

No Two Renters Are Exactly Alike

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As the U.S. development industry gets back to work and again considers new ground-up development, much has been written about the multifamily housing sector's prominence. Among the most interesting trends that RCLCO has observed in this sector is the increased focus on—and discipline in understanding—potential market segmentation approaches to the rental housing market.

One unique phenomenon of the last cycle was the industry's virtually exclusive focus on the loosely defined "luxury segment" of the market. The key question for almost every project became how aggressively could the sponsor push per-square-foot rents. Developers paid limited attention to product differentiation or niche markets.

Even with today's significantly reduced development costs, building economics unfortunately still require developers to focus on upscale segments of the marketplace. To

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manage risk, the most creative and forward-looking developers are exploring ways to better understand the specific lifestyle dynamics of various high-income cohorts, and are crafting product solutions that speak to America's highly disparate renter-by-choice market audiences.

In one recent example, RCLCO worked to segment affluent renters in a major coastal market. We developed a series of customer profiles that were differentiated by unit size, design, and layout rather than just by supportable rental rate. Different lifestyles and household compositions result in significant differences in perceived value in the product offered. One unique opportunity that resulted from this analysis was a market of upscale married couples who are remaining in rental apartments longer and reported difficulty finding floorplans, and communities in general, that were appropriate for households with babies or toddlers.

The custom segments developed to respond to the market dynamic in this case (see pie chart below), all of which could be successfully accommodated in one building, included the following:

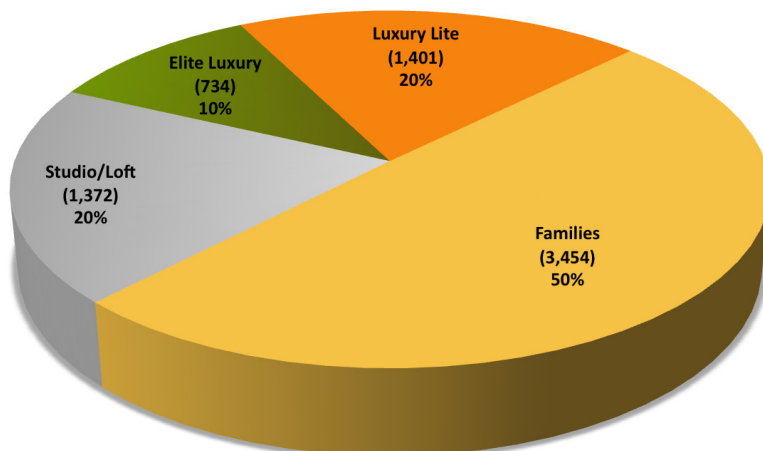
- Elite Luxury;
- Luxury Lite;
- Families; and
- Studio/Loft Customers

For each segment, a distinctive set of floor plans that included a wide range of sizes, openness of layout, finish packages, and merchandizing plans was created. The unit mix, as well as an approach to grouping units with the building, was developed to respond to the relative depth of each segment and the likely appeal of the specific site and the project to those segments. Finally, a blended, shared amenity and service program was devised to appeal to and anticipate the needs of each segment.

Segmentation should not be viewed as an exclusively large-project or high-income market phenomenon. Even in less upscale segments of the marketplace, including the workforce housing sector, significant variability exists in renter household composition and lifestyle, both of which can be quantified and anticipated in a development program. To be successful in today's rental apartment market, in which the consumer has many choices at many different price points, developers will need to embrace this way of thinking deeply about customers and their needs.



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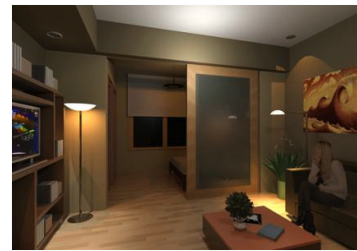
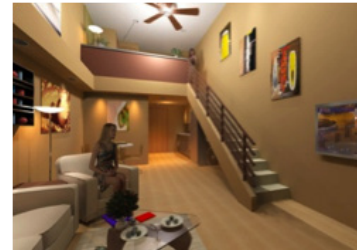
How Low Can You Go?

Another multifamily product trend that RCLCO is tracking closely—and helping its clients understand and respond to—is the shrinking rental apartment. For the time being, this effort is focused primarily on exploring how we can house young, often single, professionals in significantly smaller studio and one-bedroom units. We have quite a bit to learn from European and Asian designers, who typically have worked with much more strident space constraints and affordability issues.

