An Analysis of Residential Market Potential

Downtown South Bend

City of South Bend
Saint Joseph County, Indiana

July, 2013

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Research & Strategic Analysis

STUDY CONTENTS

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INTRODUCTION

The purpose of this study is to identify 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 in Downtown South Bend. The Downtown Study Area encompasses multiple blocks which extend to the Saint Joseph River and Corby Boulevard in the north; North Hill Street, East Jefferson Boulevard, and Saint Louis Boulevard in the east; East Monroe Street, South Lafayette Boulevard, and West South Street in the south; and South Taylor Street, West Western Avenue, South William Street, West Colfax Avenue, and North Lafayette Boulevard in the west. (*See* DOWNTOWN MAP *on Page* 3.)

The depth and breadth of the potential market have been determined using Zimmerman/Volk Associates' proprietary target market methodology. The target market methodology is particularly effective in defining housing potential because it encompasses 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 remarkable transformation of American households (particularly the emerging predominance of one- and two-person households) over the past decade, combined with steadily increasing traffic congestion and rising gasoline prices, has resulted in significant changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-density, auto-oriented suburbs to a diverse mix of detached houses, attached houses and higher-density apartments in downtowns and walkable, transit-served, mixed-use traditional neighborhoods. This fundamental transformation of American households is likely to continue for at least the next decade, representing an unprecedented demographic foundation on which cities can re-build their downtowns and in-town neighborhoods.

Although the ownership housing market is showing signs of renewed activity throughout most of the United States, the South Bend market remains constrained by challenging development financing and mortgage underwriting, taking a significant percentage of potential homebuyers out of the market. However, contrary to typical performance during economic recessions with high unemployment levels, rental occupancies and values continue to rise.

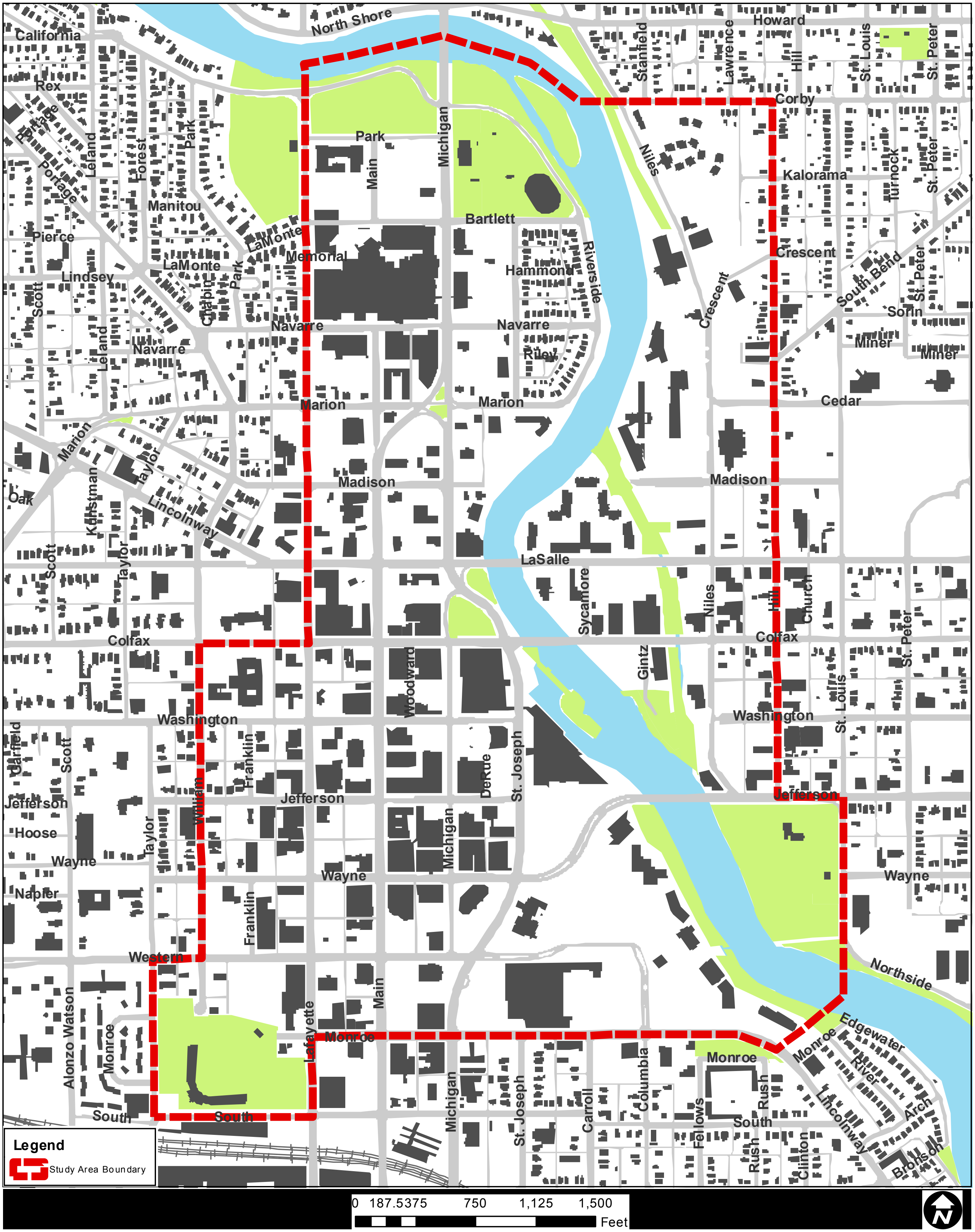
These market constraints do not reduce the size of the potential market; however, full realization of the ownership market potential will be delayed until housing finance is readily available and sustained consumer confidence returns; until then, the initial percentage of the potential market able to overcome the persistent constraints of the deep recession and restrictive mortgage underwriting is likely to be reduced.

For this analysis, Zimmerman/Volk Associates examined the following:

- Where the potential renters and buyers for new and existing housing units in the City of South Bend and the Downtown Study Area are likely to move from (the draw areas);
- How many have the potential to move to the Downtown 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);
- Who is the potential market for new housing in the Downtown (the target markets);
- What their alternatives are (new construction or adaptive re-use of existing buildings in the South Bend market area);
- What they will pay to live in Downtown (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (market capture/absorption forecasts over the next five years).

The target market methodology is described in detail in the METHODOLOGY section at the end of this study.

DOWNTOWN SOUTH BEND



OVERVIEW OF THE CITY OF SOUTH BEND

South Bend is a historic mid-sized city of more than 100,000 people, the fourth-largest in Indiana; the city is the county seat of Saint Joseph County, and the regional center of Michiana, a seven-county area that, in addition to Saint Joseph County, includes Elkhart, LaPorte, Marshall, and Starke Counties in Indiana, and Berrien and Cass Counties in Michigan. The city is situated approximately 95 miles southeast of the City of Chicago, approximately 120 miles south of the City of Grand Rapids, Michigan, and 138 miles north of Indianapolis; Lake Michigan is just 35 miles west of the city. The Indiana Toll Road (Interstates 80 and 90), which traverses the state in an east/west direction, crosses South Bend on its northern edge.

South Bend is home to a wide range of neighborhoods, many of them historic—from West Washington, the first National Register Historic District in South Bend, which was listed as one of the 2012 Best Places to Live by This Old House, to Chapin Park, East Wayne Street, and North Shore Drive that are within walking distance of the Downtown—to newer suburban subdivisions, such as Fox Run, Lafayette Falls, and the Villas at Lake Blackthorn.

South Bend is also home to several major educational institutions—ranging from the oldest, the University of Notre Dame, to Indiana University South Bend, Saint Mary's College, Bethel College, Holy Cross College, and Ivy Tech Community College; two major hospitals—the Memorial Hospital of South Bend and the Saint Joseph Regional Medical Center; and multiple cultural institutions, including the Morris Performing Arts Center, the Studebaker National Museum, the Center for History, the Civil Rights Heritage Center, the Civic Theatre, the South Bend Museum of Art, and the DeBartolo Performing Arts Center at the University of Notre Dame.

According to the 2010 Census, the population of the City of South Bend included 101,661 year-round residents; the Nielsen Company (which now owns Claritas, Inc., the national purveyor of demographic and survey data) estimates that the population fell slightly to 100,680 in 2013 and projects that the number of people living in the city year-round will fall below 100,000 to 99,530 in 2017. Over the same time frame, the number of households in South Bend is estimated to have fallen slightly from 39,771 households as of Census 2000 to 39,635 households in 2013, a decrease of just three-tenths of one percent. Nielsen projects that the number of households in the city will continue to drop, to approximately 39,400 by 2017.

Currently, just under 63 percent of South Bend's households contain just one or two persons (compared to 59 percent nationally); 15.1 percent contain three persons, and the remaining 22.3 percent contain four or more persons (compared to 25.2 percent nationally).

Less than 17 percent of the city's households can be characterized as traditional families, *e.g.*—married couples with children under age 18 (compared to 21.6 percent of all U.S. households). Non-traditional family households, headed by single persons with children under age 18, represent over 18 percent of the city's households. The remaining 65 percent of South Bend households do not have children under 18 and include married couples (19.7 percent of all households), other non-traditional family households (6.5 percent of all households), and 39 percent non-family households (primarily single-person households).

Median household income in the city is currently estimated at $32,400, compared to the national median of $49,300, with the average household income approaching $44,000 (compared to the national average household income of just over $67,300). Nearly 30 percent of the households living in South Bend have annual incomes of $50,000 or more.

In 2013, nearly 77 percent of South Bend's estimated 46,055 housing units are single-family detached houses; just 2.4 percent are single-family attached (rowhouses or townhouses); 3.3 percent are in two-unit buildings; nearly 11 percent are located in buildings of three to 19 units; and 6.3 percent are in buildings containing 20 or more units. Just under 40 percent of the city's households are renters; just over 60 percent own their units, a share that is higher than in most American cities.

The 2013 median value of the approximately 23,900 owner-occupied housing units is estimated at $87,000, slightly over half the national median value of $171,300. Only 2.1 percent of those units have an estimated value of $300,000 or more.

Just over 10 percent of South Bend's households do not own an automobile, whereas 45.5 percent own one vehicle. Just under 32 percent own two vehicles, and 12.3 percent own three or more. Over 3.6 percent of employed residents over age 16 walk to work (compared to 2.8 percent nationally), 2.9 percent take public transportation (compared to 4.8 percent nationally), nine percent car-pool (compared to 10.7 percent nationally), and 80.2 percent drive alone (75.8 percent nationally). The remaining 4.3 percent either work at home (2.4 percent), ride bicycles (1.1 percent), or have other means of getting to work (0.8 percent).

More than 21 percent of all residents aged 25 or older have a college or advanced degree, approximately six percentage points below the national share of 27.5 percent.

Almost 57 percent of the city's residents over age 16 are employed in white-collar occupations, 23.6 percent in blue-collar, and 19.7 percent in service occupations. This is a somewhat lower rate of white-collar employment than that of the nation, where just over 60 percent are white-collar workers.

Data Sources: The Nielsen Company.; U.S. Census Bureau;
Zimmerman/Volk Associates, Inc.

