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Research & Strategic Analysis

AN ANALYSIS OF RESIDENTIAL MARKET POTENTIAL *The City of Somerville, Middlesex County, Massachusetts*

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INTRODUCTION

In January of 2015, the Mayor's Office of Strategic Planning and Community Development submitted a proposed overhaul of the Somerville Zoning Ordinance to the Somerville Board of Aldermen. To understand the implications of the proposal, the Board of Aldermen requested a number of studies, including analyses to determine market rate housing demand, the need for affordable housing, and the financial impact of affordable housing requirements. Additionally, studies were requested for parking and mobility management, economic development, and fiscal impact. To provide an analysis of the demand for market rate housing, the City engaged Zimmerman/Volk Associates, Inc., a firm specializing in using the housing preferences and economic capabilities of potential future households to determine the depth and breadth of the potential future market for housing within a municipality.

The purpose of this study is to determine the depth and breadth of the potential market for new and existing housing each year over the next five years in the City of Somerville, Middlesex County, Massachusetts. This study will also determine the potential average annual absorption of new market-rate housing units in the city over the same time frame, based on annual capture rates in three potential scenarios: low growth, moderate growth, and high growth. The analysis of the potential market for housing in Somerville incorporates the housing preferences, financial capacities, and lifestyle characteristics of households with the potential to move to the city, Somerville's geographic location and the physical attributes of its built environment, the rental and for-sale housing market context

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in Somerville, and Zimmerman/Volk Associates' extensive experience with urban development and redevelopment.

The extent and characteristics of the potential market for new rental and for-sale market-rate housing units over the next five years are identified using Zimmerman/Volk Associates' proprietary residential target market methodology. This methodology was developed in response to the challenges that are inherent in the application of conventional supply/demand analysis to urban development and redevelopment. Supply/demand analysis ignores the potential impact of newly-introduced housing supply on settlement patterns, which can be substantial when that new supply matches the housing preferences and economic capabilities of potential households that might move to Somerville in ways that existing housing within the city does not.

In contrast to conventional supply/demand analysis—which is based on supply-side dynamics and baseline demographic projections—residential target market analysis determines the depth and breadth of the potential market from the housing preferences and socio-economic characteristics of households of a defined pool of potential households (draw areas) that might move to Somerville. Because the analysis considers not only basic demographic characteristics, such as income qualification and age, but also less frequently analyzed attributes such as lifestage, mobility rates, lifestyle patterns and household compatibility issues, the target market methodology is particularly effective in defining a realistic potential for housing development and redevelopment.

Based on the residential target market methodology, then, this study will determine:

- Where the potential renters or buyers of new or existing housing in the City of Somerville currently live (the draw areas);

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- How many households have the potential to move within or to the city each year if appropriate housing units were to be made available (the depth and breadth of the market);
- What are the housing preferences of the potential market of households in aggregate (the type of housing desired);
- Who are the households within the potential market and what they are like (the target markets);
- What their housing preferences are in aggregate (rental or ownership, multi-family or single-family);
- What are the existing housing options available for the potential market of households (the Somerville market context); and
- How much housing could be leased or purchased by households within the potential market over the next five years (absorption forecasts based on annual capture rates of the potential market of households).

The target market methodology is described in detail in a separate METHODOLOGY document, which also includes the appendix tables.

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Analysis of migration, mobility, and the 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 and existing housing within the City of Somerville.

Historically, American households, more than any other nation's, have been extraordinarily mobile. Nationally, one lingering consequence of the Great Recession (officially December, 2007 through June, 2009) has been a considerable reduction in household mobility. However, according to the American Community Survey, the City of Somerville—where over 21 percent of the city's population moved from one dwelling to another in 2013—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.

The draw areas identified for this report are derived primarily through migration analysis (using the latest data provided by the Internal Revenue Service, with additional supporting mobility data drawn from the 2013 American Community Survey for the City of Somerville), but also incorporate feedback obtained from interviews with real estate brokers, sales and leasing agents and other knowledgeable sources, as well as from field investigation conducted by ZVA.

