UPDATE

RESIDENTIAL MARKET POTENTIAL

Downtown Grand Rapids

and

The Wealthy-Jefferson Development Initiative Study Area

City of Grand Rapids
Kent County, Michigan

November, 2008

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Research & Strategic Analysis

STUDY CONTENTS

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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 Downtown Grand Rapids, as well as to determine the market potential for new construction within the Wealthy-Jefferson Development Initiative Study Area. The original Downtown study was published in July, 2004.

The boundaries of Downtown Grand Rapids are the same as those defined for the previous analysis, covering the area bounded by Coldbrook Street and the I-96 Expressway to the north, Prospect Street to the east, Wealthy Street to the south, and Seward Street to the west. This area includes not only Center City, but also portions of the Heritage Hill and Heartside neighborhoods, the North Monroe District and the American Seating redevelopment. The Wealth-Jefferson Development Initiative Study Area encompasses the blocks located within Cherry Street to the north, Lafayette Avenue to the east, Franklin Street to the south, and Division Avenue to the west.

The depth and breadth of the potential market have been updated using Zimmerman/Volk Associates' proprietary target market methodology. In contrast to conventional 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 preferences and socio-economic characteristics of households in the draw areas within the framework of the local housing market context.

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 current constrained market—characterized throughout most of the United States by weak or falling housing prices; high 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 for-sale developments from going forward.

These market constraints do not reduce the size of the potential market; however, depending on the timing of market entry, they could reduce the initial percentage of the potential market able to overcome those constraints.

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

- Where the potential renters and buyers for new housing units in Downtown Grand Rapids and the Wealthy-Jefferson Study Area are likely to move from (the draw areas);
- Who currently lives in the draw areas and what they are like (the target markets);
- How many have the potential to move to the Downtown and to the 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);

- What their alternatives are (new construction or adaptive re-use of existing buildings in greater Downtown Grand Rapids);
- What they will pay to live in Downtown Grand Rapids and in the Wealthy-Jefferson Study Area (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (absorption forecasts over the next five years).

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

NOTE: Tables 1 and 2, included in this document, contain summaries of the updated market potential and the target households that represent the market for new market-rate housing units created through adaptive re-use of existing buildings and/or new construction within Downtown Grand Rapids, City of Grand Rapids, Kent County, Michigan. Tables 3 and 4 outline the relevant supply-side context in greater Downtown Grand Rapids. Table 5 details the optimum market position for new housing units that could be developed within the Downtown. Tables 6 through 8 summarize the target households by market capture for each housing type in Downtown Grand Rapids. Table 9 details the optimum market position for new housing units that could be developed within the Wealthy-Jefferson Study Area. The appendix tables, provided in a separate document, contain migration and target market data covering the appropriate draw areas for the city and for the Downtown Grand Rapids/Wealthy-Jefferson Study Area.

MARKET POTENTIAL

As noted above, the extent and characteristics of the potential market for new residential units within Downtown Grand Rapids 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 2007 American Community Survey for the City of Grand Rapids.

The most recent data available from the Internal Revenue Service—years 2002 through 2006—shows that annual in-migration into Kent County ranged from the low of 10,510 households in 2002, (the lowest in-migrating total over the study period) to 10,900 households in 2005 (the highest in-migrating total). Between 16 and 17 percent of the county's in-migration is from Ottawa County, the adjacent county to the west, with another four to five percent from Allegan County to the southwest.

Where will the potential market for housing in the City of Grand Rapids move from?

The depth and breadth of the potential market for new and existing market-rate housing units in the City of Grand Rapids in 2008 were determined through an update of the migration, mobility and target market analyses undertaken in 2004. The draw areas for the City of Grand Rapids are confirmed as follows:

- The local draw area, covering households currently living within the Grand Rapids city limits and the balance of Kent County. As reported by the Grand Rapids 2007 American Community Survey, just under 12 percent of the households living in the city moved to another residence in the city last year, and another four percent moved to a residence in the city from the balance of the county.

- The regional draw area, covering households with the potential to move to the City of Grand Rapids from two adjacent counties (Ottawa and Allegan). Households moving to the City of Grand Rapids from these two counties continue to represent just under five percent of total in-migration into the city.

- The national draw area, covering households with the potential to move to the City of Grand Rapids from all other U.S. cities and 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 Grand Rapids) would be as follows (*see also* Appendix One, Table 8):

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

City of Grand Rapids(Local Draw Area):	42.9%
Balance of Kent County (Local Draw Area):	36.5%
Ottawa and Allegan Counties (Regional Draw Area):	4.7%
Balance of US (National Draw Area):	15.9%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Households moving within the city and from the balance of the county represent a slightly larger share of Grand Rapids' potential market in 2008 than in 2004, rising from 76.4 percent in 2004 to 79.5 percent in 2008; the share of households moving to the city from Ottawa and Allegan Counties also rose, to 4.7 percent (up from 4.5 percent in 2004). However, as a share of the potential market, households living in all other U.S. counties fell from 19.2 percent in 2004 to just under 16 percent in 2008.

MARKET POTENTIAL FOR DOWNTOWN GRAND RAPIDS AND THE WEALTHY-JEFFERSON DEVELOPMENT INITIATIVE STUDY AREA

According to Claritas, Inc., the national vendor of demographic and geo-demographic data, the City of Grand Rapids contains an estimated 78,142 housing units in 2008, 1,196 units fewer than in 2003; an estimated 72,300 are occupied, 2,230 fewer than in 2003.

In 2008, median housing value citywide is estimated at $112,900, an increase of 6.7 percent over the 2003 estimated home value of $105,800, an escalation in values considerably lower than occurred nationally. Nationally, over the same period, median housing value rose by approximately 40 percent, or nearly $51,000, between 2003 and 2008.

Incomes in Grand Rapids have not kept pace with housing values: median income is now estimated at $39,400, approximately $2,300, or 5.5 percent, lower than the estimated median of $41,700 in 2003. Nationally, median income rose by more than 13 percent, or $5,800, over the same period.

Where will the potential market for housing in Downtown Grand Rapids and the Wealthy-Jefferson Study Area move from?

As in 2004, the target market methodology identifies those households with a preference for living in downtowns and other urban 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 Downtown Grand Rapids and the Wealthy-Jefferson Study Area would be as follows (*see also* Appendix One, Table 9):

Market Potential by Draw Area
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

City of Grand Rapids (Local Draw Area):	51.6%
Balance of Kent County (Local Draw Area):	21.0%
Ottawa and Allegan Counties(Regional Draw Area):	2.6%
Balance of US (National Draw Area):	24.8%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

In 2008, households moving to the Downtown from Grand Rapids and the balance of Kent County represent a somewhat smaller segment of market potential than in 2004, down from almost 75 percent in 2004 to 72.6 percent in 2008. Conversely, households moving from Ottawa and Allegan Counties and the balance of the U.S., now comprise slightly larger percentages of the market for downtown housing; as a share of the market, households moving from outside the county have risen from 25.4 percent in 2004 to 27.3 percent in 2008.

How many households are likely to move within or to the Downtown and the Wealthy-Jefferson Study Area?

Based on the updated target market analysis, in the year 2008, over 4,600 younger singles and couples, empty nesters and retirees, and compact families represent the potential market for new market-rate housing units within Downtown Grand Rapids and the Wealthy-Jefferson Study Area, up to 550 more households than in 2004. The housing preferences of these draw area households—according to tenure (rental or ownership) choices and broad financial capacity—are outlined as follows (*see also* Table 1):

Potential Market for New Housing Units
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	1,610	34.9%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	950	20.6%
Single-family attached for-sale (townhouses/rowhouses, fee-simple/ condominium ownership)	520	11.3%
Low-range single-family detached (houses, fee-simple ownership)	630	13.7%
Mid-range single-family detached (houses, fee-simple ownership)	530	11.5%
High-range single-family detached (houses, fee-simple ownership)	370	8.0%
Total	4,610	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

There are a larger number of renter households comprising the annual market potential in 2008 (1,610 compared to 1,410 in 2004) that also represent a slightly higher share of the market (34.9 percent compared to 34.7 percent). The number of households with preferences for multi-family for-sale is significantly higher in 2008 (950 households compared to 620 in 2004). The number of households with preferences for single-family detached housing types is the same as in 2004; however, a slightly higher number of households can now afford high-range houses than did in 2004.

These changes in tenure and housing preferences are a result of the continuing demographic changes in American households (*see* TARGET MARKET ANALYSIS *below*), and by the dramatically higher gasoline prices in 2008 over 2004, spurring new interest in living closer to employment, in downtowns and in-town neighborhoods.

