



**12**

# Case Study 4: Residential Properties

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# Case Study 4:

## Residential Properties

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### Case Study Goal

The goal of the residential case study is to apply the CCIM Strategic Analysis Model in identifying an apartment trade area for a developer among alternative locations to meet expected population and employment growth.

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### Case Study Objectives

- Identify basic employment in McKinney for a given industry category using STDB employment data reports.
- Search for permitted Multifamily land use that will allow multifamily development and select apartment trade area(s) which conform to the urban living (UL) as defined by the municipality's plan of development that allow apartment development.
- Determine the annual threshold income for a typical market rent for the selected district(s) for one- and two-bedroom apartment.
- Identify the qualifying trade area districts which allow apartment development through comparison of their lifestyle that meet client's parameters.
- Conduct a comparative analysis to determine which three or four of the selected districts meet the client's parameters for future apartment growth.
- Identify pipeline data through Moody's CRE Data, New Construction Report (Excel) average rent trends, target area vacancy rate, absorption, operating cost, apartment supply and estimated demand and demand for the study area (Executive Summary).
- Create a PPT presentation supported by analyses results that determines whether there is demand for apartments in the study area and meets given client criteria.

**NOTES**

## Case Study 4: Residential Properties

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### Client Background

Your team has been hired by an east coast apartment developer, C. Campbell Developers, LLC. The client is interested in expanding into growing apartment markets like Dallas-Fort Worth. The client favors existing apartment trade areas in growing markets that allow apartment development.

The client had learned that two corporations just announced new office development in McKinney, Texas. One being an international finance & insurance company which announced that they will be creating 5,000 new jobs and a Unicorn Tech company announced they will be creating 3,000 new jobs in McKinney.

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### Client Situation

Your client desires you to identify a residential trade area that can meet the expected growing population and employment growth. The client's preliminary research is focused on the McKinney 2040 Comprehensive Plan which identifies Districts that allow development of apartments. She used the Preferred Scenario map in the Comprehensive Plan to target some districts. She identified potential districts that are west of U.S. Route 75 and along and north of US Route 380 in McKinney TX.

Your assistance is needed to conduct an analysis to advise the client on which district(s) can support sustainable urban living UL (apartments) in the targeted area with linkages to retail, medical services, schools, parks, public transportation, etc. Determine through a market analysis the demand for new apartments within the District(s) identified that supports the client's plan to develop 250 units with 125 one-bedroom and 125 two-bedrooms. When analyzing potential locations, you will look at and compare: average disposable income, median disposable income, education with bachelor's degrees, renter occupied housing units and rented dwelling units. You will also create a map showing the locations of new market rate apartments to identify growth patterns. In addition, you know the client will weigh heavily their decision on lifestyle and its impact on those who rent.

The client needs this information for an upcoming board meeting.

## **Client Assumptions**

- The client can obtain a 20-year mortgage at 5.0 percent with monthly payments at a 1.30 DCR.
- The Client has an 8 percent target yield.
- Projects of this type have an estimated economic life of about 60 years.

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## **Scope of Analysis**

In this residential case study, CCIM Strategic Analysis model components will be applied except for site specific location analysis. You will identify an apartment trade area within the Dallas sub-market of McKinney, Texas and provide market analysis results to delineate an apartment trade area based on the McKinney 2040 Comprehensive Plan in support of current and future apartment demand. Your market analysis should include use of the McKinney 2040 Comprehensive Plan, demographic research using STDB, third party market data from Moody's CRE Reports, and third-party data using current market data, such as Apartments.com.

# Market Analysis

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## Task 12-1: Market Demand

### Objective

Analyze current and future market rate apartment demand for McKinney, Texas.

### Rationale

Determine if the study area has current and future demand for market rate apartments.

### Resources

STDB Business Analyst (BA) Moody's CRE Apartment Report for Dallas Metro and Plano/Allen/McKinney Submarket.

### Steps

Read Moody's Analytics / CRE Apartment report (PDF) for Plano /Allen/McKinney Apartment: Executive Briefing and Submarket information for Plano/Allen/McKinney conditions to note your findings and opinions.

### Note your findings:

1. How many apartment units are there in the study area and how does it rank?  
\_\_\_\_\_

2. How many apartments have been added to the submarket in the last quarter? What is the annual growth rate?  
\_\_\_\_\_

3. What has been the rent change percentage in the last quarter?  
\_\_\_\_\_

4. What is the *mean* rent for one and two-bedroom units? Has it increased or decreased?  
\_\_\_\_\_

5. How many Households were formed in the last quarter? In a Year?

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6. What was the apartment submarket absorption in the last quarter? How did the study area rank vs. the metro?

