

# KIRK & COMPANY

April 29, 2019

Via Email: ([mbgalasso@baronegalasso.com](mailto:mbgalasso@baronegalasso.com))

Michael Galasso  
200 Palmer Avenue  
Falmouth, MA 02540

RE: 117 Union Street; New Bedford, MA

Dear Mr. Galasso:

At your request, we have reviewed and analyzed the proposed mixed-use development and its market for the purpose of commenting on the general demand for the proposed units within the market. The subject is a proposed 43-unit mixed use (residential/retail) development at the corner of North Second and Union Street (115-127 Union Street) in New Bedford. The property will likely consist of 22 furnished studio/micro units of approximately 400 square feet, 14 one-bedroom units of approximately 600 square feet, 7 two-bedroom units of approximately 800 square feet and 2,100 square feet of ground level retail space. According to preliminary plans, the redevelopment project will include the construction of a five-story building on the existing site to include a mix of affordable and market rate rental units and ground floor office and retail space, along with various amenity spaces. The memorandum has been prepared for your use to assist you in due diligence assistance and decision making as a high-level market demand exercise for the proposed units at the property.

## **General Demand Conclusions**

The National Council of Housing Market Analysts (NCHMA) defines market demand as the total number of households in a defined market area that would potentially move into any new or renovated housing units. Market demand is not project specific and covers all renter households and income levels. Components of demand vary and can include household growth; turnover, substandard dwelling units, rent over-burdened households, and demolished housing units. Project specific demand is the total number of households in a defined market area that would potentially move into the proposed new or renovated housing units. These households must be of the appropriate age, income, tenure and size for the specific proposed development. The components used to estimate the demand for a specific project are similar to those used to estimate overall market-area demand. An analysis of a proposed rental project evaluates both overall market demand and project-specific demand. It evaluates the demographic; employment, construction and absorption trends, as well as projected changes in supply and demand to determine the number of units are needed to achieve market equilibrium. A project-specific demand analysis estimates the

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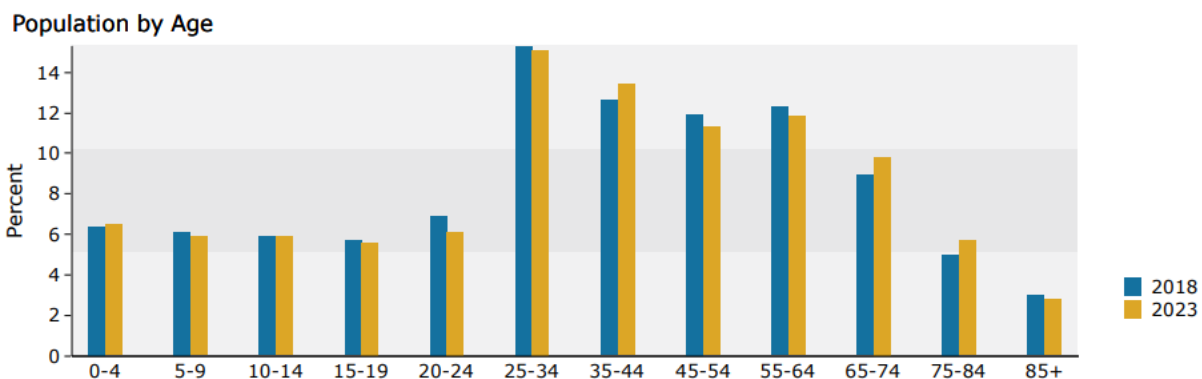
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number of income-qualified renter households within the planned development's income range. The project-specific demand conclusion indicates whether a market area has a sufficient number of income-qualified households to fill the proposed units. The analysis has been prepared for your use to assist you in due diligence assistance and decision making as a high-level market demand exercise for the proposed units at the property.

