Apartment ReSources

A Real Estate Research Periodical — Volume 2, Number 2 February 1988

February Market Hotline!

Construction Declines May Create Future Demand

- **Overall construction declines in Augusta, Georgia; Huntsville, Alabama; Trenton, New Jersey; and Tucson, Arizona may mean that these previously overbuilt markets may be staging a comeback. The *Apartment Building Permit Update:* on Page 7 details recent apartment construction in 15 of our *What's Not* cities. However, the cities listed above have experienced building slowdowns by nearly 50% in all housing categories. This slowdown can help housing demand reassert itself in the market.**

- **Regular readers of *Apartment Resources* are familiar with our *What's Hot and What's Not* housing potential ranking of the top 150 MSAs. We are currently compiling our 1988 rankings to be**

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

In This Issue:

published in the April *Apartment Resources*. If you are not yet a subscriber to this publication, you can reserve your issue by subscribing now!

- **Sometimes, the best way to target the elderly for independent living is to appear not to target them at all. Today's older adults may have achieved the *age* that makes them appropriate targets for elderly housing, but their *attitude* is usually that of independent, healthy adults. If your advertising focuses on aspects important to older adults, without classifying the complex as "elderly," you may increase your chances for absorption. Of course, by not targeting this age group, you may also attract younger adults to your complex. But attracting younger adults is not a drawback to this type of marketing—it is a two-way benefit. First, it fills unoccupied units with renters. Second, and equally important, it will make your complex even *more* attractive to older adults, whose lifestyles have more in common with the younger adults than with elderly in assisted-living or congregate developments.**

- **Where did you get *that* number? As most people know, the U.S. Census is conducted every ten years. But what most people don't realize is that population and other demographic statistics in the years following the census are usually based on calculations—not head counts. Every organzation that provides annual population statistics base their figures on a number of historical trends and current indicators. We've noticed that for the first few years following a census, most population figures provided by demographic resources tend to agree with each other. But in the latter years following the decennial census (the period we are in now), one can find wide variances in population estimates, depending on the source. We have noted two common occurrences that may help you better interpret these figures:**

  —Population tends to be overestimated. Nearly all of the resources we use usually revise downward their population estimates following a recent census.

  —Generally, local phenomena that are expected to cause dramatic swings in population most often do not. For example, analysts who predict a local major plant opening or closing will have tremendous impact on the area population usually later discover that the effects of these occurrences tend to manifest themselves slowly, if at all. This is often due to the transition mechanisms most businesses employ in starting up or cutting back personnel and production.

  Regardless, when you are presented with population and demographic statistics for an area, it doesn't hurt to pin down the source for those figures. Sometimes *where* you get your data can be just as revealing as the numbers themselves.

- **One of the keys to successful development is the concept of a *housing continuum*. A well-developed market is one that is adequately served throughout the local range of income and need. That is why developers have recently begun to discover that many markets can "suddenly" support very high end luxury complexes. In many of these markets, potential tenants had existed, but had never been offered such an alternative. The most important rule to remember in successful continuum development is that *price support, like local income, follows a pyramid pattern*. If, for example, support in a market exists for a 300-unit moderately priced development, the support that exists for very high priced development would be**

Apartment Resources is published monthly by Kenneth Danter & Company—40 W. Spruce St., Columbus, Ohio 43215. Phone: (614) 221-9096 or (Except Ohio) 1-800-KDANTER. Kenneth Danter, President. Subscription rates: $24.00 per year. Second class postage paid at Columbus, Ohio. Send all address changes to 40 W. Spruce St. Additional copies and back issues may be obtained for $5.00 each by writing to 40 W. Spruce St.

On The Outside Looking In

Apartment developers give a lot of thought to unit considerations—the floor plans, features, and amenities that will most appeal to potential tenants. But our ***POP Results*** show that tenants may be as concerned about the unit amenities *outside* their apartments as those inside.

In our Project Opening Plan (POP)SM surveys, which are conducted during the rent-up of an individual project, we ask potential tenants of that project a number of questions to determine demographics, housing history, and opinions on the importance of various project and unit features. In their original form, the results of these surveys can be used by a project manager to more accurately establish the value of an amenity in his market area. But when we aggregate the results of these surveys for our ***POP Results***, they give insight into the demographic makeup and attitudes of modern apartment shoppers.

