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Market Study Guidance

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Overview

- A. All applicants must provide a Market Study in accordance with this document (THDA Market Study Guidelines).
- B. The market study must be performed by an independent third party selected from the Approved Market Study Vendor Listing on the THOMAS document page.
- C. THDA will not accept market studies prepared by parties that is determined, in its sole discretion, are not independent.
- D. The Market Study Analyst must clearly indicate that THDA can rely on the accuracy of the report.
- E. A unique market study must be prepared for each proposed development using up-to-date data.
- F. The market study must be prepared in accordance with the most recent version of the Model Content Standards published by the National Council of Market Analysts (NCHMA) with additional information as specified in this document.
- G. The Market Study and other supporting documents, in a form and with content acceptable to THDA, in its sole discretion, must demonstrate market demand for the proposed development.
- H. **The Market Study must be less than six months old at the time of application submission.**
- I. THDA will not accept a Market Study performed by an analyst or firm not listed in the THDA Approved Market Study Listing. This includes any Market Study performed on behalf of an analyst or firm listed in the THDA Approved Market Study Listing by an analyst or firm not listed in the THDA Approved Market Study Listing (i.e. a "subcontracted" Market Study).



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J. Based on the information and analysis presented in the Market Study, and based on other information available to THDA, THDA may determine that market demand is insufficient to support the proposed development. Refer to the recommended demand measures in this document.

K. A complete market study consists of:

a. A full report prepared according to the Model Content Standards and THDA Market Study Guidelines including certifications, qualifications, and disclosure of sources.

i. Properly formatted Shapefiles:

1. PMA polygon;
2. Parcel polygon(s); and
3. Parcel centroid(s).

ii. A comma separated values (CSV) file listing the census tracts which comprise the primary market area.



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Organization of Market Study

- A. The contents of each market study must be organized in the format of the NCHMA Market Study Index. The Market Study Index should appear near the **beginning** of the report as a Table of Contents indicating page numbers.
- B. The market study should follow NCHMA guidance for crafting an Executive Summary and Scope of Work. Additionally, the Scope of Work should identify:
 - a. The primary analyst reaching conclusions related to demand and market conditions;
 - b. Contact information for the person who prepared shapefiles submitted with the market study; and
 - c. The software used to create the shapefiles (e.g. ArcMap 10.7.1 by ESRI, QGIS 3.14).



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Content of Market Study

A. Development Location

- a. The market study should identify the Development Location Point (DLP) of the proposed development.
- b. Single site development: For proposed development sites comprised of a single contiguous parcel of land, the DLP is the centroid – the geometric center – of the parcel expressed as latitude-longitude coordinates in decimal degrees.
- c. Multiple parcel development: For proposed development sites comprised of multiple parcels in close proximity (e.g. separated by a public right-of-way), the market study should identify the geometric center of each parcel expressed as latitude-longitude coordinates in decimal degrees. THDA will determine which point best functions as the DLP.
- d. Scattered site developments (2 or 3 parcels): For proposed development sites comprised of multiple non-proximate parcels (e.g. physically discrete properties combined into a single financial structure for business purposes), the market study should identify the centroid of each parcel. The development will have more than one DLP.
- e. Scattered site developments (more than 3 parcels): For proposed developments which consist of more than 3 non-proximate sites (e.g. 100 single family homes spread across a city) the analyst should provide the address and coordinates for each location. In addition, the analyst should report the median center point expressed as latitude-longitude coordinates in decimal degrees, which will be the DLP.



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B. Primary Market Area Information (New Construction and Rehabilitation)

- a. Primary Market Area – Analysts should describe the methodology used to determine the primary market area (PMA) and describe its geographic boundaries, demographics, etc.
- b. Each market study should include a list of all census tracts by Federal Information Processing Standards (FIPS) code which are within the boundaries of the PMA. The FIPS codes should be listed in the report as well as in a comma separated values (CSV) file uploaded in THOMAS. The CSV file must include:
 - i. Geoid
 - ii. County

C. Comparable Properties – The market study should include a narrative description of each comparable property in the market area. Where information can be obtained, the narrative must include the following for each comparable property:

- a. Unit mix and in-unit features;
- b. Development amenities offered;
- c. Physical condition of the property;
- d. Occupancy information;
- e. Rent restrictions and subsidies;
- f. Special programs or supportive services offered (if any); and
- g. Approximate distance in miles from the centroid of the subject property.
- h. The analyst should include any additional information known about comparable properties which impact the competitive position of the proposed development.



