landmark Development							

HUD Maximum Allowable Rent Comparison

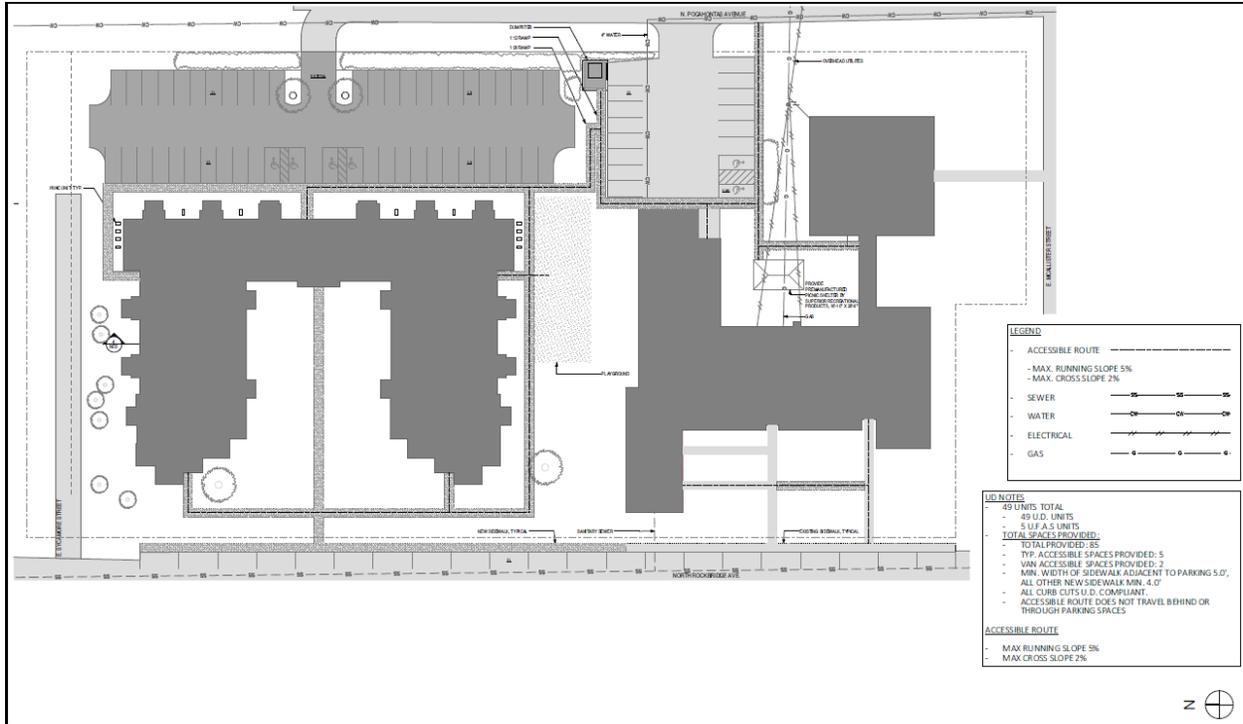
Table 2 shows gross rents for the apartment units with a utility allowance (UA) added to net rents for utility costs for the income-restricted units. The UA was calculated for the sponsor based on the unit sizes and energy efficient HVAC system and appliances. The apartment buildings will be energy efficient within the Virginia Housing guidelines. The gross rents shown are compared with the HUD maximum allowable gross rents for the Alleghany County-Clifton Forge City-Covington City, VA HUD Nonmet. The comparison shows that the proposed gross rents, based on the calculated UA, are at or below the maximum allowable rates.

Table 2: <u>Rent Comparison Chart, Rivermont School Apartments and HUD Maximum Allowable Rates</u>				
	<u>Rivermont School Apartments</u>			<u>HUD Maximum Allowable</u>
	<u>Net Rent</u>	<u>Utility Allowance</u>	<u>Gross Rent</u>	
<u>1BR/ 1BA</u>				
40% of AMI	\$415	\$60	\$475	\$475
50% of AMI	\$534	\$60	\$594	\$594
60% of AMI	\$600	\$60	\$660	\$713
<u>2BR/ 2BA</u>				
40% of AMI	\$499	\$72	\$571	\$571
50% of AMI	\$600	\$72	\$672	\$713
60% of AMI	\$650	\$72	\$722	\$856
<u>3BR/ 2BA</u>				
40% of AMI	\$574	\$85	\$659	\$659
50% of AMI	\$700	\$85	\$785	\$824
60% of AMI	\$775	\$85	\$860	\$989
Source: HUD and Landmark Property Management Company				

Site Plan and Building Design

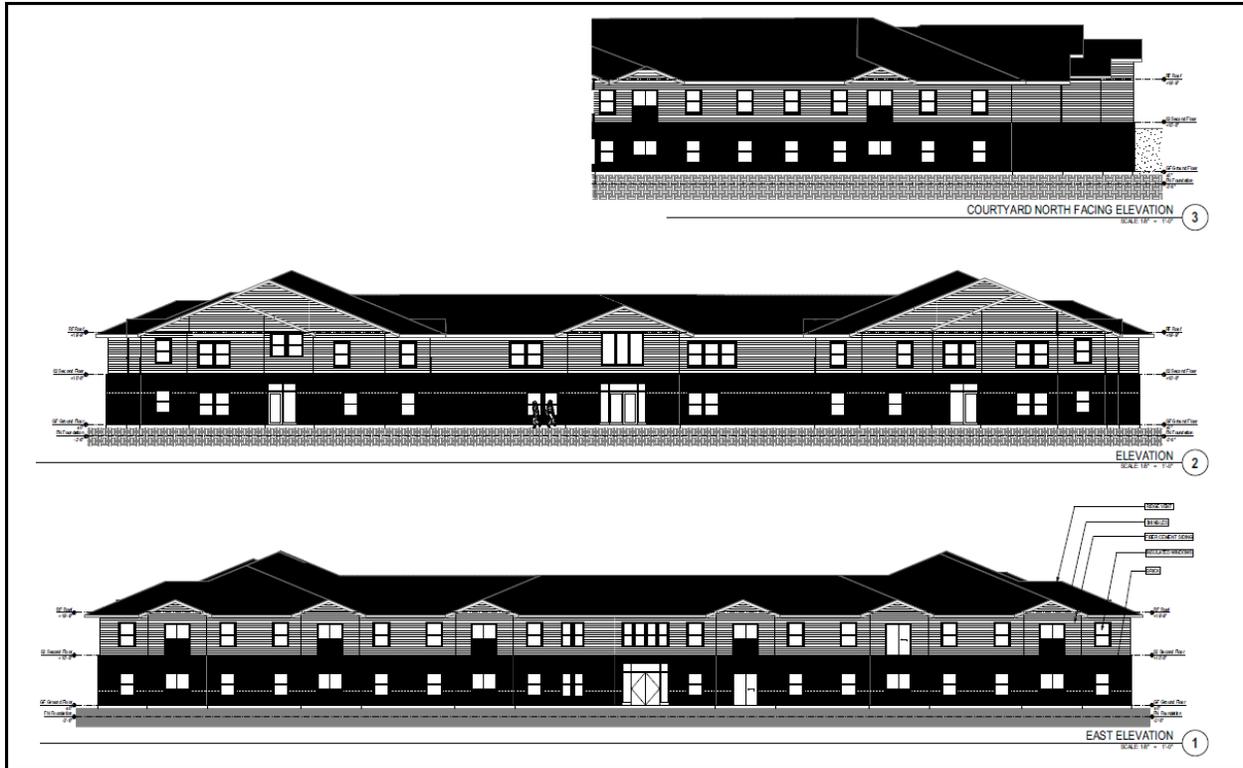
Shown next is the proposed site plan for Rivermont School Apartments. The site plan shows the elevator-served school building with 17 apartment units to be located on the south side of the property. The new construction elevator-served building will be built on the north side of the property with 32 apartment units.

Apart from a picnic area to the rear of the existing school building and an outdoor play area between the two buildings, the remainder of the site will be developed with surface parking spaces. This will include a total of 85 surface parking spaces to the rear of the new construction building, to the rear of the existing school building and including parallel parking spaces along N Rockbridge Avenue on the west side of the two buildings. The rear parking areas will be accessible from N Pocahontas Avenue. This equates to a parking ratio of 1.74 per apartment unit. Parking will not be an additional fee. The local roadways also permit street side parking at no cost.



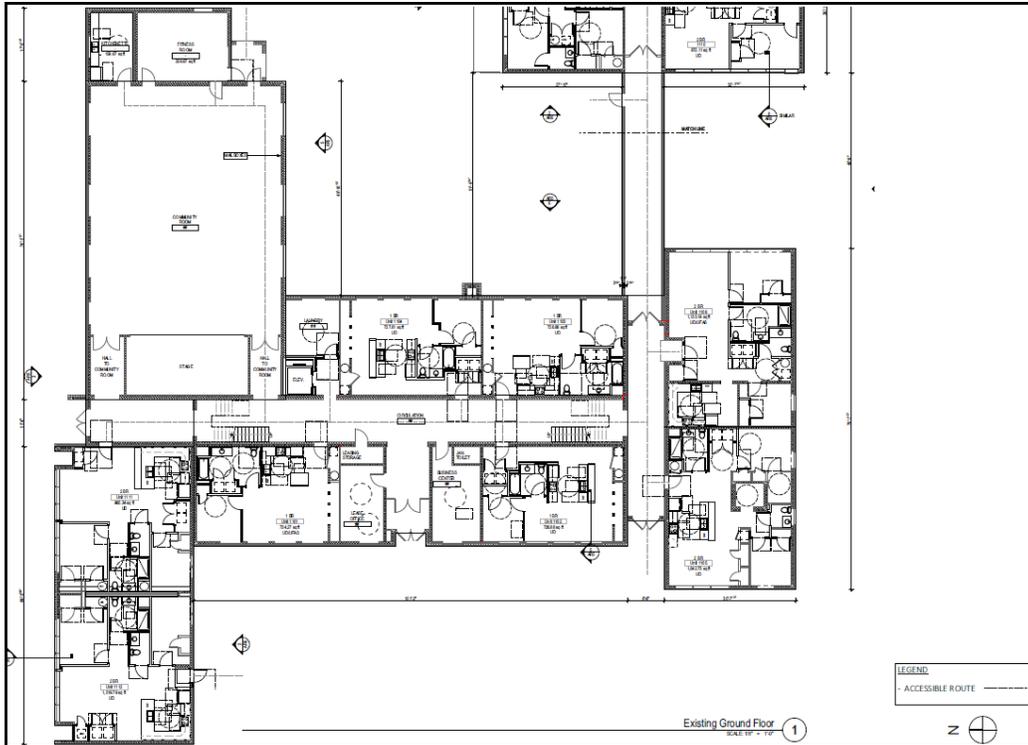
Rivermont School Site Plan

Shown next are proposed elevations of the new construction component of Rivermont School Apartments. This will be a two-story building with an elevator and pitched roof. The façade will have a variety of building materials, including ratio of 50 percent brick and 50 percent hardiplank.

