
EXECUTIVE SUMMARY

MARKET ANALYSIS UPDATE

RESIDENTIAL MARKET POTENTIAL

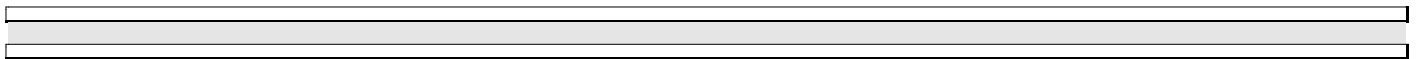
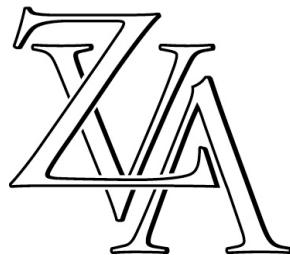
The Community Redevelopment Area
and
Downtown Pensacola

City of Pensacola
Escambia County, Florida

August, 2008

Conducted by
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On behalf of the
Community Redevelopment Agency
of the City of Pensacola and the
Downtown Improvement Board
City of Pensacola, Florida



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Research & Strategic Analysis

EXECUTIVE SUMMARY UPDATE: RESIDENTIAL MARKET POTENTIAL

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INTRODUCTION

The purpose of this study is to re-examine the market potential for newly-introduced market-rate housing units—created both through adaptive re-use of existing non-residential buildings as well as through new construction—that could be leased or sold within the Community Redevelopment Area and within Downtown Pensacola, City of Pensacola, Escambia County, Florida. The original study was published in February, 2004.

The Community Redevelopment Area (the CRA Study Area) includes the area bounded by East Cervantes Street to the north; 17th Avenue to the east; Pensacola Bay to the south; and A Street to the west, encompassing the Downtown core, which, for the purposes of this study, generally covers the area bounded by Wright Street to the north, Alcaniz Street to the east, Pensacola Bay to the south, and Reus Street to the west.

The current constrained market—characterized throughout most of the United States by weak or falling housing prices; 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. In

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Pensacola, an additional impediment is the significantly higher homeowner insurance rates, which serve to further limit the potential buyer pool.

These market constraints do not reduce the size of the potential ownership market; they could, however, depending on the timing of market entry, reduce the initial percentage of the potential market able to overcome those constraints.

For this update, Zimmerman/Volk Associates re-evaluated the following:

- Where the potential renters and buyers for new housing units in Downtown Pensacola and in the 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 Downtown and 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 Pensacola and in the Study Area and in nearby areas of Escambia County);
- What they will pay to live in Downtown Pensacola and in the Study Area (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (absorption forecasts over the next five years).

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CONCLUSIONS OF THE ANALYSIS

The extent and characteristics of the potential market for new residential units within the Community Redevelopment Area and Downtown Pensacola have been derived from the updated 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.

Approximately a third of the households that represent the market for new housing units in the Community Redevelopment Area and Downtown Pensacola are currently living in the City of Pensacola; 22.5 percent would be moving from the balance of Escambia County; 6.5 percent from Santa Rosa County; and over 37 percent from elsewhere in the nation. The depth of the potential market is as follows:

- Just over 2,000 households currently living in the defined draw areas comprise the potential market for new market-rate housing units within the Community Redevelopment Area.
- This includes more than 1,600 households that also represent the pool of potential renters/buyers of new market-rate housing units (new construction and/or adaptive re-use of non-residential structures, excluding single-family detached units) within Downtown Pensacola.

Since the initial study was conducted in 2004, there has been a significant increase in the size of the annual potential downtown market—from approximately 1,000 households in 2004 to 1,660 households in 2008—and the type of housing that best matches target household preferences. As a share of the market, multi-family for-rent has fallen from more than 61 percent in 2004 to just over 45 percent in 2008; multi-family for-sale (condominium) units now represent over 30 percent of the market (compared to 19.8 percent in 2004); and single-family attached for-sale (townhouses) comprise 24.7 percent of the market, up from 18.9 percent in 2004.

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The household groups that comprise the potential market in 2008 are:

- **Younger singles and childless couples (now the largest market segment; the second largest in 2004)**, currently representing nearly half of the market for housing units in the Community Redevelopment Area and 54 percent in Downtown Pensacola.

The challenge in capturing this potential market is being able to produce new units that are attractive to young people (lofts, not suburban-style apartments), at rents and prices the majority can afford. Since land and construction costs in downtowns are typically higher than in other neighborhoods, this can be difficult to achieve without some form of development incentives.

- **Empty nesters and retirees (in 2004, the largest market segment)**, representing 30 percent of the market for housing units in both Downtown Pensacola and the Community Redevelopment Area.

Empty nesters and retirees now represent approximately 30 percent of the potential market, down from 45 percent in 2004, in part because of their inability to sell—or reluctance to sell at a loss—their existing housing units. However, as the national, regional, and local housing markets begin to stabilize, and with the introduction of a wider variety of units in a broader range of rents and prices, older households will again become a larger share of the potential market.

