
AN UPDATE

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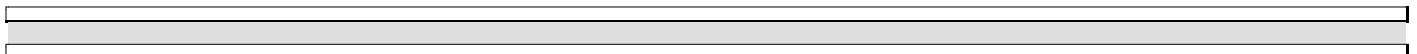
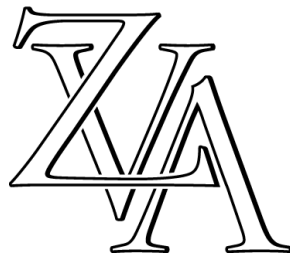
RESIDENTIAL MARKET POTENTIAL

The Downtown Montgomery Study Area

City of Montgomery
Montgomery County, Alabama

May, 2011

Conducted by
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Research & Strategic Analysis

STUDY CONTENTS

Update: Residential Market Potential	1
Introduction	1
Overview of the City of Montgomery	3
Citywide Market Potential	6
<i>Where are the potential renters and buyers of new and existing housing units in the City of Montgomery likely to move from?</i>	6
Market Potential for the Downtown Montgomery Study Area	8
<i>Where are the potential renters and buyers of new and existing housing units in the Downtown Montgomery Study Area likely to move from?</i>	8
<i>How many households have the potential to move to the Downtown Study Area if appropriate housing units were to be made available?</i>	8
Table 1: Potential Housing Market	9
<i>What are their housing preferences in aggregate?</i>	10
Target Market Analysis	13
<i>Who is the potential market for new housing in the Study Area?</i>	13
Table 2: Downtown Residential Mix By Household Type	14
The Current Context	19
<i>What are the alternatives?</i>	19
Multi-Family For-Rent	19
Table 3: Summary Of Selected Rental Properties	21
For-Sale Properties	25
Table 4: Summary of Selected For-Sale Multi-Family and Single-Family Attached Developments	26
Market-Rate Rent and Price Ranges:	
The Downtown Montgomery Study Area	27
<i>What will they pay to live in the Downtown Montgomery Study Area?</i>	27
Table 5: Optimum Market Position	29
<i>How fast will the units lease or sell?</i>	30
Rental Distribution	32
Table 6: Annual Market Capture: Target Groups For New Multi-Family For-Rent	33
For-Sale Distribution	34
Table 7: Annual Market Capture: Target Groups For New Multi-Family For-Sale	35
Table 8: Annual Market Capture: Target Groups For New Single-Family Attached	37
Table 9: Annual Market Capture: Target Groups For New Single-Family Detached	39
Methodology	40
Assumptions and Limitations	50
Rights and Study Ownership	51



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UPDATE

RESIDENTIAL MARKET POTENTIAL

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City of Montgomery, Montgomery County, Alabama

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INTRODUCTION

The purpose of this study is to re-examine the market potential for newly-introduced market-rate housing units—created both through adaptive re-use of existing non-residential buildings as well as through new construction—that could be leased or sold in the Downtown Montgomery Study Area. The original Downtown study was published in August, 2006.

The boundaries of the Downtown Study Area are the same as those defined for the 2006 study, an area bounded by the Alabama River and the old railroad tracks to the north, Jackson Street to the east, Interstate 85 to the south, and Interstate 65 to the west. The Study Area encompasses the Central Business District, the Warehouse District, Old Alabama Town, the Trenholm Court public housing property, the Capital District, a section of the Centennial Hill neighborhood, and several historic districts, including Cottage Hill.

The depth and breadth of the potential market have been updated using Zimmerman/Volk Associates' proprietary target market methodology. The target market methodology is particularly effective in defining housing potential because it encompasses not only basic demographic characteristics, such as income qualification and age, but also less-frequently analyzed attributes such as mobility rates, lifestyle patterns and household compatibility issues.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

For this update, Zimmerman/Volk Associates re-examined the following:

- Where the potential renters and buyers of new and existing housing units in the City of Montgomery and the Downtown Montgomery Study Area are likely to move from (the draw areas);
- How many have the potential to move to the Downtown Study Area if appropriate housing units were to be made available (depth and breadth of the market);
- What their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- Who is the potential market for new housing in the Study Area (the target markets);
- What they will pay to live in the Downtown Montgomery Study Area (market-rate rents and prices);
- How quickly they will rent or purchase the new units (market capture/absorption forecasts over the next five years); and
- What their alternatives are (new construction or adaptive re-use of existing buildings in the Montgomery market area).

The target market methodology is described in detail in the Methodology section at the end of this study.

OVERVIEW OF THE CITY OF MONTGOMERY

The remarkable transformation of American households (particularly the emerging predominance of one- and two-person households) over the past decade, combined with steadily increasing traffic congestion and rising gasoline prices, has resulted in significant changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-density suburbs to a diverse mix of higher-density detached houses, attached houses and apartments in downtowns and walkable, mixed-use traditional neighborhoods. This fundamental transformation of American households is likely to continue for several decades, representing an unprecedented demographic foundation on which cities can re-build their downtowns and in-town neighborhoods.

However, the current constrained market—characterized throughout most of the United States by weak or falling housing prices; higher than typical levels of unsold units, both builder inventory units as well as foreclosed and/or abandoned houses; and high levels of mortgage delinquencies by speculators and investors as well as homeowners—has resulted in very restrictive development financing and mortgage underwriting, taking a significant percentage of potential homebuyers out of the market and preventing numerous developments from going forward.

These market constraints do not reduce the size of the potential market; however, full realization of the ownership market potential will be delayed until housing finance is readily available and sustained consumer confidence returns; until then, the initial percentage of the potential market able to overcome the constraints of the deep recession and restrictive mortgage underwriting is likely to be reduced.

In contrast to many cities in the United States, the City of Montgomery experienced population growth during the first decade of the 21st Century. The population of the city as of the 2000 Census was 201,850; the 2010 Census data recently released by the Census Bureau shows that Montgomery City's population rose by almost two percent to 205,765 persons. Over the same time frame, the number of households in the City of Montgomery rose from 78,385 households in 2000 to 81,485 households in 2010, an increase of just under four percent.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

In 2010, over 62.8 percent of all households that lived in Montgomery contained just one or two persons (compared to 59 percent nationally); 17.4 percent contained three persons, and the remaining 19.8 percent contained four or more persons (compared to 25.2 percent nationally).

Just over 17 percent of the city's households could be characterized as traditional families, *e.g.*—married couples with children under age 18, (compared to 21.6 percent of all U.S. households). Non-traditional family households, headed by single persons with children under age 18, represented 15 percent of the city's households. The remaining two-thirds of Montgomery households did not have children under 18 and included married couples (21.5 percent), other non-traditional family households (7.9 percent), and non-family households (38.1 percent, primarily single-person households and two-person households containing unrelated persons).

Median household income in the city was estimated at \$43,100 in 2010, compared to the national median of \$52,800. Per capita income was just under \$24,000, compared to \$27,000 nationally.

Nearly 69 percent of Montgomery's 92,115 housing units in 2010 were single-family detached houses; 4.4 percent were single-family attached (rowhouses or townhouses); 1.3 percent were two-unit buildings; 19.5 percent were units located in buildings of three to 19 units; and 3.8 percent were in buildings of 20 or more units; the remaining 2.3 percent were mobile homes or trailers. Over 62 percent of the city's households owned their units; 38 percent rented their units, comparable to many American cities.

Just 8.5 percent of Montgomery's households did not own an automobile, and 39 percent owned only one vehicle. Another third of all households owned two vehicles. As a result, more than 84 percent of employed residents over age 16 drove alone to work (compared to 75.8 percent nationally), 10.6 percent car-pooled (compared to 10.7 percent nationally), eight-tenths of one percent took public transportation (compared to 4.8 percent nationally), and just 1.1 percent walked to work (2.8 percent nationally). The remaining 3.4 percent either worked at home (2.7 percent), rode bicycles (0.08 percent), or had other means of getting to work (0.6 percent).

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

Nearly 31 percent of all residents aged 25 or older had a college or advanced degree, approximately three percentage points above the national share of 27.5 percent.

Just over 63 percent of the city's residents over age 16 were employed in white-collar occupations, 18.7 percent blue-collar, and 18 percent service occupations. This was a higher rate of white-collar employment than that of the nation, where just over 60 percent were white-collar workers.

SOURCES: Nielsen Claritas, Inc.; U.S. Census Bureau;
Zimmerman/Volk Associates, Inc.

CITY-WIDE MARKET POTENTIAL

As noted in the INTRODUCTION, the extent and characteristics of the potential market for new residential units within the Downtown Montgomery Study Area have been re-examined through detailed analysis of households living within the appropriate draw areas. These draw areas were confirmed through an update of the migration and mobility analyses, with additional supporting data drawn from the 2009 American Community Survey for the City of Montgomery.

