



Can We be a Nation of Renters? Emerging Market Segmentation Opportunities in Rental Apartments

National Multi Housing Council | May 17, 2012



CAUTIONARY NOTE OF INTRODUCTION

EVENTUALLY, DEMOGRAPHIC BOOM WILL HAVE BOOMED

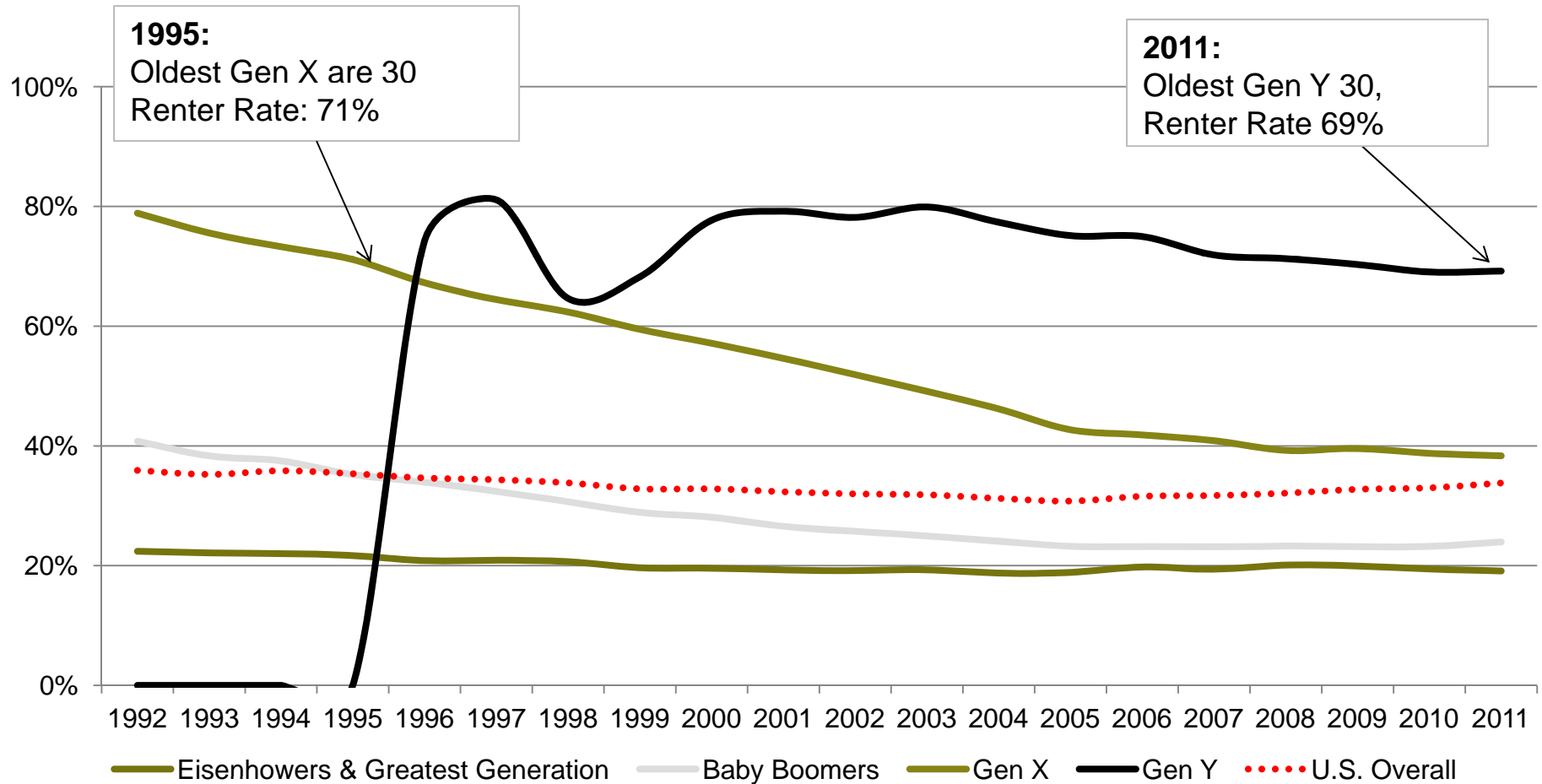


NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.
SOURCE: U.S. Centers for Disease Control and Prevention

CAUTIONARY NOTE OF INTRODUCTION

RENTER AMERICA REALLY ENJOYING A CYCLICAL SHIFT?

Percent Renters by Generation
United States, 1992 - 2011



SOURCE: U.S. Census Current Population Survey

OBJECTIVE: BROADEN FACE OF AMERICAN RENTERS APARTMENTS NO LONGER JUST ABOUT "SHELTER"



Different Product



Broader Marketing



Clever Programming



6 MARKET OPPORTUNITIES TO THINK ABOUT IN RENTAL APARTMENTS

1. The Empty Nester Renter
2. Post Graduate Dorms
3. Single-Family Rentals
4. Highly-Serviced Short Term Rentals
5. Family-Oriented Development
6. Are Mobile Home Parks the New Multifamily?

1. EMPTY NESTER RENTALS

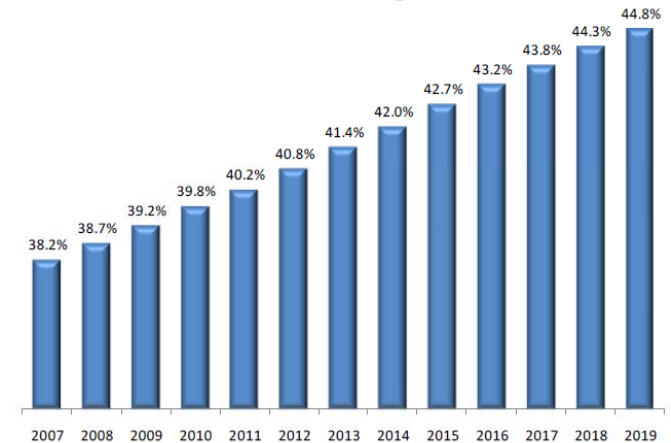
The Concept

- ▶ Lot's of talk of empty nester condos, why not for rent?

