

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

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## Hotlines revisited: Important market updates!

- In our August 1987 issue of *Apartment Resources*, we observed that widespread overbuilding throughout the most of the Sun Belt had hampered development opportunities in these markets. At the time, nearly all of the Sun Belt markets were *What's Not* cities. However, one market—Miami-Hialeah—ranked high on our list of *Hot* cities. A year later, most of those cities have actually slipped *further* in the rankings, lessening their chances of becoming contenders next year. Miami-Hialeah, with only a slight lessening of last year's deficit, retains its high position in our ranking.

- We also noted last year that although the Rust Belt cities lack the "flash and chrome" of the cities that attract developers elsewhere in the US, many offered development opportunities that were being overlooked. Cities of interest we cited at the time included Cleveland, Buffalo, Detroit, Chicago, and Pittsburgh. Apparently some of those opportunities are being realized in these cities—both Buffalo and Detroit fell from the *What's Hot* list into the ranks of the *Contenders* this year. On the other hand, Pittsburgh, which ranked high on the *Contender* list last year, moved up into the *Hot* rankings this year. We continue our recommendation that these cities be considered when planning new development.

- Cities on the "cusp." Five cities are on the borderline between *Contenders* and *Hot* rankings—Columbus, Rochester, Boston, Honolulu, and Washington, DC. Although these cities demonstrate strong deficits, they are slightly shy of the cutoff to be

included in the list of *Hot* cities. Cities in the *Contender* ranks all exhibit deficit construction, which means that good opportunities exist for development. Cities that rank high on the *Contender* list are often candidates for the *What's Hot* list in the following year. Three of the above cities—Rochester, Boston, and Washington, DC—have moved up in the rankings since last year.

- The Housing Demand Analysis (HDA)<sup>SM</sup> used to produce our *What's Hot and What's Not* list provides a 10-year history of population growth and housing development in a market area. Usually, a large surplus or deficit may take two to three years (or more, depending on the size of the surplus/deficit) before its effects no longer impact that market area. Therefore, to obtain the current housing surplus/deficit, we calculate a three-year average of the most recent years of development and growth.

This phenomenon explains why one of the "cusp" cities—Columbus—slipped from last year's *Hot* list to this year's *Contender* list. Columbus experienced tremendous deficit construction in the mid-1980s, which continued to impact this market until this year, when those earlier deficits were fully absorbed as the 1987 statistics were added. (The 1987 deficit was far less than that of 1984, which lowered the three-year average.) This situation often occurs in reverse for other cities, in which a large surplus is absorbed by 1988. When this happens, that city often makes a leap in ranking on our *What's Hot and What's Not* list.

## Shoppers with a purpose.

Our *POP Survey* indicates that only 61% of the people shopping your complex are very likely to move in the next 12 months. An additional 12% are somewhat likely to move. Fully 27% are not likely to move.

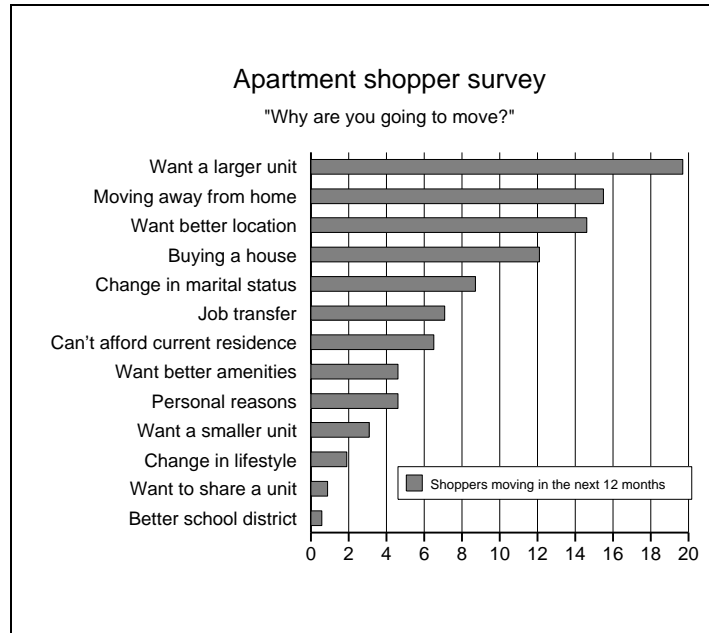
In previous *The POP Results* columns, we've concentrated mostly on the attributes of housing units that

attract or retain residents. However, many tenants *select* a new housing residence because they are *rejecting* their current residence. Although sometimes the rejection is based on circumstances beyond the tenant's control, such as a job transfer, there is usually a principal reason that tenants feel they need to change housing.

