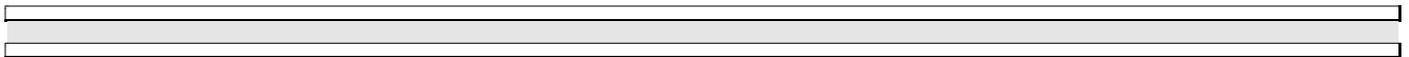
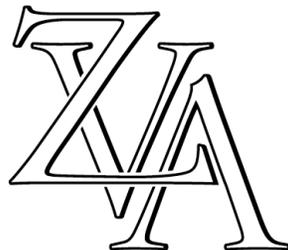

AN ANALYSIS OF
RESIDENTIAL MARKET POTENTIAL

The City of New Orleans,
Louisiana

March, 2009

Conducted by
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Research & Strategic Analysis

STUDY CONTENTS

An Analysis of Residential Market Potential	1
Citywide Market Potential	3
<i>Where does the potential market for new and existing housing units in the City of New Orleans currently live?</i>	3
<i>How many households are likely to move within and to the City of New Orleans, and what are their housing preferences?</i>	4
Table 1: Potential Market For New And Existing Housing Units	6
<i>Who are the households that represent the potential New Orleans housing market?</i>	7
Table 2: Potential Housing Market By Household Type	9
<i>How fast could the units lease or sell?</i>	10
Table 3: Potential Market For New Multi-Family For-Rent	14
Table 4: Potential Market For New Multi-Family For-Sale	18
Table 5: Potential Market For New Single-Family Attached For-Sale	22
Table 6: Potential Market For New Urban Single-Family Detached For-Sale	26
Methodology	29
Potential Policies and Programs	39
Assumptions and Limitations	43
Rights and Study Ownership	44



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Research & Strategic Analysis

AN ANALYSIS OF RESIDENTIAL MARKET POTENTIAL THE CITY OF NEW ORLEANS, LOUISIANA

MARCH, 2009

As is typical of many older core cities in expanding regions, New Orleans has struggled to maintain its economic base in the face of loss of population, commerce and retail businesses to the lower-density parishes surrounding the city, particularly since Hurricane Katrina in 2005. For several years now, New Orleans has lost more residents through out-migration than it has gained through in-migration. Prior to 2005, the city experienced annual net losses of between approximately 1,600 and 2,500 households per year. In 2005, the year of Katrina, the city lost 62,950 net households. The net gain in 2006—the most recent year for which migration data are available—was approximately 7,700 households. The ramifications over time of a continuation of household outflow could be significant: if the trend established prior to 2005 were to continue, New Orleans could be home to fewer than 100,000 households by 2020, or a decline in total households of more than 17 percent.

A core premise for the City of New Orleans, then, should be that it is just as important to retain current residents as it is to bring back those who left after Katrina or to attract new ones. Because strong residential neighborhoods are essential to the economic and social sustainability of a city, it is imperative that New Orleans provide and sustain secure and comfortable neighborhoods that offer housing options for a broad range of lifestyles, ages and incomes. The significant changes in households (particularly shrinking household size and the predominance of one- and two-person households) over the past several years, combined with

steadily increasing traffic congestion and rising gasoline prices, have resulted in significant changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in low-density suburbs to higher-density apartments, townhouses, and detached houses in urban and mixed-use neighborhoods. This fundamental transformation of American households is likely to continue over at least the next decade, representing an unprecedented demographic foundation on which cities can re-build their downtowns and in-town neighborhoods.

This study has included the determination of market potential for affordable as well as market-rate housing units. Despite the present deflation of housing values, the dramatic escalation in housing values throughout most of the country over the first half of the current decade has made homeownership much more difficult to achieve for an increasing segment of the market.

For the purposes of this analysis, market-rate is defined as affordable to households with incomes above 80 percent of the New Orleans/Metairie/Kenner Area Median Family Income (AMFI), which, in 2008, is \$59,800 for a family of four. Based on household size, the income limits to qualify for affordable housing would be \$33,500 for a one-person household; \$38,300 for a two-person household; \$43,050 for a three-person household; \$47,850 for a four-person household; and so on. However, this affordability standard does not apply to new construction, which is estimated by the New Orleans Redevelopment Authority to average \$250,000 per unit. Given that the 2008 median household income in New Orleans is estimated at \$35,800 (half of all households in the city have incomes above and half below this number), and that an estimated 60 percent of all New Orleans households contain just one or two persons, the 80 percent of AMFI income limit could potentially apply to up to 40 percent of all households in the city.

This analysis therefore identifies the depth and breadth of the potential market for new and existing housing units within the City of New Orleans, encompassing those households already living in the city as well as those households that are likely to move into the city if appropriate housing options were to be made available.

CITYWIDE MARKET POTENTIAL

American households, perhaps more than any other nation's, have always demonstrated extraordinary mobility. Last year, depending on region, between 12 and 14 percent of American households moved from one dwelling unit to another. Household mobility is higher in urban areas and in the West; a higher percentage of renters move than owners; and a higher percentage of younger households move than older households.

An understanding of these mobility trends, as well as analysis of the socio-economic and lifestyle characteristics of households currently living within defined draw areas, is therefore integral to the determination of the depth and breadth of the potential market for new and existing housing units within a given area. The draw areas are derived primarily through migration analysis (using the latest data provided by the Internal Revenue Service), but also incorporate information obtained from real estate brokers, sales and leasing agents and other knowledgeable sources, as well as from Zimmerman/Volk Associates' field investigation.

Where does the potential market for new and existing housing units in the City of New Orleans currently live?