- **A range of urban families (as in 2004, the smallest market segment)**, comprising 16 and 22 percent of the market for new housing units in Downtown Pensacola and the Community Redevelopment Area, respectively.

Just over 41 percent of the traditional and non-traditional family households moving to the Community Redevelopment Area in 2008 will be moving from out of town, the same percentage as in 2004.

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Depending on housing type, family-oriented households, many of whom are single parents with one or two children, will now comprise between eight percent (for-sale multi-family) and 21 percent (rental multi-family) of the market for new housing units within Downtown Pensacola, compared to 14 percent and 17 percent, respectively, in 2004.

THE MARKET POTENTIAL OF THE COMMUNITY REDEVELOPMENT AREA _____

As in 2004, an annual capture of up to 10 percent of the potential market for new multi-family units and up to five percent for new single-family attached and detached units is achievable for a specific site within a given study area under normal market conditions. As before, these capture rates are predicated on a high-quality urban plan, new dwelling units that match target household preferences and financial capacities, a well-executed development program, and an effective, and high-profile, marketing campaign. Based on a five to 10 percent capture of the potential market, then, and barring a long-term continuation of the downturn in the national, regional and local economies, a variety of sites within the Community Redevelopment Area could support up to 134 new units per year, over the next five years, as follows:

Annual Site-Specific Capture of Market Potential
COMMUNITY REDEVELOPMENT AREA
City of Pensacola, Escambia County, Florida

HOUSING TYPE	NUMBER OF HOUSEHOLDS	ANNUAL NUMBER OF UNITS	CAPTURE RATE
Rental Multi-Family (lofts/apartments, leaseholder)	750	75	9.6%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	500	24	4.8%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	410	20	4.9%
Urban Single-Family (detached houses, fee-simple ownership)	400	18	4.5%
Total	2,060	134	

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Initial absorption (market capture) could be lower than the annual number of units described above due to the uncertain timing of a mortgage and housing market recovery. As noted

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above, the current constrained market is characterized in many locations by weak or falling housing prices, high levels of unsold units, high levels of mortgage delinquencies and foreclosures, and very restrictive mortgage underwriting and development finance. These market constraints do not reduce the size of the potential market; they could, however, depending on the timing of market entry, reduce the initial percentage of the potential market able to overcome those constraints.

The appropriate housing types and general market-rate rent/price ranges and unit sizes that will attract the potential market to sites within the CRA Study Area outside the Downtown core are:

Optimum Market Position
LARGE INFILL SITES
COMMUNITY REDEVELOPMENT AREA
City of Pensacola, Escambia County, Florida

NUMBER	NET DENSITY	HOUSING TYPE	BASE RENT/ PRICE RANGE	UNIT SIZE RANGE	RENT/PRICE PER SQ. FT.
MULTI-FAMILY FOR-RENT—36.4%					
182	30 du	Mansion Apts.	\$650 to \$1,200/mo.	550 to 1,100 sf	\$1.09 to \$1.18
MULTI-FAMILY FOR-SALE—24.3%					
72	25 du	Soft Lofts	\$145,000 to \$290,000	600 to 1,250 sf	\$232 to \$242
50	20 du	Mansion Apts. {High-Range}	\$215,000 to \$375,000	850 to 1,500 sf	\$250 to \$253
SINGLE-FAMILY ATTACHED FOR-SALE—19.9%					
64	18 du	Rowhouses	\$180,000 to \$265,000	950 to 1,450 sf	\$183 to \$189
36	15 du	Rowhouses {High-Range}	\$315,000 to \$385,000	1,400 to 1,750 sf	\$220 to \$225
URBAN SINGLE-FAMILY DETACHED FOR-SALE—19.4%					
64	12 du	Cottages/Bungalows	\$250,000 to \$335,000	1,350 to 1,850 sf	\$181 to \$185
32	10 du	Houses	\$400,000 to \$475,000 and up	2,000 to 2,400 sf and up	\$198 to \$200 and up
500 total units					

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These rents and prices are in year 2008 dollars and are exclusive of buyer options and upgrades, and lot or location premiums. As in 2004, depending on site location and adjacencies, the base rents and prices could vary by 10 to 20 percent either higher or lower.