The Rationale

- ▶ Serves greater desire for “urban” lifestyle
- ▶ Makes economic sense for the customer
- ▶ Provides a richer social experience
- ▶ Serves increasing call for no maintenance lifestyle

Share of U.S. Households Age 55+



Source: NAHB Long Term Forecast



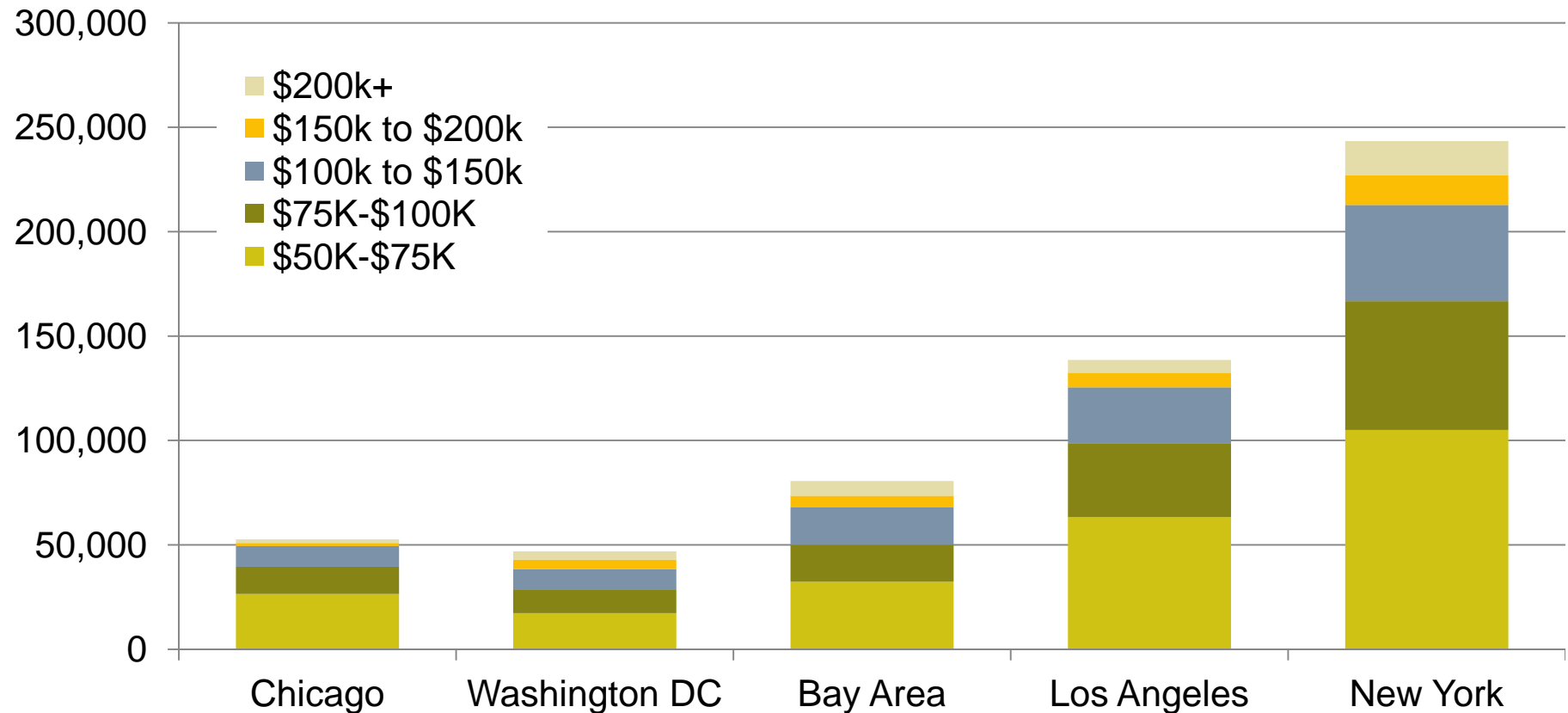
2. EMPTY NESTER RENTALS

RENTERS BY CHOICE STILL REMARKABLY RARE TODAY

55-74 Renters By Income \$50k+

Select MSAs

2010

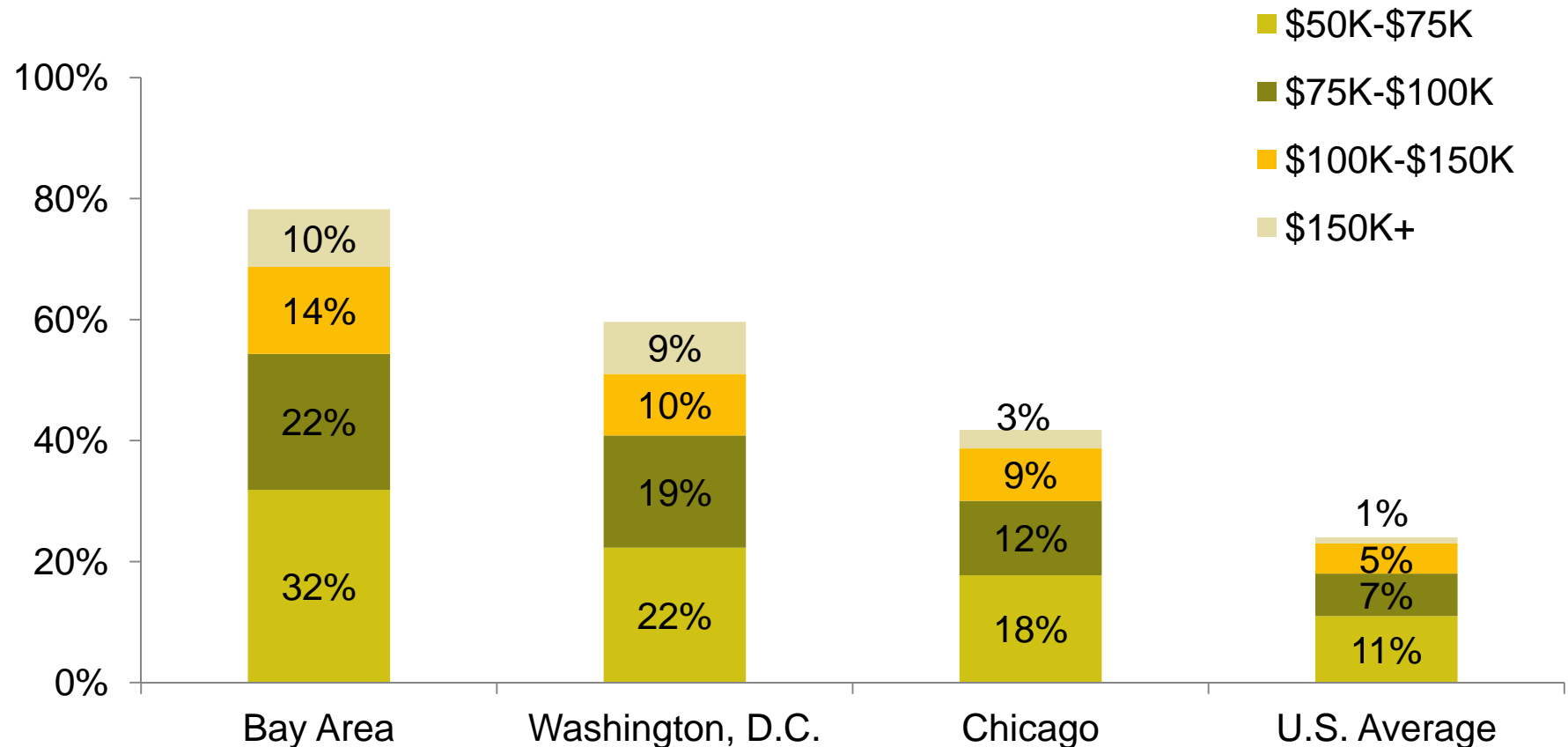


SOURCE: U.S. Census

2. EMPTY NESTER RENTALS

HIGH INCOME SENIOR RENTAL TYPICALLY ONLY 10%

