
SUMMARY OF FINDINGS

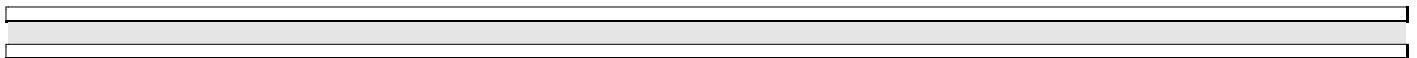
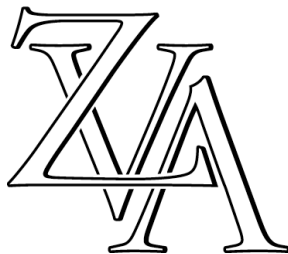
RESIDENTIAL MARKET POTENTIAL

Downtown New Orleans

City of New Orleans,
Louisiana

December, 2006

Conducted by
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Research & Strategic Analysis

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Research & Strategic Analysis

SUMMARY OF FINDINGS

Residential Market Potential

Downtown New Orleans
City of New Orleans (New Orleans Parish), Louisiana

December, 2006

The purpose of this study is to identify the depth and breadth of the potential market for newly-introduced market-rate housing units—created both through adaptive re-use of existing non-residential buildings as well as through new construction—to be leased or sold within Downtown New Orleans.

The boundaries of the Downtown are contiguous with Planning District 1 of the Unified New Orleans Plan, and include the Mississippi River, the Pontchartrain Expressway, Interstate 10/Claiborne Avenue, and Esplanade Avenue. The study area encompasses the Central Business District, Medical District, and French Quarter, and includes the historic districts of Lafayette Square, Picayune Place, Canal Street, and the Warehouse District.

Housing analyses using conventional supply/demand methodologies have been rendered inadequate by the demographic, social, and economic disruption caused by the Hurricane Katrina catastrophe in 2005. Although it has been argued that one result of Katrina was to accelerate trends that were already in place prior to the storm, this analysis assumes that a comprehensive planning and rebuilding effort has the potential to change settlement patterns in New Orleans in a way that will help to mitigate any future catastrophic events, but also accommodate future economic, social and technological changes.

Since accurate post-Katrina estimates of the number of households currently living in the city are not available, this analysis was undertaken as though the study had been completed prior to Hurricane Katrina. The methodology employed in this analysis is based on the core assumption that if new housing opportunities in the Downtown are well matched to the households that

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represent the potential market, significant repopulation is possible. Since market potential can also be influenced by the long-term government response, a second core assumption is that rebuilding efforts will be undertaken through a rational, clear, predictable and understandable process.

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

In contrast to conventional supply/demand analysis, then—which is based on supply-side dynamics and baseline demographic projections (impractical, if not impossible, after the disruption of Katrina)—target market analysis determines the depth and breadth of the potential market derived from the housing preferences and socio-economic characteristics of households in the defined draw area. Because it considers not only basic demographic characteristics, such as income qualification and age, but also less-frequently analyzed attributes such as mobility rates, lifestyle patterns and household compatibility issues, the target market methodology is particularly effective in defining a realistic housing potential for urban development and redevelopment.

This study therefore has determined:

- Where the potential renters and buyers for new housing units in Downtown New Orleans would be likely to move from (the draw areas);
- How many would have the potential to move to downtown if appropriate housing units were to be made available (depth and breadth of the market);
- Who the target households are and what they are like (the target markets);

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- What their housing preferences would be in aggregate (rental or ownership, multi-family or single-family);
- How many households would lease or purchase appropriately-positioned new housing units each year (market capture/absorption forecasts).

NOTE: This study specifically addresses market potential based on the housing preferences and financial capacities of target households who would be renting or purchasing units as year-round primary housing. This analysis is not intended to assess the purchase potential of investors or the depth and breadth of the market for second- or vacation homes.

All tables pertinent to this analysis are provided in a separate document. Tables 1 through 5 contain summaries of the market potential and target households for new market-rate housing units created through adaptive re-use of existing buildings and/or new construction within Downtown New Orleans. The appendix tables contain migration and target market data covering the appropriate draw areas for the downtown study area.

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CONCLUSIONS OF THE ANALYSIS

The depth and breadth of the potential market for new dwelling units that could be developed within Downtown New Orleans have been derived from the housing preferences and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology and extensive experience with urban development and redevelopment.

Where would the potential market for housing in Downtown New Orleans move from?

Analysis of Orleans Parish (City of New Orleans) migration and mobility patterns from 2000 through 2004—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 just over 9,300 to more than 9,500 households per year between 2000 and 2004.

