

Anticipating the Upscale Empty-Nester Condo Market Recovery

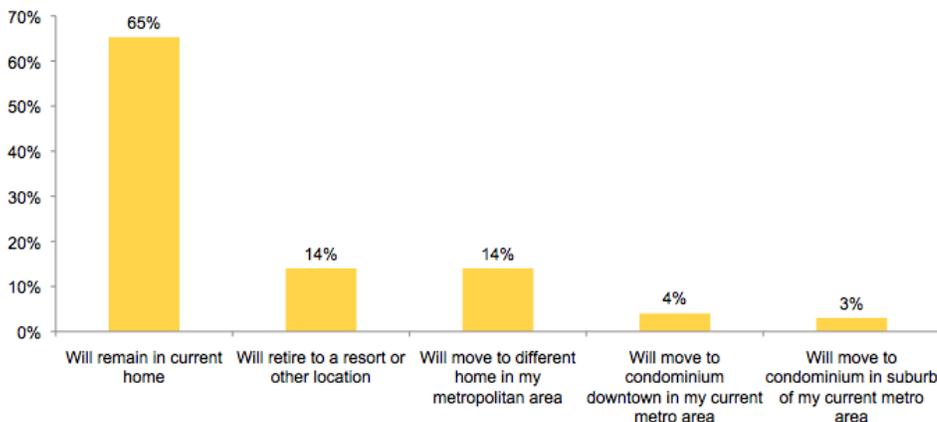
By Adam Ducker and Bob Gardner

As increasing numbers of U.S. baby boomer households enter their empty-nester years and begin to think about retirement—or at least a change of lifestyle—developers should be thinking about what impact this demographic shift will have on the demand for high-density housing. While very much on the sidelines today, this robust group of homebuyers will begin feeling a sense of urgency ahead of the balance of the market, as the desire for new and compelling housing that facilitates a preferred lifestyle increasingly outweighs concerns about the market, and their sense of what their current home was once or might be worth.

How many affluent seniors might actually move to a condominium and where? How many will choose to retire to a resort location or other area? Where—and how big—will the markets for these types of housing be? To answer these questions, RCLCO helped craft a section of the March 2010 American Affluence Research Center survey of the top 10 percent most affluent Americans. Survey respondents, who reflected a range of ages, were

THE VAST MAJORITY OF AMERICANS STILL PLAN ON “AGING IN PLACE”

Empty Nester Housing Plans
All respondents (with wealth \$800K+)



IN THIS ISSUE

- 1 | Anticipating the Upscale Empty-Nester Condo Market Recovery
- 4 | Creating Campus Edge Retail Districts
- 7 | RCLCO Multifamily Data Point of the Month – Premier Issue
- 8 | Apartment Development Opportunities in Texas’s Secondary Markets, Hats Are Not as Big... But There Are Lots of Cattle

asked to “contemplate a change of lifestyle related to retirement and/or their children leaving home.”

Sixty-five percent of respondents, according to survey results, expect to “age in place.” While this is a significant majority of the market, it is less than that of the previous generation, 80 to 90 percent of whom remained in their family homes well into their retirement years, typically until they needed more robust health-care services.

Those who expect to move therefore represent a finite—but still significant—market. Of the households that intend to move, about 60 percent plan to stay in their current metro area, moving to a different single-family, low-density home (40 percent), downtown condo (12 percent), or suburban condo (7 percent). Forty percent of those who expect to move—or 14 percent of all respondents—anticipate moving to a resort or other location.

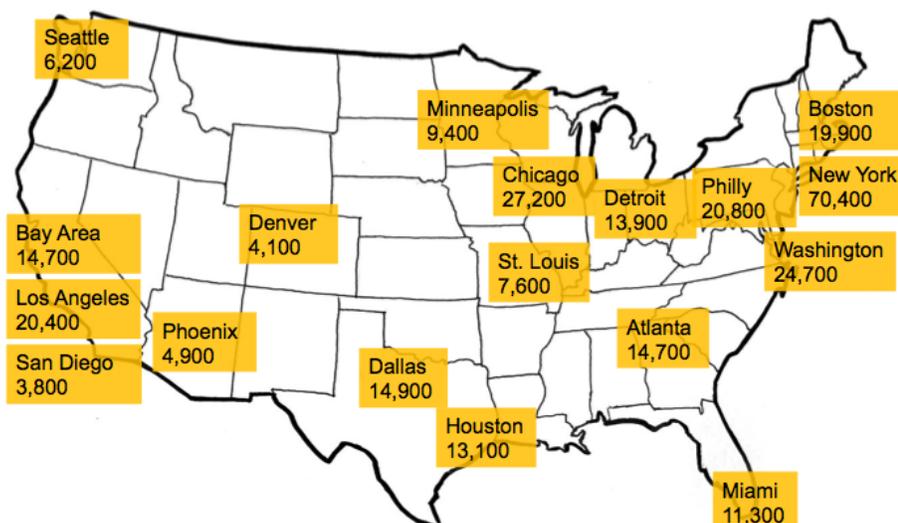
Not surprisingly, perhaps, more eastern and central state households intend to move in their empty nester years, reflecting the added burden of maintaining a suburban home through the winter and other factors.