As derived from migration and mobility analysis, both prior to, and post-Katrina, the draw area distribution of the potential housing market (those households likely to move both within and to the City of New Orleans) would be as follows:

Potential Housing Market by Draw Area
City of New Orleans, Louisiana

City of New Orleans (Primary Draw Area):	56.6%
Jefferson, St. Tammany, St. Bernards Parishes (Regional Draw Area):	16.8%
East Baton Rouge Parish:	1.3%
Balance of Louisiana:	3.7%
Balance of US:	<u>21.6%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

*How many households are likely to move within and to the City of New Orleans
 and what are their housing preferences?*

As determined by the target market methodology—which accounts for household mobility within the City of New Orleans as well as migration and mobility patterns for households currently living in all other cities, parishes and counties—up to 23,200 households represent the annual potential market for new and existing housing units within the city. The housing preferences of these draw area households—according to tenure (rental or for-sale) and general financial capacity—can be arrayed as follows:

**Annual Potential Market
 For New and Existing Housing Units
 City of New Orleans, Louisiana**

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (BMR*)	5,800	25.0%
Multi-family for-rent (market-rate†)	6,920	29.8%
Multi-family for-sale (all ranges)	3,650	15.8%
Single-family attached for-sale (all ranges)	2,280	9.8%
Single-family detached (BMR*)	2,130	9.2%
Single-family detached (market-rate†)	<u>2,420</u>	<u>10.4%</u>
Total	23,200	100.0%

* BMR: Below Market-Rate.

† Market rate is defined as affordable to households with incomes no less than 80 percent of the New Orleans Area Median Family Income (AMI), in 2008, of \$59,800 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Approximately 45 percent of the market would choose some form of ownership housing (comparable to the current estimated homeownership rate of 46 percent). Of the 55 percent that comprise the market for rental dwelling units, some are renters by choice; many, however, would prefer to own but cannot afford the type of housing they want in neighborhoods where they would consider living. Just 19.6 percent of the market would prefer single-family detached units—currently, an estimated 40 percent of New Orleans’ housing stock is comprised of single-family detached houses (including those damaged by Hurricane Katrina).

The remaining 55 percent of the ownership market would choose for-sale single-family attached (townhouses/live-work units) or multi-family units (condominiums).

These numbers represent the market potential for new and existing housing units within the City of New Orleans, and should not be confused with projections of housing need or change in the number of households.

The general housing types covered in this analysis include the following:

- Multi-family for-rent (along with multi-family for-sale, the highest-density housing type; multiple rental apartments located within buildings that typically include three stories or more);
- Multi-family for-sale (along with multi-family for-rent, the highest-density housing type; multiple for-sale apartments located within buildings that typically include three stories or more);
- Single-family attached (a medium-density housing type; two- or three-story townhouses; duplexes or two-family houses; live-work units); and
- Single-family detached houses (ranging from the highest-density single-family housing type, typically developed on small lots, with garage access from rear lanes or alleys at the rear of the units, to the lowest-density single-family housing type, with garage access from the street).

Table 1

Potential Market For New And Existing Housing Units
 Distribution Of Draw Area Households With The Potential
 To Move Within/To Orleans Parish Each Year Over The Next Five Years
 Based On Housing Preferences And Income Levels
Orleans Parish (City of New Orleans), Louisiana

*Orleans, Jefferson, St. Tammany, St. Bernards, and East Baton Rouge Parishes, Louisiana;
 Balance of Louisiana; All Other US Counties
 Draw Areas*

Average Annual Total Households
 With Potential To Rent/Purchase Within
 Orleans Parish (City of New Orleans), Louisiana 23,200

Potential Housing Market

	<i>..... Multi-Family</i>			<i>..... Single-Family</i>			
	<i>..... For-Rent</i>			<i>..... For-Sale</i>			
	<i>Below</i>			<i>Below</i>			
	<i>Market-Rate†</i>	<i>Market-Rate†</i>	<i>AllRanges</i>	<i>AllRanges</i>	<i>Market-Rate†</i>	<i>Market-Rate†</i>	
	<i>Apts.</i>	<i>Apts.</i>	<i>Apts.</i>	<i>Attached</i>	<i>Detached</i>	<i>Detached</i>	<i>Total</i>
Total Households:	5,800	6,920	3,650	2,280	2,130	2,420	23,200
{Percent}:	25.0%	29.8%	15.8%	9.8%	9.2%	10.4%	100.0%

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

NOTE: Reference Appendix One, Tables 1 through 11.

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

Who are the households that represent the potential New Orleans housing market?

The market for urban housing 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 over 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 eight years from now.

As determined by the target market analysis, and reflecting national trends, the potential market for new and existing housing units in the City of New Orleans can be characterized by general household and housing type as follows:

Annual Market Potential by Household and Unit Types
City of New Orleans, Louisiana

HOUSEHOLD TYPE	PERCENT OF TOTAL MULTI-FAMILY SINGLE-FAMILY			
		... RENTAL RENTAL FOR-SALE RENTAL RENTAL ...
		BMR* APTS	MARKET† APTS	.. ALL RANGES .. APTS	ATT. ATT.	BMR* DET. DET.	MARKET† DET. DET.
Empty-Nesters & Retirees	17%	17%	12%	14%	21%	29%	26%
Traditional & Non-Traditional Families	32%	39%	24%	22%	33%	41%	46%
Younger Singles & Couples	<u>51%</u>	<u>44%</u>	<u>64%</u>	<u>64%</u>	<u>46%</u>	<u>30%</u>	<u>28%</u>
Total	100%	100%	100%	100%	100%	100%	100%

* BMR: Below market rate.

† Market rate is defined as affordable to households with incomes no less than 80 percent of the New Orleans Area Median Family Income (AMI), in 2008, of \$59,800 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

The transformation of New Orleans' housing stock from 40 percent single-family detached units to a housing mix more reflective of 21st Century market preferences should build upon the following:

- **Preservation of the Built Environment:** the restoration, repositioning and/or adaptive re-use of existing houses and buildings. The introduction of for-sale multi-family units in predominantly single-family (both attached and detached) neighborhoods will serve to increase the range of housing options available to the potential market.
- **New Residential Construction:** the introduction of housing types, unit types, and sizes, not currently available or under-represented, in appropriate locations within the city. A significant segment (15 percent or more) of the 21st Century housing market prefers new construction, in large part because new buildings (or adaptive re-use of existing non-residential structures) are more likely to provide floorplans that are matched to 21st Century lifestyles.

