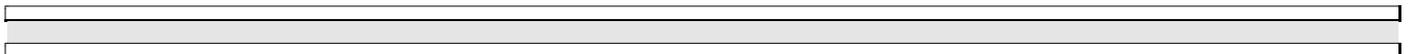

MARKET POSITION ANALYSIS

13-31 Elm Street

City of Springfield,
Hampden County, Massachusetts

February, 2007

Conducted by
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Research and Strategic Analysis

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Research & Strategic Analysis

MARKET POSITION ANALYSIS

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Hampden County, Massachusetts

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INTRODUCTION

This study identifies the market potential for new condominium units to be sold within the six-story building located at 13-31 Elm Street in Downtown Springfield, Massachusetts. The lot associated with the building encompasses just under three-quarters of an acre and is bounded by Elm Street to the north, Main Street to the east, State Street to the south, and the H.H. Richardson-designed Courthouse and East Columbus Avenue to the west. The building overlooks Court Square Park, and has views of the Old First Church, City Hall and Symphony Hall.

Note: This study specifically addresses market potential based on the housing preferences and financial capacities of target households who are purchasing units for personal use and is not intended to assess the purchase potential of investors.

The market potential for new condominium housing units within the redevelopment of the property has been analyzed using Zimmerman/Volk Associates' proprietary target market methodology (the capture of qualified households that have the potential to move to and within Downtown Springfield) and verified within the context of the residential marketplace.

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 derived from the housing preferences and lifestyle characteristics of households in the draw area 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 compatibility of household types. The results of this refined series of filters are so precisely targeted that market feasibility requires a relatively small number of qualified households. (*See METHODOLOGY below.*)

This study therefore has determined:

- Where the potential buyers of new condominiums to be constructed within a redevelopment of the 13-31 Elm Street building currently live (the draw areas);
- Who the potential buyers are and what are they like (the target markets);
- How many are likely to purchase at the site if appropriately-designed condominiums were to be made available (depth and breadth of the market);
- What their housing preferences are in aggregate (multi-family, single-family attached and detached);
- What their alternatives are (supply-side analysis);
- What they will pay to purchase new condominium units on the site (market-entry base prices); and
- How long it will take to sell all the units (market capture/absorption forecasts).

MARKET POTENTIAL

As noted above, the extent and characteristics of the potential market for new for-sale dwelling units within a redevelopment of 13-31 Elm Street were determined through detailed analysis of households currently living within the appropriate draw areas. These draw areas were derived primarily through migration and mobility analyses, and incorporating information obtained from real estate brokers, sales persons and other knowledgeable sources, and from Zimmerman/Volk Associates' field investigation. (*See Appendix Tables and METHODOLOGY below.*)

Based on migration analysis—as derived from taxpayer records compiled by the Internal Revenue Service—the principal draw areas for new dwelling units in the City of Springfield are the primary (City of Springfield), local (balance of Hampden County), and regional (Hampshire and Worcester Counties in Massachusetts and Hartford County in Connecticut) draw areas. The analysis also factors in the market potential from all other cities or counties represented in Hampden County migration.

As derived from migration analysis, then, the draw area distribution of market potential (those households with the potential to move within or to the City of Springfield) in 2007 would be as follows (*see also* Appendix One, Table 9):

Market Potential by Draw Area	
<i>City of Springfield, Hampden County, Massachusetts</i>	
City of Springfield (Primary Draw Area):	39.5%
Balance of Hampden County (Local Draw Area):	31.8%
Hampshire, Worcester, Hartford Counties (Regional Draw Area):	11.5%
Middlesex, Suffolk, Essex, Norfolk Counties (Boston Draw Area):	4.5%
Balance of US (National Draw Area):	<u>12.7%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

The target market methodology also identifies those households with a preference for living in downtowns and other urban neighborhoods. After discounting for those segments of the city's potential market that have preferences for suburban and/or rural locations, the distribution of draw area market potential for new and existing units within Downtown Springfield would be as follows (*see also* Appendix One, Table 10):

Market Potential by Draw Area	
DOWNTOWN SPRINGFIELD	
<i>City of Springfield, Hampden County, Massachusetts</i>	
City of Springfield (Primary Draw Area):	32.2%
Balance of Hampden County (Local Draw Area):	23.7%
Hampshire, Worcester, Hartford Counties (Regional Draw Area):	11.8%
Middlesex, Suffolk, Essex, Norfolk Counties (Boston Draw Area):	12.4%
Balance of US (National Draw Area):	<u>19.9%</u>
Total:	100.0%

As determined by the target market methodology, which accounts for household mobility within the City of Springfield and the balance of Hampden County, as well as migration and mobility patterns for households currently living in all other cities and counties, in the year 2007, more than 2,100 younger singles and couples, empty nesters and retirees, and families with children, with the financial capacities to rent or purchase market-rate dwelling units, represent the potential market for new housing units within Downtown Springfield.

