AN ANALYSIS

OF

RESIDENTIAL MARKET POTENTIAL

The JOSANA Neighborhood

City of Rochester
Monroe County, New York

November, 2010

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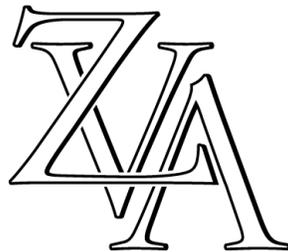
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Research & Strategic Analysis

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AN ANALYSIS

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The City of Rochester, Monroe County, New York

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This study was undertaken to examine the market potential for newly-introduced housing units—created through new construction, as well as the adaptive re-use of suitable existing buildings—that could be leased or sold within the JOSANA Neighborhood in the City of Rochester, New York. This study includes the determination of the market potential for workforce/affordable (affordable to households with annual incomes between 30 and 80 percent of the Rochester Area Median Family Income) as well as market-rate (above 80 percent of AMI) housing units.

The extent and characteristics of the potential market for new and existing housing units within the city and the JOSANA Neighborhood 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.

The current constrained market—characterized throughout most of the United States by significantly reduced housing values; 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. Nationally, financing has also been challenging for rental developers, with the result that few new residential projects, regardless of tenure, are moving 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.

This study therefore determined:

- Where does the potential market for new and existing housing units in the City of Rochester in general, and the JOSANA Neighborhood in specific, currently live (the draw areas);
- How many households represent the market for new housing units in the JOSANA Neighborhood (depth and breadth of the market);
- Who are the households who represent the potential market for the neighborhood (the target markets) and what are their housing preferences (rental or ownership, multi-family or single-family);
- What are their current housing alternatives (relevant new construction or existing rental housing stock in the JOSANA market area);
- What kind of units match target household preferences, and what are achievable rents and prices for new construction in the neighborhood (market position); and
- How many new dwelling units, both income-qualified and market-rate, could be leased or sold annually within the neighborhood (market capture).

OVERVIEW OF THE JOSANA NEIGHBORHOOD_____

The JOSANA Neighborhood's current population of 2,930 persons is projected to decrease by nearly eight percent to 2,700 by 2015. The number of households in the neighborhood is projected to fall even faster, by 8.2 percent, from 995 households in 2010 to 915 households in 2015.

Currently, just over 49 percent of all households that live in the JOSANA Neighborhood contain just one or two persons (compared to 59 percent nationally); 16.6 percent contain three persons, and the remaining 33.9 percent contain four or more persons.

Just 9.1 percent of the neighborhood's households could be characterized as traditional families, e.g., married couples with children under age 18 (compared to 22.5 percent of all U.S. households). Non-traditional family households, headed by single persons with children under 18, represent 40.5 percent of the neighborhood's households. The remaining 50.4 percent of JOSANA households do not have children under 18 and include married couples (8.3 percent), other non-traditional family households (7.9 percent), and 14 percent non-family households.

Median household income in the neighborhood is currently estimated at $20,800; per capita income is just over $9,250.

Just under 30 percent of the neighborhood's current residents are white, 49.3 percent are African-American, 2.2 percent Asian, and the remaining 19.7 percent are some other race or a mix of two or more races. Over 27 percent are Hispanic/Latino by origin, predominantly Puerto Rican.

Just over 6.5 percent of all residents aged 25 or older have a college or advanced degree, 21 points lower than the national share of 27.5 percent.

More than 44 percent of JOSANA's 1,370 housing units are single-family detached houses; 3.5 percent are single-family attached (rowhouses or townhouses); 25.6 percent are two-unit buildings; 22.6 percent are located in buildings of three to 19 units; and 0.5 percent are in buildings of 20 or more units. More than 70 percent of the neighborhood's households are renters; 29.9 percent own their units, a rental percentage comparable to many urban neighborhoods.

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Two-thirds of the dwelling units in the neighborhood were built before 1939; an additional 25 percent were constructed before between 1940 and 1960. The unprecedented real estate escalation in the United States over the past several years has had a minimal impact in Rochester, where the median housing value is currently estimated at $74,900. The median housing value in JOSANA is even lower, at $42,250.

Over 46 percent of JOSANA's households do not own automobiles, and 37 percent own only one vehicle. Just 10 percent own two vehicles. As a result, 14 percent of employed residents over age 16 walk to work, 22 percent take public transportation, 16 percent car-pool, and 41 percent drive alone. The remaining 7.2 percent either work at home (4.4 percent), ride bicycles (0.13 percent), or have other means of getting to work (2.6 percent). Just over a quarter of the neighborhood's residents over age 16 are employed in white-collar occupations, 28.5 percent blue-collar, and 45.7 percent service occupations.

SOURCE: Nielsen Claritas, Inc.; U.S. Census Bureau.

MARKET POTENTIAL_____

Analysis of migration, mobility and geo-demographic characteristics of households currently living within defined draw areas is integral to the determination of the depth and breadth of the potential market for new and existing housing units within the City of Rochester and the JOSANA Neighborhood.

American households, more than any other nation's, have always been extraordinarily mobile. In 2009, approximately 10 percent of American households moved from one dwelling unit to another, which, because of the impact of the recession, is a considerably lower mobility rate than in previous years. In general, household mobility is higher in urban areas; a greater percentage of renters move than owners; and a greater 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 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, supplemented by the American Community Survey), but also incorporate information obtained from real estate brokers, sales and leasing agents and other knowledgeable sources, as well as from field investigation.

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

Analysis of Monroe County migration and mobility patterns from 2003 through 2007—the latest data available from the Internal Revenue Service—shows that three counties adjacent to Monroe County—Wayne, Ontario, and Livingston Counties—together account for approximately 20 percent of Monroe County's in-migration. Even though the county continued to experience net migration losses, in 2007, the county's net migration loss had dropped to less than 1,000 households, from the high of over 2,700 net households in 2004.

Based on the migration data, then, the draw areas for Monroe County, the City of Rochester and the JOSANA Neighborhood have been delineated as follows:

- The <u>local</u> (or internal) draw area, covering households currently living within the Rochester city limits, as well as those currently living in the balance of Monroe County.

- The <u>regional</u> draw area, covering households with the potential to move to the City of Rochester from three adjacent counties—Wayne, Ontario, and Livingston.

- The <u>national</u> draw area, covering households with the potential to move to the City of Rochester from all other U.S. counties.