55-74 Renters as a % of Total Households, by Income \$50k+
Select MSAs
2010

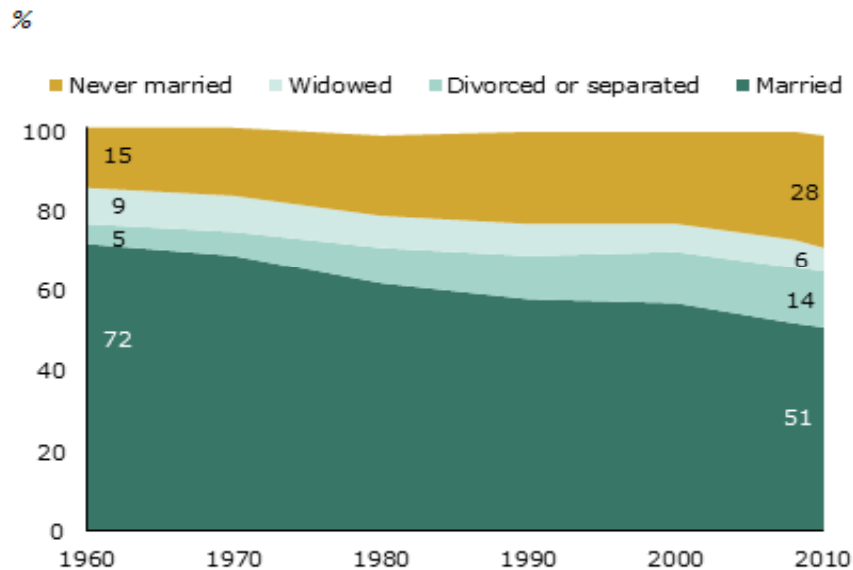


SOURCE: U.S. Census

1. EMPTY NESTER RENTALS

STRUCTURAL CHANGE IN HOUSEHOLD COMPOSITION

Current Marital Status, 1960-2010

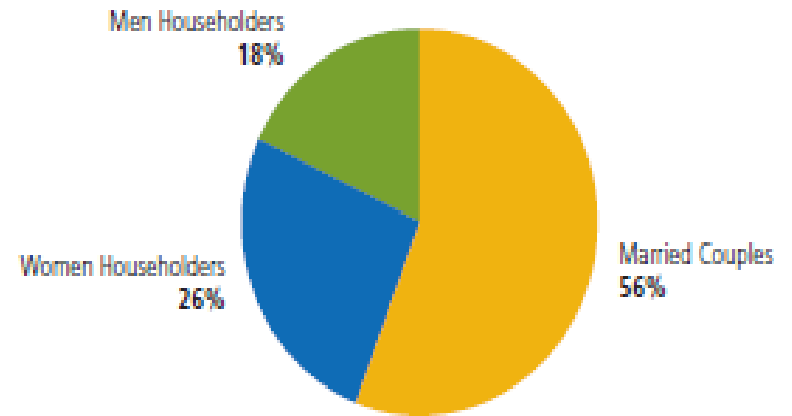


Note: Based on adults ages 18 and older. Percents may not total 100% due to rounding.

Source: Pew Research Center analysis of Decennial Census (1960-2000) and American Community Survey data (2008, 2010), IPUMS.

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Figure 5-A: Householders Age 55-64 by Gender, 2010



