

# Apartment ReSources

A Real Estate Research Periodical

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## January Market Hotline!

### ***When Does Rent-Up End?***

- Most apartment managers think that rent-up occurs only during the early months, when a complex first opens for business. This month's Developer's Dictionary notes that rent-up is a continual process. After the first year of initial rent-up, most complexes tend to shift into replacement rent-up. The national average of tenant turnover is 16 months;

that is, tenants tend to change apartments every 16 months. With this rate of turnover, apartment management should reconsider the tired practice of putting rent-up specialists into the project for the first year, and replacing them with "peacekeeper" managers for the remainder of the project's life. Today's tenants are increasingly mobile, and the best response to this mobility is a marketing program

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*Apartment Resources* is a monthly publication designed for apartment developers, lenders, and builders involved in all forms of multifamily housing.

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*Brush fires in the "Contenders"*

that recognizes the continual rent-up nature of modern complexes.

- A unit design that is being seen more often in the market is the two-bedroom/two-bathroom design. In this unit, although one bedroom is clearly a master-sized room, each bedroom has its own separate bath. This unit fills a growing market demand from today's renters by allowing an easier shared living arrangement for tenants. We recently surveyed apartment shoppers and asked the question "Would you ever consider sharing an apartment with an unrelated person to divide the apartment cost?" Over 15% of the respondents answered with an unqualified "Yes." Nearly 40% of the respondents said that they might, depending on the circumstances. Only 45% of the respondents answered with an unqualified "No."
- Those finishing touches, the little "frills" that are designed into unit and project development are quite often the things that potential tenants most remember about the project. But as most developers know, when budget or time overruns intervene, those finishing touches are the first expenditures to be cut. In an upcoming *Apartment Resources*, we'll discuss those features most remembered by apartment shoppers. The early indications are that cutting finishing touches may cost a developer far more in potential tenants than he saved in development dollars.
- What's your sign? The signs that advertise your complex can and should do much more than mark the location of your project. A sign is an advertisement that, correctly placed, has as much impact on

potential renters as any other advertising medium. Therefore, when developing signage for your new project, don't delegate this job to someone who won't give careful thought to the signs' marketing impact. Design each sign as a separate advertisement that focuses on one attribute of the complex. For example, some signs are "feature talkers"—they stress the features of the project that make it special in the market. Some signs are "site talkers" that demonstrate the locational attributes of the projects. Other signs are "amenity talkers" that talk about unit features. By paying attention to the placement and design of your signage, you'll be able to create a marketing tool that works—24 hours a day.

- When you examine housing statistics for an MSA, you might want to consider these "tales of two cities." The Minneapolis-St. Paul MSA ranked as a *What's Not* city in our *What's Hot and What's Not 1987* listing. But that does not mean development opportunities do not appear in that MSA. When we examined housing indicators for Minneapolis and St. Paul at the county level, we found that Minneapolis had a housing surplus of 250 units in 1987, while St. Paul had a housing *deficit* of over 3500 units. Even so, development opportunities may be shown to exist in Minneapolis at geographically smaller market levels. The Tampa-St. Petersburg-Clearwater MSA also ranked as *What's Not* in 1987, yet a similar situation exists in this market. In our survey, we noted that Tampa had a surplus of nearly 300 units in 1987, while St. Petersburg had a *deficit* of over 3000 units. Therefore, although our ranking of the best and worst housing markets is a good indicator of the overall health of an area's housing market, these

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## The POP Results:

# How Much is "New" Worth?

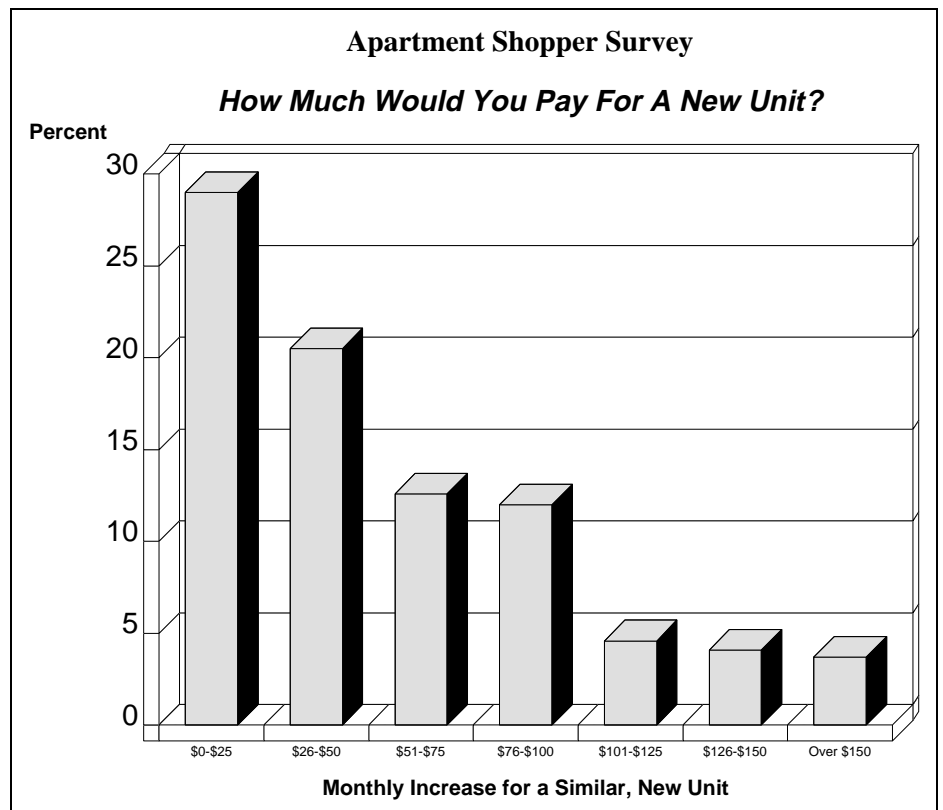
One factor that should be acknowledged in analyzing an apartment market for potential support is "step-up" support. Step-up support is that component of internal mobility who are willing to pay higher rents in return for higher quality housing.

Calculating precisely the percentage of step-up support can be difficult when you consider that tenants have differing perceptions of what is meant by "higher quality" apartments. In short, a potential tenant will only consider a project to be of higher quality only if he or she finds its improved amenities to be valuable. For example, if the tenant perceives a market area to be a low-crime area, he or she will find it difficult to justify paying extra for a unit with improved security.

Nevertheless, all new projects have an indisputably valuable amenity—"newness." In general, new projects can anticipate a certain amount of their step-up support to come from projects with similar amenities. Our POP surveys have indicated that a number of potential tenants are willing to pay more for an apartment similar to the one they currently rent, solely for the "newness" amenity. The accompanying graph indicates that one-fifth (20.5%) of the surveyed tenants would be willing to pay \$26 to \$50 per month for a new unit. Nearly

one-fourth (24.6%) would be willing to pay \$51 to \$100 extra per month for a new unit. Over 10% of the tenants surveyed would pay from \$101 to over \$150 per month for a new unit.

These results indicate that when calculating step-up support for your project, you should not disregard potential tenants in competitive projects. If those projects are older, established developments, you may find that being "the new kid in town" has its advantages.



## The POP Results:

One of the real estate research services offered by Kenneth Danter & Company is the Project Opening Plan (POP)<sup>SM</sup>, a 12-month study of an apartment project's rent-up process. The objective of our POP studies is to give the project's development and management team all of the necessary information required to fine-tune rents and marketing strategies during the first year. Among the analyses conducted are comparative shopping reports of the project and its competitors, an analysis of the Effective Market Area (EMA)<sup>SM</sup>, an area advertising/marketing analysis, and rent-up tracking by unit type.

Another analysis conducted is an in-depth survey of all visitors who shop the project in its first 12 months. These surveys provide management with detailed shopper profiles within the EMA.

To produce **The POP Results**, we've aggregated the results of all of our POP surveys to provide the most accurate overall tenant profile available today.

We'll be bringing you more POP results in future issues of *Apartment Resources*.

# Apartment Trends 1988—Our Predictions

For this issue, we've taken a look at both the historical and the most recent housing indicators, with special attention paid to apartment housing starts, in all major U.S. MSAs. We've used this information to determine trends we think you'll see in 1988. The following analysis contains outlooks for each of nine U.S. regions.

For this article, our main focus was a comparison of housing starts from 1986 to 1987, particularly in apartment units. Our key indicator was the number of apartment units for which permits had been obtained compared to the previous year. If fewer units were being planned during 1987, that means that the stage is being set for potential deficits in 1988. The 1987 *What's Hot and What's Not* listing referred to in this article appeared in the August 1987 issue of *Apartment Resources*.

## Pacific

This area has comparatively few cities in either our *What's Hot* or our *What's Not* list. Instead, most cities here place on our *Contenders* list and are healthy, if not outstanding, markets. Of the four cities on last year's *What's Hot* list (Los Angeles, San Francisco, Anaheim, and San Jose), most showed little change in housing starts between 1986 and 1987. Starts are expected to increase 7% to 10% in San Francisco and Anaheim, decrease about 12% in Los Angeles, and remain about equal in San Jose.