OVERVIEW OF DOWNTOWN SOUTH BEND

As noted above, the Downtown Study Area encompasses multiple blocks which extend to the Saint Joseph River and Corby Boulevard in the north; North Hill Street, East Jefferson Boulevard, and Saint Louis Boulevard in the east; East Monroe Street, South Lafayette Boulevard, and West South Street in the south; and South Taylor Street, West Western Avenue, South William Street, West Colfax Avenue, and North Lafayette Boulevard in the west. These boundaries do not coincide precisely with census geographies, but block groups 7001, 7002, 9001, and 9002 approximate the Study Area.

According to the 2010 Census, the population of the Downtown Study Area included just over 3,000 residents, falling to 2,938 persons in 2013. Without any new residential development in the Study Area, the Nielsen Company projects the Downtown population will fall to just over 2,800 by 2018. Over the same time frame, the number of households in the Study Area is estimated to have fallen slightly from 1,515 households as of Census 2000 to 1,484 households in 2013, an estimated decline of over three percent. In keeping with the population projections, Nielsen projects that the number of households in the Downtown will continue to fall, to approximately 1,480 households by 2017.

Currently, nearly 82 percent of Downtown South Bend's households contain just one or two persons (compared to 59 percent nationally); 8.2 percent contain three persons, and just under 10 percent contain four or more persons (compared to 25.2 percent nationally).

Less than 12 percent of the Study Area's households can be characterized as traditional families, *e.g.*—married couples with children under age 18 (compared to 21.6 percent of all U.S. households). Non-traditional family households, headed by single persons with children under age 18, represent over 11 percent of Dowtown households. The remaining 77 percent of Downtown households do not have children under 18 and include married couples (12.3 percent of all households), other non-traditional family households (4.2 percent of all households), and 61 percent non-family households (primarily single-person households).

Median household income in Downtown South Bend is currently estimated at $23,500, compared to the South Bend median of $32,400, with the average household income exceeding $38,600 (compared to the South Bend average household income of just under $44,000). Nearly 20 percent of the households living in Downtown South Bend have annual incomes of $50,000 or more.

In 2013, nearly 48 percent of Downtown South Bend's estimated 1,738 housing units are single-family detached houses; less than one percent are single-family attached (rowhouses or townhouses); 11.6 percent are in two-unit buildings; nearly 15 percent are located in buildings of three to 19 units; and 25 percent are in buildings containing 20 or more units. Just over 80 percent of the Downtown's households are renters; less than 20 percent own their units.

The 2013 median value of the approximately 295 owner-occupied housing units is estimated at $99,200, 14 percent higher than the South Bend median value of $87,000. Only six percent of those units have an estimated value of $300,000 or more.

Nearly 25 percent of Downtown's households do not own an automobile, and nearly 53 percent just own one. Just under 17 percent own two vehicles, and 5.5 percent own three or more. Nearly 7.5 percent of employed residents over age 16 walk to work (compared to 2.8 percent nationally), 3.5

percent take public transportation (compared to 4.8 percent nationally), 12.7 percent car-pool (compared to 10.7 percent nationally), and 65.2 percent drive alone (75.8 percent nationally). The remaining 11.1 percent either work at home (3.8 percent), ride bicycles (5.3 percent), or have other means of getting to work (two percent).

More than 37 percent of Downtown residents aged 25 or older have a college or advanced degree, more than 56 percent higher than the South Bend share of 21 percent.

Nearly 71 percent of the Study Area residents over age 16 are employed in white-collar occupations, 11.6 percent in blue-collar, and 17.6 percent in service occupations. This is a considerably higher rate of white-collar employment than that of the nation, where just over 60 percent are white-collar workers.

Data Sources: The Nielsen Company.; U.S. Census Bureau;
Zimmerman/Volk Associates, Inc.

CITY-WIDE MARKET POTENTIAL

Analysis of migration, mobility and geo-demographic characteristics of households currently living within defined draw areas is integral to the determination of the depth and breadth of the potential market for new housing units within the City of South Bend and the Downtown Study Area.

Historically, American households, more than any other nation's, have been extraordinarily mobile. Nationally, one result of the recession has been a considerable reduction in household mobility. South Bend, where approximately one quarter of the city's households have moved from one dwelling unit to another in recent years, has a considerably higher mobility rate than the national average. In general, household mobility is higher in urban areas; a greater percentage of renters move than owners; and a greater percentage of younger households move than older households.

An understanding of these mobility trends, as well as analysis of the socio-economic and lifestyle characteristics of households currently living within defined draw areas, is integral to the determination of the depth and breadth of the potential market for new housing units within a given area. The draw areas are derived primarily through migration analysis (using the latest data provided by the Internal Revenue Service, with additional supporting mobility data drawn from the 2011 American Community Survey for the City of South Bend), but also incorporate information obtained from real estate brokers, sales and leasing agents and other knowledgeable sources, as well as from field investigation.

Where are the potential renters and buyers of new and existing housing units in the City of South Bend likely to move from?

As determined by the migration analysis, the principal draw areas for new and existing housing units within South Bend include the city itself, as well as the balance of Saint Joseph County. Chicago (Cook County) is also a significant draw area. Several Michiana counties—Elkhart, Marshall, and LaPorte Counties, Indiana and Berrien County, Michigan—are important draw areas as well. This analysis also factors in the market potential from households currently living in all other counties represented in Saint Joseph County migration.

As derived from the migration and mobility analyses, then, the draw area distribution of market potential (those households with the potential to move within or to the City of South Bend each year over the next five years) would be as follows (*see also* Appendix One, Table 9):

Market Potential by Draw Area
City of South Bend, Saint Joseph County, Indiana

City of South Bend:	42.5%
Balance of Saint Joseph County:	29.6%
Cook County (City of Chicago):	1.7%
Michiana Draw Area:	7.8%
Balance of U.S.:	18.4%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

MARKET POTENTIAL FOR DOWNTOWN SOUTH BEND

Where are the potential renters and buyers of new housing units in Downtown South Bend likely to move from?

The target market methodology identifies those households that prefer living in downtowns and other urban neighborhoods. After discounting for those segments of the city's potential market that typically choose more suburban, exurban and/or rural locations, the distribution of draw area market potential for newly-created housing units within the Downtown would be as follows (*see also* Appendix One, Table 10):

Market Potential by Draw Area
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

City of South Bend:	38.7%
Balance of Saint Joseph County:	27.9%
Cook County (City of Chicago):	4.9%
Michiana Draw Area:	6.9%
Balance of U.S.:	21.6%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

How many households have the potential to move to the Downtown each year over the next five years if appropriate housing units were to be made available?

Based on the target market analysis, an annual average of 1,525 younger singles and couples, empty nesters and retirees, and compact families represent the potential market for new housing units within Downtown South Bend (*see again* Appendix One, Table 10).

What are their housing preferences in aggregate??

The housing preferences of these draw area households—according to tenure (rental or ownership) choices and broad financial capacity—are outlined as shown on the following page (*see also* Table 1 *at the end of this section*):

Potential Market for New Housing Units
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	655	43.0%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	140	9.2%
Single-family attached for-sale (townhouses/rowhouses, fee-simple/ condominium ownership)	220	14.4%
Low-range single-family detached (houses, fee-simple ownership)	185	12.1%
Mid-range single-family detached (houses, fee-simple ownership)	180	11.8%
High-range single-family detached (houses, fee-simple ownership)	145	9.5%
Total	1,525	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

To create the appropriate densities in the Downtown, residential development in the Study Area should concentrate on the development of higher-density housing types including:

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

Excluding households with preferences for single-family detached units, an annual average of approximately 1,015 households currently living in the defined draw areas represent the pool of potential renters/buyers of new housing within the Downtown each year over the next five years (*see again* Table 1).

Based on the tenure and housing preferences of those 1,015 draw area households, the distribution of rental and for-sale multi-family and for-sale single-family attached housing types would be as shown on the following page:

Potential Market for New Housing Units
Higher-Density Housing Units
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Rental Multi-Family (lofts/apartments, leaseholder)	655	64.5%
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	140	13.8%
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	220	21.7%
Total	1,015	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

For purposes of this analysis, the target residential mix and optimum market position for the Downtown have been established for a total of 500 units, a number which could have a substantial impact on the establishment of Downtown as a neighborhood, and which could be absorbed over the next five years. It should be noted that the availability of land and the feasibility of non-residential uses may mean that either a greater or lesser number of units could be developed within the Downtown.

As derived from market preferences, the target residential mix of 500 units would be shown as follows:

Target Residential Mix—500 Units
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	PERCENT OF TOTAL	NUMBER OF UNITS
Multi-family for-rent	64.5%	322
Multi-family for-sale	13.8%	69
Single-family attached for-sale	21.7%	109
Total	100.0%	500

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Based on projected market capture rates (*see* DOWNTOWN ABSORPTION PROJECTIONS *below*), a total of 500 dwelling units developed within the Downtown, in a mix of 322 rental apartments, 69 condominiums, and 109 townhouses, could be absorbed in less than five years. As development in the Downtown is planned and actual unit yield determined, the appropriate proportions of housing types should be maintained as closely as possible.

However, the realization of the full market potential for ownership units, condominiums in particular, could be challenging, given the restrictive development financing and mortgage underwriting by financial institutions, the disinterest on the part of younger households in becoming owners, the fact that many otherwise-qualified households, particularly current renters, lack the funds for a down payment, and the inability of many owner households to sell their existing single-family units even at reduced prices, or their reluctance to sell at a perceived loss of value.

Table 1

Average Annual Market Potential For Market-Rate Dwelling Units

Derived From Rental And Purchase Propensities Of Draw Area Households
In Groups With Median Incomes Over $50,000
With The Potential To Move Within/To The Study Area Each Year Over The Next Five Years

Downtown South Bend Study Area

City of South Bend, Saint Joseph County, Indiana

City of South Bend; Balance of Saint Joseph County, Indiana;
Regional Draw Area and Balance of the United States
Draw Areas

Total Target Market Households With Potential To Rent/Purchase In The City of South Bend, Saint Joseph County, Indiana	4,475
Total Target Market Households With Potential To Rent/Purchase In The Downtown South Bend Study Area	1,015

Downtown Average Annual Market Potential

	Multi-Family		*Single-Family*				
			Attached	*Detached*			
	For-Rent	*For-Sale*	*All Ranges*	*Low-Range*	*Mid-Range*	*High-Range*	Total
Total Households:	655	140	220	185	180	145	1,525
{Mix Distribution}:	43.0%	9.2%	14.4%	12.1%	11.8%	9.5%	100.0%

Downtown Average Annual Market Potential
(Excluding Single-Family Detached)

	Multi-Family		*Single-Family*	
			Attached	
	For-Rent	*For-Sale*	*All Ranges*	Total
Total Households:	655	140	220	1,015
{Mix Distribution}:	64.5%	13.8%	21.7%	100.0%

NOTE: Reference Appendix One, Tables 1 Through 12.

SOURCE: The Nielsen Company;
Zimmerman/Volk Associates, Inc.

TARGET MARKET ANALYSIS

Who is the potential market for new housing in the Downtown?