Over the same period, the number of households that moved out of the parish ranged from a low of 11,450 households in 2002 to more than 11,800 households in 2004. Net household losses experienced by New Orleans due to out-migration, therefore, ranged between just under 1,600 households in 2002 to more than 2,500 households in 2004.

However, even though net migration provides insights into a city or parish's historic ability to attract or retain households compared to other locations, it is those households likely to move into an area (gross in-migration) that represent that area's external market potential. Historically, more than a third of the parish's in-migration has been from adjacent Jefferson and St. Tammany Parishes.

This study therefore identifies the depth and breadth of the potential market for market-rate housing units derived from those households that lived in the city in 2005, prior to Hurricane Katrina, and from those households that would be likely to move into the city from outside the city if appropriate housing options were to be made available.

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How many households could potentially move within or to Downtown New Orleans?

As derived by the target market methodology, more than 2,700 households represent the annual potential market for new and existing market-rate multi-family and single-family attached housing units in Downtown New Orleans. (See Table 1.)

These 2,740 households comprise 16 percent of the approximately 17,150 households that could represent the potential market for market-rate housing in all of the City of New Orleans, a share of the total market that is consistent with Zimmerman/Volk Associates' experience in other cities.

Who is the potential market?

The market for urban housing, particularly within downtowns, is now being fueled by the convergence of the two largest generations in the history of America: the 79 million Baby Boomers born between 1946 and 1964, and the 77 million Millennials, who were born from 1977 to 1996.

Boomer households have been moving from the full-nest to the empty-nest life stage at an accelerating pace that will peak sometime in the next decade and continue beyond 2020. Since the first Boomer turned 50 in 1996, empty nesters have had a substantial impact on urban, particularly downtown housing. After fueling the dramatic diffusion of the population into ever-lower-density exurbs for nearly three decades, Boomers, particularly affluent Boomers, are rediscovering the merits and pleasures of urban living.

At the same time, Millennials are just leaving their parents' households. The Millennials are the first generation to have been largely raised in the post-'70s world of suburban neighborhoods. In greater numbers than predecessor generations, Millennials are moving to urban neighborhoods. 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.

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The convergence of two generations of this size—simultaneously reaching a point when urban housing matches their life stage—is unprecedented.

Over the same time period, urban housing consumers will include an increasingly larger segment of urban families. Although outside of Manhattan, Chicago, and the largest American cities, multi-family housing has not been the choice of families with children, the increasing diversification of the American family—from the “traditional” American family, containing both parents and children, of the 1980s, to the non-traditional family of the 21st Century, containing a variety of household configurations, from a single parent with one or more children, an adult caring for younger siblings, a grandparent with grown children and grandchildren, to an unrelated couple of the same sex with children—means that there is a concomitant increase in the number of non-traditional families that are choosing to live in urban neighborhoods.

As determined by the target market analysis, and reflecting national trends, the potential market for new market-rate housing units in Downtown New Orleans can be characterized by general household type as follows (*see also* Table 2):

Downtown Residential Mix By Household Type
DOWNTOWN NEW ORLEANS
City of New Orleans, Louisiana

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE ROWHOUSES
Empty-Nesters & Retirees	33%	15%	47%	41%
Traditional & Non-Traditional Families	8%	8%	4%	15%
Younger Singles & Couples	<u>59%</u>	<u>77%</u>	<u>49%</u>	<u>44%</u>
Total	100%	100%	100%	100%

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

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What are their housing preferences?

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

Annual Market Potential Market-Rate Housing Units DOWNTOWN NEW ORLEANS <i>City of New Orleans, Louisiana</i>		
HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	1,110	40.5%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	1,000	36.5%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>630</u>	<u>23.0%</u>
Total	2,740	100.0%

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

How fast could the units lease or sell?

After nearly 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) within a downtown, an annual capture of between 10 and 15 percent of the potential market, depending on housing type, is achievable. Based on a 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 units, Downtown New Orleans should be able to support up to 380 new market-rate units per year, as follows:

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**Annual Capture of Market Potential
 Market-Rate Units
 DOWNTOWN NEW ORLEANS
*City of New Orleans, Louisiana***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	1,110	15%	167
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	1000	15%	150
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>630</u>	10%	<u>63</u>
Total	2,740		380

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

The annual market capture of 380 new units would require a capture rate of 13.8 percent of the 2,740 households, identified through target market analysis, that could have the potential to rent or purchase newly-developed market-rate housing units within Downtown New Orleans—a rate that is well within the target market methodology’s parameters of feasibility. Over five years, the annual market capture would mean the addition of up to 1,900 new dwelling units in the downtown, of which 835 would be new multi-family rental units, 750 would be new multi-family for-sale units, and 315 would be new for-sale single-family attached units. The inclusion of affordable housing units, at 20 to 25 percent over the total 1,900 units—or 380 to 475 units over five years—would bring the five-year total to as many as 2,375 new dwelling units.

