



# **DOWNTOWN DAYTON HOUSING DEMAND ANALYSIS**

***CITY COMPARISONS & MARKET DEPTH***

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## INTRODUCTION

Seven years ago, in the midst of a national recession, the Dayton community launched the Greater Downtown Dayton Plan, a strategic blueprint for the future of downtown Dayton. The Plan set ambitious goals for economic growth, addition of cultural, entertainment, and recreational amenities, making downtown more sustainable, and development of new downtown housing. While launched during tough economic times, the Plan was well-timed to capitalize on the resurgence of downtowns that has been happening nationally for decades. More than \$500 million in investment later, with another \$500 million in the pipeline for the next two years, the goals of the Plan seem more attainable than they have ever been. Downtown Dayton is coming back.

At the heart of the comeback has been the growing demand for living downtown. Nationwide, compact, walkable cities rich with culture and entertainment options are the new places to be. Responding to this demand, downtown's neighborhood is growing. Since the launch of the Plan, 332 housing units have been added in the core of downtown and the population has increased by approximately 18%.<sup>1</sup> Growth has been most pronounced in owner-occupied housing, with 99 new units, representing almost double the number of downtown units built before 2010. The recent opening of Water Street represents the single largest addition of downtown housing in 15 years – more than all of the units that had been added in all of the housing projects since 2010. The Water Street apartments absorbed quickly – several leased during construction and the complex was fully leased within two months of completion.

During all this growth, the existing residential inventory has still performed well. For four straight years, downtown Dayton has had the tightest apartment market in the region; typically at an occupancy rate of 96 to 98%.<sup>2</sup> Owner-occupied housing has also remained above 90% occupancy. Apartment rent rates have been increasing and housing sales prices have climbed.<sup>3</sup> Given a strong market, development projects have picked up speed. Currently 204 units are under construction and another 432 units are in the development pipeline.

Despite the rapid absorption of the units in the projects completed thus far, there is still uncertainty in the growth potential for residential in downtown Dayton. This report attempts to address that uncertainty by estimating the depth of the residential market. The analysis performed for this study is modeled after one done

The goal of this work is to estimate the order of magnitude of unmet demand for urban living so that urban planners, policy makers, and developers can make more informed decisions about the center city's future development

<sup>1</sup> Since it is not available from the American Community Survey, the 2016 end of year population is based on a estimate from the Downtown Dayton Partnership

<sup>2</sup> Based on Miller-Valentine Group's annual Apartment Market Study for the Dayton region

<sup>3</sup> Peak apartment rental rates have climbed above \$1.50 per square foot for existing and new complexes downtown. New condo sales have risen above \$140 per square foot. Both are +50% gains since 2000

three years ago by a real estate consultant on behalf of downtown Chattanooga.<sup>4</sup> It leverages housing preferences as captured by the National Association of Realtors and compares the downtown residential regional market share as compared to other downtowns further along in their revitalization. This study is not intended to serve as a market study or sole justification for any single housing project. Rather, the goal of this work is to estimate the order of magnitude of unmet demand for urban living in the Dayton region so that planners, policy makers, and developers can make more informed decisions about the center city's future development.

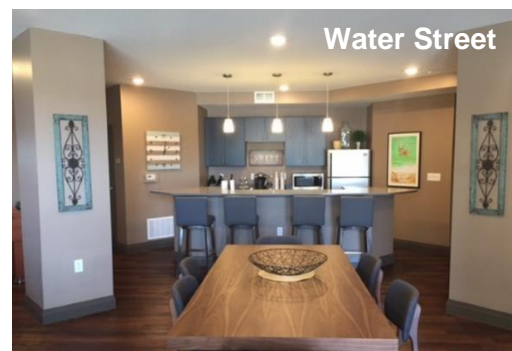
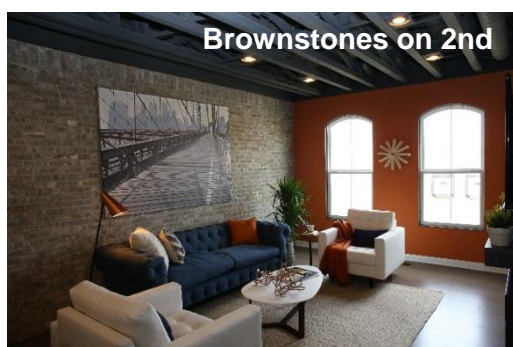
## HOUSING DEMAND ANALYSIS