Source: Census Bureau March Population Survey 2010

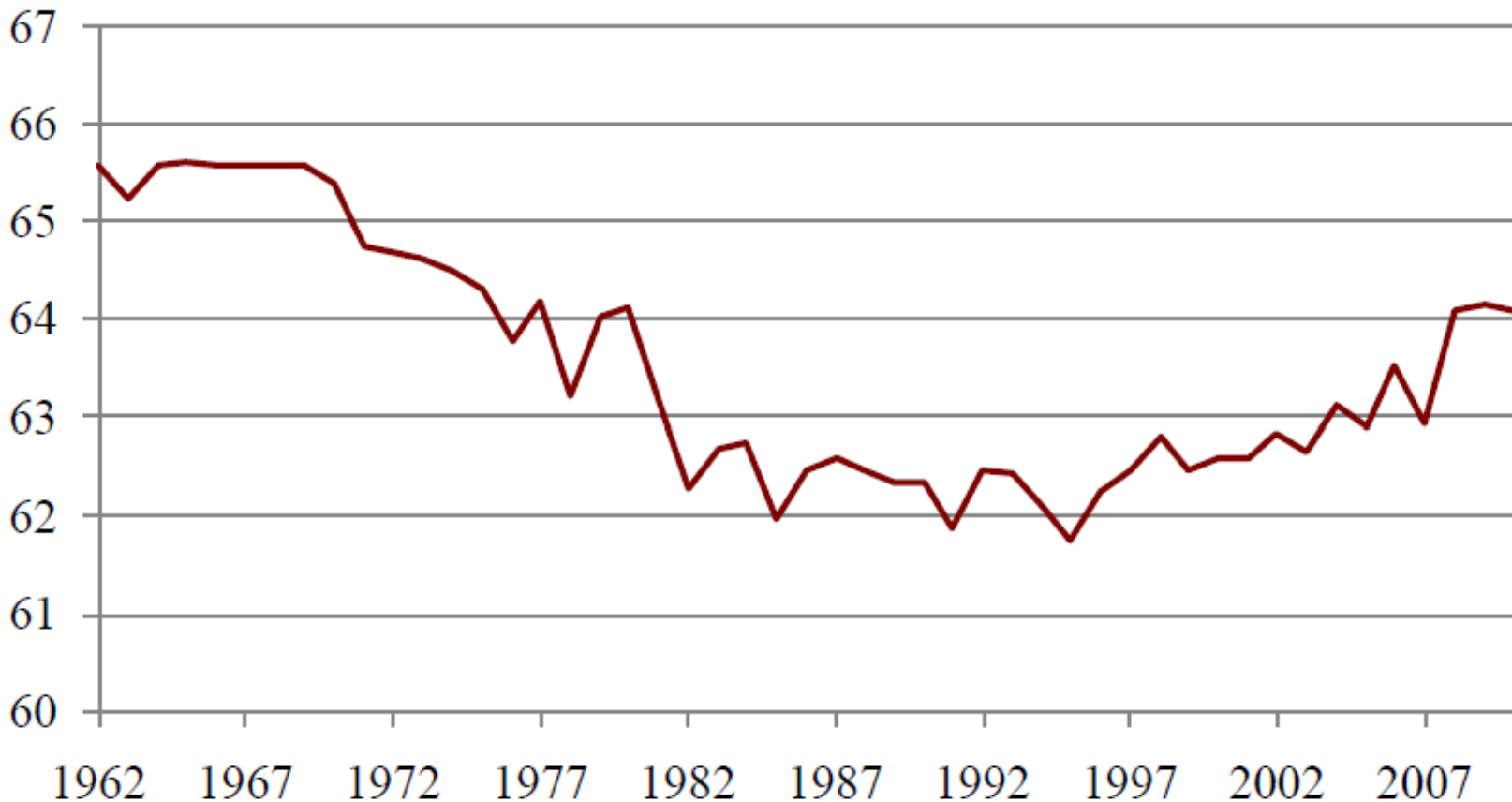
1. EMPTY NESTER RENTALS

BOOMERS PLAN TO STAY MORE ENGAGED IN WORK

Average Retirement Age For Men

National Average
1961 - 2010

At age 64, 73% of those not retired plan to continue working indefinitely (full or part time)



SOURCE: U.S. Bureau of the Census, 1980-2010; Current Population Survey

1. EMPTY NESTER RENTALS

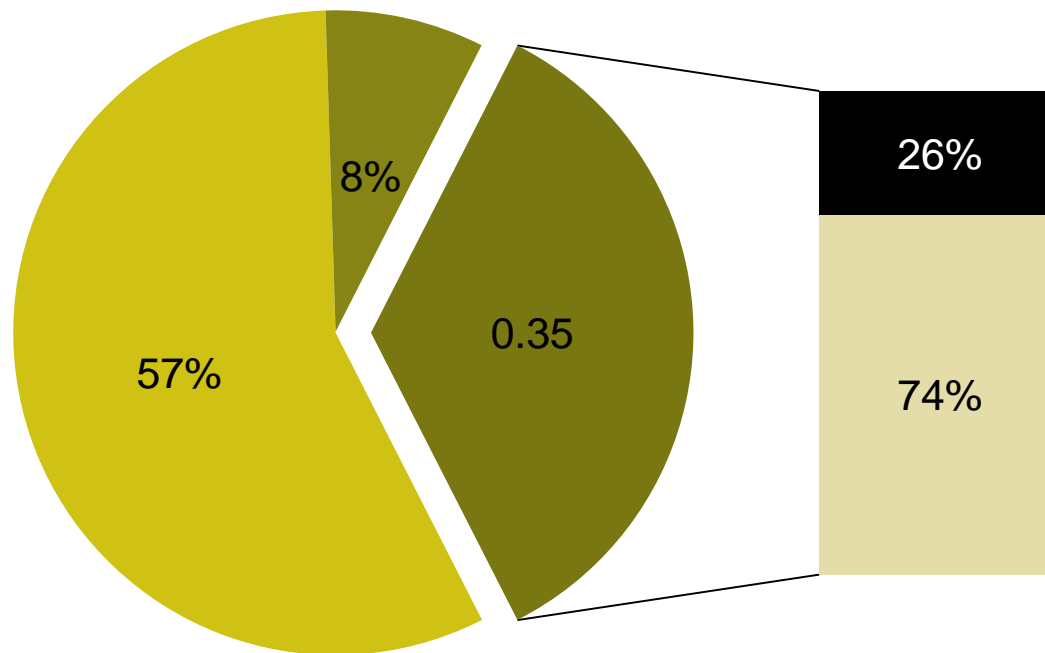
MARKET MIGHT BE TWICE AS LARGE AS IT IS TODAY!

Housing Intentions for Households 55-74, with Income \$50,000+

U.S.A.

April, 2012

- Owners Not Like It to Move
- Owners Who Might Move
- Owners Staying Owners
- Renters
- Owner Considering Renting



