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The trend toward targeted communities has changed the way clubhouses are designed and used.

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A scientific look at what makes a property comparable and when to use comparable properties in market feasibility study.

Not Just a Party Room Anymore

Back in the 1970s, the clubhouse consisted of the office and the party room, with maybe an exercise room. In the 80s, the trend was towards, bigger, flashier clubhouses with more options. In the 90s, the clubhouse is again undergoing an evolution. As multifamily developers become more skilled in designing communities for specific target markets, they are discovering new ways to adapt the clubhouse to the needs of the target market. The result: a new breed of clubhouses used for more than Friday night parties.

Some Target Market Concepts

The biggest trend we see in the 90s is target marketing. Successful target marketers understand the role of available common clubhouse space in appealing to a target market and building a community's image. For example, we are seeing more and more communities foregoing common area in favor of personal space. Such communities feature a small leasing management office, but offer expanded units with more living space and more unit amenities. Such units usually appeal to older renters who want more of the comforts of single-family development without the hassles of maintenance and aren't very interested in the traditional apartment amenities.

Clubhouses for a target market should be designed with programming opportunities in mind and appropriate space for program options built in. One such example is the family target market, with clubhouses designed for providing day care or latchkey services.

Clubhouses are also designed with play areas or game rooms for children, some of which have supervised activities scheduled outside of the traditional latchkey hours. Programs make available computers to aid children and families with school assignments or for use as recreation. Many of these communities are being developed using the Tax Credit program. A family Tax Credit community with these amenities provides quality housing for low to moderate income families, particularly single-parent families.

Elderly communities have long been creative users of community space, particularly traditional retirement or

congregate care facilities. However, the most significant growth in the elderly market is for independent-living with no congregate care or assisted-living services. Such developments do not require residents to take meal plans, maid service, linen service, or other congregate care services, but instead offer programmed activities. In order to offer these programs, these developments require a certain level of community space, and often offer other community areas traditionally associated with retirement housing, such as lounges or arts and crafts rooms. These communities can also offer the space for use by community groups such as the area senior center or agency. Such programming opportunities, including crafts classes, card clubs, travel seminars, etc., are retention amenities that encourage tenants to stay in the community longer, as well as attraction amenities that will entice potential tenants to the community.

Another trend we have been a part of is designing the clubhouse as a satellite office service provider. In a recent research project we identified that almost one-fifth of the two- and three-bedroom tenants used the extra bedroom as an in-home office. We subsequently recommended a community in which a percentage of the second and third bedrooms were designed for extra phone lines for faxes and modems, filing cabinets, and deeper closets for storage in order to appeal to the work-at home market. The clubhouse then functions as a satellite office, providing package drop-off, a conference room for resident meetings, a library of business periodicals, a stock market ticker, and a fax machine and copier for resident use. Other services a satellite office clubhouse might offer include secretarial service, computer equipment, and seminars on taxes, business travel, or other topics of business interest.

Another trend is that more clubhouses are offering more programming opportunities. Such opportunities might include card clubs or other activity groups, as well as classes or seminars on a variety of topics of tenant interest, including travel, retirement, investment, gardening, and home buying. Interestingly, seminars on home buying can result in lower tenant turnover, as residents resist the temptation to continuously "step up" their rental choices.

Programming Renovation

Existing communities built in the 1970s are aging rapidly. In many competitive markets, these units simply cannot compete with the newer, larger, better-designed units, so these projects must find new ways to attract and retain tenants. Having low prices is one way to compete. Complete unit renovation is a second, very costly way. One of the best ways to compete on a cost/value relationship is by doing a "programming renovation" by examining your project's community amenities and programming options to identify ways your community can offer programs and amenities that renters want and will pay for.

The first step of a programming renovation is to inventory your clubhouse's assets and measure its use. This could be done through a resident survey, by keeping attendance counts, or tracking facility usage by time of day and resident use.

Once area usage is determined and categorized, the second step is identifying potential space uses that will be something residents want, will maximize use of existing facilities, will provide a good cost-to-value relationship, and will enhance residents' perception of the quality of life at your development.

We have used *want* instead of *need*. Your management is already providing for your residents' needs if they are providing quality, timely maintenance, taking care of the grounds, and providing for residents' safety. The New Clubhouse is a place to provide residents with what they want. How do you know what they want? Ask them. Surveying residents can provide not only their perceptions about the clubhouse and its use, but also their perceptions of the quality of life at your development. Residents may also suggest creative clubhouse uses.

