Apartment ReSources

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Market Hotline

- Although there has been widespread overbuilding throughout most of the Sun Belt, a lone sunbeam still shines on the Miami-Hialeah MSA, which ranks high for the second year in a row in our ***What's Hot and What's Not*** survey.

- Cities in the Rust Belt lack the flash and chrome of the cities that attract developers elsewhere in the U.S.--which means that development opportunities are being overlooked. Prime cities include Cleveland, Buffalo, Detroit, Chicago, and Pittsburgh.

- Even though Houston remains at the bottom of our ***What's Hot and What's Not*** list, 2 years of near-zero construction have created a market that is approaching stability and is demonstrating potential recovery. Now could be the time for selective acquisitions.

- Now more than ever is the time for product targeting. Although the congregate-care market shows continued signs of weakening, independent-living for older adults is one of the

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

Market Hotline (Continued)

fastest-growing components of multifamily development. The impact of older adults on the conventional apartment market has nearly tripled. In markets traditionally dominated by townhouses and three-story walkups, the response to products with features targeting active older adults has been remarkable. (CAUTION: Prospective tenants respond to product features--not to designated "elderly" housing.)

- Increased citizen opposition to multifamily zoning is expected to slow or delay multifamily starts. The impact of this opposition will tighten some markets, increasing rents and values of previously zoned sites.

- Beware of "amenity one-upmanship." Competing developers often try to outdo each other by offering enhanced amenity packages for the upscale market. In addition to competing for the upscale dollar, examine a market carefully to make certain that all rent strata are being addressed. In a market where others are forging ahead, consider the possible fall-back positions. You may find "hidden gold" in the price points that upscale developers have left behind.

Developer's Dictionary

The Effective Market Area (EMA)[SM]

Analysts have used a number of methods to determine the extent of a project's market capture. Of critical importance to a project's success is discovering its market boundaries--that distance beyond which potential tenants can be captured only through extraordinary marketing. A project's market area can reasonably be said to be that area from which the project can expect to attract a majority of its support.

To define this area, analysts have used, with mixed success, geographic boundaries such as census tracts, counties, corporation boundaries, or the radius/distance method. However, none of these methods considers existing physical boundaries or socioeconomic conditions.

Kenneth Danter & Company defines market areas through an analysis of mobility patterns, interviews with area planning officials, demographic analysis, and past experience. The resulting market areas, termed *Effective Market Areas*, often transcend political subdivisions (such as city or county limits).

EMAs are areas with similar demographic and economic characteristics separated by "hard boundaries" (such as rivers, freeways, or railroad right-of-ways) or "soft" boundaries (those created by the socioeconomic strata of an area).

Each individual EMA forms a separate market, providing a means for site analysis and a tool for measuring the support potential of any proposed development.

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U.S. HOUSING MARKETS--WHAT'S HOT AND WHAT'S NOT

For this, our first, issue of ***Apartment Resources***, we are pleased to announce the release of ***What's Hot and What's Not***--our survey of housing development opportunity in the largest 150 Metropolitan Statistical Areas (MSAs) in the country.

What's Hot and What's Not is based on the Housing Demand Analysis (HDA)SM, a method developed by Kenneth Danter & Company to pinpoint the degree to which an area can support new housing construction [see *What's New on REAL/LINE*SM*--The Housing Demand Analysis (HDA)*SM on Page 6]. The HDA produces a 10-year history of building trends compared with housing support characteristics such as internal mobility characteristics, housing starts, household growth, employment growth, and replacement support. We produce HDAs as part of our site-specific analyses. But as part of our internal research, we also produce HDAs on each of the top 150 (by population) MSAs in the country. This year, for the first time, we've released our ranking of those cities for publication.

The HDA was designed to reveal trends in housing up to two years before they impact the market, and it has proven to be an extremely accurate method of forecasting surpluses or deficits that will affect the overall housing market. Although our clients want to know how their market areas look right now, they find it vitally important to know how the market will look up to three years from now, when their projects actually open.

Because our clients are primarily interested in site-specific information, this is the first time we've released such an extensive comparative ranking of housing markets. However, although we find the results of this survey valuable, we caution against interpreting our findings too broadly. In any market, chances for success or failure exist. A knowledgeable developer can do well in the worst of markets, and, conversely, a poor location or concept can fail in the best of markets. Similarly, there can be areas of overbuilding in an underbuilt market (and vice versa).