*Where are the potential renters and buyers of new and existing housing units
in the City of Montgomery likely to move from?*

Analysis of the most recent Montgomery County migration and mobility data available from the Internal Revenue Service—from 2003 through 2007—shows that the number of households moving into the county dropped slightly in 2007, after having risen each year until then. In 2007, in-migration fell to 5,880 households, although this number was still almost 700 households more than moved into the county in 2003. Out-migration rose throughout the same period, from 5,720 households in 2003 to 6,960 households in 2007. Net migration—the difference in the number of households moving into the county compared to out of the county—has fallen from a loss of 535 households in 2003 to a loss of nearly 1,100 households in 2007 (after posting a 345 household net gain in 2005). (See Appendix One, Table 1.).

Based on the updated migration and mobility data, the draw areas for market-rate housing within the City of Montgomery have been verified and revised as follows (*see also* METHODOLOGY):

- The local (internal) draw area, covering households in groups with median incomes of \$50,000 or more currently living within the Montgomery city limits and the balance of Montgomery County.
- The regional draw area, covering households in groups with median incomes of \$50,000 or more and with the potential to move to the City of Montgomery from Elmore and Autauga Counties, and also including Jefferson County, Alabama (City of Birmingham).

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

- The national draw area, covering households in groups with median incomes of \$50,000 or more and with the potential to move to the City of Montgomery from all other U.S. counties.

As derived from the updated migration, mobility and target market analyses, then, the draw area distribution of market potential (those households with the potential to move within or to the City of Montgomery each year over the next five years) would be as follows (*see also* Appendix One, Table 8):

Market Potential by Draw Area
City of Montgomery, Montgomery County, Alabama

City of Montgomery (Local Draw Area):	51.0%
Balance of Montgomery County (Local Draw Area):	5.0%
Elmore, Autauga, Jefferson Counties (Regional Draw Area):	11.0%
Balance of US (National Draw Area):	<u>33.0%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

At 51 percent in 2011, the share of market potential for the city as a whole is only slightly higher than 2006, at 50.5 percent. The county's share has risen to five percent, from just under four percent, and because Jefferson County is included in the regional draw area, the regional share has risen to 11 percent from 8.7 percent in 2006.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

MARKET POTENTIAL FOR THE DOWNTOWN MONTGOMERY STUDY AREA_____

*Where are the potential renters and buyers of new housing units
 in the Downtown Montgomery Study Area likely to move from?*

As in 2006, the target market methodology identifies those households with a preference for living in downtowns and other urban or mixed-use neighborhoods. After discounting for those segments of the city's potential market that typically choose suburban and/or rural locations, the distribution of draw area market potential for newly-created housing units within the Downtown Montgomery Study Area would be as follows (*see also* Appendix One, Table 9):

Market Potential by Draw Area
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

City of Montgomery (Local Draw Area):	42.5%
Balance of Montgomery County (Local Draw Area):	2.5%
Elmore, Autauga, Jefferson Counties (Regional Draw Area):	11.7%
Balance of US (National Draw Area):	<u>43.3%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

*How many households have the potential to move to the Downtown Study Area
 if appropriate housing units were to be made available??*

Based on the updated target market analysis, in the year 2011, nearly 3,300 younger singles and couples, empty nesters and retirees, and compact families represent the potential market for new market-rate housing units within the Downtown Montgomery Study Area. (*See* Table 1.) There has been a significant increase in the size of the potential market between 2006 (at 2,630 households) and 2011 (at 3,260 households).

Table 1

Potential Housing Market
 Households With The Potential To Move To Downtown Montgomery
 Each Year Over The Next Five Years
Downtown Montgomery
City of Montgomery, Montgomery County, Alabama

*City of Montgomery; Balance of Montgomery County;
 Elmore, Autauga, and Jefferson Counties, Alabama; Balance of U.S.
 Draw Areas*

Total Target Market Households
 With Potential To Rent/Purchase In The
 City of Montgomery, Montgomery County, Alabama 13,050

Total Target Market Households
 With Potential To Rent/Purchase In
 Downtown Montgomery 3,260

Potential Housing Market

	<i>Multi- Family</i>		<i>Single- Family</i>			<u>Total</u>	
	<u>For-Rent</u>	<u>For-Sale</u>	<i>.. Attached .. All Ranges</i>	<i>..... Detached</i> <u>Low-Range</u>	<u>Mid-Range</u>		<u>High-Range</u>
Total Households:	1,060	650	610	370	310	260	3,260
<i>{Mix Distribution}:</i>	32.6%	19.9%	18.7%	11.3%	9.5%	8.0%	100.0%

**Downtown Residential Mix
 (Excluding Large-Lot Single-Family Detached)**

	<i>Multi- Family</i>		<i>Single- Family</i>		<u>Total</u>
	<u>For-Rent</u>	<u>For-Sale</u>	<i>.. Attached .. All Ranges</i>	<i>..... Detached .. Urban</i>	
Total Households:	1,060	650	610	280	2,600
<i>{Mix Distribution}:</i>	40.8%	25.0%	23.5%	10.7%	100.0%

NOTE: Reference Appendix One, Tables 1 Through 11.

SOURCE: Nielsen Claritas, Inc.;
 Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

What are their housing preferences in aggregate??

The housing preferences of these draw area households—according to tenure (rental or ownership) choices and broad financial capacity—are outlined as follows (*see again* Table 1):

Potential Market for New Housing Units
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	1,060	32.6%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	650	19.9%
Single-family attached for-sale (townhouses/rowhouses, fee-simple/ condominium ownership)	610	18.7%
Low-range single-family detached for-sale (houses, fee-simple ownership)	370	11.3%
Mid-range single-family detached for-sale (houses, fee-simple ownership)	310	9.5%
High-range single-family detached for-sale (houses, fee-simple ownership)	<u>260</u>	<u>8.0%</u>
Total	3,260	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

As in 2006, residential development in the Downtown Study Area should concentrate on both redevelopment of existing buildings as well as new construction of higher-density housing types including:

- Rental lofts and apartments (multi-family for-rent);
- For-sale lofts and apartments (multi-family for-sale); and
- Townhouses, rowhouses, live-work or flex units (single-family attached for-sale);
and
- Urban houses (single-family detached for-sale).

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Excluding households with preferences for large-lot single-family detached units, which are not appropriate for downtowns, this analysis has determined that, in the year 2011, up to 2,600 households currently living in the defined draw areas represent the pool of potential renters/buyers of new housing units (new construction and/or adaptive re-use of non-residential structures) within the Downtown Montgomery Study Area (*see again* Table 1). As derived from the tenure and housing preferences of those draw area households, the distribution of rental and for-sale multi-family and for-sale single-family attached and urban detached housing types would be as follows:

Potential Market for New Housing Units
Higher-Density Housing Units
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	1,060	40.8%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	650	25.0%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	610	23.5%
For-Sale Single-Family Detached (urban houses, fee-simple ownership)	<u>280</u>	<u>10.7%</u>
Total	2,600	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

There has been a significant increase in the size of the annual potential market for higher-density market-rate dwelling units, from 1,680 households in 2006 to 2,600 households in 2011, and considerable changes in the types of housing that best matches target household preferences. As a share of the market, market-rate multi-family for-rent has risen from 29.2 percent in 2006 to nearly 41 percent in 2011; multi-family for-sale (condominium) units continue to represent a quarter of the market; single-family attached for-sale (townhouses) comprise 23.5 percent of the market, down slightly from 23.8 percent in 2006; and single-family detached for-sale (urban houses) dropped to 10.7 percent of the market in 2011 from 22 percent in 2006.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

These changes in tenure and housing preferences are a result of several factors: the continuing demographic changes in American households (*see* TARGET MARKET ANALYSIS *below*), the housing collapse that began in 2007, the broad impact of the Great Recession which is still being felt throughout the country, and the higher gasoline and energy prices in 2011 over 2006, all of which have spurred renewed interest in living closer to employment, in walkable compact neighborhoods.

In the current constrained housing market, however, the realization of the for-sale (ownership) market potential could be more challenging than in 2006, given the restrictive development financing and overly-stringent individual unit mortgage underwriting, particularly for condominiums, as well as the difficulties many households face when they try to sell their existing units.

TARGET MARKET ANALYSIS

Who is the potential market for new housing in the Study Area?

As noted above, the increasing interest in traditional American neighborhoods—walkable, with a mix of uses and a variety of housing types—is the result of dramatic changes in American households, the growing cost of commuting by private automobile, and the profound impact of the Great Recession—which began in 2007—on both households and home-builders, particularly in exurban locations. The changing composition of American households may have the most lasting influence, however, because of the changing housing preferences of the two largest generations in the history of America: the Baby Boomers (currently estimated at 77 million), born between 1946 and 1964, and the estimated 78 million Millennials, who were born from 1977 to 1996.