The increasing interest in traditional American neighborhoods—walkable, with a mix of uses and a variety of housing types—is the result of dramatic changes in American households, the growing cost of commuting by private automobile, and the profound impact of the Great Recession—which began in 2007—on both households and home-builders, particularly in exurban locations. The changing composition of American households may have the most lasting influence, however, because of the changing housing preferences of the two largest generations in the history of America: the Baby Boomers (currently estimated at 77 million), born between 1946 and 1964, and the estimated 78 million Millennials, who were born from 1977 to 1996.

In addition to their shared preference for downtowns and walkable traditional neighborhoods, the Boomers and Millennials are changing housing markets in multiple ways. In contrast to the traditional family (a married couple with children) that comprised the typical post-war American household, Boomers and Millennials are predominantly singles and couples. As a result of the dominance of the Boomers and Millennials, the 21st Century home-buying market in the United States now contains more than 63 percent one- and two-person households, and the 37 percent of the homebuyers that could be categorized as family households are as likely to be non-traditional families (single parents or unrelated couples of the same sex with one or more children, adults caring for younger siblings, to grandparents with custody of grandchildren) as traditional families.

As determined by the target market analysis, and reflecting national trends, the annual potential market—represented by lifestage—for new housing units in Downtown South Bend is characterized by general household type as shown on the following page (*see* Table 2 *at the end of this section*):

Downtown Residential Mix By Household and Unit Types
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE SF ATTACHED
Empty-Nesters & Retirees	12%	5%	25%	25%
Traditional & Non-Traditional Families	7%	6%	0%	16%
Younger Singles & Couples	81%	89%	75%	59%
Total	100%	100%	100%	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

At 81 percent, younger singles and couples make up by far the largest share of the market for new housing in Downtown South Bend. Among the principal factors in the larger share of the market held by younger households are:

- Their higher mobility rates—young people tend to move much more frequently than older people;
- Their strong preference for urban apartments, particularly lofts;
- Their preference for rental units, resulting from their negative experiences during the current housing recession;
- The reduced mobility of older singles and couples because of their inability, or reluctance, to sell their existing; and
- The fact that, outside of cities like New York, Chicago, or San Francisco, downtown dwelling units are rarely the choice of traditional families, in large part because of concerns about school quality, and the lack of private outdoor space in which their children can play unsupervised.

This younger market includes a variety of white-collar professionals—the *VIPs*, *Upscale Suburban Couples* and *Fast-Track Professionals*; young entrepreneurs, artists, and "knowledge workers"—the *Entrepreneurs*, *e-Types*, *New Bohemians*, *Twentysomethings*; as well as recent college graduates working in Downtown, office and hospital workers, and higher-education affiliates—*Small-City Singles*, *Urban* and *Suburban Achievers*.

Approximately 43 percent of the younger single and two-person households would be moving to Downtown from elsewhere in the city, 23.5 percent from another location in Saint Joseph County, seven percent from Chicago (Cook County), 5.5 percent from the Michigana draw area, and the remaining 20.1 percent from elsewhere in the country.

The challenge in capturing this potential market is 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 remains difficult to achieve without development incentives.

Older households (empty nesters and retirees) are the second largest potential market, nearly 45 percent of whom are currently living in other South Bend neighborhoods.

Empty nesters and retirees—ranging from the most affluent *Old Money*, *Urban Establishment*, *Small-Town Establishment, Suburban Establishment*, and *Cosmopolitan Elite*, to the upper-middle- to middle-income *Affluent Empty Nesters*, *New Empty Nesters*, *Mainstream Retirees* and *Middle-Class Move-Downs*—represent just 12 percent of the potential market for new housing units in Downtown, in part because of their inability to sell—or reluctance to sell at a perceived loss—their existing housing units. However, as the national, regional and local housing markets continue to stabilize, and with the introduction of a wide variety of units in a broad range of rents and prices in the Downtown, older households will again become a larger share of the potential market.

At just seven percent, the third, and smallest, general market segment—family-oriented households (traditional and non-traditional families)—is a very small percentage of the potential market for Downtown South Bend.

Nearly 90 percent of the traditional and non-traditional family households that represent the potential market for new housing units in Downtown South Bend will be moving from outside the city.

Depending on housing type, family-oriented households, many of whom are single parents with one or two children, will comprise between six percent (rental multi-family) and 16 percent (for-sale single-family attached) of the market for new housing units within the Downtown.

In 2013, the primary target groups, their estimated median incomes, and estimated median home values, if owned, are:

Primary Target Groups
(In Order of Median Income)
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSEHOLD TYPE	MEDIAN INCOME	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees		
Old Money	$159,800	$585,900
Urban Establishment	$117,100	$466,700
Small-Town Establishment	$115,400	$328,300
Cosmopolitan Elite	$108,800	$285,900
Suburban Establishment	$100,300	$266,700
Affluent Empty Nesters	$99,300	$282,600
New Empty Nesters	$99,300	$220,800
Mainstream Retirees	$72,900	$199,300
Middle-Class Move-Downs	$72,000	$163,200
Traditional & Non-Traditional Families		
The Social Register	$166,800	$461,000
Nouveau Money	$148,400	$333,800
Unibox Transferees	$116,600	$264,600
Late-Nest Suburbanites	$105,500	$258,400
Full-Nest Suburbanites	$100,700	$219,100
Full-Nest Urbanites	$77,200	$242,300
Multi-Ethnic Families	$72,500	$166,400
Multi-Cultural Families	$58,700	$156,700
Younger Singles & Couples		
The Entrepreneurs	$144,200	$413,400
e-Types	$120,100	$454,500
Fast-Track Professionals	$102,900	$307,100
The VIPs	$101,900	$274,400
Upscale Suburban Couples	$95,000	$237,000
New Bohemians	$75,300	$382,100
Twentysomethings	$70,600	$186,100
Suburban Achievers	$68,100	$198,700
Small-City Singles	$55,300	$140,300
Urban Achievers	$50,700	$251,100

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., 2013.

Table 2

Downtown Average Annual Market Potential By Household Type

Derived From Rental And Purchase Propensities Of Draw Area Households
In Groups With Median Incomes Over $50,000
With The Potential To Move Within/To The Study Area Each Year Over The Next Five Years

Downtown South Bend Study Area

City of South Bend, Saint Joseph County, Indiana

	Total	*Multi- . . . . . . Family . . . . . .* *For-Rent*	*Multi- . . . . . . Family . . . . . .* *For-Sale*	*Single- . . . Family . . . . Attached . .* *All Ranges*
Number of Households:	1,015	655	140	220
Empty Nesters & Retirees	12%	5%	25%	25%
Traditional & Non-Traditional Families	7%	6%	0%	16%
Younger Singles & Couples	81%	89%	75%	59%
	100%	100%	100%	100%

SOURCE: The Nielsen Company;
Zimmerman/Volk Associates, Inc.

—Rental Distribution—

Based on the incomes and financial capabilities of the 665 households that represent the target markets for new market-rate rental units (lofts and apartments) each year over the next five years, the distribution of annual market potential by rent range would be summarized as follows (*see also* Table 3):

Annual Market Potential For Rental Lofts/Apartments
Distributed By Rent Range
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

MONTHLY RENT RANGE	HOUSEHOLDS PER YEAR	PERCENTAGE
$750–$1,000	50	7.5%
$1,000–$1,250	185	27.8%
$1,250–$1,500	235	35.3%
$1,500–$1,750	75	11.4%
$1,750–$2,000	70	10.5%
$2,000 and up	50	7.5%
Total:	665	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Table 3

Target Groups For New Multi-Family For-Rent

The Downtown South Bend Study Area

City of South Bend, Saint Joseph County, Indiana

Empty Nesters & Retirees	*Number of Households*	*Percent*
New Empty Nesters	20	3.0%
Middle-Class Move-Downs	10	1.5%
Subtotal:	30	4.5%
Traditional & Non-Traditional Families		
Unibox Transferees	5	0.8%
Full-Nest Suburbanites	15	2.3%
Multi-Ethnic Families	20	3.0%
Subtotal:	40	6.0%
Younger Singles & Couples		
The Entrepreneurs	5	0.8%
e-Types	15	2.3%
Fast-Track Professionals	20	3.0%
The VIPs	20	3.0%
Upscale Suburban Couples	20	3.0%
New Bohemians	35	5.3%
Twentysomethings	45	6.8%
Suburban Achievers	200	30.1%
Small-City Singles	200	30.1%
Urban Achievers	35	5.3%
Subtotal:	595	89.5%
Total Households:	**665**	100.0%

SOURCE: The Nielsen Company;
Zimmerman/Volk Associates, Inc.

—For-Sale Distribution—

Based on the incomes and financial capabilities of the 140 households that represent the target markets for new market-rate for-sale multi-family units (condominium lofts and apartments) each year over the next five years, the distribution of annual market potential by price range would be summarized as follows (*see also* Table 4):

Annual Market Potential For For-Sale Lofts/Apartments
Distributed By Price Range
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

PRICE RANGE	HOUSEHOLDS PER YEAR	PERCENTAGE
\$150,000–\$200,000	45	32.1%
\$200,000–\$250,000	30	21.4%
\$250,000–\$300,000	30	21.4%
\$300,000–\$350,000	20	14.4%
\$350,000–\$400,000	10	7.1%
\$400,000 and up	5	3.6%
Total:	140	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Table 4

Target Groups For New Multi-Family For-Sale
The Downtown South Bend Study Area
City of South Bend, Saint Joseph County, Indiana

Empty Nesters & Retirees	*Number of Households*	*Percent*
Cosmopolitan Elite	5	3.6%
Affluent Empty Nesters	5	3.6%
New Empty Nesters	10	7.1%
Middle-Class Move-Downs	15	10.7%
Subtotal:	35	25.0%

Younger Singles & Couples		
The Entrepreneurs	5	3.6%
e-Types	10	7.1%
Fast-Track Professionals	5	3.6%
TheVIPs	10	7.1%
Upscale Suburban Couples	15	10.7%
Twentysomethings	15	10.7%
Small-City Singles	45	32.1%
Subtotal:	105	75.0%
Total Households:	**140**	100.0%

SOURCE: The Nielsen Company;
Zimmerman/Volk Associates, Inc.

