

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

A Real Estate Research Periodical  
Volume 3, Number 1 January 1989

Section:

## The Future of Multifamily Housing—Part 1.

*Introduction to Market Support Matrix (MSM)<sup>SM</sup> Analysis—Part 1 of our special series introduces an exciting new way to manage your marketing and development expenses. Kenneth Danter & Company's **Market Support Matrix (MSM)<sup>SM</sup>** will allow you to discover where your new tenants are coming from—and target your development to its **real** potential tenants.*

1

"If market assumptions made by developers are incorrect (something that can only be determined after the complex has opened and marketing begun), then the cost of untargeted marketing has to be absorbed."

*Placing Tenants in the Market Support Matrix (MSM)<sup>SM</sup>—What do those "nine boxes" in the MSM really mean? Find out in Part 2 of our special series.*

2

"Many attempts at market analysis consider only actual household growth (tenants moving into a market area and new household formations), without considering the market demand created by existing households who want or need better housing."

### **Special Issue!**

*This issue of **Apartment Resources** contains the first two parts of a special series on the future of multifamily housing.*

*This series, which will conclude in the March issue, will give you our outlook on your best chances for successful multifamily development in the months ahead.*

# The Future of Multifamily Housing—Part 1.

## Introduction to Market Support Matrix (MSM)<sup>SM</sup> Analysis.

### Special Report Executive Summary

This Special Report is an introduction to **Market Support Matrix (MSM)<sup>SM</sup> Analysis**. In brief, this analysis tells you where your new tenants are coming from, and where tenants moving out go next.

This is an important concept, because it gives you greater accuracy in your marketing expenditures. By knowing where your potential tenants can best be reached, you won't waste time and money on less-likely prospects.

To introduce this new kind of analysis, two other analytical concepts are discussed—**Demographic Analysis** and **Profile Polarity** analysis. These analyses attempt to provide the same information as Market Support Matrix analysis, but in different ways.

Market Support Matrix analysis works by drawing a comparison between the type of housing (here called **tenure**) tenants are coming from, and the location (here called **geographic origin**) they are coming from.

When you create a matrix with the three possible **tenure** characteristics down the left side, and the three possible **geographic** characteristics across the top, you create nine possible "boxes" which can describe the origin of the tenant.

More important, by surveying your tenants or potential tenants for their origin characteristics, you can assign percentages to each of these "boxes," which will tell you where you should be concentrating your marketing efforts. In addition, you will be better able to estimate the type of unit and project amenities your potential market requires or desires.

This issue of *Apartment Resources* begins a special multi-part series on future trends we see in the multifamily housing industry. This series will begin with an analysis of the current components of support for multifamily housing, take a look at the current status and importance of these components, and conclude with how future trends in these components will affect your development and management outlook.

The series is based on a proprietary analytical tool developed by analysts at Kenneth Danter & Company—the Market Support Matrix (MSM)<sup>SM</sup> analysis. Part 1 of this series discusses the analytical potential of this tool, and the steps that led to its development.

**What is an apartment tenant?** In one way or another, that is a question that market analysts and multifamily developers attempt to answer daily. Like any other commercial product, apartments only have value if they fill a market demand. And, apartments can only fill a market demand if they provide something consumers need or want.

To develop the best product possible, then, developers and managers must be able to identify the potential tenant and find out what housing features have the most value to that tenant.

**Component Analysis—Alternative Methodologies.** In attempting to answer the above question, a variety of methodologies and strategies have been developed. Not all have been successful, but others, alone or in concert, have provided insight into today's apartment market.

