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Research & Strategic Analysis

INTERIM MEMORANDUM

RESIDENTIAL MARKET POTENTIAL

Downtown Wichita
City of Wichita, Sedgwick County, Kansas

January, 2010

INTRODUCTION

This study identifies the depth and breadth of the market for new market-rate dwelling units, both new construction as well as adaptive re-use of existing buildings, that could be developed over the next several years within Downtown Wichita, Kansas. For purposes of this study, the Downtown Wichita Study Area covers the general area bounded by Murdock Street in the north, Washington Street in the east, Interstate 54 in the south, and Sycamore Street in the west. The Study Area encompasses several districts—Government Center, Renaissance Square, Old Town, the Arena Neighborhood, WaterWalk, Century II, and the West Bank—and includes portions of several others—Historic Midtown, McAdams, Central Northeast, the Douglas Design District, South Central, and Delano.

The extent and characteristics of the potential market have been determined using Zimmerman/Volk Associates' proprietary target market methodology. In contrast to conventional supply/demand analysis—which is based on supply-side dynamics and baseline demographic projections—target market analysis establishes the optimum market position for new housing derived from the housing preferences and socio-economic characteristics of households in the draw areas within the framework of the local housing market context.

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.

In brief, using the target market methodology, Zimmerman/Volk Associates determined:

- Where the potential renters and buyers for new market-rate housing units in the Downtown Wichita 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 currently lives in the draw areas and what they are like (the target markets);
- What their alternatives are (other relevant housing in Downtown Wichita);
- What they will pay to live in the Downtown Wichita Study Area (market-rate rents and prices); and
- How quickly they will rent or purchase the new units (absorption forecasts).

The current constrained market—characterized throughout most of the United States by significantly reduced housing values; high levels of unsold units, both builder inventory units as well as foreclosed and/or abandoned houses; and high levels of mortgage delinquencies by speculators and investors as well as homeowners—has resulted in very restrictive development financing and mortgage underwriting, taking a significant percentage of potential homebuyers out of the market and preventing numerous for-sale developments from going forward. Nationally, financing has also been challenging for rental developers, with the result that only a few new residential projects, regardless of tenure, are moving forward.

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

NOTE: Tables 1 through 5 outline the depth and breadth, and composition of the potential market for new rental and for-sale housing units located within the Downtown Wichita Study Area. Tables 6 and 7 summarize selected benchmark supply-side data. Table 8 describes the optimum market position, at market-entry, for new rental and for-sale housing units that could be constructed within the Study Area. The Appendix Tables contain migration and target market data covering the appropriate draw areas for the City of Wichita and for the Downtown Study Area.

MARKET POTENTIAL

The depth and breadth of the potential market for new market-rate dwelling units that could be constructed within the Downtown Wichita Study Area have been derived from the housing preferences and financial capacities of the draw area target households, identified through Zimmerman/Volk Associates' proprietary target market methodology and extensive experience with urban development and redevelopment.

Where will the potential market for housing in the Downtown Wichita Study Area move from?

As derived from migration analysis—based on the most recent taxpayer records from the Internal Revenue Service—the principal draw areas for new housing units within the Downtown Study Area include the City of Wichita, the balance of Sedgwick County, and the adjacent counties of Butler, Sumner, Reno, and Harvey. The Cities of Oklahoma City and Tulsa, Oklahoma, Kansas City, Missouri, and Los Angeles, California are relevant secondary draw areas. This analysis also factors in the market potential due to long- and short-term employment created by aircraft companies located in the city, as well as from households currently living in all other counties represented in Sedgwick County migration.

*How many households are likely to move within or to Downtown Wichita each year,
and what are their housing preferences?*

As determined by the target market methodology, which accounts for household mobility within Wichita and Sedgwick County, as well as migration and mobility patterns of households currently living in all other cities and counties, just over 2,500 younger singles and couples, empty nesters and retirees, and traditional and non-traditional families currently living in the draw areas comprise the annual potential market for new housing units located within the Downtown Study Area. Based on the tenure (renter/buyer) and lifestyle preferences of the draw area households that represent the potential market for the Study Area, and excluding those households with preferences for single-family detached units, the annual potential market for new dwelling units within the Study Area would be as follows (*see also* Table 1):

Annual Potential Market for New Housing Units
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent	1,270	50.6%
Multi-family for-sale	870	34.7%
Single-family attached for-sale	<u>370</u>	<u>14.7%</u>
Total	2,510	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

—TARGET RESIDENTIAL MIX—

For purposes of this analysis, the target residential mix and optimum market position for the Downtown Study Area have been established for a total of 1,000 units, the number of units that could potentially be absorbed within the Study Area over a five- to seven-year time frame (*see Absorption Forecasts below*). Although 1,000 units should be the objective, it is likely that the actual unit yield will be a different number, due to the availability of land and/or buildings suitable for conversion to residential, the feasibility of both residential and non-residential uses, and the master planning process.

As derived from market preferences, the target residential mix of 1,000 units would be as follows:

Target Residential Mix—1,000 Units
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

HOUSING TYPE	PERCENT OF TOTAL	NUMBER OF UNITS
Multi-family for-rent	50.6%	506
Multi-family for-sale	34.7%	347
Single-family attached for-sale	<u>14.7%</u>	<u>147</u>
Total	100.0%	1,000

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

As the Study Area is planned and actual unit yield determined, the appropriate proportions of housing types should be maintained as closely as possible.

Table 1

Potential Housing Market

Derived From The New Unit Rental And Purchase Propensities Of Draw Area Households
With The Potential To Move To The Study Area In 2010

Downtown Wichita

City of Wichita, Sedgwick County, Kansas

*City of Wichita; Balance of Sedgwick County;
Butler, Sumner, Reno and Harvey Counties, Kansas;
Oklahoma City and Tulsa, Oklahoma; Los Angeles, California; Jackson, Missouri
Draw Areas*

Total Target Market Households
With Potential To Rent/Purchase In
City of Wichita, Sedgwick County, Kansas 17,120

Total Target Market Households
With Potential To Rent/Purchase In
Downtown Wichita 2,510

Potential Housing Market

	<i>Multi- Family</i>		<i>Single- Family</i>			<u>Total</u>	
	<u>For-Rent</u>	<u>For-Sale</u>	<i>.. Attached .. All Ranges</i>	<i>..... Detached</i> <u>Low-Range</u>	<u>Mid-Range</u>		<u>High-Range</u>
Total Households:	1,270	870	370	420	430	3,690	
{Mix Distribution}:	34.4%	23.6%	10.0%	11.4%	11.7%	8.9%	100.0%

**Target Residential Mix
(Excluding Single-Family Detached)**

	<i>Multi- Family</i>		<i>Single- .. Family Attached ..</i>	<u>Total</u>
	<u>For-Rent</u>	<u>For-Sale</u>	<u>All Ranges</u>	
Total Households:	1,270	870	370	2,510
{Mix Distribution}:	50.6%	34.7%	14.7%	100.0%

NOTE: Reference Appendix One, Tables 1 Through 12.