Our survey sample for this column comprises over 500 recent visitors of modern, market-rate apartments. The purpose of the interviews is to help identify characteristics of the tenants who'll be leasing your units in the coming months.

During the telephone survey of these apartment shoppers, respondents were asked if they were "very likely," "somewhat likely," "not too likely," or "not likely at all" to move in the next 12 months. As we noted above, 61% responded that they were "very likely" to move.

We then asked each of those respondents who said they were "very likely" to move in the next 12 months why they were going to move. We worded the question so that respondents would be more likely to tell us why they wanted or needed to leave their current residence.



The majority of the respondents (20%) intend to move because they feel their current housing is too small. However, a number of these respondents may be seeking a larger unit because of household growth, rather than their own dissatisfaction with their unit's size.

Interestingly, the second largest response to our question was "moving away from

home" (15%). These respondents are mostly young adults acquiring their first apartment.

Other significant responses to the survey include "want a better location," "buying a house," and "changing marital status." The accompanying graph depicts the percentages of all significant responses.

### 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*.

# Renter lifestyles: Garden vs. townhouse tenants.

Perhaps the biggest key to development success is identifying the prospective market for your units. Once you've correctly identified this market, you can begin to tailor a package that focuses on the market's lifestyles.

The first step of the identification process is deciding where to look. For example, if you are considering housing for older adults, you should conduct research on the preferences of potential tenants who are 45 and older. This type of information can tell you much about the amenities, design, and architecture you'll need to make your project successful.

At Kenneth Danter & Company, we continually conduct proprietary analyses regarding tenant attitudes and lifestyles to assist our clients. But in addition to the typical examples above, we also tabulate results in several different ways to gain new insights into the apartment tenant profile.

Recently, we looked at tenants who live in garden style units (units with at least one bedroom that are limited to one floor), and those who live in townhouse units (units with more than one floor) to determine what differences (if any) these tenants displayed in lifestyles or preferences. Essentially, we wanted to see how these two floor plans attracted tenants from different age groups and income brackets, and how these tenants differed in amenity and feature preferences.

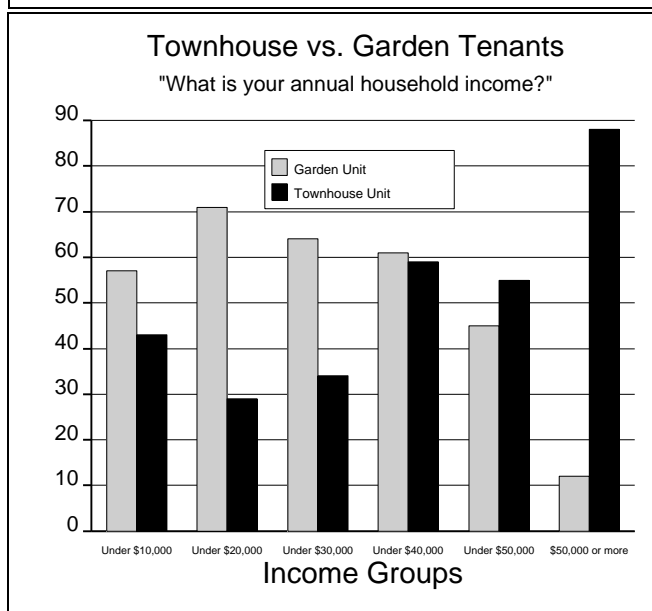
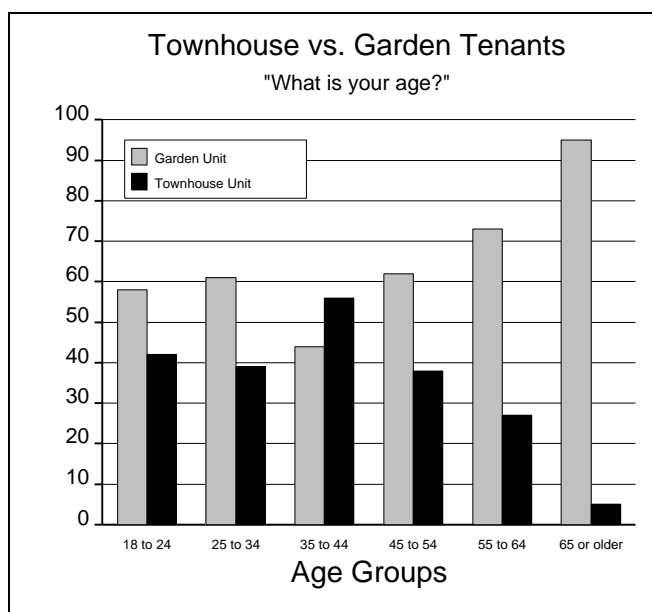
For this survey, we conducted an extensive survey of residents in modern, market-rate units, and crosstabulated the respondents based on garden-unit or townhouse-unit residency.

