

# **An Apartment Analysis in Rapid City, South Dakota**

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The logo for Danter Company, featuring the company name in blue serif font between two horizontal brown bars.

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# I. INTRODUCTION

## A. OBJECTIVES

This study analyzes the feasibility of developing an apartment complex in Rapid City, South Dakota using the low-income housing Tax Credit program. After fully discussing the scope and area of survey with Tyler Arens of Good Samaritan Society, Danter Company, LLC undertook the analysis.

## B. METHODOLOGY

The methodology we use in our studies is centered on three analytical techniques: the Effective Market Area (EMA)<sup>SM</sup> principle, a 100% Database, and the application of data generated from supplemental proprietary research.

The Effective Market Area (EMA) Principle—The EMA principle is a concept developed by Danter Company, LLC to delineate the support that can be expected for a proposed development. An EMA is the smallest specific geographic area that will generate the most support for that development. This methodology has significant advantages in that it considers existing natural and manmade boundaries and socioeconomic conditions.

Survey Database—Our surveys employ a 100% Database. In the course of a study, our field analysts survey not only the developments within a given range of price, amenities, or facilities, but all conventional developments within the EMA.

Proprietary Research—In addition to site-specific analyses, Danter Company, LLC conducts a number of ongoing studies, the results of which are used as support data for our conclusions. Danter Company, LLC maintains a 100% Database of more than 1,500 communities, with each development cross-analyzed by rents, unit and project amenities, occupancy levels, rate of absorption, and rent/value relationships.

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## **C. DATA ANALYSIS**

This study represents a compilation of data gathered from various sources, including the properties surveyed, local records, and interviews with local officials, real estate professionals, and major employers, as well as secondary demographic material. Although we judge these sources to be reliable, it is impossible to authenticate all data. The analyst does not guarantee the data and assumes no liability for any errors in fact, analysis, or judgment.

The secondary data used in this study are the most recent available at the time of the report preparation.

In Section VII—Field Survey, we have attempted to survey 100% of all units. Since this is not always possible, we have also compared the number of units surveyed with the number of multifamily housing starts to establish acceptable levels of representation. All developments included in the study are personally inspected by a field analyst directly employed by Danter Company, LLC.

The objective of this report is to gather, analyze, and present as many market components as reasonably possible within the time constraints agreed upon. The conclusions contained in this report are based on the best judgments of the analysts; we make no guarantees or assurances that the projections or conclusions will be realized as stated. It is our function to provide our best effort in data aggregation, and to express opinions based on our evaluation.

## **D. USES AND APPLICATIONS**

Although this report represents the best available attempt to identify the current market status and future market trends, note that most markets are continually affected by demographic, economic, and developmental changes. Further, this analysis has been conducted with respect to a particular client's development objectives, and consequently has been developed to determine the current market's ability to support those particular objectives. For these reasons, the conclusions and recommendations in this study are applicable only to the proposed site identified herein, and only for the potential uses for that site as described to us by our client. Use of the conclusions and recommendations in this study by any other party or for any other purpose compromises our analysis and is strictly prohibited, unless otherwise specified in writing by Danter Company, LLC.

## II. SCOPE OF SURVEY

A complete analysis of a rental market for a low-income housing Tax Credit project requires the following considerations: a field survey of conventional apartments; an analysis of area housing; telephone survey data; an analysis of the area economy; a demographic analysis; and recommendations for development.

Field Survey—Our survey of conventional apartments includes a cross-analysis of vacancies by rents, a survey of unit and project amenities, and a rent/value analysis.

Area Housing Analysis—We have conducted an analysis of housing demand that includes a study of support by both growth and internal mobility. Further, we have analyzed existing housing using the most recent census material.

Economic Analysis—Major employers, utilities, banks, savings and loans, and media that serve the area are listed in the study. The information gathered has been used to create a Community Services map showing school, shopping, and employment areas in relation to the proposed site.

Demographic Analysis—The study includes an analysis of social and demographic characteristics of the area, and a description of the area economy that includes income and employment trends.

Key Interviews—Interviews regarding the perception of housing, recent development trends, planned and proposed developments and local conditions were conducted with city and county officials, area property owners and developers, major employers and human resource directors, major institutions such as schools and hospitals and real estate professionals.

### III. EXECUTIVE SUMMARY

This study evaluates the market potential of the 50-unit Sage View Glen low-income housing Tax Credit project for elderly tenants (age 62 and over) in Rapid City, South Dakota.

