

The modern apartment renter

Understanding and appealing to the modern apartment renter in the U.S.

- _ Demand for apartments has been robust following the bursting of the housing bubble a decade ago.
- _ Apartment investors devote a significant amount of time and resources to determine what unit features and community amenities are most desirable to current and prospective tenants.
- _ These factors can help us forecast the long-term performance of an apartment property.



Mark G. Roberts
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The U.S. apartment sector has long been a favored asset class among institutional investors, buoyed by strong household formation, strained affordability for home buying and structural changes including the capping of federal housing-tax benefits. We are constructive on the U.S. apartment sector and favor markets with strong population growth such as Phoenix and Austin.

Apartment investors devote a significant amount of time and resources to help determine what unit features and community amenities are most desirable to current and prospective tenants, how renters are finding their apartments and their top considerations for moving into those apartments. This information is vital to the long-term performance of an apartment property, helping to forecast the sustainability of rental demand and thus cash flow, over the investment time horizon.

During the current real-estate cycle, the industry has seen a substantial amount of new supply delivered by apartment developers, with even more units either currently under construction or in the planning stages. These developers have been responding to the robust demand for renting apart-

ments that followed the bursting of the housing bubble a decade ago. While strong renter demand has driven solid apartment performance, communities that are built with the needs and wants of modern apartment renters in mind tend to experience more stable cash flow and occupancy, buoyed by higher levels of leasing activity and better retention ratios. This knowledge that is driving performance ranges from basic apartment and community features like flooring, countertops, appliances, pet areas and building design to premium amenities such as rooftop pools, smart thermostats, sound-proof walls, and walk-in closets; furthermore it is important to understand desired neighborhood amenities (i.e. retail, restaurants, etc.) and overall location (i.e. proximity to highly-rated schools, employment centers, public transit, etc.).

It is also essential for investors to understand how demographic trends and technological advances are affecting apartment demand. The modern renter spans multiple generations, so the features and amenities in an apartment community should cater to those generations that will be primarily driving demand; understanding the target renter profile for a given area should make a property more resilient over time.

The three main age cohorts, as defined by the Pew Research Center, which make up the current renter population in the United States include: Baby Boomers (born 1946-1964), Millennials (born 1981-1997) and Generation Z (born after 1998)¹. Generation X (born 1965-1980) is primarily considered a homeowner cohort and therefore not considered in scope for this analysis.

Apartment properties should therefore provide spaces that cater to the target generations, with interior finishes/features that appeal to those age cohorts. Not only is the Baby-Boomer generation large in and of itself, but the American population is aging as whole. According to U.S. Census data, the 65-and-older set is set to expand faster than any other age cohort between 2010 and 2050, almost doubling in size compared to 32.2% growth for those 18 to 44 and 35.1% growth for those under 18.² Baby Boomers are not like their parents who, as they advanced in age, primarily lived in senior-living facilities. Nearly one-third of all urban rental applications are submitted by people over age 60³, with Freddie Mac projecting that over five million Baby Boomers expect to rent their next home.⁴ Those who choose to downsize from their homes and rent apartments want to interact in a multigenerational setting with people of all ages.

Given the age differential, the preferences of Baby-Boomer and Millennial renters are surprisingly very similar. Both renter cohorts are drawn to high-quality finishes, large spaces, best-in-class amenities, and walkability of the surrounding area. More space means that family and friends can visit, greater walkability means faster access to high-end retail and restaurants, and larger kitchens mean opportunities for at-home entertaining. Additionally, both groups desire an abundance of shared social spaces at a property. These shared spaces help foster a strong sense of community and belonging, thereby creating the desired extension of their apartment homes. Baby-Boomer renters in particular expect much more

in the way of planned social activities. With many of them retired or working part-time, they are looking for structure during day-to-day life, so property managers need to consider movie nights, cooking classes and bocce leagues.

By understanding target-renter preferences in a given market and designing/renovating a property to incorporate that intelligence, apartment investors are expecting to generate rent premiums relative to that asset's competitive set. Higher rents will drive net operating income higher, helping to deliver more stable income returns for investors and create long-term upside potential for property values. Exhibit 1 shows the average monthly rent premium that both renter cohorts are willing to pay, according to Greystar's proprietary database, for their top unit amenity choices. Exhibit 2 then shows the average monthly rent premium associated with their top community amenity choices. Some examples of unit amenities that create value for both renters and landlords include floor-to-ceiling windows, hardwood-like floors and bedroom balconies; for community amenities, that list includes secured community access, rooftop amenity space and a pool. It is important to note that these monthly rent premiums are averages across the nation. These premiums could vary depending on geographic location and product type.

Apartment investors that take an innovative and proactive approach to meeting this challenge will see that effort translate into a true competitive advantage, one that could potentially lead to outperformance of their assets through higher rents and more stable occupancy.

We have published a more detailed paper on this topic, *Understanding and Appealing to the Modern Renter* (link: <https://image.insights.dws.com/lib/fe8b1372756d037477/m/8/50751c90-626c-46ac-98db-fda31609b510.pdf>), October 2019.

¹ Pew Research Center. Data as of December 2018.

² US Census Bureau. Data as of 2018.

