

A photograph of a modern glass skyscraper at night, illuminated from within, with a grid of white lines overlaid on the image, creating a technical or architectural feel.

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UNDERSTANDING AND APPEALING TO THE MODERN RENTER

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1 / Understanding and Appealing to the Modern Renter

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 apartments 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 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, soundproof 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 between 1946-1964), Millennials (born between 1981-1997) and Generation Z (born after 1998)¹. Generation X (born between 1965-1980) is primarily considered a homeowner cohort and therefore not considered in scope for this analysis.

Apartment properties must 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 percent growth for those 18 to 44 and 35.1 percent growth for those under 18². 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 home⁴. 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.

¹ Pew Research Center. Data as of December 2018.

² US Census Bureau. Data as of 2018.

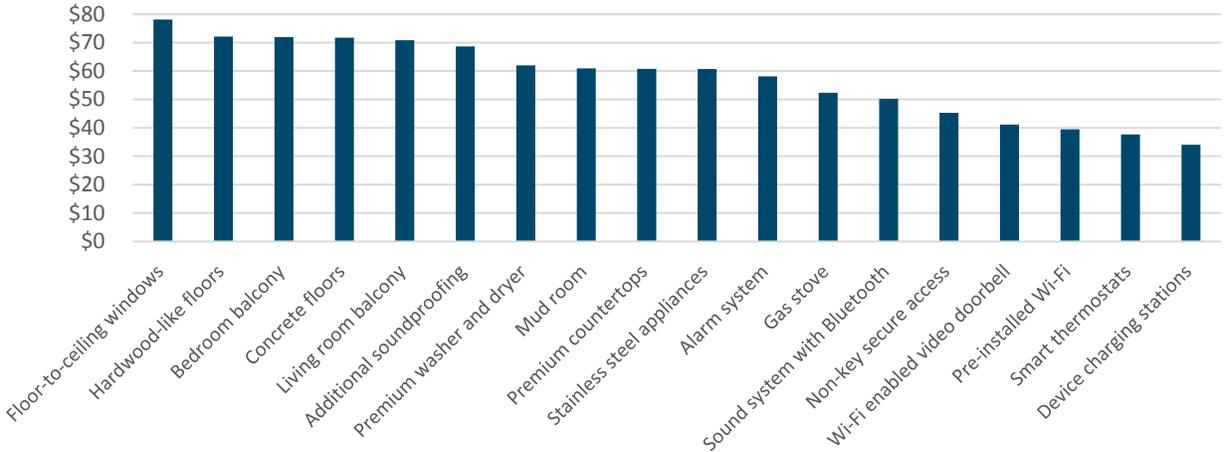
³ TenantCloud. Data as of January 2018.

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

1.1 Monetizing Today's Renter Preferences

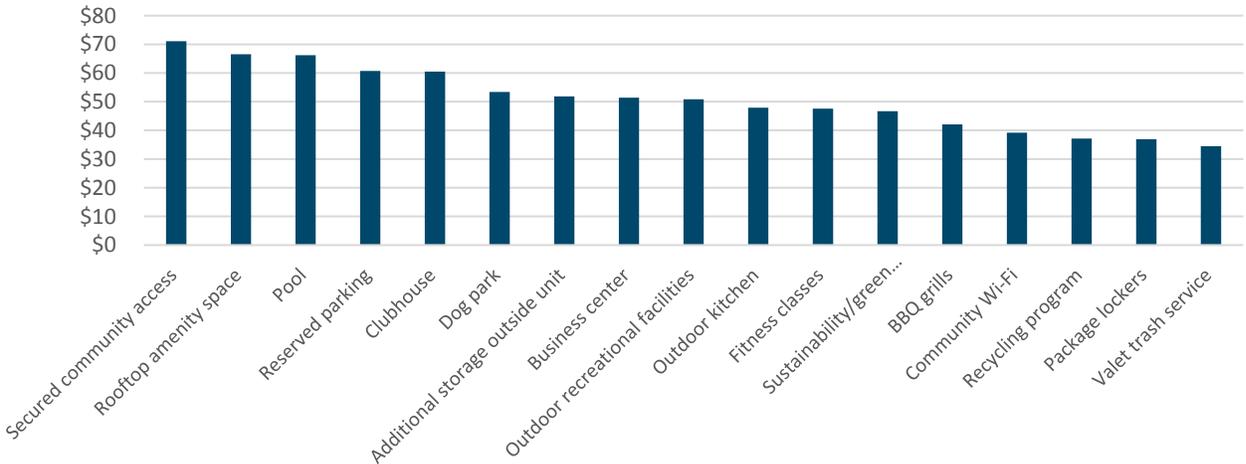
By understanding target renter preferences in a given market, and designing/renovating a property to incorporate that intelligence, apartment investors are expecting to generate rent premiums relative to that asset's competitive set. Higher rents will drive net operating income (NOI) higher, helping 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.