SOURCE: Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

TARGET MARKETS_____

The re-urbanization of America is the result of significant changes in American households, the increasing cost of commuting by car, and the profound impact of the Great Recession—which began in 2007—on both households and home-builders, particularly in the exurbs. The transformation of American households (particularly shrinking household size and the predominance of one- and two-person households) over the past decade is the consequence of the convergence of the two largest generations in the history of America: the 82 million Baby Boomers born between 1946 and 1964, and the 78 million Millennials, who were born from 1977 to 1996. Combined with steadily increasing traffic congestion and fluctuating gasoline prices, this convergence has resulted in important changes in neighborhood and housing preferences, with major shifts from predominantly single-family detached houses in lower-density suburbs to higher-density apartments, townhouses, and detached houses in urban and mixed-use neighborhoods.

In addition to their shared preference for urban living, the Boomers and Millennials are changing housing markets in multiple ways. In contrast to the traditional family (married couples with children) that comprised the typical post-war American household, Boomers and Millennials are predominantly singles and couples. As a result, the 21st Century home-buying market 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 equally 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).

Who currently lives in the draw areas and what are they like?

Mirroring national trends, the potential market for new market-rate housing units located within the Downtown Study Area is predominantly younger singles and couples, followed by empty nesters and retirees, and only a few families (primarily townhouse buyers). The target groups for the Downtown Study Area can be characterized by housing preference as follows (*see also* Tables 2 *through* 5):

**Target Residential Mix
 By Household and Unit Types
 DOWNTOWN WICHITA
 City of Wichita, Sedgwick County, Kansas**

HOUSEHOLD TYPE	PERCENT OF TOTAL	RENTAL MULTI-FAM.	FOR-SALE MULTI-FAM.	FOR-SALE SF ATT.
Empty-Nesters & Retirees	20%	13%	29%	22%
Traditional & Non-Traditional Families	9%	7%	3%	30%
Younger Singles & Couples	<u>71%</u>	<u>80%</u>	<u>68%</u>	<u>48%</u>
Total	100%	100%	100%	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Younger singles and couples comprise 71 percent of the market for new dwelling units within the Downtown Study Area. This generation—the Millennials—is the first to have been largely raised in the post-'70s world of the cul-de-sac as neighborhood, the mall as village center, and the driver's license as a necessity of life. In far greater numbers than predecessor generations, Millennials are moving to downtown and urban neighborhoods. The target groups in this segment typically choose to live in neighborhoods that contain a diverse mix of people, housing types, and uses. For the most part, younger households tend to be "risk-tolerant," and will move into areas or neighborhoods that would not be considered acceptable for most families or older couples.

This younger market includes a variety of young professionals—*Fast-Track Professionals*, the *VIPs* and *Upscale Suburban Couples*; young entrepreneurs, artists, and "knowledge workers"—the *Entrepreneurs*, *e-Types*, *New Bohemians*, *Twentysomethings*; as well as office workers, undergraduates and graduate students, and other higher-education affiliates—*No-Nest Suburbanites*, *Small-City Singles*, and *Suburban Achievers*.

Depending on housing type, younger singles and couples represent between 48 percent (single-family attached units) and 80 percent (rental units) of the market for new housing located within the Downtown Study Area. Approximately three-quarters of the younger households would be moving to Downtown from elsewhere in Wichita, five percent would be moving to the Study

Area from elsewhere in Sedgwick County, another three percent would be moving from the regional and secondary draw areas; and the remaining 18 percent would be moving to Downtown from elsewhere in the U.S.

Empty nesters and retirees (older singles and couples) represent another 20 percent of the potential market for new dwelling units within the Downtown Study Area. These households—for the most part, the Baby Boom generation—have been moving from the full-nest to the empty-nest life stage at an accelerating pace that will peak sometime in the next decade and continue beyond 2020. Since the first Boomer turned 50 in 1996, empty-nesters have had a substantial impact on urban housing. After fueling the diffusion of the population into ever-lower-density exurbs for nearly three decades, Boomers, particularly affluent Boomers, are rediscovering the merits and pleasures of urban living.

A significant number of households in this market segment no longer have children living at home; another large percentage are retirees, with incomes from pensions, savings and investments, and social security. These households—*Old Money*, *Urban Establishment*, *Small-Town Establishment*, *Cosmopolitan Elite*, *New Empty Nesters*, *Affluent Empty Nesters*, *Suburban Establishment*, and *Cosmopolitan Couples*—would be attracted to appropriately-designed “move-down” housing within walking distance of restaurants and shops. Just over a third of these households are currently living in Wichita, 30 percent would be moving from elsewhere in Sedgwick County, 10 percent from the regional and secondary draw areas, and the remaining 26 percent from elsewhere in the U.S.

Family-oriented households (traditional and non-traditional families) make up the smallest market (just nine percent) for new units within the Downtown Study Area. In the 1980s, when the majority of the Baby Boomers were in the full-nest lifestage, the “traditional family household” (married couple with one or more children) comprised more than 45 percent of all American households. That market segment has now fallen to less than 22 percent of all American households (approximately 25 percent in Wichita), and the subset of the one wage-earner traditional family has fallen to less than 10 percent of all American households. In addition to

reflecting the aging of the Baby Boomers into the empty-nest lifestage, this significant transformation also demonstrates the increasing diversity of households with children.

The non-traditional families in this segment, notably single or divorced parents with one or two children, are found in *Full-Nest Urbanites* and *Multi-Cultural Families*. Non-traditional families, which during the 1990s became an increasingly larger proportion of all U.S. households, encompass a wide range of family households, from a single parent with one or more children, an adult with younger siblings, a grandparent with children and grandchildren, to an unrelated, same-sex couple with children. The traditional family market—married couples with children—are found in *Unibox Transferees*.