**The basics—age and income.** Because we encourage multifamily developers to specifically target prospective tenants, we examined the distribution by age of tenants in each of the two floor plans.

Townhouse apartments make a bigger impact in the 35 to 44 age group. Fifty-five percent of the

tenants in this category live in townhouse units. Younger tenants tend to predominate in garden units. These tenants are more apt to be price-driven, and usually find a greater selection of garden units in their rent range.

However, tenants past the age of 44 also begin to show a marked preference for garden-style units. Although only 44% of those surveyed in the 35 to 44 age group stated they live in a garden-style unit, 63% of those surveyed in the 45 to 54 age



group live in a garden-style unit. In the next age group, 55 to 64, 80% live in a garden-style unit. Among those older than 65, the garden-unit response was nearly 100%. The resurgence in preference for garden units in older adults occurs for two reasons: (1) most older adults prefer the single-story construction offered by garden units, and (2) for some adults, cost again becomes a major concern in housing selection.

Tenants in lower income ranges tend to be predominant in garden units. In the under-\$20,000 group, 57% of the tenants occupy garden units. Nearly 70% of the tenants who

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***"Eighty-seven percent of the tenants earning more than \$50,000 occupy townhouses"***

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earn between \$10,000 and \$19,999, and 64% of the tenants who earn between \$20,000 and \$29,999 occupy garden units. As previously indicated, this number is impacted by the large percentage of younger tenants who seek inexpensive, older garden units. In the \$40,000 to \$49,999 income range, 55% of the tenants occupy townhouses. Eighty-seven percent of the tenants earning more than \$50,000 occupy townhouses.

**The effect of floor plans on retention.** One factor that interested us is the longevity of tenancy for each unit type. The national average for unit turnover is approximately 16 months—a tenant usually occupies a unit for 1.3 years. However, we wanted to see if that average held equally true for garden and townhouse units.

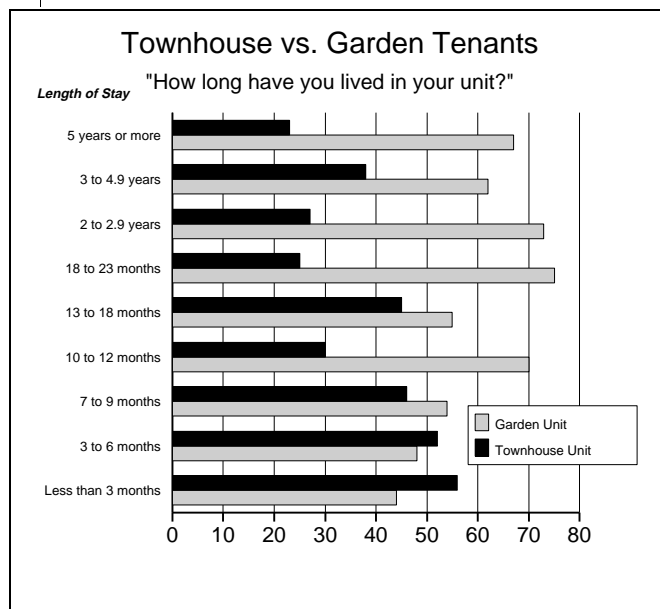
Our survey indicates that they do not. In general, the garden-unit respondents in our survey tend to occupy units 2 to 3 months longer than the townhouse respondents. One of the principal reasons for this difference appears to be in the future moving plans of the respondents. Over 30% of the townhouse residents indicated that they intend to acquire a condominium or single-family residence in their next move, compared to 19% of the garden-unit

residents. Therefore, it is more likely that townhouse-unit tenants are impacted to a greater degree by interest rates and availability of single-family housing than residents in garden units.