As noted previously, because there is the potential for significant re-shaping of housing options in post-Katrina New Orleans through meaningful comprehensive planning and construction, it is quite possible that the 10 and 15 percent capture rates that have proven accurate in normal, non-catastrophic applications could prove to be conservative in New Orleans.

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NOTE: Target market capture rates are a unique and highly-refined measure of feasibility. Target market capture rates are *not* equivalent to—and should not be confused with—penetration rates or traffic conversion rates.

The **target market capture rate** is derived by dividing the *annual* forecast absorption—in aggregate and by housing type—by the number of households that have the potential to purchase or rent new housing within a specified area *in a given year*.

The **penetration rate** is derived by dividing the *total* number of dwelling units planned for a property by the *total* number of draw area households, sometimes qualified by income.

The **traffic conversion rate** is derived by dividing the *total* number of buyers or renters by the *total* number of prospects that have visited a site.

Because the prospective market for a location is more precisely defined, target market capture rates are higher than the more grossly-derived penetration rates. However, the resulting higher capture rates are well within the range of prudent feasibility.

This analysis has outlined annual market potential that could be projected over the next five years. The special circumstances of post-Katrina New Orleans aside, because of the dramatic changes in the composition of American households that occurred during the 1990s, and the likelihood that significant changes will continue, both the depth and breadth of the potential market for downtown dwelling units would be likely to increase. The experience of other American cities has been that, once the downtown residential alternative has been securely established, the percentage of households that will consider downtown and in-town housing typically increases.

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Rental Distribution

The rental distribution covers leases by households with annual incomes ranging between \$40,000 and \$125,000 or more. A single-person household with an income of \$40,000 per year, paying no more than 25 percent of gross income for rent and utilities—the national standard for affordability is 30 percent—would qualify for a rent of \$750 per month. A two- or three-person household, with an income of \$125,000 per year, paying no more than 25 percent of gross income for rent and utilities, would qualify for a rent of \$2,250 per month.

Based on the target household mix (*listed on Table 3*) and the incomes of the target households,, the distribution by rent range of the 167 rental units that could be absorbed each year over the next five years in Downtown New Orleans is as follows:

Loft/Apartment Distribution by Rent Range DOWNTOWN NEW ORLEANS *City of New Orleans, Louisiana*

MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$750–\$1,000	20	12.0%
\$1,000–\$1,250	36	21.6%
\$1,250–\$1,500	30	17.9%
\$1,500–\$1,750	30	17.9%
\$1,750–\$2,000	24	14.4%
\$2,000–\$2,250	18	10.8%
\$2,250 and up	<u>9</u>	<u>5.4%</u>
Total:	167	100.0%

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

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For-Sale Distribution

The for-sale distribution covers purchases by households with annual incomes ranging between \$50,000 and \$150,000 or more. A single-person household with an income of \$50,000 per year, paying no more than 25 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, would qualify for a mortgage of \$125,000 at current interest rates. A two- or three-person household with an income of \$125,000 per year under the same criteria would qualify for a mortgage of at least \$375,000 at current interest rates.

Based on the target household mix (*listed on Table 4*) and incomes of the target households, the distribution by price range of the 150 for-sale apartments that could be absorbed each year over the next five years in Downtown New Orleans is as follows:

Loft/Apartment Distribution by Price Range DOWNTOWN NEW ORLEANS *City of New Orleans, Louisiana*

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$150,000–\$200,000	20	13.3%
\$200,000–\$250,000	20	13.3%
\$250,000–\$300,000	32	21.4%
\$300,000–\$350,000	30	20.0%
\$350,000–\$400,000	24	16.0%
\$400,000 and up	<u>24</u>	<u>16.0%</u>
Total:	150	100.0%

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

NOTE: This study specifically addresses market potential based on the housing preferences and financial capacities of target households who would be renting or purchasing units as year-round primary housing. This analysis is not intended to assess the purchase potential of investors or the depth and breadth of the market for second- or vacation homes.

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Based on the target household mix (*listed on Table 5*) and incomes of the target groups, the distribution by price range of the 63 townhouse/rowhouse units that could be absorbed each year over the next five years in Downtown New Orleans is as follows:

Townhouse Distribution by Price Range
DOWNTOWN NEW ORLEANS
City of New Orleans, Louisiana

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$200,000–\$250,000	12	19.0%
\$250,000–\$300,000	15	24.0%
\$300,000–\$350,000	12	19.0%
\$350,000–\$400,000	12	19.0%
\$400,000 and up	<u>12</u>	<u>19.0%</u>
Total:	63	100.0%

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

NOTE: Again, this study specifically addresses market potential based on the housing preferences and financial capacities of target households who would be renting or purchasing units as year-round primary housing. This analysis is not intended to assess the purchase potential of investors or the depth and breadth of the market for second- or vacation homes.