The housing preferences of these 2,110 draw area households—based on tenure (rental/ownership) choices and financial capacity—are outlined as follows (*see also* Table 1):

**Annual Potential Market for New Housing Units
DOWNTOWN SPRINGFIELD
*City of Springfield, Hampden County, Massachusetts***

HOUSING TYPE	NUMBER OF HOUSEHOLDS	PERCENT OF TOTAL
Multi-family for-rent (lofts/apartments, leaseholder)	430	20.4%
Multi-family for-sale (lofts/apartments, condo/co-op ownership)	400	19.0%
Single-family attached for-sale (townhouses/rowhouses, fee-simple/ condominium ownership)	320	15.2%
Low-range single-family detached (houses, fee-simple ownership)	190	9.0%
Mid-range single-family detached (houses, fee-simple ownership)	440	20.9%
High-range single-family detached (houses, fee-simple ownership)	<u>330</u>	<u>15.5%</u>
Total	2,110	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

This analysis addresses only the optimum market position for multi-family for-sale housing units (apartments sold under condominium ownership) to be constructed within a redevelopment of the 13-31 Elm Street Building.

Table 1

Potential Housing Market

Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
With The Potential To Move To The Site In 2007

13-31 Elm Street

The City of Springfield, Hampden County, Massachusetts

*City of Springfield; Balance of Hampshire County;
Regional Draw Counties; Boston Region; All Other U.S. Counties
Draw Areas*

Total Target Market Households
With Potential To Rent/Purchase In
The City of Springfield, Hampden County, Massachusetts 7,850

Total Target Market Households
With Potential To Rent/Purchase In
Downtown Springfield 2,110

Potential Housing Market--Downtown Springfield

	<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:	430	400	320	190	440	330	2,110
<i>{Mix Distribution}:</i>	20.4%	19.0%	15.2%	9.0%	20.9%	15.5%	100.0%

**Potential Housing Market--13-31 Elm Street
(Multi-Family For-Sale Only)**

	<u><i>Multi- Family</i> For-Sale</u>
Total Households:	220
<i>{Percent}:</i>	100.0%

NOTE: Reference Appendix One, Tables 1 through 12.

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

TARGET MARKETS

The potential market for new for-sale condominium units within a redevelopment of the 13-31 Elm Street building consists of a range of compatible households—younger and older, family and non-family (*see below*)—with a preference for newly-developed housing. These households can be characterized by general household type as follows (*see also* Table 2):

Target Residential Mix By Household Type
13-31 ELM STREET
City of Springfield, Hampden County, Massachusetts

HOUSEHOLD TYPE	PERCENT OF TOTAL
Empty-Nesters and Retirees	59%
Traditional & Non-Traditional Families	5%
Younger Singles & Couples	<u>36%</u>
Total	100%

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

The largest general market segment for new condominiums developed within the 13-31 Elm Street building is composed of older, mainly empty-nest households whose children no longer live at home. (*See* Table 3.) There are eight market groups in this segment—*Old Money*, *Urban Establishment*, *Small-Town Establishment*, *Suburban Establishment*, *Affluent Empty Nesters*, *Cosmopolitan Elite*, *Cosmopolitan Couples*, and *New Empty Nesters*. Older singles and couples make up nearly 60 percent of the market for new condominiums at 13-31 Elm Street.

Many of the very affluent households in these target groups are active supporters of the arts, and frequently attend concerts and theatrical performances. The convenience and potential prestige of the condominiums at 13-31 Elm will be very attractive to those households for whom the condominium is likely to be their primary residence, *e.g.*—the *Urban Establishment*, as well as to those household for whom it is likely to be a pied-à-terre, *e.g.*—*Old Money*.

During the development and marketing period for 13-31 Elm Street, and for at least a decade after, this group of households will become even more significant in the downtown as increasing

numbers of the “Baby Boom” generation—the huge population cohort born between 1946 and 1964—enter the empty-nest lifestage.

The second largest general market segment for new condominiums within the Elm Street building is composed of younger households in just four target groups—*e-Types*, *Fast-Track Professionals*, *the VIPs*, and *Upscale Suburban Couples*—representing 36 percent of the potential market. Although comparatively young, these urban households are quite affluent; they include a high proportion of professionals, small business owners, and medical affiliates associated with Bay State Hospital and Mercy Medical Center.

The smallest general market segment is comprised of traditional family households. Traditional families contain a married man and woman with an average of two or more children. These can also include “blended” families, in which each parent was previously married to another individual and each has children from that prior marriage. 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 caring for younger siblings, a grandparent with custody of grandchildren, to an unrelated couple of the same gender with adopted children.

The Entrepreneurs are those family households most likely to buy condominiums at 13-31 Elm Street, comprising just five percent of the total market. These families have, on average, one or two children, most aged in their teens, and include dual-income, dual-career professionals and business owners, as well as white-collar “knowledge workers” in government, hospital-affiliated employment, and the arts.