As derived from migration and mobility analysis, then, the draw area distribution of the potential housing market (those households likely to move both within and to the City of Rochester) would be as follows:

Potential Housing Market by Draw Area
City of Rochester, Monroe County, New York

City of Rochester (Local Draw Area):	55.0%
Balance of Monroe County (Local Draw Area):	31.1%
Wayne/Ontario/Livingston Counties (Regional Draw Area):	2.7%
Balance of US (National Draw Area):	11.2%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Where does the potential market for new and existing housing units in the JOSANA Neighborhood currently live?

The target market methodology identifies those households with a preference for living in downtowns and in-town neighborhoods. Therefore, after discounting for those segments of the city's potential market that would choose other urban neighborhoods or more suburban locations, the distribution of draw area market potential for new and existing market-rate dwelling units within the JOSANA Neighborhood would be as follows:

Potential Housing Market by Draw Area
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

City of Rochester (Local Draw Area):	70.2%
Balance of Monroe County (Local Draw Area):	5.8%
Wayne/Ontario/Livingston Counties (Regional Draw Area):	0.0%
Balance of US (National Draw Area):	24.0%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

How many households represent the market for new housing units in the JOSANA Neighborhood and what are their housing preferences?

As determined by the target market methodology, up to 770 households currently living in the draw areas comprise the annual potential market for new and existing housing units within the JOSANA Neighborhood. The housing preferences of these 770 households—according to tenure (rental or for-sale) and general financial capacity—are detailed as shown on the following page: (*see also* Table 1):

Annual Potential Market
For New and Existing Housing Units
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent*	330	42.8%
Multi-family for-rent†	220	28.6%
(lofts/apartments, leaseholder)		
Multi-family for-sale*	40	5.2%
Multi-family for-sale†	40	5.2%
(lofts/apartments, condo/co-op ownership)		
Single-family attached for-sale*	0	0.0%
Single-family attached for-sale†	20	2.6%
(townhouses/live-work, fee-simple/ condominium ownership)		
Single-family detached for-sale*	60	7.8%
Single-family detached for-sale†	60	7.8%
(houses, fee-simple ownership)		
Total	770	100.0%

* Affordable to households with incomes between 30 and 80 percent of AMI in 2010, calibrated by household size.

† Affordable to households with incomes above 80 percent of AMI in 2010, calibrated by household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Table 1

Annual Potential Market For New Market-Rate And Workforce Housing Units
Distribution Of Draw Area Households With The Potential
To Move To The Neighborhood In 2011
Based On Housing Preferences And Income Levels
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

City of Rochester; Balance of Monroe County;
Wayne, Ontario, and Livingston Counties, New York; All Other US Counties
Draw Areas

Total Target Market Households
With Potential To Rent/Purchase Within
The City of Rochester   19,290

Total Target Market Households
With Potential To Rent/Purchase Within
The JOSANA Neighborhood   770

Annual Market Potential

| . . . . *Multi-Family* . . . . | | | | . . . . *Single-Family* . . . . | | | | |
| . . . . . . *For-Rent* . . . . . . | | . . . . . . *For-Sale* . . . . . . | | . . . . *Attached For-Sale* . . . . | | . . . . *Detached For-Sale* . . . . | | |
30% to 80% AMI	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*	Total
330	220	40	40	0	20	60	60	770
42.8%	28.6%	5.2%	5.2%	0.0%	2.6%	7.8%	7.8%	100.0%

Note: As of May 2010, Rochester MSA Median Family Income for a family of four is $66,600.

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

TARGET MARKET ANALYSIS_____

Who are the households that represent the potential markets for the neighborhood?

The significant transformation of American households (particularly shrinking household size and the predominance of one- and two-person households) over the past decade, combined with steadily increasing traffic congestion and fluctuating gasoline prices, has resulted in important changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-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 for at least the next decade.

This transformation has been spurred by the convergence of the two largest generations in the history of America: the 78 million Baby Boomers born between 1946 and 1964, and the 76 million Millennials, who were born from 1977 to 1996. The convergence of two generations of this size—simultaneously reaching a point when urban housing matches their life stage—is unprecedented.

Based on the target market analysis, the potential market for new housing units within the JOSANA Neighborhood consists of a diverse mix of households. The general market segments for the neighborhood, grouped according to lifestage and housing preferences, include (*see also* Tables 2 *through* 6):

- Traditional and non-traditional family households, of which a significant number are single parents with children (52 percent);
- Younger singles and childless couples—including young office, retail, and service workers (29 percent); and

- Empty nesters and retirees, some with incomes from social security alone, others who also have small pensions or savings, and the remainder who are still working (19 percent).

Table 2

Annual Market Potential By Household Type
Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Neighborhood In 2011
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

		.... Multi-Family				*....... Single-Family ....*			
		...... For-Rent		*...... For-Sale ......*		*.... Attached For-Sale ....*		*Detached For-Sale ...*	
	Total	*30% to 80% AMI*	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*	*30% to 80% AMI*	*Above 80% AMI*
Number of Households:	770	330	220	40	40	0	20	60	60
Empty Nesters & Retirees	19%	12%	23%	0%	0%	0%	0%	17%	50%
Traditional & Non-Traditional Families	52%	67%	32%	75%	25%	0%	100%	83%	33%
Younger Singles & Couples	29%	21%	45%	25%	75%	0%	0%	0%	17%
	100%	100%	100%	100%	100%	0%	100%	100%	100%

Note: As of March 2009, Fort Wayne MSA Median Family Income for a family of four is $63,300.

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

Table 3

Target Groups For New Multi-Family For Rent
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

. . . . . Number of Households . . . . .

Empty Nesters & Retirees	Below Market-Rate† Apts.	Market-Rate† Apts.	Total	Percent of Total
Urban Establishment	0	10	10	1.8%
Cosmopolitan Couples	0	10	10	1.8%
Downtown Retirees	10	10	20	3.6%
Multi-Ethnic Seniors	30	20	50	9.1%
Subtotal:	40	50	90	16.4%

Traditional & Non-Traditional Families				
Full-Nest Urbanites	10	10	20	3.6%
Multi-Cultural Families	30	10	40	7.3%
Inner-City Families	70	20	90	16.4%
Single-Parent Families	110	30	140	25.5%
Subtotal:	220	70	290	52.7%

Younger Singles & Couples	Below Market-Rate† Apts.	Market-Rate† Apts.	Total	Percent of Total
e-Types	0	10	10	1.8%
New Bohemians	10	30	40	7.3%
Urban Achievers	50	50	100	18.2%
Soul City Singles	10	10	20	3.6%
Subtotal:	70	100	170	30.9%
Total Households:	**330**	**220**	**550**	**100.0%**
Percent of Total:	**60.0%**	**40.0%**	**100.0%**	

† Market rate is defined as affordable to households with incomes above 80 percent of the Rochester AMI calibrated by household size.