Together, an understanding of draw area household mobility and migration trends, along with both socio-economic and lifestyle characteristics, provides the basis for determination of the depth and breadth of the potential housing market by Zimmerman/Volk Associates' proprietary residential target market methodology.

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1. Where do the potential renters or buyers of new or existing housing located in the City of Somerville currently live?

The most recent migration and mobility data for Middlesex County—as derived from taxpayer records compiled by the Internal Revenue Service from 2006 through 2010 and from the 2013 American Community Survey for Middlesex County and for the City of Somerville—shows that the households with the potential to move within or to Somerville are coming from the following draw areas (*reference Appendix One, Table 1 for an itemization of the number and origin of households moving into Middlesex County*):

- The primary draw area, covering households currently living within the Somerville city limits.
- The secondary internal draw area, covering households currently living in the balance of Middlesex County.
- The regional draw area—covering households with the potential to move to the City of Somerville from the adjacent counties of Suffolk, Essex, Norfolk, and Worcester.
- The national draw area, covering households with the potential to move to the City of Somerville from all other U.S. counties (primarily counties in New England and the mid-Atlantic states).

Based on these migration and mobility data and the target market analyses, the distribution of households representing the potential market for new or existing housing (those households with the potential to move within or to Somerville each year over the next five years) currently live in the following draw areas:

Annual Market Potential by Draw Area
City of Somerville, Middlesex County, Massachusetts

City of Somerville (Primary Draw Area):	35.5%
Balance of Middlesex County (Local Draw Area):	35.4%
Suffolk, Essex, Norfolk and Worcester Counties (Regional Draw Area):	13.6%
Balance of US (National Draw Area):	<u>15.5%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

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2. *How many households have the potential to move within and to the city each year?*

As determined by the target market methodology, which accounts for household mobility within the City of Somerville, as well as migration and mobility patterns for households currently living elsewhere, an annual average of 10,950 households represent the potential market of households interested in new and existing housing within the city each year over the next five years (*see* Appendix 1, Table 1). Almost 65 percent of these households would be moving from outside Somerville’s city limits.

3. *What are the housing preferences of potential market households in aggregate?*

The housing preferences of the potential market of households are categorized into four general housing types as follows:

- Multi-family for-rent (along with multi-family for-sale, the highest-density housing type; rental apartments located within buildings that typically include two or more stories);
- Multi-family for-sale (along with multi-family for-rent, the highest-density housing type; for-sale apartments located within buildings that typically include two or more stories);
- Single-family attached (a medium-density housing type; two- to three-story townhouses; duplexes or two-family houses; live-work units); and
- Single-family detached houses (ranging from the highest-density single-family housing type, typically developed on small lots, with parking access from rear lanes, alleys or auto-courts at the rear of the units, to the lowest-density single-family housing type, with parking access from the street).

Using these general housing types, the housing preferences of the 10,950 draw area households that represent the annual potential market for new and existing housing within the city—according to tenure (rental or ownership) and general financial capacity—are summarized as follows (*also see* Table 1):

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Tenure/Housing Type Propensities
Annual Average Potential Market
For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	6,165	56.3%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	1,935	17.7%
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	1,820	16.6%
Single-family detached for-sale (houses, fee-simple ownership)	<u>1,030</u>	<u>9.4%</u>
Total	10,950	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

The propensity for multi-family for-rent housing can be attributed to a protracted slump in home ownership rates since 2008. This slump has led to a measurable shift in market preferences from home ownership to rental dwelling units, particularly among younger households, yielding a higher share of consumer preference for multi-family rentals even among relatively affluent consumers than would have been typical less than a decade ago.

4. Who are the households within the potential market and what are they like?

For this analysis, the 10,950 households that represent the annual potential market for new and existing housing within the city are also segmented by income, based on the Boston-Cambridge-Quincy, MA-NH area median family income (AMI), which, as determined by the U.S. Department of Housing and Urban Development (HUD) in 2015, is \$98,500, for a family of four; this study examines household incomes based on the following general income groupings:

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- Households with incomes below 30 percent AMI (the majority of these households typically qualify only for public housing or older existing units);
- Households with incomes between 30 and 60 percent of AMI (these households typically qualify for affordable rental housing or heavily subsidized ownership housing);
- Households with incomes between 60 and 80 percent of AMI (these households also typically qualify for affordable rental housing or subsidized ownership housing);
- Households with incomes between 80 and 110 percent AMI (these households typically qualify for existing market-rate rentals or new workforce or affordable for-sale housing); and
- Households with incomes above 110 percent AMI (these households generally have sufficient incomes to rent or purchase market-rate housing).