EXHIBIT 1: AVERAGE MONTHLY RENT PREMIUM FOR TOP UNIT AMENITIES OF BABY BOOMERS/MILLENNIALS (in USD)



Source: Greystar and DWS. Data as of March 2019.

EXHIBIT 2: AVERAGE MONTHLY RENT PREMIUM FOR TOP COMMUNITY AMENITIES OF BABY BOOMERS/MILLENNIALS (in USD)



Source: Greystar and DWS. Data as of March 2019.

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.

2 / What are the Demographics Behind Each of the Prime Renter Cohorts?

2.1 Baby Boomers

The greatest differentiator between Baby Boomer renters and other generations is affordability. Despite growing economic confidence among renters, two-thirds of them view renting as more affordable than owning a home, including three-quarters of Baby Boomers⁵. While Baby Boomer renters generally seek cost-effective apartments, they often have larger budgets to accommodate their high-end preferences, as compared to younger generations of renters. Additionally, the cultural differences between Baby Boomers and later generations creates some unique preferences. For example, Baby Boomers have been defined by owning suburban homes. With one or two cars in the garage, this renter cohort is more likely to require sufficient parking accommodations when selecting an apartment community, as well as additional storage for excess belongings from their larger homes. Baby Boomers are also typically looking for long-term leases, as compared to younger generations of renters who prize more transitory options. They are used to setting up roots, and are therefore more likely to be seeking out a home where they can stay, rather than leaving in 1-2 years. Property managers are also giving Baby Boomers more attention and assistance in walking them through the leasing process, as many of them are first-time renters.

2.2 Millennials

Millennials, the nation's largest renter cohort at more than 50 percent of the total renter population, are an ethnically diverse group with specific preferences. Millennial appeal for apartments is driven by five key themes: community, experience, online transactions, online property research, and customer service. As mentioned earlier, common areas that foster positive social experiences are very important to Millennials. The property's surrounding neighborhood should be safe, walkable, and have close proximity to nightlife. This renter cohort values experiences, so virtual tours of buildings and apartments provide prospective renters the ability to digest lots of data immediately and visualize themselves in that living environment. Sixty-eight percent of Millennials consider photos an important resource in making their decisions⁶. This renter cohort desires more online transaction capabilities, whether that is submitting rental applications, paying rent, or signing leases. Growing up in a fast-paced, data-driven world, Millennials apply that same mindset to apartment research. According to Zillow, 89 percent use an online resource during their rental search, with 47 percent using 5+ online sources to conduct a comprehensive search (i.e. Facebook, Yelp, Apartments.com)⁷. Additionally, while building reviews are important, the manager/landlord reviews are even more important, with negative reviews very costly. Lastly, Millennials demand first-rate customer service. This renter cohort expects very quick response times, with 75 percent expecting a property manager to respond within 24 hours⁸. One in three Millennial renters will otherwise move on immediately, as 72 percent of them are moving from another rental, and do not have time to spare waiting on property managers⁹.