Table 4

Target Groups For New Multi-Family For Sale
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

. . . . . Number of Households . . . . .

Traditional & Non-Traditional Families	*Below Market-Rate† Apts.*	*Market-Rate† Apts.*	*Total*	*Percent*
Full-Nest Urbanites	0	10	10	12.5%
Multi-Cultural Families	10	0	10	12.5%
Inner-City Families	10	0	10	12.5%
Single-Parent Families	10	0	10	12.5%
Subtotal:	30	10	40	50.0%
Younger Singles & Couples				
e-Types	0	10	10	12.5%
New Bohemians	0	10	10	12.5%
Urban Achievers	10	10	20	25.0%
Subtotal:	10	30	40	50.0%
Total Households:	**40**	**40**	**80**	100.0%
Percent of Total:	**50.0%**	**50.0%**	**100.0%**	

* Market rate is defined as affordable to households with incomes above 80 percent of the Rochester AMI calibrated by household size.

Table 5

Target Groups For New Single-Family Attached For Sale
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

. . . . . Number of Households . . . . .

Traditional & Non-Traditional Families	Below Market-Rate† Apts.	Market-Rate† Apts.	Total	Percent
Full-Nest Urbanites	0	10	10	50.0%
Multi-Cultural Families	0	10	10	50.0%
Subtotal:	0	20	20	100.0%
Total Households:	**0**	**20**	**20**	100.0%
Percent of Total:	**0.0%**	**100.0%**	**100.0%**	

* Market rate is defined as affordable to households with incomes above 80 percent of the Rochester AMI calibrated by household size.

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

Table 6

Target Groups For New Single-Family Detached For Sale
The JOSANA Neighborhood
City of Rochester, Monroe County, New York

. . . . . Number of Households . . . . .

Empty Nesters & Retirees	*Below Market-Rate† SFD*	*Market-Rate† SFD*	*Total*	*Percent of Total*
Urban Establishment	0	20	20	16.7%
Cosmopolitan Couples	0	10	10	8.3%
Multi-Ethnic Retirees	10	0	10	8.3%
Subtotal:	10	30	40	33.3%

Traditional & Non-Traditional Families				
Full-Nest Urbanites	10	10	20	16.7%
Multi-Cultural Families	20	10	30	25.0%
Inner-City Families	10	0	10	8.3%
Single-Parent Families	10	0	10	8.3%
Subtotal:	50	20	70	58.3%

Younger Singles & Couples	*Below Market-Rate† Apts.*	*Market-Rate† Apts.*	*Total*	*Percent of Total*
New Bohemians	0	10	10	8.3%
Subtotal:	0	10	10	8.3%
Total Households:	**60**	**60**	**120**	**100.0%**
Percent of Total:	**50.0%**	**50.0%**	**100.0%**	

† Market rate is defined as affordable to households with incomes above 80 percent of the Rochester AMI calibrated by household size.

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

THE CURRENT CONTEXT_____

What are their current housing alternatives?

In the JOSANA neighborhood, more than 70 percent of the units, including detached houses, are rented, with rents typically below $650 per month. Some of the rental units are well-maintained, but significant numbers are owned by persons or firms located outside Rochester and are in poor condition, or are over-crowded.

Outside of the JOSANA neighborhood, in the High Falls District of Downtown Rochester, the Mills at High Falls is a 67-unit, mixed-income property located on State Street. The property opened in 2009 and was almost fully leased as of June 2010. Fifty-six of the units are income-restricted to households at or below 50 and 60 percent of the Rochester AMI; restricted rents range from $525 for a 752-square-foot one-bedroom, to $640 for a 1,316-square-foot two-bedroom unit. The remaining 11 units are market-rate, targeted to households at 90 percent of AMI, with rents ranging from $825 to $1,090 for the same units. (*See* Table 7.)

In Downtown Rochester, rents start at $575 per month for a 515-square-foot studio at the Michaels-Stern Lofts and are as high as $2,175 per month for a 1,600-square-foot two-bedroom unit at St. Paul's Lofts. In general, rents per square foot range between $0.49 to $0.70 for the tax credit units, and $0.83 to $1.36 for market-rate units. Vacancy rates are extremely low, with all but the St. Paul's Lofts—which opened in June 2009 and has 16 of its 48 units still under construction—and the Kirstein Building—in lease-up with reconfigured units—at no lower than 98 percent occupancy.

Table 7   Page 1 of 2

Summary Of Selected Rental Properties

City of Rochester, Monroe County, New York

June, 2010

Property (Date Opened) Address	Number of Units	Unit Type	Reported Base Rent	Reported Unit Size	Rent per Sq. Ft.	Additional Information
		. . . . . *High Falls*				
The Mills at **High Falls (2009)**	**67**	. . . . . *Income-Restricted*				**96% occupancy.**
312 State Street	56	1br/1ba	$525	752	$0.70	**In lease up.**
		2br/2ba	$640	1,316	$0.49	
		. . . . . *Market-Rate*				
	11	1br/1ba	$825	752	$1.10	
		2br/2ba	$1,090	1,316	$0.83	
Parry Building (2007)	**6**					**99% occupancy.**
224 Mill Street		1br/1ba	$1,300 to $1,800	1,100 to 1,700	$1.06 to $1.18	*High speed internet.*
Knowlton Building (2000)	**14**					**100% occupancy.**
69 Cascade Drive		1br/2ba	$1,550	1,450	$1.07	*WiFi.*
		1br/1ba w/den	$2,150	2,000	$1.08	*Indoor parking.*
		. . . . . *St. Paul's Quarter*				
Andrews Building	**18**					**100% occupancy.**
216 Andrews Street			$575 to $895			*High speed internet.*
Michaels-Stern Lofts (2003)	**45**					**100% occupancy.**
1 Pleasant Street		Studio	$575	515	$1.12 to	
		1br/1ba	$725 to $975	745 to 970	$0.97 to $1.01	
		2br/1ba	$1,050 to $1,200	1,030 to 1,270	$1.02 to $0.94	
Cox Building (2005)	**5**					**100% occupancy.**
36 St. Paul Street		1br/1ba	$650	600	$1.08	*High speed internet.*
		2br/1ba	$1,100 to $1,300	1,100 to 1,600	$0.81 to $1.00	*Utilities included.*

Table 7   Page 2 of 2

Summary Of Selected Rental Properties

City of Rochester, Monroe County, New York

June, 2010

Property (Date Opened) Address	Number of Units	Unit Type	Reported Base Rent		Reported Unit Size		Rent per Sq. Ft.		Additional Information

. . . . . St. Paul's Quarter (continued) . . . . . .