The combined tenure and housing type preferences and financial capabilities of the 10,950 target households are shown on the following table (*see again* Table 1):

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Tenure/Housing Type Propensities by Income
Annual Average Market Potential For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

HOUSING TYPE HOUSEHOLDS	
	NUMBER	PERCENT
Multi-family for-rent	<u>6,165</u>	<u>56.3%</u>
(lofts/apartments, leaseholder)		
< 30% AMI	1,285	11.7%
30% to 60% AMI	930	8.5%
60% to 80% AMI	885	8.1%
80% to 110% AMI	880	8.0%
> 110% AMI	2,185	20.0%
Multi-family for-sale	<u>1,935</u>	<u>17.7%</u>
(lofts/apartments, condo/co-op ownership)		
< 30% AMI	165	1.5%
30% to 60% AMI	240	2.2%
60% to 80% AMI	270	2.5%
80% to 110% AMI	300	2.7%
> 110% AMI	960	8.8%
Single-family attached for-sale	<u>1,820</u>	<u>16.6%</u>
(townhouses, fee-simple ownership)		
< 30% AMI	245	2.2%
30% to 60% AMI	245	2.2%
60% to 80% AMI	240	2.3%
80% to 110% AMI	275	2.5%
> 110% AMI	815	7.4%
Single-family detached for-sale	<u>1,030</u>	<u>9.4%</u>
(detached houses, fee-simple ownership)		
< 30% AMI	190	1.7%
30% to 60% AMI	160	1.5%
60% to 80% AMI	190	1.7%
80% to 110% AMI	120	1.1%
> 110% AMI	370	3.4%
Total	10,950	

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

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The following table summarizes the income ranges of the 10,950 households that represent the annual potential market for new and existing housing in the city:

Income Distribution
Annual Average Market Potential For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

INCOME RANGE HOUSEHOLDS	
	NUMBER	PERCENT
< 30% AMI	1,885	17.2%
30% to 60% AMI	1,575	14.4%
60% to 80% AMI	1,585	14.5%
80% to 110% AMI	1,575	14.4%
> 110% AMI	4,330	39.5%
Total	10,950	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

HOUSEHOLD TYPES _____

The households with the potential to move within or to Somerville can be grouped according to life stage, including all incomes, into three general market segments as follows (*see Table 2 for more complete delineation by income*):

- Younger singles and childless couples—(70.0 percent);
- Traditional and non-traditional family households—(19.5 percent); and
- Empty nesters and retirees—(10.5 percent).

The analysis shows that the largest segment of the potential market of households for the City of Somerville, across all incomes, are **younger singles and couples**—70 percent of the total annual potential market. These households, young adults aged under 34 years of age, are part of the “Millennial” cohort, a generation which, at 87 million, is now the largest in U.S. history. The Millennials are demonstrating a strong preference for downtowns and urban neighborhoods, particularly those served by transit, such as Somerville. Some distinguishing characteristics held by younger singles and couples are:

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- A higher mobility rate—young people tend to move much more frequently than older people; and
- A strong preference for rental apartments, in part because many of them do not have sufficient funds for a down payment and in part because the collapse of the housing market has made many of them skeptical about the value of owning versus renting.

Just over 15 percent of the younger singles and couples that comprise the annual potential market for the city have incomes that fall below 30 percent of AMI. If they are employed, these households work in part-time or lower-paying jobs, including entry-level retail, such as store clerks, and service occupations; many are students.

Approximately 42 percent of the households in this lifestage have incomes that fall within the three income bands between 30 and 110 percent of the AMI. These include office and retail employees and medical personnel.

