
EXECUTIVE SUMMARY

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

EXECUTIVE SUMMARY UPDATE: RESIDENTIAL MARKET POTENTIAL

Downtown Grand Rapids and The Wealthy-Jefferson Development Initiative Study Area

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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 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

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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).

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CONCLUSIONS OF THE ANALYSIS

The extent and characteristics of the potential market for new residential units within Downtown Grand Rapids have been derived from the updated housing preferences and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology and extensive experience with urban development and redevelopment.

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

Just over half of the households that represent the market for new housing units in Downtown Grand Rapids and the Wealthy-Jefferson Study Area are currently living in the City of Grand Rapids; 21 percent would be moving from the balance of Kent County; 2.6 percent from Ottawa and Allegan Counties; and 25 percent from elsewhere in the nation.

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

The depth of the potential market is as follows:

- Just over 4,600 households currently living in the defined draw areas comprise the potential market for new market-rate housing units within Downtown Grand Rapids and the Wealthy-Jefferson Study Area.
- Just under 3,100 households 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 and the Wealthy-Jefferson Study Area.

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

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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.

How fast will the units lease or sell?

Again, as in 2004, new development (including both adaptive re-use of existing non-residential buildings as well as new construction) within a Downtown core can achieve an annual capture of between 10 and 15 percent of the potential market, depending on housing type. Under normal market conditions, and based on a 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 over the next five years, as follows:

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)	<u>520</u>	5% to 10%	<u>26 to 52</u>
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 outside Grand Rapids' city limits. Over five years, the realization of that market

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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.

Who is the potential market?

The household groups that comprise the potential market in 2008 are:

- **Younger singles and childless couples (still the largest market segment)** currently representing 69 percent of the market for housing units in Downtown and the Study Area.

The challenge in capturing this potential market is being able 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.

- **Empty nesters and retirees**, representing 21 percent of the market for housing units in Downtown and the Study Area.

Empty nesters and retirees 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, older households will again become a larger share of the potential market.

- **A range of urban families (as in 2004, the smallest market segment)**, comprising just 10 percent of the market for new housing units in Downtown and the Study Area.

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

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market for new housing units within Downtown Grand Rapids and the Wealthy-Jefferson Study Area, compared to eight percent and 14 percent, respectively, in 2004.

What are the current alternatives?

Rents at most of the rental properties included in the survey in 2004 have increased substantially in 2008. Of the properties covered in both surveys, 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. 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)

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Numerous condominium housing developments, both adaptive re-use and new construction, have opened in Downtown Grand Rapids since the 2004 field investigation. Several have units with base prices starting below \$100,000. For example, 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).

There are also several properties with base prices starting at around \$250,000 and up. For example, 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.

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.

What is the market currently able to pay?

Based on the tenure preferences of draw area households and their income and equity levels, then, 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:

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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 sustainable by the market in Downtown Grand Rapids. Although 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 constrains most of these buyers as well.

Based on the incomes of the target households, the distribution by rent range of the 161 to 242 new rental units that could be absorbed each year over the next five years in Downtown Grand Rapids would be as follows:

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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	<u>8 to 12</u>	<u>5.0%</u>
Total:	161 to 242	100.0%

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

Based on the incomes of the target households, the distribution by price range of the 95 to 143 market-rate for-sale apartments that could be absorbed each year over the next five years 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	<u>8 to 12</u>	<u>8.3%</u>
Total:	95 to 143	100.0%

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

Based on the 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 each year over the next five years in Downtown Grand Rapids is as follows:

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Townhouse 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	<u>3 to 5</u>	<u>9.7%</u>
Total:	26 to 52	100.0%

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

OPTIMUM MARKET POSITION: WEALTHY-JEFFERSON STUDY AREA

The Wealthy-Jefferson Development Initiative 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.

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.

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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.

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

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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	
<i>City of Grand Rapids, Kent County, Michigan</i>	
Multi-family for-rent	60 units
Hard/soft lofts	
Multi-family for-sale	24
Hard/soft lofts	
Single-family attached for-sale	12
Townhouses	
Total	96 units

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



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ASSUMPTIONS AND LIMITATIONS—

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

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

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



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