
EXECUTIVE SUMMARY

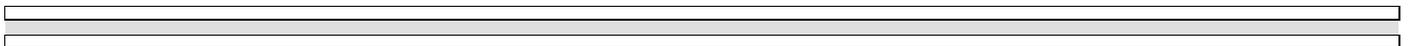
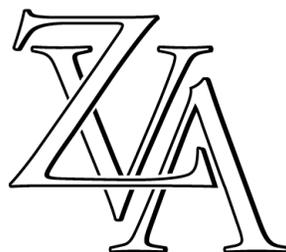
AN ANALYSIS OF
RESIDENTIAL MARKET POTENTIAL

The Target Market Study Area
Neighborhood Business Corridors

The City of Grand Rapids,
Kent County, Michigan

March, 2015

Conducted by
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Research & Strategic Analysis

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SUMMARY OF FINDINGS

This purpose of this study is to determine the annual market potential for new housing units—created through adaptive re-use of existing non-residential buildings and rehabilitation of existing single-family detached houses as well as through new construction—that could be developed over the next several years within the City of Grand Rapids. This study also determines the annual market potential for new urban housing units within several neighborhood business corridors located within the Neighborhood Stabilization Program (NSP) boundaries (the Target Market Study Area) and the City of Grand Rapids.

The Target Market Study Area includes six specific areas of study, comprising a number of neighborhood business corridors:

- Northeast (Creston business district, Census Tract 9);
- Westside (West Leonard, Stockbridge, and West Fulton business districts, Census Tracts 8, 15, 16, 19 and 27);
- Downtown (including the Monroe North and Heartside business districts, Census Tracts 14, 20 and 21);
- Uptown (the East Fulton, Cherry/Lake/Diamond, Wealthy Street, and Easttown business districts, Census Tracts 24 and 25);
- Southwest (the Grandville business district, Census Tracts 26 and 39); and
- Southeast (the Division South, Madison Square, Burton Heights, Franklin/Eastern, and Boston Square business districts, Census Tracts 28, 30-32, 36-38 and 40).

The depth and breadth of the potential market for new and existing housing units within the City of Grand Rapids and the Target Market Study Area have been derived from the housing preferences

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and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology™ and extensive experience with urban development and redevelopment.

—THE DRAW AREAS—

The most recent Kent County migration and mobility data—as derived from taxpayer records compiled by the Internal Revenue Service from 2006 through 2010 and from the 2013 American Community Survey five-year estimates for the county and the City of Grand Rapids—shows that the draw areas for new and existing housing units in the city include the following:

Annual Market Potential by Draw Area
City of Grand Rapids, Kent County, Michigan

City of Grand Rapids (Primary Draw Area):	53.3%
Balance of Kent County (Local Draw Area):	27.1%
Ottawa, Allegan and Montcalm Counties (Regional Draw Area):	5.5%
Balance of US (National Draw Area):	<u>14.1%</u>
Total:	100.0%

—ANNUAL MARKET POTENTIAL FOR THE CITY OF GRAND RAPIDS—

As determined by the target market methodology, an annual average of 22,875 households represent the potential market for new and existing housing units within the city each year over the next five years. The tenure and housing preferences of those 22,875 draw area households are shown on the following table:

Tenure/Housing Type Propensities
Annual Average Market Potential For New and Existing Housing Units
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	11,505	50.3%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	2,155	9.4%
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	2,910	12.7%
Single-family detached for-sale (houses, fee-simple ownership)	<u>6,305</u>	<u>27.6%</u>
Total	22,875	100.0%

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The 22,875 households have also been segmented by income, derived from the Grand Rapids-Wyoming FMR median family income (AMI), which for fiscal year 2014 is \$62,800 for a family of four, as shown on the following table:

Tenure/Housing Type Propensities by Income
Annual Average Market Potential For New and Existing Housing Units
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE HOUSEHOLDS	
	NUMBER	PERCENT
Multi-family for-rent (lofts/apartments, leaseholder)	<u>11,505</u>	<u>50.3%</u>
< 30% AMI	2,685	11.7%
30% to 50% AMI	1,410	6.2%
50% to 80% AMI	2,060	9.0%
80% to 100% AMI	1,820	8.0%
> 100% AMI	3,530	15.4%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	<u>2,155</u>	<u>9.4%</u>
< 30% AMI	315	2.4%
30% to 50% AMI	235	1.0%
50% to 80% AMI	330	1.4%
80% to 100% AMI	340	1.5%
> 100% AMI	935	4.1%
Single-family attached for-sale (townhouses, fee-simple ownership)	<u>2,910</u>	<u>12.7%</u>
< 30% AMI	470	2.0%
30% to 50% AMI	290	1.3%
50% to 80% AMI	520	2.3%
80% to 100% AMI	425	1.9%
> 100% AMI	1,205	5.2%
Single-family detached for-sale (houses, fee-simple ownership)	<u>6,305</u>	<u>27.6%</u>
< 30% AMI	940	4.1%
30% to 50% AMI	595	2.6%
50% to 80% AMI	985	4.4%
80% to 100% AMI	810	3.5%
> 100% AMI	2,975	13.0%
Total	22,875	