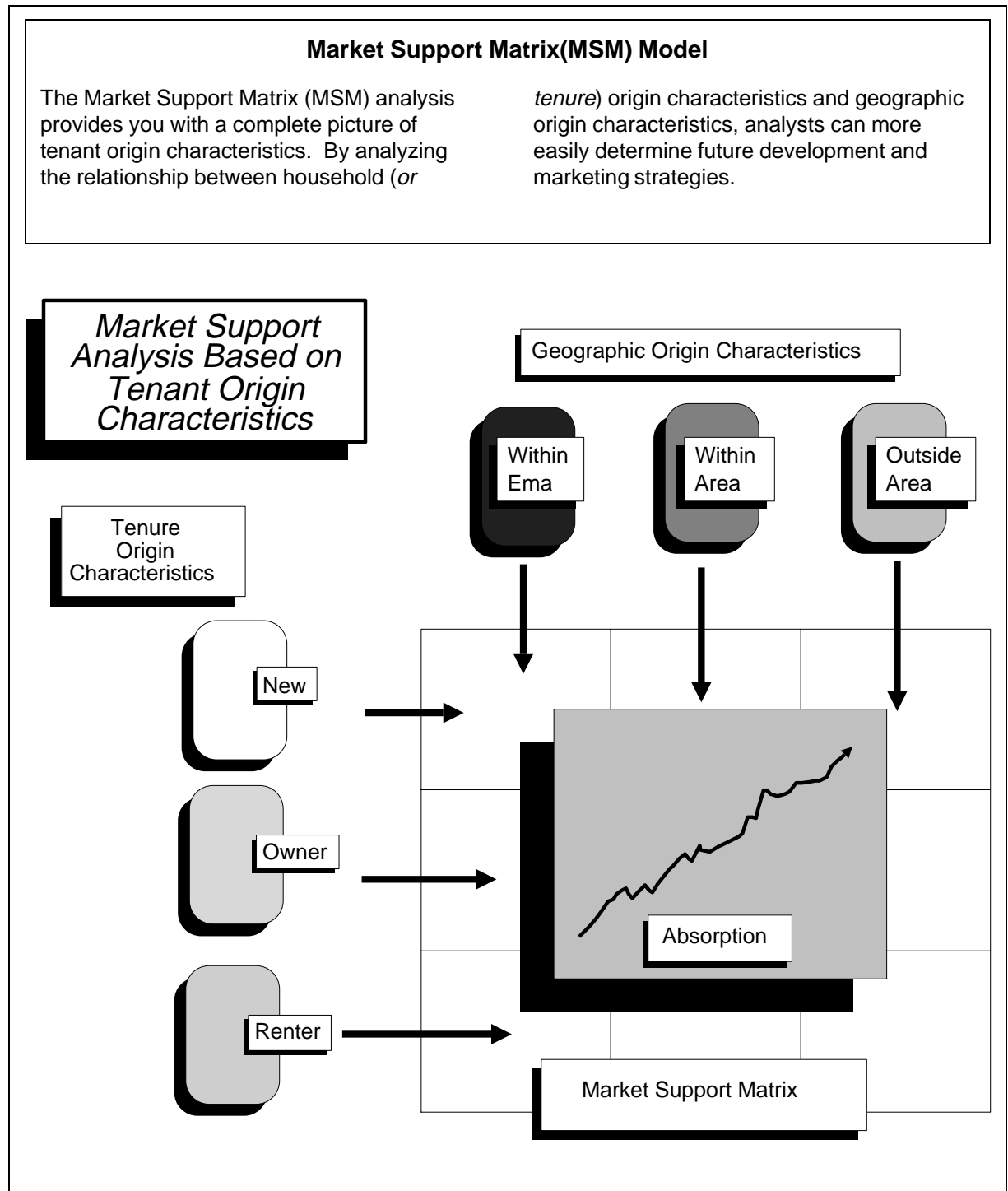
**Demographic Analysis.** Among the most traditional of these is *demographic analysis*, an

*Apartment Resources* is published monthly by Kenneth Danter & Company—40 W. Spruce St., Columbus, Ohio 43215. Kenneth Danter, President. Phone: (614) 221-9096; FAX (614) 221-4271. Subscription rates: \$24.00 per year. Second class postage paid at Columbus, Ohio.

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analysis of the demographic components of market areas in general compared to the demographics of apartment residents in particular. This analysis allows developers to identify which age-, income-, and household size-qualified portions of the population are most likely to be candidates for multifamily housing.

