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Research & Strategic Analysis

EXECUTIVE SUMMARY

UPDATE: RESIDENTIAL MARKET POTENTIAL

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

March, 2011

The purpose of this study is to re-examine the market potential for newly-introduced market-rate housing units—created both through adaptive re-use of existing non-residential buildings as well as through new construction—that could be leased or sold in the Downtown Lafayette Study Area. The original Downtown study was published in May, 2006.

The depth and breadth of the potential market have been updated using Zimmerman/Volk Associates' proprietary target market methodology. The target market methodology is particularly effective in defining housing potential because it encompasses not only basic demographic characteristics, such as income qualification and age, but also less-frequently analyzed attributes such as mobility rates, lifestyle patterns and household compatibility issues.

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

- Where the potential renters and buyers for new and existing housing units in the City of Lafayette and the Downtown Lafayette Study Area are likely to move from (the draw areas);
 - How many have the potential to move to the Downtown 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);
 - Who is the potential market for new housing in the Study Area (the target markets);
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- What their alternatives are (new construction or adaptive re-use of existing buildings in the Lafayette market area);
- What they will pay to live in the Downtown Lafayette Study Area (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (market capture/absorption forecasts over the next five years).

MARKET POTENTIAL

The remarkable transformation of American households (particularly the emerging predominance of one- and two-person households) over the past decade, combined with steadily increasing traffic congestion and rising gasoline prices, has resulted in significant changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-density suburbs to a diverse mix of detached houses, attached houses and higher-density apartments in downtowns and walkable, mixed-use traditional neighborhoods. This fundamental transformation of American households is likely to continue for several decades, representing an unprecedented demographic foundation on which cities can re-build their downtowns and in-town neighborhoods.

From the market perspective, considerable demand continues to exist for Downtown housing, both new construction and adaptive re-use of existing buildings. As determined by this analysis, there has been a significant increase in the size of the annual market potential for new higher-density market-rate housing units from 1,760 households in 2006 to 2,190 households in 2011, and considerable changes in the type of housing that best matches target household preferences. As a share of the market, market-rate multi-family for-rent has risen from 44.2 percent in 2006 to nearly 52 percent in 2011; multi-family for-sale (condominium) units now represent just over 29 percent of the market (down from 32.4 percent in 2006); and single-family attached for-sale (townhouses) comprise 19.2 percent of the market, down from 23.4 percent in 2006.

Over 56 percent of these 2,190 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

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region, including East Baton Rouge Parish (10.1 percent), or from elsewhere in the nation (33.3 percent).

The household groups that comprise the potential market are:

- Younger singles and childless couples—At 65 percent, younger singles and couples make up by far the largest share of the market for all housing types, a significant increase since 2006, when this segment represented 59 percent of the market. This increase is due to the greater number and share of younger people now living in the city, who have either stayed in the city after graduation from the University of Louisiana at Lafayette or have moved to the city because of increasing employment opportunities.;
- Empty nesters and retirees—At 28 percent, older households continue to be the second largest potential market for downtown housing, and a third of them are currently living in Lafayette's older neighborhoods and suburbs.
- Traditional and non-traditional families—Family-oriented households continue to decline as a percentage of the potential market, from 12 percent in 2006, to seven percent in 2011.

A number of new, larger rental properties have opened in the Lafayette market area since the 2006 study; two are additions to River Ranch, the traditional neighborhood development located to the south of the Vermilion River.

Rents at most of the properties included in the 2006 survey and updated in 2010 have generally increased by just under one percent to nearly 17 percent, depending on size of unit and unit configuration. For the most part, the smallest units (one-bedrooms) have experienced the greatest escalation, and the largest units (two- and three-bedrooms) have experienced the lowest, or even no escalation.

Rents for one-bedroom apartments now generally start at \$600 per month, with the highest one-bedroom rent at \$975, with unit sizes ranging between approximately 535 square feet to nearly

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1,140 square feet, or \$0.85 to \$1.47 per square foot. Two-bedroom units currently start at around \$700, with unit sizes ranging between 825 and nearly 1,750 square feet (generally \$0.79 to \$1.29 per square foot in 2010). Rents for three-bedroom units currently generally start at just under \$1,000 per month, for approximately 1,100 square feet of living space, with the highest three-bedroom rent at \$1,895 per month for 1,375 square feet. The rent-per-square-foot for three-bedrooms included in both surveys is from \$0.88 to \$1.06.

Occupancy rates continue to be very high, ranging between 95 and 100 percent (functional full occupancy).

Nearly all of the new condominiums currently on the market in Lafayette are located in River Ranch, ranging from the MainStreet Condominiums, with base prices between \$139,000 to \$252,800 to the Carriage House Condominiums, where base prices range between \$336,400 to \$836,600. New townhouses are available at Olde Towne at Millcreek, priced between \$199,900 and \$333,500, and at the Warehouse District Lofts, priced at \$260,000 and \$265,000.

The total number of new and existing units sold in Lafayette Parish rose between 2005 and 2007, from 2,535 units to 2,684 units. With the collapse of the national housing market in 2008, the for-sale market in the Parish was also adversely affected, with the number of sales in that year falling to 2,281 units. Although the number of sales declined only slightly in 2009 and 2010, the number of units on the market continued to rise. By the end of 2010, there was a six-and-a-half months' supply of units on the market, close to double the three-and-a-half months' supply in 2005, and 25 to 30 percent higher than the four to five months' supply that is considered average for the market. Since 2005, there have been considerably more sellers than buyers in the Lafayette market area.