In addition to their shared preference for downtowns and walkable traditional neighborhoods, the Boomers and Millennials are changing housing markets in multiple ways. In contrast to the traditional family (a married couple with children) that comprised the typical post-war American household, Boomers and Millennials are predominantly singles and couples. As a result of the dominance of the Boomers and Millennials, the 21st Century home-buying market in the United States now contains more than 63 percent one- and two-person households, and the 37 percent of those homebuyers that could be categorized as family households are as likely to be non-traditional families (single parents or unrelated couples of the same sex with one or more children, adults caring for younger siblings, to grandparents with custody of grandchildren) as traditional families.

As updated by the target market analysis, then, the potential market for new housing units in the Downtown Montgomery Study Area is now characterized by general household type as shown on the following page (*see also* Table 2):

Table 2

Downtown Residential Mix By Household Type
Households With The Potential To Move Within/To The City Of Montgomery
Each Year Over The Next Five Years

Downtown Montgomery

City of Montgomery, Montgomery County, Alabama

	<u>Total</u>	<i>Multi- Family</i>		<i>Single- Family</i>	
		<u><i>For-Rent</i></u>	<u><i>For-Sale</i></u>	<u><i>.. Attached .. All Ranges</i></u>	<u><i>.. Detached .. Urban</i></u>
Number of Households:	2,600	1,060	650	610	280
Empty Nesters & Retirees	28%	14%	34%	31%	64%
Traditional & Non-Traditional Families	9%	7%	5%	10%	22%
Younger Singles & Couples	63%	79%	61%	59%	14%
	100%	100%	100%	100%	100%

SOURCE: Nielsen Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Downtown Residential Mix By Household and Unit Types
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE ROWHOUSES	FOR-SALE HOUSES
Empty-Nesters & Retirees	28%	14%	34%	31%	64%
Traditional & Non-Traditional Families	9%	7%	5%	10%	22%
Younger Singles & Couples	<u>63%</u>	<u>79%</u>	<u>61%</u>	<u>59%</u>	<u>14%</u>
Total	100%	100%	100%	100%	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

- **As noted in the 2006 study, younger singles and couples prefer to live in downtowns and in-town neighborhoods for the diversity of uses, and for the availability of employment, entertainment, and cultural opportunities within walking distance of their residences.**

At 63 percent, the same percentage as in 2006, younger singles and couples continue to comprise the largest share of the market for all housing types. The same target household groups—from the *Small-City Singles* and *Urban Achievers* to the *e-Types* and *The VIPs*—but now including *The Entrepreneurs* and *Suburban Achievers*—are represented in the potential market. Over 61 percent of these households would be moving to Downtown Montgomery from outside the city limits, up from just under 50 percent in 2006.

The continuing challenge in capturing this potential market is to produce new units that are attractive to young people (lofts, not suburban-style apartments), at rents and prices the majority can afford. Since land and construction costs in downtowns are typically higher than in other neighborhoods, this remains difficult to achieve without some form of development incentives.

- **Older households (empty nesters and retirees) continues to be the second largest potential market, approximately 40 percent of whom are currently living in Montgomery's older neighborhoods and suburbs.**

Empty nesters and retirees—including *Urban Establishment* and *Cosmopolitan Couples*, in addition to *Cosmopolitan Elite*, *Middle-Class Move-Downs*, *Old Money*, *Suburban Establishment*, *Affluent Empty Nesters*, *Small-Town Establishment*, and *New Empty Nesters*—now represent approximately 28 percent of the potential market, up from 24 percent in 2006. As the national housing market continue to stabilize, and with the introduction of a variety of units in a broad range of rents and prices, older households will likely continue to become a larger share of the potential market.

- **The third, and smallest, general market segment—family-oriented households (traditional and non-traditional families)—continues to decline as a percentage of the potential market for the Downtown Montgomery Study Area, from 13 percent in 2006, to nine percent in 2011.**

More than three-quarters of the traditional and non-traditional family households moving to the Downtown Montgomery Study Area in 2011 will be moving from outside the city and county, down from approximately 40 percent in 2006.

Depending on housing type, family-oriented households, many of whom are single parents with one or two children, will now comprise between five percent (for-sale multi-family) and 22 percent (for-sale urban single-family detached) of the market for new housing units within the Downtown Study Area, compared to two percent and 30 percent, respectively, in 2006.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

The primary target groups, their estimated median and range of incomes, and estimated median home values in 2010, are:

Primary Target Groups (In Order of Median Income)			
THE DOWNTOWN MONTGOMERY STUDY AREA <i>City of Montgomery, Montgomery County, Alabama</i>			
HOUSEHOLD TYPE	MEDIAN INCOME	BROAD INCOME RANGE	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees			
<i>Old Money</i>	\$249,200	\$100,000–\$350,000	\$551,800
<i>Urban Establishment</i>	\$115,100	\$75,000–\$165,000	\$439,500
<i>Small-Town Establishment</i>	\$107,800	\$70,000–\$150,000	\$309,200
<i>Cosmopolitan Elite</i>	\$101,600	\$50,000–\$150,000	\$269,200
<i>Suburban Establishment</i>	\$93,700	\$50,000–\$140,000	\$251,200
<i>New Empty Nesters</i>	\$92,700	\$60,000–\$125,000	\$207,900
<i>Affluent Empty Nesters</i>	\$92,700	\$55,000–\$135,000	\$266,100
<i>Cosmopolitan Couples</i>	\$73,600	\$45,000–\$105,000	\$232,700
<i>Middle-Class Move-Downs</i>	\$67,200	\$45,000–\$95,000	\$153,700
Traditional & Non-Traditional Families			
<i>Unibox Transferees</i>	\$108,900	\$60,000–\$160,000	\$249,200
<i>Full-Nest Urbanites</i>	\$95,000	\$55,000–\$140,000	\$228,200
<i>Full-Nest Suburbanites</i>	\$94,000	\$50,000–\$140,000	\$206,300
<i>Multi-Ethnic Families</i>	\$67,700	\$45,000–\$90,000	\$156,700
<i>Multi-Cultural Families</i>	\$65,500	\$40,000–\$85,000	\$129,300
Younger Singles & Couples			
<i>The Entrepreneurs</i>	\$134,600	\$100,000–\$170,000	\$389,300
<i>e-Types</i>	\$112,200	\$75,000–\$150,000	\$428,000
<i>Fast-Track Professionals</i>	\$96,000	\$60,000–\$125,000	\$289,200
<i>The VIPs</i>	\$95,200	\$55,000–\$130,000	\$258,400
<i>Upscale Suburban Couples</i>	\$88,700	\$60,000–\$125,000	\$291,700
<i>New Bohemians</i>	\$75,300	\$50,000–\$110,000	\$359,800
<i>Twentysomethings</i>	\$65,900	\$45,000–\$90,000	\$175,300
<i>Suburban Achievers</i>	\$63,600	\$40,000–\$95,000	\$187,100
<i>Urban Achievers</i>	\$55,900	\$40,000–\$75,000	\$236,500
<i>Small-City Singles</i>	\$51,700	\$35,000–\$70,000	\$132,100

NOTE: The names and descriptions of the market groups summarize each group's tendencies—as determined through geo-demographic cluster analysis—rather than their absolute composition. Hence, every group could contain “anomalous” households, such as empty-nester households within a “full-nest” category.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

Several of the target groups, for example, *The VIPs*, have experienced increases in median and ranges of income since 2006 (due to promotions and raises), but declines in home values, due to the collapse of the housing market in 2007-2008. Some of the groups, such as *Affluent Empty Nesters* or *Suburban Establishments*, for example, have lower annual incomes (due to lower interest rates on investments and/or stock-market related losses), but higher home values (because their dwelling units are largely located in traditional neighborhoods). A few, such as *Small-City Singles*, for example, have experienced declines in both income as well as home values.

(Reference APPENDIX TWO, TARGET MARKET DESCRIPTIONS, for detail on each target group.)

THE CURRENT CONTEXT

What are the alternatives?

-- Multi-Family For-Rent --

There are now several small properties in Downtown Montgomery, many of which were originally planned as condominiums, but due to the collapse of the housing market and the resulting financing challenges for both developers and buyers, are now being rented. (See Table 3.) In 2006, both the Capital Courtyard (now Courtyard Citiflats) and the Alps Lofts were leasing units, with rents at just under \$500 per month for a one-bedroom apartment at Capital Courtyard, and ranging between \$800 and \$1,500 per month for one- to three-bedroom units at the Alps. Those rents have remained stable since 2006.