N=1,135

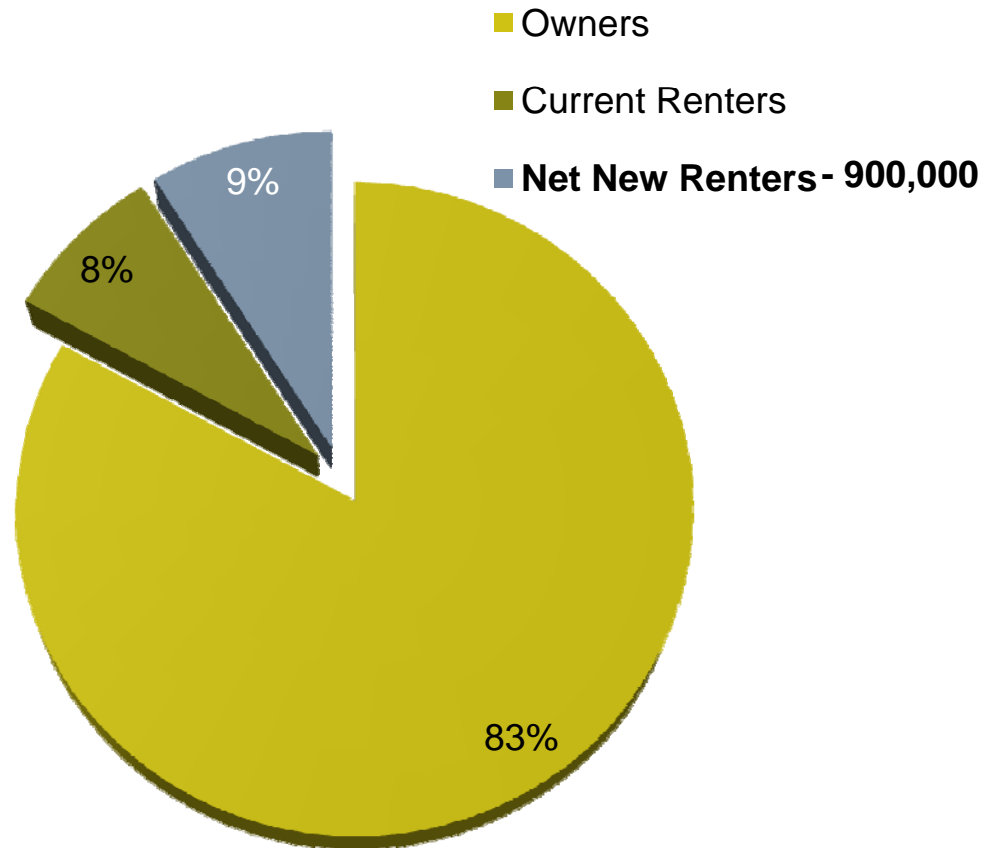
SOURCE: RCLCO

1. EMPTY NESTER RENTALS

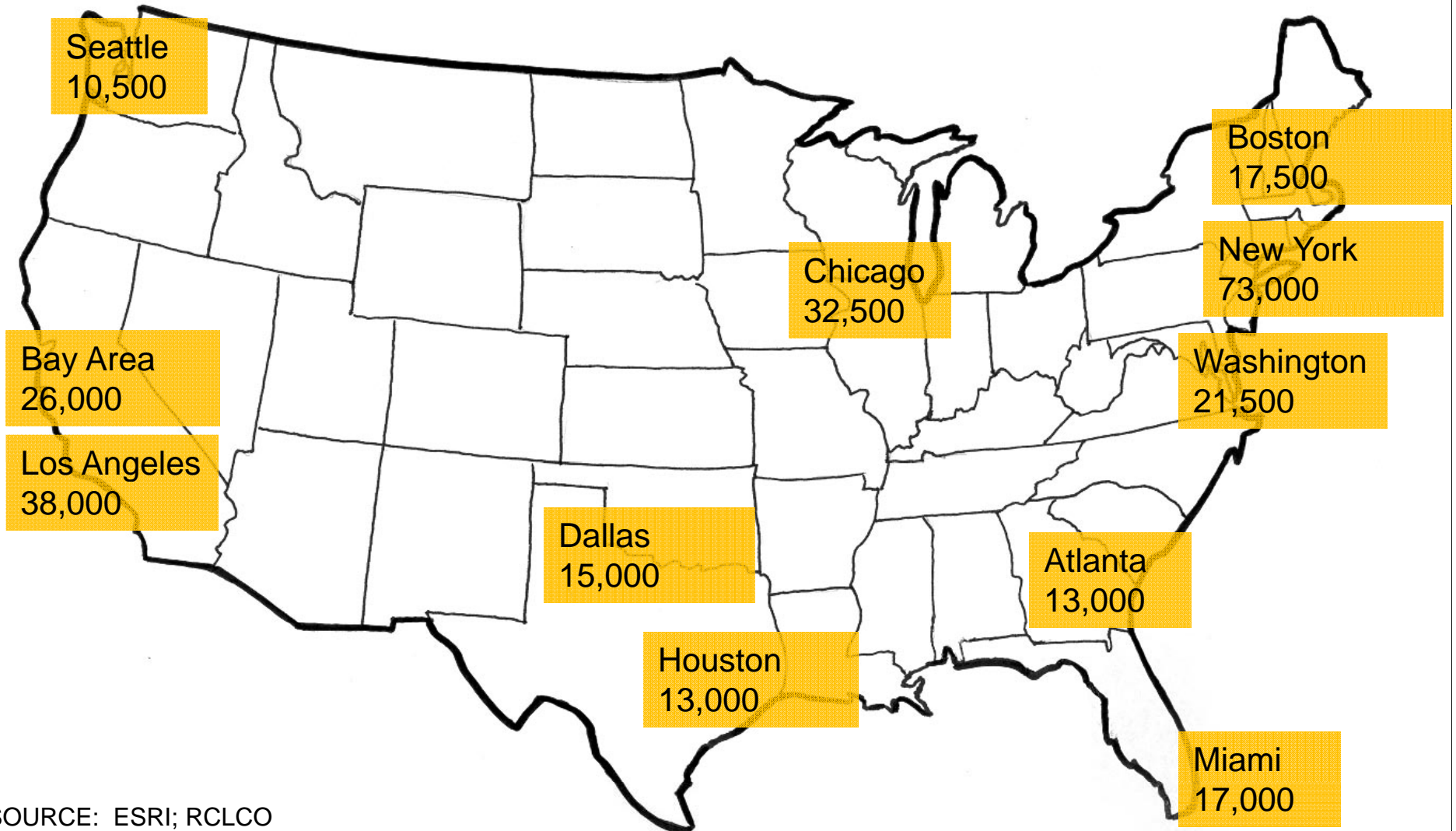
UP TO 900,000 NET NEW HIGH-END RENTER HOUSEHOLDS

Estimate of Net Potential New Renter Households 55-74, with Income \$50,000+
U.S.A.