There are two primary metrics that form the basis for this housing demand analysis:

- An assessment of downtown Dayton's housing market share in the context of the surrounding county and the region as compared to housing preferences as measured by the most recent National Association of Realtors (NAR) housing preferences survey
- A comparison of that same market share against other downtowns across the country that are at least a few years ahead of Dayton in their downtown housing growth and overall urban resurgence.

The first part of this study is comparable to the work done for downtown Chattanooga. Dayton's downtown housing market share is compared to the percentage of NAR survey respondents who indicated that they would like to live downtown. The second part provides a check for the NAR survey comparison.

Table 1 shows the current percentages of owner-occupied and rental housing in downtown Dayton (i.e. Central Business District) in proportion to the total housing in Montgomery County and the Dayton Metropolitan Statistical Area (MSA). The geography boundaries that correspond to the "CBD" in Table 1 are shown in Figure 1.



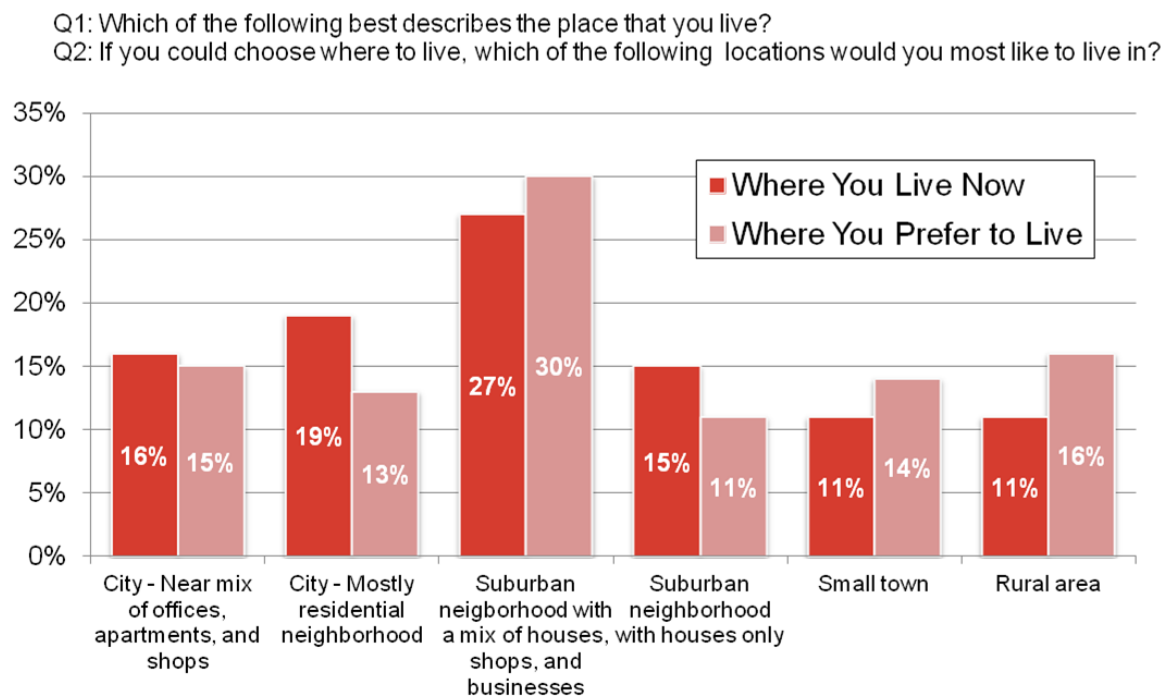
**The Water Street apartments were fully leased within two months of completion. Brownstones on 2<sup>nd</sup> sold out in months.**

<sup>4</sup> "Downtown Chattanooga Study: Housing, Retail, and Office Market Opportunities." Prepared for the River City Company by Robert Charles Lesser & Co. Real Estate Advisors, 15 Jan. 2014.