As in 2004, opportunities for new construction in the Downtown should concentrate on higher-density housing types, which support urban development and redevelopment most efficiently and include:

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

This analysis has determined that, in the year 2008, nearly 3,100 households currently living in the defined draw areas represent the pool of potential renters/buyers of new market-rate housing units (new construction and/or adaptive re-use of non-residential structures, excluding single-family detached units) within Downtown Grand Rapids (*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 housing types would be as follows:

Potential Market for New Housing Units
Market-Rate Higher-Density Housing Units
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	1,610	52.3%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	950	30.8%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	520	16.9%
Total	3,080	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Since the initial study was conducted in 2004, there has been a significant increase in the size of the annual potential downtown market—from approximately 2,500 households in 2004 to nearly 3,100 households in 2008—and considerable changes in the type of housing that best matches target household preferences. As a share of the market, multi-family for-rent has fallen from nearly 56 percent in 2004 to just over 52 percent in 2008; multi-family for-sale (condominium) units now represent nearly 31 percent of the market (compared to 24.5 percent in 2004); and single-family attached for-sale (townhouses) comprise 16.9 percent of the market, down from 19.8 percent in 2004.

In the current constrained housing market, however, the realization of the for-sale (ownership) market potential could be quite challenging, in particular given the restrictive development financing and mortgage underwriting by financial institutions, and the inability of older households to sell their existing single-family units.

How fast will the units lease or sell?

—Market Capture—

As in 2004, new development (including both adaptive re-use of existing non-residential buildings as well as new construction) within a downtown can achieve an annual capture of between 10 and

15 percent of the potential market, depending on housing type. Based on a conservative 10 to 15 percent capture of the potential market for multi-family units, and a five to 10 percent capture of for-sale single-family attached units, Downtown Grand Rapids should be able to support 282 to 437 new units per year, under normal market conditions, as follows:

Annual Capture of Market Potential
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	1,610	10% to 15%	161 to 242
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	950	10% to 15%	95 to 143
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	520	5% to 10%	26 to 52
Total	3,080		282 to 437

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Based on the updated migration and mobility analyses, and dependent on the creation of appropriate new housing units, approximately 48 percent of the annual market capture of 282 to 437 new dwelling units in the Downtown Grand Rapids/Wealthy-Jefferson Study Area, or approximately 135 to 210 units per year, could be from households moving into downtown from areas <u>outside</u> Grand Rapid's city limits. Over five years, the realization of that market potential could lead to an increase of from 675 to more than 1,000 households living in Downtown Grand Rapids that moved from a location other than the city.

Short-term absorption projections (market capture) could be lower than the annual number of units described above due to the uncertain timing of a mortgage and housing market recovery. As noted in the Introduction, the current constrained market is characterized in many locations by weak or falling housing prices, high levels of unsold units, high levels of mortgage delinquencies and foreclosures, and very restrictive mortgage underwriting and development finance. These market constraints do not reduce the size of the potential market; however, depending on the timing of market entry, they could reduce the initial percentage of the potential market able to overcome those constraints.

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.

Table 1

Potential Housing Market

Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Area In 2008

Downtown Grand Rapids/Wealthy-Jefferson Study Area

City of Grand Rapids, Kent County, Michigan

City of Grand Rapids; Balance of Kent County; Ottawa and Allegan Counties, Michigan; All Other U.S. Counties
Draw Areas

Total Target Market Households With Potential To Rent/Purchase In The City of Grand Rapids, Kent County, Michigan	15,050
Total Target Market Households With Potential To Rent/Purchase In Downtown Grand Rapids/Wealthy-Jefferson Study Area	3,080

Potential Housing Market

	Multi-Family		*Single-Family*				
			Attached	*Detached*			
	For-Rent	*For-Sale*	*All Ranges*	*Low-Range*	*Mid-Range*	*High-Range*	Total
Total Households:	1,610	950	520	630	530	370	4,610
{Mix Distribution}:	34.9%	20.6%	11.3%	13.7%	11.5%	8.0%	100.0%

Downtown Residential Mix
(Excluding Single-Family Detached)

	Multi-Family		*Single-Family Attached*	
	For-Rent	*For-Sale*	*All Ranges*	Total
Total Households:	1,610	950	520	3,080
{Mix Distribution}:	52.3%	30.8%	16.9%	100.0%

NOTE: Reference Appendix One, Tables 1 Through 11.

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

TARGET MARKET ANALYSIS

Who is the potential market?

—The Target Markets—

The market for urban housing continues to be fueled by the convergence of the two largest generations in the history of America: the 79 million Baby Boomers born between 1946 and 1964, and the 77 million Millennials, who were born from 1977 to 1996.

Boomer households have been moving from the full-nest to the empty-nest life stage at an accelerating pace that will peak sometime in the next decade and continue beyond 2020. Since the first Boomer turned 50 in 1996, empty-nesters have had a substantial impact on urban housing. After fueling the dramatic diffusion of the population into ever-lower-density exurbs for nearly three decades, Boomers, particularly affluent Boomers, are rediscovering the merits and pleasures of urban living.

Meanwhile, Millennials are just leaving the nest. The Millennials are the first generation to have been largely raised in the post-'70s world of the cul-de-sac as neighborhood, the mall as village center, and the driver's license as a necessity of life. As has been the case with predecessor generations, significant numbers of Millennials are moving to the city. However, they are not just moving to New York, Chicago, San Francisco and the other large American cities; often priced out of these larger cities, Millennials are discovering second, third and fourth tier urban centers.

The convergence of two generations of this size—each reaching a point when urban housing matches their life stage—is unprecedented. This year, there are about 41 million Americans between the ages of 20 and 29, forecast to grow to over 44 million by 2015. In that same year, the population aged 50 to 59 will have also reached 44 million, from 38 million today. The synchronization of these two demographic waves will mean that there will be an additional eight million potential urban housing consumers eight years from now.

As updated by the target market analysis, the potential market for new market-rate housing units in Downtown Grand Rapids and the Wealthy-Jefferson Study Area in 2008 is now characterized by general household type as follows (*see also* Table 2):

Downtown Residential Mix By Household and Unit Types
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE SF ATTACHED
Empty-Nesters & Retirees	21%	13%	24%	39%
Traditional & Non-Traditional Families	10%	9%	5%	21%
Younger Singles & Couples	69%	78%	71%	40%
Total	100%	100%	100%	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

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

  Younger singles and couples make up the largest share of the market for all housing types. Some of the same target household groups—*e-Types, Fast-Track Professionals*, *The VIPs, New Bohemians,* and *Urban Achievers*—and now including *The Entrepreneurs*, *Upscale Suburban Couples* and *Twentysomethings*—are represented in the potential market. Approximately half of these households would be moving to Downtown Grand Rapids from elsewhere in the city, down from nearly two-thirds in 2004.

  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, almost half of whom are currently living in Grand Rapids' older neighborhoods and suburbs.**

  Empty nesters and retirees—including *Urban Establishment, New Empty Nesters*, *Suburban Establishment, Mainstream Retirees, Cosmopolitan Elite*, and *Middle-American Retirees,* among others—now represent approximately 21 percent of the potential market, down from 29 percent in 2004, in part because of their inability to sell—or reluctance to sell at a loss—their existing housing units. However, as the national, regional, and local housing markets begin to stabilize, and with the continuing introduction of a wide variety of units in a broad range of rents and prices, older households will again 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 Downtown Grand Rapids, from 11 percent in 2004, to 10 percent in 2008.**

  Just over 46 percent of the traditional and non-traditional family households moving to Downtown Grand Rapids and the Wealthy-Jefferson Study Area in 2008 will be moving from out of town, down from just under 52 percent in 2004.

  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 21 percent (for-sale single-family attached) of the market for new housing units within Downtown Grand Rapids, compared to eight percent and 14 percent, respectively, in 2004.

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

The primary target groups, their estimated median and range of incomes, and estimated median home values in 2008, are:

Primary Target Groups
(In Order of Median Income)
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

HOUSEHOLD TYPE	MEDIAN INCOME	BROAD INCOME RANGE	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees			
Old Money	$157,000	$100,000–$250,000	$415,000
Urban Establishment	$121,500	$75,000–$175,000	$325,500
Small-Town Establishment	$118,500	$70,000–$160,000	$303,500
Cosmopolitan Elite	$107,500	$50,000–$155,000	$300,000
New Empty Nesters	$102,000	$60,000–$145,000	$190,000
Affluent Empty Nesters	$99,000	$50,000–$125,000	$190,500
Suburban Establishment	$98,500	$45,000–$130,000	$190,000
Cosmopolitan Couples	$77,500	$40,000–$115,000	$189,000
Mainstream Retirees	$73,000	$40,000–$100,000	$135,500
Middle-Class Move-Downs	$71,000	$40,000–$95,000	$125,000
Middle-American Retirees	$68,500	$40,000–$90,000	$100,000
Traditional & Non-Traditional Families			
Unibox Transferees	$115,500	$50,000–$175,000	$295,500
Full-Nest Urbanites	$90,000	$45,000–$140,000	$175,000
Multi-Ethnic Families	$70,500	$40,000–$95,000	$144,500
Multi-Cultural Families	$70,000	$40,000–$90,000	$136,000
Younger Singles & Couples			
The Entrepreneurs	$141,000	$95,000–$190,000	$300,000
e-Types	$116,000	$75,000–$150,000	$315,000
Fast-Track Professionals	$101,500	$60,000–$140,000	$205,000
The VIPs	$100,000	$55,000–$150,000	$203,500
New Bohemians	$95,000	$45,000–$145,000	$270,000
Upscale Suburban Couples	$93,000	$60,000–$120,000	$150,500
Twentysomethings	$70,500	$45,000–$95,000	$130,500
Urban Achievers	$64,000	$45,000–$90,000	$190,000

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., 2008.