Depending on housing type, the family market segment represents between three (multi-family for-sale units) and 30 percent (single-family attached units) of the market for new units located within the Study Area. Approximately a quarter would be moving from one unit to another within the city, less than five percent would be moving from elsewhere in Sedgwick County; and the remaining 68 percent would be moving from the secondary draw area and from elsewhere in the U.S.

Table 2

Target Residential Mix By Household Type

Derived From The New Unit Rental And Purchase Propensities Of Draw Area Households
With The Potential To Move To The Study Area In 2010

Downtown Wichita

City of Wichita, Sedgwick County, Kansas

Number of Households:	Total	Multi- Family		Single- .. Family ..
		<i>For-Rent</i>	<i>For-Sale</i>	.. Attached .. <i>All Ranges</i>
	2,510	1,270	870	370
Empty Nesters & Retirees	20%	13%	29%	22%
Traditional & Non-Traditional Families	9%	7%	3%	30%
Younger Singles & Couples	71%	80%	68%	48%
	100%	100%	100%	100%

SOURCE: Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

Table 3

Target Groups For New Multi-Family For-Rent *Downtown Wichita*

City of Wichita, Sedgwick County, Kansas

Empty Nesters & Retirees	<i>Number of Households</i>	<i>Share of Households</i>
Urban Establishment	20	1.6%
Small-Town Establishment	20	1.6%
Cosmopolitan Elite	40	3.1%
New Empty Nesters	70	5.5%
Affluent Empty Nesters	10	0.8%
Suburban Establishment	10	0.8%
Subtotal:	170	13.4%
Traditional & Non-Traditional Families		
Unibox Transferees	40	3.1%
Full-Nest Urbanites	20	1.6%
Multi-Cultural Families	20	1.6%
Subtotal:	80	6.3%
Younger Singles & Couples		
The Entrepreneurs	10	0.8%
e-Types	20	1.6%
The VIPs	90	7.1%
Fast-Track Professionals	30	2.4%
Upscale Suburban Couples	30	2.4%
New Bohemians	40	3.1%
No-Nest Suburbanites	60	4.7%
Twentysomethings	240	18.9%
Suburban Achievers	120	9.4%
Small-City Singles	380	29.9%
Subtotal:	1,020	80.3%
Total Households:	1,270	100.0%

SOURCE: Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

Table 4

Target Groups For New Multi-Family For-Sale Downtown Wichita

City of Wichita, Sedgwick County, Kansas

Empty Nesters & Retirees	<i>Number of Households</i>	<i>Share of Households</i>
Old Money	30	3.4%
Urban Establishment	30	3.4%
Small-Town Establishment	20	2.3%
Cosmopolitan Elite	70	8.0%
New Empty Nesters	60	6.9%
Affluent Empty Nesters	20	2.3%
Suburban Establishment	10	1.1%
Cosmopolitan Couples	10	1.1%
Subtotal:	250	28.7%
Traditional & Non-Traditional Families		
Unibox Transferees	10	1.1%
Full-Nest Urbanites	10	1.1%
Multi-Cultural Families	10	1.1%
Subtotal:	30	3.4%
Younger Singles & Couples		
The Entrepreneurs	30	3.4%
e-Types	10	1.1%
The VIPs	90	10.3%
Fast-Track Professionals	20	2.3%
Upscale Suburban Couples	30	3.4%
New Bohemians	20	2.3%
Twentysomethings	90	10.3%
No-Nest Suburbanites	20	2.3%
Suburban Achievers	170	19.5%
Small-City Singles	110	12.6%
Subtotal:	590	67.8%
Total Households:	870	100.0%

SOURCE: Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

Table 5

**Target Groups For New Single-Family Attached For-Sale
Downtown Wichita**

City of Wichita, Sedgwick County, Kansas

Empty Nesters & Retirees	<i>Number of Households</i>	<i>Share of Households</i>
Urban Establishment	10	2.7%
Small-Town Establishment	10	2.7%
Cosmopolitan Elite	30	8.1%
New Empty Nesters	10	2.7%
Affluent Empty Nesters	10	2.7%
Suburban Establishment	10	2.7%
Subtotal:	80	21.6%
Traditional & Non-Traditional Families		
Unibox Transferees	80	21.6%
Full-Nest Urbanites	20	5.4%
Multi-Cultural Families	10	2.7%
Subtotal:	110	29.7%
Younger Singles & Couples		
The Entrepreneurs	10	2.7%
The VIPs	40	10.8%
Fast-Track Professionals	20	5.4%
Upscale Suburban Couples	10	2.7%
Twentysomethings	30	8.1%
Suburban Achievers	30	8.1%
Small-City Singles	40	10.8%
Subtotal:	180	48.6%
Total Households:	370	100.0%

SOURCE: Claritas, Inc.;
Zimmerman/Volk Associates, Inc.

SUPPLY-SIDE DATA

What residential properties are currently located in the Downtown?

Preliminary information for relevant rental and for-sale, multi-family and attached properties located in the Wichita market area is provided as follows: for rental properties, see Table 6; for new for-sale condominium and townhouse properties, see Table 7.

Summary Of Selected Rental Properties

Downtown Wichita, Sedgwick County, Kansas

November, 2009

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number</u> <u>of Units</u>	<u>Unit</u> <u>Type</u>	<u>Reported</u> <u>Base Rent</u>	<u>Reported</u> <u>Unit Size</u>	<u>Rent per</u> <u>Sq. Ft.</u>	<u>Additional Information</u>	
Village Park - Barclay Square (1974) 550 West Central Avenue	240	1br/1ba	\$480 to \$500	635	\$0.76 to \$0.79	95% occupancy <i>Swimming pool, private marina, clubhouse.</i>	
		2br/1ba	\$650 to \$670	868	\$0.75 to \$0.77		
		2br/2ba	\$600 to \$630	915	\$0.66 to \$0.69		
Mosely Street Place (1996) 230 North Mosley Street	24	1br/1ba	\$625 to \$650	750	\$0.83 to \$0.87	100% occupancy <i>10 percent are income restricted.</i>	
		2br/2ba	\$795 to \$825	960	\$0.83 to \$0.86		
Harvestor Lofts (2004) 355 North Rock Island mixed-use	48	1br/1ba	\$625	720 to 800	\$0.78 to \$0.87	100% occupancy <i>Historic building. Fitness center.</i>	
		2br/1.5ba	\$925 to \$975	1,000	\$0.93 to \$0.98		<i>30 (62.5%) are income restricted.</i>
250 Douglas Place 250 West Douglas Avenue	61	1br/1ba	\$650 to \$725	600 to	\$1.08 to \$1.21	100% occupancy <i>Former Holiday Inn. Pool, club room, fitness center, business center, recreation deck.</i>	
		Penthouse	\$990	900	\$1.10		
Innes Station (1998) 701 East First	80	1br/1ba	\$695 to \$875	720 to 1,300	\$0.67 to \$0.97	100% occupancy <i>Underground parking.</i>	
		2br/1ba	\$875	1,100	\$0.80		<i>10 percent are income restricted.</i>
		2br/2ba	\$1,100 to \$1,400	1,000 to 1,600	\$0.88 to \$1.10		

SOURCE: Zimmerman/Volk Associates, Inc.