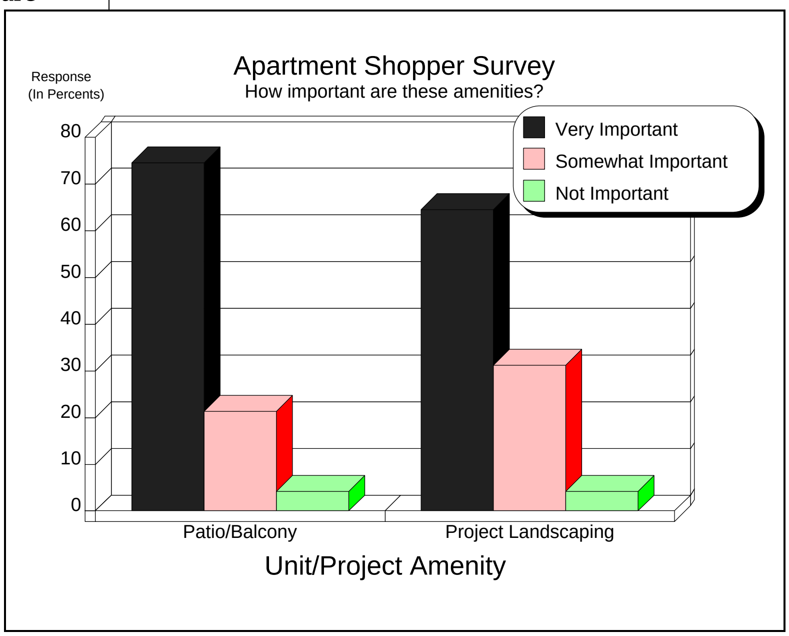
Two of the questions we ask during our survey are "How important are balconies/patios when moving to a new apartment?" and "How important is project landscaping when moving to a new apartment?"

These amenities are sometimes given less attention by developers than other amenities, yet our analysis indicates that they have excellent potential for attracting possible tenants. Although landscaping is considered a project amenity, it is worthwhile to group these two amenities together for this article, since the effectiveness of patios or balconies diminishes greatly when little thought has been given to the views they overlook.

Overwhelmingly, today's tenants favor apartments that feature patios or balconies. Nearly three-fourths (74.5%) said that these amenities are very important when moving to a new apartment, and another 21.3% said they were somewhat important. Only 4.2% said they were not important at all. To put this answer in perspective, consider that patios/balconies outscored in importance location, rent, size, and nearly all other upscale amenities.

Landscaping, on the other hand, was very important to 64.6% of the respondents, and somewhat important to 30.7% of the respondents. Only 4.7% of the respondents did not consider landscaping important. It, too, outscored location, rent, and most other unit and project attributes.

Therefore, project developers should give plenty of thought to tenant comfort outside the unit—nearly three-quarters of your project's visitors will start making their rental decisions before they step inside.



The POP Results:

One of the real estate research services offered by Kenneth Danter & Company is the Project Opening Plan (POP)SM, 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)SM, 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***.

The Moment of Impact—What Renters Remember

If you could have potential renters remember one thing about your project, what would it be? Recently, ***Apartment Resources*** conducted a survey of nearly 1000 apartment project visitors and asked "What was the one thing you remember about the complex you visited?"

For this survey, we did not ask what the potential tenants liked or disliked about the projects they visited, only the <u>one</u> thing that had made an impression. Positive and negative views were tabulated separately.

Top Ten Features Remembered
Overall Results

1. **Size 22.0%**
2. **Unit Amenities........... 18.0%**
3. **Floor Plan 14.3%**
4. **Project Amenities...... 13.3%**
5. **Location 9.9%**
6. **Newness....................... 5.3%**
7. **Price............................. 4.9%**
8. **Pets/Utilities (tie)......... 2.4%**
9. **Construction................ 1.9%**
10. **Availability 1.4%**

Since this survey was an open-ended question, the original results were many and varied. For the raw results to be usable, we placed the answers into the following categories:

Appearance	***Pets***
Availability	***Price***
Building Layout	***Project Amenity***
Construction	***Size***
Floor Plan(s)	***Unit Amenity***
Location	***Utilities***
Newness	***Other***

Special care was taken during the survey to not steer the respondent toward any bias or expectation on our part. Our questions allowed the respondents to note any of the complex attributes they remembered, rather than make specific unit-to-unit comparisons.