Elsewhere in Downtown, the rent for one-bedroom lofts ranges between \$555 for a 540-square-foot unit at the Adams Avenue Lofts (\$1.03 per square foot) to \$1,225 per month for a 956-square-foot unit at 246 Lofts (\$1.28 per square foot). Two-bedroom lofts start at just under \$1,000 per month for 875 square feet of living space (\$1.11 per square foot) to as much as \$1,650 per month for just under 1,450 square feet, also at the 246 Lofts (\$0.92 per square foot). Because of the Downtown location, which is in itself an attraction, extensive amenities are not provided at these properties.

Rents at most of the other properties included in the 2006 survey and updated in 2011 have generally increased by just under one percent to more than 22 percent, depending on size of unit and unit configuration. For the most part, the smallest units (one-bedrooms) have experienced the greatest escalation, and the largest units (two- and three-bedrooms) have experienced the lowest, or even no escalation. Prices went down by approximately one percent at Central Park on Central Parkway, which has been renovated and re-named since the 2006 study.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

Outside of Downtown, rents for one-bedroom apartments now generally start at \$615 per month, with the highest one-bedroom rent at \$1,111 found at Verandas at Taylor Oaks, a property built in 2008. One-bedroom unit sizes range between approximately 650 square feet to over 1,250 square feet at the Paddock Club, an older property on Bell Road. Rents per square foot for one bedroom units now range between \$0.66 to \$1.32 (\$0.61 to \$0.93 per square foot in 2006).

Two-bedroom units currently start at around \$700, with unit sizes ranging between 900 and 1,450 square feet (generally \$0.58 to \$1.12 per square foot in 2010, from \$0.57 to \$1.01 per square foot in 2006). The highest two-bedroom rent exceeded \$1,300 per month at Verandas at Mitylene, built in 2006, and the Verandas at Taylor Oaks, built in 2008.

Rents for three-bedroom units currently generally start at just between \$800 and \$850 per month, for approximately 1,200 to 1,500 square feet of living space, with the highest three-bedroom rent at \$1,546 per month for 1,394 square feet. The rent-per-square-foot for three-bedrooms included in both surveys ranges from \$0.56 to \$0.76, up only slightly from \$0.55 to \$0.75 in 2006.

Occupancy rates at those properties that would provide that information range between 95 and 99 percent (functional full occupancy), the exception being the Paddock Club, which is currently at 93 percent. Community amenities at nearly all of the properties included in the survey consist of the usual clubhouse, pool, fitness center, and business center.

• • •

Summary Of Selected Rental Properties
City of Montgomery, Montgomery County, Alabama
April, 2011

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number of Units</u>	<u>Reported Base Rent</u>	<u>Reported Unit Size</u>	<u>Rent per Sq. Ft.</u>	<u>Additional Information</u>
	 Downtown			
Courtyard Citiflats (1940s) 555 South McDonough Street	61 1BR/1BA	\$475 to \$560	650	\$0.73 to \$0.86	Courtyard, pool.
Adams Avenue Lofts 500 Adams Avenue	20 1BR/1BA	\$555 to \$635	540 to 625	\$1.02 to \$1.03	
Montgomery Fair Lofts (2008) 28 Monroe Street	14 1BR/1BA	\$700 to \$950	560 to 785	\$1.21 to \$1.25	
The Alps Lofts (2005) 10 East Jefferson Street	13 1BR/1BA 1BR/1.5BA 2BR/2BA 3BR/2BA	\$800 \$1,250 \$975 to \$1,250 \$1,500	750 1,480 875 1,405 2,425 to 2,575	\$1.07 \$0.84 \$0.89 to \$1.11 \$0.58 to \$0.62	Roof access.
Flats at Alley Station (2010) 10 East Jefferson Street	16 1BR/1BA 2BR/2BA	\$950 to \$1,300 \$1,300 to \$1,250	725 to 1,101 1,398 1,420	\$1.18 to \$1.31 \$0.88 to \$0.93	100% occupancy Fitness center, rooftop terrace, storage space.
22 Monroe Lofts 22 Monroe Street	9 1BR/1BA 2BR/2BA	\$1,000 \$1,300	1,000 1,800	\$1.00 \$0.72	
246 Lofts (2007) 246 N. Court St	11 1BR/1BA 2BR/2BA	\$1,125 to \$1,225 \$1,250 to \$1,650	892 to 956 1,354 1,447	\$1.26 to \$1.28 \$0.92 to \$1.14	

Summary Of Selected Rental Properties
City of Montgomery, Montgomery County, Alabama
April, 2011

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number of Units</u>	<u>Reported Base Rent</u>	<u>Reported Unit Size</u>	<u>Rent per Sq. Ft.</u>	<u>Additional Information</u>
. . . . Outside Downtown					
Atlantic & Pacific Lofts	11				
505 Cloverdale Road	1BR/1.5BA		960	\$0.00	
	2BR/2BA		1,718	\$0.00	
Vaughn Lakes (1990; 1995)	548				95% occupancy
500 Eastdale Road South	1BR/1BA	\$615 to	660 to	\$0.87 to	Clubhouse, pools, fitness center, playground. tennis/basketball courts. Income Guidelines
		\$645	738	\$0.93	
	1 BR/1BA w/ loft	\$790	1,065	\$0.74	
	2BR/1BA	\$695 to	938 to	\$0.70 to	
		\$710	1,013	\$0.74	
	2BR/2BA	\$715 to	1,079 to	\$0.65 to	
		\$810	1,252	\$0.66	
	3BR/2BA	\$860 to	1,231 to	\$0.63 to	
		\$930	1,479	\$0.70	
	3BR/2.5BA TH	\$1,160 to	1,745	\$0.66 to	
		\$1,235		\$0.71	
Paddock Club (1998)	208				93% occupancy
5050 Bell Road	1BR/1BA	\$615 to	820 to	\$0.75 to	Clubhouse, pool, fitness center, tennis, volleyball, business center.
		\$1,010	1,257	\$0.80	
	2BR/2BA	\$755 to	1,052 to	\$0.72 to	
		\$1,090	1,195	\$0.91	
	3BR/2BA	\$920 to	1,438	\$0.64 to	
		\$1,265		\$0.88	
River Parkway (2006)	112				
3090 Alabama River Parkway	1BR/1BA	\$650	986	\$0.66	Pool, clubhouse, fitness center, business center.
	2BR/2BA	\$720	1,244	\$0.58	
	3BR/2BA	\$830	1,480	\$0.56	

Summary Of Selected Rental Properties
City of Montgomery, Montgomery County, Alabama
April, 2011

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number</u> <u>of Units</u>	<u>Reported</u> <u>Base Rent</u>	<u>Reported</u> <u>Unit Size</u>	<u>Rent per</u> <u>Sq. Ft.</u>	<u>Additional Information</u>
. Outside Downtown (continued)					
Verandas at Mitylene (2006) 8850 Crosswind Drive	332				95% occupancy
	1BR/1BA	\$692 to \$880	843	\$0.82 to \$1.04	Media center, business center,
	2BR/1BA	\$756 to \$1,068	1,110	\$0.68 to \$0.96	pool, spa, health center,
	2BR/2BA	\$734 to \$1,312	1,176	\$0.62 to \$1.12	lanai, playground.
	3BR/2BA	\$873 to \$1,260	1,397	\$0.62 to \$0.90	
Central Park (1999) 2400 Central Parkway Formerly known as Colonial Grand.	384				
	1BR/1BA	\$739 to \$789	933	\$0.79 to \$0.85	Clubhouse, pools, tennis court,
	1BR/1BA w/ study	\$779 to \$829	1,049	\$0.74 to \$0.79	business center, playground.
	2BR/2BA	\$869 to \$949	1,233 to 1,348	\$0.70 to \$0.70	
	3BR/2BA	\$979 to \$1,069	1,392 to 1,503	\$0.70 to \$0.71	
Legends at Taylor Lakes 100 Legends Drive	248				
	1BR/1BA	\$740 to \$950	726 to 996	\$0.95 to \$1.02	Pool, fitness center, business center,
	2BR/2BA	\$885 to \$930	1,079	\$0.82 to \$0.86	social center.
	3BR/2BA	\$1,070 to \$1,135	1,445 to	\$0.74 to \$0.79	
Verandas at Taylor Oaks (2008) 7701 Taylor Oaks Circle	332				95% occupancy
	1BR/1BA	\$743 to \$1,111	841	\$0.88 to \$1.32	Health center, media center/theater,
	2BR/1BA	\$773 to \$1,230	1,110	\$0.70 to \$1.11	sports court, dog park, lanai,
	2BR/2BA	\$885 to \$1,303	1,176	\$0.75 to \$1.11	pool.
	3BR/2BA	\$1,137 to \$1,546	1,394	\$0.82 to \$1.11	