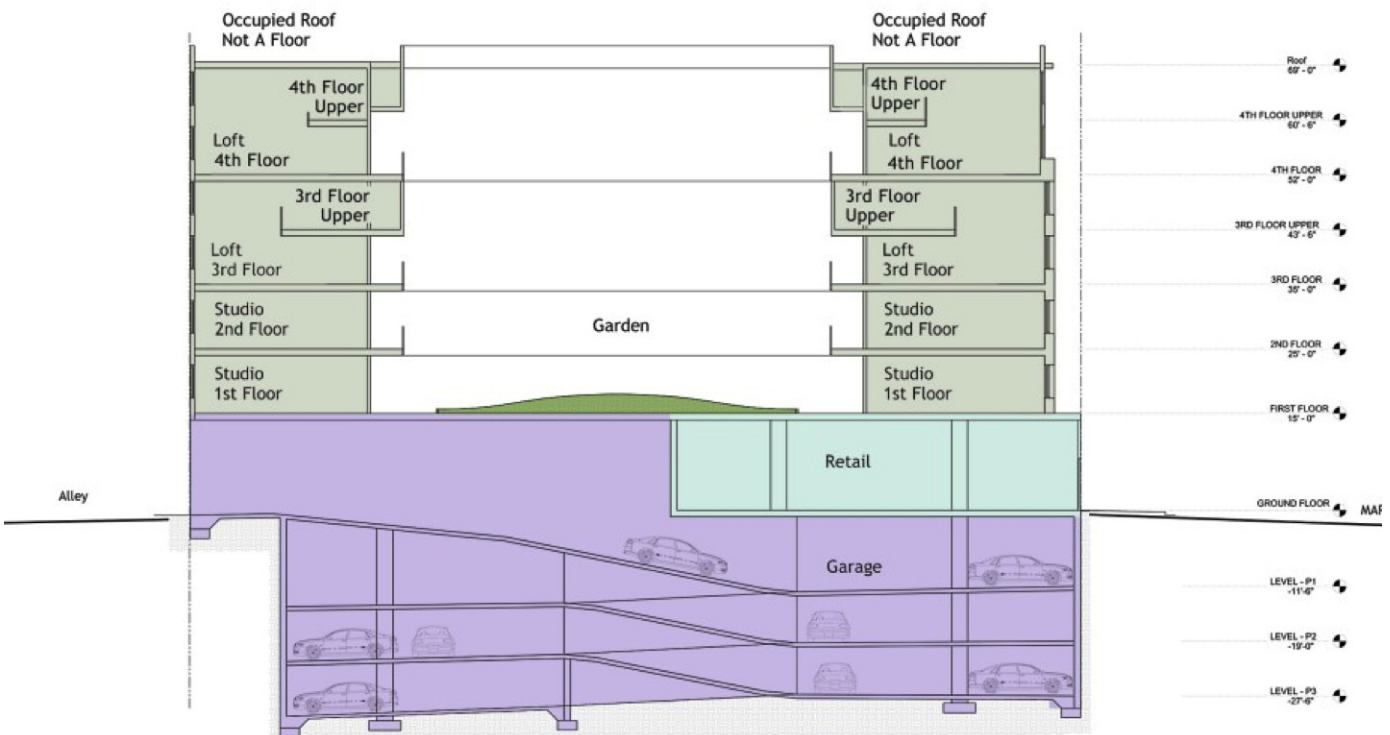
Our research in this area has included evaluating market conditions on the ground today—quantifying the rapidly rising price-per-square-foot premium that smaller units are achieving in comparison with larger or less well-designed units—and conducting consumer research designed to observe, in a controlled environment, exactly which features, floor plans, and creative uses of space will appeal to these customers.

In one example (see images at right), a developer client in Southern California has prepared a development program consisting of 375-square-foot studio apartments and 498-square-foot one-bedroom units. This exercise isn't just about shrinking existing floor plans. Rather, it involves a careful consideration of the use and distribution of space, window system and lighting design, clever storage solutions, flexible spaces, and movable dividing features.

Even within these small floor plans, significant unit differentiation can be provided by varying usable space configurations to accommodate a customer who values a conventional eating space, a work niche, or an enclosed sleeping space. Further differentiation can be created by varying the design aesthetic and avoiding the industrial look and feel to which many past projects defaulted.



Images courtesy of American Multifamily, Inc.