April, 2012



1. EMPTY NESTER RENTALS LIKELY TO BE CONCENTRATED IN MAJOR MARKETS



SOURCE: ESRI; RCLCO

1. EMPTY NESTER RENTALS

CASE STUDY A

Buena Vida at Town Center

Location : Rancho Santa Margarita, CA

Developer/Owner: Kisco/Clarion

Year Built: 2006

Units : 115

Unit Type	Size Range (SF)	Rent Range	\$/SF Range
1 Bedroom	539-660	\$1,220-\$1,460	\$2.26-\$2.21
2 Bedroom	891-1,056	\$1,820-\$2,200	\$2.04-\$2.08

Renter Profile:

- Explicitly targeting “Active Adult”
- Most renters are retired
- Local move down and people moving to be near family

Overview:

- High local for-sale housing cost
- Walkable to shops (Trader Joe’s), movies, park,, etc.
- Resort-style apartment amenities
- “Mature” activities program



1. EMPTY NESTER RENTALS

CASE STUDY B

Village on the Green

Location: Rancho Cucamonga, CA

Developer: Kisco/Clarion

Year Built: 2005

Units: 264

Unit Type	Size Range (SF)	Rent Range	\$/SF Range
Studio	520	\$755-\$1,005	\$1.45-\$1.93
1 Bedroom	680-835	\$885-\$1,525	\$1.30-\$1.83
2 Bedroom	980-1,215	\$1,260-\$1,960	\$1.29-\$1.61

Renter Profile:

- Combination of working and retired
- Only 10 to 15% are from out of state

Overview:

- Lower prevailing home prices (and rents)
- Walk to retail
- Golf course views
- Resort amenities plus 9,000-square foot clubhouse and wellness center



1. EMPTY NESTER RENTALS

The Challenges

- ▶ Short-term leases – housing cost insecurity a major barrier
- ▶ The product – smaller not for everyone
- ▶ The clientele – some “mix” some don’t
- ▶ The “stigma” – can renting be socially acceptable?

2. POST GRADUATE DORMS

The Concept

- ▶ Carry the student housing concept forward a few more years

The Rationale

- ▶ Affordability
- ▶ Flexibility
- ▶ Sociability

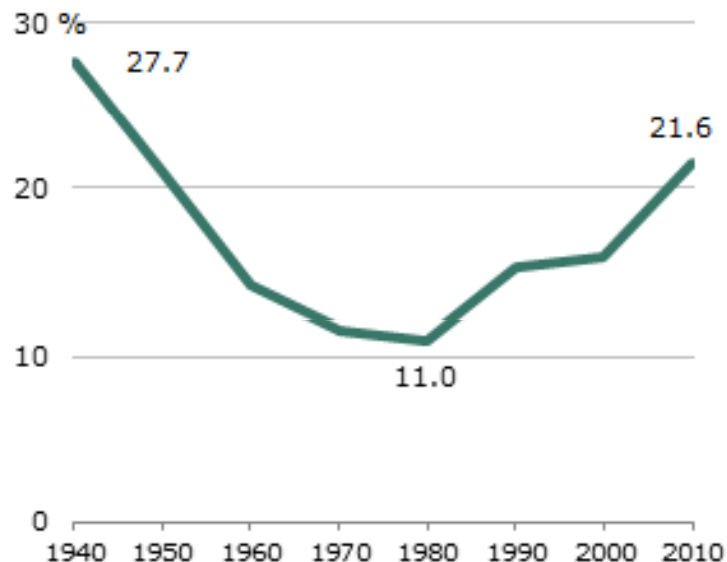


2. POST GRADUATE DORMS

ECONOMIC REALITIES CONFRONTING YOUNG RENTERS

Rising Share of Young Adults Living in Multi-Generational Households

% of adults ages 25-34 living in a multi-generational household

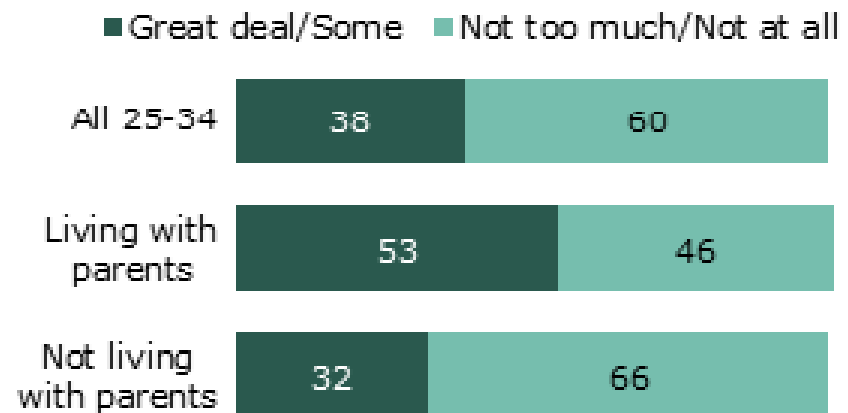


Source: Pew Research Center analysis of U.S. Decennial Census data, 1940-2000 and 2010 American Community Survey (IPUMS)

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Adult Children, Parents and Financial Ties

How much is your current financial situation linked to your parents' financial situation? (%)

