

# Apartment ReSources

A Real Estate Research Periodical

Volume 1, Number 5 December 1987

## December Market Hotline!

### *There's More to Life than Friendly Skies*

- The next time you find yourself flying out of town to examine sites in greener pastures, there are two quick stops you should make along the way: the airport areas at both your takeoff and destination points. Our analysts often note the opportunities that exist for development near airports to service the airport personnel. Remember that typical airports

have a number of airlines, each employing personnel who are often underserved by nearby housing alternatives. Such personnel usually need quick access to their place of work, and because of their unusual hours, split shifts, and city-to-city transfers, they find rental housing ideally suited to their needs. In addition to the airlines themselves, the peripheral services at airports also employ people who need

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

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housing near their work. Air freight services, rental car services, maintenance, security, food services, and overnight courier services located within the airport, as well as hotel/restaurant services located at the airport boundaries all employ potential tenants for nearby quality housing.

- Are you being responsive to changes in your market? It has become an accepted norm in many markets to build primarily one- and two-bedroom-unit complexes. However, during the time that three-bedroom units became the exception, rather than the rule, most of those markets were in short supply of housing. In those markets, it was possible to ignore the three-bedroom market because an ample supply of one- and two-bedroom tenants was available. That situation is changing, and responsive developers must be prepared to change as well. Our surveys indicate that 10% of potential tenants shopping for a new apartment have at least two children, yet less than 5% of the units in new developments are three-bedroom. As the supply of quality three-bedroom units diminishes, these potential tenants will be forced into alternatives other than apartments.
- Being responsive to the *existence* of this market also means being responsive to the *needs* of this market. If you intend to offer three-bedroom units, therefore encouraging tenants with children, is your complex located near good day-care facilities? Would potential tenants choose your school district? In the latter case, are you aware of an exceptional school district

to which tenants would move solely for the educational benefits? All of these will be factors for tenants looking for three-bedroom units.

- Finally, some developers and managers prefer not to offer three-bedroom units because they wish to avoid the problems that accompany tenants with children. One thing is certain, however—the problems one encounters in operating a complex that encourages tenants with children are much easier to overcome than the problems one encounters in operating a complex with high vacancies.
- What is an amenity? (revisited)—Is a lake an amenity? Yes and no. If the "lake" is a hole in the ground filled with water, then it will be little more to your tenants than alternative housing for mosquitos. But if the area surrounding the lake is carefully landscaped and offers gazebos for tenant use, and the complex has been designed with waterfront units, then the lake will become a feature amenity of the project and the waterfront units can attract premium pricing. In short, lakes don't work as an afterthought, but command much attention when their potential has been maximized.
- The "comeback kids"—Our What's Hot and What's Not survey indicated two market areas making great strides toward recovering from surpluses. Both Denver and Kansas City ranked nearly 60 places higher in the 1987 survey than in the 1986 survey. Both climbed out of the What's Not list for 1986 into the Contenders list for 1987, and are now placed in the middle of our ranking of the top 150 MSAs.

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## The POP Results:

# A Profile of Today's Move-in

If you want to know what kind of renter you'll be seeing over the next 12 months, you may find this month's POP results valuable. We've compiled a demographic profile of renters who say they will *definitely* rent an apartment in the next 12 months.