Summarizing the incomes and financial capabilities of the 22,875 target households that represent the annual potential market for new and existing units in the city, 19.3 percent (4,410 households) have incomes at 30 percent or less than the AMI; 11.1 percent (2,530 households) have incomes between 30 and 50 percent AMI; 17 percent (3,895 households) have incomes between 50 and 80 percent AMI; 14.8 percent (3,395 households) have incomes between 80 and 100 percent AMI; and 37.8 percent (8,645 households) have incomes above 100 percent AMI.

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—ANNUAL MARKET POTENTIAL FOR THE TARGET MARKET STUDY AREA—

As determined by the migration and mobility analyses, up to 8,500 households represent the annual potential market for new and existing housing units in the Target Market Study Area each year over the next five years. These households represent approximately 37 percent of the city's annual market potential of 22,875 households, a share of the market that is consistent with Zimmerman/Volk Associates' experience in other cities. The tenure and housing preferences of those 8,500 draw area households are shown on the following table:

Tenure/Housing Type Propensities
Annual Average Market Potential For New and Existing Housing Units
The Target Market Study Area
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	4,355	51.3%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	1,125	13.2%
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	1,320	15.5%
Single-family detached for-sale (houses, fee-simple ownership)	<u>1,700</u>	<u>20.0%</u>
Total	8,500	100.0%

The combined tenure and housing type preferences and financial capabilities of the 8,500 target households are detailed on the following table:

Tenure/Housing Type Propensities by Income
Annual Average Market Potential For New and Existing Housing Units
The Target Market Study Area
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE HOUSEHOLDS
	NUMBER PERCENT
Multi-family for-rent (lofts/apartments, leaseholder)	<u>4,355</u> <u>51.3%</u>
< 30% AMI	585 6.9%
30% to 50% AMI	550 6.5%
50% to 80% AMI	570 6.7%
80% to 100% AMI	795 9.4%
> 100% AMI	1,855 21.8%

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Multi-family for-sale	<u>1,125</u>	<u>13.2%</u>
(lofts/apartments, condo/co-op ownership)		
< 30% AMI	60	0.7%
30% to 50% AMI	95	1.1%
50% to 80% AMI	145	1.7%
80% to 100% AMI	185	2.2%
> 100% AMI	640	7.5%
Single-family attached for-sale	<u>1,320</u>	<u>15.5%</u>
(townhouses, fee-simple ownership)		
< 30% AMI	75	0.9%
30% to 50% AMI	135	1.6%
50% to 80% AMI	210	2.5%
80% to 100% AMI	190	2.2%
> 100% AMI	710	8.3%
Single-family detached for-sale	<u>1,700</u>	<u>20.0%</u>
(houses, fee-simple ownership)		
< 30% AMI	150	1.8%
30% to 50% AMI	140	1.6%
50% to 80% AMI	180	2.1%
80% to 100% AMI	205	2.4%
> 100% AMI	1,025	12.1%
Total	8,500	

Summarizing the incomes and financial capabilities of those 8,500 target households, 10.2 percent (870 households) have incomes at 30 percent or less than the AMI; 10.8 percent (920 households) have incomes between 30 and 50 percent AMI; 13 percent (1,105 households) have incomes between 50 and 80 percent AMI; 16.2 percent (1,375 households) have incomes between 80 and 100 percent AMI; and 49.8 percent (4,230 households) have incomes above 100 percent AMI.

—TARGET MARKETS—

As determined by the target market analysis, the annual potential market for new and existing housing units in Grand Rapids can be characterized by general lifestage and household type as follows:

- Traditional and non-traditional family households: 48.6 percent;
- Younger singles and childless couples: 37.5 percent; and
- Empty nesters and retirees: 13.9 percent.

The Target Market Study Area, comprising the core of the city, attracts a different household mix:

- Younger singles and childless couples: 65 percent;
- Empty nesters and retirees: 24 percent; and
- Traditional and non-traditional family households: 11 percent.

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—OPTIMUM MARKET POSITION: THE TARGET MARKET STUDY AREA—

The rents and price points for new *market-rate* housing units that could be developed within the Target Market Study Area are derived from the financial capabilities of those target households with incomes at or above 80 percent of AMI.