Summary Of Selected Rental Properties

Downtown Wichita, Sedgwick County, Kansas

November, 2009

<u>Property (Date Opened)</u> <u>Address</u>	<u>Number</u> <u>of Units</u>	<u>Unit</u> <u>Type</u>	<u>Reported</u> <u>Base Rent</u>	<u>Reported</u> <u>Unit Size</u>	<u>Rent per</u> <u>Sq. Ft.</u>	<u>Additional Information</u>
The Flats 324 (12/09) 324 North Emporia	68	1br/1ba	\$700 to \$1,100	530 to 1,180	\$0.93 to \$1.32	Pre-leasing <i>Adaptive reuse. former High School.</i>
		2br/2ba	\$1,150 to \$2,100	1,177 to 1,890	\$0.98 to \$1.11	
Finn Lofts (04/10) 430 South Commerce	25	Studios	\$750 to \$800	560 to 610	\$1.31 to \$1.34	Pre-leasing
		1br/1ba	\$900 to \$1,100	710 to 1,000	\$1.10 to \$1.27	
		2br/1.5ba	\$1,350 to \$1,500	1,000 to 1,188	\$1.26 to \$1.35	
Eaton Place (2001) 517 East Douglas Avenue	115	Lofts	\$865 to \$1,100	764 to 1,254	\$0.88 to \$1.13	97% occupancy <i>Historic building. Fitness center, clubroom.</i>
		1br/1ba	\$750 to \$980	537 to 942	\$1.04 to \$1.40	
		2br/1ba	\$850 to \$1,195	888 to 1,131	\$0.96 to \$1.06	
		2br/2ba	\$995 to \$1,225	995 to 1,285	\$0.95 to \$1.00	
Lofts at Old Town Square (2002) 331 North Rock Island	15	1br/1.5ba	\$875 to \$1,100	800 to 1,200	\$0.92 to \$1.09	100% occupancy <i>Underground parking.</i>
		2br/1.5ba	\$1,300 to \$1,495	1,000 to 1,500	\$1.00 to \$1.30	

Table 7

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

City of Wichita, Sedgwick County, Kansas

November, 2009

<u>Development (Date Opened)</u>	<u>Unit Type</u>	<u>Beds/ Baths</u>	<u>Unit Price Range</u>	<u>Unit Size Range</u>	<u>Price Per Sq. Ft.</u>	<u>Total Units</u>	<u>Total Sales (Monthly Average)</u>
<i>Developer/Builder Address</i>							
<i>.... Downtown</i>							
Water Walk Place (02/08)	CO					46	15 (0.8)
Water Walk LLC			\$199,000 to	1,108 to	\$180 to		<i>{plus 2</i>
515 South Main Street			\$770,000	5,045	\$695		<i>under contract}</i>
		1br/2ba	\$365,000 †	2,005	\$182		
<i>.... Downtown Resales</i>							
Lofts at St. Francis (2005)	CO					27	27
Real Development		2br/2ba	\$219,000	983	\$223		
201 St. Francis		1br/1.5ba	\$269,900	1,370	\$197		
Rumley Lofts (2005)	CO					18	18
David Burk		2br/2ba	\$315,000	2,164	\$146		
242 North Mead		1br/2ba	\$329,900	2,200	\$150		
		2br/2ba	\$450,000	2,559	\$176		
<i>.... College Hill</i>							
Parkstone at College Hill (2007)	TH					40	3 (0.1)
Mike Loveland			\$399,900 to	2,627 to	\$152 to		
3241 East Victor Place			\$639,900	2,747	\$244		

DOWNTOWN MARKET-RATE RENT AND PRICE RANGES_____

From a market perspective, the assets of Downtown Wichita 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 Wichita is a regional employment center and home to a variety of businesses, as well as multiple city and county offices, although a greater concentration of employment would enhance the market potential of Downtown.
- **Culture and Entertainment:** The Orpheum Theatre and the Century II Performing Arts Center are now joined by the InTrust Bank Arena, providing another downtown venue for concerts, cultural activities, and sports events. Wichita is home to the Music Theatre of Wichita, the Wichita Grand Opera, and Wichita Symphony Orchestra, as well as one of the few downtown movie theaters, the OldTown Warren. Several museums are located in or adjacent to Downtown: the Wichita Art Museum, the Historical Museum, Museum of World Treasures, among others. The Lawrence-Dumont Stadium, just across the river from downtown, is home to the Wingnuts, a baseball team in the North Division of the American Association of Independent Professional Baseball.
- **Shopping and Dining:** A variety of restaurants and stores are located in and around Old Town and Delano, as well as 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.
- **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 Wichita include, in order of importance:

- Neglected or vacant properties: Derelict and vacant properties are a deterrent to potential downtown residents, as they contribute to the perception that downtown is a neglected, low-value neighborhood.
- 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.
- Parking misconceptions: Regardless of the abundance of parking garages and open parking lots, the local perception is that there are few convenient places 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 is the market currently able to pay?