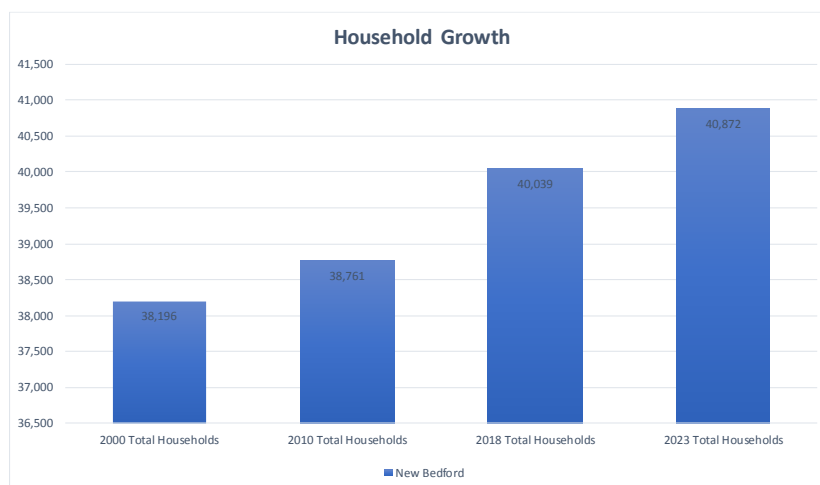
Generally, there are a number of factors to consider in analyzing demand for multifamily rental housing units within a particular market. We look at population and household growth trends, employment trends and income trends, current supply and occupancy and future pipeline. These trends give a snapshot of supply and demand factors that impact new additions to supply within the market and the ultimate success of a multifamily project. We have provided selected data and analysis below for your use in planning the project and analyzing demand for the proposed development.

**Population and Household Growth:** Sufficient housing units should be available within the market to accommodate existing households, newly forming households and in-migrating households. If the market area's existing housing stock does not have an adequate supply of units, or the supply is declining, construction of new units is necessary to accommodate population and household growth.

- Population growth in New Bedford has been sustained and is expected to grow at an annual rate of 0.42% between 2018-2023. Generally, population and growth are most significant in the cohorts between age 25 and 44. Younger populations and households are more likely to be renters in small (1-3 person/household) blocks. Studio, micro, and one-bedroom households are typically measured as one- and two-person households within the market, while two-bedroom households are typically measured as one-, two-, and three-person households. This substantial population cohort and growth projection is consistent with demand for small units including studios, micro units, and one- and two-bedroom units within the market. This population cohort represents a large population of renters in the market and have experienced positive response to amenitized, smaller, urban-core units.



- Household growth has been on par with the population growth of the selected geographies with New Bedford households growing at an annual rate of 0.41% between 2010 and 2018 and with an expected annual growth rate of 0.42% between 2018 and 2023.



- The chart below indicates a trend in growth of renter housing units since 2010. Owner occupied units are expected to grow by about 6.25% between 2018-2023. This contrast to that of renter occupied units which are expected to decline by about 1.08% between 2018-2023 with a total reduction in renter occupied housing units of 257 over the five year term. According to the data set, the reduction of renter occupied units are partially the result of conversion to owner occupied units and the transfer to vacant status. Vacant housing units are projected to increase by 131 units, while owner occupied units are expected to increase by 1,091 units, as indicated by the chart below. The low number of additions to supply and decrease of overall rental units in the existing supply, coupled with increased household formation indicate a need for additional rental housing units within the market.

Housing Units by Occupancy Status and Tenure	Census 2010		2018		2023	
	Number	Percent	Number	Percent	Number	Percent
Total Housing Units	42,933	100.0%	44,513	100.0%	45,477	100.0%
Occupied	38,761	90.3%	40,039	89.9%	40,872	89.9%
Owner	16,311	38.0%	16,351	36.7%	17,441	38.4%
Renter	22,450	52.3%	23,688	53.2%	23,431	51.5%
Vacant	4,172	9.7%	4,474	10.1%	4,605	10.1%

- Traditionally, younger, lower-income, and minority households are most likely to rent and thus make up large shares of renter populations. According to Census projections, within New Bedford, 1-person, 2-person, and 3-person households are heavily weighted towards renter households and occupy rental units within the city. 79.1% of all households within New Bedford are 1-3-person households and 58.9% of all of those households are renters. The demographic trends in supply and demand show a strong correlation of household demand for smaller rental units for renter households of 1-3 persons.