The problem with demographic analysis, as noted in the December 1988 issue of *Apartment Resources*, is that it often falls prey to "the myth of the medians." Analysts reporting demographic findings often provide median results as a measure of typical tenant or market attributes. Unfortunately, median markets don't



exist, they only represent midway points between markets that *do* exist.

For example, if you have an apartment complex that attracts exclusively and equally well from the retired empty-nester market and the young urban professional market, the median age of the tenants in your complex will be midway between these two markets. If you direct your marketing strategy at potential tenants in the median age group, your marketing will actually miss both of your true potential markets.

**Profile Polarity Analysis.** In response to the shortcomings of demographic analysis, Kenneth Danter & Company has developed *Profile Polarity Analysis*, a method of describing the various market components that *do* exist within a multifamily complex or market area.

The first example of this type of analysis appeared in "A Profile of Ms. Tenant," our special report in the December 1988 issue of *Apartment Resources*.

Using the responses to a survey of tenants in modern, market-rate apartments (over 500 such interviews were conducted), we filtered the database to include only those tenants in selected age, income, and gender groups. The resulting tenant profile was that of a market that *does* exist, and one that conforms to all of the selected leading demographic factors.

In the extended version of Profile Polarity Analysis, a market area or existing complex is analyzed with respect to several identifiable profile types. This analysis describes the strength of each profile type, and the degree to which marketing should be expended on each type.\*

**Market Support Matrix Analysis.** The final analysis, and the one upon which this series of special reports is based, is the *Market Support Matrix* analysis. This analysis is a totally new

**Introduction to the Market Support Matrix (MSM)—  
Nine sources for new tenants**

	Beyond the EMA/ Within Area		
	Within the EMA	Within Area	Outside Area
New Household Formations	1	4	7
From Ownership	2	5	8
From Apartments	3	6	9

way of evaluating potential support for a project, and is based on an input-output model of tenant mobility.

**Input-Output model theory.** The basis of an input-output model for multifamily housing is this: tenants moving into (or out of) an apartment complex can only come from (or go to) a specific number of places.

In Kenneth Danter & Company's Market Support Matrix model, new housing tenants can only come from three possible household sources:

- (1) From new household formations.
- (2) From home ownership.
- (3) From other apartments or other rental options.

However, each of these three sources can be in three different geographic locations:

- (1) Within the Effective Market Area (EMA)<sup>SM</sup>
- (2) Beyond the EMA, but within the area (usually the county boundaries)
- (3) Outside the area.

Taken together, the three possible household sources located in the three possible geographic locations form a matrix of nine possible sources for new tenants (See the box on this page).

Once the matrix is established, an analyst has a framework upon which to base further analyses. The questions that must be answered in further analysis of this market are: How is the tenant population distributed in these nine categories?

\*In an upcoming *Apartment Resources* special report, we'll present the major features of Profile Polarity analysis, which will include a description of

Profile Polarity tenant profiles, and distributions of these profiles in typical modern, market-rate apartments.

What is the overall distribution within modern, market-rate apartments in general? If the analyzed project has a vastly different distribution, what causes it? Finally, and perhaps most important, what tenant profiles make up the potential tenant population in each category?

**Beyond the matrix.** This last question becomes the basis for an entire market analysis. Once we've determined where the majority of your tenants are coming from, we know where to direct marketing efforts. At that point, you'll want to know what drives the potential market in that section of the Market Support Matrix. It is here that the Profile Polarity Analysis comes into play.

For example, assume that the Market Support Matrix shows that 50% of your new tenants are coming from other apartments within the EMA. From this analysis, you know that you won't need to spend nearly as much effort on marketing to the other eight possible tenant sources (although you will want to expend some marketing on them to the degree of their distribution in the matrix).

Next, you want to know what type of tenant population exists in this 50%. Are they primarily empty-nesters, young professionals, families with one child, or other profiles?

Once you determine the tenant profiles for this group, you are able to develop the kind of project

most appealing to them, and utilize the marketing resources most likely to reach them.

**Stretching your marketing and development investments.** The objective of these analyses is to determine exactly where to expend your money and energy in developing multifamily housing. Before these tools were created, developers were faced with the prospect of designing projects with amenities and features targeted to median market wants, and marketed to median potential tenants.