When we asked those who said they would consider moving to a condo what factors would appeal to them, we learned that they are equally concerned with unit features and location factors. Fifty-eight percent cited “proximity to restaurants/retail” as one of their top-three factors; amenities such as a pool (35 percent), views (35 percent), and parking (34 percent) also were cited as important.

These prospective condo buyers express a preference for a relatively large unit: 45 percent say they want one that is larger than 2,000 square feet (186 m²) and another 42 percent say they would consider a 1,500- to 2,000-square-foot (139 to 186 m²) unit. Many, however, might be accommodated in a smaller unit that is well designed, highly amenitized, and set in a community with significant on-site storage.

Most of this market still views condos—indeed, any form of post-family housing—as a “buy-down” option, with most (69 percent) expecting to pay more than 20 percent less than the value of their current home and only 4 percent expecting to pay more than the value of their current home. Developers will need to highlight the lifestyle benefits of new construction that offers modern technology, provides a more healthful environment, and reduces reliance on the

TOTAL POTENTIAL MARKET DEPTH OF AFFLUENT EMPTY NESTERS RELOCATING TO CONDOS



automobile to inform consumers about the full-value proposition of new in-town housing. To quantify what these findings mean for the overall depth of the market, we examined the size of the affluent populations of major U.S. metro areas that are aged 55 to 74. Of the almost 8.5 million U.S. households that fit into this category, roughly half (4.5 million) reside within one of the nation's 18 largest metro areas. Demand for high-end empty-nester condos in these key metro areas totals more than 250,000 units, with the deepest markets—New York, Washington, Chicago, and Los Angeles—totaling 20,000 or more potential transactions each.

The results of this survey and our analysis of the depth of the market offer three key takeaway messages for developers:

1. The market for condos targeted to affluent seniors is both meaningful and finite. Significant numbers of households in the largest U.S. metro areas are interested in this housing change. But demand for most products, particularly in smaller metro areas, can be measured in thousands—rather than hundreds of thousands—of units. Wise developers will understand the depth of the markets in which they are active, and will secure sites that are capable of strong market capture.
2. The product expectations of this population are fairly traditional. Prospective purchasers initially will expect large units with plenty of “bells and whistles” in appealing locations. In high-cost markets, developers will need to coach some buyers into smaller units to capture as broad a market as possible.
3. Potential buyers' financial expectations, while somewhat unrealistic, also are fairly traditional. These buyers expect to be moving down rather than up in terms of pricing; sales and marketing professionals will need to educate these consumers regarding the benefits of new construction and the overall value of high-density living.
4. These findings present challenges for developers, who will need to make smart location decisions and carefully fine tune their product offerings and price points to appeal to older, affluent homebuyers. They also will need to better educate prospective senior condo buyers about the realities of construction costs in order to convince them to accept smaller or more expensive units. The good news is that there is a market for high-end housing for seniors, and that savvy developers who are able to meet the expectations of these homebuyers should experience success in coming years.

Adam Ducker is managing director and director of urban development at RCLCO.

Bob Gardner is managing director at RCLCO.



Adam Ducker
Managing Director, RCLCO
Urban Development
Practice Group Leader
Phone: 240-644-0980
Email: aducker@rclco.com



Bob Gardner
Managing Director, RCLCO
Phone: 310-203-3029
Email: bgardner@rclco.com

Creating Campus Edge Retail Districts

By Adam Ducker

Over the past decade, U.S. colleges and universities have increasingly focused on the importance of campus edge conditions and the quality of life, broadly defined, of the university community. For such institutions to remain competitive and relevant today and into the future, prospective students and potential new faculty need to feel that they are opting into a vital, compelling college town or neighborhood experience, whether it is in an urban, suburban, or small town setting.