Property (Date Opened) Address	Number of Units	Unit Type	Reported Base Rent		Reported Unit Size		Rent per Sq. Ft.		Additional Information
Riverview Lofts (2006)	36								**100% occupancy.**
176 Water Street	25	Studio	$650 to		450 to		$0.84 to		*Wi-Fi access.*
			$700		829		$1.44		*Garage.*
	5	1br/1ba	$745 to		545 to		$1.21 to		
			$925		765		$1.37		
	6	2br/1ba	$950 to		800 to		$1.17 to		
			$1,100		940		$1.19		
Water St Commons (2004)	45								**98% occupancy.**
185 N. Water Street		1br/1ba	$675 to		750		$0.90 to		*High speed internet.*
			$700				$0.93		
		1br/1ba w/den	$745		963		$0.77		
			$780		983		$0.79		
		2br/1ba	$800 to		1,196 to		$0.67 to		
			$1,100		1,300		$0.85		
Smith-Gormley Bldg (1987)	18								**99% occupancy.**
180-82 St. Paul Street			$850 to		1,106		$0.56 to		*Heat included.*
			$1,200		2,150		$0.77		
Kirstein Building (08/10)	30								**In lease-up.**
242 Andrews Stree		Lofts	$900 to		768		$0.93 to		
			$1,400		1,500		$1.17		
St. Paul's Lofts (06/09)	48								**75% occupancy.**
80 St. Paul's Street		1br/1.5ba	$1,250 to		1,185 to		$1.05 to		**In lease up.**
			$2,175		1,600		$1.36		*Fitness center,*
		2br/2ba	$1,700 to		1,449 to		$1.17 to		*high speed internet.*
			$2,175		1,600		$1.36		

. . . . . Cascade District . . . . . .

Property (Date Opened) Address	Number of Units	Unit Type	Reported Base Rent		Reported Unit Size		Rent per Sq. Ft.		Additional Information
Buckingham Commons (2006)	36								**100% occupancy.**
85 Allen Street		1br/1ba	$875 to		730 to		$1.20 to		*Exercise room,*
			$1,200		1,010		$1.19		*high speed internet.*

SOURCE: Zimmerman/Volk Associates, Inc.

There are very few new multi-family (condominium) and single-family attached (townhouse) units for sale in and around Downtown Rochester. Seven of the 19 Carlton Lofts on Capron Street have sold since the property opened for sales in March 2008. Current prices for the two-bedroom, two-bath units range between $249,000 for 1,528 square feet of living space to $429,000 for a 2,272-square-foot apartment. (*See* Table 8.)

Outside the Loop, townhouses are being marketed at three properties: the six-unit Barrington Park on Barrington Street, the six-unit Rowhouses at 100 Union Street, and the three-unit Tudors on East Avenue. All of the units are priced above $535,000; only one of the 15 townhouses had sold at the time of the field investigation. Unit sizes range between just over 1,900 square feet to nearly 3,900 square feet, with prices per square foot falling between $171 and $285.

In May 2009, active listings of single-family houses on the market in the JOSANA Neighborhood and vicinity have asking prices between $12,000 and $35,000. All of these houses were built between 1866 and 1935, with unit sizes starting at just under 700 square feet (for two bedrooms and one bath) to nearly 2,000 square feet (for four bedrooms and two baths). Five have been on the market for more than 160 days. (See Table 9.)

Single-family houses in the neighborhood and vicinity and marketed between 2005 and 2009 through the Multiple Listing Service were sold for prices ranging between $2,000 and $41,900. All of the houses were built prior to 1935, with sizes ranging between just over 825 square feet to nearly 2,100 square feet. Most of the houses sold in less than 90 days, although a few took half a year or more. Habitat has built several houses over the same period, which are sold at approximately $65,000 for 1,400 to 1,500 square feet of living space.

Table 8

Summary Of Selected For-Sale Multi-Family
And Single-Family Attached Developments

City of Rochester, Monroe County, New York

June, 2010

Development (Date Opened) Address	Unit Type	Unit Configuration	Unit Price Range	Unit Size Range	Price Per Sq. Ft.	Total Units	Total Sales (Monthly Average)
		. . . . Inside the Loop					
Carlton Lofts (03/08)						19	7 (0.3)
1 Capron Street	CO	2br/2ba	$249,000 to $429,000	1,528 to 2,272	$163 to $189		
		. . . . Outside the Loop					
Barrington Park (2008)						6	0
85 Barrington	TH	3br/2.5ba	$535,900	2,343	$229		
		3br/2.5ba	$545,900	2,335	$234		
		3br/2.5ba	$615,900	3,052	$202		
		4br/3.5ba	$625,900	3,087	$203		
Rowhouses (2006)						6	1 (0.02)
100 Union Street	TH						
		4br/2.5.5ba	$549,000	1,920	$286		
The Tudors						3	0
1475 East Avenue	TH	2br/2ba	$589,900	2,618	$225		
		3br/2ba	$639,900	2,875	$223		
			$659,900	3,870	$171		

SOURCE: Zimmerman/Volk Associates, Inc.

Table 9

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Summary of Single-Family Resales and Listings

JOSANA Neighborhood Area, City of Rochester, Monroe County, New York

May, 2010

Address	Year Built	Lot Size	Listed Price	Sale Price	Square Feet	Configuration	Days on Market
			. . . . . *Active*				
384 Jay Street	1935	26 x 89	$12,000	n/a	1,212	3br/1ba	56
544 Jay Street	1900	53 x 165	$19,900	n/a	1,953	4br/2ba	16
435 Child Street	1900	50 x 124	$19,900	n/a	1,482	3br/1ba	373
396 Campbell Street	1880	40 x 88	$19,900	n/a	913	2br/1ba	73
145 Campbell Street	1866	33 x 93	$32,900	n/a	1,822	5br/1ba	17
152 Orange Street	1885	50 x 160	$24,900	n/a	1,823	5br/1ba	19
139 Orange Street	1900	23 x 162	$29,900	n/a	1,673	4br/1ba	110
186 Saxton Street	1900	40 x 75	$27,900	n/a	697	2br/1ba	110
25 Walnut Street	1878	35 x 100	$29,000	n/a	1,281	1br/1ba	161
225 Whitney Street	1900	40 x 85	$29,000	n/a	1,157	3br/1ba	161
13 Lime Street	1900	53 x 165	$29,000	n/a	1,857	4br/2ba	247
5 Lasalle Street	1900	36 x 122	$35,000	n/a	1,092	4br/1ba	363

SOURCE: Prudential Discover/Multiple Listing Service;
Zimmerman/Volk Associates, Inc.