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D. Area Services – The market study should describe and evaluate any services in the primary market area available to the intended tenants.

a. Shopping and Related Services: Location and distance from the proposed subject site to the nearest:

- i. grocery store;
- ii. convenience store;
- iii. pharmacy;
- iv. hospital or walk-in clinic;
- v. bank;
- vi. retail shopping; and
- vii. other relevant community services.

b. Transportation: The market study should discuss the subject property's access to major roads and highways as well as public transit options.

- i. Where bus service is available, the analyst should identify the transit system, the location of the nearest stop, distance to the nearest stop, and the specific routes available . A complete listing of transit systems is available on the website of the Tennessee Department of Transportation.
- ii. Where applicable, the market study should identify nearby bus transfer centers, commuter rail stations and any other fixed-route forms of public transportation (i.e. the WeGo Star commuter train and MATA Trolley).
- i. Educational Facilities (Not applicable for properties exclusively serving seniors)
 1. The name, location and distance from the proposed development to each child care facility offering subsidized services identified on



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the website of the Tennessee Department of Human Services within the PMA.

2. The name of the school, location, grade levels served, district, and distance from the proposed development to any public k-12 school within the PMA.
3. Senior Center The market study should identify senior centers located within the PMA using the listing of the Tennessee Department of Disability and Aging The report should list the senior center name, location, and distance to the proposed development site.



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Affordability Analysis, Demand Analysis, Capture Rates, and Penetration Rates

A. New Construction

- a. THDA will evaluate the measures of demand reported in market studies. The market study must indicate that sufficient unmet demand exists in the primary market area necessary to ensure that:
 - i. the property meets a demonstrated community need; and
 - ii. the financial viability of the property is reasonably assured at the time the property is placed in service.
- b. THDA's analysis will be based on the relationship between three factors:
 - i. The total size of the income-qualified rental market;
 - ii. the penetration rate; and
 - iii. the capture rate.
- c. When estimating demand, the analyst must specify each set-aside the project will serve as a percentage of area median income (i.e 20% 30%, 40%, 50%, 60%, 70%, 80% of AMI).
- d. In general, for newly placed-in-service properties, the product of the capture rate and penetration rate should not exceed 0.02 . For example, a new development in a healthy competitive market may have a capture rate less than 8% in a primary market area with a penetration rate below 25%. In a more competitive market, with a penetration rate of 34%, the capture rate should not exceed 6%.
- e. Where market conditions are outside the acceptable range shown in Figure 1, the market analyst should provide context by discussing the qualitative factors



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which support the conclusions reported in the market study. See examples below:

- i. **Rapid Growth Markets:** A large urban market is characterized by consistent growth in the population of income-qualified renter households. Employment growth, especially in the service sector, is robust. Although incumbent properties and/or a pipeline of properties in development within the PMA yield comparatively high penetration rates, the scale of the market in absolute numbers is large and growing. The market rapidly absorbs newly placed in service units. The subject property needs to capture a relatively small share of the addressable market in order to reach its target occupancy.
- ii. **Underserved Rural Markets:** The PMA is located in a rural area which may or may not have a history of economic distress. The market includes a sufficient density of income-qualified renter households to support multifamily properties. Although the proposed development will need to capture a significant share of the addressable market, there are few competitors. The scale of the market is unlikely to draw significant competition. In cases where the community has a history of severe economic distress, there have been significant recent private sector investments and/or public policy interventions intended to spur economic development. The project-sponsor may be a mission-driven organization, have a significant connection to the area, or may possess special expertise in underserved rural areas. The subject property is expected to reach target occupancy in a reasonably short period of time.