The primary target groups, their median incomes and median home values, are as follows:

Primary Target Groups
(In Order of Median Income)
13-31 ELM STREET
City of Springfield, Hampden County, Massachusetts

HOUSEHOLD TYPE	MEDIAN INCOME	BROAD INCOME RANGE	MEDIAN HOME VALUE (IF OWNED)
Empty Nesters & Retirees			
<i>Old Money</i>	\$273,600	\$200,000–\$350,000	\$372,900
<i>Urban Establishment</i>	\$119,600	\$75,000–\$175,000	\$306,000
<i>Small-Town Establishment</i>	\$102,700	\$50,000–\$160,000	\$216,000
<i>Suburban Establishment</i>	\$102,600	\$45,000–\$150,000	\$205,400
<i>Affluent Empty Nesters</i>	\$102,100	\$50,000–\$145,000	\$202,200
<i>Cosmopolitan Elite</i>	\$98,900	\$45,000–\$140,000	\$201,200
<i>Cosmopolitan Couples</i>	\$94,400	\$40,000–\$150,000	\$266,100
<i>New Empty Nesters</i>	\$88,000	\$50,000–\$125,000	\$189,300
Traditional & Non-Traditional Families			
<i>The Entrepreneurs</i>	\$141,600	\$75,000–\$250,000	\$296,900
Younger Singles & Couples			
<i>e-Types</i>	\$117,400	\$60,000–\$200,000	\$328,000
<i>Fast-Track Professionals</i>	\$93,600	\$40,000–\$140,000	\$199,600
<i>The VIPs</i>	\$89,900	\$45,000–\$135,000	\$178,600
<i>Upscale Suburban Couples</i>	\$84,200	\$40,000–\$120,000	\$157,800

NOTE: The names and descriptions of the market groups summarize each group’s tendencies—as determined through geo-demographic cluster analysis—rather than their absolute composition. Hence, every group could contain “anomalous” households, such as empty-nester households within a “full-nest” category.

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

(Reference APPENDIX FOUR, TARGET MARKET DESCRIPTIONS, for greater detail on each target group.)

Table 2

Annual Potential Housing Market By Household Type
 Derived From New Unit Purchase And Rental Propensities Of Draw Area Households
 With The Potential To Move To The Site In 2007

13-31 Elm Street

The City of Springfield, Hampden County, Massachusetts

	<i>Multi- Family</i>
	<u><i>For-Sale</i></u>
Number of Households:	<u>220</u>
Empty Nesters & Retirees	59%
Traditional & Non-Traditional Families	5%
Younger Singles & Couples	36%
	<hr/>
	100%

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

Table 3

**Annual Market Capture
Target Groups For Multi-Family For-Sale
13-31 Elm Street**

City of Springfield, Hampden County, Massachusetts

Empty Nesters & Retirees	<i>Number of Households</i>	<i>At 15 Percent Capture</i>
Old Money	10	2
Urban Establishment	10	2
Small-Town Establishment	20	3
Suburban Establishment	30	4
Affluent Empty Nesters	30	3
Cosmopolitan Elite	10	2
Cosmopolitan Couples	10	2
New Empty Nesters	10	2
Subtotal:	130	20
Traditional & Non-Traditional Families		
The Entrepreneurs	10	2
Subtotal:	10	2
Younger Singles & Couples		
e-Types	20	3
Fast-Track Professionals	10	2
The VIPs	30	3
Upscale Suburban Couples	20	3
Subtotal:	80	11
Total Households:	220	33

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

MARKET OVERVIEW

More than 2,200 households are currently estimated to live in Downtown Springfield (census tracts 8011.01 and 8012); approximately 78 percent of these households contain just one or two persons. The Downtown population is estimated at 4,400 in 2006, nearly three percent fewer persons than in 2000.

Of the more than 2,500 housing units located in Downtown, approximately 85 percent are occupied rental units, just 3.3 percent are owner-occupied, and the remaining 11.8 percent are vacant. Government-assisted units—including public housing, low-income housing tax credit projects, and Section 8—represent the vast majority of Downtown rental units, with 13 properties containing approximately 1,765 subsidized units, and an additional 324 units occupied by residents with Section 8 vouchers.

There is limited new for-sale development activity in Springfield, mostly small subdivisions of single-family detached houses on infill parcels with prices ranging from just under \$190,000 to \$400,000 and up. In Downtown Springfield, the three largest condominium buildings are the Classical Condominiums, an adaptive re-use of Springfield's Classical High School on State Street; Kimball Tower, the former Sheraton Hotel, on Chestnut Street; and McIntosh Condominiums, on Worthington Street. (See Table 4.) Only a small number of units were on the market in October. At Kimball Tower, one-bedroom flats ranging in size from 510 to 700 square feet were listed at prices ranging from \$35,000 and \$47,800 (\$58 to \$70 per square foot); a two-story unit, containing more than 2,000 square feet, was listed at \$150,000 (\$72 per square foot). Just under half of the units in this property, which has had a troubled history due to the bankruptcy of the developer, are now owner-occupied, a substantial increase from three percent owner-occupants several years ago.

Four condominiums at the McIntosh building were listed, ranging in size from 745 to 1,300 square feet, and in price from \$74,900 to \$99,900 (\$77 to \$101 per square foot). Five units were listed at Classical High, the highest-value condominium property in Downtown, with the least expensive unit, a 936-square-foot one-bedroom flat, priced at \$119,000, and the most expensive, a

2,500-square-foot two-bedroom, priced at \$339,000. The prices per square foot for units listed for sale at Classical High currently range between \$127 and \$195, a range comparable to condominiums on the market in Forest Park and Sixteen Acres.