THE MARKET POTENTIAL OF DOWNTOWN PENSACOLA

Again, as in 2004, new development (including both adaptive re-use of existing non-residential buildings as well as new construction) within a Downtown core can achieve an annual capture of between 10 and 15 percent of the potential market, depending on housing type. Under normal market conditions, and based on a five to 15 percent capture of the potential market for multi-family units, and a five to 10 percent capture of for-sale single-family attached units, Downtown Pensacola should be able to support 121 to 204 new units per year over the next five years, as follows:

Annual Capture of Market Potential
DOWNTOWN PENSACOLA
City of Pensacola, Escambia County, Florida

HOUSING TYPE	HOUSEHOLDS	RATE	NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	750	10% to 15%	75 to 113
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	500	5% to 10%	25 to 50
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	<u>410</u>	5% to 10%	<u>21 to 41</u>
Total	1,660		121 to 204

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Based on the updated migration and mobility analyses, and dependent on the creation of appropriate new housing units, approximately two-thirds of the annual market capture of 121 to 204 new dwelling units in Downtown Pensacola, or approximately 80 to 135 units per year, could be from households moving into downtown from areas outside Pensacola's city limits. Over five years, the realization of that market potential could lead to an increase of between 400 and 675 households living in Downtown Pensacola that moved from a location other than the city.

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Successful residential development/redevelopment in Downtown Pensacola will require the establishment of a cohesive downtown residential neighborhood, instead of disconnected residential buildings. A neighborhood is established when enough “mass” is created—both in number of people and in number of residential buildings. In this respect, rental apartments in particular can be instrumental in the rapid establishment of “mass.” Particularly in the first phases, homeownership units are likely to represent a much smaller proportion of the total units created than rental units. Rental units allow households to experiment with living in a particular location without the commitment of home ownership. Downtown renters also form a pool of potential purchasers of ownership units that may be developed at a later date.

Based on the tenure preferences of draw area households and their income and equity levels, then, the general range of rents and prices for newly-developed market-rate residential units in the Downtown that could currently be sustained by the market is as follows:

**Rent, Price and Size Ranges
 Newly-Created Housing
 DOWNTOWN PENSACOLA
*City of Pensacola, Escambia County, Florida***

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Hard Lofts *	\$600–\$1,175/month	500–1,000 sf	\$1.18–\$1.20 psf
Soft Lofts †	\$850–\$1,600/month	600–1,200 sf	\$1.33–\$1.42 psf
Luxury Apartments	\$1,250–\$2,000/month	850–1,450 sf	\$1.38–\$1.47 psf
FOR-SALE—			
Hard Lofts *	\$125,000–\$225,000	500–1,000 sf	\$225–\$250 psf
Soft Lofts †	\$175,000–\$295,000	650–1,250 sf	\$236–\$269 psf
Luxury Condominiums	\$235,000–\$500,000	900–2,000 sf	\$250–\$261 psf
Townhouses	\$250,000–\$395,000	950–1,750 sf	\$226–\$263 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.

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

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The above rents and prices are in year 2008 dollars, are exclusive of consumer options and upgrades, floor or location premiums, and cover the broad range of rents and prices that could, in normal economic conditions, be sustainable by the market in Downtown Pensacola. Although annual incomes and residential values have risen for many households in the city over the past four years, the higher down payments currently required by lenders will preclude many younger households from becoming first-time buyers if prices continue to rise. Because of these affordability issues, it would seem that older households should therefore comprise a greater percentage of the market over the next two or three years. However, continued weakness in the resale market constrains most of these buyers as well.

Based on the incomes of the target households, the distribution by rent range of the 75 to 113 new rental units that could be absorbed each year over the next five years in Downtown Pensacola would be as follows:

Loft/Apartment Distribution By Rent Range
DOWNTOWN PENSACOLA
City of Pensacola, Escambia County, Florida

MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$500–\$750	20 to 30	26.5%
\$750–\$1,000	28 to 42	37.2%
\$1,000–\$1,250	13 to 20	17.7%
\$1,250–\$1,500	8 to 12	10.6%
\$1,500 and up	<u>6 to 9</u>	<u>8.0%</u>
Total:	75 to 113	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

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Based on the incomes of the target households, the distribution by price range of the 25 to 50 market-rate for-sale apartments that could be absorbed each year over the next five years in Downtown Pensacola is as follows:

Loft/Apartment Distribution by Price Range
DOWNTOWN PENSACOLA
City of Pensacola, Escambia County, Florida

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$100,000–\$150,000	6 to 13	26.0%
\$150,000–\$200,000	8 to 15	30.0%
\$200,000–\$250,000	6 to 12	24.0%
\$250,000 and up	<u>5 to 10</u>	<u>20.0%</u>
Total:	25 to 50	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.

Based on the incomes of the target groups, the distribution by price range of the 21 to 41 market-rate townhouses that could be absorbed each year over the next five years in Downtown Pensacola is as follows:

Townhouse Distribution by Price Range
DOWNTOWN PENSACOLA
City of Pensacola, Escambia County, Florida

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$200,000–\$250,000	8 to 15	36.6%
\$250,000–\$300,000	5 to 10	24.4%
\$300,000–\$350,000	4 to 8	19.5%
\$350,000 and up	<u>4 to 8</u>	<u>19.5%</u>
Total:	21 to 41	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2008.



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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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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.