Unless you have the money for renovation or additional clubhouse space, it will be important to make the most of what you have. If your clubhouse gets extensive evening use, but little daytime use, creating daytime usage will be important. Find out

A programming renovation may help an older project compete.

which tenants or categories of tenants are around during the day, and design activities around their wants. Offering your space to a local crafts or martial arts teacher for special classes for residents, or offering after-school activities for children of residents are two ways to stimulate daytime usage.

Not only is maximizing time usage of your clubhouse critical, so is maximizing space usage. If your exercise room gets little usage, it is important to identify why. Is it the atmosphere? Is the equipment outdated? What equipment do your residents want? Would hiring a part-time exercise specialist to work with your residents make them use the exercise room more? Would it be better to sell the exercise equipment, work out a relationship with a local health club for discount resident memberships, and then find an alternate use for the room, perhaps turning it into a conference room for your business residents or a computer room?

Whatever you do, it should provide a good cost-to-value relationship not only for you, but for your residents. Offering your clubhouse to outside vendors who can provide services is one way of providing services at little cost to management, as the tenants will be paying for the service. For example, some of your residents have indicated interest in a daytime aerobics or martial arts class. Do you have to pay for it? Not unless you want to. You just have to offer your space to a local teacher and do a little publicity. If you can negotiate reduced fees for your residents, that's even better. Residents who have already taken such classes are also used to paying for them. Having the class available at your clubhouse adds convenience (and value), and will improve the perception of the quality of life at your community. Travel, gardening, computer training, and investment management are all programs that can enhance clubhouse use.

Final Thoughts

Targeted communities are changing how project amenities and resident services are provided. As more and more targeted communities come on-line, existing properties may need to rethink the way they use their clubhouse and provide services in order to compete with these new developments. Creating an action plan now to make the most out of your existing facilities can help your development be more competitive in years to come.

Defining Comparable Properties

Although the Danter Company has steadfastly maintained the inadequacy of the selected comparables methodology to determine market feasibility and market support, within the concept of a 100% Data Base, an analysis of selected comparables can reveal insights within the feasibility process.

We find that a point-by-point comparison of subject site features with those at directly comparable projects can be very useful to determine how a project's design fits into the existing market and to determine a project's competitive strengths and weaknesses relative to consumer apartment preferences. Features analyzed include room and bedroom size, closet space, appliances, perceptions of spaciousness and unit and project amenities. A "competitive analysis" determines how well a project will fit into a crowded market at a crowded price point or comparability rating level. However, it is critical to correctly identify comparable projects. Therefore, using our 100% Data Base and EMA methodology, we have developed a scientific process to determine comparability.

Step One: The Effective Market Area

The first step toward a scientific determination of comparability is determining which projects will be comparable. The first limit we place on determining a comparable project is that it must be within the **Effective Market Area (EMA)**SM. The EMA is the smallest geographic area expected to generate 60% to 70% of a project's support.

When we determine an EMA for a project, we look at several factors, including geography, demographic analysis, mobility patterns, and area perceptions:

Geographical factors—rivers, railroads, freeways, hills, and major arteries often define neighborhood boundaries. Such geographical factors can play a big part in where people live and are ignored in radial analyses.

Demographic factors—population and household trends, housing and income characteristics, differences in socioeconomic makeup of individual neighborhoods, and growth figures are all analyzed to help identify the EMA. Such analysis insures that a market area is not

skewed by including neighborhoods of vastly different socioeconomic makeup.

Mobility factors—interviews with area real estate professionals and civic officials are combined with our past experience in determining mobility patterns. Mobility patterns within an area are generally predictable, and while individuals occasionally act counter to prevailing trends, mobility analysis can help pinpoint where a majority of tenants for a particular project are likely to come from.

Area perceptions—we interview area officials and real estate professionals to determine area perceptions. Area perceptions are important in determining mobility patterns, as well as the appropriateness of the development for its site.

Over the course of our market feasibility analysis, we will do a field survey of all projects in the EMA. We call this the 100% Data Base. Because we survey all projects in a market area, we are able to use the results to determine the level of market support using analysis tools such as step-up/step-down support, and a Rent/Value Analysis. [See "What is Market Rent?" (February 1993) or "Market Feasibility and Appraisals" (March 1993) for an in-depth description of these methodologies.] The 100% Data Base also gives us a larger base from which to scientifically determine comparable projects for potential analysis. It is not until we have determined the market support using our feasibility methodology that we proceed to the next step for determining comparability.