The accompanying graph shows that when tenants were asked "How long have you lived in your unit?" tenants who responded with short lengths of stay were more likely to be in townhouses; tenants who responded with long lengths of stay were more likely to be in garden units.

**Let the market decide the floor plan.** We were interested to discover that in several instances, the basic demographics of garden-unit tenants were markedly different from townhouse-unit tenants. The survey indicates that the deciding factor in planning for townhouse or garden units in a proposed project is the type of renter market you wish to pursue. The type of unit that predominates in your project will influence the overall age of your tenant population, tenant turnover, and the income ranges that will be most interested in your product. Ultimately, these will effect the amenity packages and features that will maximize the profitability of your development.

***Next month: Survey results of amenity and feature preferences of townhouse and garden renters.***



# Temperature changes in the Hots and Nots.

This year's *What's Hot and What's Not* revealed some shakeups in apartment markets across the U.S. Some cellar dwellers, such as Fort Worth, Dallas, and Houston began to show signs of recovery. The large surplus that was created by overbuilding in these areas is beginning to be absorbed by continuing mobility and population growth. Although it will take some time before the existing construction is diminished, a continued lack of new development in these areas may mean better opportunities in the future.

Cautious development in some cities—Baltimore, Newark (NJ), and Pittsburgh, for example— combined with good mobility and population growth to move them ahead in the rankings.

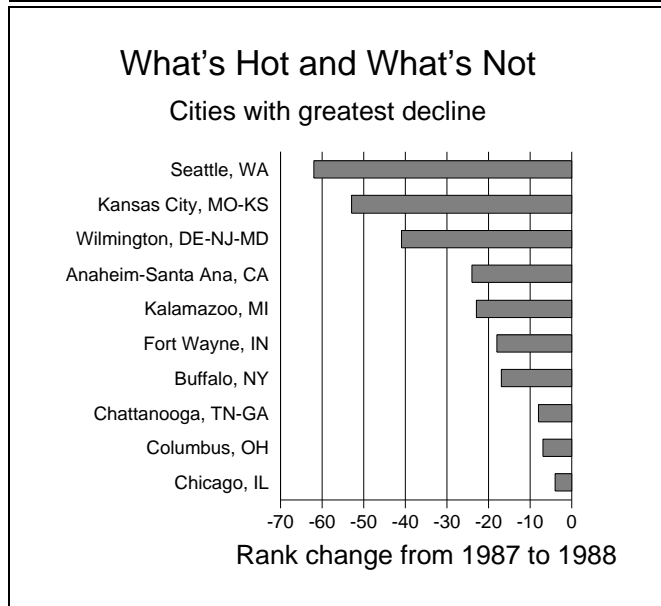
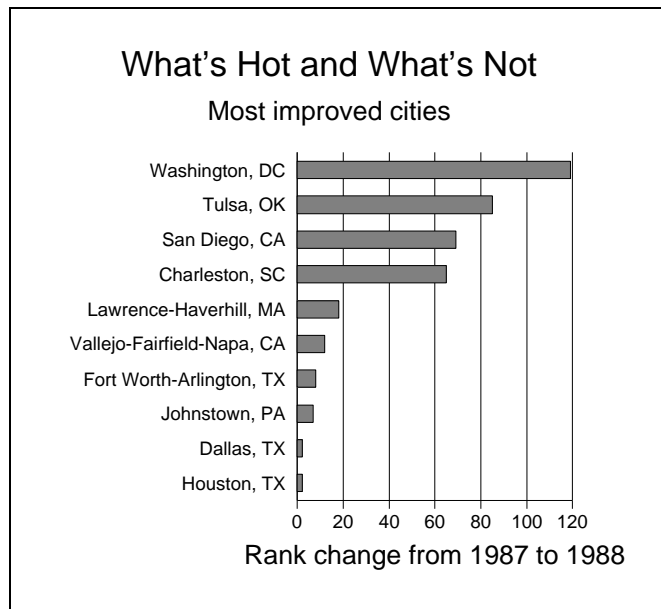
At the same time, some of the *Contenders* and *Hot* cities are being discovered by developers, who are starting to attack the previous housing deficits. For example, Chicago experienced a tremendous deficit in housing in our 1986 survey, but that deficit has been diminishing annually. Although it ranked high as a *Hot* city in years previous, it may slip to *Contender* by next year.