Summary Of Selected Rental Properties
City of Montgomery, Montgomery County, Alabama
April, 2011

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number of Units</u>	<u>Reported Base Rent</u>	<u>Reported Unit Size</u>	<u>Rent per Sq. Ft.</u>	<u>Additional Information</u>
. <i>Outside Downtown (continued)</i>					
Reserve at Billingsley Place (2006) 3501 Reserve Circle	200+				
	1BR/1BA	\$760 to \$775	892	\$0.85 to \$0.87	<i>Clubhouse, pool, theater, fitness center, business center, movie rental center.</i>
	2BR/2BA	\$865 to \$880	1,203	\$0.72 to \$0.73	
	3BR/2BA	\$990 to \$1,005	1,389	\$0.71 to \$0.72	
Watermark at Eastchase (2010) 8462 Eastchase Parkway	272				In Lease-up.
	1BR/1BA	\$760	871	\$0.87	<i>Clubhouse, pool, fitness center, residents lounge, free weights.</i>
	2BR/1BA	\$850	1,040	\$0.80	
	2BR/1BA	\$915	1,145	\$0.82	
	3BR/2BA	\$1,050	1,303	\$0.81	
Barrington Place at Somerset (2002) 280 New Haven Boulevard	192				
	1BR/1BA	\$777 to \$842	798 to 928	\$0.91 to \$0.97	<i>Clubhouse, pool, fitness center, business center, free weights.</i>
	1BR/1BA w/study	\$832 to \$872	942 to 1,226	\$0.71 to \$0.88	
	2BR/2BA	\$857 to \$1,032	1,021 to 1,319	\$0.84 to \$1.01	
	2BR/2BA w/study	\$987	1,511	\$0.65	
	3BR/2BA	\$1,062 to \$1,197	1,402 to 1,577	\$0.76 to \$0.76	
Carrington Park (2008) 2000 Central Parkway	240				99% occupancy
	1BR/1BA	\$829 to \$859	648 to 987	\$0.87 to \$1.28	<i>Clubhouse, pool, fitness center, business center, playground, residents lounge.</i>
	2BR/2BA	\$959 to \$1,129	985 to 1,448	\$0.78 to \$0.97	
	3BR/2BA	\$1,159 to \$1,179	1,447 to 1,458	\$0.80 to \$0.81	

SOURCE: Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

-- For-Sale Properties --

As noted above, many of the condominiums originally proposed for Downtown Montgomery are now being rented. As of April 2011, there were two units available for purchase at the 246 Lofts, a 1,429-square-foot loft priced at \$169,000 and a larger, 1,718-square-foot unit priced at \$268,900. (See Table 4.) In 2006, this property had just begun marketing units, and four of the lofts had sold in four months. At that time, prices ranged from \$190,000 for 892 square feet to \$320,000 for the 1,429-square-foot unit (\$209 to \$224 per square foot).

Outside Downtown, there are a number of townhouses for sale, both in infill locations and in eastern Montgomery. At the Mews section of Hampstead, the current phase of seven townhouses is priced from \$162,000 to \$194,000 for just under 800 to nearly 1,300 square feet of living space (\$153 to \$204 per square foot).

Townhouses at the Waters, also in eastern Montgomery, are currently priced from \$239,000 to \$269,900, for units containing between 1,200 to 1,840 square feet (\$147 to \$199 per square foot). In 2006, prices for these units ranged between \$249,900 and \$319,900 (\$174 to \$208 per square foot).

Most of the units at the Atlantic & Pacific Lofts, located in the Cloverdale neighborhood, are now being rented, although two of the units, at 1,775 and 1,800 square feet, could be purchased for \$268,900 and \$280,000, respectively (\$151 and \$156 per square foot). The Cloverdale Cottages and Agnew Street Cottages, small infill developments of eight and six units respectively, are located in the same neighborhood. The remaining units, one in each project, are priced at \$339,000 and \$360,000 for 2,250 and 2,400 square feet of living space (\$151 and \$150 per square foot).

Table 4

Summary Of Selected For-Sale Properties
City of Montgomery, Montgomery County, Alabama
April, 2011

<u>Development (Date Opened)</u> <u>Developer/Builder</u>	<u>Housing Type</u>	<u>Unit Price Range</u>	<u>Unit Size Range</u>	<u>Price Per Sq. Ft.</u>	<u>Total Units</u>
<i>.... Downtown</i>					
246 Lofts (04/06)					11
<i>City Loft Corporation</i>	Loft	\$169,000 \$268,900	1,429 1,718	\$118 \$157	
<i>.... Outside Downtown</i>					
Hampstead Mews					7
<i>NewTown Development</i>	TH	\$162,000 to \$194,000	796 to 1,270	\$153 to \$204	
Hampstead					
<i>NewTown Development</i>	TH	\$199,000 to \$499,000	1,409 to 3,732	\$134 to \$141	
The Waters (2006)					
<i>ARK Real Estate Strategies</i>	TH	\$239,000 to \$269,900	1,200 to 1,840	\$147 to \$199	
Atlantic & Pacific Lofts (2007)					16
<i>City Loft Corporation</i>	Lofts	\$268,900 \$280,000	1,775 1,800	\$151 \$156	
Agnew Street Cottages (2007)					6
	SF	\$339,000	2,250	\$151	
Lockwood					
	TH	\$339,000 \$429,000	1,884 1,884	\$180 \$228	42
Cloverdale Cottages (2007)					8
<i>City Loft Corporation</i>	SF	\$360,000	2,400	\$150	

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

MARKET-RATE RENT AND PRICE RANGES: THE DOWNTOWN MONTGOMERY STUDY AREA__

What will they pay to live in the Downtown Montgomery Study Area?

Based on the housing preferences and the socio-economic and lifestyle characteristics of the target households in 2011, and the relevant residential context in the Montgomery market area, the general range of rents and prices for newly-developed market-rate residential units in the Study Area that could currently be sustained by the market is as follows (see also Table 5):

Rent, Price and Size Range
Newly-Created Housing (Adaptive Re-Use and New Construction)
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Hard Lofts *	\$650–\$1,025/month	600–1,000 sf	\$1.03–\$1.08 psf
Soft Lofts †	\$750–\$1,225/month	650–1,100 sf	\$1.11–\$1.15 psf
Luxury Apartments	\$975–\$1,800/month	800–1,500 sf	\$1.20–\$1.22 psf
FOR-SALE—			
Hard Lofts *	\$105,000–\$170,000	600–1,000 sf	\$170–\$175 psf
Soft Lofts †	\$130,000–\$215,000	700–1,200 sf	\$179–\$186 psf
Luxury Condominiums	\$200,000–\$375,000	1,000–1,800 sf	\$200–\$208 psf
Townhouses/Rowhouses	\$175,000–\$275,000	1,000–1,650 sf	\$167–\$175 psf
Urban Houses	\$195,000–\$325,000	1,100–1,900 sf	\$171–\$177 psf

* Unit interiors of “hard lofts” typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of “soft lofts” may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

The above rents and prices are in year 2011 dollars, are exclusive of consumer options and upgrades, floor or location premiums, and cover the broad range of rents and prices that could, under normal economic conditions, be sustained by the market in the Downtown Montgomery Study Area. Although annual incomes and residential values have risen for many households in

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

the city over the past five years, the higher down payments currently required by lenders will preclude many younger households from becoming first-time buyers. Because of these affordability issues, it would seem to be likely that older households should therefore comprise a greater percentage of the market over the next two or three years. However, continued softness in the resale market is currently constraining some of these buyers as well.

Buyers with low down payments remain at a disadvantage when seeking mortgages; however, FHA is still insuring loans for credit-worthy buyers (580 minimum credit score, although most lenders require credit scores of at least 620) at 3.5 percent down payment. Buyers with low down payments will face surcharges whether financing with an FHA loan or a conventional mortgage conforming to Fannie Mae and Freddie Mac guidelines. High loan-to-value mortgages are available again to buyers with good credit ratings.

Location will have a significant impact on rents and prices; projects situated within a short walking distance of urban amenities, such as restaurants, theaters, shops, or employment will likely command rents and prices at the upper end of values. Those projects in less desirable locations or at the edges of the Study Area are likely to command rent and prices at the lower end of values.

