

# ZIMMERMAN/VOLK ASSOCIATES, INC.

6 East Main Street  
Clinton, New Jersey 08809

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

Research & Strategic Analysis

## EXECUTIVE SUMMARY

### Residential Market Potential

#### Downtown Baltimore and Adjacent Neighborhoods *City of Baltimore, Maryland*

November, 2006

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The purpose of this study is to identify the depth and breadth of the 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 Baltimore and adjacent neighborhoods, in the City of Baltimore, Maryland.

The boundaries of the Downtown are those delineated in the market study conducted by this firm in 2001, and include the Fallsway to the east, Franklin Street to the north, Martin Luther King, Jr. Boulevard to the west, and Pratt Street to the south. (*See MAP following page 2.*) In addition, the study area encompasses the in-town neighborhoods of Federal Hill, Inner Harbor, Otterbein and Ridgely's Delight to the south and southwest; Seton Hill to the west; Mount Vernon and Mid-Town Belvedere to the north; and Little Italy and southern Jonestown to the southeast, and the around-town neighborhoods of Barre Circle and Washington Village to the southwest; Hollins Market, Poppleton, Heritage Crossing, McCulloh Homes and Upton to the west and northwest; Bolton Hill and Madison Park to the northwest; Charles North, Greenmount West and Johnston Square to the north and northeast; Penn-Fallsway, Oldtown, Pleasant View Gardens and northern Jonestown to the east; and, finally, Fells Point/Washington Hill and Canton along the harborfront extending east of Downtown.

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

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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.

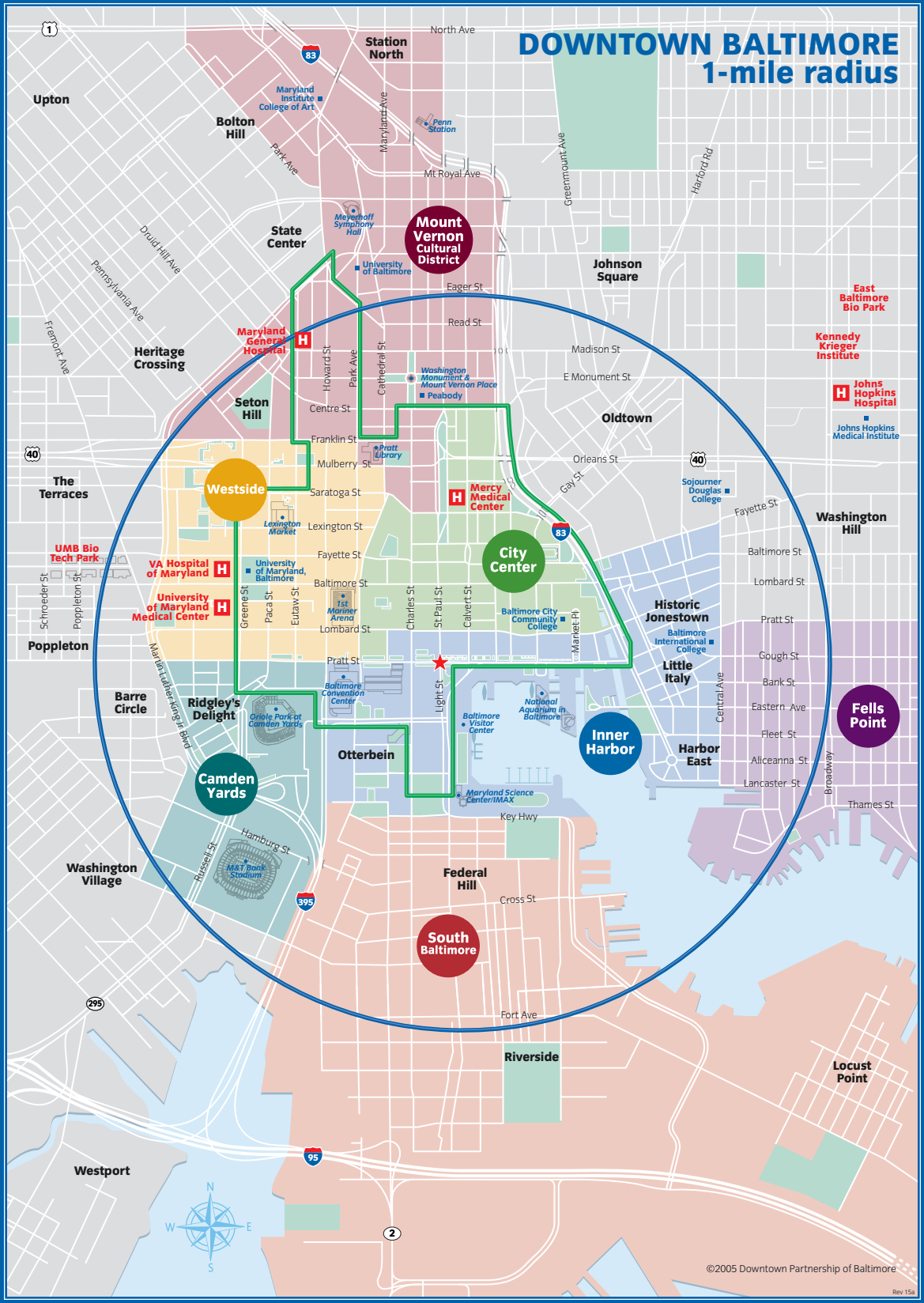
In contrast to conventional supply/demand analysis, then—which is based on supply-side dynamics and baseline demographic projections—target market analysis determines the depth and breadth of the potential market derived from the housing preferences and socio-economic characteristics of households in 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.