A vibrant retail district that provides a porous linkage between campus and community—and that creates a sense of sophistication or urbanity—is central to the identity of a great college town. Many of America's great campus edge retail experiences—such as Westwood Avenue adjacent to UCLA in Los Angeles, Church Street near the University

of Vermont in Burlington, the Corner/Main Street near the University of Virginia in Charlottesville, and College Avenue adjacent to the University of Georgia in Athens—have served the dual purposes of driving the relevance and desirability of the institution as a place to spend four years (or, potentially, a lifetime) and raising the regional or even national profile of the town as a destination for students and faculty, for recreational visitation, even for retirement or lifestyle-driven relocation.

Developers and retailers also have alighted on this opportunity, which can be found around all types of anchor institutions—including hospitals and even corporate and other types of campuses. This opportunity is driven by very strong pent-up demand in many markets, as well as by a uniquely compelling growth story, as many institutions continue to



Images courtesy of Hamilton Initiative, LLC

expand quickly and look for private sector partners to service that growth.

RCLCO's studies of thriving campus edge retail districts, and our work on behalf of institutions, cities, and private developers on strategies to create such places, reveal three key lessons that can be broadly applied to create conditions for entrepreneurial investment in college towns.

1. Students Are the Drivers, but Not the Majority of the Spending Power

Somewhat counterintuitively, while students give college town retail districts their unique flavor and identity, in fact they are the reason people want to shop there, not the economic might that makes these places thrive or gain critical mass. Many people like to shop where they think students shop, and college town high streets thrive when they become regional or even tourist destinations, with diverse, 18-hour-a-day patronage.



This lesson has important implications for how college retail districts are tenanted, but even more importantly it dictates how they are programmed and operated. These districts are occasional destinations as well as a source of daily conveniences. A district's shopping experiences need to offer aesthetic whimsy and a sense of impermanence and excitement, so that people will come back again

and again, even from a considerable distance, for a unique experience that isn't available in their home community. These districts need to be neat and clean, but should also host a variety of street life. They should be aggressively programmed with weekend arts festivals and family events as well as campus life activities, to engage as broad a market as possible.

Our depth of demand forecasting for districts such as these in small towns and in larger cities suggests that students will rarely comprise more than 20% of a thriving college town retail experience, and that faculty and staff, other daytime employees, nearby residents, shoppers from throughout the metro area, and even tourists need to be engaged. A campus edge district geared toward students alone can rarely be larger than half a block, but a regional shopping and entertainment destination—which, in many places, has the best chance of success on the edge of campus—can draw visitors from a 50- to 100-mile radius and achieve transformational scale.

2. Avoid “Chicken or the Egg?” Thinking

Institutions or economic development officials in college towns often throw up their hands in resignation because they believe that shoppers won't come until the stores exist and that, until shoppers come, retailers don't want to be there. Institutional and government players should ignore this conundrum and, instead, act much more aggressively to “seed” retail development and create the first few success stories so that other independent retailers—and the development community—will soon follow.

One aggressive and effective precedent is Colgate University's Hamilton Initiative. Realizing that the university needed a vibrant, off-campus, main street experience to continue luring the caliber of students and faculty that have long driven the institution, the school embarked on an aggressive campaign to buy many of the buildings along Colgate's historical main street and attracting the kinds of tenants that make college retail districts at highly subsidized

rates. Ten years later, Hamilton, New York, is one of the Northeast's great college towns.

Short of purchasing properties, universities and/or the public sector can be much more aggressive in controlling market forces, and can do more than simply moving a college bookstore off campus—although that can be a good strategy, too. One other useful strategy is to master-lease significant storefronts and offer highly subsidized or “performance-based” leases to valued retailers. With an investment measured in thousands—rather than hundreds of thousands—of dollars, a great coffee shop, a casual pizzeria, and an independent bookstore with a newsstand can provide the “starter fluid” that will quickly grow into a thriving retail district.

If they do nothing else, institutions can work closely with local property owners or brokers on a targeted tenant outreach effort, compiling and presenting compelling demographics about the campus community and its spending power, as well as the potential to attract a much broader array of shoppers that come to visit, or would come to visit, the campus neighborhood.

3. All Parties Need to Align Their Vision and Effort to Effect a True Transformation

Anchor institutions should not shy away from spearheading this effort, but to ensure success they should aim to engage a diverse group of stakeholders in the process, including local governments, the business community, and the development community.