Table 2

Potential Housing Market By Household Type
 Distribution Of Draw Area Households With The Potential
 To Move Within/To Orleans Parish Each Year Over The Next Five Years
 Based On Housing Preferences And Income Levels
Orleans Parish (City of New Orleans), Louisiana

	<i>Total</i>	<i>..... Multi-Family</i>			<i>..... Single-Family</i>		
		<i>..... For-Rent</i>		<i>AllRanges Apts.</i>	<i>..... For-Sale</i>		
		<i>Below Market-Rate* Apts.</i>	<i>Market-Rate* Apts.</i>			<i>Below Market-Rate* Attached</i>	<i>Market-Rate* Detached</i>
Number of Households:	23,200	5,800	6,920	3,650	2,280	2,130	2,420
Empty Nesters & Retirees	17%	17%	12%	14%	21%	29%	26%
Traditional & Non-Traditional Families	32%	39%	24%	22%	33%	41%	46%
Younger Singles & Couples	51%	44%	64%	64%	46%	30%	28%
	100%	100%	100%	100%	100%	100%	100%

* Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

NOTE: Reference Appendix One, Tables 1 through 11.

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

To maintain or regain market relevance, then, a city's housing stock must continue to evolve. Since most cities, including New Orleans prior to Katrina, are largely built out, that evolution is limited to infill development, and the replacement of obsolete and substandard dwelling units. It is critically important for the sustainability of the city that new housing add to the diversity of the housing stock, and not replicate the existing, obsolete housing mix.

How fast could the units lease or sell?

After more than 20 years' experience in cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that, for new development (including both adaptive re-use of existing non-residential buildings as well as new construction), an annual capture of between 10 and 15 percent of the potential market, depending on housing type, is achievable. (According to the National Association of Realtors, new housing units represent approximately 15 percent of all units sold nationally in a given year.) Based on a 10 to 15 percent capture of the potential market for rental and for-sale multi-family units, and a 10 percent capture of for-sale single-family attached and detached units, the City of New Orleans should be able to support between 2,320 and 3,139 new units per year, as follows:

Annual Capture of Market Potential
City of New Orleans, Louisiana

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	12,720	10% to 15%	1,272 to 1,908
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	3,650	10% to 15%	365 to 548
For-Sale Single-Family Attached (rowhouses/duplexes, fee-simple/condominium ownership)	2,280	10%	228
Urban For-Sale Single-Family Detached (detached houses, fee-simple ownership)	<u>4,550</u>	10%	<u>455</u>
Total	23,200		2,320 to 3,139 units

Market-rate units represent approximately 57 percent of the annual market capture, or between 1,318 and 1,664 units per year. The remaining 43 percent (between 1,002 and 1,475 units) should be affordable to households with annual incomes of approximately 40 to 80 percent of the AMFI.

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 within the range of feasibility.

This analysis has outlined annual market potential that could be projected over the next five years. However, 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.

Rental Distribution

Based on the target household mix (*listed on Table 3*) and the incomes of the target households, the distribution by rent range (including affordable as well as market-rate) of the 1,272 new rental units that could be absorbed each year (at 10 percent market capture) over the next five years in the City of New Orleans would be as follows:

Loft/Apartment Distribution by Rent Range
City of New Orleans, Louisiana

MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$500–\$750	524	41.3%
\$750–\$1,000	165	13.0%
\$1,000–\$1,250	157	12.3%
\$1,250–\$1,500	152	11.9%
\$1,500–\$1,750	88	6.9%
\$1,750–\$2,000	64	5.0%
\$2,000–\$2,250	62	4.9%
\$2,250 and up	<u>60</u>	<u>4.7%</u>
Total:	1,272	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Potential Market For New Multi-Family For Rent
Orleans Parish, Louisiana

Empty Nesters & Retirees	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
Urban Establishment	10	80	90	9
Cosmopolitan Couples	10	30	40	4
Multi-Ethnic Retirees	10	20	30	3
Downtown Retirees	60	40	100	10
Multi-Ethnic Seniors	400	230	630	63
<i>Small Cities/Satellite Cities</i>				
Cosmopolitan Elite	0	10	10	1
Middle-Class Move-Downs	20	40	60	6
Blue-Collar Retirees	20	20	40	4
Hometown Retirees	20	10	30	3
Second City Seniors	290	150	440	44
<i>Metropolitan Suburbs</i>				
Suburban Establishment	0	10	10	1
Mainstream Retirees	0	10	10	1
Middle-American Retirees	10	20	30	3
Suburban Retirees	10	10	20	2
Suburban Seniors	70	60	130	13
<i>Town & Country/Exurbs</i>				
New Empty Nesters	0	10	10	1
RV Retirees	0	10	10	1
Blue-Collar Empty Nesters	10	30	40	4
Heartland Empty Nesters	0	10	10	1
Small-Town Seniors	0	10	10	1
Back-Country Seniors	10	0	10	1
Rural Seniors	10	0	10	1
Struggling Retirees	20	0	20	2
Subtotal:	980	810	1,790	179

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Multi-Family For Rent
Orleans Parish, Louisiana

Traditional & Non-Traditional Families	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
Full-Nest Urbanites	20	90	110	11
Multi-Cultural Families	70	110	180	18
Inner-City Families	900	430	1,330	133
Single-Parent Families	650	320	970	97
<i>Small Cities/Satellite Cities</i>				
Unibox Transferees	0	40	40	4
Multi-Ethnic Families	60	120	180	18
In-Town Families	370	280	650	65
<i>Metropolitan Suburbs</i>				
Late-Nest Suburbanites	0	10	10	1
Full-Nest Suburbanites	0	30	30	3
Blue-Collar Button-Downs	50	100	150	15
Working-Class Families	30	20	50	5
<i>Town & Country/Exurbs</i>				
Full-Nest Exurbanites	0	10	10	1
New-Town Families	0	30	30	3
Small-Town Families	10	10	20	2
Kids 'r' Us	20	30	50	5
Rustic Families	10	20	30	3
Subsistence Families	70	10	80	8
Subtotal:	2,260	1,660	3,920	392