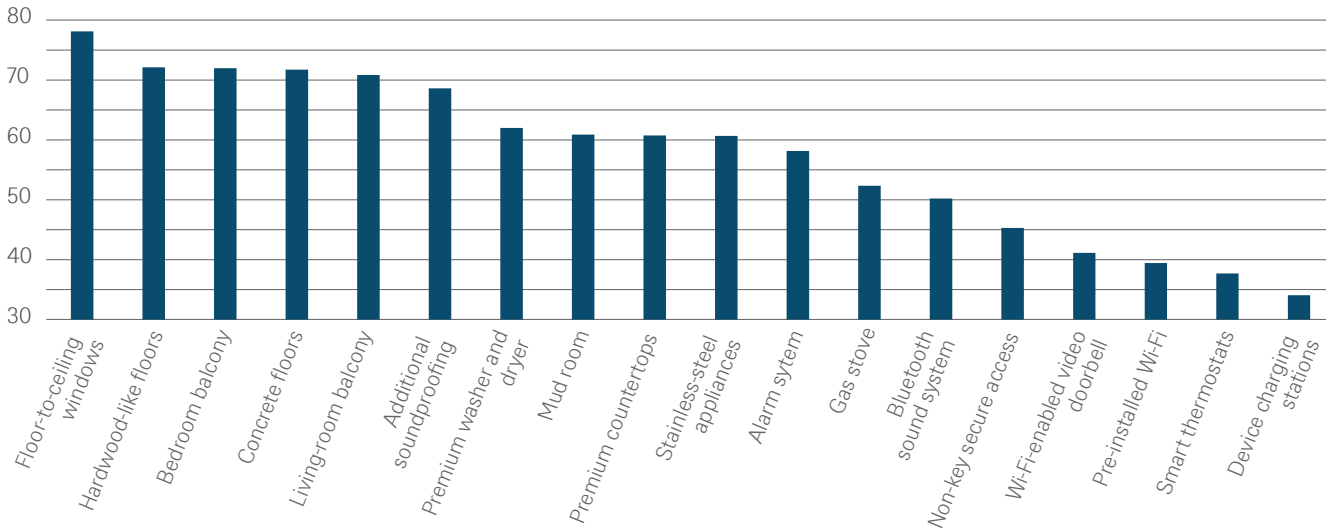
³ TenantCloud. Data as of January 2018.

⁴ Freddie Mac; GfK Public Affairs and Corporate Communications. Data as of 2016.

RENT PREMIUM FOR TOP UNIT AMENITIES

Floor-to-ceiling windows and hardwood-like floors command the most rent premium, whereas smart thermostats and device charging stations generate the least rent premium.

average monthly rent premium in dollars*

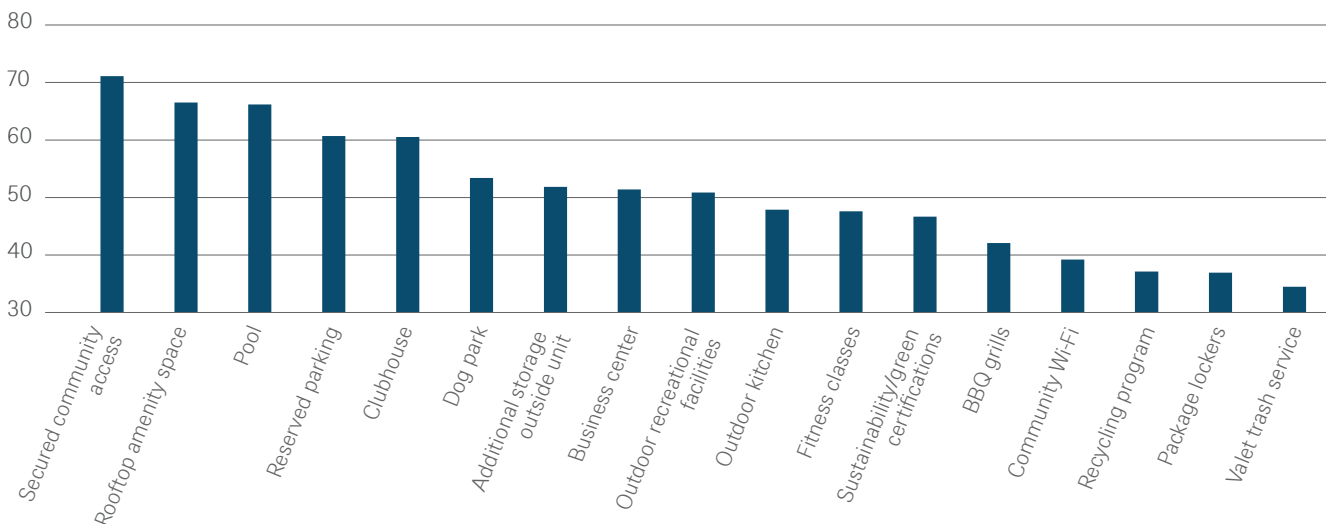


* Average monthly rent premium for top unit amenities of baby boomers and millennials (in U.S. dollar)
 Sources: Greystar, RREEF Management L.L.C. as of 03/2019

RENT PREMIUM FOR TOP COMMUNITY AMENITIES

Secured access, rooftop space and pool are the amenities that command the highest rent premiums

average monthly rent premium in dollars*



* Average monthly rent premium Baby Boomers and Millennials are willing to pay for top community amenities (in U.S. dollars)
 Sources: Greystar, RREEF Management L.L.C. as of 03/2019

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