Table 9

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Summary of Single-Family Resales and Listings

JOSANA Neighborhood Area, City of Rochester, Monroe County, New York

May, 2010

Address	Year Built	Lot Size	Listed Price	Sale Price	Square Feet	Configuration	Days on Market
. . . . . Sold							
83 Grape Street	1900	40 x 100	$2,550	$2,000	987	1br / 1ba	481
375 Campbell Street	1890	25 x 87	$6,000	$5,750	895	3br / 1ba	20
325 Campbell Street	1860	30 x 90	$12,000	$14,500	954	3br / 1ba	13
199 Campbell Street	1894	33 x 88	$12,900	$11,500	1,148	3br / 1ba	1
199 Campbell Street	1894	33 x 88	$14,500	$12,000	1,148	3br / 1ba	218
396 Campbell Street	1880	40 x 88	$19,900	$17,500	913	2br / 1ba	88
48 Lime Street	1880	33 x 86	$7,900	$5,000	1,030	3br / 1ba	22
83 Lime Street	1885	42 x 161	$25,000	$23,000	1,120	3br / 1ba	
82 Orchard Street	1900	40 x 110	$8,200	$9,000	1,948	4br / 1ba	7
125 Orchard Street	1880	33 x 82	$14,900	$14,500	1,480	3br / 1ba	13
358 Jay Street	1900	50 x 182	$9,900	$7,000	2,062	5br / 2ba	35
313 Jay Street	1900	40 x 163	$14,900	$14,500	1,303	3br / 1ba	13
384 Jay Street	1935	26 x 89	$19,900	$16,000	1,212	3br / 1ba	39
496 Jay Street	1900	25 x 165	$22,900	$18,000	920	3br / 1ba	18
650 Jay Street	1920	42 x 85	$33,900	$31,000	1,612	4br / 1ba	70
523 Jay Street	1910	53 x 105	$43,900	$41,900	1,857	4br / 2ba	68
69 Walnut Street	1930	43 x 100	$9,900	$9,900	1,944	2br / 1ba	34
49 Walnut Street	1900	41 x 100	$13,900	$10,000	1,800	3br / 1ba	64
48 Walnut Street	1900	42 x 50	$19,900	$18,400	1,386	3br / 1ba	15
25 Walnut Street	1878	35 x 100	$29,900	$9,000	1,281	3br / 1ba	77

Table 9

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Summary of Single-Family Resales and Listings

JOSANA Neighborhood Area, City of Rochester, Monroe County, New York

May, 2010

Address	Year Built	Lot Size	Listed Price	Sale Price	Square Feet	Configuration	Days on Market
			. . . . . Sold (continued)				
65 Orange Street	1880	40 x 195	$9,900	$9,900	1,194	4br / 1ba	84
423 Orange Street	1900	40 x 147	$12,000	$10,800	1,633	4br / 1ba	14
325 Orange Street	1900	26 x 130	$14,900	$11,000	828	2br / 1ba	166
180 Orange Street	1910	50 x 163	$15,900	$8,000	1,374	5br / 1ba	
123 Orange Street	1900	40 x 126	$16,000	$15,000	967	2br / 1ba	93
414 Orange Street	1900	25 x 140	$18,900	$11,000	1,028	2br / 1ba	16
322 Orange Street	1910	33 x 140	$19,500	$12,500	1,215	2br / 1ba	229
75 Orange Street	1890	40 x 120	$19,900	$17,500	1,165	3br / 1ba	40
414 Orange Street	1900	25 x 140	$24,000	$24,000	1,028	2br / 1ba	13
213 Orange Street	1851		$24,950	$20,500	950	3br / 2ba	39
16 Kondolf Street	1910	42 x 80	$10,900	$5,000	885	2br / 1ba	10
18 Kondolf Street	1910	42 x 80	$24,900	$20,000	1,623	4br / 1ba	76
189 Whitney Street	1900	38 x 86	$10,900	$10,900	936	3br / 1ba	10
125 Whitney Street	1900	34 x 76	$11,000	$11,000	1,602	3br / 1ba	24
189 Whitney Street	1900	38 x 86	$14,900	$12,000	936	2br / 1ba	13
225 Whitney Street	1900	40 x 85	$29,900	$9,000	1,157	3br / 1ba	77
631 Smith Street	1930		$11,900	$11,000	1,218	3br / 1ba	179
632 Smith Street	1900	32 x 182	$12,000	$12,300	1,001	1br / 1ba	69
595 Smith Street	1875	50 x 182	$24,900	$21,000	1,360	4br / 1ba	31
465 Child Street	1910	38 x 87	$12,000	$10,800	2,080	4br / 1ba	11
500 Child Street	1900	84 x 115	$13,900	$10,000	1,569	3br / 2ba	64
292 Child Street	1860	38 x 88	$24,000	$22,000	1,077	3br / 2ba	32
344 Child Street	1860	39 x 101	$29,900	$9,000	968	3br / 1ba	

SOURCE: Prudential Discover / Multiple Listing Service;
Zimmerman / Volk Associates, Inc.

Table 9

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Summary of Single-Family Resales and Listings

JOSANA Neighborhood Area, City of Rochester, Monroe County, New York

May, 2010

Address	Year Built	Lot Size	Listed Price	Sale Price	Square Feet	Configuration	Days on Market
. . . . . *Sold (continued)*							
272 Saxton Street	1865	40 x 106	$14,900	$14,250	851	2br/1ba	79
325 Saxton Street	1900	35 x 73	$18,000	$17,000	1,400	3br/1ba	53
327 Saxton Street	1890	30 x 73	$24,900	$20,000	1,058	3br/1ba	22
340 Saxton Sstreet	1890	43 x 100	$34,900	$26,500	1,700	3br/1ba	15
795 Broad Street	1880		$31,000	$31,000	1,218	3br/1ba	1
. . . . . *Pending*							
368 Orange Street	1900	47 x 61	$13,000		1,324	2br/1ba	
301 Saxton Street	1930	40 x 107	$24,900		1,392	3br/1ba	

SOURCE: Prudential Discover/Multiple Listing Service;
Zimmerman/Volk Associates, Inc.