Based on the incomes and financial capabilities of the 220 households that represent the target markets for new market-rate for-sale single-family attached units (townhouses/rowhouses/live-work units) each year over the next five years, the distribution of annual market potential by price range would be summarized as follows (*see also* Table 5):

Annual Market Potential For For-Sale Townhouses/Rowhouses/Live-Work Units Distributed By Price Range
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

PRICE RANGE	HOUSEHOLDS PER YEAR	PERCENTAGE
\$200,000–\$250,000	35	15.9%
\$250,000–\$300,000	40	18.2%
\$300,000–\$350,000	55	25.0%
\$350,000–\$400,000	45	20.5%
\$400,000–\$450,000	30	13.6%
\$450,000 and up	15	6.8%
Total:	220	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Table 5

Target Groups For New Single-Family Attached For-Sale
The Downtown South Bend Study Area
City of South Bend, Saint Joseph County, Indiana

Empty Nesters & Retirees	*Number of Households*	*Percent*
Small-Town Establishment	5	2.3%
Cosmopolitan Elite	5	2.3%
Suburban Establishment	5	2.3%
Affluent Empty Nesters	5	2.3%
New Empty Nesters	10	4.5%
Middle-Class Move-Downs	25	11.4%
Subtotal:	55	25.0%
Traditional & Non-Traditional Families		
Unibox Transferees	5	2.0%
Full-Nest Suburbanites	10	2.0%
Full-Nest Urbanites	5	2.0%
Multi-Ethnic Families	10	2.0%
Multi-Cultural Families	5	2.3%
Subtotal:	35	15.9%
Younger Singles & Couples		
The Entrepreneurs	5	2.3%
e-Types	5	2.3%
Fast-Track Professionals	10	4.5%
TheVIPs	15	6.8%
Upscale Suburban Couples	20	9.1%
Twentysomethings	20	9.1%
Small-City Singles	55	25.0%
Subtotal:	130	59.1%
Total Households:	**220**	100.0%

SOURCE: The Nielsen Company;
Zimmerman/Volk Associates, Inc.

THE CURRENT CONTEXT

What are the alternatives?

—Multi-Family For-Rent—

Eleven market-rate and income-restricted properties located in or near Downtown South Bend or near the University of Notre Dame have been included in the rental survey. (*See also* Table 6 *at the end of this section*.) Only three of the properties—Marmain, Northside Terrace, and Robertson's Apartments—are leasing studio units (efficiencies). Three of the properties are leasing just one- and two-bedroom apartments; the remainder include a mix of one- to three-bedroom flats and townhouses. The highest rent values currently being achieved in the South Bend market area are at the Foundry Lofts, the residential rental component of Eddy Street Commons, a mixed-use development located directly across from the University; rents range between $1,585 to $3,450 per month for one- to three-bedroom apartments containing between 625 and 1,528 square feet ($1.55 to $2.98 per square foot). In addition to the extensive retail located on the ground floor of the buildings, community amenities include a business center, fitness center, a rooftop deck, and a concierge.

Rents at the Irish Row Student Apartments are also high, both on a combined and a per-person basis, and include furniture. One-bedroom apartments, ranging in size between 615 and 825 square feet, lease for $895 to $995 per month based on single-occupancy. Two-bedroom apartments, also containing 815 square feet, lease for $758 per student, or $1,516 per month for two students. Three-bedroom/three-bath apartments, with over 1,000 square feet of living space, rent for $749 per person, or $2,247 per month. There are also four-bedroom/four-and-a-half bath townhouses, ranging in size from 1,020 to 1,200 square feet, that lease for $862 per person, or $3,448 per month. Community amenities include a fitness center, student lounge, and tanning beds.

At the nine remaining properties covered in the survey, rents for studios currently range from $415 to $500 a month for units containing from 400 to 575 square feet (between $0.80 to $1.11 per square foot).

Rents for one-bedroom apartments generally start at about $500 and go to just under $900 a month for units ranging in size from 500 to 875 square feet (in general, a range of $0.61 to $1.20 per square foot, although a few individual units fall below or above this rent-per-square-foot range).

Rents for two-bedroom apartments generally range between $600 and nearly $1,200 per month, although a few two-bedroom units are priced above that. Two-bedroom units generally include approximately 800 to 1,500 square feet of living space (from $0.57 to about $0.97 per square foot), although Central High School Apartments has two-bedroom units containing up to 1,700 square feet. Those units rent for $1,400 a month, or $0.82 per square foot.

Four of these nine properties also have three-bedroom apartments. Most of the three-bedroom units start at about 950 square feet, with the largest, an apartment at Stephenson Mills containing more nearly 1,500 square feet. Rents per square foot range from $0.50 to $0.87.

Only a few of the properties have the basic community amenities—such as a fitness center or work-out room, clubhouse, and business center. Hurwich Farms and the Pointe at St. Joseph provide pools; Hurwich Farms also includes sports courts. Only the Foundry Lofts provides less typical amenities, such as concierge services and a rooftop deck.

Nearly all of the rental properties included in the survey are at or above functional full occupancy (less than five percent vacant units).

Table 6

Summary Of Selected Rental Properties

Downtown South Bend Market Area, Saint Joseph County, Indiana

April, 2013

Property / *Address*	*Number of Units*	*Unit Type*	*Base Rent*	*Avg. Unit Sizes*	*Rents per Sq. Ft.*	*Amenities*
Marmain Apts (1923)						Fitness center,
125 W. Marion Street		Studio/1ba	$415 to	400 to	$0.90 to	lounge.
			$495	550	$1.04	Utilities included.
		1br/1ba	$595	875	$0.68	
		1br/1ba/den	$645	975	$0.66	
		1br/1ba/sunroom	$645	975	$0.66	
		1br/1.5ba	$685	985	$0.70	
		2br/1ba	$695	1,200	$0.58	
Northside Terrace (1950s)	**72**					*Laundry facility.*
501 Pennsylvania Avenue		Studio/1ba	$399 to	450	$0.89 to	
South Bend Heritage Foundation			$500		$1.11	
		1br/1ba	$499 to	500	$1.00 to	
			$600		$1.20	
		2br/1ba	$579 to	800	$0.72 to	
			$750		$0.94	
		2br/2ba	$599 to	900	$0.67 to	
			$799		$0.89	
		3br/2ba	$699 to	950	$0.74 to	
			$830		$0.87	
Robertson's Apts.						*Some Utilities*
211 South Michian		Studio/1ba	$458	575	$0.80	*included.*
REMC		1br/1ba	$560	725	$0.77	
		2br/1ba	$660	887	$0.74	***Seniors 55+***
		2br/1.5ba TH	$700	1,040	$0.67	
Monroe Park Apts. (1994)	**57**					*Tax credit units.*
526 Fellows Street		1br/1ba	$499	700	$0.71	
MGM Property Management		2br/1ba TH	$599	945	$0.63	
		3br/2ba TH	$699	1,020	$0.69	
Washington Dunbar	**80**					*Playground.*
(Renovated 2010)		1br/1ba	$500 to	690	$0.72 to	
118 N. Walnut Street			$690		$1.00	
South Bend Heritage Foundation		2br/1ba	$527 to	1,020 to	$0.52 to	
			$669	1,100	$0.61	
		3br/2ba	$601 to	1,200	$0.50 to	
			$759		$0.63	

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Downtown South Bend Market Area, Saint Joseph County, Indiana

April, 2013

Property / *Address*	*Number of Units*	*Unit Type*	*Base Rent*		*Avg. Unit Sizes*		*Rents per Sq. Ft.*		*Amenities*
Hurwich Farms	**396**								*Fitness center,*
2701 Appaloosa Lane		1br/1ba	$600	to	688	to	$0.80	to	*clubhouse, pool.*
Edward Rose			$675		841		$0.87		*sport courts.*
		2br/2ba	$740	to	922	to	$0.78	to	
			$775		991		$0.80		*Heat included.*
Central HS Apts. (1913)	**106**								*Laundry facility.*
330 West Colfax Avenue		1br/1ba	$650	to	588	to	$1.11	to	
Forum Real Estate Group			$725		607		$1.19		
		2br/1ba	$850	to	840		$1.01	to	
			$1,040				$1.24		
		2br/1ba loft	$900	to	1,122		$0.80	to	
			$1,200				$1.07		
		2br/2ba	$1,200	to	1,413	to	$0.82	to	
			$1,400		1,700		$0.85		
Stephenson Mills	**40**								*Laundry facility.*
332 West Colfax Avenue		2br/1.5ba	$800	to	1,348		$0.59	to	
(rental office address)			$1,200				$0.89		
Forum Real Estate Group		2br/2ba	$950		1,514		$0.63		
		3br/2ba	$1,050		1,464		$0.72		
Pointe at St. Joseph	**202**								*Fitness center,*
307 East Lasalle Avenue		1br/1ba	$865	to	784	to	$1.10	to	*business center,*
CAPREIT Residential			$890		700		$1.27		*clubhouse, pool.*
		2br/1.5ba	$910	to	1,020		$0.89	to	
			$985				$0.97		
		2br/2ba	$890	to	1,032	to	$0.86	to	
			$1,110		1,151		$0.96		
		2br/2ba/den	$1,115	to	1,076		$1.04	to	
			$1,190				$1.11		

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Downtown South Bend Market Area, Saint Joseph County, Indiana

April, 2013

Property / *Address*	*Number of Units*	*Unit Type*	*Base Rent*		*Avg. Unit Sizes*		*Rents per Sq. Ft.*		*Amenities*
Irish Row Student Apts.	**40**								*Fitness center,*
{2010}		1br/1ba	$895	pp	615		$1.46		*Student lounge,*
1855 Vaness Street		1br/1ba	$995	pp	815		$1.22		*tanning bed.*
EdR Trust		2br/2ba	$758	pp					
			$1,516		815		$1.86		*Fully furnished*
		3br/3ba	$749	pp					*units.*
			$2,247		1,020		$2.20		
		4br/4.5ba TH	$862	pp					
			$3,448		1,020	to	$2.87	to	
					1,200		$3.38		
The Foundry Lofts (2009)	**266**								*Fitness center,*
1233 North Eddy Street		1br/1ba	$1,585	to	625	to	$2.54	to	*business center,*
Buckingham Companies			$2,315		776		$2.98		*concierge,*
		2br/2ba	$1,830	to	866	to	$2.11	to	*rooftop deck.*
			$3,015		1,223		$2.47		
Phase II planned.		3br/2.5ba	$1,800	to	1,159	to	$1.55	to	
			$3,450		1,528		$2.26		

SOURCE: Zimmerman/Volk Associates, Inc.

—Multi-Family and Single-Family Attached For-Sale—

The small number of condominium and townhouse properties currently being marketed in South Bend were introduced between 2006 and 2012, just prior to the collapse of the housing market in 2008 through the beginnings of the housing recovery in 2012. (*See* Table 7 *at the end of this section*.) Most of these properties are located outside of Downtown. River Race, David Matthews' second project on the East Bank, is a group of 10 three-bedroom, three-and-a-half bath townhouses located on South Niles Avenue. Six of the townhouses have been sold; base prices of the remaining four range between $299,900 and $460,000 for 1,700 to 2,500 square feet of living space ($176 to $184).

Another Matthews project, Ivy Quad, is located on Burdette Street east of the University. A total of 64 three- and four-bedroom flats and townhouses in three phases have been planned. Phase One is sold out and Phase Two is the current phase. Base prices of the Phase Two four-bedroom units range between $430,000 for more than 2,200 square feet of living space to $460,000 for just under 2,700 square feet ($172 to $194). A 2,600-square-foot, three-bedroom resale is listed at $415,600 ($160 per square foot).

Cooreman Properties is currently building Irish Crossings, also on Burdette Street. The three-bedroom/three-and-a-half bath townhouses are priced at $369,000 for 1,965 square feet of living space and $369,900 for a unit containing 2,120 square feet ($174 to $188 per square foot). Since sales first began in 2007, 67 of the 75 townhouses have been sold, an average of about one sale per month. Dublin Village, also by Cooreman Properties, has sold all of its 58 townhouses; three resales are currently on the market—a 1,300-square-foot, two-bedroom/two-and-a-half bath townhouse with an asking price of $179,900 ($138 per square foot); and two four-bedroom/three-and-a-half bath townhouses containing 2,065 square feet and priced at $234,900 ($114 per square foot).