Table 2

Target Residential Mix By Household Type

Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Area In 2008

Downtown Grand Rapids/Wealthy-Jefferson Study Area

City of Grand Rapids, Kent County, Michigan

		Multi- . . . . . . Family		*Single- . . . Family . . . . . Attached . .*
	Total	*For-Rent*	*For-Sale*	*All Ranges*
Number of Households:	3,080	1,610	950	520
Empty Nesters & Retirees	21%	13%	24%	39%
Traditional & Non-Traditional Families	10%	9%	5%	21%
Younger Singles & Couples	69%	78%	71%	40%
	100%	100%	100%	100%

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

THE CURRENT CONTEXT

What are the current alternatives?

Rents at most of the rental properties included in the survey in 2004 have increased substantially in 2008. (*See* Table 3.) Of the properties covered in both surveys (Waters House, American Seating Park, The Boardwalk, and Plaza Towers), rents for studios have risen from a low of $425 a month in 2004 to $500 a month in 2008, for units generally containing between 400 and 600 square feet (with a current general range of $0.98 to $1.45 per square foot, close to what it was in 2004). Studios at rental projects developed since 2004 start at close to $700 for approximately 500 square feet ($1.13 per square foot).

Excluding properties with income restrictions, rents for one-bedroom apartments now generally start at close to $600 per month, with the highest one-bedroom rent at $1,400 per month at Clark Place, part of American Seating Park. These rents are up from around $500 per month in 2004. The one-bedroom size range is from approximately 600 square feet to just under 1,200 square feet of living space (now $0.93 to $1.49 per square foot, up from $0.80 to $1.29 per square foot).

Two-bedroom units now start at around $650, up from $575 per month in 2004. In general, unit sizes range between 750 and 1,600 square feet (generally $0.80 to $1.29 per square foot in 2008, from $0.74 to $1.21 per square foot in 2004).

Three-bedroom units, which were comparatively rare in 2004, are now somewhat more plentiful, as the newer properties in the area are including them in their unit mix. Three-bedroom apartments now rent for around $925 to nearly $2,000 per month, up from $850 to $1,700 per month in 2004. Unit sizes range between 1,150 and 2,300 square feet (approximately $0.80 to $0.86 per square foot in 2008, from $0.72 to $0.84 per square foot in 2004).

Occupancy rates are still very high, ranging between 95 and 100 percent (functional full occupancy); only Loose Leaf Lofts, which opened earlier this year and is still in the initial lease-up phase, had an occupancy rate below 95 percent.

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Summary Of Selected Rental Properties

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Property (Date Opened) Address	*Number of Units*	*Unit Base Rent*	*Unit Size*	*Rent per Sq. Ft.*	*Additional Information*
Herkimer Apts (1995)	**122**				**Eight available**
(Adaptive Re-Use)	Studio/1ba	$271 to	150 to	$1.21 to	*Income restrictions.*
323 South Division		$410	340	$1.81	
	1br/1ba	$290 to	600 to	$0.48 to	
		$509	800	$0.64	
Goodrich Apts (1993)	**14**				**One available**
(Adaptive Re-Use)	1br/1ba	$271 to	152 to	$0.85 to	*Income restrictions.*
333 Division Avenue S.		$509	600	$1.78	
Lenox Apts (1998)	**14**				**Four available**
(Adaptive Re-Use)	1br/1ba	$395 to	600	$0.66 to	*Income restrictions.*
349 South Division		$465		$0.78	
	2br/1ba	$446 to	820 to	$0.54 to	
		$562		$0.69	
Metropolitan Park (2007)	**24**				**Four available**
(New Construction)	2br/2ba	$478 to	1,100	$0.43 to	*Income restrictions.*
350 Ionia Avenue, SW		$688		$0.63	
	3br/2ba TH	$479 to	1,700	$0.28 to	
		$721		$0.42	
Chaffee Apts (1998)	**8**				**Two available**
(Adaptive Re-Use)	1br/1ba	$515	600	$0.86	*Income restrictions.*
136 South Division					
Globe Apartments (2001)	**120**				**Three available**
(Adaptive Re-Use))	1br/1ba	$525 to	764 to	$0.62 to	*Mixed income.*
315 Commerce Avenue, SW		$540	868	$0.69	*Pool, exercise facility.*
	2br/1ba	$585	717 to	$0.82	
	2br/2ba	$625	906	$0.69	
	3br/2ba	$740	1,357	$0.55	

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Property (Date Opened) Address	*Number of Units*	*Unit Base Rent*	*Unit Size*	*Rent per Sq. Ft.*	*Additional Information*
The Lofts (1999)	**55**				**One available**
(Adaptive Re-Use)	1br/1ba	$535 to	580 to	$0.87 to	*Income restrictions.*
26 Sheldon Avenue, SE		$663	765	$0.92	
	2br/1ba	$641 to	800 to	$0.71 to	
		$795	900	$0.88	
Uptown Village (2007)	**24**				**Two available**
950 Wealthy Street, SE	2br/1ba	$580	852	$0.68	*Income restrictions.*
	3br/2ba	$715	1,316	$0.54	
Kelsey Apts (2006)	**14**				**Three available**
(Adaptive Re-Use)	3br/1ba	$595 to	950 to	$0.63 to	*Income restrictions.*
235 South Division		$850	1,200	$0.71	
Waters House (1961)	**102**				**None available**
500 East Fulton	Studio	$500	408	$1.23	*Pool,*
	1br/1ba	$575	624	$0.92	*Community Room.*
	2br/1ba	$650	768	$0.85	
	2br/1.5ba	$750	912	$0.82	
	2br/2ba	$925	1,152	$0.80	
	3br/2ba	$925	1,152	$0.80	
Park Place	**40**				**Two available.**
68 Ransom Ave NE	Studio	$500	500	$1.00	
	1br/1ba	$595 to	600 to	$0.99 to	
		$750	750	$1.00	
	1br/1 - 2ba/Office	$825 to	750 to	$1.06 to	
		$950	900	$1.10	

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Property (Date Opened) Address	*Number of Units*	*Unit Base Rent*	*Unit Size*	*Rent per Sq. Ft.*	*Additional Information*
Boardwalk Apts	**46**				**Seven available.**
(Adaptive Re-Use)	Studio	$500	512	$0.98	*Courtyards.*
940 Monroe Avenue NW	1br/1ba	$675 to	700 to	$0.96 to	*Fitness center;*
Parkland Properties		$950	900	$1.06	*day spa; hair salon;*
	2br/1ba & 2ba	$825 to	900 to	$0.92 to	*dry cleaners, coffee shop.*
236 for-sale units		$2,000	1,618	$1.24	
	3br/2ba	$1,800 to	2,256 to	$0.80 to	
		$1,950	2,275	$0.86	
Plaza Towers (1992)	**133**				**None available.**
201 Fulton Street, NW	Studio	$690	475	$1.45	*Indoor pool,*
	1BR/1BA	$950 to	637 to	$1.43 to	*whirlpool,*
		$1,000	701	$1.49	*fitness center,*
	2BR/2BA	$1,200 to	977 to	$1.23 to	*tennis court.*
		$1,500	1,161	$1.29	
Loose Leaf Lofts (2008)	**33**				**Ten available.**
(Adaptive Re-Use)	Studio	$695	510	$1.13	**(In lease-up: June 2008)**
333 Commerce Avenue, SW	Live-Work	$850	750	$1.36	*Sky deck, hot tub.*
	1br/1ba	$895 to	720 to	$0.93 to	
		$925	1,000	$1.24	
	2br/2ba	$1,095 to	900 to	$1.13 to	
		$1,195	1,060	$1.22	
	Penthouse	$1,550 to	900 to	$1.17 to	
		$1,550	1,330	$1.72	
Hopson Flats (2007)	**42**				**One available.**
(Adaptive Re-Use)	2br/2ba	$1,150	$575 per month per bed		*Student housing.*
212-216 Grandville Avenue,	3br/2ba	$1,575	$525 per month per bed		*Exercise facility,*
	4br/2ba	$1,900	$475 per month per bed		*game room,*
					lounge and entertainment room
Grad student suites:	1br/1ba	$1,125	450	$2.50	
	2br/2ba	$1,850	700	$2.64	

