
EXECUTIVE SUMMARY

MARKET ANALYSIS

Residential Market Potential

Downtown Buffalo Study Area

City of Buffalo
Erie County, New York

December, 2004

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Research & Strategic Analysis

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The purpose of this study is to identify the market potential for newly-introduced market-rate housing units to be leased or sold within the Downtown Buffalo Study Area, City of Buffalo, Erie County, New York.

A core premise underlying an overall housing strategy for the City of Buffalo should be that, to retain existing households, or to attract new ones, appropriate new housing units should be provided in the Downtown. The creation or strengthening of Downtown residential neighborhoods need not be a “zero-sum” exercise; rather than succeeding at the expense of other city neighborhoods, new housing opportunities within the Downtown, when properly targeted, are likely to increase the number of households that move into the city as well as provide alternatives to households that might otherwise move out of the city.

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 classical 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 classical supply/demand analysis, then—which is based on supply-side dynamics and baseline demographic projections—target market analysis determines the depth and breadth

Residential Market Potential
Downtown Buffalo Study Area
City of Buffalo, Erie County, New York
December, 2004

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 Buffalo Study Area are likely to move from (the draw areas);
- Who currently lives in the draw areas and what they are like (the target markets);
- 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);
- 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 Buffalo and in other areas of the city);
- What they will pay to live in Downtown Buffalo (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (absorption forecasts).

Residential Market Potential
Downtown Buffalo Study Area
City of Buffalo, Erie County, New York
December, 2004

MARKET POTENTIAL

From a market perspective, considerable pent-up demand exists for Downtown housing, both new construction and adaptive re-use of existing buildings. As determined by this analysis, the market potential for new and existing market-rate housing units to be leased or sold within the Downtown Buffalo Study Area each year consists of up to 2,860 households with an affinity for in-town neighborhoods. Approximately 82 percent of these households are currently living in the City of Buffalo or Erie County; the remainder of the potential market will be moving from elsewhere in the region (three percent), from the New York City area (five percent) or from elsewhere in the nation (10 percent).

These 2,860 households comprise approximately 28 percent of the approximately 10,150 households that represent the potential market for all of the City of Buffalo, 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, Redding, California, and Toledo, Ohio; 30 percent in Detroit and Grand Rapids, Michigan, Spokane, Washington, and Baltimore, Maryland; 35 percent in Lexington, Kentucky; and 36 percent and 38 percent in Louisville, Kentucky and New Haven, Connecticut, respectively.

The household groups that comprise the potential market are:

- Younger singles and childless couples—including, among others, graduate students, teachers, or other higher-education affiliates; young professionals and office workers, many in medical fields, who work at the Buffalo Niagara Medical campus; small business owners; and artists or artisans (63 percent);
- Well-to-do empty nesters and retirees (30 percent); and
- A range of urban families (seven percent).

Residential Market Potential
 Downtown Buffalo Study Area
City of Buffalo, Erie County, New York
 December, 2004

With a variety of housing initiatives, the neighborhoods within the Downtown Buffalo Study Area should become quite attractive to households moving into the city. The appropriate urban housing types and general rent/price ranges and unit sizes that will attract the potential market are:

**Rent, Price and Size Range
 Newly-Created Housing
 DOWNTOWN BUFFALO STUDY AREA
*City of Buffalo, Erie County, New York***

| HOUSING TYPE | RENT/PRICE RANGE | SIZE RANGE | RENT/PRICE PER SQ. FT. |
|-------------------|-----------------------|----------------|------------------------|
| Rental— | | | |
| Hard Lofts* | \$525-\$1,100/month | 450-1,000 sf | \$1.10-\$1.17 psf |
| Soft Lofts† | \$625-\$1,300/month | 500-1,100 sf | \$1.18-\$1.25 psf |
| Luxury Apartments | \$1,200-\$2,500/month | 900-2,000 sf | \$1.25-\$1.33 psf |
| For-Sale— | | | |
| Hard Lofts* | \$75,000-\$145,000 | 550-1,100 sf | \$132-\$136 psf |
| Soft Lofts† | \$105,000-\$175,000 | 700-1,200 sf | \$146-\$150 psf |
| Townhouses/Flats | \$115,000-\$195,000 | 750-1,300 sf | \$150-\$153 psf |
| Luxury Apartments | \$275,000-\$500,000 | 1,200-2,500 sf | \$200-\$229 psf |
| Rowhouses | \$185,000-\$315,000 | 1,100-2,000 sf | \$158-\$168 psf |
| Urban Houses | \$135,000-\$450,000 | 900-2,800 sf | \$150-\$161 psf |

* Unit interiors of “hard lofts” typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of “soft lofts” may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

After more than a decade’s 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 15 percent of the potential market, depending on housing type, is achievable.

Based on a 15 percent capture of the potential market for multi-family units, and a 10 percent capture of single-family units, the Study Area should be able to support up to 375 new units per year, or nearly 1,900 new dwelling units over the next five years.

Residential Market Potential
 Downtown Buffalo Study Area
City of Buffalo, Erie County, New York
 December, 2004

Annual Capture of Market Potential
DOWNTOWN BUFFALO STUDY AREA
City of Buffalo, Erie County, New York

| HOUSING TYPE | NUMBER OF HOUSEHOLDS | CAPTURE RATE | NUMBER OF NEW UNITS |
|---|----------------------|--------------|---------------------|
| Rental Multi-Family (lofts/apartments, leaseholder) | 1,070 | 15% | 160 |
| For-Sale Multi-Family (lofts/apartments, condo/co-op ownership) | 720 | 15% | 108 |
| For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple/ condominium ownership) | 500 | 10% | 50 |
| For-Sale Single-Family Detached (houses on small lots, fee-simple ownership) | <u>570</u> | 10% | <u>57</u> |
| Total | 2,860 | | 375 |

SOURCE: Zimmerman/Volk Associates, Inc., 2004.

The creation of appropriate new housing units within the Downtown Buffalo Study Area can increase the number of households moving into the City of Buffalo. Based on the migration and mobility analyses, households in up to 950 of these 1,900 new units could have moved from elsewhere in the region or the country.

DOWNTOWN HOUSING STRATEGY

From the perspective of draw area target market propensities and compatibility, a broad range of new construction as well as adaptive re-use of existing buildings will be required to support and sustain residential diversity in the Downtown Buffalo Study Area. An effective housing strategy to attract the target households should include:

- The creation of a variety of housing types, both rental and for-sale, including higher-value market-rate as well as affordable housing units, throughout the Study Area;
- The establishment of general neighborhood guidelines to assure the compatibility of every scale and type of housing;
- Preservation of the built environment: the restoration, repositioning and/or adaptive re-use of existing buildings;

Residential Market Potential
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- New residential construction: the introduction of housing types not currently available or under-represented in the Downtown Buffalo Study Area; and
- Mixed-use development: the inclusion of a residential component within mixed-use buildings, either adaptive re-use or new construction.

In order to achieve maximum positive impact of downtown housing, three elements—location, design and marketing—must be carefully considered and executed.

1. Designate target areas for residential development;
2. Ensure appropriate urban design; and
3. Market and monitor the Downtown.

POLICIES AND PROGRAMS

- Create an adaptive re-use handbook to clarify code requirements.
- Identify an adaptive re-use ombudsman to facilitate code compliance.
- Investigate special sales and income tax incentives to encourage resident artists.
- Create a gap financing funding pool.
- Develop a “Live Where You Work” homeownership incentive plan.
- Require that residential uses be included in development of City-owned properties.



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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.