Table 5

Optimum Market Position
Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

<u>Housing Type</u>	<u>Base Rent/Price Range*</u>	<u>Base Unit Size Range</u>	<u>Base Rent/Price Per Sq. Ft.*</u>	<u>Annual Market Capture</u>
Multi-Family For-Rent				159 units
Hard Lofts	\$650 to	600 to	\$1.03 to	
<i>Open Floorplans/1ba</i>	\$1,025	1,000	\$1.08	
Soft Lofts	\$750 to	650 to	\$1.11 to	
<i>Studios to Two-Bedrooms</i>	\$1,225	1,100	\$1.15	
Luxury Apartments	\$975 to	800 to	\$1.20 to	
<i>One- to Three-Bedrooms</i>	\$1,800	1,500	\$1.22	
Multi-Family For-Sale				33 units
Hard Lofts	\$105,000 to	600 to	\$170 to	
<i>Open Floorplans/1ba</i>	\$170,000	1,000	\$175	
Soft Lofts	\$130,000 to	700 to	\$179 to	
<i>One- and Two-Bedrooms</i>	\$215,000	1,200	\$186	
Luxury Condominiums	\$200,000 to	1,000 to	\$200 to	
<i>Two- and Three-Bedrooms</i>	\$375,000	1,800	\$208	
Single-Family Attached For-Sale				30 units
Rowhouses	\$175,000 to	1,000 to	\$167 to	
	\$275,000	1,650	\$175	
Single-Family Detached For-Sale				14 units
Urban Houses	\$195,000 to	1,100 to	\$171 to	
<i>{Cottages, Bungalows, & 2-Story Houses}</i>	\$325,000	1,900	\$177	

NOTE: Base rents/prices in year 2011 dollars and exclude floor and view premiums, options and upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

How fast will the units lease or sell?

As noted previously in this study, the current constrained market is characterized in many locations by reduced housing prices, high levels of unsold units, high levels of mortgage delinquencies and foreclosures, and restrictive mortgage underwriting and development finance. As also noted previously, these market constraints do not reduce the size of the potential market; however, depending on the timing of market entry, they reduce the initial percentage of the potential market able to overcome those constraints.

After more than two decades' experience in scores of cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that, over the near term, those households that prefer new construction, rather than previously lived-in units, currently represent 15 percent of the potential rental market, and between five and 10 percent of the potential for-sale market, given the production of appropriately-positioned new housing. (Until the collapse of the housing market in the fall of 2008, newly-constructed dwelling units comprised approximately 15 percent of all units sold in the nation.) However, due to the uncertain timing of a mortgage and housing market recovery, short-term absorption projections (market capture) of the for-sale units could be lower than the annual number of units described below.

Based on a 15 percent capture of the potential market for new rental housing, and a five to 10 percent capture of the potential market for new for-sale housing units, the Downtown Montgomery Study area should be able to support up to 236 new market-rate housing units per year over the short term (next two to three years) and up to 313 units per year in the longer term (three to five years), as shown on the following page:

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Annual Capture of Market Potential
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	1,060	15%	159
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	650	5% to 10%	33 to 65
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	610	5% to 10%	30 to 61
For-Sale Single-Family Detached (urban houses, fee-simple ownership)	<u>280</u>	5% to 10%	<u>14 to 28</u>
Total	2,600		236 to 313

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

NOTE: Target market capture rates are a unique and highly-refined measure of feasibility. Target market capture rates are *not* equivalent to—and should not be confused with—penetration rates or traffic conversion rates.

The **target market capture rate** is derived by dividing the *annual* forecast absorption—in aggregate and by housing type—by the number of households that have the potential to purchase or rent new housing within a specified area *in a given year*.

The **penetration rate** is derived by dividing the *total* number of dwelling units planned for a property by the *total* number of draw area households, sometimes qualified by income.

The **traffic conversion rate** is derived by dividing the *total* number of buyers or renters by the *total* number of prospects that have visited a site.

Because the prospective market for a location is more precisely defined, target market capture rates are higher than the more grossly-derived penetration rates. However, the resulting higher capture rates are well within the range of prudent feasibility.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

—*Rental Distribution*—

The market-rate rent range covers leases by households with annual incomes ranging between \$40,000 and \$100,000 or more. A single-person household with an income of \$40,000 per year, paying no more than 30 percent of gross income for rent and utilities (the national standard for affordability) would qualify for a rent of \$650 per month. A two- or three-person household, with an income of \$100,000 or more per year, paying no more than 30 percent of gross income for rent and utilities, would qualify for a rent of \$1,800 per month.

Based on the updated target household mix (*listed on Table 6*) and the incomes of the target households, the distribution by rent range of the 159 new rental lofts and apartments that could be absorbed per year over the next five years in the Downtown Montgomery Study Area would be as follows:

Loft/Apartment Distribution by Rent Range
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$500–\$750	42	26.4%
\$750–\$1,000	58	36.5%
\$1,000–\$1,250	31	19.5%
\$1,250–\$1,500	14	8.8%
\$1,500–\$1,750	8	5.0%
\$1,750 and up	<u>6</u>	<u>3.8%</u>
Total:	159	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Table 6

**Annual Market Capture
Target Groups For New Multi-Family For-Rent
Downtown Montgomery Study Area**

City of Montgomery, Montgomery County, Alabama

Empty Nesters & Retirees	<i>Number of Households</i>	<i>At 15 Percent Capture</i>
Urban Establishment	10	2
Small-Town Establishment	10	2
Cosmopolitan Elite	20	3
Suburban Establishment	10	2
New Empty Nesters	30	5
Middle-Class Move-Downs	70	9
Subtotal:	150	23
Traditional & Non-Traditional Families		
Unibox Transferees	10	2
Full-Nest Suburbanites	10	2
Full-Nest Urbanites	10	2
Multi-Ethnic Families	30	5
Multi-Cultural Families	10	2
Subtotal:	70	13
Younger Singles & Couples		
The Entrepreneurs	10	2
e-Types	30	5
Fast-Track Professionals	20	3
The VIPs	90	14
Upscale Suburban Couples	40	6
New Bohemians	70	11
Twentysomethings	200	30
Suburban Achievers	90	14
Urban Achievers	90	12
Small-City Singles	200	26
Subtotal:	840	123
Total Households:	1,060	159

SOURCE: Nielsen Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

—*For-Sale Distribution*—

The market-rate price range covers purchases by households with annual incomes ranging between \$50,000 and \$175,000 or more. As in 2006, this analysis did not assess affordability based on the use of non-standard mortgage instruments, but rather typical 30-year mortgages, with either a 10 or 20 percent down payment, at prevailing interest rates.

Based on the target household mix (*listed on* Table 7) and incomes of the target households, the distribution by price range of the 33 to 65 market-rate for-sale lofts and apartments that could be absorbed per year over the next five years in the Downtown Montgomery Study Area is as follows:

Loft/Apartment Distribution by Price Range
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$100,000–\$150,000	4 to 8	12.1%
\$150,000–\$200,000	5 to 10	15.2%
\$200,000–\$250,000	9 to 17	27.2%
\$250,000–\$300,000	6 to 12	18.2%
\$300,000–\$350,000	5 to 10	15.2%
\$350,000 and up	<u>4 to 8</u>	<u>12.1%</u>
Total:	33 to 65	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Table 7

**Annual Market Capture
Target Groups For New Multi-Family For-Sale
Downtown Montgomery Study Area**

City of Montgomery, Montgomery County, Alabama

Empty Nesters & Retirees	<i>Number of Households</i>	<i>At 5 Percent Capture</i>
Old Money	10	1
Urban Establishment	20	1
Small-Town Establishment	20	1
Cosmopolitan Elite	30	2
Suburban Establishment	10	1
Affluent Empty Nesters	10	1
New Empty Nesters	30	2
Cosmopolitan Couples	10	1
Middle-Class Move-Downs	80	2
Subtotal:	220	12
Traditional & Non-Traditional Families		
Late-Nest Suburbanites	10	1
Full-Nest Urbanites	10	1
Multi-Ethnic Families	10	1
Subtotal:	30	3
Younger Singles & Couples		
The Entrepreneurs	30	2
e-Types	20	1
Fast-Track Professionals	20	1
The VIPs	70	3
Upscale Suburban Couples	50	3
New Bohemians	10	1
Twentysomethings	60	2
Suburban Achievers	60	2
Urban Achievers	10	1
Small-City Singles	70	2
Subtotal:	400	18
Total Households:	650	33

SOURCE: Nielsen Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Based on the target household mix (*listed on* Table 8) and incomes of the target groups, the distribution by price range of the 30 to 61 market-rate townhouses/rowhouses that could be absorbed per year over the next five years in the Downtown Montgomery Study Area is as follows:

Townhouse/Rowhouse Distribution by Price Range
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$150,000–\$200,000	11 to 22	36.7%
\$200,000–\$250,000	10 to 20	33.3%
\$250,000–\$300,000	7 to 14	23.3%
\$300,000 and up	<u>2 to 5</u>	<u>6.7%</u>
Total:	30 to 61	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Table 8

Annual Market Capture
Target Groups For New Single-Family Attached For-Sale
Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama

Empty Nesters & Retirees	<i>Number of Households</i>	<i>At 5 Percent Capture</i>
Urban Establishment	10	1
Small-Town Establishment	10	1
Cosmopolitan Elite	20	1
Affluent Empty Nesters	10	1
New Empty Nesters	20	1
Cosmopolitan Couples	10	1
Middle-Class Move-Downs	110	3
Subtotal:	190	9
Traditional & Non-Traditional Families		
Unibox Transferees	10	1
Full-Nest Suburbanites	10	1
Full-Nest Urbanites	10	1
Multi-Ethnic Families	20	1
Multi-Cultural Families	10	1
Subtotal:	60	5
Younger Singles & Couples		
The Entrepreneurs	10	1
e-Types	10	1
Fast-Track Professionals	10	1
The VIPs	60	3
Upscale Suburban Couples	30	2
New Bohemians	10	1
Twentysomethings	70	2
Suburban Achievers	60	2
Urban Achievers	10	1
Small-City Singles	90	2
Subtotal:	360	16
Total Households:	610	30

SOURCE: Nielsen Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Based on the target household mix (*listed on Table 9*) and incomes of the target groups, the distribution by price range of the 14 to 28 market-rate urban houses that could be absorbed per year over the next five years in the Downtown Montgomery Study Area is as follows:

Urban House Distribution by Price Range
THE DOWNTOWN MONTGOMERY STUDY AREA
City of Montgomery, Montgomery County, Alabama

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$150,000–\$200,000	3 to 4	15.4%
\$200,000–\$250,000	5 to 11	38.4%
\$250,000–\$300,000	4 to 9	30.8%
\$300,000 and up	<u>2 to 4</u>	<u>15.4%</u>
Total:	14 to 28	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Table 9

Annual Market Capture
Target Groups For New Urban Single-Family Detached For-Sale
Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama

Empty Nesters & Retirees	<i>Number of Households</i>	<i>At 5 Percent Capture</i>
Old Money	20	1
Urban Establishment	10	1
Small-Town Establishment	30	1
Cosmopolitan Elite	30	1
Suburban Establishment	10	1
New Empty Nesters	30	1
Middle-Class Move-Downs	50	2
Subtotal:	180	8
Traditional & Non-Traditional Families		
Unibox Transferees	40	1
Full-Nest Suburbanites	10	1
Multi-Ethnic Families	10	1
Subtotal:	60	3
Younger Singles & Couples		
The Entrepreneurs	20	1
The VIPs	20	1
Subtotal:	40	3
Total Households:	280	14

SOURCE: Nielsen Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

METHODOLOGY

The update of the technical analysis of market potential for the Downtown Study Area included confirmation of the draw areas—based on the most recent migration data for Montgomery County, and incorporating additional data from the 2009 American Community Survey for the City of Montgomery—as well as compilation of current residential rental and for-sale activity in the Montgomery market area.

The evaluation of the city’s market potential was derived from the updated target market analysis of households in the draw areas, and yielded:

- 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 (empty-nesters/retirees, traditional and non-traditional families, younger singles/couples).

NOTE: The Appendix Tables referenced here are provided in a separate document.

DELINEATION OF THE DRAW AREAS (MIGRATION ANALYSIS)—

Taxpayer migration data provide the framework for the delineation of the draw areas—the principal counties of origin for households that are likely to move to the City of Montgomery. These data are maintained at the county and “county equivalent” level by the Internal Revenue Service and provide a clear representation of mobility patterns. The migration data for the city has been supplemented by mobility data from the 2009 American Community Survey.

Appendix One, Table 1.

Migration Trends

Analysis of the most recent Montgomery County migration and mobility data available from the Internal Revenue Service—from 2003 through 2007—shows that, with the exception of 2005, the county continued to experience net migration losses throughout the study period, with net immigration losses ranging from just 125 households in 2006 to a high of nearly 1,100 households in

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

2007. (See Appendix One, Table 1.) The 2006 study showed that, prior to and including 2003, the county had experienced net household losses every year.

Annual in-migration into Montgomery County ranged from 5,185 households in 2003 (the lowest in-migrating total over the study period) to 6,235 households in 2005 (the highest in-migrating total). Between 10.4 and 11.5 percent of the county's in-migration has been from Elmore County, the adjacent county to the north, with another five to seven percent from Autauga County to the northwest. Jefferson County, further to the northwest and almost in the center of the state, accounted for 3.5 to 5.5 percent of Montgomery County's in-migration.

Annual out-migration from Montgomery County ranged between the low of 5,710 households in 2004 to the high of nearly 7,000 households in 2007. Approximately 14 to 16 percent of the out-migration has been to Elmore County; collectively, the majority of out-migration is to other Alabama counties.

As noted in the previous study, although net migration provides insights into a city's historic ability to attract or retain households compared to other locations, it is those households likely to move into an area (gross in-migration) that represent that area's external market potential.

Based on the updated migration data, then, the draw areas for market-rate housing within the City of Montgomery have been confirmed as follows:

- The local (internal) draw area, covering households currently living within the Montgomery city limits and the balance of Montgomery County and in groups with median incomes of \$50,000 or more.
- The regional draw area, covering households in groups with median incomes of \$50,000 or more and with the potential to move to the City of Montgomery from Elmore and Autauga Counties. The Birmingham draw area (Jefferson County) has also been included in this draw area.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

- The national draw area, covering households in groups with median incomes of \$50,000 or more and with the potential to move to the City of Montgomery from all other U.S. counties (primarily counties in Alabama and the Southeast). Between 4,100 and over 4,900 households move into Montgomery County from elsewhere in the United States each year.

Migration Methodology:

County-to-county migration is based on the year-to-year changes in the addresses shown on the population of returns from the Internal Revenue Service Individual Master File system. Data on migration patterns by county or county equivalent for the entire United States include inflows and outflows. The data include the number of returns (which can be used to approximate the number of households), and the median and average incomes reported on the returns.

TARGET MARKET CLASSIFICATION OF CITY AND COUNTY HOUSEHOLDS—

Geo-demographic data obtained from Nielsen Claritas, Inc. provide the framework for the categorization of households, not only by demographic characteristics, but also by lifestyle preferences and socio-economic factors. For purposes of this study, only those households in groups with median incomes above \$50,000 are included in the tables. An appendix containing detailed descriptions of each of these target market groups is provided along with the study.

Appendix One, Tables 2 and 3.

Target Market Classifications

Of the 81,485 households living in the City of Montgomery in 2010 (2010 Census), over 48 percent, or 39,310 households, are in groups with median incomes of \$50,000 or more. (*See* Appendix One, Table 2.) Approximately 40.5 percent of these households can be classified as younger singles and couples (up from 38.9 percent in 2006), another 41.8 percent are empty nesters and retirees (up from 33.4 percent), and 17.7 percent are traditional and non-traditional families (down from 27.7 percent in 2006).

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

Over 48.6 percent, or 43,700 households, of the 89,980 households living in Montgomery County in 2010 are in groups with median incomes of \$50,000 or more. (*Reference* Appendix One, Table 3.) Up to 38.1 percent of these households are classified as younger singles and couples (up from 37.3 percent in 2006), another 42.2 percent are empty nesters and retirees (up from 33.5 percent), and the remaining 19.7 percent are traditional and non-traditional families (down from 29.2 percent).

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM NE household clustering system, that establishes the optimum market position for residential development of any property—from a specific site to an entire political jurisdiction—through cluster analysis of households living within designated draw areas. In contrast to classical supply/demand analysis—which is based on supply-side dynamics and baseline demographic projections—target market analysis establishes the optimum market position derived from the housing and lifestyle preferences of households in the draw area and within the framework of the local housing market context, even in locations where no close comparables exist.

Clusters of households (usually between 10 and 15) are grouped according to a variety of significant “predictor variables,” ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes known as “behaviors,” such as mobility rates and lifestyle choices. 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.

As a result of this process, Zimmerman/Volk Associates has identified 41 target market groups with median incomes that enable most of the households within each group to qualify for market-rate housing, and an additional 25 groups with median incomes in which a much smaller number of households is able to qualify for market-rate housing. The most affluent of the 66 groups can

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

afford the most expensive new ownership units; the least prosperous are candidates for the least expensive existing rental apartments.

Once the draw areas for a property have been defined, then—through field investigation, analysis of historic migration and development trends, and employment and commutation patterns—the households within those areas are quantified using the target market methodology. The potential market for new market-rate units is then determined by the correlation of a number of factors—including, but not limited to: household mobility rates; median incomes; lifestyle characteristics and housing preferences; the location of the site; and the competitive environment.

The end result of this series of filters is the optimum market position—by tenure, building configuration and household type, including specific recommendations for unit sizes, rents and/or prices—and projections of absorption within the local housing context.