The proposed site is in the southern portion of Rapid City, on the south side of East Minnesota Street, 0.2 mile east of 5<sup>th</sup> Street (main north/south thoroughfare).

The proposed 50-unit Tax Credit age-restricted project will include 42 one-bedroom and 8 two-bedroom garden units within a three-story elevator-serviced building. Rents at the project will be based on 30%, 40%, 50%, and 60% of the area median household income.

The developer plans to offer 9 (18.0%) of the proposed units to elderly households (age 62 and over) with incomes up to 30% of the area median household income, 4 (8.0%) units to elderly households with incomes at or below 40% of the area median household income, 15 (30.0%) units to elderly households with income at or below 50% of the area median household income, and 22 (44.0%) units to elderly households with incomes at or below 60% of the area median household income.

The proposed Sage View Glen is expected to be completed and open by August 2019.

The subject Sage View Glen project is proposed as follows:

SAGE VIEW GLEN EAST MINNESOTA AVENUE RAPID CITY, SOUTH DAKOTA							
UNIT TYPE	PERCENT OF MEDIAN HOUSEHOLD INCOME	NUMBER	SQUARE FEET	MAXIMUM ALLOWABLE GROSS RENT	RENTS AT OPENING*		
					GROSS	UTILITY ALLOWANCE	COLLECTED
One-Bedroom/ 1 Bath Garden	30%	8	604	\$364	\$364	\$0	\$364
	40%	3		\$485	\$485	\$0	\$485
	50%	12		\$606	\$588	\$0	\$588
	60%	19		\$728	\$693	\$0	\$693
Two-Bedroom/ 1 Bath Garden	30%	1	764	\$437	\$437	\$0	\$437
	40%	1		\$583	\$583	\$0	\$583
	50%	3		\$728	\$728	\$0	\$728
	60%	3		\$874	\$831	\$0	\$831
Total		50					

\*August 2019



The developer plans to offer 9 (18.0%) of the proposed units to elderly households (age 62 and over) with incomes up to 30% of the area median household income, 4 (8.0%) units to elderly households with incomes at or below 40% of the area median household income, 15 (30.0%) units to elderly households with income at or below 50% of the area median household income, and 22 (44.0%) units to elderly households with incomes at or below 60% of the area median household income.

Each unit in the proposed development will include the following amenities:

- Range
- Frost-free refrigerator
- Microwave
- Central air conditioning
- Life line emergency response system
- Dishwasher
- Intercom entry system
- Window blinds
- Carpeting

Project amenities will include the following:

- Community and gathering rooms
- Kitchenette
- On-site management
- Referral services
- Elevator
- Community patio
- Laundry facility on each floor

The proposed project will include 3 washers and dryers on each floor that will be free of charge to residents.

The Sage View Glen project will provide referrals to tenants for services tailored towards elderly residents including safety and crime prevention, social and recreational activities, educational activities, information and health services.

A daily meal program will be available as an optional service for the residents. The cost of the meal is expected to range from \$4.50 to \$7.50 per meal.

## **DEMOGRAPHIC AND ECONOMIC FACTORS**

The following tables provide key information on Site EMA demographics, including population trends, household trends, and household income trends.

<b>POPULATION AND HOUSEHOLDS RAPID CITY, SOUTH DAKOTA SITE EFFECTIVE MARKET AREA</b>			
<b>YEAR</b>	<b>POPULATION</b>	<b>HOUSEHOLDS</b>	<b>POPULATION PER HOUSEHOLD</b>
1990	47,425	18,697	2.54
2000	52,514	21,390	2.46
Change 1990-2000	10.7%	14.4%	-
2010 Census	55,686	23,747	2.34
Change 2000-2010	6.0%	11.0%	-
2016 (Estimated)	60,682	25,942	2.34
2021 (Projected)	65,381	28,001	2.33
Change 2016-2021	7.7%	7.9%	-
Sources: Danter Company, LLC 2000 Census ESRI, Incorporated			

As the previous above table illustrates, the total population and households within the Rapid City Site EMA increased between 1990 and 2000. During this time period, the total population increased 10.7% from 47,425 in 1990 to 52,514 in 2000. During this same time period, households increased 14.4% from 18,697 in 1990 to 21,390 in 2000.

Both the total population and households grew between 2010 and 2016. During this time period, the population grew 9.0% while households grew 9.2%.

Both the total population and households are expected to continue to increase through 2021. The population is expected to increase by 4,699 (7.7%) between 2016 and 2021 while households are expected to increase by 2,059 (7.9%) from 25,942 in 2016 to 28,001 in 2021.

