EXECUTIVE SUMMARY

RESIDENTIAL MARKET POTENTIAL UPDATE

Downtown Albany Study Area

November 3, 2006

On Behalf of the

DOWNTOWN ALBANY BUSINESS IMPROVEMENT DISTRICT

Conducted by

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Research & Strategic Analysis

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Update
Residential Market Potential

The Downtown Albany Study Area
City of Albany, Albany County, New York

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The purpose of this study is to identify the depth and breadth of the market for newly-introduced market-rate housing units—created both through adaptive re-use of existing non-residential buildings as well as through new construction—to be leased or sold within the Downtown Albany Study Area. For purposes of this study, the Downtown Albany Study Area has been expanded beyond the Business Improvement District to include the area bounded by North Ferry Street to the north, the river to the east, Westerlo Street to the south, and Eagle Street to the west.

The extent and characteristics of the potential market for downtown housing units were identified using Zimmerman/Volk Associates' proprietary target market methodology. This methodology was developed in response to the challenges that are inherent in the application of conventional supply/demand analysis to urban development and redevelopment. Supply/demand analysis ignores the potential impact of newly-introduced housing supply on settlement patterns, which can be substantial when that supply is specifically targeted to match the housing preferences and economic capabilities of the draw area households.

In contrast to conventional supply/demand analysis, then—which is based on supply-side dynamics and baseline demographic projections—target market analysis determines the depth and breadth of the potential market derived from the housing preferences and socio-economic characteristics of households in the defined draw area. Because it considers 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 target market methodology is particularly effective in defining a realistic housing potential for urban development and redevelopment.

This study therefore determined:

- <u>Where</u> the potential renters and buyers for new housing units in the Downtown Albany Study Area are likely to move from (the draw areas);
- <u>Who</u> currently lives in the draw areas and what they are like (the target markets);
- <u>How</u> <u>many</u> are likely to move to the study area if appropriate housing units were to be made available (depth and breadth of the market);
- <u>What</u> their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- <u>What</u> their alternatives are (relevant housing stock in the city);
- <u>What</u> they will pay to live in the Downtown Albany Study Area (market-rate rents and prices); and
- <u>How</u> quickly they will rent or buy the new units (market capture/absorption forecasts).

CONCLUSIONS OF THE ANALYSIS

The depth and breadth of the potential market for new dwelling units to be constructed within the Downtown Albany Study Area have been derived from the 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 the Downtown Albany Study Area move from?

Analysis of Albany County migration and mobility patterns from 1999 through 2003—the latest data available from the Internal Revenue Service—shows that the number of households moving into the county has increased from just under 7,850 households in 1999 to more than 8,200 households in 2003. Nearly 44 percent of the county's in-migration is from adjacent or nearby counties—households moving to Albany County from Rensselaer, Schenectady, Saratoga and Greene Counties.

How many households are likely to move to the Downtown Albany Study Area?

As derived by the target market methodology, just over 2,400 households represent the annual potential market for new and existing market-rate housing units in the Downtown Albany Study Area.

These 2,440 households comprise 23 percent of the approximately 10,400 households that represent the potential market for new and existing market-rate housing units in all of the City of Albany, a share of the total market that is consistent with Zimmerman/Volk Associates' experience in other cities. For example, in recent analyses, the downtown market was found to represent approximately 23 percent of the city's potential market in Birmingham, Alabama and Atlanta, Georgia; 26 percent in Norfolk, Virginia, Redding, California, and Toledo, Ohio; 30 percent in Detroit and Grand Rapids, Michigan, Spokane, Washington, and Baltimore, Maryland;

35 percent in Lexington, Kentucky and Buffalo, New York; and 36 percent and 38 percent in Louisville, Kentucky and New Haven, Connecticut, respectively.

What are their housing preferences?