This study therefore determined:

- Where the potential renters and buyers for new housing units in the Downtown Baltimore study area are likely to move from (the draw areas);
- How many have the potential to move to the study area if appropriate housing units were to be made available (depth and breadth of the market);
- Who the target households are and what they are like (the target markets);
- What their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- What their alternatives are (new construction or existing housing stock in Downtown and in nearby areas of the city); and
- How quickly they will rent or purchase the new units (market capture).

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

# DOWNTOWN BALTIMORE 1-mile radius



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## CONCLUSIONS OF THE ANALYSIS

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The depth and breadth of the potential market for new dwelling units to be constructed within Downtown Baltimore and adjacent neighborhoods 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 will the potential market for housing in Downtown Baltimore move from?*

Analysis of City of Baltimore migration and mobility patterns from 1999 through 2003—the latest data available from the Internal Revenue Service—shows that the number of households moving into the city has steadily risen from more than 14,000 households in 1999 to 15,200 households in 2003. Over the same period, the number of households moving out of the city has steadily fallen from 17,635 households in 1999 to just under 16,800 households in 2003. Contrary to the trend during most of the 1990s, when Baltimore lost more than 5,000 households per year through out-migration, between 1999 and 2003, the number of households the city has lost has fallen from 3,560 households in 1999 to just 1,575 households in 2003. In 2006, the City's Planning Department is estimating that net out-migration has dropped to approximately 100 households. As a result, the State of Maryland Department of Planning is now estimating the City's 2005 population at 643,000, with a projection of 654,200 persons in 2010, a modest increase for the first time since the 1950s.

Nearly 60 percent of Baltimore's in-migration is from adjacent or nearby counties in the Baltimore/Washington region, including Baltimore, Anne Arundel, Prince George's, and Montgomery Counties, and the District of Columbia. Other significant sources of in-migration are from urban counties such as Philadelphia, Pennsylvania; New York City; Chicago, Illinois; and Los Angeles, California.

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*How many households are likely to move within or to Downtown Baltimore?*

As derived by the target market methodology, more than 7,400 households represent the annual potential market for new and existing market-rate housing units in Downtown Baltimore and adjacent neighborhoods.

These 7,400 households comprise 29 percent of the approximately 25,500 households that represent the potential market for new and existing market-rate housing units in all of the City of Baltimore, a share of the total market that is consistent with Zimmerman/Volk Associates' experience in other cities. For example, in recent analyses, the downtown market was found to represent approximately 23 percent of the city's potential market in Birmingham, Alabama and Atlanta, Georgia; 26 percent in Norfolk, Virginia and Toledo, Ohio; 30 percent in Detroit Michigan and Spokane, Washington; 35 percent in Lexington, Kentucky and Buffalo, New York; and 36 percent in Louisville, Kentucky.