The remaining 43 percent of the younger singles and couples have incomes that are at or above 110 percent of the AMI. These households are engaged in a variety of free-lance entrepreneurship; are mid- and upper-level office workers; academic and hospital affiliates; or artists and artisans.

Income Distribution
Younger Single & Couples Segment of the
Market Potential For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

INCOME RANGEHOUSEHOLDS.....	
	NUMBER	PERCENT
< 30% AMI	360	12.9 %
30% to 60% AMI	355	12.7 %
60% to 80% AMI	420	15.0 %
80% to 110% AMI	495	17.7 %
> 110% AMI	1,165	41.7 %
Total	2,795	100.0 %

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

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Over half of the younger singles and couples are moving from one unit to another in the city; 35 percent would be moving to the city from elsewhere in Middlesex County; 12.6 percent would be moving to the city from one of the counties in the region; and the remaining 10.1 percent would be moving to the city from outside the region.

Family-oriented households represent 19.5 percent of the annual market potential for new and existing housing within the city. An increasing percentage of family-oriented households are non-traditional families, notably single parents with one to three children. Non-traditional families, which have become an increasingly larger proportion of all U.S. households since the 1990's, encompass a wide range of family household types, from a single mother or father with one or more children, an adult taking care of younger siblings, a grandparent responsible for grandchildren, to couples of the same gender with children. In the 1950s, the "traditional family household" comprised more than 65 percent of all U.S. households. That demographic has now fallen to less than 22 percent of all U.S. households and is even lower in Somerville at approximately 17.7 percent. Today, the majority of households with children are now increasingly diverse and largely non-traditional families.

One quarter of the family households that comprise the annual potential market for the City of Somerville have incomes below 30 percent of AMI and are typically spending more than 40 percent of their incomes on housing costs. Many of these households are single-parent families struggling to make ends meet. Nearly two-thirds are renters, not homeowners.

Another 46 percent of the family households have incomes that fall within the 30 to 110 percent income bands; both parents in these households work, typically in upper-level blue-collar or lower-level white-collar jobs.

The remaining 29 percent of the traditional and non-traditional families have incomes at or above 110 percent of AMI. These households are, in large part, dual-income households,

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with medical careers, academic positions, and middle- to upper-middle management jobs and professionals in the financial and legal sectors.

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Income Distribution
Family Oriented Households Segment of the
Market Potential For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

INCOME RANGEHOUSEHOLDS.....	
	NUMBER	PERCENT
< 30% AMI	90	20.0 %
30% to 60% AMI	65	14.4 %
60% to 80% AMI	55	12.3 %
80% to 110% AMI	65	14.4 %
> 110% AMI	175	38.9 %
Total	450	100.0 %

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

Over 22 percent of the traditional and non-traditional family households would be moving from one unit to another in the City of Somerville; over a third are currently living elsewhere in Middlesex County, and just over 17 percent would be moving from one of the counties in the region. The remaining 27 percent of the annual potential family market would be moving to the city from outside the region.

Empty nesters and retirees comprise the remainder of the annual potential market (10.5 percent) for new and existing housing in the City of Somerville, a smaller than typical share of the potential market, in part because they are the smallest market segment currently living in the city and in part because they move much less frequently than younger singles and couples and families.

A majority of these households have grown children who have moved out of the family home; another large percentage are retired, with income largely from social security, and, for many, supplemented by pensions, savings, and investments. *Urban Establishment* is the largest empty nester and retiree market group and most of these householders are currently living either in the City of Somerville or in neighboring Cambridge and Boston (see Appendix Three).

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In this market segment, just under 18 percent have incomes below 30 percent of AMI—older singles and couples struggling on limited incomes, mostly from social security—some of whom are living in housing that they can barely afford.

Another 47 percent of the older households have incomes between 30 and 110 percent of the area median. These households often prefer dwelling units that require less upkeep and maintenance expense, but if given appropriate housing options, would choose to remain in their current neighborhoods.

Older households with incomes at or above 110 percent of AMI comprise over 35 percent of the empty nester and retiree annual market potential. These older singles and couples are enthusiastic participants in community life and most are still actively involved in well-paying careers in the medical, legal, and financial professions as well as academia.