The population age 62 or older in the EMA is growing. Between 2010 and 2016, the population age 62 or older grew by 2,218 people, or 22.0%. By 2021, the population age 62 or older is expected to increase by 2,175 people, or 17.7%.

Between 2000 and 2016, the households age 62 or older grew by 46.2%. This trend is expected to continue. By 2021, households are expected to increase 16.4% from 8,067 in 2016 to 9,392 in 2021.

## **FIELD SURVEY OF CONVENTIONAL APARTMENTS**

A total of 5,889 conventional apartment units in 73 projects were surveyed in the Rapid City, South Dakota Site EMA. A total of 4,776 of these units are in 52 market-rate and Tax Credit developments. The remaining 1,113 units are in 21 subsidized developments. The vacancy rate among the subsidized units is only 0.1%.

There are also 344 additional units are currently under construction within one existing property and three new properties.

Following is a distribution of market-rate units surveyed by unit type and vacancy rate:

<b>SUMMARY OF MARKET-RATE APARTMENTS RAPID CITY, SOUTH DAKOTA SITE EFFECTIVE MARKET AREA MAY 2017</b>				
<b>UNIT TYPE</b>	<b>MARKET-RATE UNITS</b>		<b>VACANCY RATE</b>	<b>MEDIAN RENT</b>
	<b>NUMBER</b>	<b>PERCENT</b>		
Studio	136	3.4%	2.2%	\$524
One-Bedroom	1,113	27.6%	1.5%	\$808
Two-Bedroom	2,327	57.7%	3.1%	\$971
Three-Bedroom	455	11.3%	2.4%	\$1,096
Total	4,031	100.0%	2.6%	

Following is a distribution of low-income housing Tax Credit units surveyed by unit type and vacancy rate:

<b>SUMMARY OF TAX CREDIT APARTMENTS RAPID CITY, SOUTH DAKOTA SITE EFFECTIVE MARKET AREA MAY 2017</b>				
<b>UNIT TYPE</b>	<b>TAX CREDIT UNITS</b>		<b>VACANCY RATE</b>	<b>MEDIAN RENT</b>
	<b>NUMBER</b>	<b>PERCENT</b>		
One-Bedroom	158	21.2%	1.3%	\$655
Two-Bedroom	326	43.8%	1.5%	\$825
Three-Bedroom	247	33.2%	0.4%	\$936
Four-Bedroom	14	1.9%	0.0%	\$1,041
Total	745	100.0%	1.1%	

The overall vacancy rate within the 4,776 combined market-rate and Tax Credit units is 2.3%. The market-rate units have an overall vacancy rate of 2.6%, while the Tax Credit units have an overall vacancy rate of 1.1%.

All of these vacancy rates are considered extremely low and would indicate that the market is limited by a lack of both market-rate and affordable rental housing supply, rather than lacking demand.

The distribution of units by bedroom size indicates that the market is in good balance by unit type.

Based on previous studies conducted by the Danter Company, rents in the EMA have increased at an established annual rate of 2.7% between November 2015 and May 2017.

**ANALYSIS OF TAX CREDIT APARTMENT SUPPLY**

There are 12 existing Tax Credit properties and one new Tax Credit property under construction in the Site EMA. The existing 12 Tax Credit developments contain a total of 745 one-, two-, three-, and four-bedroom units. The Tax Credit property currently under construction contains 30 one-, two-, and three-bedroom units.

The 12 existing Tax Credit properties include 745 units with only 8 vacant units. The overall vacancy rate among the Tax Credit properties of 1.1% is very low.

Similar to the proposed site, Memorial Park, Echo Glen, and Fountain Springs Senior are age-restricted properties (age 62 and over). Also, Pine Crest Village is another age-restricted property in the EMA; however, this property is designated to seniors age 55 and over. All 4 of these age-restricted properties contain a combined total of 208 units and there are currently no vacancies among these projects. In fact, all 4 of these properties are reporting waiting lists with up to 35 names.

**CAPTURE RATE - ALL & RENTER INCOME-QUALIFIED HOUSEHOLDS**

In 2019, there will be an estimated 2,531 total elderly households (age 62 and over) within the Site EMA and 1,224 renter elderly households (age 62 and over) within the EMA with incomes between \$8,740 and \$31,080.