Step Two: Three Criteria for Comparability

We have long maintained that in order for a project to be successful, it must compete on three levels: conceptually, economically, and geographically. Or, to put it another way, a prospective tenant will choose

A project can be competitive at three levels: economically, conceptually, and geographically.

your project if it is the right project at the right price in the right location. We use these three criteria to begin to sort the projects in the EMA into comparable and noncomparable projects.

In order to determine which projects are conceptually comparable, we use our Comparability Index ratings. In the course of our field survey, each project has been rated in three areas: unit amenities, project amenities, and curbside appeal (aesthetic amenities). These three ratings are totaled to determine each project's Comparability Index. Those projects in the EMA with similar Comparability Indexes are considered to be have a similar amenity level and are therefore comparable to the proposed project. Those projects within a 2.0 to 3.0 Comparability Index points above or below the rating of the subject property are typically considered amenity competitive; however, this range will vary from market to market.

We use net rents (street rent adjusted to include landlord-paid water/sewer and trash pickup) to

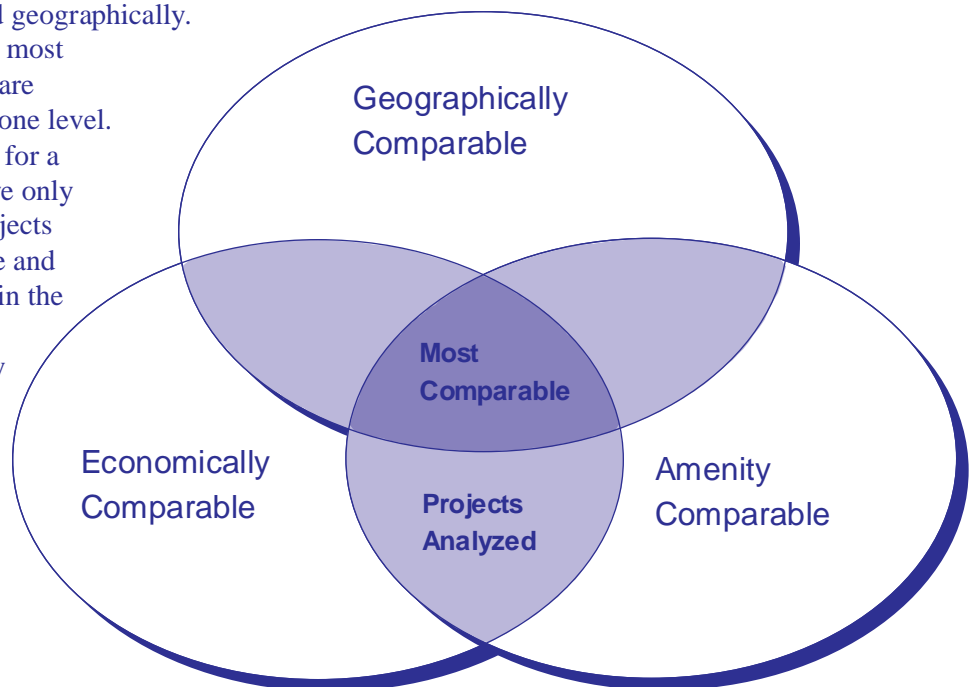
determine those projects which are economically competitive. Depending on the amenity level of the property, economically competitive projects are those renting plus or minus \$50 to \$100 of the proposed rents. As the Comparability Index increases, so will the range used to determine comparable projects. For example, for a Tax Credit project, economically competitive properties will typically be those within \$50 above or below the proposed rents, while economically comparable properties for a luxury project will be those within \$100 (or even higher depending on the market) above or below the proposed rents. This range will also vary between markets.

Geographically comparable properties are simply those within a set distance of the subject property. By being in the EMA, all projects are geographically competitive to some degree; however, some properties are more competitive by their proximity to the subject site.

The key to selecting comparable properties is understanding that not all properties will compete at all

Figure 1: Types of Comparability

This Venn diagram identifies graphically the three ways a project can be competitive: amenity, economically and geographically. Those projects that are the most competitive are those that are competitive on more than one level. When we analyze projects for a market feasibility study, we only analyze in-depth those projects that have comparable price and amenity levels. By being in the EMA, each project is comparable geographically to some degree. Those projects that are most competitive will be competitive at all three levels.



levels. A property that is conceptually competitive may not be economically competitive with the subject site, and vice versa. A property located near the subject site may not be competitive economically or conceptually. Therefore, to determine the properties that are the most competitive with the subject site, it is important to identify those that meet the most criteria. (See Figure 1 on Page 5.) Those properties that are the most competitive are competitive at all three levels. However, our ensuing competitive analysis focuses on those properties that are both economically and

conceptually competitive, as they will also be geographically competitive to some degree by being in the EMA.