Further, the developer had to make certain assumptions about the market area (such as "most of my tenants are coming from out of town to work in the new car plant," or "this is a young singles complex—we don't expect to get many retirees"). If these assumptions were incorrect (something that could only be determined after the complex had opened and marketing begun), then the cost of untargeted marketing had to be absorbed.

Using Market Support Matrix analysis, developers and managers will be able to distribute their marketing expenditures as their potential market is distributed. Further, they will be able to develop the kind of product most desired by their potential tenants.

In the following section of this special report, we'll examine the Market Support Matrix more closely, and discuss typical tenants in each of the nine matrix boxes.

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## Looking Forward

- Next month, most of our regular features of *Apartment Resources* will return, but our series on the *Future Of Multifamily Housing* will continue. This special series will conclude in the March issue. Coming up: a look at the **Market Support Matrix** with an average distribution of tenants for today's market-rate tenant population—based on Kenneth Danter & Company's nationwide research.
- In March, find out how current economic, household, and population trends will affect our "nine boxes" in the months to come.
- We're also looking forward to April 1-3, 1989, when we'll be appearing at the **Multi-Housing World** show in Dallas. Please be sure to stop by our booth for the latest information on *What's Hot and What's Not*.
- If you are not yet registered for free access to the REAL/LINE system, you can log on to the system at any time by responding **NEW** to "First Name: ", **USER** to "Second Name: " and **DANTER** to "Password: ". Be our guest on the system for as long as you like.

## Placing tenants in the Market Support Matrix (MSM)<sup>SM</sup>.

### Special Report Executive Summary

In this special report, we demonstrate how Kenneth Danter & Company analysts place tenants in the *Market Support Matrix (MSM)*.

By understanding how each of the nine boxes on the Market Support Matrix is derived, you'll find it easier to conduct similar analyses of your own current and potential tenants. Further, you'll be able to better understand the impact of *tenant mobility* on your project.

Since the main objective of using the MSM is determining where to focus your marketing and development expenses, this special report defines our criteria for placing tenants in this matrix.

The matrix considers two aspects of incoming tenants—the *area* from which new tenants come and the *type of housing* they currently occupy.

Our term for these two aspects are *Geographic Origin Characteristics* and *Tenure Origin Characteristics*.

Each aspect is subdivided into three categories.

When considering the *area* tenants are coming from (with respect to a project's EMA), the tenants are either coming from *within* the EMA, *outside the EMA but within* the immediate area, or *outside* the immediate area.

When considering the *type of housing* tenants are coming from, they are either a *new household* formation, current *homeowners*, or currently occupying an *apartment*.

Any tenant moving to an apartment complex belongs to only one of the subdivisions in each of the two major aspects. Therefore, you can assign percentages to each of the nine boxes based on your current tenant population, or visitor registration cards.

At that point, you can begin determining how best to focus future marketing objectives.

The key word behind the development of the Market Support Matrix is *mobility*. Tracing the movements of tenants from one geographic area to the next—and from one housing type to another—is a difficult but rewarding task.

When you establish the chain of mobility patterns for your tenants, you establish your project's place in this chain. By doing this, you can target your marketing efforts better and concentrate on the important task of tenant retention.

The Market Support Matrix is one way to analyze this chain of mobility. It does so by drawing a relationship between two major mobility chain components: *Tenure Origin Characteristics* (the type of household tenants are coming from and going to), and *Geographic Tenure Characteristics* (the distance tenants are traveling when they move).

**Tenants in the household chain.** Tenants who move to an apartment can only come from three possible household types—(1) a new household formation, (2) home ownership, or (3) another apartment. To describe these tenants, Kenneth Danter & Company uses the term *Tenure Origin Characteristics*.

- (1) ***New Household Formations.*** Of these, probably the most multifarious tenant group comes from new household formations. New households are formed when young adults move from their parent's home, graduated students move from their college dorms, married couples separate (or former singles become married), young adults leave military service, roommates split up, or a number of other similar circumstances.
- (2) ***Home Ownership.*** Tenants coming from home ownership are largely (but not exclusively) older adults who are downsizing their living quarters because they no longer need the room

and to rid themselves of some household maintenance chores.