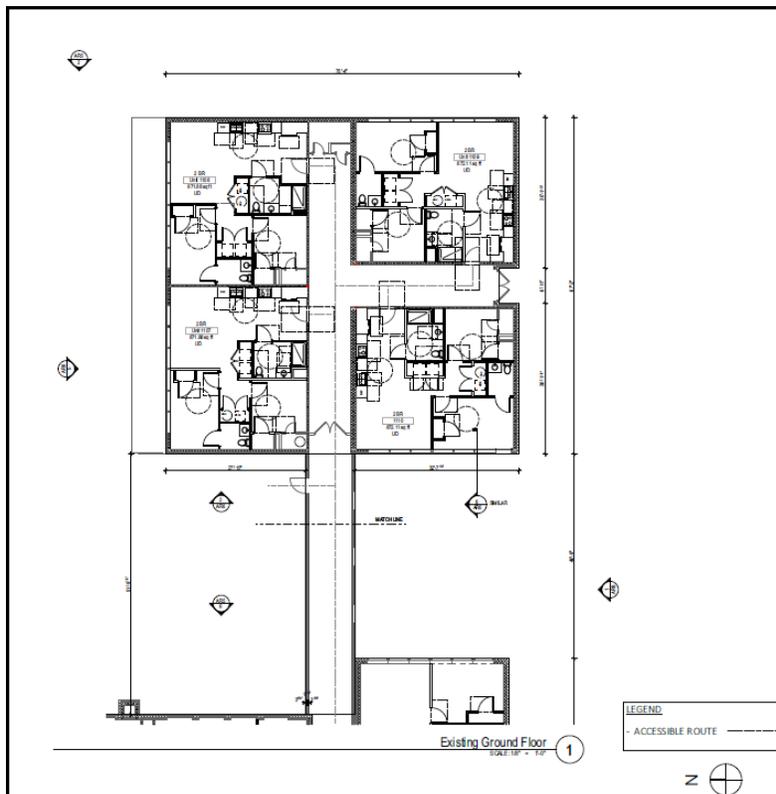


Elevations (New Construction Component)

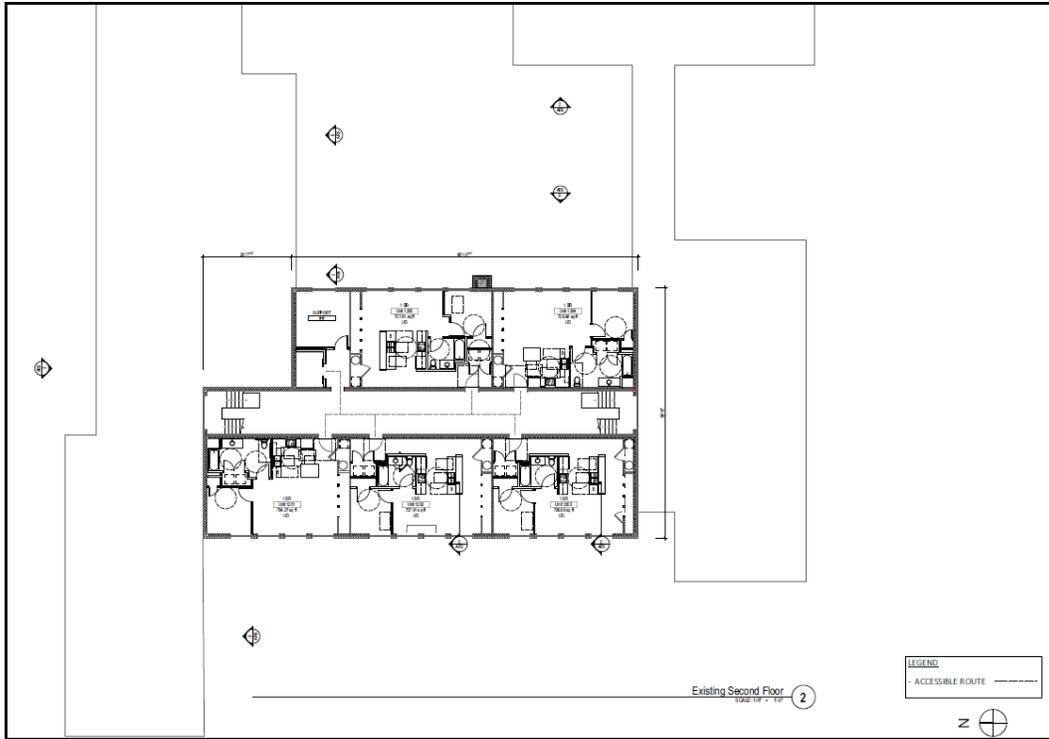
To follow are floor plans of each level in both buildings. Presented first are floor plans of the ground and second level of the school building. Apart from 12 apartment units, the ground level will contain a leasing office, business center, laundry room, fitness room and a community room with a kitchenette. The second level will contain five one-bedroom apartment units that will be accessed by an elevator and stairwells.



Building Floor Plan - Ground Level (Existing School Building)

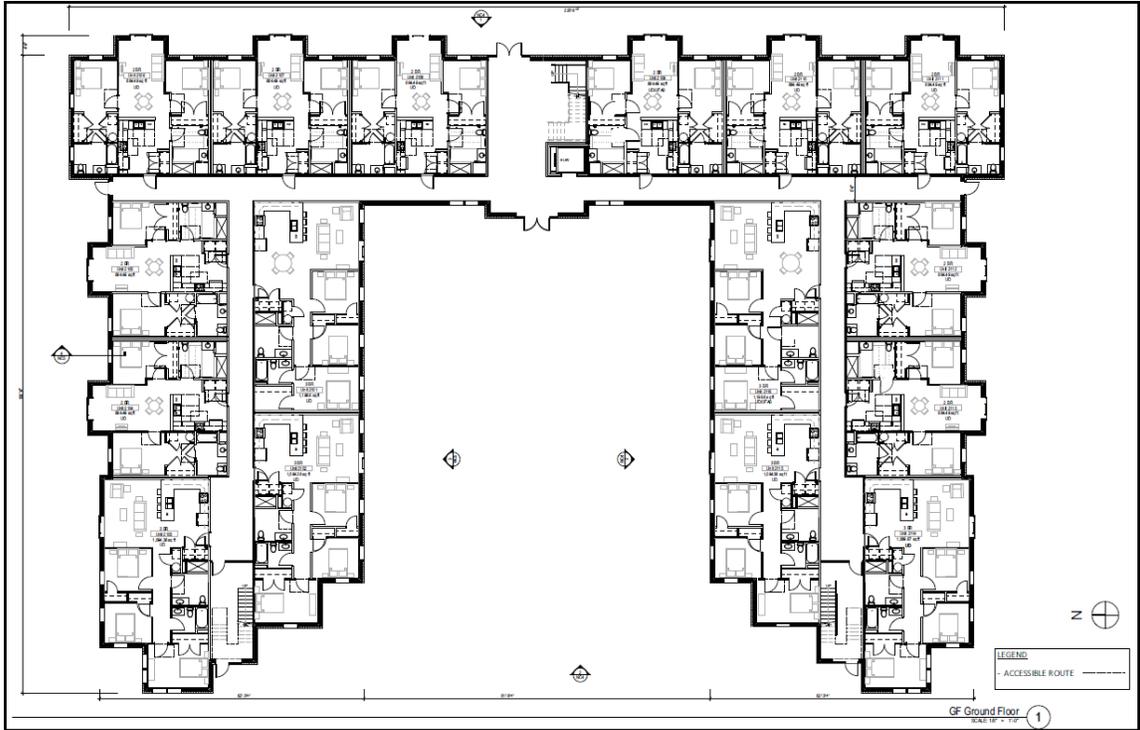


Building Floor Plan - Ground Level (Existing School Building)