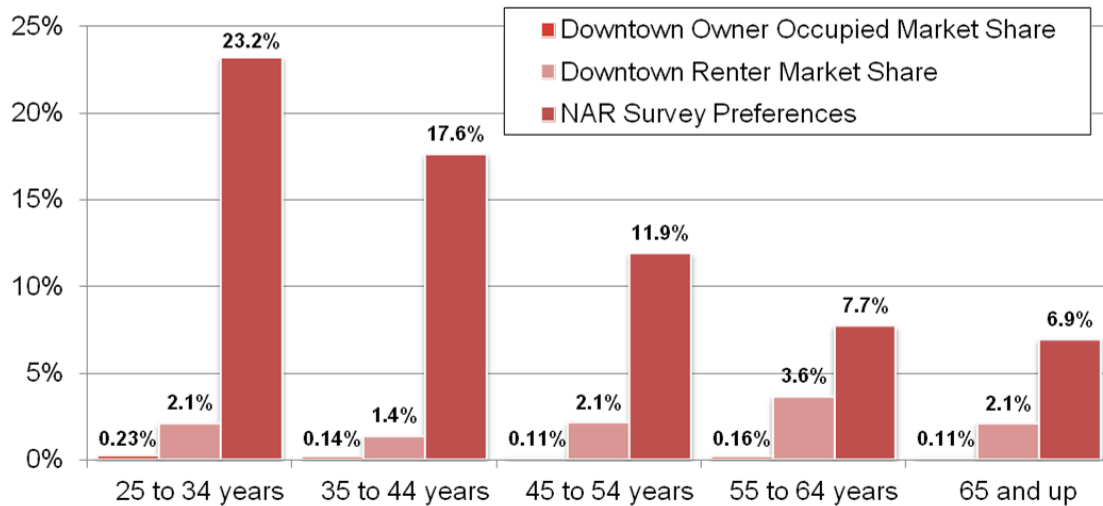
In the 2013 National Association of Realtors (NAR) survey, respondents were asked to describe both what kind of community they currently live in, and also what kind of community they would like to live in. Figure 2 shows the breakdown in survey responses. A significant percentage of respondents (more than a third) show interest in city living – both in more central urban areas and in surrounding urban neighborhoods.



**Figure 2: 2013 NAR Community Preferences Survey; Area Where You Live vs. Area Where You Prefer to Live**

Figure 3 breaks down the "City – Near mix of offices, apartments, and shops" responses from the NAR survey by age of respondent and compares them to the current downtown market share for Montgomery County from Table 1. Similar to the analysis done for downtown Chattanooga, this comparison is the foundation for assessing unmet demand for downtown living in Dayton. As can be seen from the figure, the expressed interest in downtown living from the NAR survey is significantly higher than the current housing market share in the Dayton community.

**NOTE:** Market share statistics are based on total units in Montgomery County



**Figure 3: Downtown Dayton Market Share Compared to NAR Survey Responses Broken Down by Respondent Age**

### ACCOUNTING FOR INCOME AND HOUSING TYPE

Not everyone who says they want to live downtown in the NAR survey is realistic about what that means for their living situation (e.g. also means living in a multi-family building or attached townhome) or has the means from an income perspective to afford a downtown condo or apartment. Table 2 shows the NAR "downtown demand" percentages when these factors are taken into account. These fractions only include survey respondents who also indicated that they would prefer to live in a multi-family building or attached townhome and also have an annual household income large enough to afford a downtown condo (assumed \$75,000 and up) or apartment (assumed \$25,000 and up). Even with these restrictions, the difference in those who say they would prefer to live downtown compared to the current Dayton market share represents hundreds of units in pent-up demand. Unit counts are in the right-most column of Table 2. To be conservative, the statistics for Montgomery County are used as the basis for the calculations – certainly the potential market for downtown Dayton extends beyond county lines. Based on this comparison, the only age demographic that might be over-served in downtown housing supply is age 55 and up for apartments – although it should be noted that much of the current downtown supply is lower-income senior housing. It's possible (and likely given the experience at Water Street<sup>5</sup>) that there is still pent-up demand for market rate rental housing for this age demographic. It's also possible that this age group is choosing to rent instead of purchasing units (when they'd prefer to purchase) given the low supply of downtown owner-occupied units.