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Multi-Family For Rent
Orleans Parish, Louisiana

Younger Singles & Couples	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
e-Types	0	460	460	46
New Bohemians	200	740	940	94
Urban Achievers	570	1,270	1,840	184
<i>Small Cities/Satellite Cities</i>				
The VIPs	10	90	100	10
Twentysomethings	80	300	380	38
Small-City Singles	140	280	420	42
Blue-Collar Singles	270	170	440	44
Soul City Singles	480	220	700	70
<i>Metropolitan Suburbs</i>				
The Entrepreneurs	0	30	30	3
Fast-Track Professionals	0	50	50	5
Upscale Suburban Couples	10	60	70	7
No-Nest Suburbanites	20	40	60	6
Suburban Achievers	70	140	210	21
Working-Class Singles	590	450	1,040	104
<i>Town & Country/Exurbs</i>				
Ex-Urban Power Couples	0	20	20	2
Cross-Training Couples	10	20	30	3
Exurban Suburbanites	10	20	30	3
Country Couples	10	10	20	2
Small-Town Singles	80	70	150	15
Rural Singles	10	10	20	2
Subtotal:	2,560	4,450	7,010	701
Total Households:	5,800	6,920	12,720	1,272
Percent of Total:	45.6%	54.4%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

For-Sale Distribution

Based on the target household mix (*listed on* Table 4) and incomes of the target households, the distribution by price range (including affordable as well as market-rate) of the 365 for-sale condominiums (lofts/apartments) that could be absorbed each year (at 10 percent market capture) over the next five years in the City of New Orleans is as follows:

Loft/Apartment Distribution by Price Range
City of New Orleans, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$50,000–\$100,000	124	34.0%
\$100,000–\$150,000	69	18.9%
\$150,000–\$200,000	66	18.1%
\$200,000–\$250,000	46	12.6%
\$250,000–\$300,000	38	10.4%
\$300,000 and up	<u>22</u>	<u>6.0%</u>
Total:	365	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Potential Market For New Multi-Family For Sale
Orleans Parish, Louisiana

Empty Nesters & Retirees	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
Urban Establishment	0	60	60	6
Cosmopolitan Couples	0	30	30	3
Multi-Ethnic Retirees	0	10	10	1
Downtown Retirees	40	0	40	4
Multi-Ethnic Seniors	70	20	90	9
<i>Small Cities/Satellite Cities</i>				
Cosmopolitan Elite	0	10	10	1
Middle-Class Move-Downs	0	30	30	3
Blue-Collar Retirees	0	20	20	2
Hometown Retirees	10	0	10	1
Second City Seniors	70	30	100	10
<i>Metropolitan Suburbs</i>				
Affluent Empty Nesters	0	10	10	1
Middle-American Retirees	0	20	20	2
Suburban Retirees	10	0	10	1
Suburban Seniors	40	10	50	5
<i>Town & Country/Exurbs</i>				
Blue-Collar Empty Nesters	0	10	10	1
Subtotal:	240	260	500	50

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Multi-Family For Sale
Orleans Parish, Louisiana

Traditional & Non-Traditional Families	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
Full-Nest Urbanites	0	70	70	7
Multi-Cultural Families	10	40	50	5
Inner-City Families	170	40	210	21
Single-Parent Families	90	30	120	12
<i>Small Cities/Satellite Cities</i>				
Unibox Transferees	0	20	20	2
Multi-Ethnic Families	10	50	60	6
In-Town Families	100	50	150	15
<i>Metropolitan Suburbs</i>				
Full-Nest Suburbanites	0	20	20	2
Blue-Collar Button-Downs	10	50	60	6
Working-Class Families	10	10	20	2
<i>Town & Country/Exurbs</i>				
New-Town Families	0	10	10	1
Kids 'r' Us	10	0	10	1
Subsistence Families	20	0	20	2
Subtotal:	430	390	820	82

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Multi-Family For Sale
Orleans Parish, Louisiana

Younger Singles & Couples	<i>Below Market-Rate† Apts.</i>	<i>Market-Rate† Apts.</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
e-Types	0	210	210	21
New Bohemians	60	310	370	37
Urban Achievers	190	350	540	54
<i>Small Cities/Satellite Cities</i>				
The VIPs	0	90	90	9
Twentysomethings	20	120	140	14
Small-City Singles	50	80	130	13
Blue-Collar Singles	70	40	110	11
Soul City Singles	60	20	80	8
<i>Metropolitan Suburbs</i>				
The Entrepreneurs	0	20	20	2
Fast-Track Professionals	0	30	30	3
Upscale Suburban Couples	0	40	40	4
No-Nest Suburbanites	0	20	20	2
Suburban Achievers	70	210	280	28
Working-Class Singles	130	60	190	19
<i>Town & Country/Exurbs</i>				
Ex-Urban Power Couples	0	10	10	1
Cross-Training Couples	0	20	20	2
Exurban Suburbanites	0	10	10	1
Small Town Singles	20	20	40	4
Subtotal:	670	1,660	2,330	233
Total Households:	1,340	2,310	3,650	365
Percent of Total:	36.7%	63.3%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Based on the target household mix (*listed on Table 5*) and incomes of the target groups, the distribution by price range (including affordable as well as market-rate) of the 228 rowhouse/duplex units that could be absorbed each year (at 10 percent market capture) over the next five years in the City of New Orleans is as follows:

Rowhouse/Duplex Distribution by Price Range
City of New Orleans, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$50,000–\$100,000	64	28.2%
\$100,000–\$150,000	32	14.0%
\$150,000–\$200,000	32	14.0%
\$200,000–\$250,000	32	14.0%
\$250,000–\$300,000	32	14.0%
\$300,000–\$350,000	24	10.5%
\$350,000 and up	<u>12</u>	<u>5.3%</u>
Total:	228	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Potential Market For New Single-Family Attached For Sale
Orleans Parish, Louisiana

