

Demand Analysis

The ESRI market data analyzes current demographic statistics along with a five-year projection. For purposes of this analysis, we have determined that the five-mile ring is considered to be the area that is most comparable to the subject from a geographical standpoint. The five-mile ring will be the focus of our analysis. A snapshot of this report is included below. As shown, the population is expected to increase by 1,403 residents over the next five years.

Summary	Census 2010	2015	2020	
Population	156,547	157,193	158,596	
Households	65,726	66,277	66,901	
Families	41,372	41,631	41,974	
Average Household Size	2.33	2.32	2.32	
Owner Occupied Housing Units	42,974	42,227	42,684	
Renter Occupied Housing Units	22,752	24,050	24,216	
Median Age	41.8	42.6	43.3	
Trends: 2015 - 2020 Annual Rate	Area	State	National	
Population	0.18%	0.32%	0.75%	
Households	0.19%	0.39%	0.77%	
Families	0.16%	0.31%	0.69%	
Owner HHs	0.22%	0.37%	0.70%	
Median Household Income	3.76%	2.81%	2.66%	
Households by Income	2015		2020	
	Number	Percent	Number	Percent
<\$15,000	5,556	8.4%	4,993	7.5%
\$15,000 - \$24,999	6,604	10.0%	4,897	7.3%
\$25,000 - \$34,999	7,642	11.5%	6,320	9.4%
\$35,000 - \$49,999	8,924	13.5%	8,059	12.0%
\$50,000 - \$74,999	12,269	18.5%	11,511	17.2%
\$75,000 - \$99,999	9,441	14.2%	11,271	16.8%
\$100,000 - \$149,999	10,082	15.2%	12,264	18.3%
\$150,000 - \$199,999	3,386	5.1%	4,711	7.0%
\$200,000+	2,372	3.6%	2,875	4.3%
Median Household Income	\$56,834		\$68,340	
Average Household Income	\$74,353		\$85,885	
Per Capita Income	\$31,538		\$36,419	

Over the next five years, the number of households within the lower-income brackets is projected to decrease while the number of households within the middle-to-upper income brackets is projected to increase rather dramatically. Considering that the subject will be attracting middle-to-higher income households (given the luxury apartment development type), this is a very important statistic to make note of.

Qualifying Households

The subject is a proposed 100 percent market rate proposed apartment development. Therefore, effective demand for the subject's proposed units must be determined on the basis of income qualifying households in the market area. Rents in excess of 35 percent of household income are generally not considered affordable for tenants. Therefore, the target market is limited to those households that earn above a lower limit that would allow payment of the proposed rents without exceeding 35 percent of household income. In this analysis, the lower limit is set by dividing the concluded market rent by 35 percent, and then multiplying this number by 12. Given the foregoing, the income ranges analyzed for purposes of this report are \$50,000 and above. The number of income qualified households is summarized on the following page.

Income Eligible Renter Population Primary Market Area		
Year	2015	2020
Total Population	157,193	158,596
Households Total	66,277	66,901
Renter-Occupied Households	24,050	24,216
<u>Income Brackets</u>	<u>Total Households</u>	<u>Total Households</u>
\$50,000 - \$74,999	12,269	11,511
\$75,000 - \$99,999	9,441	11,271
\$100,000 - \$149,999	10,082	12,264
\$150,000 - \$199,999	3,386	4,711
\$200,000+	2,372	2,875
Total # of Income-Eligible Households	<u>Total Households</u> 37,550	<u>Total Households</u> 42,632
# Income-Eligible Renter-Occupied Households	<u>36.29% Renter-Occupied</u> 13,627	<u>36.20% Renter-Occupied</u> 15,433

Source: Bureau of the Census, 2010 Census of Population and Housing, ESRI forecasts for 2015 and 2020

Marginal Demand Analysis

As shown on the following page, if all 917 units in the pipeline are constructed, there would still be a net positive demand of 925 units. In all likelihood, there will be some other developments that are planned / brought to the market that have not yet been conceived; however, it is also quite possible that some of the existing pending supply will not be constructed or unit counts may be reduced. There are future phases planned for the multi-family developments at the Drexel Town Square, however, construction on these development is not likely to occur until the under construction Phase I achieves stabilization. Nonetheless, the net positive demand figure of 925 units provides a comfortable buffer to protect against unforeseen changes. Therefore, based on the income levels used within our projection of income qualified renter households it appears that there is a positive demand for luxury apartment product within the subject's PMA.

Marginal Demand Analysis	
Income Qualified Renter Households 2015	13,626
<u>Income Qualified Renter Households 2020</u>	<u>15,431</u>
Increase in Income Qualified Renter Households	1,806
# of Units in Pipeline	917
<u>Total New Supply</u>	<u>917</u>
<u>New Units at Balanced Market (96%)</u>	<u>880</u>
Net Demand	925

Absorption

Based on recently realized absorption rates of newly constructed suburban multi-family developments from the area, as well as our discussions with local property managers and other local market professionals, it is reasonable to expect that 15 to 30 percent of the units could be pre-leased, and an absorption rate of 10 to 20 units per month thereafter could be expected.

Interviews With Market Participants

In addition to the previously presented analysis of the subject submarket, we have also had discussions with multiple professionals who are active in the subject's submarket from a development standpoint and who were familiar with the subject's market.

- The market has a need for new, higher-end multifamily developments. There hasn't been much, if any, new construction in recent years in the subject's market area, and there is an abundance of empty nesters, divorcees, and young families seeking quality multifamily housing.
- The market would tend to support higher-end developments that would include granite countertops (likely quality laminate countertops with a granite breakfast bar, granite kitchen islands, or other granite accents), stainless-steel appliances, quality flooring packages, in-unit laundry, central air conditioning, high ceilings, and a moderate level of common area amenities.
- The interviewees generally agreed that there is ample demand for multi-family units within the subject's submarket. Occupancy rates are strong and the submarket likely has a lot of pent-up demand.
- Given the subject's linkages to employment, shopping, entertainment, and highways – market rate multi-family development makes sense.
- Positive location for all age groups from young professionals and families to empty nesters.
- Biggest concern of potential tenants is "Does this fit my needs?"
- Many suburban tenants complain about the lack of available storage space.
- Market-rate development would likely need some sort of government assistance given the dramatically increasing construction costs.

Overall the discussions of a potential multi-family development at the subject property were positive as it was indicated there is demand for such higher-end units in the market area. Based on these discussions, a proposed multi-family development that is higher-end in nature would be generally well-accepted.