

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

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Retiring tenants speak out.

Our October Market Hotline! discusses the importance of objective analysis, along with some interesting insights about retired apartment tenants.

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"If the overbuilding that occurred in 1986 repeats itself in 1988, there will be no remaining deficit in this market."

Retiring tenants speak out.

• **Have you been talking to yourself again?**

One thing that makes analyzing a market difficult is the tendency to allow personal observations to cloud one's view. For example, imagine that you develop single-story housing for older adults, and therefore attract a market of older adults who prefer single-story construction. When the market segment you've attracted tells you they prefer single-story construction, it is only natural that you conclude older-adult developments must have single-story construction.

That's the kind of sweeping generalization that can cut you off from potential success. The conclusion above may be true—or it may cut you off from developing a product that will attract a very different market segment. Only an objective analysis of a well-distributed sample can answer most questions about market attitudes and preferences.

- Half of the retirees shopping your units probably come from single-family homes. Respondents to our surveys indicate that retiree apartment shoppers are nearly equally split between apartment veterans who are moving from one unit to another and first-timers who are moving from larger, single-family residences to apartment units.
- Of the retirees who currently live in rental units, nearly one-fourth (23%) occupy townhouses.
- Thirty-eight percent of the retirees looking for an apartment have lived in their current

residence for 10 years or more. It may be, however, that retirees have difficulty adjusting to their new, smaller apartments. Over 40% of the retirees we surveyed said that obtaining a larger unit was "Very important" when moving to a new apartment.

REAL/LINE access summary

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: First Name: NEW Last Name: USER Password: DANTER
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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

REAL/LINE system defaults

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: N Stop Bits: 1 Duplex: Full (Or Echo: Off —depending on the terminal program) 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.
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Baud: **300 or 1200**
Data Bits: **8**

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Families who shop together...

Our POP surveys have revealed that apartment shoppers with children cut across all income and age brackets. Further, in many instances you can expect over one-fourth of the people shopping your complex to have children. Although developers often debate the merits of developing adults-only housing, few realize the actual strength of this market. To complicate matters, pending legislation may make adults-only housing illegal except in certain types of elderly housing.

A flood of children? Much concern has been expressed over the number of children in typical apartment projects. Often, when apartment development is resisted, opponents often cite the fear that children from such projects will "flood the school systems" and create a financial burden on the community. In fact, our surveys of apartment residents indicate an average of only 0.35 children per unit, many of whom are not school-age.

Nevertheless, in developing and managing modern apartment complexes, it is important to realize that a significant number of your potential renters will have children, and that the percentage of apartment shoppers with children tends to remain consistent throughout all age and income brackets.

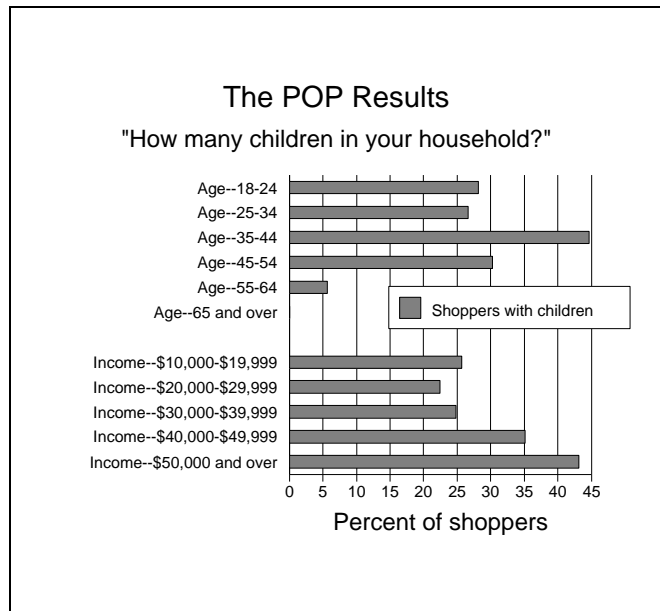
One per customer. Most apartment shoppers who stated they have children have only one child. In total, of over 500 people who have recently shopped modern, market-rate apartments, 20% have one child, and 8% have two. Shoppers with more than two children total less than 1%.

As the chart on this page indicates, the percentage of apartment shoppers with children varies slightly across all income brackets, but is substantially higher with shoppers who earn above \$40,000. Thirty-five percent of shoppers in the \$40,000-\$49,999 range have children; 43% percent of shoppers who earn more than \$50,000 have children.

Apartment shoppers with children are also well-distributed across age ranges. However, over **44%** of shoppers in the 35-44 age range indicated they have children.

