

# Apartment ReSources

A Real Estate Research Periodical

Volume 1, Number 3 October 1987

## October Market Hotline!

### Market Hotline! Expands

*Starting this month, due to your requests, Market Hotline! will expand to provide you with even more insight into apartment markets across the U.S.*

- *Developing the older adult market? We've noticed a recent trend in assisted-living development that you might consider. We're finding that a number of developers*

*are forsaking the saturated congregate-care markets in larger communities to build 20- to 30- unit assisted-living projects in smaller communities—and meeting with success.*

- *Another thing to keep in mind in developing product for older adults is that a continuum of alternatives is* (next page)

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

### *In This Issue:*

<b>Market Hotline!</b> .....	<b>1</b>
<i>Hotline Expands; Service Amenities Make Their Mark</i>	
<b>Apartment Resources Special Report</b> ..	<b>3</b>
<i>Catching The Third Wave</i>	
<b>Developer's Dictionary</b> .....	<b>4</b>
<i>100% Data Base</i>	
<b>Knowing Your Market:</b> .....	<b>5</b>
<i>Rating the Quality of Competitive Developments</i>	
<b>Second Feature Article</b> .....	<b>6</b>
<i>Density and Landscaping: A Case for "Plant" Parenthood</i>	

## **Service amenities make their mark**

*available—but they must be responsive to the needs of the market. For example, some older adults require only independent-living, some require congregate-care, and some need assisted-living developments. What surprises us is how often developers jump on the congregate-care bandwagon when the market might be better served by independent- or assisted-living development. Congregate care receives much attention from developers, but in most markets it occupies a narrow niche in the continuum of housing for older adults. More often, the most potential exists in independent-living and assisted-living communities.*

- *What are amenities? That's a question that some developers are answering in new and different ways. All of us are familiar with "physical" amenities—such as dishwashers, upgraded carpeting, and swimming pools—and we've seen many developers experiment with new appliances and features to attract their potential market. But one of the latest marketing tools used successfully is the development of "service" amenities. These amenities are the ones offered by developers to make their tenants feel that the conveniences of apartment living are second to none. Some of the services we've seen offered include optional housekeeping services, dry-cleaning pickup and delivery/dropoff, grocery delivery, Federal Express and UPS service, roommate referral, and even notary public services. Look for an upcoming feature article in *Apartment Resources* on service amenities.*

- *"Newness" can also be an amenity. Our studies indicate that tenants are willing to*

*pay higher rents for one complex that has equal amenities to another, solely because the first complex is new. Unfortunately, "newness" is an amenity that can't be offered indefinitely. However, in high-growth markets, in which considerable support comes from outside the Effective Market Area (EMA)<sup>SM</sup>, developments can extend their impression of "newness" by choosing a promotional profile that implies "new." For example, placing signs that say "Now Renting" implies to potential tenants that the project is in rent-up.*

- *It may seem convenient to have your rental office and display model in one unit—but is it? Some managers think that by keeping the two functions together, the rental agent can do all of the business of showing the unit and closing all in one place. However, we've noticed that apartment developments often increase their lease-closing percentage by keeping the rental office and model unit separate. When prospective tenants show up at a model/office, they are free to look around and make their decision without ever talking to the rental agent—if the agent happens to be busy with other prospects at the time. Therefore, any less-obvious selling points of the project go unnoticed by these tenants, because the agent never gets to point them out. Tenants who are taken to the model by the agent get the benefit of the agent's undivided attention. Further, their impression of the model unit is that of a living space—not an office. Finally, the prospect's perception of the agent as a professional is increased when they meet with that agent in a business office.*

# Catching The Third Wave

*Being a developer is easy. All you have to do is go to an area that has more people than apartments, and build units those people can afford.*

If it were only that simple. Unfortunately, today's developers—if they intend to be tomorrow's developers—must possess a highly refined sense of timing before venturing into any market. As we've noted previously in this publication, most market areas are in a constant state of change, and the successful developer must be concerned not only with the demands of the market he has chosen, but also with future demands that changes in the market will create. Between the time that a market area is selected and the development has been constructed and opened, the population of an area can have changed dramatically, and area economics can have caused the apartment market to shift its conception of affordability up or down.

But as difficult as it is to achieve the sense of timing and analysis that makes these problems solveable, the real test lies in competing with other developers.

### The Third Wave

When a developer first looks at a market area for possible development, he attempts to determine development potential by examining existing population and product. During this examination process, he pays special attention to the developments that have recently opened and are in rent-up. However, the successful developer realizes that these projects only indicate where the market is headed. They are actually the first of three waves of development that will occur in the market before his project opens. Regardless of how well they're doing now, they could be two to three years old by the time his project goes on line.

This developer knows that at the same time in that market area, new units are probably under

construction. They'll be the competitive developments next year, when they enter rent-up. That's the second wave.

But the successful developer knows something even more important. In addition to the projects in rent-up and projects under construction, developers who have already committed themselves to the market are planning projects that will go into construction next year. Their projects are the third wave, and if he ultimately decides to develop this market, these are the projects that will be most competitive with his.