Both condominium flats and townhouses are being marketed at Eddy Street Commons, the mixed-use project located just south of the University. Legends Row is comprised of 66 two- and three-bedroom condominiums ranging in size from 815 to 1,350 square feet and priced from $219,900 to $350,000 ($259 to $270 per square foot). The first phase of 18 condominiums is sold out, and just three of the 32 units in Phase Two remain to be sold. A total of 62 Champions Way townhouses are currently being marketed, of which 46 have been sold to date. The first building of nine townhouses was purchased by the University to provide housing for visiting faculty. The 2,150- to 2,174-square-foot townhouses can be configured with two up to five bedrooms, and prices start at $395,000 ($184 per square foot and up). Two more projects—Victory View Flats and Triumph Court Townhouses—are planned but are not yet being marketed.

The Cottages of Pendle Woods, by Holladay Properties, is located on Foley Circle north of the University. Forty-one of the 49 villas have been sold; the base prices of the 1,692-square-foot, three-bedroom/two bath units range between $319,900 and $329,900 ($189 to $195 per square foot). One resale is also on the market: a four-bedroom/three-and-a-half bath model containing over 2,000 square feet with an asking price of $374,900 ($185 per square foot).

Table 7

Summary Of Selected For-Sale Multi-Family And Single-Family Attached Developments

Downtown South Bend Market Area, Saint Joseph County, Indiana

April, 2013

Development (Date Opened) *Address/Developer*	*Unit Type*	*Beds/ Baths*	*Unit Price Range*	*Unit Size Range*	*Price Per Sq. Ft.*	*Total Units*	*Total Sales*
Dublin Village (2006)	**TH**		. . . . *Resales*			**58**	**58**
Cooreman Properties		2br/2.5ba	$179,900	1,300	$138		
		4br/3.5ba	$234,900	2,065	$114		
		4br/3.5ba	$234,900	2,065	$114		
Eddy Street Commons (2008)			. . . . *Current Pricing*				
Legends Row	**CO**	2br/2ba	$219,900	815	$270	66	**47**
		3br/2ba	$350,000	1,350	$259	phase II selling	
Champions Way	**TH**	2-5br/3.5ba	$395,000 and up	2,150 to 2,174	$184	**62**	**46**
River Race (2012)	**TH**					**10**	**6**
South NilesAvenue		3br/3.5ba	$299,900 to	1,700 to	$176 to		
David Matthews			$460,000	2,500	$184		
Cottages of Pendle Woods	**Villas**		. . . . *New Construction*			**49**	**41**
Foley Circle		3br/2ba	$319,900	1,692	$189		
Holladay Properties		3br/2ba	$329,900	1,692	$195		
			. . . . *Resales*				
		4br/3.5ba	$374,900	2,027	$185		
			. . . . *Lot Prices*				
			$35,000 to	$67,000			
Irish Crossings (2007)	**TH**					**75**	**67**
Burdett Street		3br/3.5ba	$369,000 to	1,965 to	$174 to		
Cooreman Properties			$369,900	2,120	$188		
Ivy Quad (2008)	**CO/**		. . . . *New Construction*			**64**	**n/a**
Burdette Street	**TH**	4br/4.5ba	$430,000 to	2,212 to	$172 to	phase I sold out	
David Matthews			$460,000	2,675	$194	phase II selling	
			. . . . *Resales*				
		3br/2.5ba	$415,600	2,600	$160		

SOURCE: Zimmerman/Volk Associates, Inc.

MARKET-RATE RENT AND PRICE RANGES: DOWNTOWN SOUTH BEND

From a market perspective, the assets of Downtown South Bend that make it an attractive place to live include:

- Historic buildings: The number of architecturally and historically significant buildings provide a unique identity for the Downtown.
- Employment: Downtown South Bend is a regional employment center and home to a variety of businesses, as well as multiple city and county offices; it is also a short distance from the University of Notre Dame, the city's largest employer.
- Culture and Entertainment: Downtown is the home of the Morris Performing Arts Center, as well as the Studebaker National Museum, the Center for History, the Civic Theatre, and the South Bend Museum of Art. The Coveleski Stadium, located in the southern part of downtown, is home to the Silver Hawks, a Class A affiliate of the Arizona Diamondbacks.
- Shopping and Dining: A variety of eateries, ranging from Jimmy John's Gourmet Sandwiches, to the South Bend Chocolate Café, to white tablecloth restaurants, such as the Café Navarre and the LaSalle Grill are located in and around Downtown, and a number of stores, including florists, beauty salons, bookstores, boutiques, small grocers, and to pop-up shops, among many others, are scattered throughout the Downtown.
- Walkability: Downtown is compact enough to walk from one end to the other, although, due to the number of open parking lots, the quality of the pedestrian experience needs to be improved significantly.
- The River and Parks: The Saint Joseph River, which divides the East Bank from the core Downtown and gives the city its name, is also the location of the South Bend East Race Whitewater Course, a 1,900-foot long artificial whitewater course operated by the Parks and Recreation Department. Leeper Park, situated on the river at the northern end of Downtown, provides playgrounds, tennis courts, and a multiuse field, as well as hosting the annual juried Leeper Park Art Fair.
- Location and Access: Downtown is well positioned in the citywide and regional arterial network, which makes it a convenient and highly accessible area by car.

From a market perspective, the major challenges to new residential development in Downtown South Bend include, in order of importance:

- High costs: The high costs of materials, in addition to the typically high cost of adaptive re-use, drive rents and prices beyond the reach of many potential Downtown residents.
- Financing challenges: Restrictive mortgage underwriting and development finance continues to be a challenge to developers and mortgages are still difficult to obtain for many potential buyers.
- Safety misperceptions: The perspective of many local and regional households that Downtown South Bend is an undesirable, and possibly dangerous, place to live.
- Parking misconceptions: Regardless of the abundance of parking garages and open parking lots, the local perception is that there is no place to park Downtown.
- Non-automobile transportation: The dearth of transportation options other than the automobile limits the size of the potential market for new residential development.

What will they pay to live in Downtown South Bend?

The market-rate rent range outlined below covers leases by households with annual incomes ranging between $40,000 and $110,000 or more. A single-person household with an income of $40,000 per year, paying no more than 30 percent of gross income for rent and utilities (the national standard for affordability) would qualify for a rent of $800 per month for a studio or one-bedroom apartment. A two- or three-person household, with an income of $100,000 or more per year, paying no more than 30 percent of gross income for rent and utilities, would qualify for a rent of $2,750 per month.

The market-rate price range outlined below covers purchases by households with annual incomes ranging between $50,000 and $150,000 or more. This analysis did not assess affordability based on the use of non-standard mortgage instruments, but rather typical 30-year mortgages, with either a 10 or 20 percent down payment, at prevailing interest rates.

Based on the housing preferences and the socio-economic and lifestyle characteristics of the target households, the assets and challenges of Downtown South Bend, and the relevant residential context in the Downtown South Bend market area, 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 (*see also* Table 8):

Rent, Price and Size Ranges
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
RENTAL—			
Lofts/Apartments	\$800–\$2,750/month	500–1,400 sf	\$1.50–\$2.00 psf
FOR-SALE—			
Lofts/Apartments	\$150,000–\$425,000	750–1,750 sf	\$192–\$247 psf
Rowhouses/Live-Work	\$225,000–\$475,000	1,000–1,800 sf	\$223–\$268 psf

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Based on unit types, sizes, and mix outlined in the optimum market position above, the weighted average rent and prices for each of the housing types is shown on the following page:

Weighted Average Base Rent and Prices
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	WEIGHTED AVERAGE BASE RENT/PRICES	WEIGHTED AVERAGE UNIT SIZE	WEIGHTED AVERAGE BASE RENT/PRICES PER SQ. FT.
Multi-family for-rent	\$1,515 per month	866 sf	\$1.75
Multi-family for-sale	\$252,250	1,144	\$221
Single-family attached for-sale	\$343,000	1,370	\$250

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

Rents and prices are in year 2013 dollars, are exclusive of consumer options and upgrades, floor or location premiums, and cover the broad range of rents and prices that could be sustained by the market in Downtown South Bend. Although annual incomes have risen for many households in the city over the past five years, the higher down payments currently required by lenders will preclude many younger households from becoming first-time buyers. 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, weakness in the resale market could potentially constrain a number of these buyers as well.

For the most part (and depending on location), these rents and prices cannot be achieved by the development of one or two infill units, but require that projects be of sufficient size (at least 20 units) to support a high-impact marketing campaign and achieve some measure of cost efficiency through economy of scale. Location will also have a significant impact on rents and prices; projects situated within a short walking distance of high-value amenities, such as restaurants, theaters, shops, or employment will likely command rents and prices at the upper end of values. Those projects in less desirable locations are likely to command rents and prices at the lower end of values.

In addition to adaptive re-use of existing vacant or under-utilized buildings, the residential conversion of Class B office buildings can have a salutary effect on the Downtown Study Area. These buildings are likely to yield a greater number of dwelling units than two- and three-story conversions, increasing the downtown population at a more rapid pace. In addition, the conversion of high-vacancy Class B buildings to residential takes them out of the commercial market, resulting in a decline in office vacancy rates, sometimes to the extent that demand for new office construction is induced.

Table 8

Optimum Market Position
The Downtown South Bend Study Area
City of South Bend, Saint Joseph County, Indiana
June, 2013

Housing Type	*Percent Mix*	*Base Rent/Price Range**	*Base Avg. Unit Size Range*	*Base Rent/Price Per Sq. Ft.**
Multi-Family For-Rent				
Hard Lofts *Open Floorplans*	35%	$800 to $1,500	500 to 1,000	$1.50 to $1.60
Soft Lofts *Studios to 2-Bedrooms*	35%	$950 to $1,850	550 to 1,100	$1.68 to $1.73
Luxury Apartments *1- to 3-Bedrooms*	30%	$1,400 to $2,750	700 to 1,400	$1.96 to $2.00
Weighted Averages:		$1,515	866	$1.75
Multi-Family For-Sale				
Hard Lofts *Open Floorplans*	25%	$150,000 to $230,000	750 to 1,200	$192 to $200
Soft Lofts *1- and 2-Bedrooms*	45%	$185,000 to $285,000	850 to 1,350	$211 to $218
Luxury Condominiums *2- and 3-Bedrooms*	30%	$235,000 to $425,000	950 to 1,750	$243 to $247
Weighted Averages:		$252,250	1,144	$221
Single-Family Attached For-Sale				
2- and 3-Story Live-Work Units *1- and 2-Bedrooms* *500 sf work space on ground floor*	40%	$225,000 to $335,000	1,000 to 1,500	$223 to $225
2- and 3-Story Rowhouses *2- and 3-Bedrooms*	60%	$295,000 to $475,000	1,100 to 1,800	$264 to $268
Weighted Averages:		$343,000	1,370	$250

NOTE: Base rents/prices in year 2013 dollars and exclude floor, view or lot premiums, consumer options or upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

DOWNTOWN ABSORPTION PROJECTIONS

How fast will the units lease or sell?