Empty Nesters & Retirees	<i>Below</i> <u>Market-Rate† SF Attached</u>	<u>Market-Rate† SF Attached</u>	<u>Total</u>	<u>10% Capture</u>
<i>Metropolitan Cities</i>				
Urban Establishment	0	100	100	10
Cosmopolitan Couples	0	30	30	3
Multi-Ethnic Retirees	10	10	20	2
Downtown Retirees	60	10	70	7
Multi-Ethnic Seniors	10	0	10	1
<i>Small Cities/Satellite Cities</i>				
Cosmopolitan Elite	0	30	30	3
Middle-Class Move-Downs	0	30	30	3
Blue-Collar Retirees	0	10	10	1
Second City Seniors	30	10	40	4
<i>Metropolitan Suburbs</i>				
Affluent Empty Nesters	0	10	10	1
Suburban Establishment	0	10	10	1
Mainstream Retirees	0	10	10	1
Middle-American Retirees	10	20	30	3
Suburban Retirees	20	0	20	2
Suburban Seniors	10	0	10	1
<i>Town & Country/Exurbs</i>				
New Empty Nesters	0	10	10	1
Blue-Collar Empty Nesters	0	10	10	1
Small-Town Seniors	10	0	10	1
Back-Country Seniors	10	0	10	1
Subtotal:	170	300	470	47

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Single-Family Attached For Sale
Orleans Parish, Louisiana

Traditional & Non-Traditional Families	<i>Below Market-Rate† SF Attached</i>	<i>Market-Rate† SF Attached</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
Full-Nest Urbanites	10	90	100	10
Multi-Cultural Families	10	40	50	5
Inner-City Families	40	0	40	4
Single-Parent Families	30	10	40	4
<i>Small Cities/Satellite Cities</i>				
Unibox Transferees	0	50	50	5
Multi-Ethnic Families	10	60	70	7
In-Town Families	100	10	110	11
<i>Metropolitan Suburbs</i>				
Nouveau Money	0	10	10	1
Late-Nest Suburbanites	0	20	20	2
Full-Nest Suburbanites	0	30	30	3
Blue-Collar Button-Downs	20	70	90	9
Working-Class Families	10	10	20	2
<i>Town & Country/Exurbs</i>				
Full-Nest Exurbanites	0	10	10	1
New-Town Families	0	20	20	2
Small-Town Families	0	10	10	1
Kids 'r' Us	10	10	20	2
Rustic Families	10	0	10	1
Subsistence Families	40	10	50	5
Subtotal:	290	460	750	75

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Single-Family Attached For Sale
Orleans Parish, Louisiana

Younger Singles & Couples	<i>Below Market-Rate† SF Attached</i>	<i>Market-Rate† SF Attached</i>	<i>Total</i>	<i>10% Capture</i>
<i>Metropolitan Cities</i>				
e-Types	0	90	90	9
New Bohemians	20	120	140	14
Urban Achievers	50	100	150	15
<i>Small Cities/Satellite Cities</i>				
The VIPs	10	70	80	8
Twentysomethings	20	60	80	8
Small-City Singles	30	40	70	7
Blue-Collar Singles	50	30	80	8
Soul City Singles	10	0	10	1
<i>Metropolitan Suburbs</i>				
The Entrepreneurs	0	40	40	4
Fast-Track Professionals	0	20	20	2
Upscale Suburban Couples	0	40	40	4
No-Nest Suburbanites	0	20	20	2
Suburban Achievers	30	60	90	9
Working-Class Singles	20	10	30	3
<i>Town & Country/Exurbs</i>				
Ex-Urban Power Couples	0	20	20	2
Cross-Training Couples	0	20	20	2
Exurban Suburbanites	0	10	10	1
Country Couples	10	10	20	2
Small Town Singles	20	10	30	3
Rural Singles	20	0	20	2
Subtotal:	290	770	1,060	106
Total Households:	750	1,530	2,280	228
Percent of Total:	32.9%	67.1%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Based on the target household mix (*listed on Table 6*) and incomes of the target groups, the distribution by price range (including affordable as well as market-rate) of the 455 urban detached houses that could be absorbed each year (at 10 percent market capture) over the next five years in the City of New Orleans is as follows:

Urban Single-Family Distribution by Price Range
City of New Orleans, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$50,000–\$100,000	44	9.7%
\$100,000–\$150,000	65	14.3%
\$150,000–\$200,000	72	15.8%
\$200,000–\$250,000	74	16.3%
\$250,000–\$300,000	72	15.8%
\$300,000–\$350,000	68	14.9%
\$350,000 and up	<u>60</u>	<u>13.2%</u>
Total:	455	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Potential Market For New Urban Single-Family Detached For Sale
Orleans Parish, Louisiana

Empty Nesters & Retirees	<i>Below</i> <u>Market-Rate† SF Attached</u>	<u>Market-Rate† SF Attached</u>	<u>Total</u>	<u>10% Capture</u>
<i>Metropolitan Cities</i>				
Urban Establishment	30	110	140	14
Cosmopolitan Couples	20	30	50	5
Multi-Ethnic Retirees	10	10	20	2
Downtown Retirees	20	10	30	3
Multi-Ethnic Seniors	10	0	10	1
<i>Small Cities/Satellite Cities</i>				
Cosmopolitan Elite	10	20	30	3
Middle-Class Move-Downs	50	40	90	9
Blue-Collar Retirees	50	20	70	7
Hometown Retirees	20	10	30	3
Second City Seniors	40	10	50	5
<i>Metropolitan Suburbs</i>				
Old Money	0	60	60	6
Affluent Empty Nesters	0	10	10	1
Suburban Establishment	0	20	20	2
Middle-American Retirees	30	30	60	6
Suburban Retirees	40	10	50	5
Suburban Seniors	50	10	60	6
<i>Town & Country/Exurbs</i>				
Small-Town Establishment	0	30	30	3
New Empty Nesters	20	50	70	7
RV Retirees	30	30	60	6
Blue-Collar Empty Nesters	50	70	120	12
Heartland Empty Nesters	30	10	40	4
Small-Town Seniors	30	20	50	5
Back-Country Seniors	30	10	40	4
Rural Seniors	20	10	30	3
Back-Country Seniors	30	0	30	3
Subtotal:	620	630	1,250	125