### Pipeline Product

We refer to the projects that have not yet entered the market as "pipeline product." And in market analysis, knowing what's in the pipeline can make the difference between success and failure. The successful developer realizes that he is locked into a three-year process, the potential of which is sometimes not recognizable until it's too late to back out. One developer we know describes it this way: "It's like walking blindfolded through a cow pasture—by the time you smell what you've stepped in, you've already put your other foot down!"

### Fools Rush In

There are only two ways to overcome the pipeline product dilemma:

- You can try to reduce the three-year wait by avoiding the planning stage altogether. Commit, build quickly, and open as soon as possible. That way, you can increase your chances of competing in the market as it exists today. The only drawback to this approach is that you sometimes find yourself giving away microwave ovens. A lot of microwave ovens.
- The other way is to make your planning time count. The pipeline effect can work to your

benefit if you use it wisely. By correctly identifying and analyzing the product that will be coming on line, you'll know in advance if other developers have left certain market positions wide open. For example, if the market is currently deficit in upscale developments, you may discover that the rent-up projects, the under-construction projects, and the planned projects are rushing to fill the void. Three years from now, that "void" may become a surplus of projects competing for upscale tenants, while ample support for mid-range development goes unaddressed. You may be able to catch the third wave to success by developing that mid-range position, while your competitors are floundering in the upscale market.

### **Failing To Plan Is Planning To Fail**

Of course, it's not always easy (or possible) to identify all of the pipeline product—especially

those projects for which building permits have not been applied. But the best way to watch your step in the cow pasture is by checking for zoning change or variance requests, and by talking to planning commissions; neighborhood commissions; permit-issuing authorities; public financing agencies; and local, state, and federal housing agencies. All of these resources can be excellent indicators of possible development intentions in your market area.

So if your first impulse is to "strike while the iron is hot," just remember that the first-wave market you see is rarely the third-wave market you'll get. Correctly analyzing the pipeline product makes the difference between arriving in a saturated market last, and arriving in a wide-open market first.

And can save you a lot of money on shoes.

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## ***Developer's Dictionary***

### ***100% Data Base***

The major methodology employed in Kenneth Danter & Company apartment market studies is a "100% data base," a system that produces significantly accurate results.

Some analysts, when surveying an area for potential development, pay attention only to "selected comparables"—a sampling of projects that are considered to be directly competitive with the proposed project. Our belief is that the most accurate indication of a project's potential in a market comes from analyzing *all* of the projects that are similar in development type to the proposed project.

For example, a survey of selected comparable apartment complexes can tell you the state of the current market at that rent level. It can't tell you how many complexes exist at lower rent levels (even though they usually have tenants ready to step up to better housing), nor can it give you an indication of the "choke-point" for

these residents—the highest increase in rent they would be willing to pay for better housing. It also can't tell you how many complexes exist in that market area at higher rent levels. Those complexes can attract potential tenants into the area, some of whom, after shopping the higher-priced projects, will decide that less-expensive projects provide better value.

Therefore, we find selected-comparable analysis to have limited effectiveness in market research. Only by understanding where the proposed project belongs in a market's rent/price continuum can accurate analysis be conducted.

For that reason, analysts at Kenneth Danter & Company conduct an on-site survey of the entire market area when performing an apartment market study. All projects are analyzed to establish a rent continuum for that market area, and the proposed project's potential within that continuum.

## Knowing Your Market:

# Rating the Quality of Competitive Developments

During an initial inspection of a market area, you make notes on two possibly competitive projects:

**Project A has a swimming pool and tennis courts. Project B doesn't have either of those, but offers microwave ovens, an advanced security system, and an exercise room.**

Which project is better suited to this market? And which project is more likely to be directly competitive with yours?

Two steps are required to evaluate the comparative quality of apartment projects:

- List all of the possible unit, project, and aesthetic amenities available to developers.
- Assign point values to each amenity, to "weight" them in order of importance.

Obviously, the second step is more difficult to develop than the first, and requires a good deal of market analysis experience. (For example, are spacious closets more important than upgraded carpeting?)

However, once you've developed a system of amenity analysis, you'll be better able to compare projects with differing amenities.

At Kenneth Danter & Company, analysts are trained to evaluate projects based on a uniform system of amenity rating. By basing their evaluation on objective criteria rather than subjective preference, our analysts are able to perform market comparisons at any market area level.

As a guideline for your own market analysis, the figure on this page indicates amenities usually found in projects at various quality rating levels. Our ratings are based on a 0-to-30 grading scale.

If you would like more information on quality ratings and evaluating amenities in your market area, please don't hesitate to call us at (614) 221-9096.