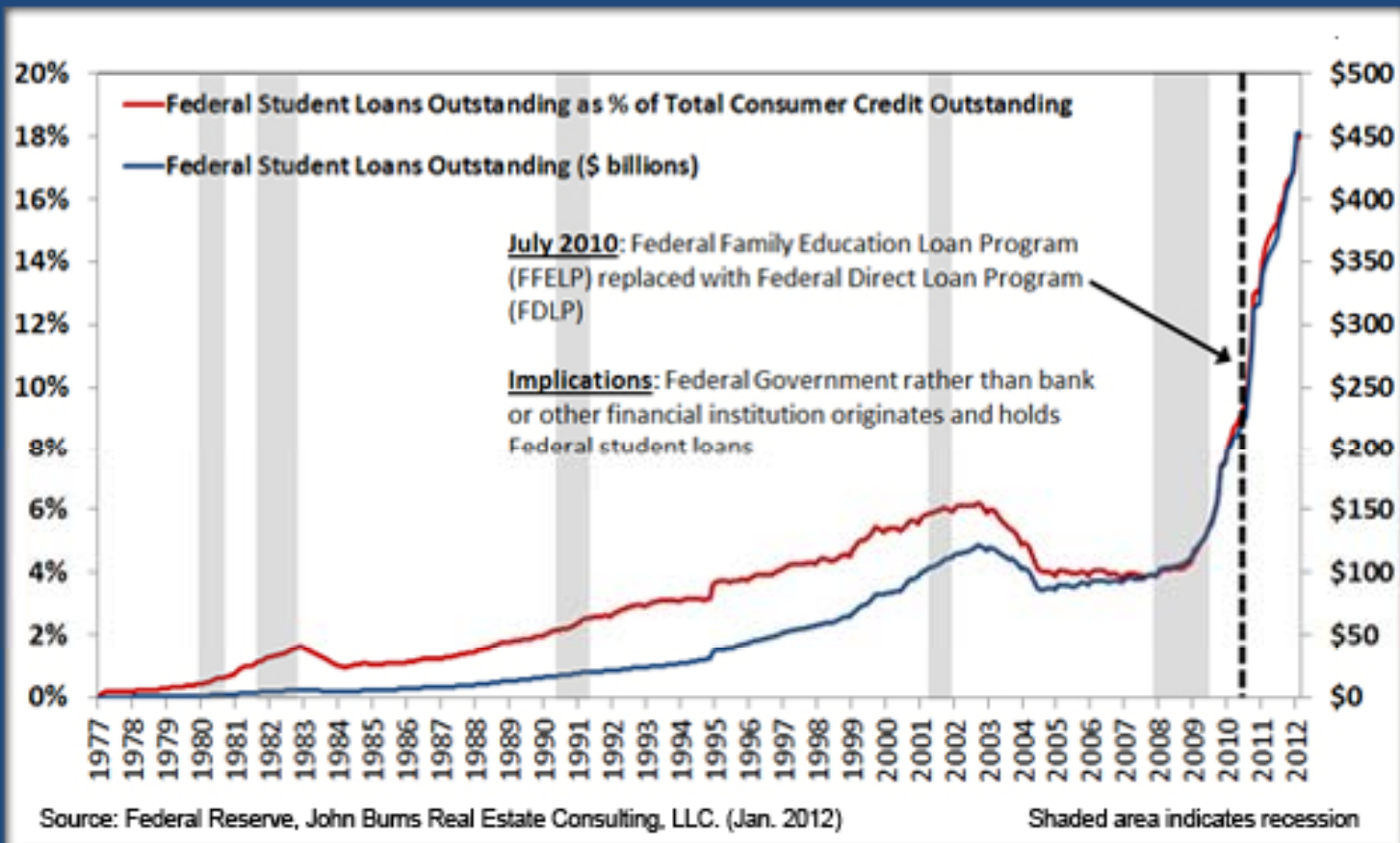


Notes: Based on adults ages 25-34 with at least one living parent, n=433. "Don't know/Refused" responses not shown.

PEW RESEARCH CENTER Q26

2. POST GRADUATE DORMS COST BURDENS OTHER THAN HOUSING

Federal Student Loans Outstanding



2. POST GRADUATE DORMS CASE STUDY – TEMPOHOUSING (AMSTERDAM)



- ▶ 1,000 units, 320 sq. ft. each
- ▶ Build costs approx \$35,000 per unit (plus land)
- ▶ Construction time – <12 months
- ▶ Rents – \$600/month

2. POST GRADUATE DORMS

The Challenges

- ▶ Can new product really be affordable?
- ▶ Good neighbor?
- ▶ Can post graduate dorms be a “smart” choice?
- ▶ Operational headache (what if the product was month to month?)

3. SINGLE-FAMILY FOR-RENT

The Concept

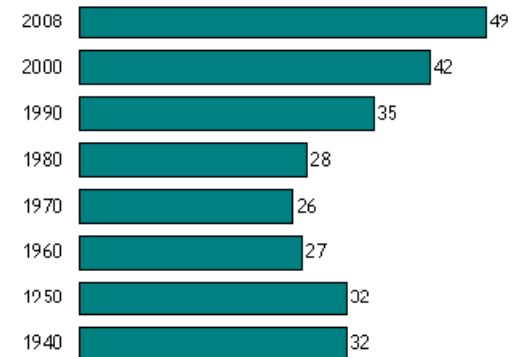
- ▶ Professionalize the single-family rental business (including build new)

The Rationale

- ▶ Big market already, interest in single-family housing largely unchanged
- ▶ Responds to growing ambivalence about ownership
- ▶ Responds to growing presence/interest in multi-generational housing
- ▶ Paper lot inventory in many markets still cheap (but not for long)

U.S. Population Living in Multi-Generational Family Households, 1940-2008

(Millions)



Source: Pew Research Center analysis of the U.S. Decennial Census data, 1940-2000, and 2004, 2007, 2008 American Community Surveys, based on Integrated Public-Use Microdata Series (IPUMS) samples.

PewResearchCenter



3. SINGLE-FAMILY FOR RENT ALWAYS BEEN A KEY COMPONENT OF U.S. HOUSING



▶ 30% of rental market already leases single-family units, which are primarily individually owned and not professionally managed.

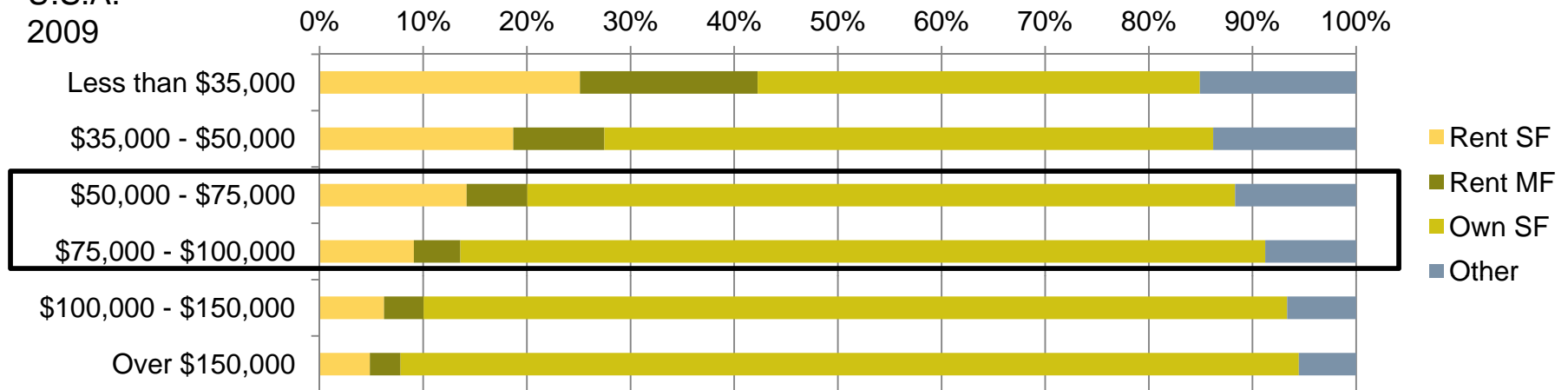
SOURCE: PUMS (ACS 2007-2009)