*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 the nest. The Millennials are the first generation to have been largely raised in the post-'70s world of the cul-de-sac as neighborhood, the mall as village center, and the driver's license as a necessity of life. As has been the case with predecessor

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generations, significant numbers of Millennials are heading for the city. They are not just moving to New York, Chicago, San Francisco and the other large American cities; often priced out of these larger cities, Millennials are discovering second, third and fourth tier urban centers.

The convergence of two generations of this size—simultaneously reaching a point when urban housing matches their life stage—is unprecedented. This year, there are about 41 million Americans between the ages of 20 and 29, forecast to grow to over 44 million by 2015. In that same year, the population aged 50 to 59 will have also reached 44 million, from 38 million today. The synchronization of these two demographic waves will mean that there will be an additional eight million potential urban housing consumers nine years from now.

Among those urban housing consumers will be 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 21<sup>st</sup> 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.

The household groups that comprise the potential market for Downtown housing units are:

- Younger singles and childless couples—including, among others, graduate students, teachers, or other higher-education affiliates; young professionals, junior executives, small business owners, “knowledge workers,” and retail and service employees. (45 percent);
- Well-to-do empty nesters and retirees, a third of whom would be moving from the suburbs (38 percent); and
- A range of urban families (17 percent).

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This represents a significant change since 2001, when younger singles and couples represented 86 percent, family households comprised eight percent, and empty nesters and retirees just six percent of the market of the market for downtown housing. This change is attributable to a variety of factors: the significant increase in the number of older empty-nest households, the greater variety in unit and housing types available in the downtown market, and the higher costs of newly-created dwelling units, which closes out a number of younger, less affluent households.

The primary target groups, their median incomes and median home values in 2006, are as follows:

**Primary Target Groups**  
**DOWNTOWN BALTIMORE**  
*City of Baltimore, Maryland*

HOUSEHOLD TYPE	MEDIAN INCOME	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees		
<i>Old Money</i>	\$252,000	\$425,800
<i>Urban Establishment</i>	\$110,200	\$349,300
<i>Suburban Establishment</i>	\$94,500	\$234,500
<i>Affluent Empty Nesters</i>	\$94,000	\$230,900
<i>Cosmopolitan Elite</i>	\$87,400	\$229,700
<i>Cosmopolitan Couples</i>	\$86,900	\$299,900
<i>Mainstream Retirees</i>	\$73,300	\$147,900
<i>Multi-Ethnic Empty Nesters</i>	\$70,500	\$231,100
<i>Middle-Class Move-Downs</i>	\$58,400	\$171,400
Traditional & Non-Traditional Families		
<i>The Entrepreneurs</i>	\$130,400	\$327,600
<i>Full-Nest Urbanites</i>	\$98,300	\$388,000
<i>Unibox Transferees</i>	\$94,400	\$236,600
<i>Multi-Cultural Families</i>	\$65,300	\$228,800
<i>Multi-Ethnic Families</i>	\$58,600	\$150,400
Younger Singles & Couples		
<i>e-Types</i>	\$108,100	\$397,400
<i>Fast-Track Professionals</i>	\$86,200	\$210,300
<i>The VIPs</i>	\$83,100	\$209,900
<i>New Bohemians</i>	\$72,400	\$270,900
<i>Twentysomethings</i>	\$61,600	\$260,400
<i>Urban Achievers</i>	\$57,800	\$200,700

NOTE: The names and descriptions of the market groups summarize each group's tendencies—as determined through geo-demographic cluster analysis—rather than their absolute composition. Hence, every group could contain “anomalous” households, such as empty-nester households within a “full-nest” category.

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 BALTIMORE  
*City of Baltimore, Maryland***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	2,980	40.1%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	2,200	29.6%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>2,250</u>	<u>30.3%</u>
Total	7,430	100.0%

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

Since the initial study was conducted in 2001, there has been a significant increase in the size of the potential downtown market—from just over 5,300 households in 2001 to more than 7,400 households in 2006—and the type of housing that best matches target household preferences. In 2001, nearly 61 percent of the market potential was multi-family rental housing, compared to just over 40 percent in 2006. As a share of the market, for-sale multi-family (condominiums) has risen from just under 23 percent in 2001 to nearly 30 percent in 2006, and for-sale single-family attached units now represent more than 30 percent of the market, up from just 16.6 percent in 2001.