If you have any questions about ***What's Hot and What's Not***, or would like to obtain the HDA for any of the 150 MSAs, contact us today. You'll find more information on Kenneth Danter & Company services on the back cover of ***Apartment Resources***.

1987 findings include:

- Boston dropped from last year's top 15 list, from 15th in 1986 to 43rd in 1987.
- New to the top 15 in 1987 is Birmingham, Alabama, making the list for the first time.
- New to the bottom 15 was the Charlotte-Gastonia-Rock Hill MSA.
- Worthy of note is Houston, which has occupied a spot near the bottom for several years, but which has been steadily moving up due to sharply reduced construction for the past two years.
- Most improved markets were Oklahoma City, Denver, Baton Rouge, Kansas City, and Corpus Christi. Many of these increases were due to lack of new starts following a period of overbuilding, rather than increased demand.
- Major declines in development opportunity, created by two to three years of accelerated development, were noted in Minneapolis/St. Paul, San Diego, Sacramento, and Indianapolis.

Source: Kenneth Danter & Company

What's New on REAL/LINE℠--The Housing Demand Analysis (HDA)℠

REAL/LINE℠ is a telecommunications service from Kenneth Danter & Company designed to provide apartment rent, vacancy, and absorption data at neighborhood levels.

By using REAL/LINE℠, which is accessible from any modem-equipped office computer, developers can narrow their market choices before investing in land options, surveys, appraisals, or other expensive front-end costs. Also, REAL/LINE℠ aids lenders who want to determine the viability of smaller projects that do not warrant a major market feasibility study, as well as managers and owners of existing projects who want to measure their project's performance against the marketplace on a regular basis.

One of the reports available on REAL/LINE℠ is Kenneth Danter & Company's Housing Demand Analysis (HDA)℠, the report used to produce our annual ***What's Hot and What's Not*** ranking of the top 150 MSAs.

The HDA is a comparison of area growth, current construction, and internal demand for new units that determines an area's overall surplus or deficit of units. The net surplus/deficit determined by the HDA is based on the three most recent years of area development.

HDAs are available for all of the 150 MSAs featured in ***What's Hot and What's Not***. Each HDA provides a 10-year history of the MSA's housing demand, and the degree to which new housing construction is serving that demand.

The following paragraphs highlight the useful features of the HDA. If you would like further information on REAL/LINE℠ or the HDA, please don't hesitate to call us at (614) 221-9096.

1. HDAs are developed for 150 Metropolitan Statistical Areas (MSAs) and their principal counties.
2. Calculations used in the HDA are based on building permits issued each year. The **HOUSING UNITS AUTHORIZED** section of the HDA details the type of permit issued.
3. The HDA is actually a 10-year history of area housing, enabling users to note long-developing trends in an area.

   Once the number of housing starts is obtained, several factors help determine **Net Housing Starts**:

   - **Mobile Home Additions**
   - **Annual Household Growth**
   - **Replacement and 20% of Annual Net Mobility**
4. **Net Housing Starts** indicates one of three possible conditions in the market: a surplus, a *hard* deficit, or *soft* deficit.
5. The **HOUSING DEMAND SUMMARY** section of the report provides an at-a-glance reference to the 10-year housing demand history.
6. Since surpluses and deficits can accrue for 3 to 5 years, the HDA includes a 3-year deficit/surplus analysis.

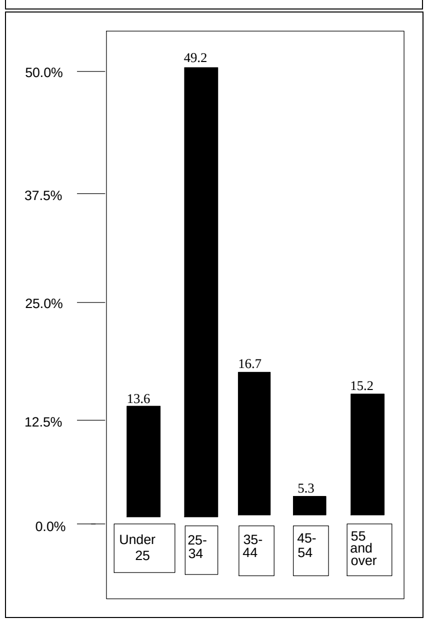
Apartments and Older Adults: The Hidden Market

One of the fastest growing components of modern multifamily development is hidden behind an out-of-date term: elderly housing.