Downtown Hartford, Connecticut demonstrates what could happen in Springfield, with appropriate incentives and concentration of efforts. Hartford, which contains over 12,000 fewer households than Springfield, and considerably lower median income (\$26,500 compared to Springfield's \$33,800), has experienced, through the management and financing provided by the Capital City Economic Development Authority, a resurgence in downtown housing, as well as a new convention center and related commercial uses.

There are several condominium buildings in Downtown Hartford, the newest of which, the Metropolitan, is a high-rise. The least expensive condominium on the market in October was a 711-square-foot one-bedroom flat, priced at \$164,900 (\$232 per square foot), at Bushnell on the Park. The most expensive, a 1,000-square-foot two-bedroom flat on an upper floor at the Metropolitan, was listed at \$355,000 (\$356 per square foot). In general, few units were listed at less than \$200 per square foot, although, except for most of the units at the Metropolitan, all were listed at prices under \$300 per square foot.

Summary of Selected Multi-Family Listings
City of Springfield, Massachusetts; Downtown Hartford, Connecticut
October, 2006

<u>Building/Area</u>	<u>Year Built</u>	<u>Unit List Price</u>	<u>Unit Size</u>	<u>Price psf</u>	<u>Configuration</u>
<i>..... Springfield Condominiums</i>					
Kimball Tower	1910	\$35,000	510	\$69	1BR/1BA
		\$35,000	500	\$70	1BR/1BA
		\$40,000	690	\$58	1BR/1BA
		\$44,900	680	\$66	1BR/1BA
		\$47,900	700	\$68	1BR/1BA
		\$59,800	850	\$70	2BR/2BA
Mulberry House	1962	\$58,500	590	\$99	1BR/1BA
		\$70,000	590	\$119	1BR/1BA
		\$79,500	1,180	\$67	2BR/1.5BA
McIntosh	1913	\$74,900	745	\$101	1BR/1BA
		\$79,500	745	\$107	1BR/1BA
		\$79,500	850	\$94	1BR/1BA
		\$99,900	1,300	\$77	2BR/1BA
Summer Place	1989	\$109,000	590	\$185	1BR/1BA
		\$140,000	1,008	\$139	2BR/2BA
		\$159,900	1,116	\$143	2BR/2BA
Classical High	1897	\$119,000	936	\$127	1BR/1BA
		\$144,900	1,079	\$134	1BR/1BA
		\$184,900	1,079	\$171	1BR/1BA
		\$189,900	976	\$195	2BR/2BA
		\$339,000	2,535	\$134	2BR/2.5BA
Georgetown	1968	\$129,900	679	\$191	1BR/1BA
		\$135,900	892	\$152	1BR/1BA
		\$136,900	665	\$206	1BR/1BA
		\$149,000	949	\$157	2BR/1.5BA
		\$149,900	697	\$215	1BR/1BA
Sixteen Acres	1976	\$137,500	1,328	\$104	2BR/1.5BA
		\$144,000	1,014	\$142	2BR/2BA
	1971/1972	\$135,900	1,058	\$128	2BR/1.5BA
		\$159,900	1,058	\$151	2BR/1BA
	1986	\$149,000	949	\$157	2BR/1.5BA

SOURCE: Multiple Listing Service;
Zimmerman/Volk Associates, Inc.

Summary of Selected Multi-Family Listings
City of Springfield, Massachusetts; Downtown Hartford, Connecticut
October, 2006

<u>Building/Area</u>	<u>Year Built</u>	<u>Unit List Price</u>	<u>Unit Size</u>	<u>Price psf</u>	<u>Configuration</u>
<i>..... Springfield Townhouses</i>					
Sixteen Acres	1971/1972	\$119,900	850	\$141	1BR/1BA
		\$135,900	1,058	\$128	2BR/1.5BA
	\$144,900	1,067	\$136	2BR/2BA	
	\$145,900	1,067	\$137	2BR/2BA	
	\$148,999	1,014	\$147	2BR/2BA	
	\$349,900	1,646	\$213	3BR/2.5BA	
	1989	\$139,900	1,058	\$132	2BR/1.5BA
	1986	\$145,900	1,122	\$130	2BR/2BA
	1976	\$152,000	1,486	\$102	2BR/2BA
	Georgetown	1968	\$129,900	682	\$190
\$136,900			665	\$206	1BR/1.5BA
\$165,000			1,000	\$165	2BR/1.5BA
\$165,000			1,037	\$159	2BR/1.5BA
\$174,900			1,030	\$170	2BR/1.5BA
\$175,000			1,032	\$170	2BR/1.5BA
\$192,900			1,038	\$186	2BR/1.5BA
\$198,900			1,098	\$181	2BR/1.5BA
\$199,900			1,032	\$194	2BR/1.5BA
\$289,900		1,352	\$214	3BR/2.5BA	
1971		\$169,900	768	\$221	2BR/1.5BA
		\$179,900	936	\$192	2BR/1.5BA
Five Mile Pond		1989	\$90,900	855	\$106
	\$99,900		855	\$117	2BR/1.5BA
Hampden East	1971	\$139,888	1,058	\$132	2BR/1.5BA
Hampden Meadows	1986	\$143,900	1,125	\$128	2BR/2BA
Kimball Tower	1910	\$150,000	2,080	\$72	2BR/1.5BA
Forest Park Commons	2006	\$159,900	1,200	\$133	2BR/1.5BA
		\$169,900	1,400	\$121	2BR/1.5BA

SOURCE: Multiple Listing Service;
 Zimmerman/Volk Associates, Inc.