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Property (Date Opened) Address	*Number of Units*	*Unit Base Rent*	*Unit Size*	*Rent per Sq. Ft.*	*Additional Information*
		. . . . . American Seating Park			
Off Broadway (2004)	**67**				**Two available.**
(Adaptive Re-Use)	Studio	$600	617	$0.97	*Courtyard,*
555 7th Street, NW	2br/2ba	$1,075	1,337	$0.80	*canteen.*
	2br/2ba/Office	$1,325	1,415	$0.94	
	3br/2ba	$1,375	1,791	$0.77	
	3br/2ba/Office	$1,680	1,996	$0.84	
	4br/2ba	$1,575	1,791	$0.88	
	2br/2ba TH	$1,100	908	$1.21	
	3br/2ba TH	$1,300	1,798	$0.72	
	4br/2ba TH	$1,500	1,710	$0.88	
Clark Place (1890s: 2003)	**22**				**Two available.**
(Adaptive Re-Use)	1br/1ba	$1,250 to	1,091 to	$1.15 to	*Courtyard,*
801 Broadway		$1,400	1,190	$1.18	*canteen.*
	1br/1 - 2ba/Office	$1,500 to	1,682 to	$0.87 to	
		$1,700	1,955	$0.89	
	2br/2ba	$1,600 to	1,571 to	$1.02 to	
		$2,500	2,016	$1.24	

SOURCE: Zimmerman/Volk Associates, Inc.

Numerous condominium housing developments, both adaptive re-use and new construction, have opened in Downtown Grand Rapids since the 2004 field investigation. (*Reference* Table 4.) Several have units with base prices starting below $100,000. Current base prices for units within Hillmount, the renovation of a 1950s apartment building which opened for sales in 2005, range between $59,900 and $184,900 for apartments containing between 369 and 1,039 square feet (a range of $145 to $178 per square foot). To date, 80 of the 101 units have sold, for an average sales pace of more than two units per month.

Avenue 23 Condominiums opened sales in April; the property is also a renovation of an older apartment building. All of the 18 units contain 516 square feet, with one bedroom and one bath. Depending on floor location, prices range between $70,000 and $103,900 ($136 to $201 per square foot). None of the units had sold at the time of the field investigation in September, and lease-option purchase terms are available.

Fulton Street Flats, a renovation of an existing building, opened for sales in July; three of the 15 units had been sold as of September. The one- and two-bedroom apartments contain between 659 and 1,134 square feet, and are priced between $77,900 and $169,900, a range of $118 to $150 per square foot.

At The Boardwalk, the adaptive re-use of the 1892 Berkey & Gay Factory buildings, Parkland Properties has converted 236 apartments to condominiums, of which 190 have been sold, for an average sales pace of 2.3 units per month. Base prices for the studio to three-bedroom units range from $89,900 for a 464-square-foot studio to $439,900 for a 2,275-square-foot three-bedroom apartment. Base prices per square foot of all units range between $162 and $216.

There are also several properties with base prices starting at around $250,000 and up. The 39-unit Fitzgerald, the renovation of a former YMCA, is priced between $249,900 for a 687-square-foot one-bedroom apartment to just under $1 million for a 3,500-square-foot penthouse ($254 to $364 per square foot). Fourteen of the units have sold, for an average sales pace of almost one-and-a-half units per month.

River House, the 34-story tower located on Bridge Street, is a highly-visible new construction development. As of September, 144 of the 207 units had been sold, for an average sales pace of six units per month (including pre-sales). The remaining 63 units are priced between $250,000 for a 1,000-square-foot one-bedroom apartment to just under $545,000 for a 1,700-square-foot three-bedroom unit. Base prices per square foot for the remaining units range between $236 and $340.

McKay Tower is an office building with 12 residential units located on the 14th to 16th floors. Sales began in August 2007, with prices ranging between $265,000 for a 766-square-foot one-bedroom apartment to $1.65 million for the 3,566-square-foot penthouse ($318 to $463 per square foot, the highest in the downtown). As of the field investigation, one of the units had sold.

On Monroe Center, just one of the seven units at Number 65 remains unsold, a 1,053-square-foot one-bedroom with office priced at $299,900 ($285 per square foot). Front Row Condominiums, at 41-61 Monroe Center, has sold eight of the 10 condominiums developed in the upper stories. The two remaining two-bedroom units are priced at $375,000 and $405,000 for 2,244 and 2,128 square feet respectively ($167 and $190 per square foot)

The current soft market has had an impact on sales, with most average sales paces continuing to fall as fewer sales are achieved; at some properties, units are being rented, achieving rents per square foot of up to $1.50. As has occurred in most cities over the past several months, financing constraints have forced previously-announced projects to be put on hold.

Summary Of Selected For-Sale Multi-Family And Single-Family Attached Developments

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Development (Date Opened) / *Developer/Builder/Marketer* / Address	*Unit Type*	*Unit Price Range*	*Unit Size Range*	*Price Per Sq. Ft.*	*Total Units*	*Total Sales (Monthly Average)*
Hillmount (2005)	CO				**101**	**80 (2.1)**
(Renovation of 1950s apt bldg)	Studio/1ba	$59,900	369	$162		
Second Story Properties						
505 Cherry Street, SE	1br/1ba	$109,900 to $124,900	720 to 752	$153 to $166		
	2br/1ba	$139,900 $154,900	966 922	$145 $168		
	2br/2ba	$184,900	1,039	$178		
Avenue 23 Condos (April 2008)	CO				**18**	**0 (0.0)**
(Renovation of 1960s apt bldg)	1br/1ba	$70,000 to $103,900	516 to	$136 to $201	Lase-option terms available.	
Steve Volkers Group						
23 College Avenue, SE						
Fulton Street Flats (July 2008)	CO				**15**	**3 (1.5)**
(Renovation)	1br/1ba	$77,900 to $106,900	659 to 857	$118 to $125		
Source Real Estate						
458 East Fulton Street, NE	2br/2ba	$148,900 to $169,900	1,111 to 1,134	$134 to $150		
Boardwalk Condos (2001)	CO				**236**	**190 (2.3)**
(Adaptive Re-Use: 1892 Berkey & Gay Factory)	Studio/1ba to 1br/1ba	$89,900 to $124,900	464 to 730	$171 to $194		
Parkland Properties of West Michigan	1br/1ba to 2br/2ba	$164,900 to $179,900	764 to 1,110	$162 to $216		
940 Monroe Avenue, NW						
	1br/1ba to 3br/2ba	$189,900 to $249,900	1,003 to 1,376	$182 to $189		
	2br/1ba to 2br/2ba	$254,900 to $269,900	1,256 to 1,626	$166 to $203		
	3br/2ba	$359,900 to $439,900	2,040 to 2,275	$176 to $193		

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected For-Sale Multi-Family And Single-Family Attached Developments

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Development (Date Opened) *Developer/Builder* Address	*Unit Type*	*Unit Price Range*	*Unit Size Range*	*Price Per Sq. Ft.*	*Total Units*	*Total Sales (Monthly Average)*
Fox Lofts (March 2008)	CO				**16**	**7 (1.2)**
(Adaptive Re-Use)	1br/1ba	$109,900 to	545 to	$202 to		
Steve Volkers Group		$224,900	900	$250		
83 Monroe Center, NW						
47 Lafayette (June 2008)	CO				**8**	**0 (0.0)**
(Conversion of 1962 bldg.)	2br/1ba to	$124,900 to	720 to	$173 to		
47 Lafayette, NE	2br/2ba	$143,900	780	$184		
Fairmount Square (May 2008)	TH				**35**	**5 (1.3)**
(New Construction)	2br/2.5ba to	$136,490 to	1,244 to	$110 to		
Eastbrook Homes	3br/2.5ba	$174,990	1,496	$117		
Hollister Avenue						
Brickway Residences (2008)	CO				**6**	**3 (0.7)**
(Adaptive Re-Use)	1br/1ba to	$139,900 to	810 to	$173 to		
Virgin Soil Group	2br/2ba	$159,900	900	$178		
56 Monroe Center. NW						
Park Row (2007)	CO				**34**	**14 (0.9)**
(New Construction)	1br/1ba	$151,076	657	$230		
Kegle Construction Co.						
10 Union Avenue NE	2br/2ba to	$231,746 to	1,008 to	$230 to		
	Two-story, 2br/2.5ba	$315,812	1,404	$225		
	Two-story, 3br/2.5ba	$407,354	1,810	$225		
Landmark Lofts (2003)	CO				**12**	**8 (0.2)**
(Adaptive Re-Use)	1br/1ba to	$164,900 to	692 to	$238 to	Phase One	
DeVries Companies	2br/2ba	$379,900	1,550	$245		
801 Monroe Avenue, NW	*Note: Phase Two (50 units) on hold.*					

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected For-Sale Multi-Family And Single-Family Attached Developments

