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Research & Strategic Analysis

## EXECUTIVE SUMMARY

### RESIDENTIAL MARKET POTENTIAL

#### The River West Site and the CMI Target Area

*City of Kalamazoo, Kalamazoo County, Michigan*

May, 2005

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The purpose of this study is to identify the market potential for new market-rate dwelling units, to be leased or sold within a brownfields redevelopment of the River West site and the Clean Michigan Initiative (CMI) Target Area, proposed mixed-use developments located northeast of Downtown Kalamazoo, Kalamazoo County, Michigan.

The extent and characteristics of the potential market for new housing units within the River West site and the CMI Target Area 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. In contrast to supply/demand analysis—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, even in locations where no close comparable properties exist.

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This study therefore determined:

- Where the potential buyers and renters of new housing units within a redevelopment of the River West site and CMI Target Area currently live (the draw areas);
- Who the potential renters and buyers are and what are they like (the target markets);
- How many are likely to rent or purchase within the 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 elsewhere in the Kalamazoo market area);
- What they will pay to rent or purchase newly-constructed dwelling units within the two areas (market-entry rents and prices); and
- How quickly they will rent or buy the new units (market capture/absorption forecasts).

## CONCLUSIONS

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From a market perspective, both the River West site and the CMI Target Area represent very attractive opportunities for development of new urban housing. As determined by this analysis, the market potential for new market-rate housing units to be leased or sold within the River West site and the CMI Target Area each year consists of up to 2,360 households with a preference for new construction in an urban environment. Approximately 56 percent of these households are currently living in the City of Kalamazoo or Kalamazoo County; the remainder of the potential market will be moving from the Detroit metropolitan area (seven percent), from the Chicago area (three percent) or from elsewhere in the nation (41 percent). These 2,360 households comprise just over 29 percent of the 9,830 households that represent the potential market for all of the City of Kalamazoo.

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There is a larger potential market—totaling 2,970 households—for new housing in Downtown Kalamazoo than for the CMI Target Area/River West site. Although there is likely to be market overlap—several target household groups interested in living in urban neighborhoods would consider renting or purchasing new units in either a downtown or an in-town neighborhood—the potential market is deep enough to support simultaneous development in both Downtown Kalamazoo and the CMI Target Area/River West site.

The household groups that comprise the potential market for the CMI Target Area/River West site include:

- Younger singles and childless couples—including dual-income professionals, graduate students, teachers, or others connected with higher education, small business owners, or “knowledge workers” (53 percent);
- Upper-middle and middle-income empty nesters and retirees (30 percent); and
- Traditional and non-traditional family households, employed in business, as professionals, and as small business owners (17 percent).

#### —CMI TARGET AREA—

From the perspective of draw area target market propensities and compatibility, and within the context of the new housing marketplace in the Kalamazoo market area, the potential market for new housing units within the CMI Target Area could include the full range of housing types, from rental multi-family to for-sale single-family detached. Given the objective of establishing a new, mixed-use neighborhood, higher-density housing types that will ensure a concentration of resident households are therefore the most appropriate housing types for the Target Area. These include:

- Rental lofts and apartments (multi-family for-rent);
- For-sale lofts and apartments (multi-family for-sale);
- Townhouses, rowhouses, live-work or flex (single-family attached for-sale); and
- Houses on small lots (single-family detached for-sale).

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Based on the tenure and housing preferences and financial capabilities of the draw area households, the distribution of these housing types within the Target Area would be as follows:

**Target Residential Mix—New Housing Units**  
**CMI TARGET AREA**  
*City of Kalamazoo, Kalamazoo County, Michigan*

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	630	33.3%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	520	27.5%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	430	22.8%
For-Sale Small-Lot Single-Family Detached (houses, fee-simple ownership)	<u>310</u>	<u>16.4%</u>
Total	1,890	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

In 2002, the Hamilton Anderson Associates' Riverfront Redevelopment Plan yielded 892 dwelling units in a wide range of housing types and unit sizes based on the findings of the Zimmerman/Volk Associates' market analysis conducted that year. Given the changes in market preferences since 2002, it is likely that a greater number of units could be developed within the Target Area. Therefore, for purposes of this analysis, it is assumed that up to 1,000 new dwelling units could be created on the site, reflecting the proportions of housing types outlined above.