After more than two decades' experience in scores of cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that, over the near term, those households that prefer new construction, rather than previously-occupied units, currently represent between 10 and 15 percent of the potential rental market, and between 8.5 and 10 percent of the potential for-sale market, assuming the production of appropriately-positioned new housing. (Until the collapse of the housing market in the fall of 2008, newly-constructed dwelling units comprised approximately 15 percent of all units sold in the nation; in 2012, that percentage had dropped to just 8.5 percent of all units sold.)

Based on a 10 to 15 percent capture of the potential market for new rental housing, and an 8.5 to 10 percent capture of the potential market for new for-sale housing units, Downtown South Bend should be able to support between 97 to 134 new market-rate housing units per year over the next five years as follows:

Annual Capture of Market Potential
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Rental Multi-Family (lofts/apartments, leaseholder)	655	10% to 15%	66 to 98
For-Sale Multi-Family (lofts/apartments, condo/co-op ownership)	140	8.5% to 10%	12 to 14
For-Sale Single-Family Attached (townhouses/rowhouses, fee-simple ownership)	220	8.5% to 10%	19 to 22
Total	1,015		97 to 134

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

These capture rates support the creation of between 485 and 671 new dwelling units within Downtown South Bend over the next five years. Over the longer term (beyond five years), these capture rates are likely to increase as the Downtown neighborhood is established. Depending on whether there is a sufficient number of developable sites, over 10 years, the market could likely support between 1,000 and 1,500 new rental and for-sale housing units in the Downtown.

The impact of the substantial number of new units in Downtown will be substantial, by making the Study Area a much more desirable location for retailers and small businesses, as well as increasing the number of young people living in Downtown, and providing greater housing and income diversity.

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 examines market potential over the near term. Because of the dramatic changes in the composition of American households that has occurred since the 1990s, and the likelihood that significant changes will continue, both the depth and breadth of the potential market for downtown living is likely to continue to grow. 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 housing typically increases.

DOWNTOWN HOUSING TYPES

Building and unit types most appropriate for Downtown South Bend include:

- Courtyard Apartment Building: In new construction, an urban, pedestrian-oriented equivalent to conventional garden apartments. An urban courtyard building is three or more stories, often combined with non-residential uses on the ground floor. The building should be built to the sidewalk edge and, to provide privacy and a sense of security, the first floor should be elevated significantly above the sidewalk. Parking is either below grade, at grade behind or interior to the building, or in an integral structure.

  The building's apartments can be leased, as in a conventional income property, or sold to individual buyers, under condominium or cooperative ownership, in which the owner pays a monthly maintenance fee in addition to the purchase price.

- Loft Apartment Building: Either adaptive re-use of older warehouse or manufacturing buildings or a new-construction building type inspired by those buildings. The new-construction version is usually elevator-served with double-loaded corridors.

  Hard Lofts: Unit interiors typically have high ceilings and commercial windows and are minimally finished (with minimal room delineations such as columns and fin walls), or unfinished (with no interior partitions except those for bathrooms).

  Soft Lofts: Unit interiors typically have high ceilings, are fully finished and partitioned into individual rooms. Units may also contain architectural elements reminiscent of "hard lofts," such as exposed ceiling beams and ductwork, concrete floors and industrial finishes, particularly if the building is an adaptive re-use of an existing industrial structure.

  The building's loft apartments can be leased, as in a conventional income property, or sold to individual buyers, under condominium or cooperative ownership, in which the owner pays a monthly maintenance fee in addition to the purchase price. (Loft apartments can also be incorporated into multifamily buildings along with conventionally-finished apartment units.)

- Liner Building: An apartment building with apartments and/or lofts lining two to four sides of a multi-story parking structure. Units are typically served from a single-loaded corridor that often includes access to parking. Ground floors typically include a traditional apartment lobby and can also include maisonette apartments, retail or some combination of the two.

- Podium Building: A small-scale apartment building construction type with two or more stories of stick-frame residential units (lofts or apartments) built over a single level of above-grade structured parking, usually constructed with reinforced concrete. With a well-conceived street pattern, a podium building can include ground-level non-residential uses lining one or more sides of the parking deck.

- Mansion Apartment Building: A two- to four-story flexible-use structure with a street façade resembling a large detached or attached house (hence, "mansion"). The attached version of the mansion, typically built to a sidewalk on the front lot line, is most appropriate for downtown locations. The building can accommodate a variety of uses—from rental or for-sale apartments, professional offices, any of these uses over ground-floor retail, a bed and breakfast inn, or a large single-family detached house—and its physical structure complements other buildings within a neighborhood.

  Parking behind the mansion buildings can be either alley-loaded, or front-loaded served by shared drives. The form of the parking can be in open lots, in garages with units above, or integral to the building.

  Mansion buildings should be strictly regulated in form, but flexible in use. However, flexibility in use is somewhat constrained by the handicapped accessibility regulations in both the Fair Housing Act and the Americans with Disabilities Act.

- Rowhouse: Similar in form to a conventional suburban townhouse except that the garage—either attached or detached—is located to the rear of the unit and accessed from an alley or auto court. Unlike conventional townhouses, urban townhouses conform to the pattern of streets, typically with shallow front-yard setbacks. To provide privacy and a sense of security, the first floor should be elevated significantly above the sidewalk.

- Live-work is a unit or building type that accommodates non-residential uses in addition to, or combined with living quarters. The typical live-work unit is a building, either attached or detached, with a principal dwelling unit that includes flexible space that can be used as office, retail, or studio space, or as an accessory dwelling unit.

  Regardless of the form they take, live-work units should be flexible in order to respond to economic, social and technological changes over time and to accommodate as wide as possible a range of potential uses. The unit configuration must also be flexible in order to comply with the requirements of the Fair Housing Amendments Act and the Americans with Disabilities Act.

  True live-work units tend to be most successful within an already established neighborhood or urban center. In most of the live-work projects for which information is available, the units are likely to be purchased by households for use as dwelling units only, or purchased by investors. A resident investor can lease the flex space for residential, retail or office use; a non-resident investor can lease both the main residential space or the flex space. Since experience shows that it is uncommon for retail operators to live above the store, live-work units must comply with local codes permitting the legal separation of uses in order to maintain investor flexibility.

DOWNTOWN HOUSING STRATEGIES

From the perspective of draw area target market propensities and compatibility, a 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 South Bend 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 downtown;
- 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;
- New residential construction: the introduction of housing types not currently available or under-represented in Downtown South Bend;
- Mixed-use development: the inclusion of a residential component within mixed-use buildings, either adaptive re-use or new construction; and
- The development of new, and continuation of existing programs and policies that encourage the creation of downtown housing.

The City of South Bend should encourage residential redevelopment of existing buildings, particularly those of architectural merit, because of the demonstrated positive impact historic rehabilitation has had on housing and neighborhood values nationally.

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

1. Evaluate Buildings/Areas for Residential Development

In general, areas or buildings slated for new development or redevelopment should be evaluated relative to the following criteria for successful urban housing initiatives:

(a) Advantageous adjacency. It is critical to "build on strength," not only to provide maximum support for any proposed housing initiatives, but also, conversely, so that housing initiatives will reinforce existing or proposed adjacent developments (commercial, retail, or residential).

(b) Building and/or land availability. At present, several buildings or parcels within the downtown are underutilized or vacant. From the City's perspective, poorly-located or under-used surface parking lots are better utilized as sites for new infill mixed-use development, not only to enhance the City's tax base, but also to provide a more inviting and interesting pedestrian experience for downtown residents and visitors.

(c) Potential for expansion. Each housing initiative should be located in an area where, at the successful completion of the initial project, adjacent or nearby buildings and/or land appropriate for the continuation or extension of the neighborhood, either through new construction or adaptive re-use would potentially be available. Each housing initiative should be viewed not as a "stand-alone" project, but rather as a potential catalyst for additional residential development in surrounding areas.

(d) Anchors/linkage. Each housing initiative must be seen as part of an overall urban strategy to build a critical mass of both housing and related non-residential uses. "Anchor" locations establish the potential for economic activity in an underutilized area; "linkage" locations build on the strength of two or more established, but disconnected assets.

Successful residential development/redevelopment in Downtown South Bend will require the establishment of residential "addresses," leading to the creation of a downtown residential neighborhood where none currently exists. A neighborhood is established when enough "mass" is created—both in number of people and in number of residential buildings. Rental apartments in particular are instrumental in the rapid establishment of "mass." Rentals allow households to experiment with living in a particular location without the commitment of home ownership, and downtown renters will form a pool of potential purchasers of ownership units that may be developed at a later date.

2. Ensure Appropriate Urban Design

A neighborhood is the sum of a variety of elements: the configuration of the street and block network, the arrangement of lots on those blocks, and the manner in which buildings are disposed on their lots and address the street. Successful residential development in downtown will depend upon the preservation, enhancement, and restoration of the downtown's urban character. A downtown residential neighborhood succeeds when its physical characteristics consistently emphasize urbanity and the qualities of city life; conversely, attempts to introduce suburban scale and housing types (or, indeed, suburban building forms in general) into urban areas have invariably yielded disappointing results. Therefore, appropriate urban design—which places as much emphasis on creating quality streets and public places as on creating or redeveloping quality buildings—will be essential to success. The important elements can be summarized in several practical inter-related guidelines:

(a) Preservation or restoration of the urban fabric. Emphasis should be on adaptive re-use, with new construction used as infill among rehabilitated structures.

(b) Respect for the urban context. Major renovation and new infill construction should maintain the building lot disposition and "build-to" line. When building heights are increased, the new floors should be set back from the historic cornice line. Pedestrian entrances should always be from the sidewalk; automobile entrances should always be minimized. Buildings should never present a blank wall to the street.

(c) Streets designed for pedestrian comfort. Automobiles are accommodated on great urban streets; however, they are not given precedence over ease of pedestrian movement. The emphasis on streets can have significant, long-term impact on both street safety (providing "eyes on the street") and usable parks and squares.

(d) Continuing improvement of the streetscape. Local artists can create a unique physical environment which could be extended to the downtown's "street furniture"—additional seating areas, public sculptures, and other small street amenities that make the difference between an "automobile-oriented road" and a "neighborhood street."

(e) Reduced parking requirements. South Bend should be commended for eliminating parking requirements. Many cities have stifled new residential development because of excessive parking requirements.

3. Market and Monitor the Downtown

A high-profile marketing program should be undertaken to promote the Downtown as a viable and exciting residential alternatives and part of the promotion of Downtown as a destination for events and entertainment. An effective marketing program will require advertising and public relations, merchandising and promotion; the full-scale housing marketing program should begin when there are at least two residential buildings under way in the downtown.

(a) Advertising and public relations should include an "image" campaign that not only keeps the downtown within the public consciousness, but also reinforces the positive aspects of urban living. The City of Norfolk, Virginia adopted the slogan "Come Home to Norfolk Now" as the centerpiece of their marketing campaign that focuses on downtown and surrounding in-town neighborhoods. The campaign has been highly successful in attracting new residents, to both the downtown as well as the city's in-town neighborhoods.