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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 Downtown 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 2000 through 2004—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 2000 and 2004.

Over the same period, the number of households that moved out of the parish ranged from a low of 11,450 households in 2002 to more than 11,800 households in 2004. Net household losses

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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.

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 housing units in Downtown New Orleans have been delineated as follows:

- The local (internal) draw area, covering households that lived within the New Orleans city limits in 2005 (prior to Hurricane Katrina).
- The regional draw area, covering households with the potential to move to the City of New Orleans from Jefferson and St. Tammany Parishes.
- 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.

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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. 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. An appendix containing detailed descriptions of each of these target market groups is provided along with the study.

Appendix One, Table 2.

Target Market Classification

Just over 51 percent, or 92,445 households, of the estimated 180,850 households that lived in the City of Orleans in 2005 had the capacity to rent or buy market-rate housing. Median income in 2005 was \$33,300, approximately 30 percent lower than the national median. Median housing value within the city was \$128,200, just over 14 percent below the national median. Prior to Hurricane Katrina, up to 38 percent of New Orleans' "market-rate" households were classified as traditional and non-traditional families, another 32.4 percent were empty nesters and retirees, and the remaining 29.7 percent were 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 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.

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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.

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**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 had the potential to move within the City of New Orleans in 2005, and to the City of New Orleans in 2006. 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.

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 10,800 households that lived in the City of New Orleans in 2005 and with the capacity to rent or purchase market-rate housing, would be likely to move from one residence to another within the city in a given year. Nearly 38 percent of these households are likely to be younger singles and couples (as characterized within 10 Zimmerman/Volk Associates' target market groups); another 34 percent are likely to be family-oriented households (in 12 market groups); and the remaining 28.4 percent are likely to be empty nesters and retirees (also in 11 market groups).

Appendix One, Tables 4 and 5; Appendix Two, Tables 1 and 2;

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 in 2006 (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

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Appendix One, Table 6.
Market Potential for the City of New Orleans—

Appendix One, Table 6 summarizes Appendix One, Tables 3 through 5. 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 lived, and are currently living, in the draw areas. Up to 17,150 households with the potential to rent or purchase market-rate housing have the potential to move within or to the City of New Orleans in 2006. 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 would be likely to be as follows:

Market Potential by Draw Area
City of New Orleans, Louisiana

City of New Orleans (Local Draw Area):	63.0%
Regional Draw Area:	15.1%
Balance of US (National Draw Area):	<u>21.9%</u>
Total:	100.0%

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

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DETERMINATION OF THE POTENTIAL MARKET FOR DOWNTOWN NEW ORLEANS—

The total potential market for Downtown New Orleans 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, would be likely to move to Downtown New Orleans in a given year.

Appendix One, Tables 7 through 9.

Market Potential for Downtown New Orleans—

As derived by the target market methodology, up to 4,260 of the 17,150 households that represent the market for new and existing housing units in the City of New Orleans would be a market for new housing units within the downtown. (*See Appendix One, Table 7.*) Nearly 53 percent of these households would likely be younger singles and couples (in seven market groups); more than 36 percent would likely be empty nesters and retirees (in six groups); and just 11.3 percent would likely be traditional and non-traditional family households (in five groups).

The distribution of the draw areas as a percentage of the market for Downtown New Orleans is:

Market Potential by Draw Area
DOWNTOWN NEW ORLEANS
City of New Orleans, Louisiana

City of New Orleans (Local Draw Area):	63.0%
Regional Draw Area:	15.1%
Balance of US (National Draw Area):	<u>21.9%</u>
Total:	100.0%

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

The 4,260 draw area households that would be likely to move within or to the downtown in a given year have been categorized by tenure propensities to determine renter/owner ratios. Just over 26 percent of these households (or 1,110 households) would comprise the potential market for new market-rate rentals. The remaining 74 percent (or 3,150 households) would comprise the market for new market-rate for-sale (ownership) housing units. (*See Appendix One, Table 9.*)

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Of these 3,150 households, 31.7 percent (or 1,000 households) would comprise the market for multi-family for-sale units (condominium apartments and lofts); and another 20 percent (630 households) would comprise the market for attached single-family (townhouse or duplex) units. The remaining 48 percent (or 1,520 households) would comprise the market for all ranges and densities of single-family detached houses. (*See Appendix One, Table 10.*)

—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.

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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.



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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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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.