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7. What is the submarket vacancy rate? How does it compare to the metro?

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8. What is the vacancy expected to be at the end of the current year? How many basis points did it rise or fall?

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9. What is the current operating expense ratio for apartments?

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10. After reviewing the apartment report, should we pursue apartment development for our client?

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*End of task*





## Task 12-2: Basic Employment Calculation

### Objective

Identify number of basic employees that will be employed by each new corporation planning to locate in McKinney using Civilian Labor Force Profile for McKinney, TX.

### Rationale

Determining the additional basic employees is to determine the growth of the employment sector(s) and to estimate the demand for real estate.

### Resources

STDB - BA infographics Civilian Labor Force Profile Report.

### Steps

1. Open STDB. Define Areas > Search- McKinney, TX.
2. Select County Subdivision - McKinney CCD TX > Finish
3. Select Civilian Labor Force Profile > Run
4. Use Location Quotients for Finance and Insurance, Professional and Technical services.
5. Calculate percentage of basic employees for target sectors.
6. Calculate number of estimated basic employees for the two new employers.

### Note Your Findings

1. What percentage of the 5,000 Finance and insurance employees and what percentage of the 3,000 Professional and Technical services employees are basic employees??
  - a. Finance & Insurance

\_\_\_\_\_

- b. Professional & Technical services

\_\_\_\_\_

*End of task*



# Political & Legal Analysis

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## Task 12-3: Land Use

### Objective

Search for land use that allows multifamily development and select apartment trade area(s) which conform to McKinney's Plan for development that encourages urban living (UL) designation (UL = apartments).

### Rationale

Confirming land use allows multifamily/apartments is critical to moving forward with analysis, in this case a multifamily development.

### Resources

- McKinney 2040 Comprehensive Plan (PDF- preferred districts bookmarked) <https://www.mckinneytexas.org/292/Comprehensive-Plan>
- Preferred Scenario Map (PDF)
- McKinney-districts (zip file)

### Steps

1. Review Preferred Scenario Map to identify which districts permit urban living (multifamily/apartments).
  - a. Preferred target area is West of US 75, North, and about US 380.
2. Import McKinney-districts zip file into STDB/BA to create interactive Districts Map (drag the file to your desktop).
3. Open BA-Open Projects> select Add Data> Import File > Browse. Select the file from your desktop > Open. Result - all McKinney districts are loaded to BA.
4. Eliminate all districts not in the study area.
  - a. Open Clear Map > Select All > Uncheck the districts within the study Area that meet the criteria. Click clear to eliminate districts not in the study area. (remaining districts area used in next task, keep it open)

## Note Your Findings

1. What are the districts within the identified study area?

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2. Of the districts in the identified study area, which districts allow urban living (UL)?

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*End of task*

# Market Analysis

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## Task 12-4: Districts Analysis

### Objective

To isolate Districts that allow multifamily development and analyze the characteristics of those districts; compare to McKinney.

### Rationale

To determine market rate apartment demand.

### Resources

- Modified District map created in the previous Task 12-3.
- STDB reports: Lifestyle, Comparison

### Three Steps

#### STEP ONE – IDENTIFY DISTRICTS FOR URBAN LIVING

1. Starting with the modified District map created in previous Task 12-3, eliminate those districts that do not allow urban living (same process as Step 3 and 4 in Task 12-3) Use the selection tool to draw a rectangle covering the remaining districts (remaining districts have diagonal lines when done.)

#### STEP TWO – CREATE COMPARISON REPORT

1. Use the selection tool to create a comparison report of the districts.
  - a. Click comparison report - Then comparison report again
  - b. Click add variables - To find next variable, click categories on the upper left or type in the search box the desired data. Add the following variables to answer the questions.
    - i. Total Population – Current year
    - ii. Average disposable income
    - iii. Median HH disposable income
    - iv. How many have a bachelor’s degree?
    - v. How many renter-occupied units are there within the study area?

## Note Your Findings

### (STEP TWO)

1. How do these benchmarks compare to the data developed in the lifestyle analysis?  
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2. How does the group of selected districts compare to the McKinney ZIP code?  
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### STEP THREE – LIFESTYLE SEGMENTATION REPORT

1. Compare the Districts in the modified District map as one area.
2. In the Description box select “Create site for combined areas.”
3. Run a tapestry (Lifestyles) segmentation Report for the combined study area.