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- iii. **Markets with High Barriers to Entry:** The PMA is characterized by substantial and consistent unmet demand. There are few if any incumbent properties. There are few properties in development. Among income-qualified renter households, rents and housing cost burdens are high. Some barrier to entry has prevented the development of multifamily rental development (e.g. an especially costly or time-consuming land entitlement process, strong community resistance to income-qualified multifamily development, excessively high land costs, mountainous/riparian topography, or persistent inability to obtain urban services). The project-sponsor has been able to overcome the barrier to entry while competitors are unlikely to do so.
- iv. **Uniquely Competitive Subject Properties:** The market is partially saturated by competing properties. However, the analyst has reason to believe that the property will be able to achieve its target occupancy without an overly long absorption period. Incumbent properties may be aging with functionally obsolescent units while the proposed development is of high quality. The proposed development may offer superior amenities. The proposed development site may have a particularly advantageous location (e.g. adjacent to a public transit facility or other important amenity). The proposed development may benefit from project-based rental subsidies. The analyst should explain the factors which support the conclusion that the property will capture the necessary share of demand.



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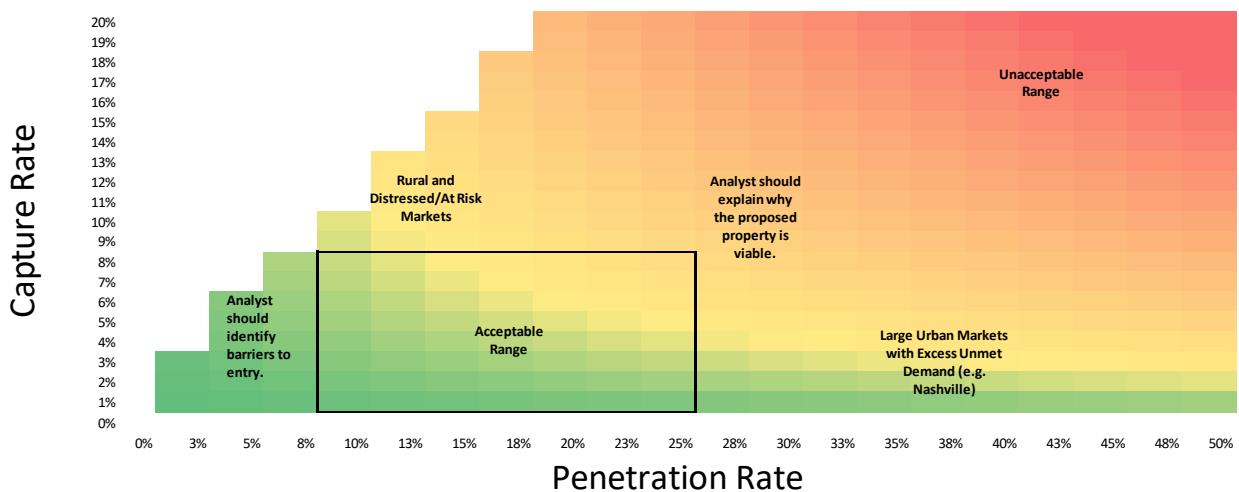


Figure 1- Ranges of Capture and Penetration rates.



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Analysis and Conclusions

- A. The analyst should identify the target stabilized occupancy rate.
- B. Absorption Rate
 - a. The report should state the absorption rate in months and should identify the pace at which different unit configurations and income-set asides are expected to lease up.
 - b. The analyst should explain the process for determining the absorption rates.
- C. The market study should include a meaningful discussion of market strengths and weaknesses specifically of the targeted income levels. The report should clearly identify any known market condition which may impair the proposed property's ability to achieve stabilization occupancy at pro forma rents within the absorption period.
- D. The analyst should briefly discuss the proposed development's likely impact on existing affordable housing within the PMA.



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Shapefile Submission

A. A complete market study includes three shapefiles uploaded to THOMAS:

- a. Primary Market Area (PMA), a polygon
- b. Subject property, a polygon ; and
- c. Development Location Point (DLP), a point .