(b) Merchandising, which also includes consistent street amenities, such as lighting and trash receptacles with uniform and distinctive designs, should be extended into the in-town neighborhoods to emphasize the connections between the core downtown and the surrounding neighborhoods.

(c) Many cities sponsor annual downtown housing tours, which have been enormously successful in familiarizing the public with the housing options available in the core downtown and in-town neighborhoods. In Louisville, Kentucky, the first Downtown housing tour attracted over 100 people with minimal marketing; tours now require several buses to accommodate the hundreds of participants. Many cities charge fees for the tours, with the fees donated to public or charitable organizations, ranging from arts organizations to the public library. Once there are at least 10 downtown apartments that can be included in the tour, South Bend should undertake this program.

(d) Special events attract large numbers of households to the city. These types of events are critical to establishing the Downtown as a center for public activity. Another proven tactic is the extended charity event, in which multiple reproductions of a common iconic image (the cows of Chicago, the mermaids of Norfolk, Virginia, the Mastodons of Fort Wayne, the basketball sneakers of Springfield, Massachusetts) are decorated by sponsored artists and displayed throughout the Downtown. These events typically draw significant crowds, including suburban families, to the Downtown and encourage visitors to explore the city on foot.

Marketing efforts are most effective when they are constantly fine-tuned based on results, which requires some means of monitoring marketing impact. In the City of Baltimore, Maryland, the Downtown Partnership maintains a database of all existing residential properties located within the Downtown. The Partnership updates, on a quarterly basis, the monthly rents, vacancy and turnover rates at each rental building; the values and sales of newly-developed units in new construction or adaptive re-use of existing buildings; and the values and frequency of resale activity within older condominium buildings, to determine value escalation, if any. In addition, the Partnership monitors the status of all new development proposals. This information is readily available to potential developers via the Partnership's website.

Downtown, and most of Baltimore's in-town neighborhoods, are actively marketed through another website, "Live Baltimore," which is linked to the Downtown Partnership website. This site describes in detail each neighborhood's assets, from cultural institutions to architectural characteristics, and also provides comprehensive listings of available rental and for-sale units (with location, asking rent/price, unit size and photograph).

POLICIES AND PROGRAMS

Impediments to Downtown residential development and redevelopment that typically discourage the private sector include regulatory obstacles (zoning and code requirements), high asking prices for existing, underutilized buildings and vacant land, and potentially high production costs relative to the initial value of completed units. The cost problem may actually be more acute in adaptive re-use, since the existing structure often complicates the design effort while costing nearly as much as or, under some circumstances, more than new construction.

Strategies for Downtown housing should be supported by targeted policies and programs that are coordinated for effective and efficient implementation. Policies and programs that have been effective across the country are outlined here.

—*City-Owned Land*—

City-owned land and/or building in key downtown locations should be used to leverage residential development. This has been a key factor in jump-starting residential development in numerous downtowns, without existing market-rate housing, across the country. City-owned land is not subject to the unrealistic land values often promulgated by private landowners, and can therefore act as a catalyst for development. The first market-rate housing in 20 years in the City of Norfolk was developed on three blocks owned by the city; that 300-unit project established the downtown market, and the City has since attracted national developers to the downtown through development RFPs for remaining city-owned parcels. To ensure maximum beneficial impact, the City of South Bend could <u>require</u> that each appropriately-located development parcel include residential uses.

—*Tax Increment Financing District*—

South Bend should be commended for implementing a substantial TIF district that extends beyond the Study Area boundaries. TIF dollars have been instrumental in many of the Downtown improvements that have already taken place.

—*Tax Incentives*—

—*Property Tax Exemption and Abatement*—

Concerning the imbalance of rehabilitation or construction cost and initial value, a proven mechanism for encouraging the creation of new housing—either through adaptive re-use or new construction—is a highly-specific and predictable program that combines tax abatement with tax exemption.

The program was pioneered in New York City, and is credited with spurring the redevelopment of SoHo where, at the time, loft buildings had a 25 percent vacancy rate. In New York, the program was limited to the improvement of existing structures, but the same approach could be used for new construction. The program loads significant benefits into the early years of a residential building's operation. The benefits, in the form of reduced property taxes, apply equally to rental or for-sale, since the effective carrying cost of the building is reduced for both.

The tax program used in New York City since 1955 has two main components:

- Exemption, for 12 years, from increases in property taxes resulting from property improvements; and
- Abatement of 90 percent of the City-certified "reasonable cost" of improvements at a maximum of 8.33 percent a year for up to 20 years.

From the City's perspective, the exemption foregoes, for 12 years, tax revenues that would not have been realized without the building improvement. By spreading the abatement over 12 to 20 years, the City's tax revenue loss is minimal in any given year. Ultimately, the revenue loss is likely to be recovered through non-exempt development activity stimulated by the program and through non-property tax revenues generated by economic activity in the revitalized neighborhood.

The City of Norfolk, Virginia has a 14-year tax abatement program, applicable to residential, commercial, and industrial properties throughout the city. The program provides 100 percent abatement of taxes on improvements to existing structures for the first 10 years, with a sliding scale of 20 percent per year of assessed value through year 14. For residential renovations of buildings of four or fewer units, the building must be at least 15 years old, and improvements must increase the assessed value by at least 20 percent. For residential renovations of buildings of five or more units, the building must be at least 50 years old, and improvements must increase the assessed value by at least 40 percent.

—*Sales and Income Tax Incentives*—

Revitalization of urban neighborhoods across the country has often been initiated by the arts community. Since resident artists are critical to the establishment of a recognizable urban arts district, they can be encouraged through targeted tax relief. The City of Providence, Rhode Island has populated its DownCity Arts and Entertainment District through the use of sales and income tax exemptions. Artists and artisans in DownCity are exempt from state and local sales taxes; and resident artists are exempt from personal state income tax. The program has been deemed so successful that the Rhode Island General Assembly subsequently passed legislation to establish similar districts in two other Rhode Island cities, Westerly and Pawtucket.

—*Investment in Infrastructure*—

In the early 1990s, the City of Louisville invested significant funds to upgrade the infrastructure of West Main Street in downtown to encourage private investment in the historic cast iron buildings that line both sides of the street. Improvements included rebuilt sidewalks and new lighting, as well as the installation of brick pedestrian crosswalks. West Main Street is now home to the Louisville Slugger Museum, a boutique hotel, a children's museum, several businesses, and dozens of residential units.

—*Gap Financing Pool*—

Compared to suburban locations, infill development opportunities within Downtown South Bend are likely to be small scale—in most cases, fewer than 50 units and usually fewer than 25. These small properties lack development efficiency; since fixed costs are spread over fewer units, the cost per unit is higher without any corresponding increase in market value. Small properties have historically had difficulties attracting public capital assistance in any form; because of their small size, they are generally not considered to have the potential for catalytic impact. (This is one of the long-standing ironies of American urban initiatives: the properties that are large enough to have gained government support are often self-contained and have significantly less impact on surrounding uses than the same number of units in smaller, pedestrian-oriented properties.)

A revolving loan pool for subordinated, low-interest gap funding should be established to put the financial feasibility of smaller downtown properties on an equal footing with larger suburban properties.

Gap funding should be available to both adaptive re-use and to new construction. The gap fund should be very flexible in order to respond to the special needs of each small, highly-individual property. Gap funding is typically structured as low-interest debt in a second or third position, but can incorporate interest accrual or other features designed to address the short-term financing impediments to residential developments that are essentially sound when viewed over the long term.

The Greater Downtown Partnership of Detroit has assembled a $23 million fund to provide gap financing; the fund is currently being used to assist in the renovation and conversion of a number of downtown buildings from commercial to residential use.

Smaller cities can be successful with smaller funds: Louisville, Kentucky matched the $3 million dollars contributed by six downtown banks, the sum of which, when augmented by $1 million from the state and local businesses, created a $7 million gap financing pool. The Lowell Plan, a private non-profit organization in Lowell, Massachusetts is built a $20 million pool, targeted specifically to assist residential and mixed-use developers, following the commercial funding pool created during the 1990s that was successful in stimulating retail development in the downtown.

—*Special Code for Adaptive Re-Use*—

New Jersey was the first state to adopt a separate construction code for existing buildings. One important element of the code is that it is responsive to scale, easing compliance for small projects; code requirements increase with the scope of the rehabilitation project. This is of primary importance, since most neighborhoods will derive maximum benefits from residential and, indeed, non-residential initiatives that occur on a variety of scales. In cities across the country, it has become clear that neighborhoods with significant historic rehabilitation efforts have fared best in the maintenance and building of housing value. These historic rehabilitations have ranged in scale from the professional renovation and rehabilitation of large, multi-unit buildings to sweat-equity efforts of individual owner occupants.

Since the New Jersey code's adoption in 1998, the amount of rehabilitation in the state's largest cities has increased by 60 percent. Lafayette could adopt a similar code, following the example of Wilmington, Delaware, which was the first of many cities to adopt a code modeled on the New Jersey statute. [New Jersey Department of Community Affairs, Division of Codes and Standards: Rehab Subcode of the Uniform Construction Code (NJAC 5:23-6).]

—*Adaptive Re-Use Handbook*—

A handbook for developers and building professionals could be produced that summarizes the code and, if applicable, typical trade-offs and variances allowed. Qualification for regulatory relief should be presented clearly and unambiguously to assist in the evaluation of building suitability. The handbook could be used in the redevelopment of other city neighborhoods, not just the Downtown.

—*Adaptive Re-Use "Ombudsman"*—

Even with an appropriate and clearly-presented code for existing structures, given the wide variety of conditions represented by existing buildings, it should be anticipated that an equally wide variety of solutions to code compliance of adaptive re-use will be required. The coordination of the regulatory process can be overwhelming. The City can smooth the process by appointing a single code officer—an adaptive re-use "ombudsman"—to provide technical assistance to owners and developers. The ombudsman's oversight of all adaptive re-use would also assure an informed and even-handed treatment of all cases. Again, depending on the volume of development, the ombudsman could also oversee development and redevelopment in other city neighborhoods.

—*"Live Near Your Work"*—

In order to increase homeownership opportunities, many cities have, in collaboration with local employers, universities, and medical institutions, created employer-assisted housing benefit plans for employees. Through these initiatives, employers provide eligible employees with a forgivable loan of a set amount—typically between $2,000 and $15,000, depending on local housing costs—as well as housing information and education, and innovative financing options. These initiatives are designed to promote urban revitalization by targeting dwelling units in the downtowns and in-town neighborhoods. This program has been highly successful in Baltimore, where more than 90 employers participate, and more than 2,100 families have benefited since the program's inception in 1997.

And in Lancaster, Pennsylvania, Franklin & Marshall College offers three employer-assisted housing benefit plans for employees through its two "City Life" neighborhood housing programs within a defined area adjacent to the campus: Settlement Assistance and Curb Appeal. Under the Settlement Assistance program, Franklin & Marshall provides a deferred payment loan up to $10,000 for down payment, closing costs, and property improvements. The college also provides a deferred payment loan up to $5,000 for the re-conversion of a subdivided house back to single-family occupancy. The Curb Appeal deferred payment loans match homeowner dollars one-to-one up to $5,000, for property improvements, with matching funds limited to exterior "curb appeal" improvements. There are no interest payments; these loans are forgiven after five years.