As would be expected, a dramatic falloff of shoppers with one child occurs in the 55-64 age range. No shoppers over age 65 indicated they have children in their households.

The significance of these results is that developments that exclude children immediately cut themselves off from one-fourth of the potential apartment market (and run the risk of having to retrofit their projects to comply with coming legislation). Further, our analysis suggests that targeting specific age and income groups helps little in reducing that percentage, since, with the exception of elderly projects, the presence of children tends to remain consistent across major demographic strata.



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*.

Renter Lifestyles: Garden vs. townhouse tenants (Last of a series)

This is the conclusion of a three-part series on Lifestyle Analysis in apartment development that began in the August issue of *Apartment Resources*.

The focus of this series has been the differences in lifestyles and preferences of tenants in garden and townhouse units. In previous issues, we've noted the differences in tenant age, income, and retention for these two unit types (August *Apartment Resources*), and the differences in tenant marital status, occupation, and move-up preferences (September *Apartment Resources*).

What Lifestyle Analysis means to you.

Simply stated, Lifestyle Analysis is a marketing tool that will become increasingly important to apartment development in the coming months. The multifamily development process has undergone a tremendous change in recent years, which is the result of several phenomena: the aging "baby boom" population, the overbuilding of several markets, and the post-1986 Tax Reform Act environment.

In a very short time, these phenomena have taken the apartment market from one in which profitable developments were relatively easy to achieve, to one in which profitable developments can only be achieved if the marketing strategy is precisely laid out.

Applied Lifestyle Analysis. Today's apartment developers are in a situation comparable to that of the Detroit automobile manufacturers in the early 1980s. At that time, the attitudes and preferences of the automobile buying market suddenly changed, and smaller, more efficient automobiles became a leading choice among car buyers. But since the Detroit manufacturers were slow to recognize this change, they soon lost a large portion of their potential market to foreign automobile manufacturers.

Because this same type of situation exists in the multifamily development market, it is easy to see why some developers are making a similar mistake: adopting a band-aid approach to market problems instead of retooling their product. But adding a few frills to an inappropriately designed complex is no longer effective in marketing an apartment project, just as adding a few features to large, inefficient automobiles wasn't effective for Detroit manufacturers.

Applied Lifestyle Analysis means finding out what a specific market wants, analyzing that market's strength, designing housing that suits its needs, and targeting that market with appropriate advertising.

"Today's apartment developers are in a situation comparable to that of the Detroit automobile manufacturers in the early 1980s."

An example of Applied Lifestyle

Analysis. When we began this series, we started with a survey of over 500 residents of modern, market-rate apartments. This survey contained a number of questions concerning tenant demographics, amenity preferences, lifestyles, and attitudes. The results of this survey gives an overall view of the typical apartment tenant.

We then separated our survey responses by unit type—garden vs. townhouse. When one compares the answers for each of the crosstabs, it becomes apparent that the tenant who typically chooses a townhouse unit has a measurably different lifestyle than the tenant who typically chooses a garden unit.

Our reason for comparing the responses of townhouse and garden unit renters is to demonstrate both the effectiveness and importance of Applied Lifestyle Analysis. Developers often think of garden and townhouse unit mix as a basic response to the overall unit mix of a particular market. But when we analyze the lifestyles and preferences of typical garden and townhouse renters, one thing becomes immediately apparent: the mix of townhouses and garden units in an apartment complex will profoundly affect the type of market we can attract and the type of marketing we can use to reach it.

Analyzing the results. As we noted in our previous articles, a number of interesting results were obtained from this survey. The following paragraphs summarize our previous findings. (See the August and September issues of *Apartment Resources* for details.):

Garden units tend to attract more residents in the below-35 and above-44 age ranges. Tenants with

household incomes above \$50,000 are almost universally attracted to townhouse units. On the other hand, tenant retention tends to be slightly better in garden units.

Garden units are more apt to contain unmarried renters. Tenants who are occupationally classified as Professional are more apt to rent garden units, while tenants occupied in the Sales category are more apt to be found in townhouses. Finally, only half of the tenants who live in townhouses intend to move into another apartment during their next move, indicating the impact of the "single-family drain" on this portion of the market.

This month, we've compared the results to a series of questions concerning unit amenities and attributes. For each of the questions in this series the following format is used "How important is to you and your family (Very important, Somewhat important, Not at all important)?"

When we tabulated the results of these questions, we began to notice that certain attributes held greater appeal for tenants in each unit type. We divided some of the questions into the accompanying graphs on this page to demonstrate the results. The first graph shows attributes that appeal more to townhouse renters than garden renters. The second graph shows attributes that have a slight edge in preference for garden renters.