Among the four cities that were on 1987 *What's Not* list (San Diego, Vallejo, Riverside/San Bernadino, and Santa Rosa), three should show improvement. Starts were off 25% to 30% in San Diego, Vallejo, and Riverside/San Bernadino. Starts *increased* slightly, about 8%, in Santa Rosa.

Of the 21 cities in this region, 13 had a reduction in housing starts which should improve the overall 1988 potential for development.

## Mountain

The Mountain region contains only seven major markets from our list of 150. Three of those cities—Tucson, Colorado Springs, and Phoenix—were considered to be overbuilt in 1987. However, starts declined 37% to 60% among these cities and their position should improve considerably this year.

## West North Central

Of the eight cities in this region, two were on our *What's Not* list for 1987. The remaining six were contenders. The two cities ranked as *What's Not* in 1987 (Minneapolis and St. Louis) remain virtually unchanged in housing starts, and both will probably appear on the *What's Not* list again in 1988.

Omaha and Kansas City, on the other hand, declined 20% to 30% in starts, and have the potential to become hot spots for 1988.

## East North Central

Of the 27 cities in this region that were on last year's list, 5 were ranked as *What's Hot* and none were ranked as *What's Not*. But during 1987, this area has demonstrated the largest increase in new construction of all nine regions. Of the 27 cities, 16 had increased starts in 1987 over 1986, and some had significant increases. For example, Cincinnati increased 28%, Gary/Hammond increased



29%, and Ann Arbor increased a staggering 77%. Other cities, such as Akron, Peoria, Rockford, and Kalamazoo had increases that could make the 1988 apartment market vulnerable there.

There were few significant decreases in starts. Fort Wayne and Appleton-Oshkosh were two such cities in this region, and could demonstrate good market potential in 1988.

### **Middle Atlantic**

In the region, 25 cities were on our 1987 ranking. Two of these were on our *What's Hot* list. New York city had an increase of 32% in housing starts between 1986 and 1987, but should probably remain on our *What's Hot* list for 1988. Nassau/Suffolk is also expected to retain its *What's Hot* ranking due to a nearly 20% decline in starts during 1987.

There were five cities in this region in our *What's Not* list (Monmouth-Ocean, Trenton, Johnstown, Middlesex-Somerset-Hunterdon, and Norfolk-Virginia Beach-Newport News), all of which declined in housing starts in 1987. These cities are expected to improve their relative potential for support during 1988. Most remaining cities in this region are expected to have about equal opportunity in 1988 as in 1987. Possible exceptions are Pittsburgh, which could decline slightly, and Buffalo, Binghamton, Erie, and Harrisburg, all of which could increase their potential to support additional development.

### **New England**

None of the nine New England cities were on our *What's Hot* list for 1988. And during 1987, only one city, Wilmington, has changed in starts potential. However, the sharp increase in starts we have noticed in Wilmington should be readily absorbed. Most of the remaining markets in this region should stay viable in 1988.

### **West South Central**

In this much-beleaguered housing market, 5 of the 15 cities were ranked as *What's Not* in 1987. However, during 1987, housing starts were down significantly in 14 of the 15 cities. All of the these cities are expected to improve their position in 1988. Nevertheless, many of these cities are starting with such serious surpluses that the improvement may not appear significant in 1988. Some of the smaller markets overlooked in the massive overbuilding of 3 to 5 years ago have recovered or are recovering, but because of their nominal size, neither do they offer significant potential.

### **East South Central**

Of the 12 cities in this region that were on the 1987 list, two were ranked as *What's Hot*, 3 were *What's Not*, and the remainder were *Contenders*. Housing starts declined in nine of these cities, which indicates an overall market potential in this region for 1988. Housing starts declined in one *What's Hot* city, Birmingham, which should cause it to retain that ranking for 1988. Housing starts increased over 15% for Louisville, the other *What's Hot* city, which may cause it to slip in rankings this year.

Of the *What's Not* cities (Memphis, Huntsville, and Nashville), all showed significant decreases in starts, and all should show improved market potential in 1988. Of these, the most significant decrease occurred in Huntsville, which had a nearly 50% decrease in 1987 starts from 1986.

### **South Atlantic**

This region contains 24 of the cities on our *What's Hot and What's Not* ranking. Of those, only one (Miami-Hialeah) was ranked as *What's Hot* for 1987. Over 60% (a total of 16) of the cities in this region were ranked as *What's Not* in 1987, making it the region of least development potential for that year.