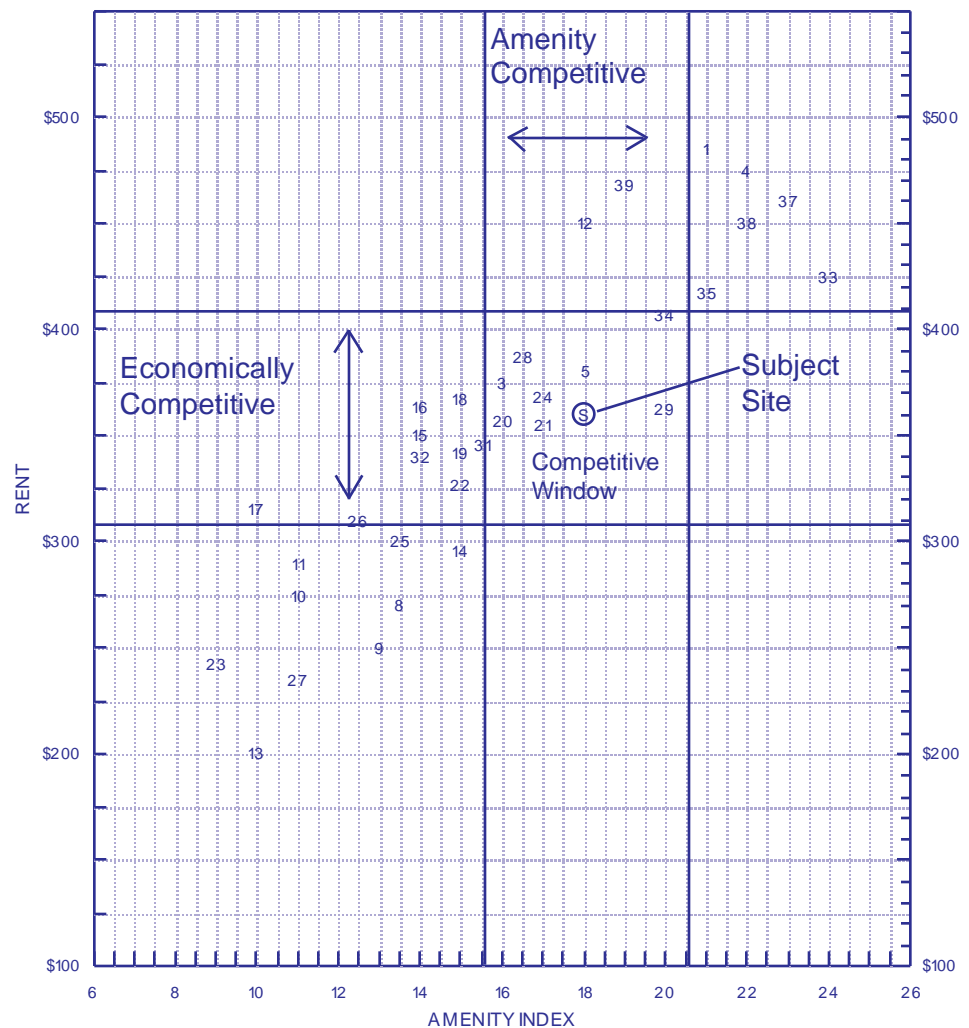
Another way of looking at the competitive projects is using what we call the "competitive window." Using our regression analysis, which graphically plots a project's net rent by its Comparability Index, it is easy to identify quickly those projects that fit the criteria of being economically and amenity competitive (see Figure 2 below).

Figure 2: The Competitive Window and Regression Analysis

Distribution of One-Bedroom Projects by Net Rent and Comparability Index

The regression analysis can also be used to identify competitive projects. Each property is plotted by net rent and Comparability Index. In this case, we have plotted a subject site (S) with net rent of \$360 and a Comparability Index of 18.0. Those properties with rents within \$50 above or below the subject site have been marked as "Economically Competitive". Those with a Comparability Index of 2.5 points above or below the subject site are labeled as "Amenity Competitive." Projects that fit both of these categories fall within the "competitive window" as marked by the square in the middle formed by the intersection of these two groups.

Properties within the competitive window will be the most competitive with the subject site. In this case, those properties are numbers 3, 5, 20, 21, 28, 29, 31, and 34.