By the end of 2019, Millennials (ages 22 to 38) are expected to outnumber Baby Boomers (ages 55 to 73), totaling 73 million according to Census Bureau projections¹⁰. Although a greater number of births underlie the Baby Boomer generation, Millennials will outnumber Boomers in part because immigration has been boosting their numbers. Millennials are therefore more racially and ethnically diverse, but also more educated and slower to marry than previous generations were at the same age. After growing up in the Great Recession, their financial well-being is complicated: Millennials are earning more than Baby Boomers did at the same age, but have accumulated less wealth, primarily because they have higher amounts of student loan debt. Millennials are therefore often more risk-averse than past generations who benefitted from healthy job prospects and strong investment markets.

⁵ Freddie Mac; Harris; GfK Public Affairs and Corporate Communications. Data as of 2018.

⁶⁻⁹ Zillow. Data as of February 2018.

¹⁰ U.S. Census Bureau. Data as of March 2019.

In the aftermath of the financial crisis, they have been slower to form households, opting to live with their parents for long stretches because of affordability concerns. In 2018, 14 million Millennials were living at home with their parents¹¹, representing a large source of untapped demand for current and future housing. Given home affordability constraints, this would support sustained demand for apartments.

Millennials are also starting families later than their counterparts in prior generations. In 1968, the typical American woman first married at age 21 and the typical American man first wed at 23. Today, those figures have climbed to 28 for women and 30 for men¹². The homeownership rate among those under the age of 35 was 36.4 percent during the second quarter of 2019¹³, virtually unchanged year-over-year, and in line with the rate seen over the past five years; for historical context, the current rate is still below the 25-year quarterly average of 39.0%, as well as the pre-recession peak of 43.6%. Anemic homeownership rates among younger buyers signals the difficulties many of those buyers continue to face in securing a down payment, finding a home in their budget, or qualifying for a loan. These hurdles, combined with potential changes/delays in lifestyle preferences (i.e. getting married, having children) that precipitate buying a home, could cause first-time homebuyers to remain renters for a longer period of time.

2.3 Generation Z

While Millennials may be the largest adult generation in the United States, they are starting to share the spotlight with Generation Z (Gen Z). This generation is the next growth story for the apartment sector and their appeal for apartments is driven by five key themes: budgetary constraints, experience, proximity to employment, quick and reliable information, and move-in ready features. Given the age of this generation, these renters expect property managers to empathize with their cash constraints. Zillow found that 61 percent of Gen Z renters are employed in their first jobs, with 25 percent of them still referring to themselves as students¹⁴. Also, 54 percent consider apartment affordability an issue given tight budgets and lifestyle change (moving out of family home), and 26 percent of Gen Z renters live with roommates to split costs¹⁵. Like Millennials, Gen Z renters value experiences, but are more property-focused, rather than neighborhood-focused; said differently, building quality/amenities are prioritized over the surrounding neighborhood. They desire the same virtual tours of building and apartments, but only 19 percent care about floor plans, while 50 percent require an apartment to have their preferred utilities (e.g. renewable energy, smart technology)¹⁶. Above all else, Gen Z renters want to live close to where they work and are not as concerned with neighborhood safety or social activity, showing a willingness to travel for those social experiences in exchange for paying lower rent. This renter cohort demands quick and reliable information. According to Zillow, 77 percent conduct searches on mobile devices, with 47 percent of this population using 5+ online sources to perform a thorough search¹⁷. Lastly, Gen Z renters value move-in ready features. Budget constraints are a real issue, so partially furnished apartments are viewed very favorably, while utilities must be reliable and high quality.

3 / Knowing What Your Renter Wants could potentially lead to Higher Rents and more Stable Occupancy

As the technological and social landscapes continue to evolve, it can be challenging to know which amenities are just fads and which provide true value, both for residents as well as investors. With new generations entering the market and increased levels of entrepreneurship and telecommuting, amenities need to be flexible to adapt to changing interests and needs of the modern renter. 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.

¹¹⁻¹² Pew Research Center. Data as of December 2018.

¹³ U.S. Census Bureau. Data as of March 2019.

¹⁴⁻¹⁷ Zillow. Data as of February 2018.

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Glossary

The **Great Recession** refers to the prolonged economic downturn in much of the world after the financial crisis of 2007-2008.

Net Operating Income (NOI) is a calculation used to analyse the profitability of income-generating real estate investments. NOI equals all revenue from the property, minus all reasonably necessary operating expenses.