- (3) ***Other Apartments or Other Rental.*** Finally, tenants coming from other apartments are usually starting or continuing a step-up cycle into better housing, or are moving into a new unit with similar amenities to their older apartment. However, this applies primarily to tenants who move within an Effective Market Area (EMA). Tenants who move into an apartment from outside the EMA often have different motivations (such as a job transfer).

**Tenants in the geographic chain.** Any apartment market area experiences two kinds of geographic mobility—*internal* mobility and *external* mobility. Further, *external* mobility can be subdivided into two components, depending on the site's relation to a central metro area.

This in itself is an important concept to consider, since many attempts at market analysis consider only actual household growth (tenants moving into a market area and new household formations), without considering the market demand created by existing households who want or need better housing. The demand created by such existing households is *internal* mobility, and can be a major driving force in an apartment market.

In the Market Support Matrix, these two kinds of mobility are analyzed as follows: (1) Tenants moving within the EMA are considered *internal* mobility, (2) Tenants who are outside the EMA, but are still within the area (usually, within the county) are considered to be one component of *external* mobility, and (3) tenants who are outside the area are considered to be the other component of *external* mobility. These three categories are described by Kenneth Danter & Company as *Geographic Origin Characteristics*.

- (1) ***Tenants Within the EMA.*** Kenneth Danter & Company developed the concept of the Effective Market Area (EMA) to describe the surrounding market area of a project, from which

that project can expect to obtain most of its support. An Effective Market Area can only be identified by an on-site evaluation of the site, interviews with local planning officials, and comparisons with other similar housing types. It takes into consideration natural and manmade boundaries beyond which potential tenants are less likely to move.

Once the EMA is established, analysts can also determine the degree to which *internal* mobility (household movement within the EMA) impacts the site.

- (2) ***Tenants Within the Area.*** Tenants who remain in the general area but move into and out of the EMA are one component of *external* mobility. Movements in this category are more difficult to analyze than the other two components of *Geographic Origin Characteristics*.

Often, the movements of tenants within this area are created by the locational relationship of the site to a metro area, and can usually be ascribed to *radial* or *lateral* mobility patterns. (Don't let these latter two mobility patterns confuse you—they don't fall under the heading of *Geographic Origin Characteristics*, but are simply another way of understanding how tenants move.)

Tenants who are moving outward from a metro area to the EMA are considered to be *radial mobility*. Tenants moving across the outer portions of a central metro area are considered to be *lateral* mobility. (For further details on these two tenant mobility patterns, see the November 1987 issue of ***Apartment Resources***, "Knowing your market: An insider's look at mobility patterns.")

In general, tenants who become part of *radial* and *lateral* mobility patterns do so for two primary reasons: they either want their housing unit to be closer to (or further away from) something else,

or the housing choices in their current market areas do not suit their needs.

- (3) **Tenants Outside the Area.** Finally, tenants who are moving into the EMA from an entirely different area comprise the other component of *external* mobility. These tenants are primarily relocating to be closer to their jobs.

**Placing tenants in the chain.** From the three possible *Tenure Origin Characteristics* and the three possible *Geographic Origin Characteristics*, any potential tenant can be placed in one of the nine resulting boxes in our matrix.

For example, a young adult moving from his or her parent's home to an apartment down the block is will occupy both the "*internal* mobility"

category and the "new household formation" category. Someone who has received a job transfer may occupy both the "External/Outside Area" category and the "From Apartments" category.

Each of the tenants in your current project and potential tenants shopping your project will fit into only one category. If you either survey existing tenants, or ask for the appropriate information on your visitor registration cards, you'll be able to create a Market Support Matrix for your project, with the appropriate support percentages for each category.

Part 2 of this series (in the next issue of *Apartment Resources*) provides you with a basis for comparison—the distribution of tenants in typical modern, market-rate apartments based on Kenneth Danter & Company national surveys.

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