Step Three: Competitive Analysis

Once the most comparable properties have been identified, we are ready to conduct the competitive analysis. In this analysis, we are concerned mostly with identifying those components that will give a property a competitive advantage or a competitive disadvantage, not with setting market rent. Market rent has already been set using other analytical techniques. Therefore, we are interested in looking at the project as it will be seen by prospective tenants. Our surveys of apartment tenants and apartment shoppers have indicated that they tend to evaluate apartments on the following criteria: unit and project amenities, perception of space, closet/storage space, and bedroom size. Therefore, we evaluate all competitive properties using these criteria.

Unit and project amenities—All unit and project amenities at competitive facilities are listed side-by-side in a chart. We then analyze how well the amenities at the subject site compete with those at competitive facilities. If all the other competitive facilities have a key amenity and the subject site does not, this is identified, and the likely competitive impact is discussed. Likewise, amenities unique to the subject site are identified and their competitive impact is also analyzed.

Perception of space—All floor plans at competitive properties are evaluated based on actual space and space perception. Actual space consists of the total

square footage. Perceived space is how roomy a unit seems to a prospective tenant and is a reflection of how well the unit is designed. The key component is “entry impact.” Entry impact is the perception of spaciousness on immediate entrance to a proposed unit. Units which open into a foyer or hallway have poor entry impact, while those that open into a larger area, such as a living room, tend to have a better entry impact.

Closet/Storage Space—Closet/storage space within each floor plan at competitive properties is evaluated. The lineal feet of closet space is identified for each unit. In addition, we identify the type of closet in each bedroom (wall, walk-in, or pass-through). Our surveys have identified a minimum level of closet space for a well-designed modern unit (see Table 1). In addition, our surveys have identified that tenants are impressed with walk-in closets in the master bedroom units because they seem to be more spacious. The truth is that much of the area in a walk-in closet where the user “walks in” is unusable for storage, but nevertheless, tenants want them, and units without a walk-in closet are generally less competitive.

Bedroom Size—Units designed in the Seventies and Eighties often lacked sufficient bedroom space. Our research indicates that a master bedroom should be at least 160 square feet. This allows for enough room for a bed, nightstand, dresser, and perhaps a makeup table or chairs, and allows free movement. Bedrooms that are substantially larger contain a lot of wasted space, while those that are smaller generally do not contain enough space. While most master bedrooms are in the 150 to 160 square foot range, second bedrooms often are very small. Prospective tenants often judge overall unit size by the size of the second bedroom. We recommend at least 140 square feet.

Conclusions

Analyzing a project’s comparability has an important place in market feasibility study. However, it is important to realize that that place is not determining support and market-driven rent, but in determining how a project’s amenities and floor plans will be perceived in the market.

Table 1: Closet Size

Minimum Recommended Closet Size (in Lineal Feet)	
Unit Type	Minimum Closet Size
One-bedroom	12 to 14 feet
Two-bedroom	21 to 24 feet
Three-bedroom	26 feet

News and Notes

- In case you missed the article by Kenneth Danter, President of The Danter Company, in the July issue of *Mortgage Banking*, give us a call and we will be happy to send you a copy. Issues addressed include strategies for successful apartment development in the Nineties.
- The Danter Company is pleased to announce *The Danter Apartment Rent and Vacancy Series*. Call us at 1-800-532-6837 to find out for which cities the report is available.
- Don't forget that The Danter Company is more than the best source of information on apartments. We are a full-service real estate firm that also studies condominium, single-family, golf course, motel/hotel, retail, office, industrial, congregate care/assisted-living, nursing home, resort, marina, and mobile/manufactured home development. Call us to find out how we can meet all of your real estate research needs.

- We would like to welcome members of the National Housing and Rehabilitation Association. As an official analyst for the organization, The Danter Company provides this newsletter without charge to all association members.
- Kenneth Danter, President of the Danter Company and nationally-recognized expert on real estate development and trends, is available for speaking engagements. He has addressed numerous regional and national associations and conferences and local apartment associations throughout the country on issues of importance to multifamily professionals.
- In case you missed it, "Apartment Lending After the Boom" is now available in reprint. Written by Kenneth Danter especially for *Mortgage Banking*, this article details survival strategies for the nineties that no multifamily professional should be without. Call, write, or fax us today to get your copy.
- The Danter Company has moved. Our new address is 30 Spruce Street, Columbus, OH 43215. Our phone and fax numbers remain the same: (614) 221-9096 (phone) and (614) 221-4271 (fax).

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