JOSANA NEIGHBORHOOD MARKET POSITION_____

*What kind of units match target household preferences, and, from the perspective of the target
markets, what are achievable rents and prices for new construction in the neighborhood?*

At the present time, there are 115 vacant buildings in the JOSANA Neighborhood, and 171
vacant parcels which, combined, comprise more than 28 acres. Many of these parcels/buildings
are located within the LYLAKS Brownfield Opportunity Area, which will require remediation.
Many of the parcels are owned either by the City of Rochester or the Rochester Housing
Authority. As a result, the number of new units that could ultimately be constructed within the
neighborhood is uncertain; this analysis has therefore tested a total number of 250 units,
distributed according to target household preferences, as follows:

Optimum Residential Mix
250 New Housing Units
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

HOUSING TYPE	PERCENT OF TOTAL	NUMBER OF UNITS
Multi-family for-rent*	42.8%	107
Multi-family for-rent†	28.6%	71
(lofts/apartments, leaseholder)		
Multi-family for-sale*	5.2%	13
Multi-family for-sale†	5.2%	13
(lofts/apartments, condo/co-op ownership)		
Single-family attached for-sale*	0.0%	0
Single-family attached for-sale†	2.6%	6
(townhouses/live-work, fee-simple/ condominium ownership)		
Single-family detached for-sale*	7.8%	20
Single-family detached for-sale†	7.8%	20
(houses, fee-simple ownership)		
Total	100.0%	250

* Affordable to households with incomes between 30 and 80 percent of AMI in 2010,
   calibrated by household size.
† Affordable to households with incomes above 80 percent of AMI in 2010, calibrated by
   household size.

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

—UNIT TYPES—

Based on target household preferences, the proposed unit types include soft lofts and apartment flats—in the 83-unit Gardner lofts, in smaller apartment buildings along Broad Street, and in six- to eight-unit mansion buildings on vacant corner locations—rowhouses, and small detached houses.

- <u>Soft</u> <u>Loft</u>: Unit interiors typically have open floorplans, high ceilings and large commercial-style windows, but are fully finished and, where appropriate, have sleeping areas partitioned from the main living area. A soft loft may also contain architectural elements reminiscent of "hard lofts," *e.g.*—exposed ductwork.

- <u>Apartment</u> <u>Flat</u>: Conventionally-finished apartment unit on a single level, with completely-partitioned rooms.

- <u>Townhouse</u>: Similar in form to a conventional suburban townhouse except that the parking pad is located to the rear of the unit and accessed from an alley or auto court. Unlike conventional townhouses, urban townhouses conform to the pattern of streets, typically with shallow front-yard setbacks.

- <u>Detached</u> <u>House</u>: A smaller detached house with a parking pad. The front-yard setback should conform to the context of the block on which it is located.

Based on the socio-economic and lifestyle characteristics of the target households, then, the market-entry base rents and prices for up to 250 newly-developed market-rate and affordable residential units that could currently be sustained by the market is shown as follows (*see also* Table 10):

Optimum Market Position: 250 Dwelling Units
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

NUMBER	HOUSING TYPE	UNIT RENT/PRICE RANGE	UNIT SIZE RANGE	BASE RENT/PRICE PER SQ. FT.
MULTI-FAMILY FOR-RENT—71.4%				
57	Lofts/Apts. *(Income-restricted)*	$450 to $600/mo.	550 to 1,000 sf	$0.60 to $0.82
38	Lofts/Apts. *(Market-rate)*	$650 to $850/mo.	550 to 1,000 sf	$0.85 to $1.18
83	Gardner Lofts *(Mixed-Income)*			
MULTI-FAMILY FOR-SALE—10.4%				
13	Lofts/Apts. *(Income-restricted)*	$40,000 to $50,000	600 to 850 sf	$59 to $67
13	Lofts/Apts *(Market-rate)*	$75,000 to $90,000	650 to 950 sf	$95 to $115
SINGLE-FAMILY ATTACHED FOR-SALE—2.6%				
6	Rowhouses *(Market-rate)*	$95,000 to $110,000	900 to 1,150 sf	$96 to $106
SINGLE-FAMILY DETACHED FOR-SALE—15.6%				
20	Houses *(Income-restricted)*	$65,000	1,400 to 1,500 sf	$43 to $46
20	Houses *(Market-rate)*	$115,000 to $145,000	1,100 to 1,400 sf	$104 to $105

250 Total Units

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Table 10

Optimum Market Position: 250 Units
The JOSANA Neighborhood

The City of Rochester, Monroe County, New York
October, 2010

Percent of Units Number	Housing Type	Unit Configuration	Base Rent/Price Range	Unit Size Range	Base Rent/Price Per Sq. Ft.	Average Annual Absorption
71.4%	**Multi-Family For-Rent**					**48**
57	Lofts/Apts. *{Income-Restricted}*	Studio to 3br/1ba	$450 to $600	550 to 1,000	$0.60 to $0.82	
38	Lofts/Apts. *{Market-Rate}*	Studio to 2br/2ba	$650 to $850	550 to 1,000	$0.85 to $1.18	
83	Lofts/Apts. *{Mixed-Income}*	1 - 3br				
10.4%	**Multi-Family For-Sale**					**6**
13	Lofts/Apts. *{Income-Restricted}*	Studio to 2br/1ba	$40,000 to $50,000	600 to 850	$59 to $67	
13	Lofts/Apts. *{Market-Rate}*	Studio to 2br/1.5ba	$75,000 to $90,000	650 to 950	$95 to $115	
2.6%	**Single-Family Attached For-Sale**					**2**
6	Townhouses *{Market-Rate}*	2br/1.5ba to 2br/2.5ba	$95,000 to $110,000	900 to 1,150	$96 to $106	
15.6%	**Single-Family Attached For-Sale**					**12**
20	Houses *{Income-Restricted}*	3br/1.5ba	$65,000	1,400 to 1,500	$43 to $46	
20	Houses *{Market-Rate}*	2br/2ba to 3br/1.5ba	$115,000 to $145,000	1,100 to 1,400	$104 to $105	
100.0%						**68** including rentals
250 Total Units						**20** excluding rentals

NOTE: Base rents/prices are in year 2010 dollars and do not include premiums, or consumer options or upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

The proposed rents and prices are in year 2010 dollars and are exclusive of consumer-added options or upgrades. The income-restricted units are priced to be affordable to households with incomes that fall between 50 and 80 percent AMI; the market-rate units are priced to be affordable to households with incomes above 80 percent AMI.   Since the foreclosure crisis—nationally and locally—has resulted in part because too many mortgages were issued to households with insufficient capacity to afford them, it is highly recommended that potential buyers of all new units in the neighborhood, both market-rate and affordable, have adequate financial resources. Foreclosures on new houses in JOSANA will only serve to further destabilize the neighborhood.