Some *Contenders* that went in the wrong direction include Chattanooga, Kansas City, Fort Wayne, Lancaster (PA), Kalamazoo, and Las Vegas.

Several factors contribute to down- or up-swings in our *What's Hot and What's Not* rankings. Among these factors are an increase/decrease in population, internal mobility, or population. But in addition to these factors is the effect of the levels of development in previous years. Several cities in our ranking system change in

standing because over- or underbuilding in previous years is no longer a significant factor in the current market.

The accompanying chart shows the more significant changes in this year's *What's Hot and What's Not* survey. For a detailed list of the *Hot*, *Not*, and *Contender* cities, see our poster in the June issue of *Apartment Resources*.



## When timing is everything.

**New Reports On-Line.** Over twenty new reports have been added to the REAL/LINE system this month, and more reports are being added continually.

Major cities for which reports have recently been added include Knoxville, Tennessee; Memphis, Tennessee; Brandon, Florida; Miami, Florida; Tallahassee, Florida; Jacksonville, Florida; Orlando, Florida; Decatur, Georgia; Charlotte, North Carolina; Columbia, South Carolina; Winston-Salem, North Carolina; Indianapolis, Indiana; Sterling Heights, Michigan; Cincinnati, Ohio; Columbus, Ohio; and Westlake, Ohio.

*All of these reports are available for instant download to your computer.*

There are three ways that you can always be informed of new files available on-line:

- *You can get a summary here each month in **Apartment Resources**.*
- *You can get a detailed list at the **News and Bulletins** menu on REAL/LINE.*
- *You can find out which files are new on every market report directory by typing **F\***. (The asterisk means "display only the files added to the system since my last call.")*

**REAL/LINE Message System.** One important time-saving feature of REAL/LINE is the REAL/LINE Mail system. With the REAL/LINE mail feature, you'll be able to ask questions or make comments on studies in progress when you want to, as often as you'd like.

Each of the analysts at Kenneth Danter & Company has an electronic "mailbox" on REAL/LINE. If you suddenly remember at 8:00 PM some specific information you want analyzed for your study, you can place a call to

REAL/LINE and your message will be waiting for the analyst the next morning.

Also, if you have a comment or question about using the REAL/LINE system, a special message area has been set aside just for that. The REAL/LINE coordinator monitors this area and promptly responds to each message—providing you with complete on-line assistance.

When timing is everything, you'll find this tool is among the most effective features of REAL/LINE.

### REAL/LINE access summary

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| REAL/LINE is available 24 hours a day, seven days a week. Anyone is welcome to access REAL/LINE at any time, as our guest. | system prompts as follows:<br>First Name: <b>NEW</b><br>Last Name: <b>USER</b><br>Password: <b>DANTER</b> |
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| To access the system, you need (1) a computer with modem attachment, (2) a terminal program for your computer (popular ones include Crosstalk, Smartmodem, and ProComm), and (3) the REAL/LINE phone number and password. | You'll be given access to nearly every system feature, except the ability to download market reports. Of course, if you're an <i>Apartment Resources</i> subscriber, you are entitled to a free subscription with full access to the system. For more information, call 1-(614)-221-9096 and ask for the REAL/LINE coordinator. |
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| The REAL/LINE phone number is 461-8980. To enter the system, respond to the opening |  |
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### REAL/LINE system defaults

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| To access REAL/LINE, you'll need to make sure your terminal program is set up properly. You don't really need to know what the following terms mean—just make sure they are set as listed: | Parity: <b>N</b><br>Stop Bits: <b>1</b><br><br>Duplex: <b>Full</b> (Or <b>Echo: Off</b> —depending on the terminal program)<br><br>Also, most programs offer a <i>Filter</i> or <i>Strip 8th Bit</i> function. This should be turned OFF, although it is not critical. |
| Baud: <b>300 or 1200</b><br>Data Bits: <b>8</b>  |  |