For this reason, our survey does not attempt to indicate what is the most important attribute for modern complexes, only what attributes tenants tend to remember.

Interpreting the Results

For the most part, the apartment complexes fared well. Of all of the responses given, 78.5% were positive. Since most of the responses were clearly either negative or postive, we tabulated the top ten negative and positive impressions. The results, given below, show the percentage distribution in each category. For example, of all of the respondents who had a positive impression of the complex they visited, 21.5% specified a unit amenity as the one thing they remembered. The bar chart on Page 5 lists the total survey results. Note that in each category, total bar length indicates the total responses in that category. The solid portion of the bar indicates positive responses. The hash-marked portion of the bar indicates negative responses.

Location, Location, and Location

One of the first surprises we discovered in this survey was a contradiction to the long-held belief that "the three most important factors in apartment development are location, location and location." In fact, *location* finished a distant fifth in our survey, with only 9.9% of the respondents mentioning that as the principal feature of the complex.

Top Ten Features Remembered
Positive Impressions

1. **Unit Amenities...........21.5%**
2. **Floor Plan(s)...............16.6%**
3. **Size 16.0%**
4. **Project Amenities 15.8%**
5. **Location 12.6%**
6. **Newness.......................4.7%**
7. **Utilities 3.1%**
8. **Pets...............................2.2%**
9. **Availability 1.5%**
10. **Appearance..................1.4%**

Top Ten Features Remembered
Negative Impressions

1. **Size............................44.1%**
2. **Price 21.6%**
3. **Newness 7.0%**
4. **Construction 6.1%**
5. **Floor Plan.....................5.6%**
6. **Unit Amenities 5.1%**
7. **Project Amenities........4.2%**
8. **Pets 3.2%**
9. **Building Layout 1.8%**
10. **Availability....................0.9%**

Not surprisingly, *size* was of extreme importance to apartment visitors. In fact, size finished first among the aspects most remembered. Unfortunately, size dominated the negative impression category—44.1% of all those surveyed who had a negative impression specified (lack of) size as the one thing they remembered.

We were also not surprised to note that "newness," which we tend to think of as an amenity, obtained enough responses to merit its own category. It finished sixth in the overall results, sixth in positive impressions, and third in negative impressions. The importance of "newness" to the survey respondents indicates its potential as a "premium" commodity in establishing rents or absorption.