—*"Arts District" Housing*—

In many cities across the country, affordable artist housing has become an extremely important catalyst for new development. Artists are widely considered "early adopters" and are often at the forefront of neighborhood revitalization. A proven approach to maintaining a stock of affordable housing and live-work space for artists is the use of dedicated Low-Income Housing Tax Credits (LIHTC). In addition to household-size income qualification, prospective residents are also subject to a portfolio review to assure that at least one member of the household is a working artist. This program can be augmented with federal and state historic tax credits to redevelop existing buildings within an historic district.

Affordable artist housing would be instrumental in driving new energy, culture and population growth in South Bend's Downtown and its development is highly recommended.

Artspace Projects, Inc., based in Minneapolis, Minnesota, has redeveloped several buildings for artists in St. Paul, Minneapolis and Duluth using this strategy and has provided consultation services, with planned projects, for equivalent redevelopments in Buffalo, New York; Jackson, Michigan; Salt Lake City, Utah; Detroit, Michigan; and Philadelphia, Pennsylvania, among others.

METHODOLOGY

The technical analysis of market potential for Downtown South Bend included determination of the draw areas—based on the most recent migration data for Saint Joseph County, and incorporating additional data from the 2011 American Community Survey for Saint Joseph County and the City of South Bend—as well as compilation of current residential rental and for-sale activity in the South Bend market area.

The evaluation of the city's market potential was derived from the 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 referenced here are provided in a separate document.

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 are likely to move to the City of South Bend. These data are maintained at the county and "county equivalent" level by the Internal Revenue Service and provide a clear representation of mobility patterns. The migration data for Saint Joseph County has been supplemented by mobility data for both the county and the city from the 2011 American Community Survey.

Appendix One, Table 1.
Migration Trends

Analysis of the most recent Saint Joseph County migration and mobility data available from the Internal Revenue Service—from 2005 through 2009—shows that the recent recession had a significant impact on migration patterns, with net migration ranging from a lost of between 400 and 500 households in 2005 through 2007 to a loss of over 700 households in 2008 and 2009. (*See* Appendix One, Table 1.)

Annual in-migration into Saint Joseph County grew from 5,170 to 5,360 households between 2005 and 2007, then fell to 4,315 households in 2009 (the lowest in-migrating total). Between 14 and 17 percent of the county's in-migration is from Elkhart County, the adjacent county to the east, and approximately six to eight percent is from Berrien County, Michigan to the north. Households from Cook County, Illinois and Marshall and LaPorte Counties, Indiana are also significant sources of Saint Joseph County's in-migrating households.

Between 2005 and 2009, annual out-migration from Saint Joseph County fell from 5,660 households in 2005 to just under 5,100 households in 2009. Approximately 13 to 14 percent of the out-migration is also to Elkhart County; collectively, the majority of out-migration is to other Indiana counties and southwestern Michigan counties, although there is also significant out-migration to other U.S. counties dominated by a large city.

Although migration analysis provides insights into a city or county'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.

Based on the migration data, then, the draw areas for the City of South Bend have been delineated as follows:

- The local (internal) draw area, covering households in groups with median incomes of $50,000 or more currently living within the South Bend city limits and the balance of Saint Joseph County.

- The regional draw area, covering households in groups with median incomes of $50,000 or more with the potential to move to the City of South Bend from Elkhart, Marshall, and LaPorte Counties, Indiana and Berrien County, Michigan.

- The Chicago draw area, covering households in groups with median incomes of $50,000 or more with the potential to move to the City of South Bend from Cook County, Illinois.

- The national draw area, covering households in groups with median incomes of $50,000 or more with the potential to move to the City of South Bend from all other U.S. counties.

Migration Methodology:

County-to-county 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.

TARGET MARKET CLASSIFICATION OF CITY AND COUNTY HOUSEHOLDS—

Geo-demographic data obtained from the Nielsen Company (formerly 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 households in groups with median incomes above $50,000 are included in the analysis. An appendix containing detailed descriptions of each of these target market groups is provided along with the study.

Appendix One, Tables 2 and 3.
Target Market Classifications

Of the estimated 39,635 households living in the City of South Bend in 2013 (Nielsen estimates), 30.8 percent, or 12,200 households, are in groups with median incomes of $50,000 or more. (*Reference* Appendix One, Table 2.) Up to 43 percent of these households can be classified as empty nesters and retirees, another 28.7 percent are younger singles and couples, and 28.3 percent are traditional and non-traditional families.

Over 50 percent, or 51,800 households, of the 102,980 households estimated to be living in Saint Joseph County in 2013 (again, Nielsen estimates) are in groups with median incomes of $50,000 or more. (*Reference* Appendix One, Table 3.) Over 45 percent of these households are classified as empty nesters and retirees, another 33.1 percent are traditional and non-traditional families, and the remaining 21.8 percent are 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 household clustering 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.

Clusters of households (usually between 10 and 15) are grouped according to a variety of significant "predictable variables," ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes known as "behaviors," such as mobility rates, lifestage, and lifestyle patterns. Mobility rates detail how frequently a household moves from one dwelling unit to another; lifestage denotes what stage of life the household is in, from initial household formation (typically when a young person moves out of his or her parents' household into his or her own dwelling unit), through family formation (typically, marriage and children) to retirement (typically, no longer employed); and lifestyle patterns reflect the ways households choose to live, *e.g.*, an urban lifestyle includes residing in a dwelling unit in a city, most likely high-density, and implies the ability to walk to more locations than a suburban lifestyle, which is most likely lower-density and typically requires automobile ownership to get to non-residential locations. 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, and an additional 25 groups with median incomes in which a much smaller number of households is able to qualify for market-rate housing. The most affluent of the 66 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; 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.

DETERMINATION OF THE POTENTIAL MARKET FOR THE CITY OF SOUTH BEND (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the average number and type of households that have the potential to move within or to the City of South Bend each year over the next five years. The total number from each county is derived from historical migration trends; the number of households from each group is based on each group's mobility rate.

Appendix One, Table 4.
Internal Mobility (Households Moving Within the City of South Bend)—

Zimmerman/Volk Associates uses U.S. Bureau of the Census data and American Community Survey Data, combined with Nielsen data, to determine the number of households in each target market group that will move from one residence to another within a specific jurisdiction (internal mobility).

Using these data, Zimmerman/Volk Associates has determined that an average of 1,900 households living in the City of South Bend, and in groups with median incomes of $50,000 or more, have the potential to move from one residence to another within the city each year over the next five years. Over 55 percent of these households are likely to be younger singles and couples (as characterized within eight Zimmerman/Volk Associates' target market groups); another 28.2 percent are likely to be traditional and non-traditional families (in eight market groups); and the remaining 16.3 percent are likely to be empty nesters and retirees (in 13 market groups).

Appendix One, Table 5.
Internal Mobility (Households Moving To the City of South Bend from the Balance of Saint Joseph County)—

The same sources of data are used to determine the number of households in each target market group that will move from one area to another within the same county. Using these data, an average of 1,325 households, currently living in the balance of Saint Joseph County, and in groups with median incomes of $50,000 or more, have the potential to move from a residence in the county to a residence in the City of South Bend each year over the next five years. Forty-three percent of these households are likely to be younger singles and couples (in nine market groups); 32.5 percent are likely to be traditional and non-traditional families (in 11 groups); and the remaining 24.5 percent are likely to be empty nesters and retirees (in 12 groups).

Appendix One, Tables 6 through 8; Appendix Two, Tables 1 through 4.
External Mobility (Households Moving To the City of South Bend from Outside Saint Joseph County)—

These tables determine the average number of households in each target market group living in each draw area county that are likely to move to the City of South Bend over the next five years (through a correlation of Nielsen data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

Appendix One, Table 9.
Market Potential for the City of South Bend—

Appendix One, Table 9 summarizes Appendix One, Tables 4 through 8. The numbers in the Total column on page one of these tables indicate the depth and breadth of the potential market for new and existing dwelling units in the City of South Bend each year over the next five years originating from households in groups with median incomes of $50,000 or more currently living in the draw areas. An average of 4,475 households in groups with median incomes of $50,000 or more have the potential to move within or to the City of South Bend each year over the next five years. Younger singles and couples are likely to account for nearly half of these households (in 12 market groups); another 30.4 percent are likely to be traditional and non-traditional families (in 13 groups); and 20.1 percent are likely to be empty nesters and retirees (in 14 groups).

The distribution of the draw areas as a percentage of the potential market for the City of South Bend is as follows:

Market Potential by Draw Area
City of South Bend, Saint Joseph County, Indiana

City of South Bend:	42.5%
Balance of Saint Joseph County:	29.6%
Cook County (City of Chicago):	1.7%
Michiana Draw Area:	7.8%
Balance of U.S.:	18.4%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

DETERMINATION OF THE POTENTIAL MARKET FOR DOWNTOWN SOUTH BEND—

The total potential market for new housing units within Downtown South Bend includes the same draw areas. Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Nielsen data, to determine which target market groups, as well as how many households within each group, are likely to move to the Downtown over a five-year period.

Appendix One, Tables 10 through 12.
Market Potential for Downtown South Bend—

As derived by the target market methodology, an average of 1,525 households have the potential to move to Downtown South Bend each year over the next five years. (*Reference* Appendix One, Table 10.) Sixty percent of these households are likely to be younger singles and couples (in 10 market groups); another 25 percent are likely to be empty nesters and retirees (in nine groups); and 15 percent are likely to be traditional and non-traditional family households (in eight groups).

The distribution of the draw areas as a percentage of the market for Downtown South Bend is shown on the following page:

Market Potential by Draw Area
DOWNTOWN SOUTH BEND
City of South Bend, Saint Joseph County, Indiana

City of South Bend:	38.7%
Balance of Saint Joseph County:	27.9%
Cook County (City of Chicago):	4.9%
Michiana Draw Area:	6.9%
Balance of U.S.:	21.6%
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2013.

The 1,525 draw area households that have the potential to move to Downtown South Bend each year over the next five years have been categorized by tenure propensities to determine renter/owner ratios. Approximately 43 percent of these households (655 households) comprise the potential market for new market-rate rentals. The remaining 57 percent (or 870 households) comprise the market for new market-rate for-sale (ownership) housing units. (*Reference* Appendix One, Table 11.)

Of these 870 households, 16.1 percent (or 140 households) comprise the market for multi-family for-sale units (condominium apartments and lofts). Another 25.3 percent (220 households) comprise the market for attached single-family (townhouse/rowhouse/live-work) units. The remaining 68.7 percent (or 510 households) comprise the market for all ranges and densities of single-family detached houses. (*Reference* Appendix One, Table 12.)

—Target Market Data—

Target market data are based on the Nielsen (formerly Claritas) PRIZM geo-demographic 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.

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 25 years, Zimmerman/Volk Associates has augmented the PRIZM cluster systems 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 households in groups with median incomes of $50,000 or more are included in the tables.

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Research & Strategic Analysis

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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Research & Strategic Analysis

RIGHTS AND STUDY OWNERSHIP—