**Household Income and Employment:** Demand for new units comes from household growth as well as from pent-up demand due to a lack of available and affordable housing and/or substandard housing. Pent-up demand is often illustrated by very low vacancy rates. Rent overburden indicates that households do not have sufficient income to afford private rental housing. Rent over-burdened households are often concentrated at the lowest income ranges, however, can be observed in private, market rate housing as well. Household income levels and employment trends are strong indicators of the potential for increasing demand within a market.

- A review of households, within New Bedford, based on their estimated income levels suggested that there is a concentration of households earning an annual income of between \$35,000-\$74,999. HUD defines cost-burdened families as those “who pay more than 30% of their income for housing” and “may have difficulty affording necessities such as food, clothing, transportation, and medical care.” Severe rent burden is defined as paying more than 50% of one's income on rent. The projected achievable market rents for the proposed project represent annual household income within the \$35,000-\$74,999 cohort without being cost-burdened or severely cost-burdened. The cohort of household incomes within the above range represent 11,901 households within New Bedford as of 2018 with projected 2023 counts of 12,139. This represents a substantial cohort within the population of New Bedford.
- Data provided by the Department of Unemployment Assistance, Economic Research Department records the unemployment rate for New Bedford at 5.6% in March 2019, this is compared to the Massachusetts rate of 3.1% in March 2019. Data shows a decline in the unemployment rate of approximately 1.04% between March 2018 and March 2019. Additionally, growth in the labor force has been on pace with the region and when coupled with higher increases in the number of employed within the labor force, signs of increasing economic and labor conditions put upward pressure on housing markets as economic mobility increases and households can afford to decouple. This decline in unemployment suggests the strengthening of the overall employment situation within New Bedford and an opportunity for rental units within the city.

**Units in Pipeline:** Projects that are planned or under construction will increase the existing supply and may affect market equilibrium. The units in the pipeline include the off-line units that will be renovated and returned to the market, unstabilized projects that are in lease-up, projects that are under construction, and planned projects that will enter the market before the proposed development is completed and fully occupied.

- According to a review of the records from the City of New Bedford, MA Planning Department, there are a limited number of multifamily residential units in the pipeline. Recent proposed projects include 224 A&B Court Street, formerly known as 475 Union Street, a proposed 6-unit multifamily development under the current ownership of Preferred Realty Services LLC. 224 A&B Court Street filed for site plan approval in connection to a site modification with the New Bedford Planning Board at their April 10, 2019 meeting. Pipeline analysis is an iterative process and additional units added to the

pipeline should be analyzed to further refine the conclusions of this memorandum going forward.

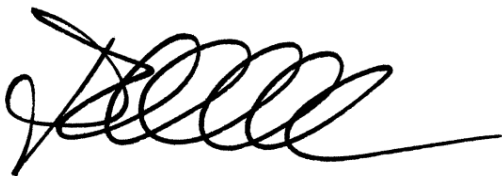
**Vacancy Rates:** Rental markets with high vacancy rates may reflect an oversupply of available housing. The overall health of the rental market may impact the ability of a proposed development to reach stabilization, despite favorable capture rates and properly positioned rents.

- Surveyed comparable properties in the New Bedford market indicate occupancy rates within the range of 99%-100% for comparable units and properties. The market for rental housing is stable in similar neighborhoods in the region and the surrounding area with occupancy reported at very nearly 100% range for comparable market-rate properties and occupancy reported upwards of 100% for affordable properties in the market and extensive wait lists for units that can be years long.

Given the expected population and household growth factors within New Bedford, the limited number of pipeline units, coupled with the current occupancy level of existing residential product, it is reasonable to assume there will be strong demand for additional rental units for 1-3 person households within the market.

These conclusions are considered as part of an iterative analysis and may be subject to refinement and additional consideration with input from you and modifications to the proposed terms of the various arrangements. We will continue to refine our analysis and conclusions and welcome your feedback and comment. This letter summarizes our conclusions and analysis completed for your use in due diligence assistance and decision making. The estimates and opinions in this report are subject to the data provided for review and conclusions may change with the modification of the assignment parameters. We are delighted to be of service to you or the City of New Bedford; if there are any questions regarding the content of this memorandum, please feel free to contact us.

Sincerely,



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