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Urban Single-Family Detached For Sale
Orleans Parish, Louisiana

Traditional & Non-Traditional Families	<i>Below Market-Rate† SF Attached</i>	<i>Market-Rate† SF Attached</i>	<i>Total</i>	<i>10% Capture</i>
Metropolitan Cities				
Full-Nest Urbanites	50	120	170	17
Multi-Cultural Families	70	30	100	10
Inner-City Families	30	10	40	4
Single-Parent Families	10	0	10	1
Small Cities/Satellite Cities				
Unibox Transferees	40	130	170	17
Multi-Ethnic Families	100	100	200	20
In-Town Families	130	40	170	17
Metropolitan Suburbs				
TheSocial Register	0	40	40	4
Nouveau Money	0	60	60	6
Late-Nest Suburbanites	20	70	90	9
Full-Nest Suburbanites	30	80	110	11
Blue-Collar Button-Downs	80	80	160	16
Working-Class Families	30	10	40	4
Town & Country/Exurbs				
Ex-Urban Elite	0	100	100	10
Full-Nest Exurbanites	0	70	70	7
New-Town Families	30	70	100	10
Small-Town Families	30	40	70	7
Kids 'r' Us	60	20	80	8
Rustic Families	90	30	120	12
Subsistence Families	70	10	80	8
Subtotal:	870	1,110	1,980	198

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

Potential Market For New Urban Single-Family Detached For Sale
Orleans Parish, Louisiana

Younger Singles & Couples	<i>Below</i> <u>Market-Rate† SF Attached</u>	<u>Market-Rate† SF Attached</u>	<u>Total</u>	<u>10% Capture</u>
<i>Metropolitan Cities</i>				
e-Types	10	30	40	4
New Bohemians	10	10	20	2
Urban Achievers	10	0	10	1
<i>Small Cities/Satellite Cities</i>				
The VIPs	20	150	170	17
Twentysomethings	50	50	100	10
Small-City Singles	60	30	90	9
Blue-Collar Singles	120	30	150	15
Soul City Singles	20	0	20	2
<i>Metropolitan Suburbs</i>				
The Entrepreneurs	10	90	100	10
Fast-Track Professionals	0	20	20	2
Upscale Suburban Couples	20	50	70	7
No-Nest Suburbanites	30	10	40	4
Suburban Achievers	40	50	90	9
Working-Class Singles	50	10	60	6
<i>Town & Country/Exurbs</i>				
Ex-Urban Power Couples	0	60	60	6
Cross-Training Couples	20	30	50	5
Exurban Suburbanites	30	20	50	5
Country Couples	50	20	70	7
Small Town Singles	50	10	60	6
Rural Singles	40	10	50	5
Subtotal:	640	680	1,320	132
Total Households:	2,130	2,420	4,550	455
Percent of Total:	46.8%	53.2%	100.0%	

† Market rate is defined as affordable to households with incomes above 80 percent of the New Orleans AMFI (Area Median Family Income), which is \$59,800 for a family of four in 2008.

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

METHODOLOGY

The delineation of the draw areas for housing within the City of New Orleans was based on historic settlement patterns, migration trends for the city, and other market dynamics.

The evaluation of market potential for the city was derived from 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 are provided in a separate volume.

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 have moved, and are likely to move to the City of New Orleans. These data are maintained at the county and “county equivalent” level by the Internal Revenue Service and provide a clear representation of mobility patterns.

Appendix One, Table 1. **Migration Trends**

Analysis of Orleans Parish (City of New Orleans) migration and mobility patterns from 2002 through 2006—the latest data available from the Internal Revenue Service—shows that, prior to Hurricane Katrina, the trend of household loss from net out-migration had already been well established. The number of households moving into the parish had varied only slightly, ranging between approximately 9,300 to more than 9,500 households per year between 2002 and 2004.

Over the same period, the number of households that moved out of the parish ranged from a low of 11,145 households in 2002 to more than 11,800 households in 2004. Net household losses experienced by New Orleans due to out-migration over the study period thus ranged between just under 1,600 households in 2002 to more than 2,500 households in 2004.

In 2005, the year of Hurricane Katrina, nearly 67,800 households left New Orleans. With fewer than 4,900 households moving to the city, the net loss that year exceeded 62,900 households. In 2006, the first year of recovery, more than 18,400 households returned to the city. However, since 10,700 households also left over the course of that year, the net gain was just over 7,700 households, the first net household gain in several years.

NOTE: Although net migration provides insights into the city's historic ability to attract or retain households compared to other locations, it is those households likely to move into the city (gross in-migration) that represent the city's external market potential.

Based on the migration data, then, the draw areas for new and existing housing units in the City of New Orleans have been delineated as follows:

- The local (internal) draw area, covering households that currently live within the New Orleans city limits.
- The regional draw area, covering households with the potential to move to the City of New Orleans from Jefferson, St. Tammany, and St. Bernard Parishes.
- The Baton Rouge draw area, covering households with the potential to move to the City of New Orleans from East Baton Rouge Parish.
- The Louisiana draw area, covering households with the potential to move to the City of New Orleans from the balance of the State of Louisiana.
- The national draw area, covering households with the potential to move to the City of New Orleans from all other U.S. parishes and counties.

Migration Methodology:

County-to-county (or parish-to-parish) 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 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. An appendix containing detailed descriptions of each of these target market groups is provided along with the study.

Appendix One, Tables 2A and 2B.