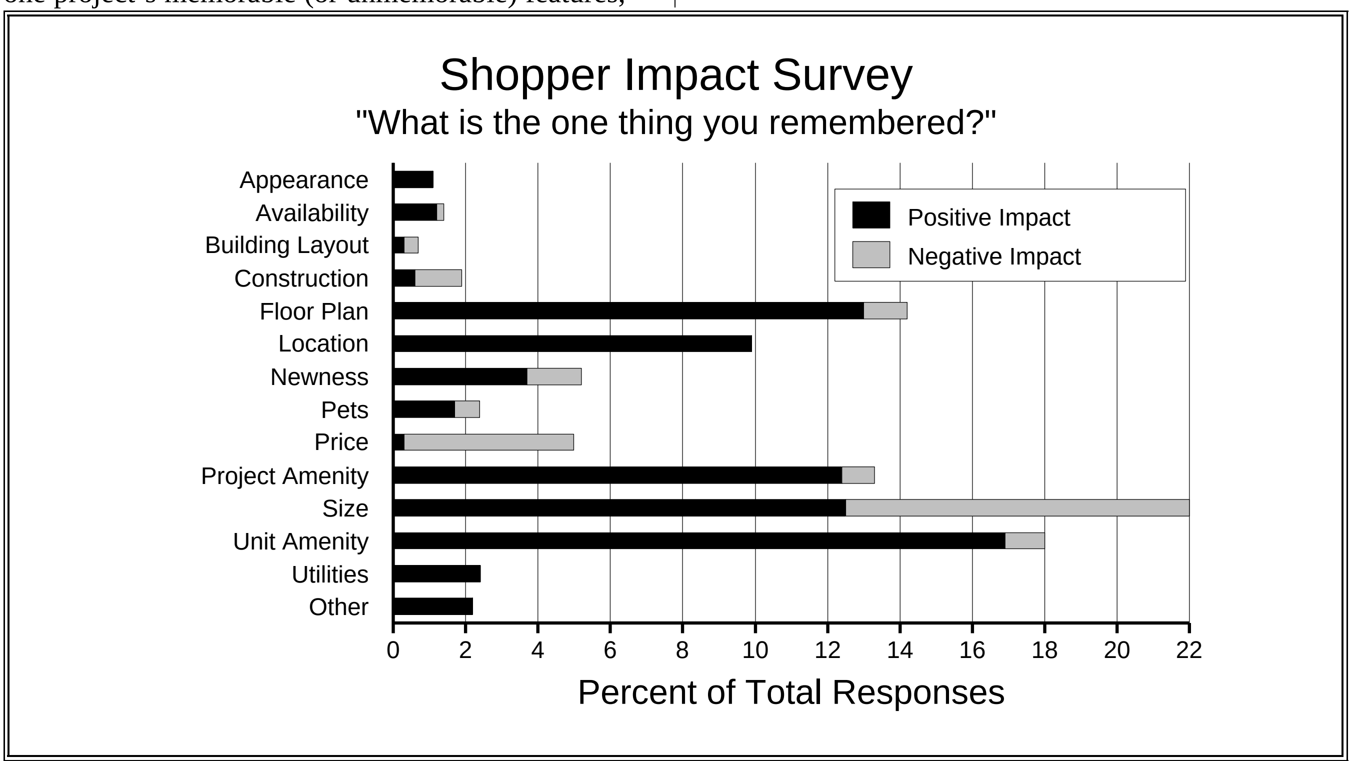
On a lighter note, we did find it surprising that 2.4% of the respondents mentioned the complex's policy toward pets as the one thing they remembered, yet not a single respondent mentioned the complex's policy on children. Most likely, this anomaly occurred because it is easier to tell a project's policy on children from advertising and signage than a project's policy on pets. Therefore, most respondents who would have been concerned about children were already aware of this policy prior to their visit.

Impact and Marketing—How Your Project Benefits

To ensure that the survey results weren't skewed by one project's memorable (or unmemorable) features, we included over 100 modern, moderate to upscale, market-rate apartment complexes in our survey. Our purpose was to establish a well-represented indication of what tenants look for when shopping for an apartment.

You should consider these results when planning marketing strategies for your own complex. For example, if your units offer an advantage in square feet, you should know that size makes the biggest impression on potential tenants. Does your advertising and signage merely list the square feet of the units, or do they feature your size advantage in readily grasped language? If you are able to use terms like "spacious" and "roomy" when describing your units (or the rooms within) you'll stand a better chance of leaving a lasting impression on shoppers. If you are stressing location as an advantage, you should be aware that nearly twice the number of people who specified "location" as the one thing they remembered about the complex they visited specifed a unit amenity as the one thing they remembered. You'll stand a better chance if you emphasize closet space, bedroom size, or your best amenity rather than your project's proximity to downtown.

Tenant's attitudes tend to change over time, so we've decided to conduct this survey on an ongoing basis. We'll be bringing you both further details from this survey and updates on our continuing analysis in following issues of ***Apartment Resources***.



Apartment Absorption Update:

Absorption Rebounds While Construction Declines

This month's **Apartment Absorption Update** covers the latest absortion trends among non-subsidized, privately financed apartments.