RCLCO helped facilitate one successful example of this process, the College Town Action Plan, which was jointly initiated by the City of Rock Hill, South Carolina, and Winthrop University. City and college leaders realized that to achieve their goal of increased economic vibrancy in Rock Hill's historic “Oldtown” neighborhoods they would need to partner closely and engage existing business owners and the development community in articulating a shared vision and committing to a set of principles

and action items with responsibilities and commitments for achieving them.

Engagement with state and local governments can be particularly important, because they have economic development infrastructure in place that can be instrumental in beginning to catalyze this change, and because they can provide access to public funding sources. One particularly relevant source of potential funding is state-issued tiger bonds (treasury investors growth receipts), which can be used to improve streetscapes and address the life safety and other pedestrian friendliness issues that can be a major impediment to retail success on many streets.

Finally, in some college neighborhoods, existing retailers and other businesses have organized into business improvement districts or other collective action organizations, many of which self tax to enhance and promote the district. Too often, however, these organizations are *not* as effective as they could be. Their impacts can be optimized by closer alignment with and tactical prioritization from the university and city.

The most important thing for institutions of higher learning and local governments that want to create great campus edge neighborhoods to recognize is that they are not powerless to change the economic conditions facing them. By making small investments in planning and initiating catalytic projects, they can radically transform college towns for the good of all.

Adam Ducker is managing director and director of urban development at RCLCO.



Adam Ducker
Managing Director, RCLCO
Urban Development
Practice Group Leader
Phone: 240-644-0980
Email: aducker@rclco.com

RCLCO Multifamily Data Point of the Month – Premier Issue

What Will Renters Pay More for? Not just Larger, also Better, and Better Located!

RCLCO recently fielded an internet-based survey during which 1,000 U.S. renters were asked, “as you think about your next apartment, which of the following features would make you pay more for in monthly rent?”

The stunning take away is that a sizable percentage of renter households, generally 20% to 30% of renters regardless of age, income and region, are very clear about specific apartment characteristics for which they are willing to pay more. This finding suggests the opportunity for the apartment industry to exploit market segmentation strategies by diversifying product offerings that “key in” on those valued-added features.

Not surprisingly the most popular response was “a larger apartment (I need more space),” with 41% of all renters selecting this response. Quite encouragingly, however, closely following a larger unit was the response “better neighborhood, near shopping and other services.” 30% of all respondents indicated this motivation. Of particular interest is that among high-end renters, with incomes \$50,000+, this response rate shoots up to 48%. It’s also worth noting that among high-end renters “better neighborhood” was significantly more compelling than “newer,” at only 22%, suggesting that developers who are paying premium prices for urban multifamily land and assets are probably onto something.

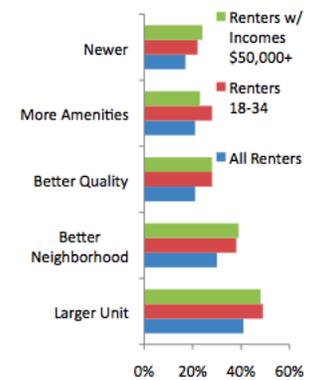
Another key take away is that many renters (21%) are also willing to pay more for a, “better-quality

apartment but not necessarily larger (same size space that I have now).” Of particular interest is that younger renters (18-35) are significantly more motivated (28%) than the market overall to pay higher rent for quality rather than size, providing some validation to RCLCO’s recent observations that younger apartment renters are willing to accept far smaller units if well designed and well located.

And what about better amenities? They were in the middle of the pack overall, with 21% of respondents being willing to pay more. But again young renters (28%) were the most likely to accept a higher monthly housing burden to have better amenities. For the new apartment consumer its lifestyle rather than square footage. In this case we are able to isolate for income. Overall high income renters are no more likely to pay for better amenities than the average renter, but Gen Y will.

This information should give developers and investors some confidence that tomorrow’s rental customer is going to pay premium rents for sophisticated and well located product, but there is much still left to learn about the specifics of what drives value and how it should be packaged. There are also unique regional variations that appear in this and other data. Market savvy project planning is the key to success in a market that is rapidly getting more competitive.

AUGUST MULTIFAMILY DATAPoint



Apartment Development Opportunities in Texas's Secondary Markets, Hats Are Not as Big... But There Are Lots of Cattle

By Todd LaRue

As the apartment development community rapidly gets back to work, many national and regional players are aggressively looking at Texas for new ground-up projects. With an average of 20,000 new jobs per month for the last year, opportunities in the state abound. Many are focused on Austin—appropriately so, given the unique growth dynamics there—but Texas also offers plenty of other diverse and compelling development opportunities, including some in its secondary and even tertiary markets.