—Rent and Price Ranges—

Based on the tenure preferences of draw area households and their income and equity levels, the general range of rents and prices for up to 1,000 market-rate residential units that could be sustained by the market over the next five to seven years is as follows (*see also* Table 8):

**Rent, Price and Size Ranges
Newly-Created Housing (Adaptive Re-Use and New Construction)
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas**

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
MULTI-FAMILY RENTAL—			
Hard Lofts *	\$550–\$1,300/month	450–1,100 sf	\$1.18–\$1.22 psf
Soft Lofts †	\$750–\$1,500/month	550–1,200 sf	\$1.25–\$1.36 psf
Upscale Apartments	\$1,200–\$1,900/month	800–1,400 sf	\$1.36–\$1.50 psf
MULTI-FAMILY FOR-SALE—			
Hard Lofts *	\$150,000–\$250,000	700–1,250 sf	\$200–\$214 psf
Soft Lofts †	\$195,000–\$300,000	800–1,400 sf	\$214–\$244 psf
Upscale Condominiums	\$275,000–\$400,000	1,000–1,650 sf	\$242–\$275 psf
SINGLE-FAMILY ATTACHED FOR-SALE—			
Townhouses/Rowhouses	\$225,000–\$350,000	1,100–1,800 sf	\$194–\$205 psf
Live-Work Units (500 sf work space)	\$325,000–\$375,000	1,350–1,600 sf	\$234–\$241 psf

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

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

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Table 8

Optimum Market Position--Market-Rate Dwelling Units
Downtown Wichita

City of Wichita, Sedgwick County, Kansas

January, 2010

<u>Housing Type</u>	<u>Base Rent/Price Range*</u>	<u>Base Unit Size Range</u>	<u>Base Rent/Price Per Sq. Ft.*</u>	<u>Annual Market Capture</u>
Multi-Family For-Rent				134 units
Hard Lofts <i>Open Floorplans/1ba</i>	\$550 to \$1,300	450 to 1,100	\$1.18 to \$1.22	
Soft Lofts <i>Studios to Two-Bedrooms</i>	\$750 to \$1,500	550 to 1,200	\$1.25 to \$1.36	
Upscale Apartments <i>One- to Three-Bedrooms</i>	\$1,200 to \$1,900	800 to 1,400	\$1.36 to \$1.50	
Multi-Family For-Sale				48 units
Hard Lofts <i>Open Floorplans/1ba</i>	\$150,000 to \$250,000	700 to 1,250	\$200 to \$214	
Soft Lofts <i>One- and Two-Bedrooms</i>	\$195,000 to \$300,000	800 to 1,400	\$214 to \$244	
Upscale Condominiums <i>Two- and Three-Bedrooms</i>	\$275,000 to \$400,000	1,000 to 1,650	\$242 to \$275	
Single-Family Attached For-Sale				18 units
Townhouses / Rowhouses <i>Two- and Three-Bedrooms</i>	\$225,000 to \$350,000	1,100 to 1,800	\$194 to \$205	
Live-Work Units <i>One- and Two-Bedrooms</i> <i>500 sf work space</i> <i>on ground floor</i>	\$325,000 to \$375,000	1,350 to 1,600	\$234 to \$241	

NOTE: Base rents/prices in year 2010 dollars and exclude floor and/or view premiums, options and upgrades.

SOURCE: Zimmerman/Volk Associates, Inc.

The proposed rents and prices are in year 2010 dollars, are exclusive of consumer options and upgrades, or floor or location premiums, and cover the broad range of rents and prices for newly-developed units currently sustainable by the market in the Downtown Wichita Study Area. These rents and prices are also “market rates”—that is, within the economic capability of the target households that represent the current market for downtown housing; however, depending on acquisition and construction costs, it is possible that many buildings or projects could require financing assistance, subsidies and/or tax incentives to provide units at these rents/prices.

This analysis has not calculated affordability based on the use of non-standard mortgage instruments; but rather typical 30-year mortgages, with at least a 10 percent down payment, at six percent interest.

How fast will the units lease or sell?

—Market Capture—

After more than 20 years’ experience in numerous cities across the country, and in the context of the target market methodology, Zimmerman/Volk Associates has determined that those households that can afford, and would prefer new construction, rather than previously lived-in units, represent approximately five to 10 percent of the potential market, given the production of appropriately-positioned new housing. (Until the collapse of the housing market in the fall of 2008, newly-constructed dwelling units represented 15 percent of all units sold in the nation.)

Over the near term, absorption rates are likely to be lower than the annual number of units forecast below due to the uncertain timing of a mortgage and housing market recovery. As noted in the INTRODUCTION, the current constrained market is characterized in many locations by reduced housing prices, high levels of unsold units, high levels of mortgage delinquencies and foreclosures, and restrictive mortgage underwriting and development finance. These market constraints do not reduce the size of the potential market; however, depending on the timing of market entry, they could reduce the initial percentage of the potential market able to overcome

those constraints.

Annual absorption for new properties located within the Downtown Study Area is forecast as follows:

Annual Average Absorption
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

Multi-family for-rent Lofts/apartments	134 units net of turnover
Multi-family for-sale Lofts/apartments	48 units
Single-family attached for-sale Townhouses/rowhouses/live-work	18 units
Total	200 units

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Annual average absorption of 200 units in Downtown Wichita corresponds to a capture rate of eight percent of the 2,510 households, identified through target market analysis, that have the potential to rent or purchase new housing units within the Study Area each year over the next five years. These absorption forecasts fall within the five to 10 percent capture of the annual potential market (equal to 125 to 250 units per year) described above, and is well within the target market methodology's parameters of feasibility.

At these forecast paces, absorption of 1,000 new dwelling units within the Downtown Study Area would likely be achieved within approximately five to seven years, depending on phasing, construction and site constraints, and predicated on no worsening of the national, regional and local economies. These forecasts also assume that there will be multiple properties marketing new units over the next several years.

NOTE: The target market capture rates of the potential purchaser pool 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 by the number of households that have the potential to move to the site 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 property is more precisely defined using target market methodology, a substantially smaller number of households are qualified; as a result, target market capture rates are higher than the more grossly-derived penetration rates. The resulting higher capture rates remain within the range of feasibility.

—Multi-Family Rental Distribution—

The market-rate rent range covers leases by households with annual incomes starting at \$30,000 for single wage-earners up to \$75,000 or more for households with two wage-earners. A single-income household, with an annual gross income of \$30,000 per year, paying no more than 25 percent of income for rent and utilities—the national standard for affordability is 30 percent—would qualify for a rent of \$550 per month. A two-income household, with an annual gross income of \$75,000 per year, paying no more than 25 percent of income for rent and utilities, would qualify for a rent of \$1,900 per month.

Based on the target household mix (*see again* Table 3) and the incomes of the target households, the distribution by rent range of the 134 new rental units that could be absorbed each year over the next five to seven years in the Downtown Wichita Study Area is as follows:

Loft/Apartment Distribution by Rent Range
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

MONTHLY RENT RANGE	UNITS PER YEAR	PERCENTAGE
\$500–\$750	27	20.1%
\$750–\$1,000	32	23.9%
\$1,000–\$1,250	37	27.6%
\$1,250–\$1,500	18	13.4%
\$1,500–\$1,750	10	7.5%
\$1,750 and up	<u>10</u>	<u>7.5%</u>
Total:	134	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

More than 92 percent of the lofts/apartments with monthly rents of \$1,250 or less are likely to be leased by younger singles and couples. Empty nesters and retirees represent the market for six percent of these units, and the remaining two percent are non-traditional families.