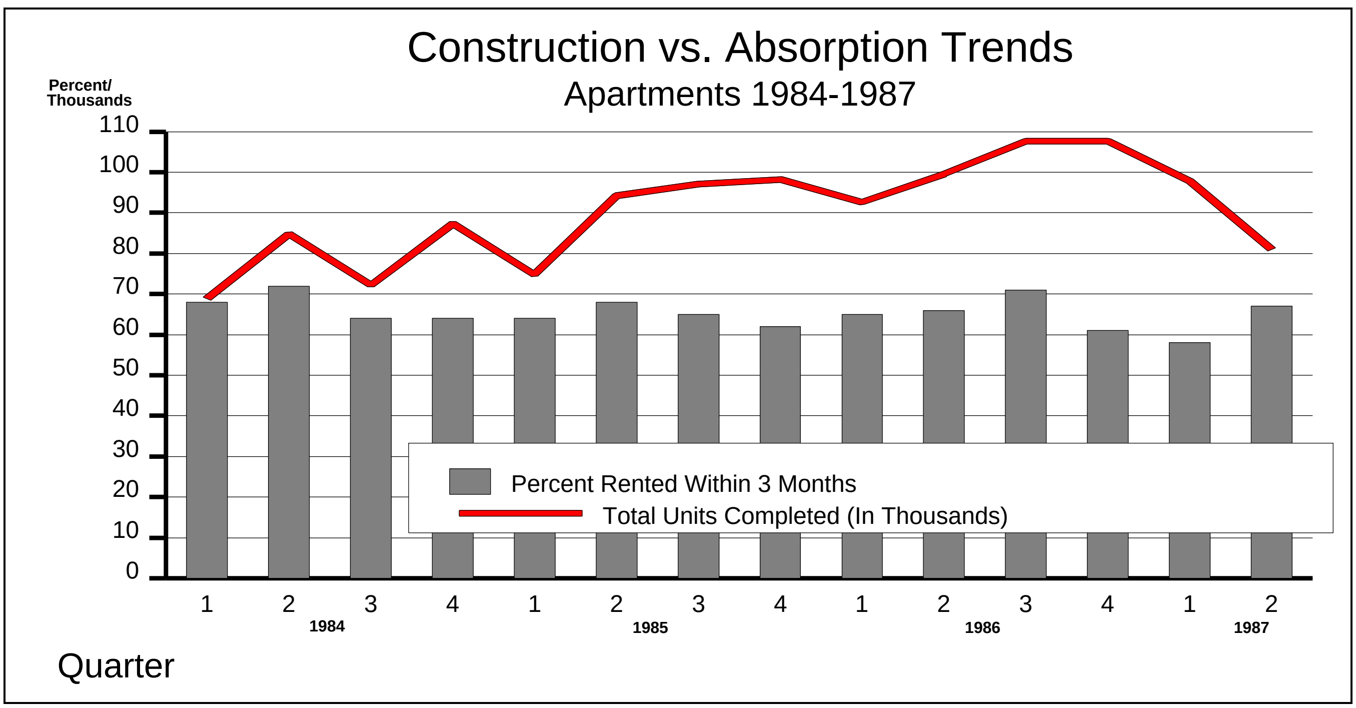
- Overall construction rates continue their decline. The second quarter 1987 national construction rates for apartment units declined from 97,900 in the previous quarter to 81,000. This makes second quarter 1987 the lowest in new apartment construction since first quarter 1985, and the third lowest since first quarter 1984.
- However, this fall-off in new construction created a significant upturn in absorption. Within the first three months of construction, 67% of the second-quarter new apartments were rented—the fifth highest absorption rate since the beginning of 1984.
- Median rents declined from $514 in first quarter 1987 to $496 in the second quarter. Higher priced apartments ($550 or more) accounted for 38% of all new construction. This is a decline from the previous quarter, in which higher priced apartments accounted for 42% of all new construction.
- Thirty-nine percent of the units built were one bedroom and 59% were two bedroom. Three percent of the units built were three bedroom or more. (Total figures exceed 100% due to rounding.) In the previous quarter, only 49% of the units built were two-bedroom, indicating a shift in emphasis toward two-bedroom construction.
- Thirty-eight percent of the units completed during the second quarter of 1987 were renting for $550 or more. Of those units, 68% were rented within three months of completion. Only 27% of the units completed were renting for $450 to $549, and 63% of these units were rented within 3 months of completion.

Comparison of Construction to Absorption Trends

This graph compares levels of apartment construction to absorption trends from the first quarter of 1984 through the second quarter of 1987.