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*What are their current housing alternatives?*

A number of new rental properties have entered the market in and around downtown Baltimore in the past five years. At the time of the field investigation, in April 2006, rents for studios started at just over \$700 per month for 395 square feet of living space (\$1.81 per square foot at Centerpoint on the Westside) and exceeded \$1,500 per month for 524 square feet of living space (\$2.89 per square foot at Spinnaker Bay on President Street in Harbor East). One-bedroom flats rented for \$750 (300 North Charles) to more than \$1,900 (Spinnaker Bay) per month for approximately 570 to 735 square feet of living space (\$1.32 to \$2.65). Most of the two-bedroom apartments started at or above \$1,300 and went as high \$4,300 (Symphony Center in Mount Vernon) per month for approximately 900 to 2,800 square feet (excluding Spinnaker Bay, where the per-square-foot range fell between \$1.21 and \$2.17 per square foot). Not all of the newer properties have three-bedroom units, but at those that do, rents started at \$2,100 (Camden Court on the Westside) and exceeded \$4,200 (Spinnaker Bay) per month for approximately 1,200 to 1,700 square feet of living space (\$1.40 to \$2.04 per square foot). The occupancy rate at these properties ranged from no vacancies to 10 percent vacant, although most are at or above 95 percent (functional full occupancy).

In the Inner Harbor, the most expensive new property in the market, Spinnaker Bay on President Street, averaged a leasing pace of 22 units per month; as noted above, rents started at more than \$1,500 per month for a 524-square-foot studio (\$2.89 per square foot) and exceeded \$4,200 for a 1,674-square-foot three-bedroom, two-and-a-half bath unit (\$2.04 per square foot). Most of the units here have spectacular views of either the Inner Harbor or downtown Baltimore, and at the time of the field investigation, occupancy was at 98 percent.

The Munsey Building, adaptive re-use of a former office building, introduced the first new apartments in the downtown core since the late 1960s. Rents at the Munsey started at \$1,145 per month for a 668-square-foot studio (\$1.83 per square foot), with the largest three-bedroom apartment, at more than 1,700 square feet, leasing for \$2,325 per month (\$1.36 per square foot).

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The Munsey averaged seven leases per month absorption, and at the time of the survey was nearly fully occupied (97 percent).

Significant new rental construction is occurring on the Westside of Baltimore, where in addition to the properties that have come on line since 2000—Centerpoint, The Atrium, and Camden Court—several hundred units are also planned for development over the next few years.

At the time of the field investigation, Centerpoint, which is both adaptive re-use of existing buildings and new construction, had 392 rental units, including studios, one-bedroom and two-bedroom apartments. The property had been averaging approximately 10 new leases a month since opening in 2004, with rents ranging from just over \$700 for an approximately 400-square-foot studio (\$1.81 per square foot) to \$1,750 per month for a two-bedroom, 1,450-square-foot apartment (\$1.21 per square foot).

The Atrium, which was developed on Howard Street in 2001, averaged nine units per month absorption during lease-up, and was fully occupied at the time of the survey. Rents started at \$868 for a 414-square-foot studio, and an approximately 1,500-square-foot two-bedroom apartment leased for \$2,100 per month (\$1.41 to \$2.10 per month). The property is predominantly studios and one-bedroom units.

Camden Court, which opened in 2005, was also in lease-up phase, although the property had averaged 11 leases per month since opening. The 221 units are evenly divided between one- and two-bedroom apartments, and studio and three-bedroom units. Studio units, at just under 500 square feet of living space, rented for \$900 to \$1,095 per month (\$1.86 to \$2.27 per square foot), and the largest apartments, three-bedroom units at approximately 1,200 square feet, rented for \$2,100 to more than \$2,300 per month (\$1.78 to \$1.96 per square foot).

According to the Downtown Partnership, as of November 2006, all of the above-mentioned apartment communities are fully leased.

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Several new-construction properties were marketing condominiums and townhouses in and around Downtown Baltimore. The lowest-priced units were being sold at 1211 Light Street in Federal Hill, where 43 of the 67 proposed condominiums had been sold as of April. Base prices ranged from \$199,000 to \$459,000, for units ranging in size from 582 to nearly 1,100 square feet (\$342 to \$423 per square foot).