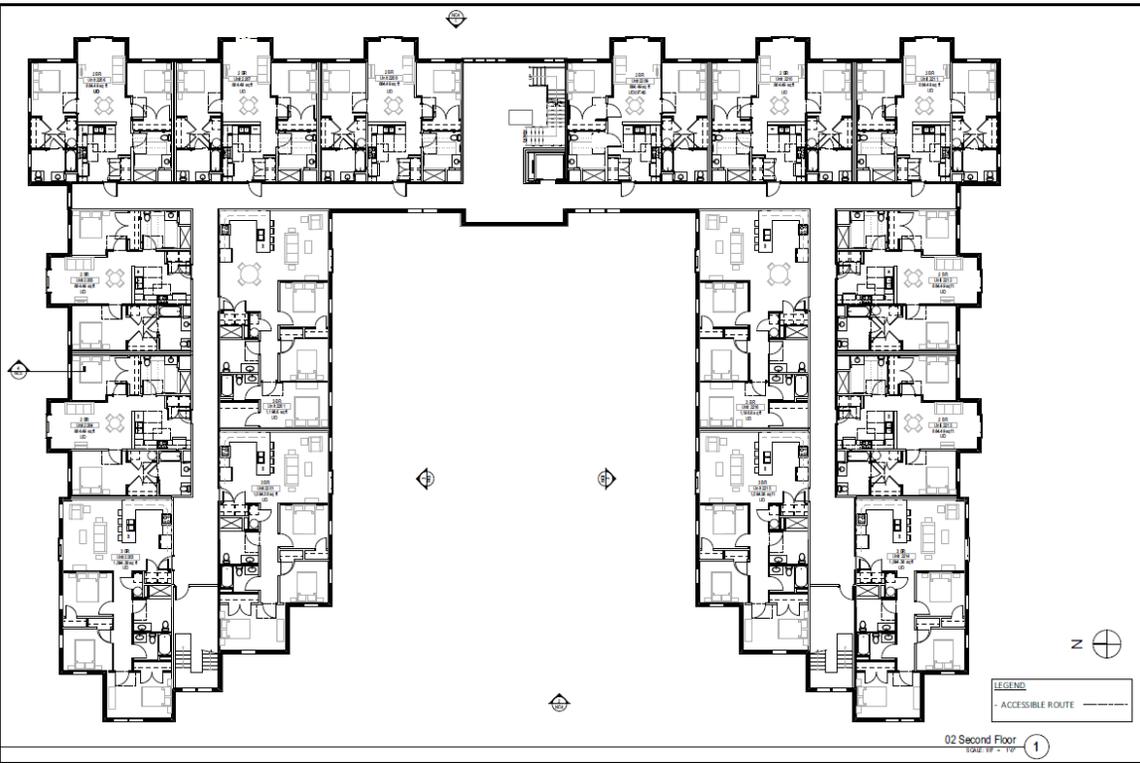


Building Floor Plan - Second Level (Existing School Building)

Shown next are the ground and second level floor plans of the new construction building. The elevator will be located near the building entrance. Both floors are shown to be fully residential with all apartments to be accessed from a central corridor.



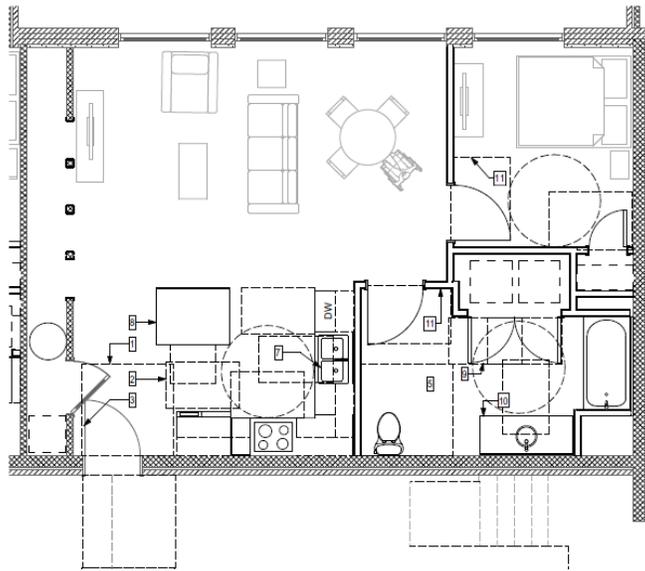
Ground Floor (New Construction Component)



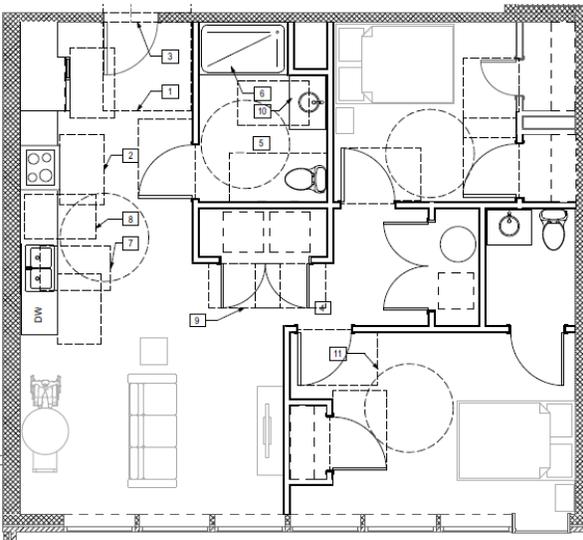
Second Floor (New Construction Component)

Apartment Unit Floor Plans

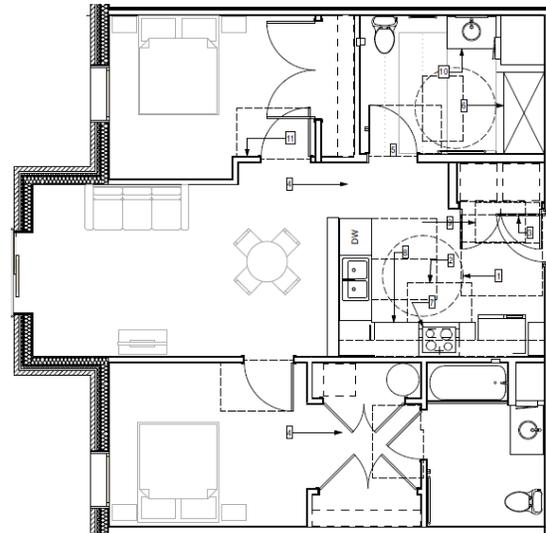
Shown next are typical floor plans for the one-, two- and three-bedroom units. The one-bedroom units will have a full bathroom. The two-bedroom units in the school building will have 1.5 bathrooms while the two- and three-bedroom units in the new construction building will have two full bathrooms. All units will have open floor plans that include an open kitchen and combined living and dining room area. All units will have washer/ dryer hookups.



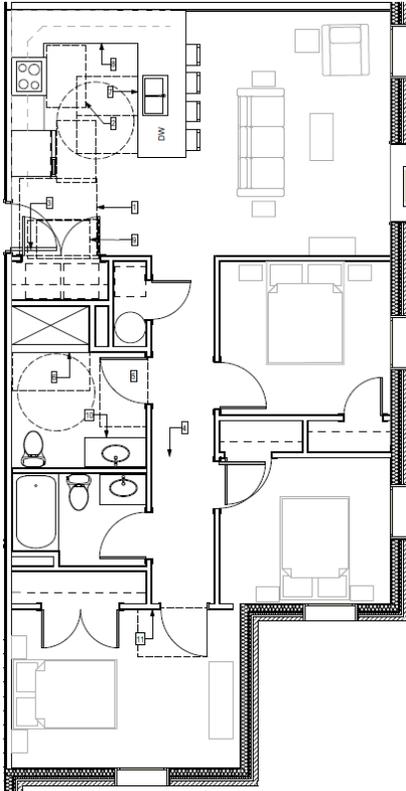
Typical One-Bedroom Units (School Building)



**Typical Two-Bedroom Units
(School Building)**



**Typical Two-Bedroom Units
(New Construction)**



**Typical Three-Bedroom Unit
(New Construction)**

Development Costs

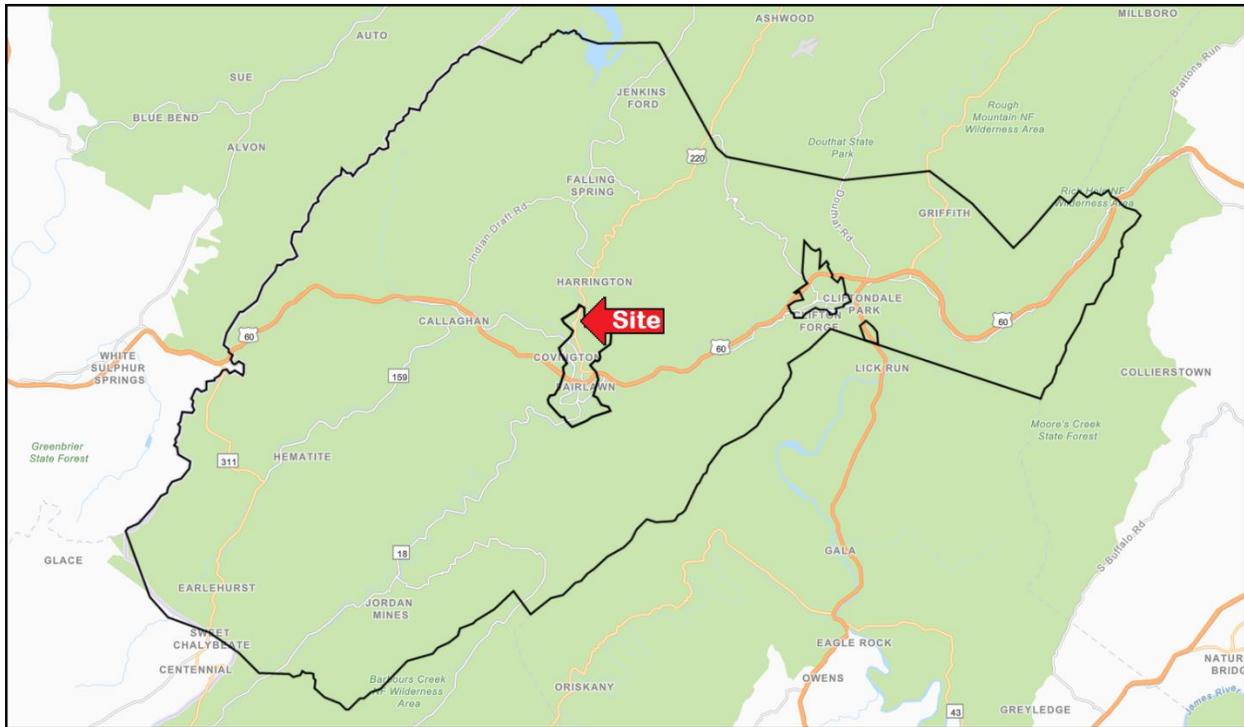
The proposed building costs, including soft costs and land acquisition, is approximately \$11.8 million, or \$240,820± per unit.