When developers speak of elderly housing, they often mention assisted-living, congregate-care, or nursing-home facilities. Yet few developers have noticed a trend in housing for older adults that should make them think twice before venturing into this market.

Our ongoing surveys of conventional-apartment residents indicate a rapidly growing market segment of active older adults who clearly do not require or want the services of a congregate-care facility, but who no longer want the bother of maintaining a single-family home. Residents in this category do not think of themselves as "elderly," since they are able to perform all of the daily living tasks encountered by any other healthy, independent segment of the population. Long referred to as "empty nesters," this group has historically accounted for up to 60% of condominium absorption. In our 1981 apartment tenant profile, we identified 10% of all tenants as being over age 55. By 1986, this share increased to 15%. **It is important to note that in 1986, 62% of this group were 65 and over.**

Tenant distribution by age group (in percents)



Surprisingly, the increase of older adults from 10% to 15% of the tenant population ***obscures the rapid rate at which this market is growing***. Our upper-end apartment base during the five-year survey actually doubled, which means that older adult apartment tenants have ***increased 300%*** over the five-year period. Population and mobility projections indicate that this trend will continue. Further, this increase occurred during a period when most new rental construction targeted much younger age groups either through direct marketing strategies or indirectly with two- and three-story or townhouse construction. Our surveys among these prospective (or existing) tenants indicate a preference for single-story construction. Other preferred amenities include an attached garage, special security features, and a tailored project amenity package.

Recent projects specifically targeting this group have demonstrated excellent market performance when proper marketing strategies are used. The prospective tenants for these projects do not consider themselves unique or elderly. We have found that, as with any other market, the construction, style, amenities, and services are most important--not the designation of the project as "elderly." On the contrary, defining a property as an "elderly" project invites failure.

Since many tenants will be moving from single-family homes, there is often a significant time period required during which the prospective tenants decide to part with home ownership, dispose of 30 years of possessions, and facilitate the sale of the home. Six or eight project visits may be required before a decision is made; often a frustrating experience for a leasing manager with more experience in a conventional, more mobile market segment.

Fortunately, the payoff is in length of tenancy. This market segment is less motivated by career or family changes to seek new housing, and a move from rental housing to purchasing a single-family home is no longer considered a "step up." Consequently, as long as the resident project provides perceived value, these tenants are less likely to move.

We recommend considering this market carefully when planning multifamily development. Plan your project for healthy, active adults, but remember the growing market preference for single-story construction and security features.

And if you are cautious about not referring to this market as "elderly," you'll be more likely to call them something else: tenants.

Kenneth Danter & Company has assisted successful development in over 2,000 communities. Our research team, which maintains a 100% data base on markets in over 40 states, has analyzed development alternatives for builders, lenders, and government agencies in a variety of markets.

Market-rate apartments
Government subsidized apartments
Motels/hotels
Congregate-care centers
Shopping centers
Condominium development
Condominium conversions
Office buildings
Resort development
Recreation facilities
Retirement homes
Single-family housing

• Market Feasibility Studies

Market feasibility studies are based on an Effective Market Area (EMA)℠ analysis of a 100% data base. The EMA methodology was developed by Kenneth Danter & Company to determine the smallest geographic area from which a project can expect most of its support.

• Economic-Impact Studies

Economic-impact analysis can determine the dollar effect an industry or organization can have on a community. Our analyses incorporate the Bureau of Economic Analysis' RIMS II methodology for maximum accuracy in determining economic impact.

• POP (Project Opening Plan)℠

The Project Opening Plan (POP)℠ is a 12-month analysis of a project during its rent-up period. Constant feedback from field analysis of competitive projects, visitor surveys, advertising analysis, and shopping reports allows project management to maintain a balanced absorption at the maximum achievable rents.

• REAL/LINE℠ On-line Data Base

If you own a computer and modem, you have apartment and demographic data at your fingertips with the REAL/LINE℠ on-line data base. REAL/LINE℠ reports deliver the most up-to-date information available in major market areas--at a fraction of the cost you'd expect to pay.

• Publications

-Apartment Trends
-Apartment Resources
-Condo Closings

Kenneth Danter & Company produces a number of publications based on proprietary research. Among these publications are ***Apartment Trends***, a series of complete analyses for major market areas, and ***Apartment Resources***, our client newsletter that offers insight into the multifamily development process.

Find out more about Kenneth Danter & Company real estate market reseach. Send this card to:

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Yes! Please send me more information about these Kenneth Danter & Company services:

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