Forty percent of the most expensive soft lofts and luxury apartments (with monthly rents of \$1,750 or more) are likely to be leased by older couples, with another 40 percent likely to be rented by dual-income younger couples, and the remaining 20 percent by compact families.

—Multi-Family For-Sale Distribution—

The market-rate price range covers purchases by households with annual incomes starting at \$50,000 for single wage-earners, up to \$150,000 or more for households with two wage-earners. A single-income household, with an annual gross income of \$50,000 per year, paying no more than 25 percent of gross income for housing costs, including mortgage principal, interest, taxes, insurance and utilities, and with a 10 percent down payment, would qualify for a mortgage of \$135,000 at current interest rates. A two-income household, with an annual gross income of \$150,000 per year following the same criteria would qualify for a mortgage of \$360,000 at current interest rates.

Based on the target household mix (*see again* Table 4) and incomes of the target households, the distribution by price range of the 48 market-rate for-sale apartments that could be absorbed each year over the next five to seven years in the Downtown Wichita Study Area is as follows:

Loft/Apartment Distribution by Price Range
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$150,000–\$200,000	12	25.0%
\$200,000–\$250,000	12	25.0%
\$250,000–\$300,000	10	20.8%
\$300,000–\$350,000	6	12.5%
\$350,000–\$400,000	5	10.4%
\$400,000 and up	<u>3</u>	<u>6.3%</u>
Total:	48	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Younger singles and couples represent three-quarters of the market for units priced below \$250,000, and empty nesters and retirees almost 21percent. The most expensive units, priced at \$350,000 or more, are likely to be purchased by an even mix of empty nesters and retirees and affluent younger couples.

—Single-Family Attached For-Sale Distribution—

Based on the target household mix (*see again* Table 5) and incomes of the target households, the distribution by price range of the 18 market-rate for-sale townhouse/rowhouses and live-work units that could be absorbed each year over the next five to seven years in the Downtown Wichita Study Area is as follows:

Townhouse/Rowhouse/Live-Work Distribution by Price Range
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

PRICE RANGE	UNITS PER YEAR	PERCENTAGE
\$200,000–\$250,000	2	11.1%
\$250,000–\$300,000	4	22.2%
\$300,000–\$350,000	5	27.8%
\$350,000–\$400,000	4	22.2%
\$400,000 and up	<u>3</u>	<u>16.7%</u>
Total:	18	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

Younger singles and couples represent over 83 percent of the market for units priced below \$300,000, and small families the remaining 17 percent. The most expensive units, priced at \$350,000 or more, are likely to be purchased by an even mix of urban families and empty nesters and retirees.

UNIT AND PROPERTY AMENITIES

In-Unit Amenities

To meet the expectations of potential urban residents, all units should be wired for cable television and high-speed internet or, if practical, be served by a building-wide Wi-Fi system. For hard lofts or soft lofts in adaptive re-use structures, existing floors should be salvaged and refinished wherever possible. Although hard and soft lofts are typically designed without interior walls, with the exception of the bathroom, as much closet and storage space as possible should be provided. Wherever possible in both types, masonry walls should be exposed.

In the kitchens, although, until recently, granite countertops have been the norm for urban redevelopment, it is highly recommended that less-expensive, and/or more environmentally-sensitive alternatives be selected for the hard and soft lofts—such as Fireslate in the rental units, and Richlite and PaperStone, which are composed of recycled materials, in the for-sale units. For the more expensive condominiums, countertops could be CaesarStone and Silestone—quartz composite materials—or new terrazzo products such as Vetrazzo or IceStone. All kitchens should include integral or undermount sinks, and either matching backsplashes or finished in stainless steel; renters will expect contemporary, durable finishes appropriate to urban living, as opposed to the carpeted “beige” interiors of suburban multi-family housing. Cabinets in the lofts should have flush fronts with integral or contemporary pulls, offered in a variety of finishes, ranging from bamboo to frosted glass. Appliances should be mid-grade with stainless fronts.

In new construction, suburban condominium finishes should be avoided. Larger units should be configured as soft lofts, with bedrooms separated by walls or, in cases of interior rooms, partitions that run only partially to the ceiling. HVAC should be designed with exposed spiral ductwork. Lighting fixtures should have clean and minimalist designs, capable of accommodating compact fluorescent bulbs.

Floors should not be carpeted, but should, instead, be offered with scored, stained and polished concrete as standard and with bamboo as an option in the main rooms and bedrooms, and ceramic or stone as an option in the kitchens and baths.

Walls should be drywall finished with simple contemporary baseboards. Doors should be flush, matched-grain wood with stainless handles and hardware.

Bathrooms should have a standard contemporary finish package, including vessel-style sinks, and countertops of materials similar to the grade used in the kitchens. All fixtures, faucets and lighting should be clean, minimalist and contemporary. Again, lighting should accommodate compact fluorescent bulbs.

Some of the “luxury apartments” will require more conventional finishes, such as crown molding, chair rails, five-panel interior doors, carpeted bedroom floors, with carpet or hardwood in living and dining areas and tile in the kitchens and baths. Kitchen countertops should be granite, or Corian, or an equivalent solid surface, with integral or undermount ceramic sinks and stainless steel appliances, and a choice of European or traditional cabinets. Bathrooms should have ceramic tile floors and high-style, traditional fixtures.

Property Amenities

Larger rental properties, in order to be competitive, should provide the amenities that have become the norm for investment-grade assets: business center, clubroom with catering kitchen, and some level of exercise facility.

For condominiums, if the property is large enough (at least 30 units), property amenities could include a small fitness center with state-of-the-art treadmills, bikes, Stairmasters, and free weights. Building amenities in a large condominium property could also include an owners’ club with a full working bar, media area with flat-screen television, chess, backgammon and card room, library and either high-speed internet access or Wi-Fi.

Any additional property amenities would depend on the scale of the development and the proposed price points; the more expensive the units, the greater the number of amenities that the buyers will expect. For very high-end developments, concierge services, accommodating a wide range of personal services, from dry cleaning pick-up/delivery to theater reservations, would be appropriate. However, if these kinds of services generate high condominium fees, there is likely to

be buyer resistance. It is for this reason that swimming pools are not recommended; pools are expensive to build and maintain, and are typically infrequently used by residents.