Market Area Definition

The market area for Rivermont School Apartments is defined as the Alleghany Highlands Region, which includes Alleghany County and the City of Covington. This region houses two urban “centers” within the surrounding Jefferson National Forest- the City of Covington and the Town of Clifton Forge. These two communities are the prime development centers in the region, although the area of Low Moor is situated roughly midway between Covington and Clifton Forge and some levels of development and job growth. The Town of Iron Gate, to the south of Clifton Forge, has a smaller amount of development.

Map D shows that I-64, which runs east-west throughout the entire Alleghany Highlands, from I-81 at Lexington on the east to County Route 32 in West Virginia on the west. It is the one primary highway within the County. U.S. Route 60 runs parallel and nearly adjacent to I-64 through much of the County. The two north-south roadways in the County are U.S. Route 220 that runs from Clifton Forge on the north to Exit 154 on I81, near Daleville, at the south end of Botetourt County. U.S. Route 220 also runs north from I-64 in Covington to Hot Springs in Bath County and beyond. This roadway provides access to the study site. The other north-south arterial that serves Covington is Route 311. Route 311 runs south to Sweet Chalybeate near the West Virginia line While I-64 runs through the entire length of Alleghany County, the County is located 20 miles west of I-81 and the interchange with I-64.

The areas surrounding the Alleghany Highlands are rural, and some areas are within Jefferson National Forest. These are defined as separate housing markets. To the east is the City of Lexington within Rockbridge County. This is a largely agricultural area. To the north is the low-density Bath County, which too is encompassed within the national forest area. To the south is Botetourt County, which is the northern portion of the Roanoke Region. Botetourt County is realizing new employment and population growth, particularly in the southern portion of the County. Greenbrier County, West Virginia to the west is a tourist area, but not necessarily a growing one.



Map D - Rivermont School Apartments Market Area

The area highway system allows relatively easy east-west access, within the region and between the communities within the County. Lexington is 50± minutes to the east, but is a small community. This is the location for the I-64/I-81 interchange. To the west, I-64 runs to White Sulphur Springs and runs further west through West Virginia. Route 220 is an important roadway within Allegheny County and the City of Covington, as it provides a direct route to Daleville in Botetourt County.

Market Area Economic Overview

This part of the market analysis presents an economic overview of the Allegheny Highlands in terms of job and employment growth. The purpose is to show the level and type of job growth and the potential for new growth. Three economic factors are presented in this analysis: (1) at-place job growth, (2) employment and labor force trends, and (3) new active development plans that are expected to generate net new jobs. The three economic factors under study are analyzed in the paragraphs to follow. Key to this analysis is that job growth supports growth in population and households, and therefore, housing unit demand.

For Alleghany Highlands, new housing demand, initially will come from a pent-up demand. Housing demand is also expected from employment growth in nearby communities, particularly in Daleville in Botetourt County. Net job growth is likely to increase in Alleghany Highlands with new housing construction.

At-Place Jobs

At-place jobs refer to the number of jobs located within the Alleghany Highlands, which includes Alleghany County (including the Town of Clifton Forge and Town of Iron Gate) and the City of Covington where the study site is situated. As of year-end 2019 and prior to the COVID-19 pandemic, the total number of at-place jobs in the region totaled 7,710±, which is 620± fewer than during the pre-recession peak of 2008.

Data in Table 3 show a decrease in total jobs in the key recession year of 2009. 350± jobs were lost in 2009, with moderate growth recorded between 2010 and 2012 adding only 120± jobs. Job losses took place in 2013 and 2014 that resulted in 340± layoffs. 2015 was a modest growth year, with 140± new jobs added. Job losses occurred every year since, with a loss 40± jobs in 2016, 30± jobs in 2017, 70± jobs lost in 2018 and 60± jobs lost most recently in 2019. Much of the recent employment loss has been associated with the Retail Trade sector.

As shown in Table 3, the Alleghany Highlands has many data disclosure issues due to the small number of employers. This is often the case in more rural, sparsely-populated communities.

The dominant employment sector in the Alleghany Highlands is Manufacturing, much of which is principally associated with WestRock. The Covington paper mill dates to 1899 and the nearby Low Moor facility was built in the 1980's. This is the largest employer in the region with a combined 1,150± employees. Within this total are 1,030± hourly waged employees.

Several other regional employment sectors are also tied to WestRock. The Construction sector, for instance, is largely focused on expansions and upgrades at WestRock. The hospitality sector also relies heavily on WestRock.

Health Care is also an important employment sector in the region. Most local Health Care jobs are associated with the LewisGale Hospital Alleghany in Low Moor, which is operated by HCA. The hospital opened in 1979 with 204 beds and underwent major renovations with a 43,330± square foot expansion in 1993. The hospital employs approximately 230 people.

Education is a third key employment sector with the Dabney S. Lancaster Community College located near Clifton Forge. The community college employs nearly 80 full-time workers and 170± part-time employees. The annual enrollment is over 1,800 and includes students from a wide geographic area. Officials at the community college have plans for enrollment growth, and to accomplish that, are studying the possibility of on-site residence halls. This is a long-term proposal, but if implemented, will provide better housing for students, a better setting for enrollment growth, and an accompanying employment growth.

The Retail Trade sector is also an important component of the local economy, accounting for over 10 percent of total employment as of year-end 2019. This sector, however, has shed nearly 320 jobs since 2008. Most retail employment is clustered in the four mature retail centers in the region in and around Covington.

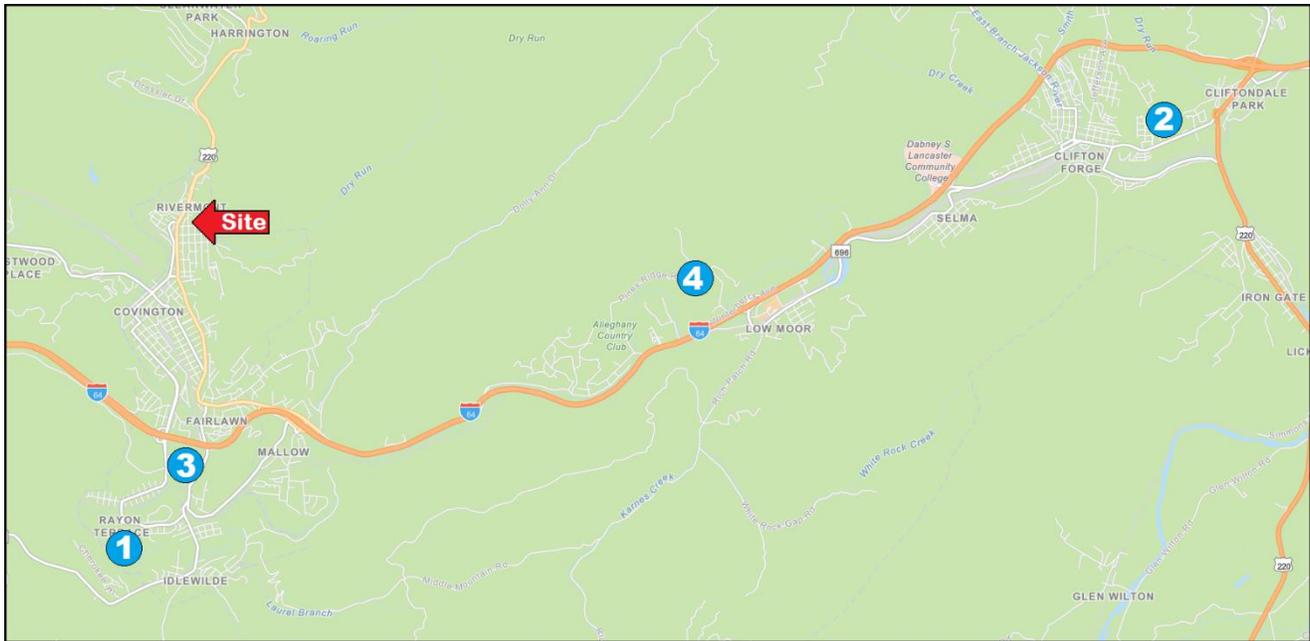
Much of the remaining employment is located in four regional industrial and business parks, which are detailed in the paragraphs below. All have had minimal activity in recent years.

- **Rail Over River Industrial Park** (Note 1). This is a 102-acre industrial park located along the western end of W. Edgemont Drive at the southern edge of the City of Covington. Much of the park is developed with two vacant industrial buildings, one totaling 381,940± square feet and the second totaling 82,000± square feet. Both were constructed in 1928. The facility was vacated by Applied Extrusion Technologies in 2008. The business produced oriented polypropylene films used in labels and packaging applications. 126 employees, who were largely production and maintenance staff, were laid off with the closure, which was blamed on large infrastructure costs. This followed a major restructuring of the facility in 1998, in which the company shutdown certain assets and eliminated approximately 200 full-time manufacturing and plant administrative positions.
- **Clifton Forge Business Park** (Note 2). This 20.5-acre business park is located at the intersection of Hickory and Main streets in Clifton Forge. It contains five lots, of which

only one has been developed. The development contains the E-ZPass Customer Service Center, which opened in 2006 in the former 15,490± square foot Ntelos building. The 60± employees at the facility include customer service representatives, system administrators and other IT workers, as well as managers and administrative support staff. The remaining acreage in the park has yet to be subdivided.