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From the perspective of the housing consumer, the three major challenges to new residential development in the Downtown Lafayette Study area include:

- High costs: The high costs of land and site assembly, buildings, materials and labor, in addition to the typically high cost of adaptive re-use, are, without incentives or subsidies, likely to drive rents and prices beyond the reach of many potential residents.
- Financing challenges: Restrictive mortgage underwriting and development finance continues to be a challenge to developers and mortgages are still difficult to obtain for potential buyers.
- Neglected or vacant properties: Vacant properties and empty lots are a deterrent to potential urban residents, as they contribute to the perception that downtown and the surrounding areas are neglected, and/or dangerous neighborhoods.

From the perspective of the housing consumer, the existing assets of the Downtown Lafayette Study Area that make it an attractive place to live continue to include:

- Downtown continues to be a significant regional employment center, with strong connections to the University of Louisiana and the Oil Center.
- Nearly all the cultural venues of the region are located in Downtown.
- Parc International and Parc Sans Souci continue to be central gathering places for city residents.
- The Downtown is very walkable, with a variety of amenities located within short walking distances, including restaurants and bars, galleries and shops, schools and churches.
- The historic buildings located in Downtown.
- Because of its location in the citywide and regional transportation and arterial network, Downtown is a convenient and highly accessible neighborhood.
- Fiber networks and broadband services are available.

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The appropriate urban housing types and general rent/price ranges and unit sizes that could currently be sustained by the market are as follows:

**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 *	\$650–\$1,350/month	600–1,200 sf	\$1.08–\$1.13 psf
Soft Lofts †	\$800–\$1,500/month	650–1,250 sf	\$1.20–\$1.23 psf
Luxury Apartments	\$1,100–\$1,800/month	800–1,400 sf	\$1.29–\$1.38 psf
FOR-SALE—			
Hard Lofts *	\$125,000–\$235,000	650–1,250 sf	\$188–\$192 psf
Soft Lofts †	\$150,000–\$285,000	750–1,450 sf	\$197–\$200 psf
Luxury Condominiums	\$300,000–\$475,000	1,100–1,800 sf	\$264–\$273 psf
Townhouses/Rowhouses	\$225,000–\$325,000	1,300–1,950 sf	\$167–\$173 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.

The above rents and prices are in year 2011 dollars, are exclusive of consumer options and upgrades, or floor or location premiums, and cover the broad range of rents and prices that could, in normal economic conditions, be sustained by the market in the Downtown Lafayette Study Area.

After more than two decades’ experience in scores of cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that, over the near term, those households that prefer new construction, rather than previously lived-in units, currently represent 15 percent of the potential rental market, and between five and 10 percent of the potential for-sale market, given the production of appropriately-positioned new housing. (Until the collapse of the housing market in the fall of 2008, newly-constructed dwelling units

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comprised approximately 15 percent of all units sold in the nation.) However, due to the uncertain timing of a mortgage and housing market recovery, short-term absorption projections (market capture) of the for-sale units could be lower than the annual number of units described below.

Based on a 15 percent capture of the potential market for new rental housing, and a five to 10 percent capture of the potential market for new for-sale housing units, the Downtown Lafayette Study area should be able to support up to 223 new market-rate housing units per year over the short term (next two to three years) and up to 276 units per year in the longer term (three to five years), as follows:

Annual Capture of Market Potential
THE 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)	1,130	15%	170
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	640	5% to 10%	32 to 64
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>420</u>	5% to 10%	<u>21 to 42</u>
Total	2,190		223 to 276

The distribution by rent range of the 170 new rental lofts and apartments that could be absorbed per year over the next five years in the Downtown Lafayette Study Area is as follows:

Loft/Apartment Distribution by Rent Range
THE DOWNTOWN LAFAYETTE STUDY AREA
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MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$500–\$750	24	14.2%
\$750–\$1,000	45	26.5%
\$1,000–\$1,250	31	17.7%
\$1,250–\$1,500	27	15.9%
\$1,500–\$1,750	22	13.3%
\$1,750 and up	<u>21</u>	<u>12.4%</u>
Total:	170	100.0%

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The distribution by price range of the 32 to 64 market-rate for-sale lofts and apartments that could be absorbed per year over the next five years in the Downtown Lafayette Study Area is as follows:

Loft/Apartment Distribution by Price Range
THE DOWNTOWN LAFAYETTE STUDY AREA
City of Lafayette, Lafayette Parish, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$100,000–\$150,000	2 to 4	7.8%
\$150,000–\$200,000	5 to 10	14.1%
\$200,000–\$250,000	7 to 14	20.3%
\$250,000–\$300,000	6 to 12	18.8%
\$300,000–\$350,000	5 to 10	15.6%
\$350,000–\$400,000	5 to 10	14.1%
\$400,000 and up	<u>2 to 4</u>	<u>9.3%</u>
Total:	32 to 64	100.0%

Finally, the distribution by price range of the 21 to 42 market-rate townhouses/rowhouses that could be absorbed per year over the next five years in the Downtown Lafayette Study Area is as follows:

Townhouse/Rowhouse Distribution by Price Range
THE DOWNTOWN LAFAYETTE STUDY AREA
City of Lafayette, Lafayette Parish, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$200,000–\$250,000	8 to 16	38.1%
\$250,000–\$300,000	6 to 12	28.6%
\$300,000–\$350,000	4 to 8	19.0%
\$350,000 and up	<u>3 to 6</u>	<u>14.3%</u>
Total:	21 to 42	100.0%

