

ZIMMERMAN/VOLK ASSOCIATES, INC.

6 East Main Street
Clinton, New Jersey 08809

908 735-6336 • 908 735-4751 *facsimile*
www.ZVA.cc • info@ZVA.cc

Research & Strategic Analysis

EXECUTIVE SUMMARY

Residential Market Potential

Downtown Lafayette Study Area *City of Lafayette, Lafayette Parish, Louisiana*

May, 2006

The purpose of this study is to identify the depth and breadth of the market for newly-introduced housing units, both market-rate and affordable—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 Lafayette Study Area, in the City of Lafayette, Lafayette Parish, Louisiana.

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.

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This study therefore determined:

- Where the potential renters and buyers for new housing units in the Downtown Lafayette 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 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 existing housing stock in Downtown Lafayette and in nearby areas of the city);
- What they will pay to live in Downtown Lafayette (market-rate rents and prices);
and
- How quickly they will rent or purchase the new units (absorption forecasts).

NOTE: This study specifically addresses market potential based on the housing preferences and financial capacities of target households who are purchasing units for personal use. This analysis is not intended to assess the purchase potential of investors. The investor market could be significant and could add substantially to absorption.

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MARKET POTENTIAL

From a market perspective, considerable pent-up demand exists for Downtown housing, both new construction and adaptive re-use of existing buildings. As determined by this analysis, the market potential for new and existing market-rate housing units to be leased or sold within the Downtown Lafayette Study Area each year consists of up to 2,590 households with an affinity for downtown and in-town neighborhoods. Nearly 77 percent of these households are currently living in the City of Lafayette or Lafayette Parish; the remainder of the potential market will be moving from elsewhere in the region (3.2 percent) or from elsewhere in the nation (20 percent).

These 2,590 households comprise just under 24 percent of the approximately 10,960 households that represent the potential market for all of the City of Lafayette, 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, Fort Wayne, Indiana, 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.

The household groups that comprise the potential market are:

- Younger singles and childless couples—including, among others, graduate students, teachers, or other higher-education affiliates; young professionals, junior executives, small business owners, “knowledge workers,” and retail and service employees. (59 percent);
- Well-to-do empty nesters and retirees (31 percent); and
- A range of urban families (10 percent).

With a variety of housing initiatives, the neighborhoods within the Downtown Lafayette Study Area should become quite attractive to households moving into the city. The appropriate urban housing types and general rent/price ranges and unit sizes that will attract the potential market are:

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Rent, Price and Size Range
Newly-Created Housing (Adaptive Re-Use and New Construction)
DOWNTOWN LAFAYETTE STUDY AREA
City of Lafayette, Lafayette Parish, Louisiana

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Hard Lofts *	\$575–\$1,000/month	500–1,000 sf	\$1.00–\$1.15 psf
Soft Lofts †	\$650–\$1,150/month	550–1,050 sf	\$1.10–\$1.18 psf
Luxury Apartments	\$825–\$1,425/month	650–1,200 sf	\$1.19–\$1.27 psf
FOR-SALE—			
Hard Lofts *	\$75,000–\$140,000	500–1,000 sf	\$140–\$150 psf
Soft Lofts †	\$115,000–\$160,000	700–1,050 sf	\$152–\$164 psf
Two-Story Units Over Flats	\$140,000–\$210,000	750–1,200 sf	\$175–\$187 psf
Luxury Condominiums	\$225,000–\$400,000	1,100–1,750 sf	\$205–\$229 psf
Rowhouses	\$175,000–\$300,000	1,000–1,850 sf	\$162–\$175 psf
Urban Houses	\$155,000–\$325,000	950–2,100 sf	\$155–\$163 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.

The above rents and prices are in year 2006 dollars, are exclusive of consumer options and upgrades, or floor or location premiums, and cover the broad range of rents and prices currently sustainable by the market, excluding the impact of the investor market, and designed according to target market preferences, in the downtown and in-town neighborhoods.