Two national builders, Pulte Homes and Beazer Homes, were building townhouses on the East Side. Prices for Pulte's McHenry Point townhouses, located in Locust Point, started at just under \$520,000 for 2,068 square feet of living space (\$255 per square foot), with the most expensive unit priced at \$569,990 for 2,234 square feet (\$251 per square foot). The townhouses at Albemarle Square, the Beazer project located in Little Italy, started at \$394,990 for a 1,381-square-foot unit and went as high as \$424,990 for a 1,755-square-foot townhouse (\$242 to \$286 per square foot). Albemarle Square is a Hope VI development which replaced former public housing high-rises. It is a mixed-income community with some public housing units, some units restricted for moderate income, and the remainder/majority being market-rate. The sales pace listed in the table refers to the market-rate unit sales.

At Harborview in the Inner Harbor, Pierside was built in 2001, and is now converting the 164 rental apartments to condominiums, with units ranging in size from just under 700 square feet to 1,275 square feet, and in price from \$277,000 to \$623,000 (\$401 to \$489 per square foot). The property averaged 2.6 sales per month, and 139 of the 164 units had been sold as of April 2006. Pinnacle, which at that time had not begun construction, was to comprise 46 condominiums ranging in size from 1,650 square feet to 3,700 square feet, and in price from \$600,000 to \$1,650,000 (\$364 to \$446 per square foot). Pier Homes, which began marketing in 2001, had sold 67 of the 88 planned townhouses as of April, for prices ranging from more than \$1 million to nearly \$3 million. Sizes of these townhouses, which are built on a pier extending into the Harbor, start at approximately 2,400 square feet and approach 5,000 square feet of living space (\$434 to \$597 per square foot). The property averaged more than one sale per month.

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The most expensive property is the Ritz Carlton Residences, 182 condominiums of which 100 had been sold as of April. All units priced between \$800,000 and \$1,250,000 had been sold; the remaining units were two- and three-bedroom apartments priced between \$1,233,000 to \$5,200,000. Unit sizes range from 1,700 to 5,300 square feet (\$633 to \$1,000 per square foot). An average of more than six condominiums per month had been sold since opening in 2005.

The highest sales pace of all the properties surveyed was more than 35 units per month, achieved by 414 Water Street in Downtown Baltimore. As of the field investigation, 212 of the 312 one- and two-bedroom condominiums had been sold, for base prices ranging from just over \$200,000 to \$435,000. With unit sizes running from 662 to 1,460 square feet, the prices per square foot fell between \$296 and \$308.

According to the Downtown Partnership, sales at the afore-mentioned condominium projects have remained steady through November, and that 414 Water Street has now sold 80 percent of 312 units, and the Ritz Carlton has reported that more than 70 percent of its 182 units have been sold.

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*How fast will the units lease or sell?*

After more than 18 years' experience in various cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that an annual capture of between 10 and 20 percent of the potential single-family market, and between 20 and 40 percent of the potential multi-family market, is achievable.

Based on those capture rates, Downtown Baltimore and adjacent neighborhoods should be able to support from between 1,000 to nearly 2,100 new market-rate units per year over the next five years, as follows:

**Annual Capture of Market Potential  
 Market-Rate Units  
 DOWNTOWN BALTIMORE  
*City of Baltimore, Maryland***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	2,980	20-40%	596 to 1,192
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	2,200	10-20%	220 to 440
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>2,250</u>	10-20%	<u>225 to 450</u>
Total	1,940		1,041 to 2,082

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

In 2001, based on those same capture rates, Zimmerman/Volk Associates projected that Downtown Baltimore and adjacent neighborhoods could support from between 870 to 1,700 new market-rate dwelling units per year between 2001 and 2006. According to the Downtown Partnership, since 2001, up to 2,300 new rental units have been created and fully leased in the Downtown, and, in 2005, approximately 100 condominiums were built and sold, with another 700 units under construction. The 2006 projections indicate that that, even though rents and sales prices

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are rising, and more units are planned and under construction, Downtown Baltimore has not yet captured its full annual market potential, and that “demand” is still exceeding supply.

Based on the migration and mobility analyses, and dependent on the creation of appropriate new housing units, approximately 45 percent of the annual market potential of 1,041 to 2,082 new dwelling units in Downtown Baltimore and adjacent neighborhoods, or approximately 470 to 935 units per year, could be from households moving from outside Baltimore. Over five years, the realization of that market potential could lead to an increase of between 2,350 and 4,675 households living in Downtown Baltimore that moved from a location other than the city.

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.