Still Priced Out

Over the course of 2009 and 2010, RCLCO completed a series of workforce housing studies for the Urban Land Institute’s J. Ronald Terwilliger Center for Workforce Housing. This work was designed to address a key question: Has the for-sale housing crisis meaningfully and permanently corrected the acute lack of access to housing for workforce households, defined as those earning between 60% and 100% of median income, and commonly identified as a region’s teachers, firefighters, police officers, and other vital members of the community?

The body of work evaluated conditions over the past decade and looked forward another 20 years in the historically high rental cost markets of Boston, San Francisco, and Washington, DC. The analysis demonstrated that even after the home price correction in these locations—a phenomenon that is likely to be temporary—housing affordability has improved

only for workforce households living on the extreme suburban fringe, and has changed only temporarily or not at all for those in employment- and transit-rich locations. The situation remains most dire among workforce families, who are relegated to substandard housing in locations that require long-distance commutes in these and many other U.S. metropolitan areas.

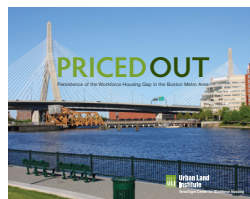
The studies also found that construction of housing affordable to workforce households is not cost feasible in these markets. Even if development economics remain unchanged—although, in fact, they are likely to worsen—the housing needs of America’s workforce, at least in these three markets, and probably in most metro areas, is likely to grow more dire in the coming decades, resulting, in turn, in a further threat to each region’s—as well as the nation’s—economic vibrancy.



Read the [Washington, DC study](#)



Read the [San Francisco study](#)



Read the [Boston study](#)

RCLCO Promotions

RCLCO is pleased to announce the promotions of two of its team members.



Shyam Kannan

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Taylor Mammen

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Shyam Kannan has been promoted to Principal and Director of RCLCO's Economic Development Practice Group, which services clients in the public and not-for-profit sectors. As an expert in urban issues and sustainable development, Shyam directs all business development, consulting, and intellectual property initiatives related to regional growth, urban revitalization, transit-oriented development, and green/sustainability. Shyam is based in our Washington, DC office and has been with RCLCO since 2003. A member of the Urban Land Institute (ULI) and the Transit-Oriented Development Council, Shyam received his Masters of Public Policy and Urban Planning from Harvard University and Bachelor of Government, with a concentration in Urban and Environmental Planning from the University of Virginia.

Taylor Mammen has been promoted to Principal and Director of Consulting. In addition to providing strategic planning and real estate advisory services to a wide range of clients, Taylor directs all strategic aspects of the firm's consulting team and consulting practices, including recruitment, training, project staffing, systems, and performance. Based in our Los Angeles office since 2006, Taylor has managed complex, multi-use, large-scale real estate and/or economic development projects, including master planned communities and "new cities," urban mixed-use developments, and redevelopment/ revitalization strategies. He is an active member of the Urban Land Institute and holds a Masters in City Planning from the Massachusetts Institute of Technology and a Bachelor of Arts in Political Science from Brigham Young University.

Upcoming Events

March 2011

March 3-4 2011

Jonathan Bartlett

Asheville Land Development Conference
“Outlook for the Western North Carolina Housing Market”

Speaker

Asheville, North Carolina

March 8 2011

Gregg Logan

ULI Terwilliger Center’s 4th Annual Affordable and Workforce Housing Forum

Panelist

Orlando, Florida

March 17 2011

Gregg Logan

ULI Central Florida – Economic Centers, Jobs and Real Estate: Building the Future

Panelist

Orlando, Florida

March 18 2011

Shyam Kannan

The American Institute of Certified Planners – Value of Transit-Oriented Development

Speaker

Fairfax, Virginia

March 23 2011

Adam Ducker

NAHB Multifamily Webinar - Consumer Preferences for a New Generation of Renters

Speaker

March 31 2011

Adam Ducker

American Council of Engineering Companies Annual Meeting – Future Trends in Land Development

Speaker

Washington, DC

April 2011

April 12 2011

Melina Duggal, AICP

APA, National Conference – Getting Real with MXD
Speaker

Boston, Massachusetts

April 14-16 2011

Shyam Kannan

Makeover Montgomery: Innovative Strategies for Rethinking America’s Suburbs Conference – Paying it Forward - Leveraging Market Forces to Fund Smart Growth

Speaker

College Park, Maryland

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?

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