Summary of Selected Multi-Family Listings
City of Springfield, Massachusetts; Downtown Hartford, Connecticut
October, 2006

<u>Building/Area</u>	<u>Year Built</u>	<u>Unit List Price</u>	<u>Unit Size</u>	<u>Price psf</u>	<u>Configuration</u>
<i>..... Downtown Hartford Condominiums</i>					
Bushnell on the Park	1978	\$164,900	711	\$232	1BR/1BA
		\$209,900	1,100	\$191	2BR/1.5BA
		\$259,900	1,133	\$229	2BR/2BA
		\$267,500	1,148	\$233	2BR/2BA
		\$269,000	1,228	\$219	2BR/2BA
		\$274,900	1,148	\$239	2BR/2BA
The Linden	1895	\$179,900	745	\$241	1BR/1BA
		\$189,999	931	\$204	1BR/1.5BA
		\$199,900	928	\$215	1BR/1.5BA
		\$224,900	915	\$246	1BR/1BA
		\$229,900	1,133	\$203	1BR/1.5BA
		\$235,000	1,188	\$198	1BR/1.5BA
		\$249,900	1,080	\$231	1BR/1.5BA
		\$299,000	1,206	\$248	2BR/2BA
\$314,900	1,357	\$232	2BR/2BA		
Bushnell	1969	\$190,000	809	\$235	1BR/1BA
		\$209,900	1,100	\$191	2BR/1.5BA
		\$799,900	2,266	\$353	2BR/3BA
Metropolitan	2005	\$255,900	717	\$357	1BR/1BA
		\$267,000	751	\$356	1BR/1BA
		\$274,000	780	\$351	1BR/1BA
		\$275,000	730	\$377	1BR/1BA
		\$285,000	1,014	\$281	2BR/2BA
		\$286,000	875	\$327	1BR/1BA
		\$344,000	1,157	\$297	2BR/2BA
		\$345,000	1,236	\$279	2BR/2BA
		\$355,000	997	\$356	2BR/2BA

SOURCE: Multiple Listing Service;
 Zimmerman/Volk Associates, Inc.

THE OPTIMUM MARKET POSITION FOR 13-31 ELM STREET _____

From a market perspective, the assets of the 13-31 Elm Street building are considerable, including:

- Adjacency to, and overlooking Court Square Park, with views of the Old First Church, as well as City Hall and Symphony Hall;
- Walking distance to Springfield's major cultural institutions (in addition to Symphony Hall, these include CityStage and the Museums at the Quadrangle); entertainment venues (ranging from the bars and restaurants of the Club Quarter, as well as the events held at the MassMutual Convention Center); and white tablecloth restaurants located throughout Downtown;
- Walking distance to downtown employment; and
- The current lack of new condominium construction in Springfield.

From a market perspective, the major challenge of the site would be the open drug-dealing and prostitution, and uncivil behavior of the homeless population that was reported to be widespread throughout the downtown at the time of the field investigation. These issues must be resolved satisfactorily for successful new residential development to take place; this should be of the highest priority for the City and the new police commissioner. Even though most downtown residents would regard a downtown grocery store as a highly-desirable amenity, the lack of one would not deter most of the potential market from buying at 13-31 Elm Street.

The optimum market position for the 13-31 Elm Street building has therefore been developed based on a variety of factors, including but not limited to:

- The lifestyle preferences and financial capabilities of those draw area households that represent the market for new multi-family for-sale dwelling units in Downtown Springfield;
- The site's assets and challenges (*see above*); and
- A high-profile marketing campaign.

The 13-31 Elm Street building contains 105,800 gross square feet, with six stories and a full basement. Based on the assumptions that 1) each floor, including basement, contains approximately 15,100 square feet; 2) residential units could be developed on half of the ground floor, and all of the remaining five floors (approximately 83,100 gross square feet); and 3) a development efficiency of 85 percent (a percentage typical of adaptive re-use) would yield approximately 70,600 net square feet for residential use. Based on those assumptions, and taking into account the socio-economic and lifestyle characteristics of the target households and the residential context in Downtown Springfield, the optimum market position for new dwelling units constructed within the 13-31 Elm Street building would be as follows (*see also* Table 5):

Optimum Market Position
13-31 ELM STREET
City of Springfield, Hampden County, Massachusetts

UNIT TYPE	NUMBER OF UNITS	BASE PRICE	UNIT SIZE	PRICE PER SQ. FT.
1BR/2BA/study	12	\$275,000	1,000	\$275
2BR/2.5BA	21	\$335,000	1,250	\$268
2BR/2.5BA/study	8	\$365,000	1,400	\$261
2BR/2.5BA/office	8	\$425,000	1,650	\$258
3BR/3.5BA/media room	<u>4</u>	\$500,000	2,000	\$250
	53			

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

Optimum unit sizes and configurations have been structured to reflect market preferences and priced to fit within the current purchasing capabilities of the target households. A total of 53 dwelling units in the proposed mix and sizes (with a weighted average unit size of 1,333 square feet) would occupy 70,650 net square feet.