Rental development, particularly when it includes market-rate as well as affordable units, is the linchpin of urban development and should be introduced to the market as quickly as possible, for several important reasons:

• Rental apartments are required for the establishment of "critical mass," because rentals are absorbed at higher rates than for-sale units.

• Rentals are the fastest way to bring a large number of households to a neighborhood.

• Rentals allow households to experiment with living in an area without the mortgage commitment of home ownership.

• Renters form a pool of potential purchasers of for-sale condominiums, townhouses and detached houses in later phases.

Although there is often the perception that multi-family rentals reduce the value of nearby single-family detached houses, this is not the case in new construction with appropriate site planning. In fact, there is growing academic evidence that new apartment developments may actually increase values of nearby single-family homes by adding choice to an area that is made more attractive through planning and design.

The proposed 83-unit Gardner Lofts on Lyell Avenue will accommodate over 60 percent of the 178 new rental units detailed in the optimum market position. The remaining 95 rental units should be developed in mixed-income, mixed-use buildings—with the potential for retail spaces on the ground floor—on the vacant parking lots along Broad Street across from the Marina Auto Stadium or in smaller mansion apartment buildings on vacant lots on Child Street.

The 26 multi-family for-sale units (condominiums) could be developed in small four- to six-unit mansion buildings on corner vacant lots within the neighborhood. The six townhouses could be developed, in three two-unit buildings or two three-unit buildings, on wider vacant parcels within the neighborhood.

Subsidized houses, targeted to households with incomes between 50 and 80 percent of the AMI, should continue to be developed on lots within close proximity to each other to create a critical mass of higher-value new construction. The values of the owner-occupied houses in the neighborhood are so low that, over the near term at least, subsidized houses represent a significant increase in value over the existing housing stock. However, design guidelines should be established for all new houses in the neighborhood, to allow for a greater diversity of façades and house types. Once both sides of a neighborhood block reach the point where all of the existing units have been upgraded to at least good condition, and most of the vacant lots are occupied by newly-constructed subsidized houses, it should be possible to build and sell two or three "market-rate" houses as long as they are located next to, or across from each other.

Without subsidies or financial incentives, it will be difficult to build new units at the rent and price points outlined above. As the housing stock in the neighborhood continues to improve, and more new units occupy currently vacant lots, rents and prices of new units should begin to rise. The goal will be to reach rent and sales levels that no longer require subsidy.

How many new dwelling units, both income-qualified and market-rate,
could be leased or sold annually within the JOSANA Neighborhood?

After more than 22 years' experience in numerous cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that those households that can afford, and would prefer new construction, rather than existing or renovated units, represent approximately five to 10 percent of the potential 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 represented 15 percent of all units sold in the nation.)

Over the near term, absorption rates could be lower than the annual number of units forecast below due to the uncertain timing of a mortgage and housing market recovery. As noted in the INTRODUCTION, the current constrained market is characterized in many locations by reduced housing prices, high levels of unsold units, high levels of mortgage delinquencies and foreclosures, and restrictive mortgage underwriting and development finance. 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.

Annual absorption for new dwelling units within the JOSANA Neighborhood is forecast as follows:

Annual Average Absorption
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

Multi-family for-rent Lofts/apartments	48 units net of turnover
Multi-family for-sale Lofts/apartments	6 units
Single-family attached for-sale Rowhouses	2 units
Single-family detached for-sale Houses	12 units
Total	68 units

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Based on this analysis, absorption of 250 new dwelling units within the site would likely be achieved within approximately five years, depending on phasing, construction and site constraints,

and <u>barring</u> <u>a</u> <u>long-term</u> <u>continuation</u> <u>of</u> <u>the</u> <u>downturn</u> <u>in</u> <u>the</u> <u>national</u>, <u>regional</u> <u>and</u> <u>local</u> <u>economies</u>,.

These average absorption paces require specific capture rates of those households that, in the year 2011, represent the potential market for each housing type within the neighborhood, as follows:

REQUIRED CAPTURE RATES
Based on Annual Average Absorption
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

HOUSING TYPE	ANNUAL MARKET POTENTIAL (HHS)	ANNUAL AVERAGE ABSORPTION (UNITS)	REQUIRED CAPTURE RATE
Multi-family for-rent Lofts/apartments	550	48	8.7%
Multi-family for-sale Lofts/apartments	80	6	7.5%
Single-family attached for-sale Rowhouses	20	2	10.0%
Single-family detached for-sale Houses	120	12	10.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

From the market perspective, these housing type-specific capture rates of the market for units at the indicated rents and sales prices are reasonable assumptions during recessionary conditions. As the economic environment improves over the next five years, it is likely new construction could begin to capture higher percentages of the annual market potential.

The target market capture rates of the potential purchaser or renter pool 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 by the number of households that have the potential to move to the site 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 property is more precisely defined using target market methodology, a substantially smaller number of households are qualified; as a result, target market capture rates are higher than the more grossly-derived penetration rates. The resulting higher capture rates remain within the range of market feasibility at the indicated rents and sales prices.

METHODOLOGY_____

The technical analysis of market potential for the JOSANA Neighborhood included delineation of the draw areas and physical evaluation of the area and the surrounding context.

The delineation of the draw areas for new and existing housing units within the City of Rochester and the JOSANA Neighborhood was based on the most recent migration data for Monroe County, and incorporating additional data from the 2008 American Community Survey estimates for the City of Rochester, and other market dynamics.

The evaluation of market potential for the JOSANA Neighborhood 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).

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 are likely to move to the City of Rochester. These data are maintained at the county and "county equivalent" level by the Internal Revenue Service and provide a clear representation of mobility patterns. The migration data for the city has been supplemented by mobility data from the 2008 American Community Survey for the City of Rochester.

Appendix One, Table 1.
Migration Trends

Between 2003 and 2007 (the most recent years for which migration data are available), the number of households moving into Monroe County rose steadily from the low of 9,665 households in 2003 to 10,735 households in 2007. Over a quarter of the county's in-migration is from adjacent counties. Wayne, Ontario and Livingston Counties together continue to account for nearly 20 percent of in-migrating households over the study period.

Over the same period, Monroe County continued to sustain net migration losses, *i.e.*—the county lost more households through out-migration than it gained through in-migration. However, net losses have dropped significantly, from a loss of nearly 2,100 households in 2003 to a loss of just 900 households in 2007.