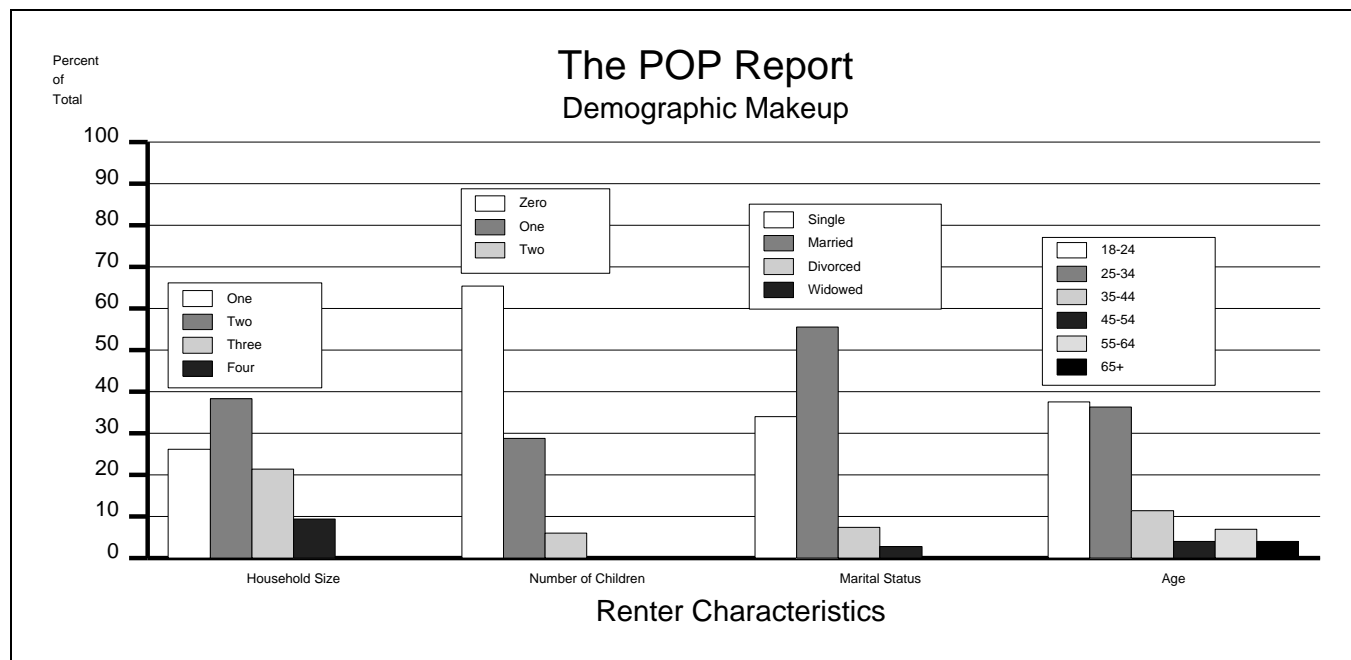
**Households**—38.3% of our respondents have 2 full-time residents. Twenty-six percent have one person, 21.4% have three people, and 9.3% had four.

**Children**—65.3% of those who will rent in the next year have no children, 28.7% have one, and 6.0% have two. Interestingly, of all

apartment *shoppers* (who may or may not rent in the next year), 10.0% have two children—4 percentage points higher than shoppers with two children who have definitely intended to rent. This may indicate (as noted in **Market Hotline!**) a potential three-bedroom market being forced into housing alternatives other than apartments.

**Marital Status**—55.6% of the potential renters are single, 33.9% are married, 7.3% are divorced, and 2.8% are widowed.

**Age**—37.5% of the renters are 18 to 24, and 36.3% are 25 to 34. Fifteen percent are 45 or older.



## 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*.

## On the Gentle Art of "Nichemanship"

People *need* housing, and many people who already have housing *want* better housing. As long as that remains true, the problems developers face today are by no means insurmountable. They merely require different approaches and a flexible attitude.

The most important approach developers must adopt is the understanding that their projects can't be all things to everybody. In fact, the greatest housing market successes come from *not* marketing a product to the wrong people.

### Positioning for Success

We call this attitude *nichemanship*. By that we mean the ability to find the market niche that is not being addressed in a housing market and building and marketing to that niche.

Advertisers have long referred to this concept as *positioning*, which to them means causing their product to occupy a position in the consumer's mind as the single answer to a specific need or want.

Today's marketing executives know that the public will no longer accept a new product advertised as "just like our competitor's, only better." The amount of advertising that the average American is subjected to each day is so large that only the truly unique messages get through. Since you're marketing your housing product in that same advertising arena, you should learn how advertisers get their message across. (See inset—"The Three Classic Positioning Strategies.")

### Nichemanship—Refined Positioning Strategies

Successful strategies remain successful whether we are selling aspirin, computers, or apartment units. However, housing units are different from consumer goods, and selling them (or, of course, renting them) requires a refinement of the basic advertising positioning strategies. Most of all, you need to recognize the difference between positioning consumer goods and practicing nichemanship in apartment development.