The prices are in year 2007 dollars and do not include buyer options and upgrades, or view and floor premiums. Based on the proposed mix and sizes, the average unit base price (excluding premiums, options and upgrades) would exceed \$351,900 (\$264 per square foot). Floor premiums should be established at an additional \$5,000 per floor. Units with park views could carry a premium of up to five percent above the base prices, depending on unit size.

The pace of absorption will be dependent on the efficacy of the marketing program. Absorption forecasts cannot reasonably take into account the success of a significant pre-marketing program to generate an extensive waiting list, which will effectively expand the initial absorption.

The optimum market position has been designed to maximize values and the potential for escalation, yet achieve sell-out within a reasonable timeframe. As noted previously, this analysis, including absorption forecasts, has been limited to those draw area households with the potential to purchase the proposed units for personal use, and excluding purchases by investors.

An annual capture of 15 percent of the 220 households that represent the target purchasers of new condominium dwelling units within a redevelopment of the 13-31 Elm Street building yields an absorption pace of 33 units per year. This housing type-specific capture rate is well within the parameters required for feasible development.

Within those parameters, then, absorption of a total of 53 condominiums at 13-31 Elm Street would likely be achieved in less than two years. These absorption forecasts are predicated on a continuation of current conditions in the national, regional and local economies.

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.

Table 5

Optimum Market Position
13-31 Elm Street
City of Springfield, Hampden County, Massachusetts
February, 2007

<i>Number of Units</i>	<i>Percent</i>	<i>Unit Configuration</i>	<i>Base Prices*</i>	<i>Unit Sizes</i>	<i>Base Prices Per Sq. Ft.*</i>
<u>53</u>	<u>100.0%</u>				
12	22.6%	1br/2ba/study	\$275,000	1,000	\$275
21	39.6%	2br/2.5ba	\$335,000	1,250	\$268
8	15.1%	2br/2.5ba/study	\$365,000	1,400	\$261
8	15.1%	2br/2.5ba/office or library	\$425,000	1,650	\$258
4	7.5%	3br/3.5ba	\$500,000	2,000	\$250
		Weighted Averages:	\$351,981	1,333	\$264

* Unescalated base prices in year 2007 dollars exclude buyer options and upgrades, and view and floor premiums. Floor premiums should be approximately \$5,000 per floor. A park view could capture an additional 5% above base price.

UNIT CONFIGURATIONS AND AMENITIES

The potential market for new condominium housing units on the site is comprised of well-to-do households, with nearly 61 percent of the market represented by wealthy, move-down empty nesters (typically aged 50 to 65) and retirees (typically aged 65 and over). The larger units are targeted to these households, as well as to the small number of families with older children who are also represented in the market. The smaller units are targeted to less affluent older couples, as well as to younger professional households.

All units should be wired for high-speed internet and cable television. These apartments require more upscale 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 Corian, granite or bluestone, with integral or undermount ceramic sinks and upscale appliances, such as stainless steel, and a choice of European or traditional cabinets. Bathrooms should have ceramic tile floors and high-style, traditional fixtures.

The unit sizes and mix have been designed to reflect, as much as possible, the preferences of the target households.

A total of 12 of the 53 units, or 22.6 percent of the total, should contain approximately 1,000 square feet, configured with a great room, including a kitchen and dining area, master bedroom with en suite bath, and a study/office with hall bath. Base price of this unit (without options, upgrades, or premiums) is \$275,000, or \$275 per square foot.

A total of 21 of the 53 units (just under 40 percent) should contain approximately 1,250 square feet, configured with an open living room, kitchen and dining area, powder room, master bedroom with en suite bath, and second bedroom with en suite bath. Base price of this unit (again, without options, upgrades, or premiums) is \$335,000, or \$268 per square foot.

A total of eight of the 53 units (15.1 percent) should contain approximately 1,400 square feet, configured with a great room, eat-in kitchen, powder room, master bedroom with en suite bath,

second bedroom with ensuite bath, and study. Base price of this unit (again, without options, upgrades, or premiums) is \$365,000, or \$261 per square foot.

Another eight of the 53 units should contain approximately 1,650 square feet, configured with a formal living room, kitchen/dining room, library/office, powder room, master bedroom with ensuite bath, and an additional bedroom with ensuite bath. Base price of this unit (without options, upgrades, or premiums) is \$425,000, or \$258 per square foot.

The remaining four units, or 7.5 percent of the total, should contain approximately 2,000 square feet, configured with a formal living room, kitchen/dining room, powder room, master bedroom with ensuite bath, and two additional bedrooms with ensuite baths. Base price of this unit (without options, upgrades, or premiums) is \$500,000, or \$250 per square foot.

Because of the limited number of units that can be developed within the building, community amenities should be limited to a clubroom, which could include a full working bar with a plasma screen television, game tables, and high-speed internet access. Provision should be made for at least one designated parking space per unit.

METHODOLOGY

The technical analysis of market potential for Downtown Springfield and the 13-31 Elm Street building included delineation of the draw areas and physical evaluation of the site and the surrounding context.