However, of those 16 cities, 13 showed decreased housing starts for 1987, which should improve their housing outlook in 1988. Fort Lauderdale-Hollywood, Charlotte-Gastonia-Rock Hill, and Washington, D.C. all *increased* housing starts in 1987 and should be expected to retain their *What's Not* ranking.

Major decreases in housing starts appeared in Huntington-Ashland (ranked as a *Contender* in 1987), 31%, Augusta, 52%, and Raleigh-Durham, 37.1%. However, the tremendous degree of overbuilding in Raleigh-Durham will be only partly helped by this decrease, and the city will probably appear on our *What's Not* list for 1988.

### **Overall**

We anticipate a number of changes in our 1988 rankings, especially among the *Contenders* and *What's Not* cities. Over 100 of the cities in the 1987 list experienced decreased housing starts in 1987, many in spite of an already apparent deficit in apartment housing. *Apartment Resources* will continue to update you on the housing market hot spots throughout 1988.

## **Amenities—Retention vs. Attraction**

In past issues of Apartment Resources, we've done a number of articles on amenities. To us, few factors in apartment development have a greater impact on a project's success than the amenity package.

Apartment projects can have a number of different amenities, which are often classified into two broad categories: unit amenities (for the sole use of the unit tenant) and project amenities (shared by all of the project tenants). However, it is often useful to consider other ways of classifying amenities, such as physical amenities (existing structures and appliances) and service amenities (services provided for the tenant by project management). It is helpful to consider these other classifications because (1) it helps project management develop new amenities that tenants may find valuable, and (2) it can often uncover existing valuable features of the complex that were not previously regarded as amenities.

One of the most valuable amenity classifications is *retention vs. attraction* amenities. Most developers consider a new project to be in rent-up only in its early months, during which time they focus their marketing on attracting the first tenants. After a year, they shift their marketing focus to tenant retention. We prefer to think of a project as being in a state of continual rent-up, an initial rent-up followed by replacement rent-up. Although it is extremely important to retain current tenants, the high number of turn-overs one finds in most complexes indicates that the same marketing strategies one uses during initial rent-up should remain in place throughout the life of the complex.

One of those strategies is to identify which amenities have the greatest appeal to prospective tenants shopping the complex, and which appeal to existing tenants. For example, tenants may initially move into an apartment because the complex offers tennis courts or has a fully equipped weight room in its health club. But those tenants will move out when they can't get their unit appliances properly repaired.

Your marketing program has probably already identified the "glamour" amenities, the ones you stress in your brochures and when presenting your model unit to prospective tenants. These amenities are usually attraction amenities, the "perks" that may make your complex appear to be the greatest value to the prospective tenant. But don't forget the experienced renter, who is coming to your project from a similar development. This renter is often interested in the quality of carpeting, soundproofing, insulation, and security—the kind of amenities that brochure writers hate to write about. With the savvy renter, for whom these amenities are actually attraction amenities, be prepared with the right answers.

Even more important, don't stop your selling program once a prospect has become a tenant. Make sure they also become aware of retention amenities. Many complexes make the mistake of using the apartment newsletter only to report pool hours and to caution tenants against throwing cigarette butts in the landscaping. Your apartment newsletter is the only direct marketing tool with a 100% appropriate target market and a 100% deliverable rate. Use it to talk about the retention features and services your tenants will appreciate—long after they've grown tired of pumping iron.

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## Brush Fires in the "Contenders"

Last month, we compared the year-to-date building permits of our 19 *What's Hot* cities to the same time in 1986. This month, we've compiled a comparison of the top 15 "Contenders." These cities have enough of a housing deficit to place highly in our annual ranking of the top 150 MSAs (See *What's Hot and What's Not* in the August 1987 issue of *Apartment Resources*.), but not enough to be one of our 19 *What's Hot* cities.

Nevertheless, we are currently compiling our *What's Hot and What's Not* list for 1988, and these top 15 contenders could become the hot cities for 1988.

Of the 15 cities, 7 have experienced increased construction over last year. Among these cities are the following:

Cincinnati, OH-KY-IN    Dayton-Springfield, OH  
 Gary-Hammond, IN    Newark, NJ  
 Pittsburgh, PA    Seattle, WA  
 Wichita, KS

However, in spite of 1986 deficits, 8 of the contenders have actually experienced reduced apartment construction over the same time last year. These cities include

Baton Rouge, LA    Honolulu, HI  
 Mobile, AL    Oklahoma City, OK  
 Omaha, NE-IA    Rochester, NY  
 Little Rock-North Little Rock, AR  
 McAllen-Edinburg-Mission, TX

Future updates will review the continuing trends in our *What's Hot*, *Contenders*, and *What's Not* cities.