<sup>5</sup> According to the developer, empty nesters represent approximately 25-30% of the tenants at the new Water Street Apartments that opened in 2016.

| <b>OWNER OCCUPIED:</b>  | <b>Montgomery County % in CBD</b> | <b>NAR Survey Downtown Demand (all responses)</b> | <b>NAR Survey Downtown Demand (with housing type and income restrictions*)</b> | <b>Additional Units from Unmet Demand</b> |
|-------------------------|-----------------------------------|---|--|---|
| <b>25 to 34 years</b>   | <b>0.23%</b>                      | <b>23.2%</b>                                      | <b>1.0%</b>  | <b>105</b>                                |
| <b>35 to 44 years</b>   | <b>0.14%</b>                      | <b>17.6%</b>                                      | <b>1.7%</b>  | <b>337</b>                                |
| <b>45 to 54 years</b>   | <b>0.11%</b>                      | <b>11.9%</b>                                      | <b>1.1%</b>  | <b>313</b>                                |
| <b>55 to 64 years</b>   | <b>0.16%</b>                      | <b>7.7%</b>                                       | <b>0.4%</b>  | <b>77</b>                                 |
| <b>65 and up</b>        | <b>0.11%</b>                      | <b>6.9%</b>                                       | <b>0.4%</b>  | <b>123</b>                                |
| <b>RENTER OCCUPIED:</b> |                                   |   |  |   |
| <b>25 to 34 years</b>   | <b>2.09%</b>                      | <b>23.2%</b>                                      | <b>6.0%</b>  | <b>780</b>                                |
| <b>35 to 44 years</b>   | <b>1.35%</b>                      | <b>17.6%</b>                                      | <b>6.0%</b>  | <b>710</b>                                |
| <b>45 to 54 years</b>   | <b>2.14%</b>                      | <b>11.9%</b>                                      | <b>3.2%</b>  | <b>158</b>                                |
| <b>55 to 64 years</b>   | <b>3.63%</b>                      | <b>7.7%</b>                                       | <b>1.6%</b>  | <b>-221</b>                               |
| <b>65 and up</b>        | <b>2.06%</b>                      | <b>6.9%</b>                                       | <b>1.7%</b>  | <b>-45</b>                                |

\*Survey responses limited to preferred housing type of multi-family or attached townhome and a lower threshold for household income (\$75k and up for owner-occupied, \$25k and up for apartments).

**Table 2: Total Housing Demand as Determined by NAR Survey vs. Downtown Dayton Residential Market Share**

### **ACTIVE MARKET AND ANNUAL ABSORPTION POTENTIAL**

The first part of this analysis enables a basic under-built / over-built assessment of the downtown housing market, but it does not provide insight into the number of housing units that could be absorbed annually. Two national measures were used to define an "active market" for renter and owner-occupied housing in the Dayton region:

- Using data published by the National Association of Realtors, the Mortgage Bankers Association calculates 7% of owner-occupied households sell each year<sup>6</sup>
- According to the National Center for Housing Management, 54% of renter-occupied units turn-over each year<sup>7</sup>

These statistics form a basis for calculating how much of the total regional housing is in transition each year – specifically, an active market. That active market was then proportioned by age based on regional migration patterns – this second calculation helps take into account shifting mobility at different stages of life. Finally, annual

<sup>6</sup> Swanson, Brena. "This MBA chart shows existing home turnover." [Housing Wire](#), 26 June 2015. Web. 14 Jan. 2017.