- **Jamison Commerce Center** (Note 3). This is a small industrial park located at the southeastern intersection of I-64 and S Durant Road along Thacker Avenue in Covington. The industrial park is currently improved with three industrial buildings that total 146,000± square feet of space and were constructed in the 1980's. The buildings are occupied by Kemper Properties and used for storage and distribution space for MeadWestvaco paper products. 2.6 acres are currently vacant in this park.
- **Alleghany Regional Commerce Center** (Note 4). This is a 300-acre business park located along Commerce Center Drive in Low Moor and adjacent to the study site. Balchem Corporation, a manufacturer of encapsulated ingredients used in animal food and health products, most recently moved into a 68,170± square foot facility in 2012, where it employs 55 people. The most recent building constructed in the park is the 37,000± square foot Alleghany Highlands YMCA that opened in 2007. The largest tenant is the park is Bacova Guild, which operates a 335,600± square foot facility that manufactures printed accent rugs, printed floor mats and bathroom ensembles. The last expansion in the facility took place in 2006 with the addition of 45 new jobs. Also located in the park is a 19,400± square foot facility that was constructed in 1997 and is occupied by Williams Fabrication, a metal fabricator. Smaller users include the Virginia State Police - BFO Division 6, which occupies a 2,360± square foot space that was constructed in 2005.

The locations of each these parks are shown in Map E. All of these employment centers are located along the I-64 corridor and quickly accessible from the study site. Two are located in the Covington area and one is located in the Clifton Forge area. Alleghany Regional Commerce Center is located in Low Moor.



Map E - Allegheny Highlands Business/Industrial Parks

Unlike many of Virginia’s rural counties, agricultural activity does not represent a major component of the local economy. Forestry, however, does remain an important sector of local economic activity. Nearly 84 percent of Allegheny County’s land is forested, approximately half of which is privately owned, with the other half encompassing part of the George Washington and Jefferson National Forests.

Given the rugged terrain through the Allegheny Highlands, much of the region remains predominantly rural, with development tending to be concentrating along the I-64 corridor in the Town of Clifton Forge and City of Covington.

Table 3: Trends in Average At-Place Employment, Alleghany Highlands, Virginia, 2008-2019 1/

Industry	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change
Agriculture	ND	--											
Mining	ND	--											
Utilities	ND	--											
Construction	484	365	397	430	393	463	423	480	491	503	505	614	130
Manufacturing	ND	--											
Wholesale Trade	92	98	91	ND	ND	ND	126	ND	ND	114	ND	ND	--
Retail Trade	1,109	1,073	1,050	969	968	951	966	950	896	874	836	795	-314
Transport./ Wareh..	204	176	162	153	189	ND	ND	234	252	ND	ND	210	6
Information	ND	--											
Finance/Insurance	155	148	143	142	ND	132	136	136	ND	ND	120	ND	--
Real Estate	ND	40	ND	ND	ND	ND	--						
Prof./Tech.	ND	--											
Mgmt of Co.s	ND	--											
Admin./Waste	ND	125	ND	ND	ND	138	120	143	163	196	202	214	--
Education	ND	--											
Health Care	ND	--											
Arts/Enter./Rec.	ND	--											
Accom./Food	607	604	584	586	ND	569	591	674	ND	ND	ND	ND	--
Other Services	269	368	329	298	317	280	307	315	307	309	357	266	-3
Local Gov.	1,387	1,364	1,345	1,298	1,283	1,241	1,206	1,172	1,189	1,191	1,205	1,211	-176
State Gov.	243	240	252	286	298	305	307	299	289	300	301	289	46
Federal Gov.	<u>80</u>	<u>81</u>	<u>82</u>	<u>75</u>	<u>72</u>	<u>66</u>	<u>65</u>	<u>66</u>	<u>71</u>	<u>64</u>	<u>61</u>	<u>62</u>	<u>-18</u>
Total	8,326	7,974	7,988	7,979	8,096	7,874	7,757	7,900	7,856	7,830	7,762	7,705	-621

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

1/ Includes City of Covington and Alleghany County (All unincorporated areas and Towns of Clifton Forge and Iron Gate).

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

Next shown, in Table 4, are the employment changes that occurred in 2020, which is an outlier year given the unusual impact of the COVID-19 pandemic. Data is shown for sectors without disclosure issues. The data show a modest loss of jobs, with a reduction in employment of over 500 , or by 6.8 percent.

These losses occurred across essentially all employment sectors, with the heaviest job losses impacting the Construction sector (150± jobs lost) and Local Government sector (80± jobs lost). Many of these layoffs are expected to be temporary and will likely be recovered once 2021 employment data is released. Of note is that the job losses in 2020 did not impact occupancy at the market area's apartment properties.

Table 4: Trends in Average At-Place Employment, Alleghany Highlands, Virginia, 2019-2020

<u>Industry</u>	<u>2019</u>	<u>2020</u>	<u>Net Change</u>
Construction	614	466	-148
Retail Trade	795	790	-5
Admin./Waste	214	208	-6
Other Services	266	214	-52
Local Gov.	1,211	1,133	-78
State Gov.	289	281	-8
Federal Gov.	62	66	4
Total	7,705	7,182	-523

Source: United States Department of Labor

Employment and Labor Force

Employment differs from at-place jobs, as it refers to the number of residents who are employed, regardless of where the job is located. Employment is a better indicator of housing unit demand, as it refers to where people live. Year-end 2019 employment in the Alleghany Highlands totaled 9,110±, or over 1,400 above at-place jobs. The fact that the at-place jobs is lower than employment denotes that out-migration of workers occurs from the Alleghany Highlands commuting into neighboring jurisdictions, primarily to the Roanoke Region.

The Alleghany Highlands realized a net increase in employment of 110± jobs over the four-year period between 2015 and 2019. Data in Table 5 show that the unemployment rate was a low 3.4 percent in 2019, down from 5.2 percent in 2015. The low unemployment rate means that new job growth will require new residents for the market area.

Total employment in 2020 declined by 550±, pushing the unemployment rate up from a 3.4 percent in 2019 to 7.3 percent, the highest unemployment rate in over decade. As with at-place jobs, many of these losses are expected to be temporary.

Table 5: <u>Trends in Employment and Unemployment,</u> <u>Alleghany Highlands, Virginia, 2015-2020</u>				
	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Percent Unemployed</u>
2015	9,502	9,005	497	5.2%
2016	9,326	8,840	486	5.2%
2017	9,498	9,031	467	4.9%
2018	9,372	9,006	366	3.9%
2019	9,432	9,110	322	3.4%
2020	9,232	8,557	675	7.3%
Net Change	-270	-448	178	2.1%
Source: United States Department of Labor, Bureau of Labor Statistics				

COVID-19 and Employment

Table 6 shows monthly employment data until November, 2021 in the market area to illustrate the local employment impact of the COVID-19 pandemic. This is the date for which the most recent data are available.

Trend data show that since January, 2020, employment has fallen by only 110±, with the number of unemployed declined by 150±. The labor force has also contracted by 260± people, meaning that many of those who have lost their jobs have retired or quit searching for employment altogether.

The data show significant employment improvements since the start of the pandemic, with nearly all jobs recovered since January, 2020. The unemployment rate in November, 2021 is 3.0 percent, which is the lowest unemployment rate in over decade. One reason for this is the smaller labor force. Of note is that these job losses have not impacted occupancy rates at the competitive apartments under study.

**Table 6: Trends in Employment and Unemployment,
Alleghany Highlands, Virginia, 2020-2021**

	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Percent Unemployed</u>
January, 2020	9,469	9,039	430	4.5%
February, 2020	9,454	9,061	393	4.2%
March, 2020	9,344	8,960	384	4.1%
April, 2020	9,681	8,350	1,331	13.7%
May, 2020	9,200	8,275	925	10.1%
June, 2020	9,272	8,300	972	10.5%
July, 2020	9,132	8,279	853	9.3%
August, 2020	9,111	8,460	651	7.1%
September, 2020	8,955	8,354	601	6.7%
October, 2020	9,160	8,659	501	5.5%
November, 2020	9,059	8,544	515	5.7%
December, 2020	8,936	8,394	542	6.1%
January, 2021	9,054	8,454	600	6.6%
February, 2021	8,936	8,366	570	6.4%
March, 2021	8,990	8,446	544	6.1%
April, 2021	8,970	8,582	388	4.3%
May, 2021	9,033	8,636	397	4.4%
June, 2021	8,969	8,517	452	5.0%
July, 2021	9,025	8,615	410	4.5%
August, 2021	8,903	8,532	371	4.2%
September, 2021	9,043	8,727	316	3.5%
October, 2021	9,310	8,987	323	3.5%
November, 2021 1/	9,209	8,931	278	3.0%
Net Change	-260	-108	-152	-1.5%

Notes: 1/ Preliminary data. Subject to change.

Source: U.S. Department of Labor, Bureau of Labor Statistics

Economic Development Activity

The paragraphs below detail a limited number of new economic development announcements in the Alleghany Highlands that are expected to generate some net job growth. This list excludes temporary construction and spinoff jobs. In total, these new job announcements are likely to generate over 330 new jobs.

- **Wendy's** is building a new 2,330± square foot restaurant at 1312 South Craig Avenue in Covington.
- **Highlands Therapy and Industrial Rehab** opened a location at 320 W Main Street in Covington in January, 2022.
- **Highlands Centre Secure Storage facility.** Construction was completed in June, 2021 on this self-service storage facility at 109 Mall Road in Covington.