Target Market Classification

Just under 51 percent, or 62,035 households, of the approximately 120,500 households that lived in the City of Orleans in 2008 had the capacity to rent or buy market-rate housing. Median income in 2008 was \$35,800, approximately 30 percent lower than the national median. Median housing value within the city was \$178,200, just slightly below the national median. Over 46 percent of New Orleans' "market-rate" households were classified as younger singles and couples, another 31.6 percent were empty nesters and retirees, and the remaining 22.3 percent were traditional and non-traditional families. (*See Appendix One, Table 2A.*)

The remaining 59,465 households living in New Orleans in 2008 were in target market groups in which a considerably smaller percentage of households are able to qualify for market-rate housing. Of these households, more than 55 percent can be characterized as empty nesters and retirees, 32.9 percent are traditional and non-traditional families, and just 11.7 percent are younger singles and couples. (*See Appendix One, Table 2B.*)

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM NE 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. The most affluent of the 41 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; wealth and housing equity; 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 NEW ORLEANS
(MOBILITY ANALYSIS)—**

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to move within and to the City of New Orleans in 2009. The total number from each parish/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 3 A and 3B.

Internal Mobility (Households with the Potential to Move Within the City of New Orleans)—

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 with the potential to 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 13,150 households (6,550 households in groups with median incomes above \$50,000 and 6,600 households in groups with median incomes below \$50,000) living in the City of New Orleans would be likely to move from one residence to another within the city in a given year.

Appendix One, Tables 4A and 4B through 7A and 7B; Appendix Two, Tables 1A and 1B through 3A and 3B.

External Mobility (Households Moving To the City of New Orleans from Outside New Orleans)—

These tables determine the number of households in each target market group living in each draw area parish/county that are likely to move to the City of New Orleans (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

Appendix One, Tables 8A and 8B.
Market Potential for the City of New Orleans—

Appendix One, Tables 8A and 8B summarize Appendix One, Tables 4A and 4B through 7A and 7B. The numbers in the Total column on page one of this table indicate the depth and breadth of the potential market for new and existing market-rate dwelling units in the City of New Orleans originating from households that are currently living, in the draw areas. Up to 23,200 households with the potential to move within or to the City of New Orleans in 2009. Younger singles and couples would be likely to account for 37.3 percent of these households (in 13 market groups); another 34.6 percent would be likely to be traditional and non-traditional families (in 15 groups); and 28.1 percent are likely to be empty nesters and retirees (in 13 groups).

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

Market Potential by Draw Area
City of New Orleans, Louisiana

City of New Orleans (Local Draw Area):	56.7%
Regional Draw Area:	16.8%
Baton Rouge Draw Area:	1.3%
Louisiana Draw Area:	3.7%
Balance of US (National Draw Area):	<u>21.5%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

Of the 23,200 households that represent the market for new and existing market-rate and affordable housing units in the City of New Orleans, 12,850 households are in groups with median incomes above \$50,000, giving most of them the capacity to rent or buy market-rate housing. Nearly 65 percent of these households can be classified as younger singles and couples (as characterized within 11 of Zimmerman/Volk Associates' target market groups), 23 percent are traditional and non-traditional families (in 13 groups), and 12.2 percent are empty nesters and retirees (in 14 groups). (See Appendix One, Table 8A.)

The remaining 10,350 households are in groups with median incomes below \$50,000, with a significant percentage of these households requiring housing finance assistance. Approximately 44 percent can be classified as traditional and non-traditional families (in seven target market groups), 32.7 percent are younger singles and couples (in six groups), and another 23.6 percent are empty nesters and retirees (in 12 groups). (*See Appendix One, Table 8B.*)

The 23,200 draw area households that have the potential to rent or buy new or existing housing units in the city have been categorized by tenure propensities to determine renter/owner ratios. (*See Appendix One, Tables 9A through 11.*)

Approximately 76 percent (4,340 households) of 12,850 households in groups with median incomes above \$50,000 comprise the potential market for market-rate rental housing. Another 24 percent (1,400 households) have incomes insufficient to support market-rate rents. (*See Appendix One, Table 9A.*) Up to 7,110 households comprise the market for new or existing market-rate ownership housing units in the city.

Of the 7,110 households in groups with median incomes above \$50,000 that represent the market for new and existing ownership housing, 33.5 percent (2,380 households) comprise the market for all ranges of multi-family ownership (condominium or cooperative) units. Another 22.8 percent (also 1,620 households) comprise the market for all ranges of attached single-family (rowhouse or duplex) units; 14.2 percent, or 1,010 households, comprise the market for low-range single-family detached for-sale units; 18.2 percent, or 1,300 households, comprise the market for mid-range single-family detached for-sale units; and 11.3 percent (800 households) represent the market for high-range single-family detached for-sale units. (*See Appendix One, Table 9B.*)

Of the 10,350 households in groups with median incomes below \$50,000, two thirds, or 6,980 households, comprise the potential market for rental units. Of these, 4,400 households lack the financial capacity to lease units at the rent levels required to support market-rate housing. Over 12 percent of the 10,350 households (or 1,270 households) comprise the market for all

ranges of multi-family ownership (condominium or cooperative) units. Another 6.4 percent (660 households) comprise the market for all ranges of attached single-family (rowhouse or duplex) units. Nearly 11 percent (1,120 households) would require financial assistance to purchase market-rate single-family detached houses, and the remaining 3.1 percent (320 households) have the financial capacity to purchase market-rate single-family detached houses without assistance. (See Appendix One, Table 10.)

In aggregate, the housing preferences of the 23,200 draw area households with the potential to lease or purchase new or existing housing units in the City of New Orleans this year—based on tenure (rental/ownership) choices and financial capacity—are as follows: (See also Appendix One, Table 11.)

Annual Potential Housing Market
City of New Orleans, Louisiana

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT
Multi-Family Rental Units	12,720	54.8%
Below 80% AMI*	5,800	25.0%
Market-Rate *	6,920	29.8%
Multi-Family Ownership Units (All Price Ranges)	3,650	15.8%
Single-Family Attached Units (All Price Ranges)	2,280	9.8%
Single-Family Detached Units	4,550	19.6%
Below 80% AMI*	2,130	9.2%
Market-Rate *	<u>2,420</u>	<u>10.4%</u>
Total:	23,200	100.0%

† Market rate is defined as affordable to households with incomes no less than 80 percent of the New Orleans Area Median Family Income (AMI), in 2008, of \$59,800 for a family of four.