## Note Your Findings

### (STEP THREE)

1. How many Lifestyles are there in the 5 districts?  
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2. What lifestyles comprise 75% or more of the population?  
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3. What percent of households rent in each of those lifestyles?  
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4. What is the median income and net worth for each of the lifestyles?

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5. How does the combined district data compare to the individual district data?

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*End of task*

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## Task 12-5: Pipeline Data

### Objective

Identify pipeline data through Moody's, CRE New Construction Report (Excel) for rent trends, vacancy rate, absorption, operating cost, apartment supply, estimated demand for the study area.

### Rationale

Determine insight on market dynamics related to apartment rentals for McKinney.

### Resources

- New Construction raw data for filtering (Excel file)
- STDB/BA open interactive McKinney District Map (Task 12-3)

### Steps

1. Use Moody's CRE excel pipeline market rate construction data for Plano/Allen/McKinney (New Construction Excel file).
  - a. Delete subsidized housing row(s), Townhouses, Mixed use.
  - b. Add column headings: Street Address, City, State... > save file.
2. Use McKinney Districts Map (from Task 12-3), add data, locate file, import, all new construction points should populate onto the map > Save.

### Note Your Findings

1. Which of the selected Districts have new apartment development?

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2. Which District of those selected have new construction?

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*End of task*

# Financial Analysis-Rent Setting



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## Task 12-6: Threshold Income

### Objective

Determine the annual threshold income for a typical market rate rent for the selected district(s) for one- and two-bedroom apartments. Compare estimated rents to apartments.com, Moody's CRE market rate apartment data and HUD Fair Market Rents data for the current year for one- and two-bedroom apartments.

### Rationale

Determine if the target area can support the proposed market rate apartment project.

### Resources

- HUD Fair Market Rents (use current year)  
<https://www.huduser.gov/portal/datasets/fmr.html>
- Apartments.com current rents
- [Apartments.com](https://www.apartments.com)
- Moody's CRE data for Apartments for Plano Allen McKinney (PDF)
- Moody's CRE Analytics for New Apartments Construction for Plano Allen McKinney (Excel)
- STDB/ BA Market Research

### Steps

1. Estimate the average or median market rate rent (review HUD and CCIM Moody's CRE, apartments.com as sensitivity reference for market rate rents for one- and two-bedroom apartments) for McKinney ZIP 75071 (Rents, TX, Collin County, 75071). Check apartments.com for current McKinney market rate rents.
2. Use the Moody's CRE PDF Report Apartments Plano Allen McKinney to obtain market rate rent data, vacancy, and operating expense dollar amount or ratio.



3. Determining threshold income (refer to residential Module 8- Threshold Income): noting median income, less taxes, is disposable income.
  - a. Gross up base rent to estimate threshold income.
  - b. Add expenses, annualize, gross up by percent spent on housing, gross up by after tax percentage to estimate annual threshold income (for Excel workbook input).
4. Compare threshold income to study area income.

### Note Your Findings

1. Compare calculated threshold for market rate rents within market rents to Moody's CRE Reports rents the subject area?

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2. How does market rent from Moody's CRE reports compare to HUD (current year) affordable and apartments.com rents for the McKinney market? Are they valid comparisons?

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3. What asking market rate rent would you recommend for McKinney one- and two-bedroom units today?

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4. Will the targeted threshold income support one and two-bedroom rental units in the study area and why?

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*End of task*

# Client Recommendation

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## Task 12-7: Client Recommendation

### Objective

Review data to determine which of the selected districts is best for the client's project. Recommend action client should take based on your macro analysis. Prepare a five-minute presentation to be submitted to your client with supporting data.

### Rationale

A comparative analysis can help to determine which of the districts best meets the client's criteria. Analyses results should provide supportable fact-based data/information derived from your market analysis to communicate recommendation to your client and their real estate committee.

### Resources

- Results of completed analyses in prior tasks
- PowerPoint

### Steps

Prepare a five-minute PowerPoint presentation which supports your recommendation for the target district(s) to be delivered to the client's real estate committee.

### Note Your Findings

1. What district(s) best meets the client's objective?
2. Should the client:
  - a. Build now?
  - b. Land bank for future development?
  - c. Move on?
  - d. Add other data to support your decision, such as:
    - i. Demand
    - ii. Absorption
    - iii. Rent levels for one & two-bedroom units in McKinney
    - iv. Median threshold income for the target District(s)

v. Is there one district better than the other districts? Why?

3. Does the opportunity exist for a walking or transit-oriented community, with supporting linkages, employment node(s) and supporting lifestyle(s) for apartments? Why?

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4. Will the selected district(s) support apartment development without being a walking or transit-oriented community?

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*End of task*

*End of case study*