-
- **Greenbrier Physicians** opened a new medical practice in December, 2021 at 810 Grayson Avenue. Approximately ten people work at the facility.
 - **Michael's Pizza** in Covington has bought the old Pizza Hut building for an expansion. It will likely result in 10 new employees.
 - **Frito Lay** is current building a new warehouse next to its existing facility in the Commerce Center. The facility will employ 25 people.
 - **Cornerstone Industrial Solutions** is expanding its manufacturing facility in Covington and will initially add between 20 and 25 new employees.
 - **SchaeferRolls**, a German-based manufacturer of polymer-based roll covers for machinery used in paper, packaging, automotive and other industries, announced in June, 2018 that it would build a 40,000± square foot manufacturing facility in Covington that will employ 31 people by the end of 2021 and possibly an additional 20 employees between 2021 and 2023. These employees will earn an average salary of \$51,300. Approximately 25 people have been hired to date.
 - **Bacova Building**. An yet-to-be-named firm has purchased the former Bacova Building in the Commerce Center with plans to add 200 employees there. There is not set timeline yet for this expansion and few details have been publicly released. The new hires are unlikely to occur within the next year.
 - **Balchem**, a chemical manufacturer, announced in February, 2022 that it would expand by hiring six new employees.
 - **LewisGale Hospital Alleghany** has approximately 40 open positions that staff is actively trying to fill.

The region's biggest employer, and the largest driver of housing demand, is WestRock. The paper plant employs nearly 1,150± people, with approximately 950 persons located in the Covington plant and another 200± who work at the nearby Low Moor location. Approximately 215 of the plant's employees are salaried workers, with the majority representing hourly wage workers. The hourly wage staff has a starting pay of \$15± per hour (\$30,000± per year), with some of the more experienced staff being paid up to mid-\$40 per hour.

In September, 2018, plant officials announced that the company would invest \$248 million to upgrade its manufacturing operations at both plant locations. This has been an ongoing process expected to continue until 2023. This is not expected to generate new job growth, however.

Retirement and turnover at WestRock averages 70± annually, so new hires are for replacements and occur annually. Management at WestRock reports minimal permanent disruptions due to the COVID-19 pandemic and do not expect any changes to long-term employment impacts.

Section II Affordable Apartment Market Analysis

Following is the supply/ demand analysis for the 49-unit Rivermont School Apartments. Section II has two subsections. The first is the demographic analysis that “solves” for the number and growth of renter households with incomes, reported in constant 2022 dollar values, of the two income groups within Rivermont School Apartments. The demographic analysis “solves” for the number of market area households earning 40% of AMI (\$16,600 to \$25,360), 50% of AMI (\$21,360 to \$31,700) and 60% of AMI (\$24,000 to \$38,040). The upper limits are based on the HUD maximum allowable incomes. The forecast date for the demographic analysis is 2024, as Rivermont School Apartments is likely to be ready for occupancy by 2024.

The second part of Section II is the analysis of the competitive affordable apartment market within the defined market area. We identified five apartment properties to study. These are the only apartments in the market area without deep rent subsidies.

The apartments under study are delineated into two components: LIHTC apartments and market rate apartments. The two LIHTC apartments, which represent the most competitive properties, were built in the 1990’s and 2000’s. The four market rate apartments are older and smaller properties.

These apartment properties are studied for occupancy, rent, unit and property features and characteristics, and curb appeal. They are compared with Rivermont School Apartments concept to determine its competitive market position.

Market Area Demographic Analysis

Population Trends and Projections

Data presented in Table 7 show the basic demographic trends for the Allegheny Highlands for the post-1990 period. Demographic trends show population declines in both jurisdictions since the 1990’s. The market area population fell by 1,330± during the 1990’s, with population losses generally evenly split between the City of Covington and Allegheny County.

Much of this population loss was associated with several major job losses in Covington during the late-1990's by Halmode Apparel, Applied Extrusion Technologies and Westvaco Corp. (now WestRock).

Population losses continued at the same pace during the 2000's decade. As with the 1990's, much of this population loss was attributed to major job layoffs that included TransCore (86 jobs cut in 2010), Parker Hannifin Corp. (145 jobs cut in 2007), Lear Corp. (270 jobs cut in 2007), and Applied Estrusion Technologies (127 jobs cut in 2008). There were also several rounds of layoffs at WestRock Corp. between 2002 and 2005 that eliminated nearly 290 positions.

The market area's population contracted by an additional 1,250± people between 2010 and 2020, or at an average rate of nearly 130 people each year. As with previous years, population losses since 2010 were recorded in both jurisdictions. The population in the Alleghany Highlands as of 2020 is estimated to total 20,960±, based on the most recent census count. Given recent developments related to area employers, the market area population is expected to slow its recent declines to a loss of 60± people by 2024.

Table 7: <u>Trends and Projections of Population and Households by Tenure and Income, Rivermont School Apartments Market Area, 1990-2024</u>					
	1990	2000	2010	2020	2024
Market Area Population	24,850	23,520	22,210	20,960	20,900
City of Covington	6,990	6,300	5,960	5,740	--
Alleghany County 1/	17,860	17,220	16,250	15,220	--
Group Quarters Population	510	470	370	370	370
Household Population	24,340	23,050	21,840	20,590	20,530
Persons Per Household	2.47	2.35	2.29	2.28	2.27
Households	9,870	9,830	9,520	9,030	9,040
Renter Households	2,540	2,330	2,360	2,390	2,510
Percent of Households	25.8%	23.7%	24.7%	26.5%	27.8%
Notes: 1/ City of Clifton Forge reverted from a city to a town in 2001.					
Source: 1990-2020 Bureau of the Census; S. Patz and Associates, Inc.					

Group Quarters Population

The Group Quarters population is not part of the traditional housing market. It includes persons in hospitals, nursing homes, jails, group homes and dormitories. The market area has a small Group Quarters population that totals approximately 370 people, or less than two percent of the total population of Alleghany Highlands. This total is nearly evenly split between seniors residing at area nursing homes (Alleghany Health & Rehab and Brian Center Rehab & Nursing), Woodlands in Clifton Forge, and inmates in the Alleghany County Jail.

The Group Quarters population is subtracted from total population to determine household population. Household population is the basis for determining housing unit demand. There is no growth in the Group Quarters Population in spite of a growing senior population, likely due to seniors moving from the area at retirement.

Households

Households, i.e., occupied housing units, declined modestly during the 1990's, despite a very large population decline. This is partly due to a sizable decline in the market area's average household size, from 2.47 in 1990 to 2.35 in 2000. Driven largely by an aging population, the average household size has continued to fall and has reached 2.28 as of 2020. In 2010, the market area had approximately 9,520± households, based on the census count of that year. That is 310± fewer households than in 2000. Based on current population estimates and the ongoing reduction in average household size, the 2020 estimate for total households is 9,030±. It is projected to grow by 10± by 2024.

Renter Households

The market area has 2,360± renter households as of 2010, a slight increase over the 2000 renter household total. Limited rental housing supply has constrained this segment of the housing market. Total renter households is estimated to have risen by 30± between 2010 and 2020. Thus, much of the population loss detailed in Table 7 has been among homeowners rather than renters.

Total renter households are expected to grow by 120± by 2024 and reach 2,510± households. This is an opportunity projection based on (1) the employment growth documented above, (2) population growth due to the redevelopment of the Rivermont School property driven by local employees moving back to the market area and roommates “splitting up,” (3) senior households that are likely to convert to renter households if an elevator-served apartment complex such as Rivermont School Apartments is built and (4) a proposed market rate apartment complex called River Retreat in Low Moor that will total 48 units.

One major issue in population and household growth/ loss in Alleghany Highlands is the lack of housing. Here, supply credits demand and there is no adequate supply. This leads to a number of workers finding housing in locations “way” outside the area, in Botetourt County and Lexington, to name a few locations. New and better housing will reverse some of the trends in locations outside of the Alleghany highlands.

Target Renter Households

Rivermont School Apartments will have units rents restricted to renter households earning incomes of 40% and 60% of the Area Median Income (AMI). The paragraphs below will detail each of these demographic cohorts, which are shown in Table 8.

- **40% of AMI.** Qualified renter households for this income category must earn annual incomes ranging between \$16,600 and \$25,360, when reported in constant 2022 dollars, based on 30 percent of income allocated to net rent. The demographic analysis shows that as of 2020, the market area had 410± renter households within this income category. The 2020 total exceeds the 2010 total by 40± households. One reason for the slow growth in this income cohort is the near absence of new housing affordable to these incomes. By 2024, the market area is projected to add 20± households within this income category to reach a total of 430± households. This is an opportunity projection, as this will rely on the ability of the market area to generate new apartment units, specifically the site under study.
- **50% of AMI.** Qualified renter households for this income category must earn annual incomes ranging between \$21,360 and \$31,700, when reported in constant 2022 dollars. As of 2020, the market area totaled 480± renter households in this income range. This represents an increase of 40± over the 2010 total. The market area is projected to add 40± households within this income category by 2024 to reach a total of 520± households. This

is an opportunity projection, as this will rely on the ability of the market area to generate new apartment units, specifically the site under study.

- **60% of AMI.** Qualified renter households for this income category must earn annual incomes ranging between \$24,000 and \$38,040, when reported in constant 2022 dollars. As of 2020, the market area totaled 540± renter households in this income range. This represents an increase of 40± over the 2010 total. The market area is projected to add 40± households within this income category by 2024 to reach a total of 580± households. This too is an opportunity projection, as this will rely on the ability of the market area to generate new apartment units, specifically the site under study.