DETERMINATION OF THE POTENTIAL MARKET FOR THE CITY OF MONTGOMERY (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to move within or to the City of Montgomery in the year 2011 and the following four years. The total number from each county is derived from historic migration trends; the number of households from each group is based on each group's mobility rate.

Appendix One, Table 4.

Internal Mobility (Households Moving Within the City of Montgomery)—

Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Nielsen Claritas data, to determine the number of households in each target market group that will move from one residence to another within a specific jurisdiction in a given year (internal mobility).

Using these data, Zimmerman/Volk Associates has determined that, on average, approximately 6,650 households living in the City of Montgomery, and in groups with median incomes of \$50,000 or more, have the potential to move from one residence to another within the city in 2011 and over the following four years. This is an increase of 1,450 market-rate households since

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
May, 2011

2006. Nearly 70 percent of these households are likely to be younger singles and couples (as characterized within eight Zimmerman/Volk Associates' target market groups and a considerably higher percentage than in 2006); another 14.7 percent are likely to be empty nesters and retirees (in 13 market groups); and the remaining 15.5 percent are likely to be traditional and non-traditional families (in 11 market groups).

Appendix One, Table 5.

Internal Mobility (Households Moving To the City of Montgomery from the Balance of Montgomery County)—

The same sources of data are used to determine the number of households in each target market group that will move from one area to another within the same county. Using these data, up to 650 households, currently living in the balance of Montgomery County, and in groups with median incomes of \$50,000 or more, have the potential to move from a residence in the county to a residence in the City of Montgomery each year over the next five years. This is an increase of 250 households since 2006. Over 41.5 percent of these households are likely to be traditional and non-traditional families (in four market groups); 30 percent are likely to be empty nesters and retirees (in five groups); and 27.7 percent are likely to be younger singles and couples (in four groups).

Appendix One, Tables 6 and 7; Appendix Two, Tables 1 through 3.

External Mobility (Households Moving To the City of Montgomery from Outside Montgomery County)—

These tables determine the number of households in each target market group living in each draw area county that are likely to move to the City of Montgomery each year over the next five years (through a correlation of Nielsen Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Appendix One, Table 8.

Market Potential for the City of Montgomery—

Appendix One, Table 8 summarizes Appendix One, Tables 4 through 7. The numbers in the Total column on page one of these tables indicate the depth and breadth of the potential market for new and existing dwelling units in the City of Montgomery each year over the next five years originating from households currently living in the draw areas. Over 13,700 households in groups with median incomes of \$50,000 or more have the potential to move within or to the City of Montgomery each year in 2011 and the following four years. This is an overall increase of approximately 3,400 households since 2006. Younger singles and couples are likely to account for 57.2 percent of these households (in 12 market groups); another 23.9 percent are likely to be traditional and non-traditional families (in 13 groups); and 18.9 percent are likely to be empty nesters and retirees (in 16 groups).

The distribution of the draw areas as a percentage of the potential market for the City of Montgomery is as follows:

Market Potential by Draw Area	
<i>City of Montgomery, Montgomery County, Alabama</i>	
City of Montgomery (Local Draw Area):	51.0%
Balance of Montgomery County (Local Draw Area):	5.0%
Elmore, Autauga, and Jefferson Counties (Regional Draw Area):	11.0%
Balance of US (National Draw Area):	<u>33.0%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

DETERMINATION OF THE POTENTIAL MARKET FOR THE DOWNTOWN MONTGOMERY STUDY AREA—

The total potential market for the new housing units developed within existing buildings or new construction within the Downtown Montgomery Study Area includes the same draw areas. Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Nielsen Claritas data, to determine which target market groups, as well as how many households within each group, are likely to move to the Downtown Montgomery Study Area in a given year.

The Downtown Montgomery Study Area
City of Montgomery, Montgomery County, Alabama
 May, 2011

Appendix One, Tables 9 through 11.

Market Potential for the Downtown Montgomery Study Area—

As derived by the target market methodology, approximately 3,260 market-rate households have the potential to move to the Downtown Montgomery Study Area each year over the next five years, approximately 600 households above the 2006 number of 2,630 market-rate households. (*Reference Appendix One, Table 9.*) Nearly 54 percent of these households are likely to be younger singles and couples (in 10 market groups, down slightly from 55.9 percent in 2006); another 36.2 percent are likely to be empty nesters and retirees (in nine groups, up from 33.5 percent in 2006); and 10.1 percent are likely to be traditional and non-traditional family households (in six groups, down slightly from 10.6 percent in 2006).

The distribution of the draw areas as a percentage of the market for the Downtown Montgomery Study Area is:

Market Potential by Draw Area	
THE DOWNTOWN MONTGOMERY STUDY AREA	
<i>City of Montgomery, Montgomery County, Alabama</i>	
City of Montgomery (Local Draw Area):	42.5%
Balance of Montgomery County (Local Draw Area):	2.5%
Elmore, Autauga, and Jefferson Counties (Regional Draw Area):	11.7%
Balance of US (National Draw Area):	<u>43.3%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2011.

Montgomery City and County account for a much smaller share of market potential for the Downtown Montgomery Study Area in 2011, at 45 percent, than in 2006, at almost 54 percent.

The 3,260 draw area households that have the potential to move within or to the Downtown Montgomery Study Area each year over the next five years have been categorized by tenure propensities to determine renter/owner ratios. Approximately 32.5 percent of these households (or 1,060 households, up from 490 households in 2006) comprise the potential market for new market-rate rentals. The remaining 67.5 percent (or 2,200 households, up from 2,040 households

in 2006) comprise the market for new market-rate for-sale (ownership) housing units. (*Reference Appendix One, Table 10.*)

Of these 2,200 households, 29.5 percent (or 650 households) comprise the market for multi-family for-sale units (condominium apartments and lofts); this is a considerably larger percentage of the ownership market than in 2006, at 20.6 percent. Another 27.7 percent (610 households, up from the 400 households that represented 19.6 percent of the ownership market in 2006) comprise the market for attached single-family (townhouse or duplex) units. The remaining 42.7 percent (or 940 households, down from 59.8 percent in 2006) comprise the market for all ranges and densities of single-family detached houses. (*Reference Appendix One, Table 11.*)

—Target Market Data—

Target market data are based on the Nielsen Claritas PRIZM geo-demographic system, modified and augmented by Zimmerman/Volk Associates as the basis for its proprietary target market methodology. Target market data provides number of households by cluster aggregated into the three main demographic categories—empty nesters and retirees; traditional and non-traditional families; and younger singles and couples.

Zimmerman/Volk Associates' target market classifications are updated periodically to reflect the slow, but relentless change in the composition of American households. Because of the nature of geo-demographic segmentation, a change in household classification is directly correlated with a change in geography, *i.e.*—a move from one neighborhood condition to another. However, these changes of classification can also reflect an alteration in one of three additional basic characteristics:

- Age;
- Household composition; or
- Economic status.

Age, of course, is the most predictable, and easily-defined of these changes. Household composition has also been relatively easy to define; recently, with the growth of non-traditional households, however, definitions of a family have had to be expanded and parsed into more

highly-refined segments. Economic status remains clearly defined through measures of annual income and household wealth.

A change in classification is rarely induced by a change in just one of the four basic characteristics. This is one reason that the target household categories are so highly refined: they take in multiple characteristics. Even so, there are some rough equivalents in household types as they move from one neighborhood condition to another. There is, for example, a strong correlation between the *Suburban Achievers* and the *Urban Achievers*; a move by the *Suburban Achievers* to the urban core can make them *Urban Achievers*, if the move is accompanied by an upward move in socio-economic status. In contrast, *Suburban Achievers* who move up socio-economically, but remain within the metropolitan suburbs may become *Fast-Track Professionals* or *The VIPs*.

Household Classification Methodology:

Household classifications were originally based on the Claritas PRIZM geo-demographic segmentation system that was established in 1974 and then replaced by PRIZM NE in 2005. The revised household classifications are based on PRIZM NE which was developed through unique classification and regression trees delineating 66 specific clusters of American households. The system is now accurate to the individual household level, adding self-reported and list-based household data to geo-demographic information. The process applies hundreds of demographic variables to nearly 10,000 “behaviors.”

Over the past two decades, Zimmerman/Volk Associates has augmented the PRIZM cluster systems for use within the company’s proprietary target market methodology specific to housing and neighborhood preferences, with additional algorithms, correlation with geo-coded consumer data, aggregation of clusters by broad household definition, and unique cluster names. For purposes of this study, only those households in groups with median incomes of \$50,000 or more are included in the tables.



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ASSUMPTIONS 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 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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Research & Strategic Analysis

RIGHTS AND STUDY OWNERSHIP—

Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the methodology 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.