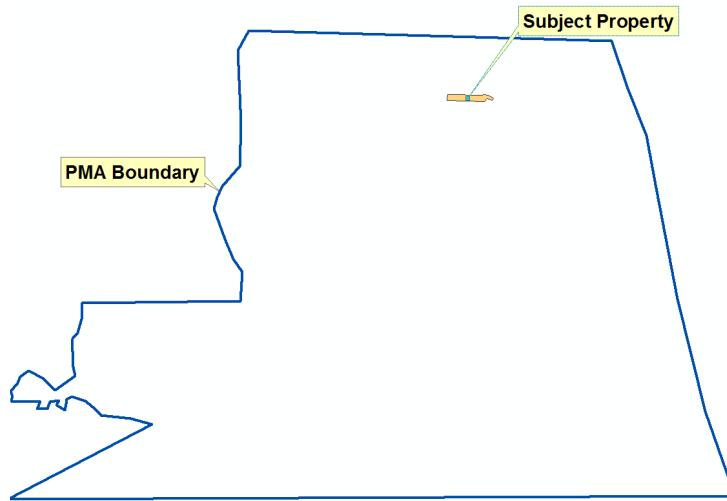


Figure 2-PMA Boundary and Subject Property

B. The PMA shapefile must accurately illustrate the boundaries of the primary market area and should depict the influence of natural and anthropogenic barriers. There should be one PMA polygon for each shapefile submission.

C. There may be more than one subject property shapefile and more than one DLP for each shapefile submission.

D. The shape of the submitted parcel(s) should broadly conform to the parcel geometry of the records of the applicable County Assessor and/or the Tennessee Comptroller.

Applicants may assemble parcels and parts of parcels and propose the creation of new



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parcels out of larger existing properties. However, when overlaid on an existing cadastral map, the subject property polygon should not bisect existing buildings, encroach upon public rights of way, or cross existing parcels in a manner that, in the assessment of THDA staff, appears to represent an unlikely assemblage of land. If the shape of submitted parcels differ meaningfully from the county assessor's parcel data, THDA staff will fail the submission upon initial review. In such a situation, the market study analyst will have an opportunity to make a timely cure to their shapefile and address discrepancies in parcel shape.

E. All data must be in the projected coordinate system

NAD_1983_2011_StatePlane_Tennessee or a functional equivalent (EPSG WKID 6576). Both ArcMap and QGIS allow users to select this projected coordinate system. Contact THDA Research & Planning with questions.

F. The attribute table associated with the PMA must consist of six fields:

- a. TN Number;
- b. Project Name;
- c. Penetration Rate;
- d. Project Capture Rate;
- e. Target Occupancy; and
- f. Project Absorption Period in Months.

G. The attribute tables associated with the Subject Property and DLP shapefiles must consist of seven fields:

- i. TN Identification Number assigned in THOMAS;
- ii. Street Address (or description);
- iii. City;



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- iv. County;
- v. Project Name;
- vi. Polygon Centroid Longitude; and
- vii. Polygon Centroid Latitude.

H. Each shapefile should be uploaded as a compressed file containing all necessary extensions to open in the most current version of ArcMap by ESRI Extensions. Please note that the THOMAS system, may not accept zip files so after the application submission THDA will have the Market Study Analyst to email the files to TNAlocation@thda.org

I. There are typically at least 6 or 7 extensions that make up 1 shapefile. The following extensions: .prj, .shp, .shx and .dbf must be included; the submission may also include the extensions .xml, .cpg, .sbn and .sbx. See example below:



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Additional Documents

- A. Properly formatted Shapefiles:**
 - a. PMA polygon;**
 - b. Parcel polygon(s); and**
 - c. Parcel centroid(s).**
- B. A coma separated values (CSV) file listing the census tracts which comprise the primary market area (see example in the Content of Market Study section of this document).**
- C. Any supporting documentation related to the demand analysis and explanation of feasibility described in the Affordability Analysis, Demand Analysis, Capture Rates, and Penetration Rates section of this document.**



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