Table 8: Trends and Projections of Renter Households by Income, Rivermont School Apartments Market Area, 1990-2024 (Constant 2022 dollars)					
	1990	2000	2010	2020	2024
Total Renter Households	2,540	2,330	2,360	2,390	2,510
40% of AMI (\$16,600-\$25,360)	310	330	370	410	430
Total Households	12.2%	14.2%	15.7%	17.2%	17.2%
Percent of Renter Households					
50% of AMI (\$21,360-\$31,700)					
Total Households	330	390	440	480	520
Percent of Renter Households	13.0%	16.7%	18.6%	20.1%	20.7%
60% of AMI (\$24,000-\$38,040)					
Total Households	440	450	500	540	580
Percent of Renter Households	17.3%	19.3%	21.2%	22.6%	23.1%

Source: 1990-2020 Census, S. Patz & Associates, Inc.

Households by Size

As of 2010, approximately 41.8 percent of market area renter households were single-person households. An additional 25.2 percent were two-person households while 16.2 percent were three-person households.

Table 9: <u>Renter Household by Size,</u> <u>Alleghany County/ Covington City, Virginia</u>		
	<u>Number</u>	<u>Percent</u>
Renter Households	2,356	100.0%
1-person household	987	41.8%
2-person household	593	25.2%
3-person household	382	16.2%
4-person household	217	9.2%
5-person household	118	5.0%
6-person household	43	1.8%
7-or-more-person household	16	0.7%
Source: 2010 U.S. Department of Commerce		

Characteristics of the Competitive Apartment Market

Table 10 lists the existing general occupancy apartment properties in the market area, which includes both market rate and income-restricted complexes. Apartments with deep subsidies were excluded from this analysis, as these are not directly competitive. There are no age-restricted apartments in the market area.

The analysis to follow will show a very modest and mature rental housing market. The market area contains only two LIHTC apartment communities. The three-story Alleghany Building is an adaptive-reuse building of a historic building that was originally constructed in 1925 and renovated in 1998 with LIHTC financing. The building contains 20 units restricted to 40% (5 units), 50% (5 units) and 60% of AMI (10 units). This is the only existing elevator-served building and only mixed-use building in the market area. It has no vacant units at this time. It is reported to attract a large number of seniors.

More recent to open is Cedar Forest Apartments, which opened in 2002 with 40 units restricted to 50% of AMI. All of these units are currently occupied. This is a townhome rental community designed for families. It is the only complex with amenities that include a clubhouse, picnic area and playground. It is typically at or near full occupancy.

The four market rent apartment properties are all at 40± years old, having been built between the 1960's and 1980's. They contain a total of 69 units, none of which are vacant at this time. This low vacancy rate has been the norm several years.

The newest affordable apartment property – Cedar Forest Apartments – is nearly two decades. Though mature, some of these units have been upgraded. The fact that the affordable apartments are newer indicates a perceived greater need for affordable rental housing in recent years, as well as easier financing pathways for this type of apartment development. The market rate properties are all fully occupied, which is routinely the case.

Overall, the Alleghany Highlands contains only 129 apartment units, of which none are vacant. All of the complexes are small with fewer than fifty units and have limited amenities. Apart from the 35-unit Parklin Terrace Apartments, all of the market rate complexes have fewer than 20 units.

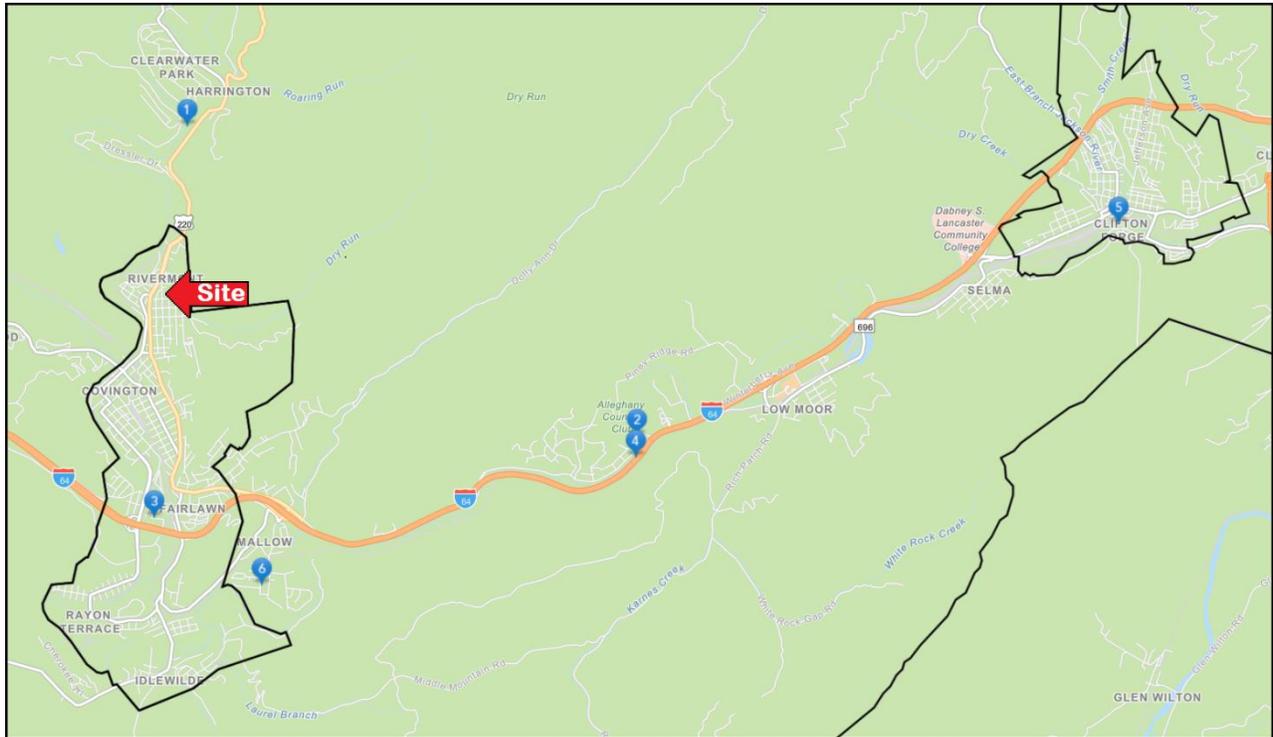
The limited housing supply has driven many employees in the Alleghany Highlands to commute from outside of the area, primarily from the Lewisburg area, Roanoke area and Lexington area.

**Table 10: Characteristics of Apartment Communities,
Rivermont School Apartments Market Area, February, 2022**

	<u>Map F Key</u>	<u>Income Restrictions</u>	<u>Year Built</u>	<u>Total Units</u>	<u>Vacant Units</u>
<u>Market Rate Apartments</u>					
Clearview Townhomes	1	None	1982	10	0
Country Club Apartments	2	None	1963	8	0
Parklin Terrace Apartments	3	None	1964/05	35	0
Valley Ridge	4	None	1963	<u>16</u>	<u>0</u>
(Subtotal)				(69)	(0)
<u>Affordable Apartments</u>					
Alleghany Building	5	40%/50%/60% of AMI	1998	20	0
Cedar Forest Apartments	6	50% of AMI	2002	<u>40</u>	<u>0</u>
(Subtotal)				(60)	(0)
Total				129	0
Vacancy Rate					0.0%

Source: Field and Telephone Survey by S. Patz and Associates, Inc.

Map F shows the locations of each of the above listed apartment complexes. The only apartment complex located in the City of Covington is Parklin Terrace Apartments. The only complex located in the Town of Clifton Forge is Alleghany Building. Clearview Townhomes is located just north of Covington, while Cedar Forest Apartments is located just east of Covington. Country Club Apartments and Valley Ridge are located adjacent to each other just west of Low Moor.



Map F - Locations of Competitive Apartments

Next shown are photos of each of the area apartments under study. Clearview Townhomes, Country Club Apartments and Valley Ridge have two-level townhome designs with individual entryways and brick exteriors. Parklin Terrace is a standard garden complex with three-story walk-ups. Alleghany Building is a three-story adaptive-reuse with ground level commercial space. It is the only apartment in the market area with elevators. Cedar Forest contains single-level apartment units with individual entryways. All are modest in design and curb appeal.



Clearview Townhomes



Country Club Apartments



Parklin Terrace Apartments



Valley Ridge



Allegheny Building



Cedar Forest Apartments

Net Rent Analysis

The net rent analysis is presented next in Table 11. Rents were adjusted to include the cost of cold water, sewage and trash collection to be consistent with the proposed rental structure at

Rivermont School Apartments. The data show that as with the Rivermont School Apartments proposal, none of the apartments offer in-unit washers and dryers. The current market rate rents are below the LIHTC maximum allowable rates. This is one reason for the emphasis of LIHTC apartment properties from the development community. Also if note is that none of the apartments have increased rents over the past year.

The only apartment communities that offer one-bedroom units are Alleghany Building, with small one-bedroom units renting between \$411 and \$447, and Parklin Terrace, with one-bedroom units renting for \$550. At \$415, the proposed 40% one-bedroom rents at Rivermont School Apartments are generally below the existing market area one-bedroom rents. The 50% and 60% one-bedroom rents are proposed to rent for \$534 and \$600, respectively. The proposed 50% rents at Rivermont School Apartments are \$16 below the one-bedroom rents at Parklin Terrace, which is now nearly 60 years old. The proposed 50% and 60% rents are over \$100 above the one-bedroom rents at Alleghany Building, though these units are old and all small at under 550 square feet.

Apart from Alleghany Building, all of the area apartment complexes offer two-bedroom units. The market rent properties have two-bedroom rents that average \$694, or \$44 above the proposed 60% two-bedroom rents at Rivermont School Apartments. The two-bedroom units at Cedar Forest rent for \$580, which is below the proposed 50% rents by \$20 and below the proposed 60% rents by \$70.