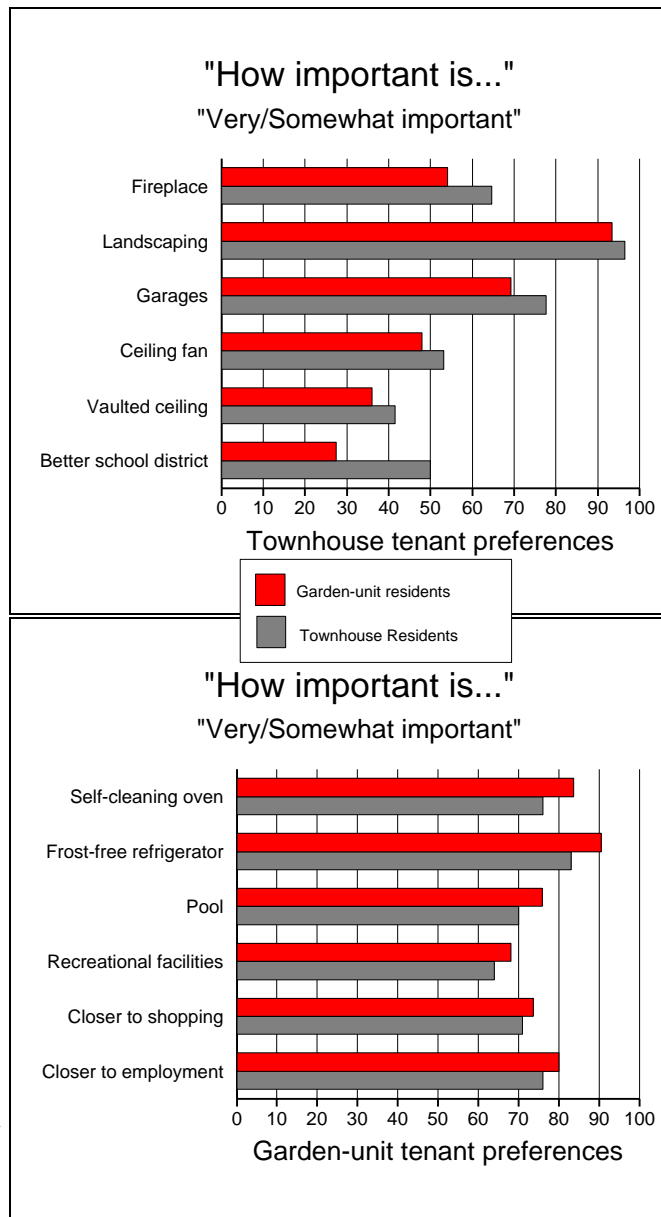
It takes more than two floors. Further analysis of garden/townhouse preferences indicate that it is not certain attributes, but certain *types* of attributes that gain the preference of tenants. In general, attributes that one tends to associate more with single-family homes than apartments (such as garages, fireplaces, ceiling fans, and school districts) are more important to townhouse renters than garden renters. Attributes that one would normally associate with apartments (such as basic appliances, proximity to shopping/employment, and recreational facilities) tend to be slightly more important to garden renters.

This survey indicates that townhouse renters expect their dwellings to be more than garden units with two floors. In typical apartment markets, competitive townhouse projects will cater to the lifestyles of their renters, supplying the "single-family" amenities and attributes that appeal to them most.

What lies ahead. This series has demonstrated how a little-recognized component of apartment development (the lifestyles of garden vs. townhouse renters) can have tremendously affect the

performance of a project in a typical market. The fact that this component has not been recognized before is largely due to the high demand for apartment units in past years. In such markets, renters do not have the kind of selection that allows them to be choosy about the kind of units they occupy.

But in the coming apartment markets, renters will have a wide selection of units and features available to them. To remain successful, developers will have to rely increasingly on the careful analysis of renter lifestyles and the marketing techniques needed to attract their target markets.



Absorption declines sharply in 1st quarter 1988.

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

Completion rates turned downward in first quarter 1988, accompanied by a slight decrease in the three-month absorption rate percentage. The first quarter 1988 national completion rates for apartment units fell from 77,400 in the previous quarter to 70,300. First quarter completion in 1987 was 97,700 units.

Actual absorption declines. Although 58% of the units completed in the first quarter of 1987 were rented in the first three months (compared to 60% of the units in the first quarter of 1988), the actual number of units absorbed declined sharply. A total of 56,700 of the units completed in the first quarter of 1987 were absorbed in the first three months; only 42,200 of the units completed in the first

quarter of 1988 were absorbed in the first three months. Therefore, in spite of the slightly higher absorption percentage rate, the actual absorption declined.