Income Distribution
Empty Nester & Retirees Segment of the
Market Potential For New and Existing Housing Units
City of Somerville, Middlesex County, Massachusetts

INCOME RANGEHOUSEHOLDS.....	
	NUMBER	PERCENT
< 30% AMI	80	16.3 %
30% to 60% AMI	60	12.2 %
60% to 80% AMI	70	14.3 %
80% to 110% AMI	85	17.3 %
> 110% AMI	195	39.9 %
Total	490	100.0 %

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

Just 15 percent of the empty nesters and retirees would be moving from one unit to another within the City of Somerville; nearly 41 percent would be moving from elsewhere in Middlesex County; 14.3 percent are currently living elsewhere in the region; and the remaining 29.5 percent would be moving from elsewhere in the U.S. outside the region.

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The full spectrum of *all* household groups within each segment representing the market for new and existing housing units in the city and their estimated median incomes and estimated median home values in 2015 are shown on the following table:

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Household Types
(In Order of Median Income)
City of Somerville, Middlesex County, Massachusetts

HOUSEHOLD TYPE	MEDIAN INCOME	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees		
<i>Old Money</i>	\$137,400	\$492,200
<i>Urban Establishment</i>	\$108,100	\$507,700
<i>Cosmopolitan Elite</i>	\$97,500	\$280,600
<i>Suburban Establishment</i>	\$89,000	\$262,300
<i>Affluent Empty Nesters</i>	\$87,800	\$278,800
<i>Cosmopolitan Couples</i>	\$70,600	\$284,000
<i>Middle-Class Move-Downs</i>	\$64,600	\$175,600
<i>Mainstream Retirees</i>	\$64,100	\$204,800
<i>No-Nest Suburbanites</i>	\$62,500	\$163,900
<i>Middle-American Retirees</i>	\$61,100	\$155,600
<i>Blue-Collar Retirees</i>	\$49,100	\$130,600
<i>Suburban Retirees</i>	\$43,100	\$109,400
<i>Suburban Seniors</i>	\$39,300	\$117,000
<i>Hometown Retirees</i>	\$35,100	\$120,500
<i>Multi-Ethnic Seniors</i>	\$33,600	\$102,600
<i>Second City Seniors</i>	\$33,200	\$91,500
Traditional & Non-Traditional Families		
<i>Unibox Transferees</i>	\$105,100	\$259,000
<i>Full-Nest Urbanites</i>	\$69,600	\$267,400
<i>Multi-Ethnic Families</i>	\$65,200	\$161,900
<i>Multi-Cultural Families</i>	\$64,400	\$230,100
<i>Inner-City Families</i>	\$41,200	\$166,500
<i>In-Town Families</i>	\$40,000	\$111,900
<i>Single-Parent Families</i>	\$33,500	\$149,200
Younger Singles & Couples		
<i>The Entrepreneurs</i>	\$127,000	\$388,000
<i>e-Types</i>	\$109,500	\$488,900
<i>The VIPs</i>	\$92,200	\$266,900
<i>Fast-Track Professionals</i>	\$91,900	\$294,500
<i>Upscale Suburban Couples</i>	\$83,800	\$226,200
<i>New Bohemians</i>	\$68,500	\$412,500
<i>Twentysomethings</i>	\$64,100	\$189,200
<i>Suburban Achievers</i>	\$60,700	\$191,300
<i>Small-City Singles</i>	\$49,700	\$143,300
<i>Urban Achievers</i>	\$45,200	\$279,300
<i>Working-Class Singles</i>	\$39,700	\$130,600
<i>Blue-Collar Singles</i>	\$36,400	\$107,500
<i>Soul-City Singles</i>	\$30,700	\$142,600

NOTE: The market, especially buyers, is expected to come from households with incomes above the median income for each target group. Median income and median reported home value cannot be correlated. While both are current data, reported

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home values are only for owner-occupied units, and can range from the sales price of a newly-constructed unit to the significantly-escalated value of a unit purchased decades ago.