<sup>7</sup> Votto, Paul. "A 50% Turnover Rate: It's Not High, It's Average." [National Center for Housing Management](#), 14 May 2015. Web. 14 Jan. 2017.

downtown housing demand (for new units) is calculated by multiplying the active market by the preferences from the NAR survey, but also taking into account turnover of existing downtown housing. The results of these calculations are provided in Table 3. Again, the housing counts for Montgomery County have been used as the basis for the calculations to maintain some conservatism in the results.

The downtown market appears to have significant depth to absorb new units annually – much more than what has been added annually to the market to date. Certainly, the ability of the downtown market to absorb new units will reduce as the total housing approaches the unit counts from the right-most column of Table 2. For example, 710 new apartment units for age 25-34-year-olds would constitute most of the unmet demand for this age demographic as highlighted in Table 2 (780 units). Conversely, the owner-occupied housing absorption rates for 35 to 44 year-olds could potentially be sustained for several years before reaching market saturation.

| OWNER OCCUPIED:  | Montgomery County |                  | NAR<br>Downtown<br>Demand | Total Downtown<br>Active Market | Total<br>Existing<br>Downtown<br>Units | Total New<br>Annual Units |
|------------------|-------------------|------------------|---------------------------|---------------------------------|--|---------------------------|
|                  | Total             | Active<br>Market |                           |                                 |  |                           |
| 25 to 34 years   | 13,614            | 3,856            | 1.0%                      | 39                              | 31                                     | 36                        |
| 35 to 44 years   | 21,565            | 2,112            | 1.7%                      | 36                              | 30                                     | 34                        |
| 45 to 54 years   | 31,689            | 1,740            | 1.1%                      | 19                              | 36                                     | 17                        |
| 55 to 64 years   | 31,433            | 1,110            | 0.4%                      | 4                               | 49                                     | 1                         |
| 65 and up        | 42,100            | 1,009            | 0.4%                      | 4                               | 46                                     | 1                         |
|                  |                   |                  |                           |                                 |  |                           |
| RENTER OCCUPIED: |                   |                  |                           |                                 |  |                           |
| 25 to 34 years   | 19,960            | 15,597           | 6.0%                      | 936                             | 418                                    | 710                       |
| 35 to 44 years   | 15,288            | 8,545            | 6.0%                      | 513                             | 207                                    | 401                       |
| 45 to 54 years   | 14,862            | 7,039            | 3.2%                      | 225                             | 318                                    | 54                        |
| 55 to 64 years   | 10,887            | 4,492            | 1.6%                      | 72                              | 395                                    | -141                      |
| 65 and up        | 12,624            | 4,083            | 1.7%                      | 69                              | 260                                    | -71                       |