SOURCE: Zimmerman/Volk Associates, Inc., 2009.

—Target Market Data—

Target market data are based on the Claritas PRIZM NE household clustering 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 18 years, Zimmerman/Volk Associates has augmented the PRIZM cluster system 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.

POTENTIAL POLICIES AND PROGRAMS

—*Mixed-Income Development*—

A number of states, counties and cities have addressed the issue of affordable housing through what is known as inclusionary zoning policies. These policies take a number of different approaches, but four of the most “successful” in terms of actually getting substantial numbers of affordable housing units built, are in Montgomery County, Maryland, the State of New Jersey, the City of Boston, and the City of Sacramento, California.

Montgomery County requires that at least 12 to 15 percent of the dwelling units proposed for a new development of 50 or more units be affordable, which the County defines as 60 percent of the area median income.

The State of New Jersey requires that each municipality provides its “fair share” of affordable housing, as determined by the Council on Affordable Housing (COAH). The individual municipality can achieve its fair share in a variety of ways:

- By loans to residents to create accessory apartments affordable to low-income households;
- By developing and building the required number of units;
- By paying a per-unit amount of dollars, determined by COAH, to another New Jersey municipality that has a high proportion of residents living in substandard dwelling units; or
- By providing those units within new projects, through density bonuses to the developer.

The City of Boston’s program, Leading The Way II, provides affordable housing across a broad spectrum, ranging from single-room occupancy housing for the homeless to “middle-class” housing units. Under this program, no more than 25 percent of the affordable units would be reserved for households with incomes between 80 and 120 percent of the Area Median Family Income, or AMFI, (appropriate for this high housing cost area), and these units had to be provided, without use of public funds, through the Inclusionary Development

Policy. At least 75 percent of the affordable units had to be available to households earning less than 80 percent of the AMFI. (As of March 2008, the Boston AMFI was calculated at \$85,800, more than 43 percent higher than the New Orleans AMFI of \$59,800. Boston's median household income is estimated at \$49,300, nearly 38 percent higher than New Orleans' median household income of \$35,800.)

The City of Sacramento adopted a Mixed Income Housing Policy in 2000. All housing types—multi-family, single-family attached and detached—and both rental and for-sale development in projects of 10 or more units are subject to the obligations of the ordinance, which include both a low-income obligation, where five percent of the total units must be affordable to households with annual gross incomes below 80 percent of the area median income, adjusted for household size, and a very low income obligation, where 10 percent of the total units must be affordable to households with annual gross incomes below 50 percent of the area median income. Inclusionary housing units are required to be disbursed throughout the development, and should not be a separate product apart from the overall development. (It is worth noting that the Sacramento qualification is much more stringent than other programs, due to the inclusion of very low-income units—at 50 percent of household-size-adjusted AMFI.)

Incentives to offset the cost of providing the inclusionary housing units include fee waivers or deferrals, priority processing for building and planning approvals, unit size reductions to reduce development costs, and density bonuses. The City may also provide \$4,000 per unit in fee reductions for very low-income units (below 50 percent of the AMFI) and \$1,000 per unit for low-income units (below 80 percent of the AMFI), depending on availability of funding.

—Double Bottom-Line Fund—

The double bottom-line fund is an investment fund designed to produce both acceptable financial returns to the investors and measurable social returns to the community, hence, the “double bottom-line.” Investors in these funds include banks, pension funds, business associations, and high net-worth individuals. The double bottom-line real estate equity fund first emerged as an investment and redevelopment tool in the 1990s, and was established as a

significant funding resource in 2002 with the founding of the Bay Area Smart Growth Fund. This fund was sponsored by the Bay Area Council, with a membership of more than 275 businesses, and was chartered to invest in commercial and residential opportunities with the potential for measurable impact in 46 targeted communities in the Bay Area.

The social objectives of most double bottom-line funds include affordable housing, public transportation, crime reduction, job creation, the provision of previously-unavailable community services, and commercial office space for small business tenants and non-profits. In a survey published in 2003 by the Research Initiative on Social Entrepreneurship (RISE), a project of the Columbia Business School, the estimated internal rates of return of 36 funds that responded to a RISE survey ranged from a negative IRR of under 10 percent to positive returns of more than 50 percent; the more typical IRR ranged between seven and 15 percent.

—*“Live Near Your Work”*—

In order to increase homeownership opportunities, many cities have, in collaboration with local employers, universities, and medical institutions, created employer-assisted housing benefit plans for employees. Through these initiatives, employers provide eligible employees with a forgivable loan of a set amount—typically between \$2,000 and \$15,000, depending on local housing costs—as well as housing information and education, and innovative financing options. These initiatives are designed to promote urban revitalization by targeting dwelling units in the downtowns and in-town neighborhoods. This program has been highly successful in Baltimore, where more than 90 employers participate, and more than 2,100 families have benefited since the program’s inception in 1997.

In Seattle, the City and Washington State have created the House Key Plus Seattle program, which offers first-time buyers loans at below-market interest rates. Since its start in 2004, the program has provided 71 homebuyers, with incomes no more than 80 percent of the area median income, an average assistance of more than \$40,700.

And in Lancaster, Pennsylvania, Franklin & Marshall College offers three employer-assisted housing benefit plans for employees through its City Life neighborhood housing program:

Mortgage Guarantee, Settlement Assistance and Curb Appeal. These range from the College acting as a mortgage insurer, to deferred payment loans for down payments, closing costs, and interior and exterior home improvements; these programs apply to buildings located within a defined area adjacent to the campus. To date, 23 employees have purchased homes using Settlement Assistance, and 19 employees have participated in the Curb Appeal program.



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ASSUMPTIONS AND LIMITATIONS—

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

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

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



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Research & Strategic Analysis

RIGHTS AND STUDY OWNERSHIP—

Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the methodology and target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