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

Detailed descriptions of these household types are provided in a separate document:
APPENDIX THREE, TARGET MARKET DESCRIPTIONS

5. *What are the existing housing options for the potential market of households?*

THE MARKET CONTEXT

—MULTI-FAMILY RENTAL PROPERTIES—

Three rental properties located in the eastern and central part of Somerville are the newest market-rate apartments to be developed in the city. (*See* Table 3.) Two properties, Avalon at Assembly Row and AVA Somerville, are new Avalon Communities' projects located in the Assembly Row redevelopment area of the city. The third, Windsor at Maxwell's Green, is situated off Lowell Street, and within walking distance of the MBTA Red Line train station.

Avalon at Assembly Row on Great River Road opened in 2014. The property, which contains 195 units, leases studios, and one- to three-bedroom apartments; asking rents at the time of the survey in January 2015 ranged from \$1,975 per month for a 451-square-foot studio to \$4,375 for an 1,886-square-foot three-bedroom/two-bath apartment (with per-square-foot rents between \$2.32 and \$4.64). Twenty-four of the units are reserved for low- and moderate-income households. In addition to a clubhouse, fitness center and business center, Avalon at Assembly Row provides residents with a pool and sundeck, a TV lounge, picnic area, storage area, and bike racks.

AVA Somerville, a half block southeast of Avalon at Assembly Row on Artisan Way, also opened in 2014. The property contains 250 units, 32 of which are affordable, with asking rents for market-rate units ranging from \$2,015 for a 403-square-foot studio to \$2,975 for a 1,246-square-foot two-bedroom/two-bath unit (with per-square-foot rents from \$2.39 to

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\$5.00); community amenities include fitness center, TV lounge, storage and picnic areas, and courtyards.

Just south of Magoun Square is Windsor at Maxwell's Green, with 184 studio, one- to three-bedroom apartments and townhouses. Rents range from \$2,050 per month (for a 495-square-foot studio apartment, \$4.14 per square foot) to \$3,975 per month for the 1,395-square-foot three-bedroom/two-bath townhouse (\$2.85 per square foot). In addition to a clubhouse and fitness center, community amenities include a yoga studio, dog park, roof deck, theater room, network café, and an electric charging station.

Several comparable market-rate properties included in the survey are located outside the City of Somerville, in the Charlestown area of Boston, in Cambridge, and in Medford. Summary information by bedroom size follows (*see again Table 3 for greater detail*).

—*Studios (11 Properties)*—

- Rents for studios start at \$1,829 per month at Lumiere on Mystic Valley Parkway in Medford.
- The highest studio rent is \$2,825 per month at Gatehouse 75 on West School Street in the Charlestown area of Boston.
- Studios range in size from 329 square feet at Avalon North Point Lofts in Cambridge to approximately 700 square feet at several properties.
- Studio rents per square foot fall between \$2.94 and \$5.46.

—*One-Bedroom Units (15 Properties)*—

- Rents for one-bedroom units start at \$2,000 per month at Walden Park on Walden Street in Cambridge.
- The highest one-bedroom rent is \$3,797 per month at Watermark Kendall West on Third Street in Cambridge.

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- One-bedroom units range in size from approximately 560 square feet at 75SL in Medford to 1,180 square feet at Arborpoint at Station Landing, also in Medford.
- One-bedroom rents per square foot fall between \$2.49 and \$4.91.

—Two-Bedroom Units (15 Properties)—

- Rents for two-bedroom units start at \$2,530 per month at Walden Park.
- The highest two-bedroom rent is \$5,300 per month at Wyeth Cambridge on Rindge Avenue in Cambridge.
- Two-bedroom units range in size from approximately 887 square feet for a two-bedroom/one-bath apartment at Watermark Kendall West to 1,552 square feet at Wyeth Cambridge.
- Two-bedroom rents per square foot fall between \$2.40 and \$4.57.

—Three-Bedroom Units (Four Properties) —

- Rents for three-bedroom units start at \$3,469 per month at Mezzo Design Lofts on Caldwell Street in the Charlestown area.
- The highest three-bedroom rent is \$5,322 per month at Third Square on Third Street in Cambridge.
- Three-bedroom units range in size from approximately 1,340 square feet at Arborpoint at Station Landing to more than 1,800 square feet townhouse at Third Square.
- Three-bedroom rents per square foot fall between \$2.31 and \$3.07.