Other community amenities (for both renters and owners) that are not very expensive to provide include storage units, bicycle racks, and recycling bins.

Ultimately, residential values will depend upon the establishment of urban neighborhoods in the Downtown Study Area. An urban residential neighborhood succeeds when its physical characteristics consistently emphasize urbanity and the qualities of urban life; conversely, attempts to introduce suburban scale and housing types 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 developing quality buildings—will be essential to success.

DOWNTOWN HOUSING TYPES

Adaptive re-use of existing, non-residential buildings can yield either lofts or fully-finished apartments. The lofts, whether for-rent or for-sale, new construction or adaptive re-use, should include work space as a permitted use.

Building and unit types most successfully used in residential redevelopment or new residential construction in other downtowns comparable in size and scale to Downtown Wichita, include:

–MULTI-FAMILY–

- Courtyard Apartment Building: In new construction, an urban, pedestrian-oriented equivalent to conventional garden apartments. An urban courtyard building is four 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.
- Loft Apartment Building: Either adaptive re-use of older warehouse and 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.

Apartment Flat: Conventionally-finished apartment unit on a single level, with completely-partitioned rooms. In this case, finishes and fixtures—trim, interior doors, kitchens and baths—should be offered in a choice of modern or traditional styles.

Duplex: A two-story unit in a multi-family building, also with partial- or completely-partitioned rooms. In general, the living spaces, including a kitchen and half bath, are located on one floor, and the sleeping quarters, including the master suite, are located on the other floor. As with the flats, finishes and fixtures are typically offered in a choice of traditional (targeted to empty-nest households) or contemporary (targeted to younger households) styles.

- 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.

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.

In all cases, 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.

–SINGLE-FAMILY ATTACHED–

- Townhouse/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.

METHODOLOGY

The technical analysis of market potential for the Downtown Wichita Study Area included delineation of the draw areas and physical evaluation of the Study Area and the surrounding context.

The delineation of the draw areas for housing within the City of Wichita was based on historic settlement patterns, migration trends for Sedgwick County, interviews with key stakeholders in the Study Area, and other market dynamics.

The evaluation of market potential for the Study Area was derived from the housing preferences and financial capacities of the draw area households, identified through Zimmerman/Volk Associates' proprietary target market methodology, and yielded:

- The depth and breadth of the potential housing market by tenure (rental and ownership) and by type (lofts/apartments, townhouse/rowhouse/live-work units); and
- The composition of the potential housing market (empty-nesters/retirees, younger singles/couples, traditional and non-traditional families).

NOTE: The Appendix Tables are provided in a separate document.

Delineation of the Draw Areas (Migration Analysis)—

Based on Zimmerman/Volk Associates' field investigation, interviews with key stakeholders in the Study Area, and analysis of migration and mobility data, the draw areas for new residential development within the Downtown Study Area have been determined. 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 Sedgwick County and the City of Wichita. These data are maintained at the county and “county equivalent” level by the Internal Revenue Service and provide a clear representation of mobility patterns.

Appendix One, Table 1.
Migration Trends

Between 2003 through 2007—the latest data available from the Internal Revenue Service—the annual number of households moving into Sedgwick County climbed from just under 7,600 households in 2003 to nearly 9,700 households in 2007. (*Reference* Appendix One, Table 1.)

Over the same period, the number of households moving out of Sedgwick County fluctuated between the low of just under 8,300 households in 2006 to more than 8,700 households in 2003 and 2005. As a result, over five years, Sedgwick County net migration patterns have been reversed, from net household migration losses in 2003 and 2004 to net household gains from 2005 through 2007, with the county gaining over 1,000 households in 2007.

For Sedgwick County, between 18 and 20 percent of in-migration is from neighboring Butler, Sumner, Reno, and Harvey Counties; another four to five percent comes from Oklahoma City and Tulsa, Oklahoma, Los Angeles, and Kansas City; and the remaining three-quarters is from counties elsewhere in Kansas as well as the rest of the United States.

NOTE: Although net migration provides insights into an area'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 the area's external market potential.

Based on the migration data, then, the draw areas for Sedgwick County, the City of Wichita, and the Downtown Wichita Study Area have been delineated as follows:

- The primary (internal) draw area, covering households currently living within the City of Wichita.
- The local (external) draw area, covering households currently living within the balance of Sedgwick County.
- The regional draw area, covering households with the potential to move to Sedgwick County from Butler, Sumner, Reno, and Harvey Counties.

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- The secondary draw area, covering households with the potential to move to Sedgwick County from Oklahoma City and Tulsa, Oklahoma, Los Angeles, and Kansas City.
 - The national draw area, covering households with the potential to move to Sedgwick County from all other counties in Kansas and the U.S.

Anecdotal information obtained from real estate brokers, sales agents, and other knowledgeable sources corresponded to the migration data.

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 OF WICHITA AND SEDGWICK COUNTY HOUSEHOLDS—

Geo-demographic data obtained from 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 household groups with median incomes that enable most of the households within each group to qualify for market-rate housing are included in the tables. 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 Classification

Nearly 57 percent, or 81,7855 households, of the estimated 144,370 households that lived in the City of Wichita in 2009 had the capacity to rent or buy market-rate housing. Median income within the city was estimated at \$45,100, approximately 12 percent below the national median of \$51,400. Median home value within the city was estimated at \$100,400, almost 42 percent lower

than the national median of \$172,400. Forty-five percent of Wichita's "market-rate" households can be classified as younger singles and couples, another 33.8 percent as empty nesters and retirees, and the remaining 21.2 percent as traditional and non-traditional families. (*See Appendix One, Table 2.*)

Of the estimated 188,470 households that lived in Sedgwick County in 2009, approximately 61.3 percent, or 115,570 households, had the capacity to rent or buy market-rate housing. Median income within the county was estimated at \$48,600, approximately five percent below the national median and slightly higher than that of Wichita. Median home value was estimated at \$109,200, nearly 37 percent below the nation but about nine percent higher than that of Wichita. Approximately 38.5 percent of the county's "market-rate" households can be classified as younger singles and couples, with 34.8 percent empty nesters and retirees, and 26.7 percent traditional and non-traditional families. (*See Appendix One, Table 3.*)

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.