Greater Downtown Grand Rapids, Kent County, Michigan

September, 2008

Development (Date Opened) *Developer/Builder* Address	*Unit Type*	*Unit Price Range*	*Unit Size Range*	*Price Per Sq. Ft.*	*Total Units*	*Total Sales (Monthly Average)*
Union Square Condos (2006)	CO				**180**	**174 (5.7)**
(Adaptive Re-Use of School:	1br/1ba	$164,900	761	$217		
New Construction Penthosues)						
600 Broadway Avenue, NW	2br/1.5ba to	$299,500 to	1,454 to	$151 to		
Parkland Properties	4br/3ba	$354,500	1,978	$179		
	Penthouses: 2br/2ba/family room	$339,000	1,945	$174		
	3br/3ba/family room	$379,500	2,140	$177		
	2br/2.5ba/family room	$391,500	2,122	$184		
	Note: Some units are rented,					
Cherry Street Lofts (2007)	CO				**8**	**6 (0.3)**
(Renovation)	1br/1.5ba/office	$179,900	900	$200		
Virgin Soil Group	1br/2ba/office	$189,900	930	$204		
153 Cherry Street, SW						
Icon on Bond (2007)	CO				**109**	**13 (0.8)**
(New Construction)	1br/1ba to	$198,000 to	728 to	$272 to		
Moch International Dev't	1br/1.5ba/den	$335,000	973	$344		
538 Bond Avenue, NW						
	2br/2ba to	$302,000 to	1,081 to	$279 to		
	2br/2ba/den	$462,000	1,418	$326		
	Note: 10 units on floors 1 to 5 leased at $1.50 per s.f					
The Fitzgerald (2007)	CO				**39**	**14 (1.4)**
(Renovation of Former YMCA)	1br/1ba to	$249,900 to	687 to	$300 to		
Second Story Properties	1br/1.5ba	$354,900	1,182	$364		
33 Library NE						
	2br/2ba to	$324,900 to	1,100 to	$295 to		
	2br/2.5ba	$489,900	1,928	$254		
	2br/2ba/library	$499,900	1,600	$312		
	2br/2ba	$584,900	1,875	$312		
	Penthouse: 3br/3.5ba/bonus room	$989,900	3,351	$295		
	Penthouse: 3br/3.5ba/bonus room	$999,900	3,545	$282		

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected For-Sale Multi-Family
And Single-Family Attached Developments
Greater Downtown Grand Rapids, Kent County, Michigan
September, 2008

Development (Date Opened) *Developer/Builder* Address	*Unit Type*	*Unit Price Range*	*Unit Size Range*	*Price Per Sq. Ft.*	*Total Units*	*Total Sales (Monthly Average)*
River House (2008)	CO				**207**	**144 (6.0)**
(New Construction)	1br/1.5ba	$250,000 to	1,018	$246 to		
Robert Grooters Development		$345,900		$340		
335 Bridge Street, NW						
34-story tower	2br/2ba	$300,000 to	1,272 to	$236 to		
		$463,900	1,451	$320		
	3br/2ba	$459,900 to	1,700	$271 to		
		$544,900		$321		
McKay Tower (August 2007)	CO				**12**	**1 (0.5)**
(Renovation)	1br/1ba to	$265,000 to	766 to	$346 to	Units located on	
McKay Tower Partners	1br/1.5ba	$375,000	1,051	$357	14th - 16th Floors	
146 Monroe Center, NW						
	2br/2ba to	$385,000 to	1,210 to	$318 to		
	2br/2ba/den	$495,000	1,470	$337		
	3br/2ba/den	$575,000	1,792 to	$319 to		
			1,805	$321		
	Penthouse: 2br/2.5ba/study	$1,650,000	3,566	$463		
65 Monroe Center (2007)	CO				**7**	**6 (0.5)**
(Adaptive Re-Use)	1br/1.5ba/office	$299,900	1,053	$285		
Virgin Soil Group (formerly known as Central Bank Development)						
65 Monroe Center NW						
Front Row Condos (2005)	CO				**10**	**8 (0.2)**
(Adaptive Re-Use)	2br/2.5ba	$375,000	2,244	$167		
Rockford Development	2br/2ba	$405,000	2,128	$190		
41-61 Monroe Center, NW						

SOURCE: Zimmerman/Volk Associates, Inc.

MARKET-RATE RENT AND PRICE RANGES: DOWNTOWN GRAND RAPIDS

What is the market currently able to pay?

—Rent and Price Ranges—

Based on the housing preferences and the socio-economic and lifestyle characteristics of the target households in 2008, and the relevant residential context in greater Downtown Grand Rapids, the general range of rents and prices for newly-developed market-rate residential units in the Downtown 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)
DOWNTOWN GRAND RAPIDS
City of Grand Rapids, Kent County, Michigan

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Hard Lofts *	$650–$1,750/month	450–1,350 sf	$1.30–$1.44 psf
Soft Lofts †	$775–$1,825/month	500–1,250 sf	$1.46–$1.55 psf
Luxury Apartments	$1,100–$2,500/month	650–1,600 sf	$1.56–$1.69 psf
FOR-SALE—			
Hard Lofts *	$125,000–$225,000	600–1,200 sf	$188–$208 psf
Soft Lofts †	$195,000–$350,000	800–1,600 sf	$219–$244 psf
Luxury Condominiums	$285,000–$650,000	900–2,000 sf	$317–$325 psf
Rowhouses	$200,000–$345,000	950–1,650 sf	$209–$211 psf
Live-Work	$325,000–$400,000	1,500–1,750 sf	$217–$229 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., 2008.

The above rents and prices are in year 2008 dollars, are exclusive of consumer options and upgrades, floor or location premiums, and cover the broad range of rents and prices that could, in normal economic conditions, be sustained by the market in Downtown Grand Rapids. Although

Table 5

Optimum Market Position--Market-Rate Dwelling Units

Downtown Grand Rapids

City of Grand Rapids, Kent County, Michigan

October, 2008

Housing Type	*Base Rent/Price Range**	*Base Unit Size Range*	*Base Rent/Price Per Sq. Ft.**	*Annual Market Capture*
Multi-Family For-Rent				**161 to 242 unit**
Hard Lofts	$650 to	450 to	$1.30 to	
Open Floorplans/1ba	$1,750	1,350	$1.44	
Soft Lofts	$775 to	500 to	$1.46 to	
Studios to Two-Bedrooms	$1,825	1,250	$1.55	
Luxury Apartments	$1,100 to	650 to	$1.56 to	
One- to Two-Bedrooms/Office	$2,500	1,600	$1.69	
Multi-Family For-Sale				**95 to 143 units**
Hard Lofts	$125,000 to	600 to	$188 to	
Open Floorplans/1ba	$225,000	1,200	$208	
Soft Lofts	$195,000 to	800 to	$219 to	
One- and Two-Bedrooms	$350,000	1,600	$244	
Luxury Condominiums	$285,000 to	900 to	$317 to	
One- to Three-Bedrooms	$650,000	2,000	$325	
Single-Family Attached For-Sale				**26 to 52 units**
Rowhouses	$200,000 to	950 to	$209 to	
Two- and Three-Bedrooms	$345,000	1,650	$211	
Live-Work	$325,000 to	1,500 to	$217 to	
One- and Two-Bedrooms	$400,000	1,750	$229	
500 to 750 sf work space				

NOTE: Base rents/prices in year 2008 dollars and exclude floor and view premiums, options and upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

annual incomes and residential values have risen for many households in the city over the past four years, the higher down payments currently required by lenders will preclude many younger households from becoming first-time buyers if prices continue to rise. Because of these affordability issues, it would seem that older households should therefore comprise a greater percentage of the market over the next two or three years. However, continued weakness in the resale market is currently constraining a significant number of these buyers as well.

—*Rental Distribution*—

The market-rate rent range covers leases by households with annual incomes ranging between $35,000 and $100,000 or more. A single-person household with an income of $35,000 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 $2,500 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 161 to 242 new rental lofts and apartments that could be absorbed in one year in Downtown Grand Rapids would be as follows:

Loft/Apartment Distribution by Rent Range
DOWNTOWN GRAND RAPIDS
City of Grand Rapids, Kent County, Michigan

Monthly Rent Range	Units Per Year	Percentage
$500–$750	23 to 35	20.5%
$750–$1,000	32 to 48	19.8%
$1,000–$1,250	36 to 54	22.3%
$1,250–$1,500	34 to 51	21.1%
$1,500–$1,750	15 to 23	9.5%
$1,750–$2,000	13 to 19	7.8%
$2,000 and up	8 to 12	5.0%
Total:	161 to 242	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Table 6

Target Groups For Multi-Family For-Rent

Downtown Grand Rapids

City of Grand Rapids, Kent County, Michigan

Empty Nesters & Retirees	*Number of Households*	*At 15% Capture Rate*
Urban Establishment	40	6
New Empty Nesters	40	6
Suburban Establishment	20	3
Cosmopolitan Couples	10	2
Mainstream Retirees	30	5
Middle-Class Move-Downs	10	2
Middle-American Retirees	50	8
Subtotal:	200	32
Traditional & Non-Traditional Families		
Full-Nest Urbanites	30	5
Multi-Ethnic Families	20	3
Multi-Cultural Families	100	15
Subtotal:	150	23
Younger Singles & Couples		
The Entrepreneurs	10	2
e-Types	170	26
Fast-Track Professionals	40	6
The VIPs	20	3
New Bohemians	200	30
Upscale Suburban Couples	140	21
Twentysomethings	40	6
Urban Achievers	640	93
Subtotal:	1,260	187
Total Households:	**1,610**	**242**

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

More than three-quarters of the lofts/apartments with monthly rents of $1,000 or less are likely to be leased by younger singles and couples, with compact families accounting for 12 percent, and older singles and couples just under 10 percent. Approximately 20 percent of the most expensive soft lofts and luxury apartments, with rents above $1,750 per month, are likely to be leased by empty nesters and retirees, just three percent by dual-income families, and the remaining 77 percent by affluent fast-track younger singles and couples.