Median asking rents rose to \$535 for new units, with units asking \$550 or more making up 46% of all new construction.

Fifty-four percent of the units constructed were two-bedroom, and 39% were one-bedroom. Three percent were studio units and 4% had more than two-bedrooms.

Although the overall three-month absorption rate was 60% for new units, units in some rent ranges fared better than others. Units renting for less than \$450 achieved a 65% absorption rate. Units renting between \$450 and \$549 achieved only a 55% absorption rate. Units renting for more than \$550 achieved a 60% rate.

Comparison of Construction to Absorption Trends

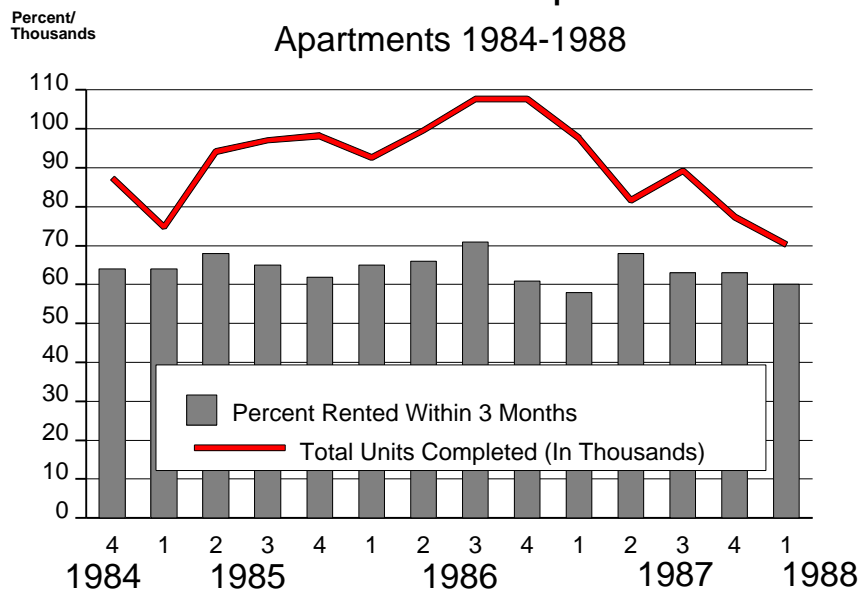
This graph compares levels of apartment construction to absorption trends from the fourth quarter of 1984 through the first quarter of 1988.

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.

The graph indicates that in spite of declining construction, the absorption rate of apartments built in the U.S. has slowed in early 1988.

Construction vs. Absorption Trends Apartments 1984-1988



Ohio's disappearing deficits.

Regular readers of *Apartment Resources* know that in addition to our annual *What's Hot and What's Not* analysis, we track the performance of important markets each month in this column. Our annual ranking of the 150 largest housing markets compares housing construction to household growth in each market. In this column, we track the latest available building permit reports to see how developers are reacting to the deficits or surpluses in these markets.