Households with incomes below that threshold are generally subject to income qualifications; the market position (unit sizes and prices) of income-qualified units (*affordable/workforce* units) is determined by the finance and subsidy programs utilized.

As established by the housing preferences of the 5,605 target households with preferences for urban housing and with incomes at or above 80 percent of AMI, the overall target mix of new *market-rate* units should include approximately 47.3 percent multi-family for-rent (2,650 households); and 52.7 percent for-sale housing units (2,955 households), which includes 14.7 percent multi-family for-sale (825 households), 16.1 percent single-family attached for-sale (900 households), and 21.9 percent single-family detached for-sale (1,230 households).

Based on the housing preferences of the 2,025 target households with preferences for urban housing and with incomes between 30 and 80 percent of the AMI, the overall target mix of new *affordable/workforce* units should include approximately 55.3 percent multi-family for-rent (1,120 households); and 44.7 percent for-sale housing units (905 households), which includes 11.9 percent multi-family for-sale (240 households), 17 percent single-family attached for-sale (345 households), and 15.8 percent single-family detached for-sale (320 households).

The optimum market position for new market-rate units has been established based on a variety of factors, including but not limited to:

- The lifestages, tenure and housing preferences of draw area households with incomes at or above 80 percent AMI;
- Grand Rapids's solidly-established sense of place;
- The physical and locational assets and challenges of the Target Market Study Area; and
- Current residential market dynamics in the Grand Rapids market area.

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The optimum market position for new *market-rate* rental and for-sale housing within the Target Market Study Area is summarized on the following table:

Base Rent, Price and Size Ranges
New and Renovated Market-Rate Housing Units
The Target Market Study Area
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
FOR-RENT (MULTI-FAMILY)—			
Downtown, Uptown, Westside, Northeast	\$750–\$2,700/month	350–1,500 sf	\$1.50–\$2.14 psf
Southeast and Southwest	\$700–\$1,300/month	500–1,000 sf	\$1.30–\$1.40 psf
FOR-SALE (MULTI-FAMILY)—			
Downtown, Uptown, Westside, Northeast	\$150,000–\$425,000	750–1,800 sf	\$180–\$246 psf
Southeast and Southwest	\$125,000–\$165,000	800–1,100 sf	\$150–\$156 psf
FOR-SALE (SINGLE-FAMILY ATTACHED)—			
Downtown, Uptown, Westside	\$250,000–\$365,000	1,300–1,850 sf	\$181–\$233 psf
Northeast, Southeast, Southwest	\$160,000–\$200,000	900–1,250 sf	\$160–\$178 psf
FOR-SALE (SINGLE-FAMILY DETACHED)—			
Westside, Northeast, Southeast, Southwest	\$195,000–\$250,000	1,100–1,650 sf	\$152–\$177 psf

The above rents and prices are in 2015 dollars and apply to new *market-rate* housing units. The market position (unit sizes and rents) of income-qualified units is determined by the finance and subsidy programs utilized. Based on target market preferences, the neighborhood and housing type distribution of new *affordable/workforce* housing units is shown as follows:

- 968 new affordable/workforce urban rental lofts and apartments
 790 in the Downtown, Uptown, Westside and the Northeast
 178 located in the Southeast and Southwest
- 207 new affordable/workforce urban lofts/condominiums
 165 in the Downtown, Uptown, Westside and the Northeast
 42 located in the Southeast and Southwest
- 345 new affordable urban rowhouses/townhouses and live-work units
 200 in the Downtown, Uptown and Westside
 145 rowhouses/townhouses in the Northeast, Southeast and Southwest
- 320 new affordable/workforce urban single-family cottages and detached houses
 All in Westside, the Northeast, Southeast and Southwest

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—MARKET CAPTURE—

Zimmerman/Volk Associates has determined that, in the context of the Grand Rapids market, an annual capture of 20 to 25 percent of the annual potential market for new rental units is likely to be achievable in the Study Area over the next five years. Given current economic conditions, and the expectation of continued improvement for new for-sale housing over the near term, Zimmerman/Volk Associates has determined that an annual capture of approximately 10 to 15 percent of the potential market for each new for-sale housing type is achievable in the Study Area over the next five years.