—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 2004, 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. A single-person household with an income of $50,000 per year, paying no more than 25 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, could qualify for a mortgage of $100,000 at current interest rates. A two- or three-person household with an income of $175,000 per year, paying no more than 25 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, would qualify for a mortgage of at least $350,000 at current 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 95 to 143 market-rate for-sale lofts and apartments that could be absorbed in one year in Downtown Grand Rapids is as follows:

Loft/Apartment Distribution by Price Range
DOWNTOWN GRAND RAPIDS
City of Grand Rapids, Kent County, Michigan

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$100,000–\$150,000	13 to 20	14.0%
\$150,000–\$200,000	21 to 32	22.4%
\$200,000–\$250,000	30 to 45	31.5%
\$250,000–\$300,000	14 to 21	14.7%
\$300,000–\$350,000	9 to 13	9.1%
\$350,000 and up	8 to 12	8.3%
Total:	95 to 143	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Younger singles and couples represent more than 70 percent of the market for units priced at \$200,000 or less, empty nesters and retirees over 19 percent, and single-parent families just under 10 percent. Fifty-five percent of the most expensive soft lofts and luxury apartments, priced at \$300,000 or more, are likely to be purchased by empty nesters and retirees, with the remaining 45 percent by affluent younger couples.

Table 7

Target Groups For Multi-Family For-Sale

Downtown Grand Rapids

City of Grand Rapids, Kent County, Michigan

Empty Nesters & Retirees	*Number of Households*	*At 15% Capture Rate*
Old Money	20	3
Urban Establishment	40	6
Small-Town Establishment	20	3
Cosmopolitan Elite	10	2
New Empty Nesters	30	5
Suburban Establishment	20	3
Affluent Empty Nesters	20	3
Cosmopolitan Couples	10	2
Mainstream Retirees	20	3
Middle-Class Move-Downs	10	2
Middle-American Retirees	30	5
Subtotal:	230	37
Traditional & Non-Traditional Families		
Full-Nest Urbanites	10	2
Multi-Ethnic Families	10	2
Multi-Cultural Families	30	5
Subtotal:	50	9
Younger Singles & Couples		
The Entrepreneuers	20	3
e-Types	120	18
Fast-Track Professionals	40	6
The VIPs	20	3
New Bohemians	80	12
Upscale Suburban Couples	140	20
Twentysomethings	30	5
Urban Achievers	220	30
Subtotal:	670	97
Total Households:	**950**	**143**

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

Based on the target household mix (*listed on* Table 8) and incomes of the target groups, the distribution by price range of the 26 to 52 market-rate townhouses and live-work units that could be absorbed in one year in Downtown Grand Rapids is as follows:

Townhouse/Live-Work Distribution by Price Range
DOWNTOWN GRAND RAPIDS
City of Grand Rapids, Kent County, Michigan

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$150,000–\$200,000	3 to 6	11.5%
\$200,000–\$250,000	6 to 12	23.1%
\$250,000–\$300,000	5 to 10	19.2%
\$300,000–\$350,000	4 to 9	17.3%
\$350,000–\$400,000	5 to 10	19.2%
\$400,000 and up	3 to 5	9.7%
Total:	26 to 52	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

In this case, younger singles and couples represent 39 percent of the market for smaller townhouses, priced at \$250,000 or less; family-oriented households comprise a third; and empty nesters and retirees another 28 percent. Half of the townhouses priced at \$300,000 or more are likely to be purchased by empty nesters and retirees; 42 percent by affluent younger couples; and the remaining eight percent by families.

Table 8

Target Groups For Single-Family Attached For-Sale

Downtown Grand Rapids

City of Grand Rapids, Kent County, Michigan

Empty Nesters & Retirees	*Number of Households*	*At 10% Capture Rate*
Old Money	10	1
Urban Establishment	30	3
Small-Town Establishment	20	2
Cosmopolitan Elite	10	1
New Empty Nesters	30	3
Suburban Establishment	30	3
Affluent Empty Nesters	20	2
Cosmopolitan Couples	10	1
Mainstream Retirees	10	1
Middle-Class Move-Downs	10	1
Middle-American Retirees	20	2
Subtotal:	200	20
Traditional & Non-Traditional Families		
Unibox Transferees	10	1
Full-Nest Urbanites	30	3
Multi-Ethnic Families	10	1
Multi-Cultural Families	60	6
Subtotal:	110	11
Younger Singles & Couples		
The Entrepreneuers	20	2
e-Types	30	3
Fast-Track Professionals	10	1
The VIPs	10	1
New Bohemians	20	2
Upscale Suburban Couples	70	7
Twentysomethings	10	1
Urban Achievers	40	4
Subtotal:	210	21
Total Households:	**520**	**52**

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

OPTIMUM MARKET POSITION: WEALTHY-JEFFERSON STUDY AREA

The Wealthy-Jefferson Development Initiative Study Area encompasses multiple blocks bounded by Cherry Street to the north, Lafayette Avenue to the east, Franklin Street to the south, and Division Avenue to the west. South of Wealthy Street, the study area is predominantly residential, with limited commercial uses located along Division Avenue and Jefferson and Franklin Streets. North of Wealthy Street, larger institutional uses—the St. Mary's Health Care Campus, the Mary Free Bed Rehabilitation Hospital, St. Andrew's Cathedral, St. Andrew's School, and the Catholic Central High School—and associated parking lots occupy most of the blocks. Since Wealthy Street represents the southern boundary of Downtown Grand Rapids, the northern part of the study area is generally considered part of Downtown.

Significant new investment in the area is occurring at Cathedral Square, a project of the Diocese of Grand Rapids to consolidate diocesan services and ministries; the new diocesan center and parking deck has been constructed at the corner of Division and Wealthy. The Hauenstein Center, a $60 million neurological disease center, is under construction on the St. Mary's Health Care Campus , at Cherry Street between Lafayette and Jefferson Avenues. Wealthy Street is being transformed into a boulevard, roundabouts are under construction at key intersections to calm traffic, and new streetscaping is in progress, including new sidewalks, new trees, and bulb-outs at the intersections. The south side of Wealthy Street between Division and Cass Avenues is now largely comprised of cleared land or open parking lots and could accommodate significant new mixed-use development.

From a market perspective, the assets of the study area include:

- The major medical and religious institutions located within the study area.
- Close proximity to some of the assets of Downtown, such as the Van Andel Arena, the Civic Theatre, and the Children's Museum.
- The public and private investment in the study area that has already occurred, is underway, and is proposed.
- Easy access to/from Route 131, which connects to Interstate 196 to the north.
- Walking distance from Heartside Park.

Because of all the new investment, from a market perspective, there are few challenges associated with the study area, with the most evident being the current lack of neighborhood-oriented retail located either within or within walking distance of the study area.

This challenge is not insurmountable, as retail is likely to be developed over time on the ground floors of existing buildings as well as within new mixed-use buildings. Even if retail is not initially supportable, new buildings should be designed to accommodate retail uses at a later date; initial uses could include offices, and, depending on location, even residential.

The optimum market position, at market-entry, for 200 new dwelling units, in a mix of rental and for-sale multi-family and for-sale single-family attached housing, within new single- and mixed-use buildings constructed initially along Wealthy Avenue or Jefferson Street, is therefore as follows (*see also* Table 9):

Optimum Market Position
WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

NUMBER	UNIT TYPE	MARKET-ENTRY BASE RENTS/PRICES	UNIT SIZES	RENT/PRICE PER SQ. FT.
MULTI-FAMILY FOR-RENT—52.3%				
105	Hard/Soft Lofts	$725 to $1,400 per month	500 to 1,000 sf	$1.40 to $1.45
MULTI-FAMILY FOR-SALE—30.8%				
62	Hard/Soft Lofts	$130,000 to $245,000	650 to 1,350 sf	$181 to $200
SINGLE-FAMILY ATTACHED FOR-SALE—16.9%				
33	Townhouses {2 1/2 to 3 story}	$195,000 to $275,000	1,000 to 1,500 sf	$183 to $195
200 units				

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Base rents and prices are in year 2008 dollars. Unit sizes and configurations have been structured to reflect market preferences and priced to fit within the current leasing and purchasing capabilities of the target market households. The rents and prices do not include buyer options and upgrades, or view or floor premiums.