Before we turn to the smaller Texas markets, we should say a few words about Houston, Dallas, and San Antonio—markets that were to some degree overbuilt in the last cycle, but are stabilizing quickly with job growth rates that are among the highest in the nation. Opportunities in these major metros are submarket specific. In Dallas, developers should look at Uptown/Central Dallas and the US-75 corridor in Collin County, as well as key communities north of the LBJ Freeway in NW Dallas, including Carrollton, Addison, Coppell, and Grapevine, many of which are now connected by DART (Dallas Area Rapid Transit). In Houston, the Inner Loop and suburban submarkets near successful master-planned communities, such as those in Fort Bend County, have strong location appeal and limited new supply. San Antonio is experiencing resurgence inside the I-410 loop, including the downtown area, as well as key office cores north of downtown between I-35 and I-10.

Opportunities in the smaller markets fall into three groups:

Student Housing. Texas's colleges and universities are undergoing phenomenal growth and are significantly underserved, both with student housing oriented to undergraduates and with more upscale rental apartments for graduate students [**as meant? If not, how are 'teachers in the professional schools' different from "faculty"?**] as well as faculty and staff. As one example, Texas Tech University in Lubbock is projected to add 10,000 students over the next decade, in a market with a current rental housing vacancy of less than 6%. Rental apartment rates in Lubbock are higher than those in many Dallas and Houston submarkets. Apartment developers also should look at College Station, home to Texas A&M University, and San Marcos, home of the growing Texas State University, for student housing opportunities.

Seniors Housing. As populations in many of Texas's secondary cities like Abilene, Amarillo, and Corpus Christi are growing, they also are graying. In Amarillo, for instance, one-third of the household growth will occur in the 65+ years-of-age cohort. These markets have been overlooked by the apartment industry and the demographic has both increasing sophistication in terms of its lifestyle needs and the financial resources to support new construction. Apartment developers also should

look at Abilene, Beaumont, and Laredo for seniors housing opportunities.

Unique Growth Stories. Other Texas markets have simply been overlooked or not yet appreciated. Both the El Paso market and the Midland/Odessa markets in West Texas are adding more than 500 new jobs each month, with virtually no new apartment development to accommodate that growth. Other stories indicating development opportunities, like the tent camps that have popped up to house the hundreds of workers flocking to the new Eagle Ford shale field south of San Antonio, simply aren't known nationally, or even in other parts of the state.

Whether developers are interested in Texas or not, this is an important moment in the rapidly

accelerated apartment cycle to begin applying non-conformist or even contrarian market logic. In many of the above markets, good sites can be locked up cheaply, local municipalities are eager to help accelerate development, and opportunities can be capitalized upon quickly.

Todd Larue is a principal at RCLCO and directs the firm's Austin office.



Todd LaRue

Principal, RCLCO

Phone: 512-215-3157

Email: tlarue@rclco.com



Upcoming Events

August 2011

August 24, 2011

Melina Duggal, AICP

Orlando Home Builder Association

“Homebuying Trends”

Speaker

Orlando, Florida

September 2011

September 9, 2011

Melina Duggal, AICP

Florida American Planning Association

“FL 2060 Revisited”

Panelist and Speaker

Palm Beach, Florida

September 30, 2011

Gregg Logan

Association of Florida Community Developers

“How Demographic and Preference Shifts

Are Impacting Community Development”

Speaker

University Park, Florida

January 2012

January 25-27, 2012

Shyam Kannan

2012 North Carolina Main Street Conference

“Main Street: Tips, Tools &

Techniques for Downtown”

Keynote Speaker

Clayton, North Carolina

February 2012

February 8-11, 2012

Adam Ducker

National Association of Home Builders

International Builders’ Show

“50+ Housing Council”

Speaker

Orlando, Florida

About RCLCO

RCLCO specializes in real estate economics, strategic planning and management consulting, and advisory services for real estate investors and developers, public agencies, financial institutions, and non-profit organizations. Our team is comprised of experts in urban development, community and resort development, strategic planning, litigation support, and economic development.

Questions or Comments?

Adam Ducker

Urban Development Practice Group Leader

Phone: 240-644-0980

Email: aducker@rclco.com

Jill Calipari

Urban Development Practice Group Coordinator

Phone: 310-203-3036

Email: jcalipari@rclco.com

VISIT US ONLINE AT WWW.RCLCO.COM