Avalon North Point Lofts in Cambridge is leasing 103, 329- to 701-square-foot open lofts for rents ranging between \$2,120 and \$2,225 per month (\$3.17 to \$6.44 per square foot). The property has a fitness center, pool, and sundeck for use of its residents.

Walk Score, a number between 0 and 100 denoting the desirability of a particular building or neighborhood from the perspective of walkability, has become an important rental value

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criterion for many renters. Buildings or neighborhoods with scores above 90 are described as “Walker’s Paradise,” which means that most errands can be accomplished on foot. Just two of the 19 properties included in the survey had Walk Scores above 90: Gatehouse 75 on West School Street in the Charleston area and Wyeth Cambridge on Rindge Avenue. The two Avalon properties in Somerville had the comparatively low Walk Score of 59, due to their location in a redevelopment district, which has yet to establish the full range of amenities that would improve the Walk Score.

—MULTI-FAMILY AND SINGLE-FAMILY ATTACHED AND DETACHED FOR-SALE PROPERTIES—

Because of financing constraints post-Great Recession, new for-sale development has been very limited in Somerville. (See Appendix 1, Table 4.) However, an increasing number of units are now listed for sale on the Multiple Listing Service. At the time of the survey in September, 2015, 59 condominium units, seven townhouses, and 15 single-family detached houses were on the market in Somerville. In addition, 44 multi-unit buildings, containing from two to as many as 17 units per building, were listed for sale.

Individual condominiums on the market in Somerville ranged in price from \$339,900 for a 793-square-foot one-bedroom/one-bath condominium in a triplex (\$429 per square foot) to \$1,450,000 for a 2,084-square-foot duplex unit with three bedrooms and three baths (\$696 per square foot). Condominium unit sizes ranged between 624 square feet for a one-bedroom/one-bath apartment priced at \$359,000 (\$575 per square foot) and 2,525 square feet for a two-bedroom/two-and-a-half bath apartment priced at \$759,900 (\$301 per square foot, the lowest per-square-foot price for a condominium in the survey). The highest price per square foot was \$781, for a 1,600 square-foot two-bedroom/two-bath apartment priced at \$1.25 million. The weighted average asking price of all 59 properties was \$618,671, for a weighted average 1,264 square feet of living space (\$506 per square foot).

Individual townhouses on the market in Somerville ranged in price from \$499,900 for a 1,065-square-foot two-bedroom/two-bath townhouse (\$469 per square foot) to

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\$1,225,000 for a 2,621-square-foot townhouse with three bedrooms and two-and-a-half baths (\$467 per square foot).). The highest price per square foot was \$517, for a 1,200 square-foot two-bedroom/two-bath townhouse priced at \$619,900. The weighted average asking price of all seven townhouses was \$800,629, for a weighted average 1,757 square feet of living space (\$457 per square foot).

Single-family detached houses on the market in Somerville ranged in price from \$349,888 for a 998-square-foot two-bedroom/one-bath house (\$351 per square foot), the smallest house on the market, to \$1,449,900 for a 2,550-square-foot house with three bedrooms and three-and-a-half baths (\$569 per square foot). The largest house on the market contained 3,500 square feet for a four-bedroom/four-bath house and was priced at \$1,365,000 (\$390 per square foot). The highest price per square foot was \$603, for a 1,991 square-foot four-bedroom/two-and-a-half-bath house priced at \$1,199,900. The weighted average asking price of all 15 houses was \$843,339, for a weighted average 2,131 square feet of living space (\$392 per square foot).

The majority of the multi-unit buildings on the market are duplexes, with one unit on the ground floor and another unit on the second floor, although 15 of the buildings contain three or more individual units. The lowest asking price for a multi-unit building was \$650,000. Two buildings were on the market for that price—a two-unit building containing six bedrooms and two baths in 2,737 square feet (\$237 per square foot) and a three-unit building containing six bedrooms and four baths in 3,020 square feet of living space (\$215 per square foot).