As derived from the tenure and housing preferences of the target households, the distribution of rental and for-sale multi-family and for-sale single-family attached housing types is as follows:

Annual Market Potential
Market-Rate Higher-Density Housing Units
THE DOWNTOWN ALBANY STUDY AREA
City of Albany, Albany County, New York

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	1,080	44.2%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	790	32.4%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	570	23.4%
Total	2,440	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

Since the initial study was conducted in 2002, there has been a significant increase in the size of the annual potential downtown market—from just under 2,000 households in 2002 to more than 2,400 households in 2006—and the type of housing that best matches target household preferences. In 2002, more than 59 percent of the market potential was multi-family rental housing, compared to just over 44 percent in 2006. As a share of the market, for-sale multi-family (condominiums) has risen from just over 21 percent in 2002 to more than 32 percent in 2006, and for-sale single-family attached units now represent more than 23 percent of the market, up from just 19.6 percent in 2002.

Who is the potential market?

The market for urban housing, particularly within downtowns, is now being 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, particularly downtown 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.

At the same time, 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 heading for the city. 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—simultaneously 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 nine years from now.

The household groups that comprise the potential market for Downtown housing units are:

- Younger singles and childless couples (52 percent);
- Empty nesters and retirees (39 percent); and
- A range of urban families (nine percent).

What is the market currently able to pay?

Based on the socio-economic and lifestyle characteristics of the target households, the downtown residential mix distribution, and the supply-side context, the general range of rents and prices for newly-developed market-rate residential units in the Downtown Albany Study Area that could currently be sustained by the market is as follows:

Rent, Price and Size Ranges
Newly-Created Housing
THE DOWNTOWN ALBANY STUDY AREA
City of Albany, Albany County, New York

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Hard Lofts *	$650–$1,100/month	550–1,000 sf	$1.10–$1.18 psf
Soft Lofts †	$825–$1,325/month	650–1,100 sf	$1.20–$1.27 psf
Luxury Apartments	$1,200–$2,225/month	850–1,700 sf	$1.31–$1.41 psf
FOR-SALE—			
Hard Lofts *	$135,000–$195,000	650–1,000 sf	$195–$208 psf
Soft Lofts †	$175,000–$275,000	750–1,300 sf	$212–$233 psf
Luxury Condominiums	$350,000–$575,000	1,350–2,150 sf	$259–$267 psf
Rowhouses	$225,000–$375,000	1,000–1,850 sf	$203–$225 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., 2006.

How fast will the units lease or sell?

After nearly 20 years' experience in various cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that an annual capture of between 10 and 15 percent of the potential market, depending on housing type, is achievable.

Based on those capture rates, the Downtown Study Area should be able to support up to 338 new units per year over the next five years, as follows:

Annual Capture of Market Potential
THE DOWNTOWN ALBANY STUDY AREA
City of Albany, Albany County, New York

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	1,080	15%	162
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	790	15%	119
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	570	10%	57
Total	2,440		338

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

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.

POLICIES, PROGRAMS AND BEST PRACTICES

A number of policies and programs have been instituted by other cities to spur residential development in their downtowns. These include:

1. POLICIES AND PROGRAMS TO ADDRESS REGULATORY OBSTACLES
    - A special code for adaptive re-use.
    - Pre-development meetings to streamline the pre-construction process.
    - An adaptive re-use handbook to clarify code requirements.
    - Loft overlay zoning to make the entitlement process more predictable.
    - An adaptive re-use ombudsman to facilitate code compliance.

2. POLICIES AND PROGRAMS TO ADDRESS ACQUISITION OBSTACLES
    - Use of city-owned properties to leverage residential development.
    - Investment in infrastructure to encourage private development.
    - A land bank to convert vacant and abandoned properties to productive use.

3. POLICIES AND PROGRAMS TO ADDRESS HIGH DEVELOPMENT COSTS
    - A gap financing funding pool.
    - Tax incentives, such as a property tax exemption and abatement program.
    - The City of Albany Real Property Tax Law abatement 485-e which is a 10-year real property tax abatement on the increased tax assessment from investment over and above current assessment as a result of new construction in the Empire Zone boundaries.
    - The use of tax credits for artists' housing.

4. BEST PRACTICES

- Smart Growth Zoning Codes: A Resource Guide, a publication designed to encourage walkable, mixed-use neighborhoods and the revitalization of existing places.
- Form-based zoning codes, which regulate the size, shape and organization of streets and buildings to create a walkable, transit-friendly collection of inter-connected streets
- Reduced parking requirements.
- Special sales and income tax incentives to encourage resident artists.
- A “Live Where You Work” homeownership incentive plan.
- Mixed-income development.
- Market and monitor the downtown.