In the target market methodology, clusters of households (usually between 10 and 15) are grouped according to a variety of significant factors, ranging from basic demographic characteristics, such as income qualification and age, to less-frequently considered attributes such as mobility rates, lifestyle patterns and compatibility issues. 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. The most affluent of the 41 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 NEW AND EXISTING HOUSING UNITS IN THE CITY OF WICHITA (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to rent or purchase new and existing dwelling units in the City of Wichita in the year 2010. The total number from each county is derived from historic 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 Wichita)—

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

Using these data, Zimmerman/Volk Associates has determined that up to 9,570 households, currently living in the City of Wichita, have the potential to rent or purchase new or existing

dwelling units in the city this year. Seventy percent of these households are likely to be younger singles and couples (as characterized within 11 Zimmerman/Volk Associates' target market groups); another 17.8 percent are likely to be traditional and non-traditional families (in 11 market groups); and the remaining 12.2 percent are likely to be empty nesters and retirees (also in 11 groups).

Appendix One, Table 5.

External Mobility (Households Moving To the City of Wichita from the Balance of Sedgwick 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, up to 2,970 households, currently living in the balance of Sedgwick County, have the potential to move from a residence in the county outside the City of Wichita to a residence in the city this year. More than 38 percent of these households are likely to be traditional and non-traditional families (in nine market groups); up to 33.7 percent are likely to be younger singles and couples (in 11 groups); and 27.9 percent are likely to be empty nesters and retirees (in seven groups).

Appendix One, Tables 6 through 8; Appendix Two and Three, Tables 1 through 4.

External Mobility (Households Moving To the City of Wichita)—

These tables determine the number of households in each target market group living in the regional (Butler, Sumner, Reno, and Harvey Counties), secondary (Oklahoma City and Tulsa, Oklahoma, Los Angeles, and Kansas City), and national draw areas that are likely to move to the City of Wichita in 2010 (through a correlation of Claritas data, U.S. Bureau of the Census data, and the Internal Revenue Service migration data).

Appendix One, Table 9.

Market Potential for New and Existing Units in the City of Wichita—

This table summarizes Appendix One, Tables 4 through 8. The numbers in the Total column on page one of this table indicate the depth and breadth of the potential market for new and existing market-rate dwelling units in the City of Wichita in the year 2010 originating from households currently living in the draw areas. Approximately 17,120 households in the draw areas have the

potential to move within or to the City of Wichita this year. Younger singles and couples are likely to account for nearly 59 percent of these households (in 14 market groups); over 24 percent are likely to be traditional and non-traditional families (in 13 groups); and 17.2 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 new and existing housing units in the City of Wichita is as follows:

Market Potential By Draw Area
City of Wichita, Sedgwick County, Kansas

City of Wichita:	55.9 percent
Balance of Sedgwick County:	17.3 percent
Regional Draw Area:	4.5 percent
Secondary Draw Area:	2.2 percent
Balance of US:	20.1 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

DETERMINATION OF THE POTENTIAL MARKET FOR NEW DWELLING UNITS IN THE DOWNTOWN WICHITA STUDY AREA—

The total potential market for new dwelling units in the Study Area also includes the local, regional, secondary, and national draw areas. Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Claritas data, to determine which target market groups, as well as how many households within each group, are likely to move to a given location in a given year.

Appendix One, Tables 10 through 12.

Market Potential for New Housing Units in the Downtown Wichita Study Area—

As derived by the target market methodology, up to 3,690 of the 17,120 households that represent the market for new and existing housing units in the City of Wichita are a market for new housing units within the Study Area. (See Appendix One, Table 10.) Approximately 56 percent of these households are likely to be younger singles and couples (in 10 market groups); another 31.4 percent are likely to be empty nesters and retirees (in eight groups); and the remaining 10 percent are likely to be traditional and non-traditional family households (in three groups).

The distribution of the draw areas as a percentage of the potential market for new dwelling units within the Study Area is as follows:

Market Potential By Draw Area
DOWNTOWN WICHITA
City of Wichita, Sedgwick County, Kansas

City of Wichita:	58.8 percent
Balance of Sedgwick County:	14.4 percent
Regional Draw Area:	15.6 percent
Secondary Draw Area:	2.2 percent
Balance of US:	20.1 percent
Total:	100.0 percent

SOURCE: Zimmerman/Volk Associates, Inc., 2010.

The 3,690 draw area households that have the potential to move to the Study Area this year have also been analyzed by tenure propensities to determine the appropriate renter/owner ratios. Approximately 34.4 percent of these households (or 1,270 households) comprise the potential market for new rental units. The remaining 65.6 percent (or 2,420 households) comprise the market for new for-sale (ownership) housing units. (*See Appendix One, Table 11.*)

Of the 2,420 households that comprise the market for new for-sale housing units, 36 percent (or 870 households) comprise the market for new multi-family for-sale units (condominium/cooperative lofts/apartments); another 15.3 percent (370 households) comprise the market for attached single-family (townhouse/rowhouse/live-work) units; and the remaining 48.8 percent (1,180 households) comprise the market for all ranges of new single-family detached houses. (*See Appendix One, Table 12.*)

—Target Market Data—

Target market data are based on the Claritas PRIZM NE household clustering 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 *Upscale Suburban Couples* or *Fast-Track Professionals*.

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 21 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.



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ASSUMPTIONS AND LIMITATIONS—

Every effort has been made to insure the accuracy of the data contained within this analysis. Demographic and economic estimates and projections have been obtained from government agencies at the national, state, and county levels. Market information has been obtained from sources presumed to be reliable, including developers, owners, and/or sales agents. However, this information cannot be warranted by Zimmerman/Volk Associates, Inc. While the methodology employed in this analysis allows for a margin of error in base data, it is assumed that the market data and government estimates and projections are substantially accurate.

Absorption scenarios are based upon the assumption that a normal economic environment will prevail in a relatively steady state during development of the subject property. Absorption paces are likely to be slower during recessionary periods and faster during periods of recovery and high growth. Absorption scenarios are also predicated on the assumption that the product recommendations will be implemented generally as outlined in this report and that the developer will apply high-caliber design, construction, marketing, and management techniques to the development of the property.

Recommendations are subject to compliance with all applicable regulations. Relevant accounting, tax, and legal matters should be substantiated by appropriate counsel.



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Research & Strategic Analysis

RIGHTS AND STUDY OWNERSHIP—

Zimmerman/Volk Associates, Inc. retains all rights, title and interest in the methodology and target market descriptions contained within this study. The specific findings of the analysis are the property of the client and can be distributed at the client's discretion.