Based on the market capture forecast, the Target Market Study Area should be able to absorb an annual average of between 826 and 1,107 new *market-rate* multi-family and single-family attached and detached housing units per year over the next five years, as follows:

**Annual Capture of Market Potential
 Households With Incomes At Or Above 80 Percent AMI
 The Target Market Study Area
*City of Grand Rapids, Kent County, Michigan***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	2,650	20% - 25%	530 - 663
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	825	10% - 15%	83 - 124
Single-family attached for-sale (rowhouses/townhouses, fee-simple ownership)	900	10% - 15%	90 - 135
Single-family detached for-sale (urban houses, fee-simple ownership)	1,230	10% - 15%	123 - 185
Total	5,605		826 - 1,107

A total of between 4,130 and 5,535 new *market-rate* housing units could therefore be supported in the Study Area over the next five years.

Based on those same capture rates—20 to 25 percent for new rental units, and 10 to 15 percent for new for-sale units—the Target Market Study Area should be able to absorb an annual average of between 315 and 416 new *affordable/workforce* multi-family and single-family attached and detached housing units per year over the next five years, as shown on the table on the following page:

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Annual Capture of Market Potential
Households With Incomes Between 30 and 80 Percent AMI
The Target Market Study Area
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	1,120	20% - 25%	224 - 280
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	240	10% - 15%	24 - 36
Single-family attached for-sale (rowhouses, fee-simple ownership)	345	10% - 15%	35 - 52
Single-family detached for-sale (urban houses, fee-simple ownership)	320	10% - 15%	32 - 48
Total	2,025		315 - 416

Over the next five years, at these forecast capture rates, between 1,575 and 2,080 new *affordable/workforce* housing units could be supported in the Study Area.

The Target Market Study Area could therefore support the development of a combined annual total of between 5,705 and 7,615 new market-rate and *affordable/workforce* housing units over the next five years.

—METHODOLOGY—

The proprietary target market methodology™ developed by Zimmerman/Volk Associates is an analytical technique, using the Nielsen (formerly Claritas) PRIZM household clustering system to determine the extent and characteristics of the market for new housing in a given area, and the optimum market position that responds to market preferences.

The technical analysis of market potential for housing in the City of Grand Rapids and the Target Market Study Area included delineation of the draw areas—based on the most recent migration data from the Internal Revenue Service for Kent County, and incorporating additional data from the 2013 American Community Survey for the county and the City of Grand Rapids.

The evaluation of market potential for the city and the Study Area was derived from target market analysis of households in the draw areas, and yielded:

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- The depth and breadth of the potential housing market by tenure (rental and ownership) and by type (apartments, attached and detached houses); and
- The composition of the potential housing market by lifestage (empty-nesters/retirees, traditional and non-traditional families, younger singles/couples).

Demographic and geo-demographic data obtained from the Nielsen Company provide the framework for the categorization of households, not only by lifestage and demographic characteristics, but also by lifestyle preferences and socio-economic factors. The methodology groups clusters of households (usually between 10 and 15) according to a variety of significant “predictable variables,” ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes known as “behaviors,” such as mobility rates, lifestage, and lifestyle patterns.

Mobility rates detail how frequently a household moves from one dwelling unit to another.

Lifestage denotes what stage of life the household is in, from initial household formation (typically when a young person moves out of his or her parents’ household into his or her own dwelling unit), through family formation (typically, marriage and children), empty-nesting (after the last adult child has left the household), to retirement (typically, no longer employed).

Lifestyle patterns reflect the ways households choose to live, *e.g.*—an urban lifestyle includes residing in a dwelling unit in a city, most likely high-density, and implies the ability to walk to more activities and locations than a suburban lifestyle, which is most likely lower-density and typically requires an automobile to access many, if not most locations.

Zimmerman/Volk Associates has refined the analysis of these household clusters through the correlation of more than 500 data points related to housing preferences and consumer and lifestyle characteristics.





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ASSUMPTION AND LIMITATIONS—

Every effort has been made to insure the accuracy of the data contained within this analysis. Demographic and economic estimates and projections have been obtained from government agencies at the national, state, and county levels. Market information has been obtained from sources presumed to be reliable, including developers, owners, and/or sales agents. However, this information cannot be warranted by Zimmerman/Volk Associates, Inc. While the target market methodology™ employed in this analysis allows for a margin of error in base data, it is assumed that the market data and government estimates and projections are substantially accurate.

Absorption scenarios are based upon the assumption that a normal economic environment will prevail in a relatively steady state during development of the subject property. Absorption paces are likely to be slower during recessionary periods and faster during periods of recovery and high growth. Absorption scenarios are also predicated on the assumption that the product recommendations will be implemented generally as outlined in this report and that the developer will apply high-caliber design, construction, marketing, and management techniques to the development of the property.

Recommendations are subject to compliance with all applicable regulations. Relevant accounting, tax, and legal matters should be substantiated by appropriate counsel.





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Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the target market methodology TM and target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

Zimmerman/Volk Associates, Inc., 2015