The only apartment properties with three-bedroom floorplans are Parklin Terrace, where these units rent for \$700, and Cedar Forest, where these units rent for \$650. These rents are well above the proposed 40% three-bedroom rents at Rivermont School Apartments, which will rent for \$574. At an average of \$675, the market area three-bedroom rents are \$25 below the proposed 50% three-bedroom rents and \$100 above the proposed 60% three-bedroom rents at Rivermont School Apartments.

The key point in Table 11 is that market area is generating fairly low rents, but these are for mature, outdated apartment properties that do not offer the types of amenities and features

proposed for Rivermont School Apartments. Again, no new apartment properties have been built over the past two decades. None of the existing apartment properties would have comparable levels of finishes and “curb appeal” as compared to the Rivermont School Apartments proposal.

Table 11: <u>Net Rental Rates of Apartment Communities,</u> <u>Rivermont School Apartments Market Area, February, 2022</u> 1/			
	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>
<u>Market Rate Apartments</u>			
Clearview Townhomes	--	\$799	--
Country Club Apartments	--	\$613-\$763	--
Parklin Terrace Apartments	\$550	\$650	\$700
Valley Ridge	--	\$638	--
(Average)	(\$550)	(\$694)	(\$700)
<u>Affordable Apartments</u>			
Alleghany Building 2/	\$411-\$447	--	--
Cedar Forest Apartments 3/	--	\$580	\$650
(Average)	(\$429)	(\$580)	(\$650)
Average	\$490	\$671	\$675
Proposed 40% Rents	\$415	\$499	\$574
Proposed 50% Rents	\$534	\$600	\$700
Proposed 60% Rents	\$600	\$650	\$775
Notes: 1/ Rents adjusted to include cold water, sewage and trash collection. 2/ One-bedroom units restricted to 50% and 60% of AMI. 3/ All units restricted to 50% of AMI.			
Source: Field and Telephone Survey by S. Patz and Associates, Inc.			

Rent per Square Foot Calculation

This calculation was not completed, as all of the competitive properties are far older and of different designs, making the calculation irrelevant.

Apartment Unit Sizes

Table 12 lists the unit sizes at the two LIHTC apartments under study, which are most relevant to the apartment analysis. Alleghany Building offers only studio and one-bedroom units. Similar to other adaptive-reuse apartments, the building offers a wide range of floor plans.

The one-bedroom units average 509 square feet, which is considerably smaller than 725 square foot one-bedroom units proposed for Rivermont School Apartments. Cedar Forest was

designed for families and thus offers two- and three-bedroom units only. The two-bedroom units at Cedar Forest average 1,058 square feet, which is slightly larger than the two-bedroom units proposed for Rivermont School Apartments. The two-bedroom units at Cedar Forest are 62 square feet larger than the proposed three-bedroom units at Rivermont School Apartments.

Table 12: Unit Sizes at Competitive Apartment Communities, Rivermont School Apartments Market Area, February, 2022			
	<u>One-Bedroom</u>	<u>Two-Bedroom</u>	<u>Three-Bedroom</u>
<u>Affordable Apartments</u>			
Alleghany Building	477-540	--	--
Cedar Forest Apartments	--	1,058	1,290
Average	509	1,058	1,290
Rivermont School (Adaptive-Reuse)	725	956	--
Rivermont School (New Construction)	--	885	1,228
Source: Field and Telephone Survey by S. Patz and Associates, Inc.			

Apartment Unit Mix

Table 13 lists the unit mix at each of the apartments under study. The data show that fewer than 15 percent of units are one-bedroom units. This is compared to 64.3 percent of units that are two-bedroom units and 17.8 percent of units that are three-bedroom units. Alleghany Building has 16 one-bedroom units and four studio units. Cedar Forest has an even mix of two- and three-bedroom units. The market rate properties have all or majority two-bedroom units.

	Studio	One-Bedroom	Two-Bedroom	Three-Bedroom	Total Units
<u>Market Rate</u>					
Clearview Townhomes	0	0	10	0	10
Country Club Apartments	0	0	8	0	8
Parklin Terrace Apartments	0	3	29	3	35
Valley Ridge	0	0	16	0	16
(Subtotal)	(0)	(3)	(63)	(3)	(69)
<u>Affordable Apartments</u>					
Alleghany Building	4	16	0	0	20
Cedar Forest Apartments	0	0	20	20	40
(Subtotal)	(4)	(16)	(20)	(20)	(60)
Total	4	19	83	23	129
Percent of Total	3.1%	14.7%	64.3%	17.8%	100.0%
Rivermont School Apartments	0	9	28	12	49

Source: Field and Telephone Survey by S. Patz and Associates, Inc.

Community Amenities

As previously noted, the four market rate apartments offer no on-site amenities, as these are small, older properties. Alleghany Building has a small community center and elevators. The building also has a central laundry facility. Cedar Forest has a clubhouse, laundry facilities and a playground. None of the existing properties offer the type of amenities planned for Rivermont School Apartments, which will be the only apartment complex in the region with a fitness center.

Section III Market Study Conclusions

The analysis presented above shows an underserved affordable apartment market for families. The existing affordable apartment market is extremely limited, which has been the case for several decades. The market area contains only six apartment complexes with 129 units. Only two of these properties with 60 apartment units are LIHTC communities that are now showing signs of aging. The newest complex, Cedar Forest, is nearly two decades old. The current competitive market has no vacancies. The lack of apartment availability has been the case for several years. Additionally, there are no affordable apartments in active planning or under construction in the market area at this time.

The Alleghany Highlands has not been a growth area, and for this and other reasons new rental housing has not been built in some time. As a result, WestRock and other local employers report that hourly employees have resorted to “doubling up” in area apartments and single-family homes. Many of these employees have sought housing outside of the region, largely to the Botetourt County/ Roanoke and Lexington areas, as there is rarely suitable housing available for them locally.

Additionally, the market area houses a large number of seniors in inadequate housing that would be better served by the Rivermont School Apartments design (with elevators and on-site amenities). A new affordable product, such as the type proposed, provides an excellent opportunity to capture these individuals and provide them more adequate, appropriate and safe housing. Finally, the market area is reversing recent employment trends and generating some job growth. This includes at least 330 documented job announcements as well as approximately 70 new hires at WestRock annually due to turnover.

Thus, while the capture rate will be shown to be high, the market area clearly has an undeserved affordable housing market. The site location within minutes of WestRock makes it especially marketable.

The following Analysis of Demand will show the evolving supply/demand analysis for family rental housing for the projection period of 2024.

Demand Table

The demand table is presented next. It shows a projected net growth of 20± targeted family households for the 2020 to 2024 period for the 40% apartment units. The growth amount is 40± households for the 50% and 60% apartment units.

Added to this total is a 30 percent factor to account for expected tenants with vouchers for an increased demand of six renter households for the 40% apartment units, 12 renter households for the 50% apartment units and 12 renter households for the 60% apartment units.

Census data show that the market area has approximately 80 homes without complete plumbing or kitchen facilities and thus are defined as substandard homes. A larger number of homes do not have telephone service. Additionally, over 60 percent of the homes in the market area were built prior to 1970. A conservative estimate is therefore made that 40 percent of the families in these substandard homes, or 30± households, would potentially qualify for and relocate to a LIHTC complex, if built.

We did not include additional demand from seniors likely to convert to rental housing, as this was already accounted for in the demographic projections in Table 7 and Table 8.

For supply, we noted that there are no apartments in planning or under construction in the market area with income restrictions. One complex, River Retreat, is under construction in Low Moor in Alleghany County. This will be a market rate apartment complex with higher rents and thus not competitive with the Rivermont School Apartments proposal. The other available apartment units are part of normal market area vacancy and therefore excluded from the demand analysis.

This generates a net potential demand of 36 units for the 40% income category, 62 units for the 50% income category and 62 units for the 60% income category.

Demand Table (2020-2024)				
	Up to 40% of AMI	Up to 50% of AMI	Up to 60% of AMI	Total
New Rental Households	20	40	40	100
PLUS				
Existing Households - Over-Burdened	6	12	12	30
PLUS				
Existing Households-Substandard Housing	10	10	10	30
PLUS				
Elderly Households-Likely to Convert to Rental Housing	0	0	0	0
PLUS				
Existing Qualifying Tenants – to Remain After Renovation	0	0	0	0
Total Demand	36	62	62	160
MINUS				
Supply (includes directly comparable vacant units completed or in pipeline in PMA)	0	0	0	0
Equals				
Net Demand	36	62	62	160
Proposed Units	5	20	24	49
Capture Rate	13.9%	32.3%	38.7%	30.6%
Absorption Period (in months)	0	2	3	3

The 40% apartment units are expected to be fully pre-leased at project opening, given the proposed rents and large demand that exists for such units. Lease-up for apartment units restricted to households earning 50% of AMI is anticipated to occur within two months while lease-up of the apartment units restricted 60% of AMI is anticipated to occur within three months.

Capture Rate

The capture rate of total demand is 30.6 percent. The lease-up period is shown as four months from the start of pre-leasing.

The Virginia Housing capture rate chart is as follows:

Project Wide Capture Rate – LIHTC Units	<u>30.6%</u>
Project Wide Capture Rate – Market Rate Units	<u>N/A</u>
Project Wide Capture Rate – All Units	<u>30.6%</u>
Project Wide Absorption Period (Months)	<u>3 months 1/</u>
Notes: 1/ Includes units to be pre-leased.	

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.
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 Virginia Housing or in any way acting for, at the request of, or on behalf of Virginia Housing.
6. Compensation for my services is not contingent upon this development receiving a LIHTC reservation or allocation.

Ariel Goldring

Market Analyst

March, 2022

Date