The delineation of the draw areas for housing within the City of Springfield was based on historic settlement patterns, migration trends for Hampden County, and other market dynamics.

The evaluation of market potential for the Downtown and for the site was derived from target market analysis of households in the draw areas, and yielded:

- The depth and breadth of the potential housing market by tenure (rental and ownership) and by type (apartments, attached and detached houses); and
- The composition of the potential housing market (empty-nesters/retirees, traditional and non-traditional families, younger singles/couples).

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

DELINEATION OF THE DRAW AREAS (MIGRATION ANALYSIS)—

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 Hampden County. 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**

Analysis of Hampden County migration and mobility patterns from 2000 through 2004—the latest data available from the Internal Revenue Service—shows that the county continues to experience net migration losses, ranging from a net out-migration of 385 households in 2001 to a net out-migration of more than 1,250 households in 2004.

Over the study period, annual in-migration to Hampden County has ranged between approximately 5,750 households, in 2000, to more than 6,100 households, in 2001. Over the same period, annual out-migration from Hampden County has ranged between just under 6,400 households, in 2002, to more than 7,100 households, in 2004. Approximately 18 percent of the out-migration is to Hampshire County, although collectively, the majority of out-migration is to other Massachusetts counties and to urban areas in New England and along the East Coast.

However, even though net migration provides insights into a city or county'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 that area's external market potential. For Hampden County, more than 20 percent of in-migration is from Hampshire County; both Hartford, Connecticut and Worcester, Massachusetts each represent an additional eight to nine percent; the Boston area (Middlesex, Suffolk, Essex and Norfolk Counties) adds another 10 percent; and the remaining 50 percent is from urban counties elsewhere in the United States.

Based on the migration data, the draw areas for the City of Springfield and Downtown Springfield have been delineated as follows:

- The primary draw area, covering households currently living within the Springfield city limits. Between 10 and 12 percent of the households living in the city move to another residence within the city each year.
- The local draw area, covering households currently living in the balance of Hampden County. Between two and three percent of the households living in the balance of Hampden County, with the financial capacities to rent or purchase market-rate dwelling units, could move to a residence in the city each year, if appropriate housing units were to be made available.
- The regional draw area, covering households with the potential to move to the City of Springfield from Hampshire and Worcester Counties in Massachusetts and Hartford County in Connecticut.

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- The metropolitan Boston draw area, covering households with the potential to move to the City of Springfield from Middlesex, Suffolk, Essex and Norfolk Counties, Massachusetts.
 - The national draw area, covering households with the potential to move to the City of Springfield from all other U.S. counties. Between 2,900 and 3,300 households move into Hampden County from elsewhere in the United States each year; a small additional number are households moving from outside the United States. Approximately a quarter of those households move into the City of Springfield.

Anecdotal information obtained from real estate brokers, sales persons, leasing 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 AND 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. 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 Classifications

Of the estimated 57,445 households living in the City of Springfield in 2006, just over 46 percent, or 26,535 households, have the capacity to rent or buy market-rate housing. (*Reference* Appendix One, Table 2.) Median income within the city is estimated at \$33,400, approximately 32 percent

lower than the national median of \$48,800. Median home value within the city is estimated at \$132,200, just 18 percent below the national median of \$161,600. Up to 36.2 percent of the city's "market-rate" households can be classified as empty nesters and retirees, another 33.8 percent are traditional and non-traditional families, and 30 percent are younger singles and couples.

Just under 62 percent, or 111,450 households, of the estimated 180,410 households living in Hampden County in 2006 have the capacity to rent or buy market-rate housing. (*Reference Appendix One, Table 2.*) Median income within the county is estimated at \$45,000, approximately eight percent lower than the national median. Median home value within the county is estimated at \$179,600, more than 11 percent higher than the national median. Up to 42 percent of Hampden County's "market-rate" households are classified as empty nesters and retirees, another 34.5 percent are traditional and non-traditional families, and the remaining 23.5 percent are younger singles and couples.

Target Market Methodology:

The proprietary target market methodology developed by Zimmerman/Volk Associates is an analytical technique, using the PRIZM geo-demographic 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 conventional 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 geo-demographic segmentation, 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, and an additional 25 groups with median incomes in which a much smaller number of households is able to qualify for market-rate housing. The most affluent of the 66 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 THE CITY OF SPRINGFIELD (MOBILITY ANALYSIS)—

The mobility tables, individually and in summaries, indicate the number and type of households that have the potential to move within or to the City of Springfield in the year 2007. The total number from each city/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 Springfield)—

Zimmerman/Volk Associates uses U.S. Bureau of the Census data, combined with Claritas 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 3,100 households living in the City of Springfield, and with the capacity to rent or purchase market-rate housing, have the potential to move from one residence to another within the city this year. Over 39 percent of these households are likely to be younger singles and couples (as characterized within six Zimmerman/Volk Associates' target market groups); another 35.8 percent are likely to be family-oriented households (in eight market groups); and the remaining 24.8 percent are likely to be empty nesters and retirees (in seven market groups).

Appendix One, Table 5.