Based on the unit types, sizes, configurations, and mix outlined in the optimum market position above, the weighted average size of 105 rental hard/soft lofts is 758 square feet, with a weighted average base rent of $1,073 per month ($1.42 per square foot). These are market-rate rents; the inclusion of units with rent levels targeted to households with annual incomes between 50 and 80 percent of the AMI, as determined by HUD, would broaden the market and would ensure the inclusion of workforce units in the mix.

The weighted average size of 62 for-sale hard/soft lofts is 983 square feet, with a weighted average base price of $182,500 ($186 per square foot). The weighted average size of 33 for-sale townhouses is 1,276 square feet, with a weighted average base price of $239,211 ($187 per square foot).

A mix of both rental and for-sale dwelling units is appropriate from the market perspective; however, rental units should be the first housing type introduced to the market in the first phase because rental dwelling units, even in areas with significant concentrations of rental properties, are the linchpin of urban redevelopment. Rental development is important for several reasons:

- Rental apartments are essential for the establishment of "critical mass," because rentals are absorbed at higher rates than for-sale units.
- Rentals are the fastest way to bring a large number of target households to a site.
- Rentals allow target households to experiment with living in an area without the mortgage commitment of home ownership.
- Renters form a pool of potential purchasers of for-sale housing types in later phases.

Condominium buildings could be introduced in the second phase in appropriate locations. New townhouses should be constructed on streets that carry less traffic than Wealthy, although townhouses designed as live-work units would be better located on more commercial streets.

Table 9

Optimum Market Position: 200 Dwelling Units

Wealthy-Jefferson Development Initiative Study Area

City of Grand Rapids, Kent County, Michigan

October, 2008

Percent of Units Number	*Housing Type*	*Unit Configuration*	*Unit Mix*	*Market-Entry Base Prices**	*Unit Sizes*	*Price Per Sq. Ft.**	*Annual Absorption*
52.3%	**Multi-Family For-Rent**						**60**
105	Hard/Soft Lofts	Studio/1ba	20%	$725	500	$1.45	60
		1br/1ba	30%	$925	650	$1.42	
		Loft 1br/1ba	25%	$1,200	850	$1.41	
		2br/2ba	25%	$1,400	1,000	$1.40	
		Weighted Average:		$1,073	758	$1.42	
30.8%	**Multi-Family For-Sale**						**24**
62	Hard/Soft Lofts	Studio/1ba	15%	$130,000	650	$200	24
		1br/1ba	20%	$145,000	750	$193	
		Loft 1br/1.5ba	20%	$175,000	950	$184	
		2br/2ba	25%	$200,000	1,100	$182	
		Loft 2br/2.5ba	20%	$245,000	1,350	$181	
		Weighted Average:		$182,500	983	$186	
16.9%	**Single-Family Attached For-Sale**						**12**
33	Townhouses	2br/1.5ba	25%	$195,000	1,000	$195	12
		2br/2.5ba	35%	$235,000	1,250	$188	
		3br/2.5ba	35%	$275,000	1,500	$183	
		Weighted Average:		$239,211	1,276	$187	

* Base prices are at market entry, in year 2008 dollars and do NOT include premiums, options or upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

Ultimately, escalation of values will depend upon the reinforcement of the study area's urban character. An urban residential neighborhood succeeds when its physical characteristics consistently emphasize urbanity and the qualities of urban life; conversely, attempts to introduce suburban scale and housing types into urban areas have invariably yielded disappointing results. Therefore, appropriate urban design—which places as much emphasis on creating quality streets and public places as on creating or developing quality buildings—will be essential to success.

—ABSORPTION FORECASTS—

The optimum market position has been designed to maximize values and the potential for escalation, yet achieve sell-out within a reasonable timeframe. Absorption forecasts cannot predict the success of pre-leasing and pre-sales which will greatly depend on the quality of the marketing program and its execution.

Assuming a well-executed development and marketing program, absorption of 200 rental and for-sale multi-family, and for-sale single-family attached dwelling units within the Wealthy-Jefferson Study Area would likely be achieved within approximately three years, depending on the success of the pre-leasing/pre-sales programs, phasing, construction and site constraints, and predicated on no significant worsening of the national, regional and local economies. Annual absorption for the Wealthy-Jefferson Study Area is therefore forecast as follows:

Annual Average Absorption
WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

Multi-family for-rent Hard/soft lofts	60 units
Multi-family for-sale Hard/soft lofts	24
Single-family attached for-sale Townhouses	12
Total	96 units

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

At the annual forecast absorption of 96 units in one year, new residential development within the Wealthy-Jefferson Study Area would require a capture rate of just 3.1 percent of the 3,080 households, identified through target market analysis, that have the potential to rent or purchase new multi-family or single-family attached housing units within the study area in the year 2008—a rate that is well within the target market methodology's parameters of feasibility.

The annual absorption paces require specific capture rates of those households that, in the year 2008, represent the potential market for each housing type on the site, as follows:

Capture of the Potential Market
Based on Annual Average Absorption
WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

Housing Type	Annual Market Potential (HHS)	Annual Average Absorption (Units)	Required Capture Rate
Multi-family for-rent	1,610	60	3.7%
Multi-family for-sale	950	24	2.5%
Single-family attached for-sale	520	12	2.3%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Again, these housing type-specific capture rates are also within the parameters required for feasible development. For a development of this size and scale, there is a high degree of confidence in a capture rate of up to 20 percent of the market.

NOTE: See capture rate methodology following the section on *Market Capture*.

—UNIT TYPES—

The proposed unit types include hard and soft lofts and two-and-a-half to three-story townhouses.

- Hard Loft: Unit interiors typically have high ceilings and commercial windows and are minimally finished (with limited architectural elements such as columns and fin walls), or unfinished (with no interior partitions except those for bathrooms). The raw space version of a hard loft is adaptable for a wide range of non-residential uses, from an art or music studio to a small office, as well as residential living areas. The loft is not dependent upon building form, other than that it is almost always within a multi-unit building. One parking space per unit should be provided for rental lofts, and one-and-a-half parking spaces per unit should be provided for for-sale lofts.

- Soft Loft: Unit interiors typically have open floorplans, high ceilings and large commercial-style windows, but are fully finished and, where appropriate, have sleeping areas partitioned from the main living area. A soft loft may also contain architectural elements reminiscent of "hard lofts," *e.g.*—exposed ductwork and sprinkler piping, scored and stained concrete floors. One parking space per unit should be provided for rental lofts, and one-and-a-half parking spaces per unit should be provided for for-sale lofts

- Townhouse: Similar in form to a conventional suburban townhouse except that the garage—internal, attached, or detached—is located to the rear of the unit and accessed from a rear lane, alley or auto court. Unlike conventional townhouses, urban townhouses in traditional neighborhoods conform to the pattern of streets, typically with shallow front-yard setbacks. When sited with a shallow setback from the street, the first living level must be elevated above the sidewalk to provide privacy and a sense of security. A one-car garage is appropriate for the smallest unit, and a two-car garage for the larger units.

—IN-UNIT AMENITIES—

To meet the expectations of potential residents, all units should be wired for cable television and high-speed internet or, if practical, be served by a building-wide Wi-Fi system. Although hard lofts are typically designed without interior walls, with the exception of the bathroom, as much closet and storage space as possible should be provided (in soft lofts as well)..

In the kitchens, although, until recently, granite countertops have been the norm for urban redevelopment, it is highly recommended that less-expensive, and/or more environmentally-sensitive alternatives be selected for the hard and soft lofts—such as Fireslate in the rental units, and Richlite and PaperStone, which are composed of recycled materials, in the for-sale units. For the more expensive condominiums, optional countertop upgrades could be CaesarStone and Silestone—quartz composite materials—or new terrazzo products such as Vetrazzo or IceStone. All kitchens should include integral or undermount sinks, and either matching backsplashes or finished in stainless steel; renters will expect contemporary, durable finishes appropriate to urban living, as opposed to the carpeted "beige" interiors of suburban multi-family housing. Cabinets in the lofts should have flush fronts with integral or contemporary pulls, offered in a variety of finishes, ranging from bamboo to frosted glass. Appliances should be mid-grade with stainless fronts.

