II. EXECUTIVE SUMMARY

Based on the findings reported in our market study, it is our opinion that although the project meets most of the demand requirements of GDCAGHFA, a market **does not** exist for the 244 units proposed for renovation under the Tax Credit program at the subject site. Given the extremely high number of vacancies at two existing Tax Credit properties in the Site PMA, we believe renovation of the subject property under the LIHTC program will further limit the ability of these struggling Tax Credit properties to achieve a stabilized occupancy levels near 90%. Following is a summary of our findings:

The penetration rates by bedroom type are excellent to moderate, ranging from 2.5% to 18.9%. These penetration rates are indicators that there is ample support for the units at the subject site to be renovated as proposed, given the GDCAGHFA demand calculations.

It is our opinion that the 219 LIHTC units would reach a stabilized occupancy of 93% within 17 to 20 months of opening, with an average absorption rate of 10 to 12 units per month.

It is our opinion that the 25 market-rate units would reach a stabilized occupancy of 93.0% within six to eight months of opening, with an average absorption rate of three to four units per month.

Both of these absorption projections assume the project is vacated at the time the project is renovated. This is unlikely given a renovation schedule that would probably displace a minimum of residents. However, we were not provided a construction schedule or the number of current residents who would qualify under the LIHTC guidelines.

We conducted an on-site survey of 37 conventional properties totaling 8,672 units. Of these properties, 31 are non-subsidized (market-rate or Tax Credit) with 8,091 units. Among these non-subsidized units, 87.2% are occupied. We consider this a low occupancy rate, and an indication of the softness of the non-subsidized conventional apartment market. There are also six government-subsidized projects in the market with a total of 581 units. These units have an overall occupancy rate of 99.3%.

It is of note that two older properties that were renovated under the LIHTC program have a high percentage of the vacant units in this market. The Farrington (Map I.D. 11) is 66.9% occupied with 85 vacant units, and Hickory Lake (Map I.D. 13) is 50.3% occupied with 361 vacant units. Vacancies at The Farrington are attributed to a recent management change that resulted in numerous evictions, as the previous management company had not properly qualified tenants. Following Hickory Lake Apartments' conversion to Tax Credit in 2003, the property was forced to evict more than half of the tenants, and it has not been able to attract new tenants because they did not meet the Tax Credit guidelines.

Six of the eight comparable LIHTC properties have occupancy rates of at least 92%, while The Farrington and Hickory Lake have very low occupancy rates due to an inability to attract a sufficient number of income-qualified households. In fact, according to the current manager at The Farrington, the former manager is accused of lying about property occupancies over the last few years.

The proposed subject Tax Credit rents, $583 to $633 for a one-bedroom unit, $745 for a two-bedroom unit, and $950 for a three-bedroom unit will be among the highest priced Tax Credit units in the market. This may limit the subject site's ability to compete with more modern Tax Credit alternatives in the market. Significant renovation and improvements to the subject site will be necessary to support the proposed Tax Credit rents at the site. This is especially true considering the high vacancy rates at two properties that were also built in the late 1960s and renovated under the Tax Credit program

Five of the eight comparable Tax Credit properties offer reduced rents or concessions such as one month free with a 13-month lease or $99 to $299 for the first month's rent. This amount of rent concessions is indicative of a soft LIHTC market.

The units at the subject site are of appropriate size for LIHTC units and are similar in size to most of the comparable units in the market. In regards to bathrooms, the units at the subject site will be very competitive with the other Tax Credit projects in the market.

The unit amenity package included at the proposed subject development is somewhat lacking, as the subject development will not offer garbage disposals, dishwashers, or ceiling fans. However, the subject development does not appear to be lacking any significant amenities that would hinder its marketability to operate as a Tax Credit project. These issues would be amplified if the subject property is approved.

Renovating the subject site into a LIHTC project is expected to increase vacancy rates only slightly at most of the comparables, while further limiting the ability of projects like The Farrington and Hickory Lake to achieve a stabilized occupancy of at least 90.0%. In fact, we project that occupancy rates at both of these projects will continue to be well below 90.0% through the next several years, due to site-related issues.

Using Rent Comparability Grids, it was determined that the present-day market-driven rent for units similar to the proposed subject development are $580 for a one-bedroom unit with 655 square feet, $660 for a one-bedroom unit with 900 square feet, $690 for a one-bedroom unit with 1,000 square feet, $795 for a two-bedroom garden unit, $750 for a two-bedroom townhome unit, and $860 for a three-bedroom townhome unit.

The proposed collected Tax Credit rents are 81.2% to 95.3% of market-driven rents and appear to be good values for the subject market, except among the subject site's three-bedroom units, which appear to be somewhat over-priced for this market. We recommend reducing these Tax Credit rents to $780 to allow for a greater perception of value among these units compared to market-rate comparables. The proposed rents for the market-rate units at the site are 86.8% to 98.8% of market-driven rents, meaning all these units except three-bedroom market-rate units should also be considered a value for the market.

The existing single-family homes in the immediate site area have all been well maintained and are in good condition. Edinborough Senior (independent, market-rate) apartments are directly north of the site and are in good condition as well. Overall, the subject property fits well within the surrounding land uses and contributes to the marketability of the site. The zoning of the surrounding land uses is primarily single-family and multi-family residential and is not expected to change according to area officials. No significant infrastructure improvements are currently planned for the site area.

The site is within close proximity to shopping, employment, recreational, entertainment, and educational opportunities. Social services, public transportation, and public safety services are all within 5.0 miles of the site. The site has convenient access to major highways. Overall, we consider the site's location and proximity to community services to have a positive impact on marketability.

After speaking with the manager at Windmill Lake Apartments, it was determined that the Marietta Site PMA includes parts of Marietta and Smyrna and a portion of Cobb County between these two municipalities. The boundaries of the Site PMA consist of Roswell Street to the north; Interstate 75, Windy Hill Road, and Atlanta Road to the east; Hurt Road and Concord Road to the south; and Powder Springs Road to the west. The areas to the east, south, and west of the Site PMA are not expected to generate support for the site as it consists primarily of upscale, single-family and multifamily homes. The area to the northwest of the Site PMA contains higher end, established single-family homes. Therefore, residents in this area will not qualify for the Tax Credit program at the existing site.

According to statistics provided by AGS and based on interviews with representatives of the local area Economic Development Division, the areas historically low unemployment rate and steadily growing employment base are indicators that the local economy will continue to experience stability over the foreseeable future. None of Cobb County's 10 largest employers are expecting significant changes in employment levels over the next year. Given the steady growth that has been occurring throughout Cobb County, it is not surprising that construction is the largest segment of the labor force.