External Mobility (Households Moving To the City of Springfield from the Balance of Hampden 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 2,500 households, currently living in the balance of Hampden County and with the capacity to rent or purchase market-rate housing, have the potential to move from a residence in the county to a residence in the City of Springfield this year. Just over 36 percent of these households are likely to be traditional and non-traditional families (in 10 market groups); 35.2 percent are likely to be empty nesters and retirees (in nine groups); and the remaining 28.4 percent are likely to be younger singles and couples (in eight groups).

Appendix One, Tables 6 through 8.

External Mobility (Households Moving To the City of Springfield from Outside Hampden County)—

These tables determine the number of households in each target market group living in each draw area county that are likely to move to the City of Springfield in 2007 (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 the City of Springfield—

Appendix One, Table 9 summarizes Appendix One, Tables 4 through 8. The numbers in the Total column on page one of these tables indicate the depth and breadth of the potential market for new and existing market-rate dwelling units in the City of Springfield in the year 2007 originating from households currently living in the draw areas. Up to 7,850 households with the potential to rent or purchase market-rate housing have the potential to move within or to the City of Springfield this year. Together, younger singles and couples (in 11 groups) and compact traditional and non-traditional families (in 13 groups) are likely to account for 70.8 percent of these households, with the remaining 28.2 percent likely to be empty nesters and retirees (in 12 groups).

The distribution of the draw areas as a percentage of the potential market for the City of Springfield is as follows:

Market Potential by Draw Area	
<i>City of Springfield, Hampden County, Massachusetts</i>	
City of Springfield (Primary Draw Area):	39.5%
Balance of Hampden County (Local Draw Area):	31.8%
Hampshire, Worcester, Hartford Counties (Regional Draw Area):	11.5%
Middlesex, Suffolk, Essex, Norfolk Counties (Boston Draw Area):	4.5%
Balance of US (National Draw Area):	<u>12.7%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

DETERMINATION OF THE POTENTIAL MARKET FOR DOWNTOWN SPRINGFIELD—

The total potential market for the new market-rate housing units to be developed within existing buildings or new construction within Downtown Springfield also includes the primary, local, regional, metropolitan Boston, 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 Downtown Springfield in a given year.

Appendix One, Tables 10 through 12.

Market Potential for Downtown Springfield—

As derived by the target market methodology, more than 2,100 of the 7,850 households that represent the market for new and existing market-rate housing units in the City of Springfield are a market for new market-rate housing units within Downtown Springfield. (*See Appendix One, Table 10.*) More than 48 percent of these households are likely to be younger singles and couples (in eight market groups); another 40.3 percent are likely to be empty nesters and retirees (in 10 groups); and just 11.4 percent are likely to be traditional and non-traditional family households (in four groups).

The distribution of the draw areas as a percentage of the market for Downtown Springfield is:

Market Potential by Draw Area	
DOWNTOWN SPRINGFIELD	
<i>City of Springfield, Hampden County, Massachusetts</i>	
City of Springfield (Primary Draw Area):	32.2%
Balance of Hampden County (Local Draw Area):	23.7%
Hampshire, Worcester, Hartford Counties (Regional Draw Area):	11.8%
Middlesex, Suffolk, Essex, Norfolk Counties (Boston Draw Area):	12.4%
Balance of US (National Draw Area):	<u>19.9%</u>
Total:	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2007.

The 2,110 draw area households that have the potential to move within or to Downtown Springfield this year have been categorized by tenure propensities to determine renter/owner

ratios. More than 20 percent of these households (or 430 households) comprise the potential market for new market-rate rentals. The remaining 79.6 percent (or 1,680 households) comprise the market for new market-rate for-sale (ownership) housing units. (*See Appendix One, Table 11.*)

Of these 1,680 households, 23.8 percent (or 400 households) comprise the market for market-rate multi-family for-sale units (condominium apartments and lofts); and another 19 percent (320 households) comprise the market for market-rate attached single-family (townhouse/rowhouse/live-work) units. The remaining 57.1 percent (or 960 households) comprise the market for all ranges and densities of market-rate single-family detached houses. (*See Appendix One, Table 12.*)

DETERMINATION OF THE POTENTIAL MARKET FOR THE 13-31 ELM STREET BUILDING—

As noted above, 400 households comprise the market for market-rate multi-family for-sale units (condominium apartments and lofts) in Downtown Springfield. Due to its location and physical characteristics, the 13-31 Elm Street building is most suitable for more upscale dwelling units. The analysis therefore focused on the 220 most affluent households that represented the most likely purchasers of units on the site.

—Target Market Data—

Target market data are based on the Claritas PRIZM geo-demographic 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 *Fast-Track Professionals* or *The VIPs*.

Household Classification Methodology:

Household classifications are based on the Claritas PRIZM geo-demographic segmentation system, which was established in 1974 and is the most widely-used neighborhood target marketing system in the United States. Claritas uses 15 unique clustering algorithms to define various domains of affluence and settlement density. These algorithms isolate the key factors in each density-affluence domain that accounted for the most statistical difference among neighborhoods within that group.

Over the past 18 years, Zimmerman/Volk Associates has augmented the PRIZM cluster system 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. 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.



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Research & Strategic Analysis

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.