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

Based on the updated migration data, then, the draw areas for the City of Rochester and Monroe County have been confirmed as follows:

• The <u>local</u> (or internal) draw area, covering households currently living within the Rochester city limits and the balance of Monroe County.

• The <u>regional</u> draw area, covering households with the potential to move to the City of Rochester from three adjacent New York counties: Wayne, Ontario and Livingston.

• The <u>national</u> draw area, covering households with the potential to move to the City of Rochester from all other U.S. counties.

Anecdotal information obtained from developers, real estate brokers, leasing agents, and other knowledgeable sources corresponded to the migration data.

<u>Migration</u> <u>Methodology</u>:

County-to-county 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 NEIGHBORHOOD, CITY AND COUNTY HOUSEHOLDS—

Household cluster 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 2 through 4.
Target Market Classifications

An estimated 995 households live in the JOSANA Neighborhood in 2010. (*Reference* Appendix One, Table 2.) Nearly three-quarters of the neighborhood's households could be characterized as traditional and non-traditional families and the remaining 25 percent as empty nesters and retirees.

An estimated 83,585 households live in the City of Rochester in 2010. (*Reference* Appendix One, Table 3.) Median income within the city is estimated at $30,000, approximately 43 percent lower than the national median of $52,800. Median value of owner-occupied dwellings within the city is estimated at $74,900, less than half the national median of $170,700. Approximately half the city's households could be characterized as traditional and non-traditional families, another 29.7 percent are empty nesters and retirees, and 21.2 percent are younger singles and couples.

An estimated 286,355 households live in Monroe County in 2010. (*Reference* Appendix One, Table 4.) Median income in the county is estimated at $52,500, just slightly below the national median. Median value of owner-occupied dwellings in the county is estimated at $129,500, approximately a third less than the national median. Up to 39 percent of Monroe County households could be characterized as empty nesters and retirees, another 33.6 percent are traditional and non-traditional families, and the remaining 27.5 percent are younger singles and couples.

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM NE household clustering 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.

In the target market methodology, clusters of households (usually between 10 and 15) are grouped according to a variety of significant factors, ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes such as mobility rates, lifestyle patterns and compatibility issues. 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. Another 25 groups have median incomes such that most of the households require housing finance assistance.

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; 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 MARKET POTENTIAL FOR THE CITY OF ROCHESTER (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to move within or to the City of Rochester in the year 2011. The total number from each city/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 5.
Internal Mobility (Households Moving <u>Within</u> the City of Rochester)—

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 that will 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 10,600 households living in the City of Rochester have the potential to move from one residence to another within the city in 2011.

Appendix One, Table 6.
External Mobility (Households Moving <u>To</u> the City of Rochester from the Balance of Monroe County)—

The same sources of data are used to determine the number of households in each target market group that will move from one area to another within the same <u>county</u>. Using these data, 6,000 living in the balance of Monroe County have the potential to move from a residence in the county to a residence in the city in 2011.

Appendix One, Table 7 and 8; and Appendix Two, Tables 1 through 3.
External Mobility (Households Moving <u>To</u> the City of Rochester from Outside Monroe
County)—

These tables determine the number of households in each target market group living in each draw
area county and the balance of the United States that are likely to move to the City of Rochester
in 2011 (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal
Revenue Service migration data).

Appendix One, Table 9.
Market Potential for the City of Rochester—

This table summarizes Appendix One, Tables 5 through 8. The numbers in the Total column on
page one of the table indicate the depth and breadth of the potential market for new and existing
dwelling units in the City of Rochester in the year 2011 originating from households currently
living in the draw areas. Up to 19,290 households have the potential to move within or to the
City of Rochester in 2011.

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

<div align="center">

Potential Housing Market by Draw Area
City of Rochester, Monroe County, New York

</div>

City of Rochester (Local Draw Area):	55.0%
Monroe County (Local Draw Area):	31.1%
Wayne/Ontario/Livingston Counties	
(Regional Draw Area):	2.7%
Balance of US (National Draw Area):	11.2%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Over 48 percent of these households can be classified as younger singles and couples (as
characterized within 19 of Zimmerman/Volk Associates' target market groups), approximately 37
percent are traditional and non-traditional families (in 14 groups), and 14.8 percent are empty
nesters and retirees (in 23 groups). (*See again* Appendix One, Table 9.)

DETERMINATION OF THE POTENTIAL MARKET FOR THE JOSANA NEIGHBORHOOD—

The total potential market for new housing units to be developed within the JOSANA Neighborhood also includes the local, regional, and national draw areas. Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Claritas data, to determine which target market groups, as well as how many households within each group, are likely to move to the study area in a given year.

Appendix One, Tables 10 through 12.
Market Potential for the JOSANA Neighborhood—

As derived by the target market methodology, just over 1,000 of the 19,290 households that represent the market for new and existing housing units in the City of Rochester are a market for new housing units within the JOSANA Neighborhood. (*See* Appendix One, Table 10.) Almost 58 percent of these households are likely to be traditional and non-traditional family households (in four market groups); another 26 percent are likely to be younger singles and couples (also in four groups); and 16.3 percent are likely to be empty nesters and retirees (in five groups).

The distribution of the draw areas as a percentage of the market for the JOSANA Neighborhood is:

<div align="center">

Potential Housing Market by Draw Area
THE JOSANA NEIGHBORHOOD
City of Rochester, Monroe County, New York

</div>

City of Rochester (Local Draw Area):	70.2%
Balance of Monroe County (Local Draw Area):	5.8%
Wayne/Ontario/Livingston Counties (Regional Draw Area):	0.0%
Balance of US (National Draw Area):	24.0%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

The 1,040 draw area households that have the potential to move within or to the JOSANA Neighborhood in 2011 have been categorized by tenure propensities and financial capacities. Approximately 74 percent of these households (or 770 households) comprise the potential market for new rental units. The remaining 26 percent (or 270 households) comprise the market for new

for-sale (ownership) housing units. (*See* Appendix One, Table 11.) Up to 200 of these 270 households have the financial capacity to afford either workforce or market-rate housing unit.

Of these 200 households, 36.4 percent (or 80 households) comprise the market for workforce and market-rate multi-family for-sale units (condominium apartments and lofts); and another 9.1 percent (20 households) comprise the market for market-rate attached single-family (townhouse/live-work) units. The remaining 54.6 percent (or 120 households) comprise the market for workforce and market-rate single-family detached houses. (*See* Appendix One, Table 12.)

<div align="center">—Target Market Data—</div>

Target market data are based on the Claritas PRIZM geo-demographic 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 *Upscale Suburban Couples* or *Fast-Track Professionals*.

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 22 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.

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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.

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