After more than a decade’s 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.

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Based on a 15 percent capture of the potential market for multi-family units, and a 10 percent capture of single-family units, the Study Area should be able to support up to 264 new market-rate units per year, or more than 1,300 new market-rate dwelling units over the next five years.

**Annual Capture of Market Potential
 Market-Rate* Units Only
 DOWNTOWN LAFAYETTE STUDY AREA
*City of Lafayette, Lafayette Parish, Louisiana***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	870	15%	130
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	540	15%	81
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	350	10%	35
For-Sale Single-Family Detached (houses, fee-simple ownership)	<u>180</u>	10%	<u>18</u>
Total	1,940		264

* Market rate is defined as affordable to households with incomes no less than 80 percent of the Area Median Family Income (AMFI), in 2006, of \$52,700 for a family of four.

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

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Based on those same capture rates, the Downtown Lafayette Study Area could provide up to 93 new affordable housing units per year, or up to 465 new affordable dwelling units over the next five years, as follows:

**Annual Capture of Market Potential
 Affordable Units Only
 DOWNTOWN LAFAYETTE STUDY AREA
*City of Lafayette, Lafayette Parish, Louisiana***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (below market) (lofts/apartments, leaseholder)	550	15%	83
For-Sale Single-Family Detached (rowhouses, fee-simple ownership)	<u>100</u>	10%	<u>10</u>
Total	650		93

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

The creation of appropriate new housing units within the Downtown Lafayette Study Area can increase the number of households moving into the City of Lafayette. Based on the migration and mobility analyses, households in up to 450 of these 1,785 new units could have moved from elsewhere in the region or the country.

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DOWNTOWN HOUSING STRATEGY

From the perspective of draw area target market propensities and compatibility, a broad range of new construction as well as adaptive re-use of existing buildings will be required to support and sustain residential diversity in the Downtown Lafayette Study Area. An effective housing strategy to attract the target households should include:

- The creation of a variety of housing types, both rental and for-sale, including higher-value market-rate as well as affordable housing units, throughout the Study Area;
- The establishment of general neighborhood guidelines to assure the compatibility of every scale and type of housing;
- Preservation of the built environment: the restoration, repositioning and/or adaptive re-use of existing buildings;
- New residential construction: the introduction of housing types not currently available or under-represented in Downtown Lafayette;
- Mixed-use development: the inclusion of a residential component within mixed-use buildings, either adaptive re-use or new construction; and
- The development of new, and continuation of existing programs and policies that encourage the creation of downtown housing.

In order to achieve maximum positive impact of downtown housing, three elements—location, design and marketing—must be carefully considered and executed. The city should:

1. Evaluate target areas for residential development;
2. Ensure appropriate urban design; and
3. Market and monitor the Downtown.

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POLICIES AND PROGRAMS

The State of Louisiana has a Restoration Tax Abatement program to encourage rehabilitation of both commercial and residential structures in downtown development districts. The program includes abatement of property taxes assessed on any improvements to the building.

The Gulf Opportunity Zone Act, passed by the United States Congress in response to the devastation caused by Hurricanes Katrina, Rita and Wilma, provides tax incentives that include increased allocations and cost coverage of the low-income housing tax credit, increases in cost coverage of the rehabilitation tax credit, incentives for employer-provided housing, expansion of the availability of below-market mortgages in the disaster areas, bonus depreciation for new real property and equipment investments, as well as numerous tax benefits.

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

- Use of City-owned properties to leverage residential development.
- Creation of a Tax Increment Financing District.
- Tax incentives, such as a property tax exemption and abatement program, or special sales and income tax incentives to encourage resident artists.
- Infrastructure upgrades.
- A gap financing funding pool.
- A special code for adaptive re-use.
- An adaptive re-use handbook to clarify code requirements.
- An adaptive re-use ombudsman to facilitate code compliance.
- A “Live Where You Work” homeownership incentive plan.
- Mixed-income development.
- The use of tax credits for artists’ housing.