**Table 3: New Unit Absorption Potential Based on Active Market**

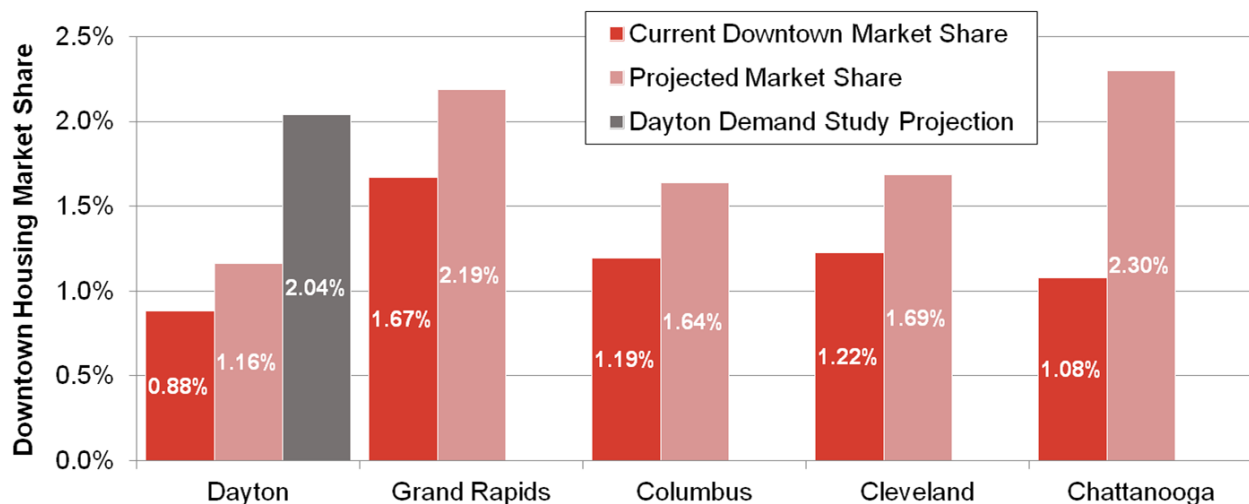
## CITY COMPARISONS

As a check and an alternative approach for estimating demand, the results from Table 2 were compared to downtown housing statistics for other cities. Figure 4 shows the downtown housing market share (assessed relative to the total housing in each city's respective county) compared to housing in downtown Dayton currently and the market fraction if the number of units were added as indicated from this demand study (Unmet Demand from Table 2). Every comparison city in Figure 4 has more than a thousand units in the development pipeline (over the next 1-2 years) for their downtown (i.e. the projected market share). The market share statistics after adding those units are



included in the figure, which also incorporates Dayton's actual pipeline (current projects under construction and in development). As can be seen from this comparison, the downtown Dayton market share projected by this analysis is reasonable as compared to other downtown areas. Even if the housing demand indicated by this study was reduced to the average projected market share from Columbus and Cleveland (~1.65%), downtown Dayton's residential market would still have the potential to add approximately 1,700 total units, almost triple what is currently under construction or development.

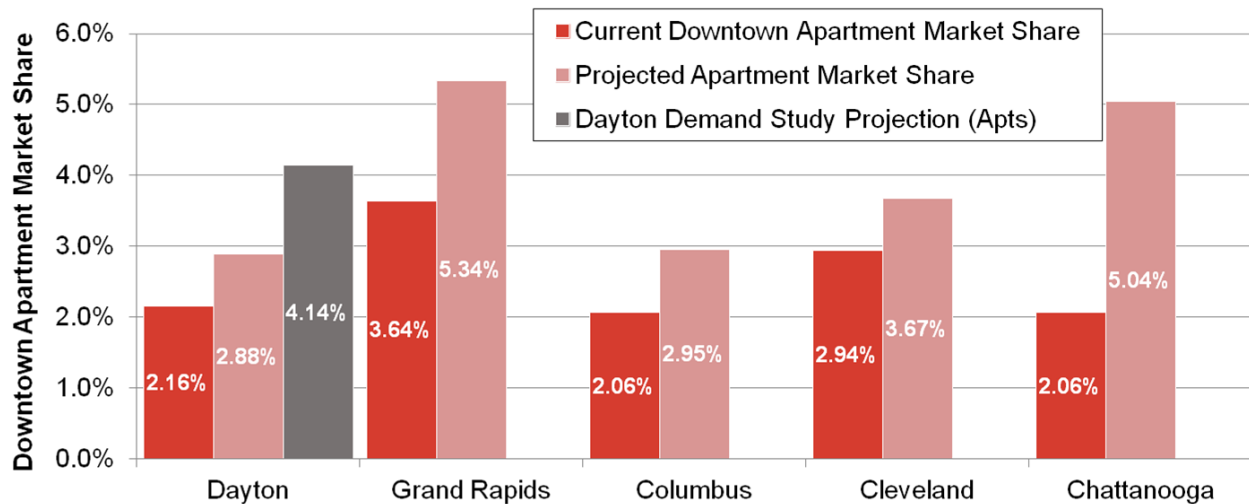
**NOTE:** Projected market share accounts for the units each downtown has in its development pipeline (under construction and pre-development). The "Dayton Demand Study Projection" is the market share if downtown added the number of units concluded from this study.