The most expensive multi-unit building on the market contained three units in 3,468 square feet, with 10 bedrooms and five baths and an asking price of \$4,999,000 (\$1,441 per square foot, the highest price per square foot in the Somerville market area). The largest multi-unit building on the market contained 17 individual units in 19,800 square feet; it was priced at \$2 million, or \$101 per square foot, the lowest price per square foot in the Somerville market area. The weighted average asking price of the 44 multi-unit buildings

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was \$1,103,813, for a weighted average 3,381 square feet of living space (\$358 per square foot).

6. How much housing could be leased or purchased by potential market households over the next five years?

Up to 4,330 of the 10,950 draw area households that represent the annual potential market for new and existing housing in the city have incomes at or above 110 percent of the AMI, the threshold qualifying them to potentially rent or purchase market-rate units. The tenure and housing preferences of these households are as follows (*see again Table 1 at the end of this study*):

**Tenure/Housing Type Propensities
Annual Average Market Potential
For New and Existing Market-Rate Housing
Households With Incomes At Or Above 110 Percent AMI
City of Somerville, Middlesex County, Massachusetts**

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	2,185	50.5%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	960	22.2%
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	815	18.8%
Single-family detached for-sale (houses, fee-simple ownership)	<u>370</u>	<u>8.5%</u>
Total	4,330	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

ABSORPTION FORECASTS

Absorption forecasts, using target market capture rates, have been established for new market-rate residential development, based on the number and characteristics of the potential market, the market context, and Somerville's proximity to Cambridge and Boston.

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Three absorption scenarios are plausible within the target market methodology's parameters of feasibility: low growth; moderate growth; and high growth. The capture rates of the potential market for new market-rate *rental* development range from 15 percent low growth; 20 percent moderate growth; and 25 percent high growth.

Given current economic conditions and the expectation of continued demand for new for-sale housing, Zimmerman/Volk Associates has determined that the capture rates of the potential market for new market-rate *for-sale* housing (multi-family for-sale, single-family attached, and single-family detached for-sale) range from 10 percent low growth; 15 percent moderate growth; and 20 percent high growth. Zimmerman/Volk Associates has also determined the capture rates of the potential market for new market-rate *rental* housing range from 15 percent low growth; 20 percent moderate growth; and 25 percent high growth.

The three absorption scenarios are shown on the following tables:

Low-Growth Scenario
Annual Capture of Market Potential
Households With Incomes At Or Above 110 Percent AMI
City of Somerville, Middlesex County, Massachusetts

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	2,185	15%	328
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	960	10%	96
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	815	10%	82
Single-family detached for-sale (houses, fee-simple ownership)		<u>370</u>	10% <u>37</u>
Total	4,330 households		543 units

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

Moderate-Growth Scenario
Annual Capture of Market Potential

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Households With Incomes At Or Above 110 Percent AMI
City of Somerville, Middlesex County, Massachusetts

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	2,185	20%	437
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	960	15%	144
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	815	15%	122
Single-family detached for-sale (houses, fee-simple ownership)		<u>370</u>	15% <u>56</u>
Total	4,330 households		759 units

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

High-Growth Scenario
Annual Capture of Market Potential
Households With Incomes At Or Above 110 Percent AMI
City of Somerville, Middlesex County, Massachusetts

HOUSING TYPE	NUMBER OF HOUSEHOLDS	CAPTURE RATE	NUMBER OF NEW UNITS
Multi-family for-rent (lofts/apartments, leaseholder)	2,185	25%	546
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	960	20%	192
Single-family attached for-sale (townhouses/live-work, fee-simple/ condominium ownership)	815	20%	163
Single-family detached for-sale (houses, fee-simple ownership)		<u>370</u>	20% <u>74</u>
Total	4,330 households		975 units

SOURCE: Zimmerman/Volk Associates, Inc., 2015.

Over the next five years, then, at these forecast capture rates, between 2,715 (low growth), 3,795 (moderate growth) and 4,875 (high-growth) new market-rate units could be absorbed within the city.

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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.

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