The major difference between positioning and nichemanship is this: *Your competitors have a limited commodity*. If more people want IBM computers than IBM has in stock, IBM can

### The Three Classic Positioning Strategies

*Marketing executives have three ways of establishing a new market position for their product:*

- *Be there first.* This is obviously the best way to market a product. The most well-known example of being there first is the typewriter and office machine company that first recognized the potential in office computers—IBM. Every computer company that has come into the marketplace since IBM has had to deal with IBM's dominance in some way or other, because they got there first.
- *Create a new position.* The Apple computer company, recognizing IBM's dominance of the business computer market, put computers into as many schools as they could to capture the home computer market. When parents bought computers for their children, they bought the computers their children were already familiar with—Apple. When IBM later tried to enter the home computer market with the PCjr, they refused to recognize that Apple had gotten there first. The PCjr failed.
- *Take a market position by un-positioning the current leader.* Tests have shown that a relatively small percentage of headache sufferers actually need an aspirin alternative. But in promoting their product, the makers of Tylenol positioned themselves as a safe alternative to aspirin, even though most people who now take Tylenol would have equally safe results with aspirin. As a result of

make more. On the other hand, once a project has completed its initial rent-up, its impact on the market is limited to replacement absorption. Although it may remain competitive with your project, it can no longer be as responsive to market demand as manufacturers of consumer goods.

### The Techniques That Will Work For You

Therefore, some of the positioning strategies for consumer goods don't apply to the housing industry. Nevertheless, there are two important rules in the positioning technique that will help you practice good nichemanship.

#### **Rule 1: Identify your market.**

This can't be stressed strongly enough. Today's major beer manufacturers identify a number of different market segments. To the upscale market, they target a premium beer; to the purist market, a beer with a German-sounding name;

to the health-conscious market, a light beer; and to the college market, a "party" beer to them. At the same time, each manufacturer constantly strives to find new positions for its traditional brand name.

If you're developing apartment housing, you must first discover the demographics of your market area. The more details you have, the better. Today, it's not enough to say you are developing an "upscale" complex. Are your potential tenants upscale single parents? Retired adults? DINKs (Double-Income, No Kids)? Single professionals? Each of those upscale types requires different amenities and features from an apartment complex. Since your upscale development will probably draw a mixture of these types, you'd better know which ones are predominant in your market area and tailor your development to them.

More important, don't go into a market area with a product and attempt to find support. Go into a market area with a demographic and competitive analysis and attempt to develop a product that the market needs. Not only will you be able to increase your chances for success in markets with high housing demand, but you may also uncover hidden opportunities in "saturated" markets. Such markets may be saturated only in developments targeted to one demographic type, even though high demand remains in other demographic strata.

### **Rule 2: Target Your Marketing**

When you begin your marketing campaign, remember that you are competing in the same arena as advertisers for every other product. If you are going to play their game, you'd be better off playing by their rules. And the first rule of positioning is to target your product to a specific group of people. Just as it is a mistake to say you are going to develop an "upscale" project without identifying the major upscale types in your area, it is a mistake to produce advertising for that project *without producing separate advertising campaigns aimed at each major type*.

In general, your potential tenants don't want to live in a complex that's "all things to all people." They want to live in a complex that's made just for them. Therefore, if you scrimp on your marketing program to reach the broadest group of people, you usually succeed only in alienating individual types, or developing an

advertising program so bland that it is ineffectual. (*See inset—"Marketing for Impact."*)

Yes, the process is a lot more complex than hanging a "Now Renting" sign on your apartment manager's door. But the hard truth is—the apartment housing boom is over. The future success stories in apartment development will be written by those developers adept at "shooting the gaps" left by their competitors' poor market research. If you are flexible enough to adapt to the market demands on today's developers, then we congratulate you—you have truly found your niche.

### **Marketing for Impact**

*The successful marketing program of an upscale project might use a procedure like this:*

1. Your research discovers a significant upscale market, equally divided into single, young professionals, and retired adults.
2. Your first group, the young professionals, indicate that they are interested in quick access to downtown, an adults-only environment, and a well-maintained social atmosphere among the tenants.
  - **You discover the media paths to this group—local publications, radio stations, and cable television broadcasts (where advertising is often comparatively inexpensive).**
  - **You develop an advertising campaign that focuses on the friendly and exciting social lifestyle available at your complex, located only minutes from downtown. The campaign is delivered primarily from the above media.**
3. Your second group, the retired adults, are interested in living in an apartment complex—not a retirement center, are security conscious, and want to leave behind many of the chores that go with home-ownership.
  - **Once again, you discover the media paths to this target group.**
  - **You develop an advertising campaign that focuses on the peaceful and effortless lifestyle available at your complex, but avoid any indication that you are targeting the campaign to older adults. Once again, this campaign is delivered from the media that tends to reach this target group.**
4. With both groups, you continually explore alternative ways of getting the right message across to the right targets: strategically

# National Absorption Rate Declines

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

- Overall absorption rates appear to be in decline. The three-month absorption rate of 61% in the fourth quarter of 1986 was the lowest fourth-quarter absorption rate since 1982. The first quarter 1987 absorption rate of 58% was the lowest in the past five years. Although apartments completed in the first quarter tend to have a lower three-month absorption rate than those built in later quarters, this overall falloff indicates that the pent-up demand for units in a number of markets may be nearly exhausted. (See chart below.)
- Median rents rose from \$478 in fourth quarter 1986 to \$514 in first quarter 1987. Higher-

priced apartments (\$550 or more) accounted for 42% of all new construction.