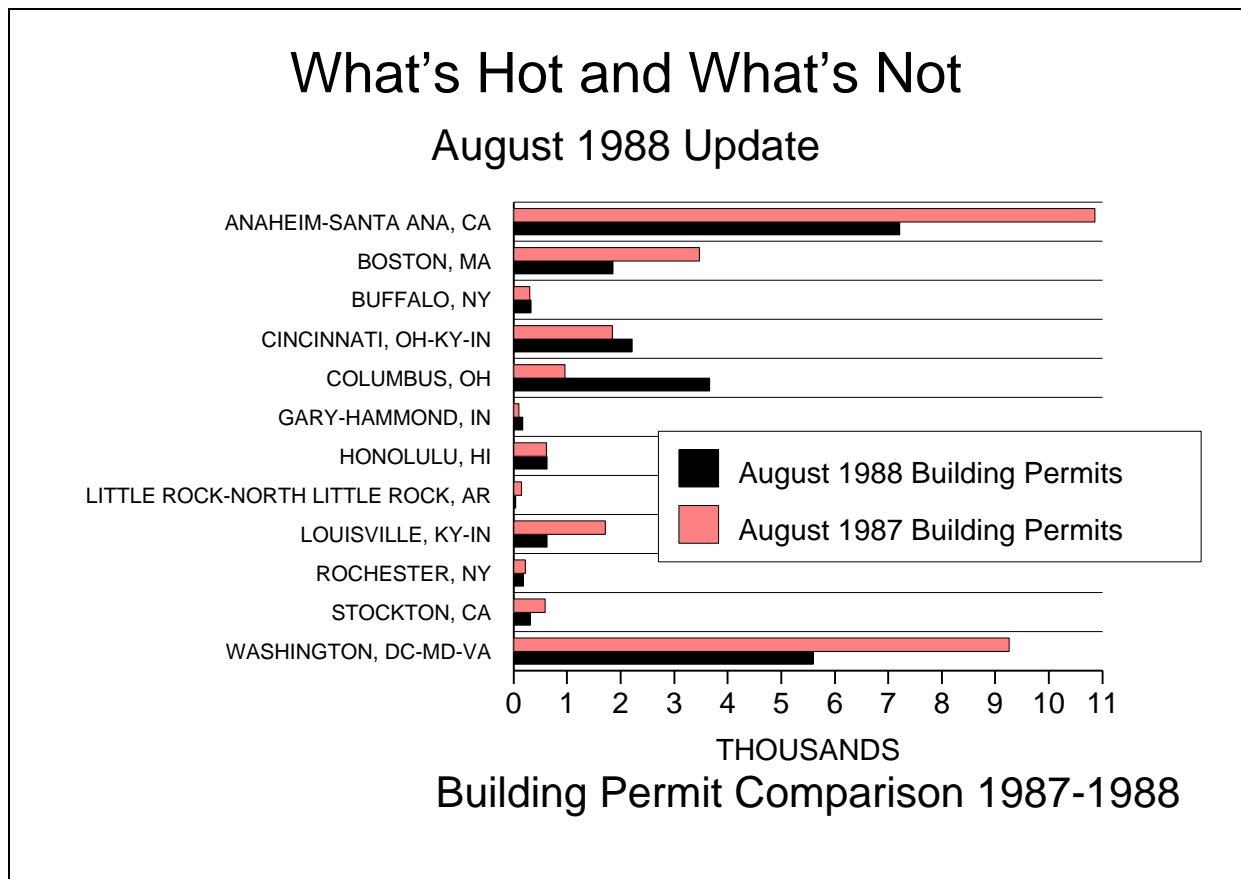
This month, we've compared the top 15 *Contenders* to see which ones may climb into our *What's Hot* list for 1989. Markets that appear on our *Contenders* list have experienced deficit construction, although they do not display the dramatic deficits that have occurred in the *What's Hot* cities.

Of the 15 top *Contenders*, all but two had less construction in August 1988 than at the same time in 1986. As the chart on this page illustrates, both the Columbus, OH and Cincinnati OH-KY-IN MSAs have increased construction over last year, while all of the other MSAs have declined.

Three of the top *Contender* MSAs (El Paso, TX; McAllen- Edinburg-Mission, TX; and Wichita KS) have experienced minimal construction in the past two years, and do not appear on the chart.

Columbus at risk? In our last year's *What's Hot and What's Not* ranking, Columbus was listed as a *What's Hot* city due to the housing deficit accrued in previous years. But overbuilding in this market during 1986 (permits for 3,292 apartment units were issued from January through August 1986) caused Columbus to dip to *Contender* status in this year's ranking. It remained high in the *Contender* list because of the reduced construction in 1987 (permits for only 960 units were issued by August 1987).

If the overbuilding that occurred in 1986 repeats itself in 1988, there will be no remaining deficit in this market. So far, 3,660 apartment units have been permitted in 1988. The last 5 months of this year will determine if Columbus will become a *What's Not* city in 1989.



Looking Forward

- Something exciting is coming to REAL/LINE! We'll soon be placing a Housing Demand Analysis (HDA)SM for each of our *What's Hot and What's Not* cities on-line. You'll then be able to download the most accurate housing analysis available for over 150 major MSAs!
- Look for us at the **National Association of Home Builders (NAHB)** Atlanta Builder's Show from January 20-23.
- 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*.
- Did you subscribe to REAL/LINE prior to June 1988? If you did, you'll be happy to hear that your old REAL/LINE account has been re-entered into the new system, including your

old password. However, on the new REAL/LINE system, you have the capability to change your password at any time. We think you'll be surprised at the new system features, including the on-line Developer's Library, and the ease of operating the new system. But best of all, we still offer the most recent apartment market information available in major markets throughout the US. If you have any questions, please call us at 1-(614)-221-9096 and ask for the REAL/LINE coordinator.

- 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: ". You'll be let onto the system with access to everything except the market reports. Be our guest on the system for as long as you like. If you get a busy signal when attempting to connect, please keep trying.

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