The bar graph indicates the percentage of units rented within three months of completion since 1984. The line graph indicates (in thousands) the number of new units constructed each quarter.

Not surprisingly, as the construction rate has declined from its peak in the middle of 1986, absorption rates have begun to return to previously established absorption rates.



"Not" Cities That May Not Be Not

We compared the preliminary year-to-date (through December 1987) building permits in the top ***What's Not*** cities to the number of building permits issued at the same time in 1986. The ***What's Not*** cities are the cities in our annual ***What's Hot and What's Not*** survey that have high enough housing surpluses to warrant caution for housing developers.

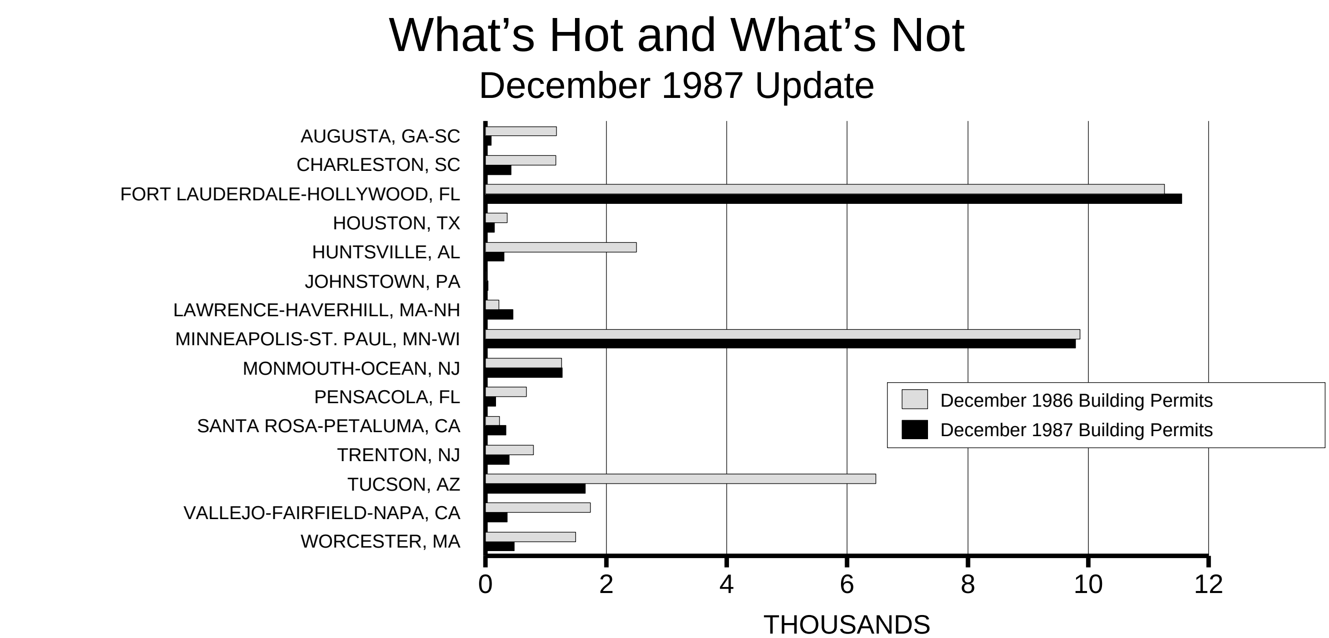
Of the top 15 ***What's Not*** cities, five (Fort Lauderdale-Hollywood, FL; Johnstown, PA; Lawrence-Haverhill, MA-NH; Monmouth-Ocean, NJ; and Santa Rosa-Petaluma, CA) increased construction in 1987. The remaining cities decreased construction or experienced construction consistent with the previous year.

Of the cities that decreased construction, the largest declines were as follows:

Augusta, GA (-92%)
Charleston, SC (-64%)
Huntsville, AL (-88%)
Vallejo-Fairfield-Napa, CA (-79%)
Pensacola, FL (-75%)
Tucson, AZ (-74%)
Worcester, MA (-68%)

Although the size of the existing deficit plays an important role in a market's development, the large construction decreases in these cities may cause them to rise in our rankings this year.

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



Building Permit Comparison 1986-1987