- Forty-nine percent of the units built were one-bedroom and 49% were two bedroom. Three percent of the units built were three-bedroom or more. (Total figures exceed 100% due to rounding.)
- Forty-two percent of the units completed during the first quarter of 1987 were renting for \$550 or more. Of those units, 56% were rented within 3 months of completion. Only 11% of the units completed were renting for \$500 to \$549, and 15% of the units completed were renting for \$450 to \$499. Sixty percent of the units in each of those two categories were rented within 3 months of completion.

### Comparison of Construction to Absorption Trends

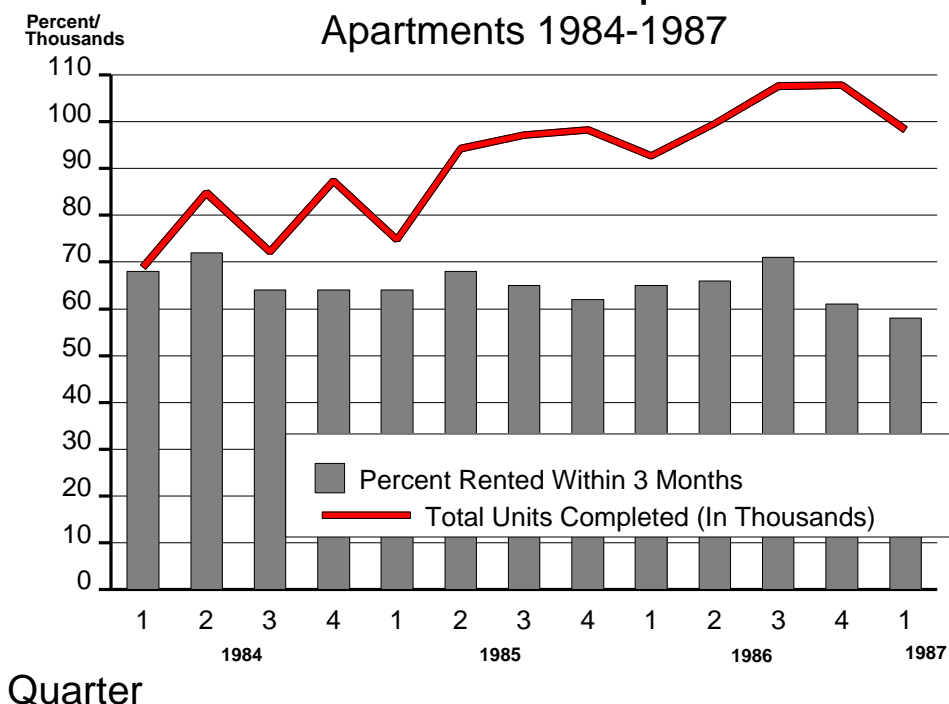
This graph compares levels of apartment construction to absorption trends from the first quarter of 1985 through the first quarter of 1987.

The bar graph indicates the percentage increase of construction each quarter over the 1984 average number of units per quarter (78,325 units). With the exception of first quarter 1985,

construction levels in each quarter have been substantially over those of 1984. In the third and fourth quarters of 1986, construction was up over 37%.

Not surprisingly, during the construction peak, absorption began to fall off from a high of 71% absorbed in third quarter 1986 to 58% in first quarter 1987, the lowest first quarter absorption rate since 1984.