The appropriate urban housing types, general rent/price ranges and unit sizes that will attract the potential market are as follows:

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**Optimum Market Position**  
**CMI TARGET AREA**  
*City of Kalamazoo, Kalamazoo County, Michigan*

Number	Housing Type	Approx. Base Rent/ Price Range	Approx. Unit Size Range	Approx. Rent/Price Per Sq. Ft.
<b>MULTI-FAMILY FOR-RENT—33.3%</b>				
100	Hard Lofts Over Commercial	\$450 to \$850/mo.	450 to 950 sf	\$0.89 to \$1.00
233	Soft Lofts	\$550 to \$1,125/mo.	500 to 1,250 sf	\$0.90 to \$1.10
<b>MULTI-FAMILY FOR-SALE—27.5%</b>				
153	Soft Lofts	\$120,000 to \$195,000	800 to 1,350 sf	\$144 to \$150
122	Maisonette Apts.	\$135,000 to \$180,000	900 to 1,250 sf	\$144 to \$150
<b>SINGLE-FAMILY ATTACHED FOR-SALE—22.8%</b>				
148	Rowhouses	\$185,000 to \$225,000	1,200 to 1,500 sf	\$150 to \$154
80	Rowhouses/ {master-down}	\$200,000 to \$275,000	1,300 to 1,750 sf	\$154 to \$157
<b>SMALL-LOT SINGLE-FAMILY DETACHED FOR-SALE—16.4%</b>				
<u>164</u>	Bungalows	\$165,000 to \$295,000	1,000 to 1,800	\$164 to \$165
1,000 total units				

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

Note: 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.

Maisonette buildings are three stories with an elevation that resembles a row of townhouses; the interior, however, combines single-level and two-level apartments. Each unit has its own street entrance and attached garage, accessed from the rear of the building.

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Assuming a well-executed development and marketing program, absorption of 1,000 new dwelling units within the CMI Target Area could be achieved within five to seven years from commencement of marketing, depending on the success of pre-leasing and pre-sales programs, phasing, construction and site constraints, and barring a significant and persistent downturn in the national, regional and/or local economies. Annual absorption for 1,000 dwelling units on the site is forecast as follows:

**Annual Average Absorption**  
**CMI TARGET AREA**  
*City of Kalamazoo, Kalamazoo County, Michigan*

Multi-family for-rent	94
Hard Lofts	40
Soft Lofts	54
Multi-family for-sale	78
Soft Lofts	42
Maisonette Apartments	36
Single-family attached for-sale	36
Rowhouses	24
Rowhouses {master-down}	12
Single-family detached for-sale	24
Bungalows	24
Total	232

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

—RIVER WEST SITE—

The River West site comprises approximately seven acres, of which four and a half to five acres are developable. Because of its smaller size, the target residential mix for the River West site should be limited to multi-family housing types. Multi-family buildings can accommodate a mix of uses, in addition to residential, ranging from retail uses on the ground floor, to office uses on lower floors. A mix of uses in a single building yields more efficient land use, and, depending on parking requirements, could result in higher densities. Based on target household housing preferences, the appropriate proportion of rental versus for-sale units would be as follows:

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**Target Residential Mix—New Housing Units**  
**RIVER WEST SITE**  
*City of Kalamazoo, Kalamazoo County, Michigan*

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	630	54.8%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	<u>520</u>	<u>45.2%</u>
Total	1,150	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

Based on a gross density of 35 units per developable acre, up to 175 multi-family dwelling units could be achieved on the site. The appropriate urban housing types (multi-family only) and general rent/price ranges and unit sizes that will attract the potential market are:

**Optimum Market Position**  
**RIVER WEST SITE**  
*City of Kalamazoo, Kalamazoo County, Michigan*

Number	Housing Type	Approx. Base Rent/ Price Range	Approx. Unit Size Range	Approx. Rent/Price Per Sq. Ft.
<b>MULTI-FAMILY FOR-RENT—54.8%</b>				
56	Hard Lofts	\$525 to \$950/mo.	500 to 1,100 sf	\$0.86 to \$1.05
40	Soft Lofts	\$650 to \$1,050/mo.	600 to 1,150 sf	\$0.91 to \$1.08
<b>MULTI-FAMILY FOR-SALE—45.2%</b>				
34	Hard Lofts	\$105,000 to \$175,000	750 to 1,250 sf	\$140
<u>45</u>	Soft Lofts	\$125,000 to \$225,000	850 to 1,600 sf	\$141 to \$147
175 total units				

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

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Assuming a well-executed development and marketing program, absorption of 175 dwelling units to be constructed on the River West site could be achieved in approximately two years from commencement of marketing, again, depending on the success of pre-leasing and pre-sales programs, phasing, construction and site constraints, and barring a significant and persistent downturn in the national, regional and/or local economies. Annual absorption for 175 multi-family units is therefore forecast as follows:

**Annual Average Absorption**  
**RIVER WEST SITE**  
*City of Kalamazoo, Kalamazoo County, Michigan*

Multi-family for-rent	66
Hard Lofts	36
Soft Lofts	30
Multi-family for-sale	42
Hard Lofts	24
Soft Lofts	18
Total	108

SOURCE: Zimmerman/Volk Associates, Inc., 2005.

## POLICIES AND PROGRAMS

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- 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 broader “Live Where You Work” homeownership incentive plan.
- Require that residential uses be included in development of City-owned properties.

## BEST PRACTICES

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- Smart Growth Zoning Codes: A Resource Guide.
- Form-Based Zoning Codes.