<u>15.0 to 16.5 RATING</u>		<u>17.0 to 20.5 RATING</u>	
<u>UNIT AMENITIES</u>	<u>PROJECT AMENITIES</u>	<u>UNIT AMENITIES</u>	<u>PROJECT AMENITIES</u>
-Range	-Laundry room	-Range	-Laundry room
-Refrigerator	-Internal hall-ways	-Refrigerator	-Community building*
-Air conditioning	-Minimal landscaping	-Dishwasher	-Swimming pool*
-Carpeting	-High density	-Disposal	-Tennis courts*
-500 to 620 square-foot one-bedroom units		-Air conditioning	-Landscaping
-700 to 840 square-foot two-bedroom units		-Wall-to-wall carpeting	-Moderate density
		-Patio/porch	
		-Washer/dryer hookups	
		-620 to 700 square-foot one-bedroom units	
		-840 to 960 square-foot two-bedroom units	

  

<u>21.0 to 25.0 RATING</u>	
<u>UNIT AMENITIES</u>	<u>PROJECT AMENITIES</u>
-Self-cleaning range	-Community building/party room w/kitchen
-Refrigerator w/ icemaker	-Swimming pool
-Dishwasher	-Whirlpool*
-Disposal	-Lighted tennis courts
-Double sink	-Exercise room*
-Air conditioning	-Sauna*
-Upgraded wall-to-wall carpeting	-Parking garage or underground parking*
-Microwave oven*	-Extensive storage
-Additional storage	-Extensive landscaping
-Security system*	-Low to moderate density
-Patio/porch	
-Washer/dryer*	
-Washer/dryer hookups	
-700+ square-foot one-bedroom units	
-960+ square-foot two-bedroom units	

*\*Optional, but usually available*

**Note: Exceptionally large units with high-quality amenities in a low-density development can receive a 21+ rating even without the above project amenities.**

# Landscaping And Density: A Case For "Plant" Parenthood

You've often seen this optical illusion: two parallel lines have been drawn—one with end-arrows pointing inward, the other with end-arrows pointing outward. Although both lines are exactly the same length, one appears to be longer than the other. It is interesting to consider how a few well-placed design elements can change the apparent size of an object.



You should keep this effect in mind when developing product for your market area. Designing product should be a two-step process: selecting the right-sized units and density for your market and rent range, and then selecting the right design elements to enhance the appearance of space.

## Design and Living Space

Our tenant surveys have shown that one of the most marketable project amenities is unit density. That is an obvious criteria for potential apartment tenants, since one of the principal differences between single-family homes and apartments is living space. The fear of not having enough living space is so pervasive that the phrase "tiny, cramped apartments" has become a favorite cliché among writers describing undesirable living conditions. But what is not so obvious is that in spite of this tenant concern, few potential tenants make an effort to determine actual unit density. Instead of keeping units-per-acre statistics on the projects they visit, potential tenants usually rely on their visual perception of unit density when making this evaluation.

Knowing this peculiarity in tenant shopping habits can increase your chances for success in the market. As in the optical illusion described above, you can use design elements to make a project appear more spacious than another, even though both have an equal number of units per acre.

The intent in all of this, of course, is not to deceive potential tenants, but to employ the

traditional concept of packaging your product in a way that best presents its attributes. In fact, the developer who does not make his product as visually pleasing as possible is the one doing the disservice, because his tenants are negatively affected by his use of architecture and space.

## Landscaping: The Overlooked Asset

Although many architectural devices are available to enhance apparent or "perceived" density—such as private entrances (when possible) or variable roof lines—one of the most often-overlooked tools is landscaping.

Effective landscaping adds a strong visual appeal to the development that is immediately perceived by potential tenants. However, to achieve the best effect from landscaping requires more than depositing foliage in all of the bare spots. It is important to pay as much attention to landscaping design as to product design, to ensure that it complements the architecture of your project and that it remains an attractive element regardless of the season. When a landscaping design is consistent throughout the project, it becomes an aesthetic component of the project's architecture, and has a positive influence on absorption, tenant retention, and rent levels.

In the coming months, *Apartment Resources* will continue to offer insights on effective design elements in contemporary multifamily development. Every project we analyze is photographed for inclusion in our market studies and later added to our photographic data base. Many of these slides have been packaged for use in lectures given by Kenneth Danter & Company. We would be happy to arrange a presentation for your company or group on effective design elements in apartment development. Contact us at 40 W. Spruce St., Columbus, Ohio, 43215.

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**

**-Condo Closings**

Market feasibility studies are based on an Effective Market Area (EMA)<sup>SM</sup> 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)<sup>SM</sup>**

The Project Opening Plan (POP)<sup>SM</sup> 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.

● **Publications**

- Apartment Trends**
- Apartment Resources**

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

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## ***Coming Up in Apartment Resources***

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**S**ome of the projects we're working on for future issues of *Apartment Resources* include

- ***Capture Factors: What they really mean to you***
- ***An ongoing feature column analyzing housing starts—based on the most recent building-permit data available***
- ***Long-term strategies in the post- "baby boom" housing market***
- ***In-depth analyses of What's Hot and What's Not major market areas***
- ***And the very latest Market Hotline! information***

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