Suburban condominium finishes should be avoided. The soft lofts should have bedrooms separated by walls or, in cases of interior rooms, partitions that run only partially to the ceiling. HVAC should be designed with exposed spiral ductwork. Lighting fixtures should have clean and minimalist designs, capable of accommodating compact fluorescent bulbs. Walls should be drywall finished with simple contemporary baseboards. Doors should be flush, matched-grain wood with stainless handles and hardware. Bathrooms should have a standard contemporary finish package, including vessel-style sinks, and countertops of materials similar to the grade used in the kitchens. All fixtures, faucets and lighting should be clean, minimalist and contemporary. Again, lighting should accommodate compact fluorescent bulbs.

METHODOLOGY

The update of the technical analysis of market potential for the Downtown Study Area and the Wealthy-Jefferson Development Initiative Study Area included confirmation of the draw areas—based on the most recent migration data for Kent County, and incorporating additional data from the 2007 American Community Survey for the City of Grand Rapids—as well as compilation of current residential rental and for-sale activity in the greater Downtown 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 Grand Rapids. 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 2007 American Community Survey.

Appendix One, Table 1.
Migration Trends

Analysis of the most recent Kent County migration and mobility data available from the Internal Revenue Service—from 2002 through 2006—shows that the county continued to experience net migration losses throughout the study period, with net out-migration ranging from a loss of 965 households in 2002 to a loss of more than 1,300 households in 2006. (*See* Appendix One, Table 1.). The 2004 study showed that, although Kent County had a net household loss in 2000 and 2001, the county had exhibited net household gains in 1998 and 1999.

Annual in-migration into Kent County ranged from 10,510 households in 2002, (the lowest in-migrating total over the study period) to 10,900 households in 2005 (the highest in-migrating total). Between 16 and 17 percent of the county's in-migration is now from Ottawa County, the adjacent county to the west, with another four to five percent from Allegan County to the southwest. Annual out-migration from Kent County ranged between the low of 11,645 households in 2002 to the high of more than 12,000 households in 2005. Approximately 16 to 18 percent of the out-migration is also to Ottawa County; collectively, the majority of out-migration is to other Michigan counties.

As noted in the previous study, even though net migration provides insights into a city or county'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 the City of Grand Rapids have been confirmed as follows:

- The local draw area, covering households, with the financial capacities to rent or purchase market-rate dwelling units, currently living within the Grand Rapids city limits and the balance of Kent County. Although there has been a constrained housing market both locally and nationally in 2007 and 2008, internal mobility has risen somewhat since the 2004 study, when approximately 11 percent of city households moved within the city and 3.5 percent of households living in the balance of Kent County moved to the city. In 2008, the mobility rate for households moving within the city has risen to nearly 12 percent, and for households moving from the balance of the county to the city, the mobility rate has risen to 4.6 percent.

- The regional draw area, covering households with the financial capacities to rent or purchase market-rate dwelling units and with the potential to move to the City of Grand Rapids from Ottawa and Allegan Counties. As noted above, households moving from Ottawa County now comprise just under 17 percent of total Kent County in-migration, up from 14.1 percent in 1998; the percentage of those households likely to move to Grand Rapids has also risen, from 27 percent in 2004 to just over 30 percent in 2008. Households moving from Allegan County represent now represent just under five percent of total Kent County in-migration, up from four percent in 1998, and the percentage of those households likely to move to Grand Rapids is now also 30 percent, up from 25 percent in 2004.

- The <u>national</u> draw area, covering households with the financial capacities to rent or purchase market-rate dwelling units and with the potential to move to the City of Grand Rapids from all other U.S. counties (primarily counties in Michigan, although approximately 36 percent are households currently living outside the state). Between 3,500 and 3,800 households move into Kent County from elsewhere in the United States each year; a small additional number are households moving from outside the United States. Up to two-thirds of those households, with the financial capacities to rent or purchase market-rate dwelling units, move into the City of Grand Rapids.

<u>Migration Methodology</u>:

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 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, <u>only those household groups with median incomes that enable most of the households within each group to qualify for market-rate housing are included in the tables</u>. 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 estimated 72,300 households living in the City of Grand Rapids in 2008 (Claritas' estimates), nearly 76 percent, or 54,890 households, have the capacity to rent or buy market-rate housing. (*Reference* Appendix One, Table 2.) More than half of the city's "market-rate" households can be classified as traditional and non-traditional families (up from 34 percent in 2003), another 27.2 percent are younger singles and couples (up from 21.3 percent), and 22.5 percent are empty nesters and retirees (down from 44.5 percent).

Up to 76 percent, or 172,745 households, of the estimated 227,210 households estimated to be living in Kent County in 2008 (again, Claritas' estimates) have the capacity to rent or buy market-rate housing. (*Reference* Appendix One, Table 3.) Just over 45 percent of Kent County's "market-rate" households are classified as traditional and non-traditional families (down from 55 percent in 2003), another 27.8 percent are younger singles and couples (up from 16 percent), and the remaining 27.1 percent are empty nesters and retirees (down from 29 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 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 GRAND RAPIDS (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 Grand Rapids in the year 2008. The total number from each city/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 Grand Rapids)—

Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with 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 up to 6,450 households living in the City of Grand Rapids, and with the capacity to rent or purchase market-rate housing, have the potential to move from one residence to another within the city in 2008. Nearly 54 percent of these households are likely to be younger singles and couples (as characterized within nine Zimmerman/Volk Associates' target market groups); another 39.7 percent are likely to be traditional and non-traditional families (also in nine market groups); and the remaining 6.8 percent are likely to be empty nesters and retirees (also in nine market groups).

Appendix One, Table 5.
Internal Mobility (Households Moving To the City of Grand Rapids from the Balance of Kent 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 5,500 households, currently living in the balance of Kent County and with the capacity to rent or purchase market-rate housing, have the potential to move from a residence in the county to a residence in the City of Grand Rapids in 2008. Up to 43.1 percent of these households are likely to be younger singles and couples (in 10 market groups); 42.2 percent are likely to be traditional and non-traditional families (in 11 groups); and the remaining 14.7 percent are likely to be empty nesters and retirees (in 10 groups).

Appendix One, Tables 6 and 7.
External Mobility (Households Moving To the City of Grand Rapids from Outside Kent 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 Grand Rapids in 2008 (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

Appendix One, Table 8.
Market Potential for the City of Grand Rapids—

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 Grand Rapids in the year 2008 originating from households currently living in the draw areas. Up to 15,050 households with the potential to rent or purchase market-rate housing have the potential to move within or to the City of Grand Rapids in 2008. Younger singles and couples are likely to account for 48.8 percent of these households (in 14 market groups); another 39 percent are likely to be traditional and non-traditional families (in 13 groups); and 12.2 percent are likely to be empty nesters and retirees (in 14 groups)..

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

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

City of Grand Rapids (Local Draw Area):	42.9%
Balance of Kent County (Local Draw Area):	36.5%
Ottawa and Allegan Counties(Regional Draw Area):	4.7%
Balance of US (National Draw Area):	15.9%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

DETERMINATION OF THE POTENTIAL MARKET FOR DOWNTOWN GRAND RAPIDS AND THE WEALTHY-JEFFERSON DEVELOPMENT INITIATIVE STUDY AREA—

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

Appendix One, Tables 9 through 11.
Market Potential for Downtown Grand Rapids/Wealthy-Jefferson Study Area—

As derived by the target market methodology, over 4,600 households have the potential to move to the Downtown/Wealthy-Jefferson Study Area this year. (*Reference* Appendix One, Table 9.) Nearly 62 percent of these households are likely to be younger singles and couples (in eight market groups); another 26.9 percent are likely to be empty nesters and retirees (in 11 groups); and 11.3 percent are likely to be traditional and non-traditional family households (in four groups).

The distribution of the draw areas as a percentage of the market for Downtown Grand Rapids and the Wealthy-Jefferson Study Area is:

Market Potential by Draw Area
DOWNTOWN GRAND RAPIDS/WEALTHY-JEFFERSON STUDY AREA
City of Grand Rapids, Kent County, Michigan

City of Grand Rapids (Local Draw Area):	51.6%
Balance of Kent County (Local Draw Area):	21.0%
Ottawa and Allegan Counties(Regional Draw Area):	2.6%
Balance of US (National Draw Area):	24.8%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

The 4,610 draw area households that have the potential to move within or to Downtown Grand Rapids and the Wealthy-Jefferson Study Area in 2008 have been categorized by tenure propensities to determine renter/owner ratios. Just under 35 percent of these households (or

1,610 households) comprise the potential market for new market-rate rentals. The remaining 65.1 percent (or 3,000 households) comprise the market for new market-rate for-sale (ownership) housing units. (*Reference* Appendix One, Table 10.)

Of these 3,000 households, 31.7 percent (or 950 households) comprise the market for multi-family for-sale units (condominium apartments and lofts); this is a considerably larger percentage of the market than in 2004. Another 17.3 percent (520 households) comprise the market for attached single-family (townhouse or duplex) units. The remaining 51 percent (or 1,530 households) 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 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 20 years, 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 household groups with median incomes that enable most of the households within each group to qualify for market-rate housing are included in the tables.

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Research & Strategic Analysis

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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