## Construction vs. Absorption Trends Apartments 1984-1987



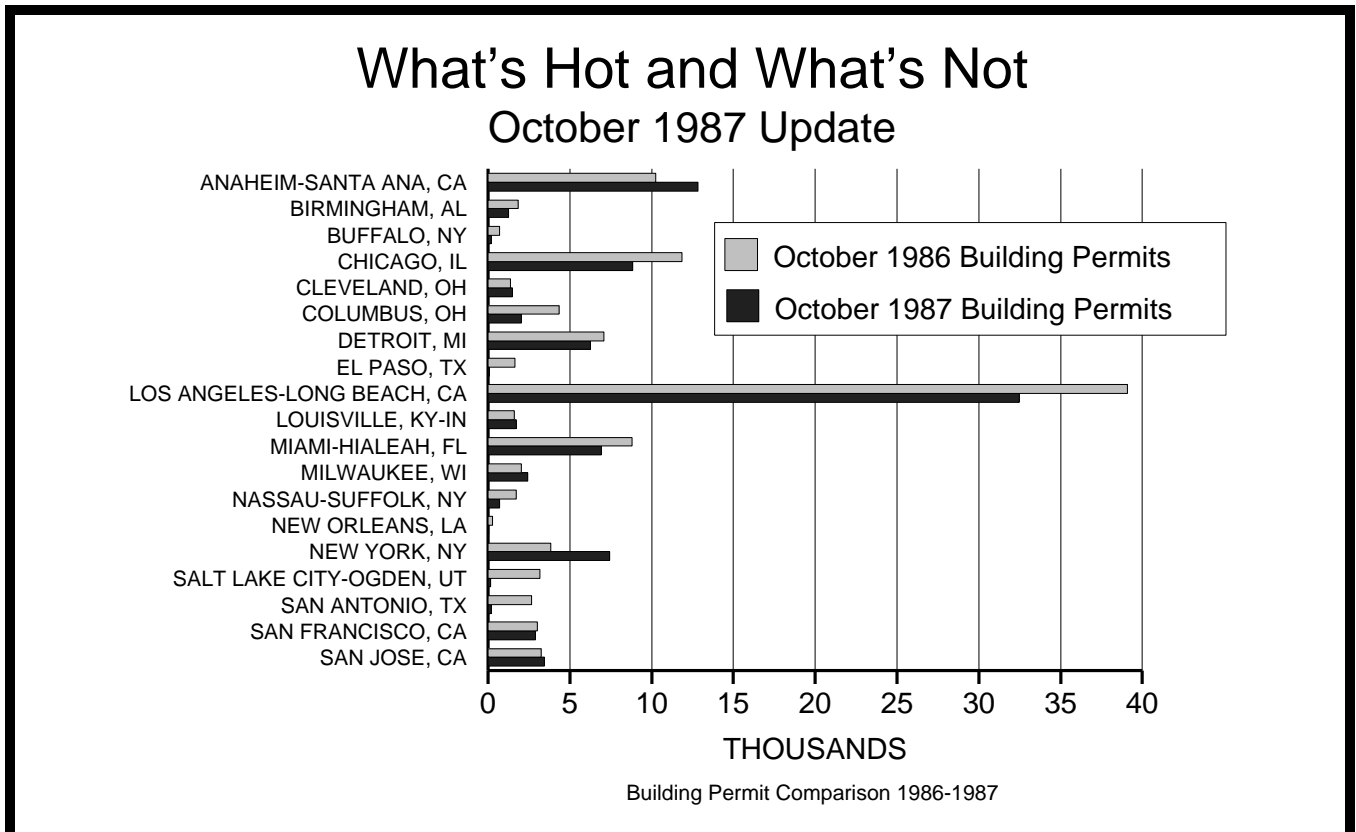
## "Hot" Cities Play It Safe

We compared the year-to-date (through October) building permits in our 19 *What's Hot* cities to the number of building permits issued at the same time in 1986. Thirteen of the 19 top cities have issued fewer building permits so far this year, in spite of the deficit construction that placed them at the top of our *What's Hot and What's Not* list. These cities may be expected to remain on our *What's Hot and What's Not* list for 1988.

Cities that have increased construction over last year include the following:

<b>Anaheim-Santa Ana, CA</b>	<b>Milwaukee, WI</b>
<b>Cleveland, OH</b>	<b>New York, NY</b>
<b>Louisville, KY-IN</b>	<b>San Jose, CA</b>

Future updates will review the continuing trends in our *What's Hot* cities, and take another look at the *Contenders* and *What's Not* cities.



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Learn how you can control apartment-unit absorption and maximize rents for your project. Return this card for details on our POP analysis.

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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

- ***Retention vs. Attraction Amenities—What's the difference? Which are more important?***
- ***Building permit comparisons—Where we stand today***
- ***More from The POP Results—First impressions: How they affect potential renters***
- ***In-depth analyses of What's Hot and What's Not major market areas***

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