**Figure 4: Downtown Housing Market Share Comparison to Other Cities (Current Market Share and Including Downtown Housing in the Pipeline)**

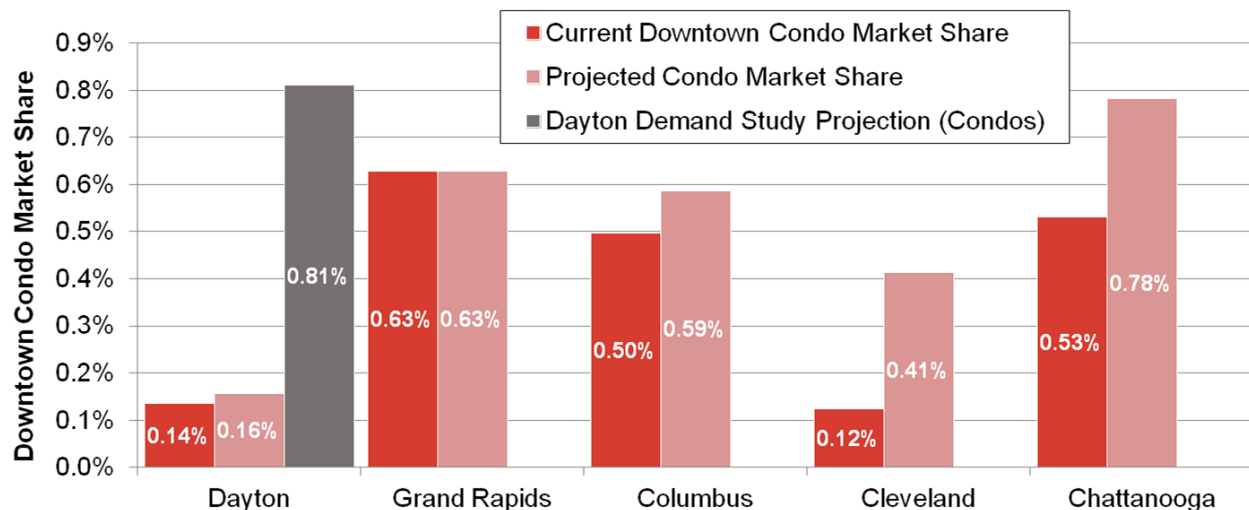
Breakdowns of the comparison from Figure 4 for apartments and condos (i.e. owner-occupied housing) are shown in Figures 5 and 6 respectively. Both indicate significant growth potential beyond the current construction and pre-development pipeline for downtown Dayton. Most noticeable is the apparent market depth for owner-occupied housing – especially considering that the number of units in downtown Dayton has already doubled since 2010. While the number of condos projected by this study might be slightly optimistic, there appears to be significant potential to add new units as indicated by the market share sizes in the comparison cities.

**NOTE:** Projected market share accounts for the units each downtown has in its development pipeline (under construction and pre-development). The “Dayton Demand Study Projection” is the market share if downtown added the number of apartment units concluded from this study.



**Figure 5: Apartment Market Share Comparison to Other Cities (Current Market Share and Including Downtown Housing in the Pipeline)**

**NOTE:** Projected market share accounts for the units each downtown has in its development pipeline (under construction and pre-development). The “Dayton Demand Study Projection” is the market share if downtown added the number of condo units concluded from this study.



**Figure 6: Owner-Occupied Housing Market Share Comparison to Other Cities (Current Market Share and Including Downtown Housing in the Pipeline)**

## SUMMARY

Downtown Dayton's residential market has significant depth beyond the housing that has been added over past several years and the housing currently in the development pipeline. As compared to housing preferences stated in the 2013 National Association of Realtors survey, the downtown market is under-built by 954 owner-occupied units and 1,382 apartments. Not surprisingly, demand for these units is greatest among the millennial age demographic. Comparisons to other cities provide a benchmark to show the market depth approximated by this study is reasonable.

As of completion of this work, downtown Dayton has 31 owner-occupied units and 605 apartments in the pipeline across 9 projects. Like the other projects completed to date, these units are expected to absorb quickly. The challenge for downtown policy makers will be to identify candidate projects not yet in the pipeline that can continue to address the pent up demand for urban living. Certainly, as some of the current projects approach completion – Levitt Pavilion, the Arcade, Fire Blocks, Centre City, Delco Lofts – the momentum around choosing a downtown address will only build.