Following is an analysis of housing costs as a percent of household income by the number of both total and renter qualified elderly households (age 62 and over) in the Site EMA:

PERCENT OF INCOME TO GROSS HOUSING COST	INCOME RANGE	INCOME-APPROPRIATE HOUSEHOLDS (62+)		CAPTURE RATE (50 UNITS)	
		TOTAL	RENTERS	TOTAL	RENTERS
45%	\$9,710 - \$31,080	2,483	1,187	2.0%	4.2%
50%	\$8,740 - \$31,080	2,561	1,224	2.0%	4.1%



The 50 Tax Credit units at the subject Sage View Glen development will represent a rental housing alternative for 2.0% of all age- and income-appropriate households, depending on management's criteria for qualifying potential renters. The 50 Tax Credit units at the subject Sage View Glen will represent a rental housing alternative for 4.1% to 4.2% of all age- and income-appropriate renter households, depending on management's criteria for qualifying potential renters.

These are excellent ratios and indicate a good supply of potential total and renter household support. These ratios have been considered in establishing the anticipated absorption rates at the site.

**PENETRATION RATE - ALL & RENTER INCOME-QUALIFIED HOUSEHOLDS**

The Site EMA contains 12 existing Tax Credit properties, as well as one Tax Credit property currently under construction. Combined, these 13 Tax Credit properties contain a total of 775 units. With the inclusion of the 50 units at the subject site, these properties will total 825 Tax Credit units.

When these 825 combined Tax Credit units are also considered, the appropriate household income range is \$10,020 to \$45,060. This range is wider than the range for just the subject development, due to the wider range of rents being charged and unit types offered at the existing Tax Credit properties.

The following table analyzes the number of households with appropriate incomes when considering all Tax Credit development in the Site EMA:

PERCENT OF INCOME TO GROSS HOUSING COST	INCOME RANGE	INCOME-APPROPRIATE HOUSEHOLDS		PENETRATION RATE (825 UNITS)	
		TOTAL	RENTERS	TOTAL	RENTERS
35%	\$11,450 - \$45,060	9,782	6,680	8.4%	12.4%
40%	\$10,020 - \$45,060	10,179	7,040	8.1%	11.7%

The 825 combined units (745 existing units, 30 units under construction, and 50 units at the site) will represent a rental housing alternative for 11.7% and 12.4% of all income-appropriate renter households, depending on management's criteria for qualifying potential renters. These ratios are considered good and have been considered in establishing the anticipated absorption rates at the site.

**COMPARABLE MARKET RENT ANALYSIS**

The following table compares the market rent at opening with the proposed Tax Credit rent at the subject site for one- and two-bedroom units. Rents are gross and include heat, hot water, cooking, electric, water/sewer and trash removal.



UNIT TYPE	PERCENT OF MEDIAN HOUSEHOLD INCOME	MARKET RENT AT OPENING AT 22.0 COMPARABILITY RATING	PROPOSED TAX CREDIT OPENING GROSS RENT	TAX CREDIT RENT AS A PERCENT OF MARKET RENT
One-Bedroom	30%	\$875	\$364	41.6%
	40%		\$485	55.4%
	50%		\$588	67.2%
	60%		\$693	79.2%
Two-Bedroom	30%	\$1,065	\$437	41.0%
	40%		\$583	54.7%
	50%		\$728	68.4%
	60%		\$831	78.0%

With the proposed rents at the 30%, 40%, 50%, and 60% income levels ranging from 41.0% to 79.2% of market-driven rents, the proposed units will be perceived as an excellent value within the market.

### **RECOMMENDATIONS/ABSORPTION**

Our evaluation considers the current rental housing market, area demographic characteristics, projected growth, and the appropriateness of the site and site area for the subject development. Amenities, features, and services at the subject development are also considered.

Based on these factors, it is our opinion that a market exists for the 50-unit age-restricted rental housing development at the subject site, assuming the project is developed as detailed in this report. Changes in the project's site, rent, unit mix, amenities, floor plans, or opening date may invalidate these findings.

Due to their significant value and when responding to only age- and income-qualified tenants, the 13 Tax Credit units at the 30% and 40% will either be fully pre-leased prior to opening or will be leased within the first month of opening. Absorption for the 37 remaining Tax Credit units at the 50% and 60% income levels is expected to average 8 to 9 units per month, resulting in a 4.0- to 4.5-month absorption period to achieve a 95% occupancy level.

The addition of Housing Choice Vouchers may accelerate the absorption among the eligible units at the proposed site. In addition, there are currently 35 names on the waiting list at Echo Glen, the sister property adjacent. This waiting list could accelerate absorption at the property.