3. SINGLE-FAMILY FOR RENT

SFD THE PREVAILING TYPE FOR HIGHER INCOME RENTERS

Tenure and Product Type Choice by Income

U.S.A.
2009



Renter Household Product Choice by Income

U.S.A.
2009



SOURCE: PUMS (ACS 2007-2009)

3. SINGLE-FAMILY FOR RENT

CASE STUDY

- ▶ Single family detached rental community
- ▶ 120 units built in 2003
- ▶ Short term leases (3 months, or 6-15 months housing)
- ▶ Looked at by some as “transitional housing”
- ▶ Amenities include:
 - ▶ Swimming pool, tennis court, clubhouse, fitness center
- ▶ Features and finishes:
 - ▶ Private garages, 9 foot ceilings, private backyards
 - ▶ No hardwood flooring or stainless steel appliances



BR	Bath	Units	Avg. Rent	Avg. SF	Avg. Lot SF	Price/SF
1	1.5	8	\$1,088	1,046	5,850	\$1.04
2	2	66	\$1,285	1,375	6,395	\$0.98
3	2.5	46	\$1,466	1,647	6,656	\$0.93

SOURCE: BSC Holdings, Inc

3. SINGLE-FAMILY FOR-RENT

The Challenges

- ▶ Can new compete with distressed inventory?
- ▶ Can it be build cheaply enough?
- ▶ Difficult to finance
- ▶ Operational efficiency

4. HIGHLY SERVICED SHORT TERM RENTALS

The Concept

- ▶ Add flexibility and sociability for the highly transient, young affluent renter

The Rationale

- ▶ Young affluents increasingly global and mobile
- ▶ Greater desire for “urban” lifestyle
- ▶ Customer willing to trade personal space for convenience and amenities
- ▶ Greater desire for more social experience



4. HIGHLY SERVICED SHORT TERM RENTALS

SIGNIFICANT DEPTH OF MARKET, CONCENTRATED IN KEY METROS

Households with Head of Household Age 25 to 34, with Incomes \$100,000+

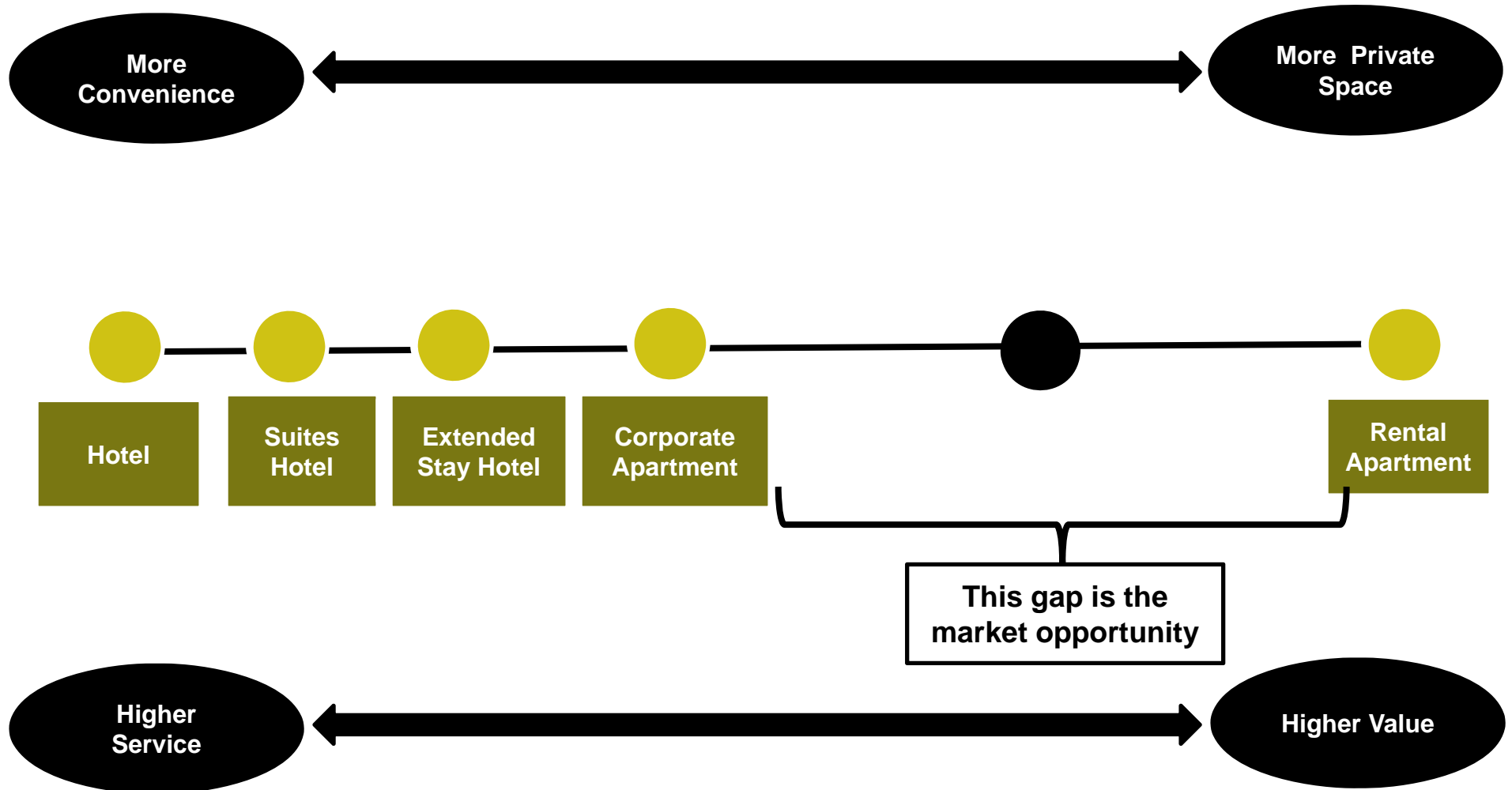
U.S.A.
2010



SOURCE: ESRI; RCLCO

4. HIGHLY SERVICED SHORT TERM RENTALS

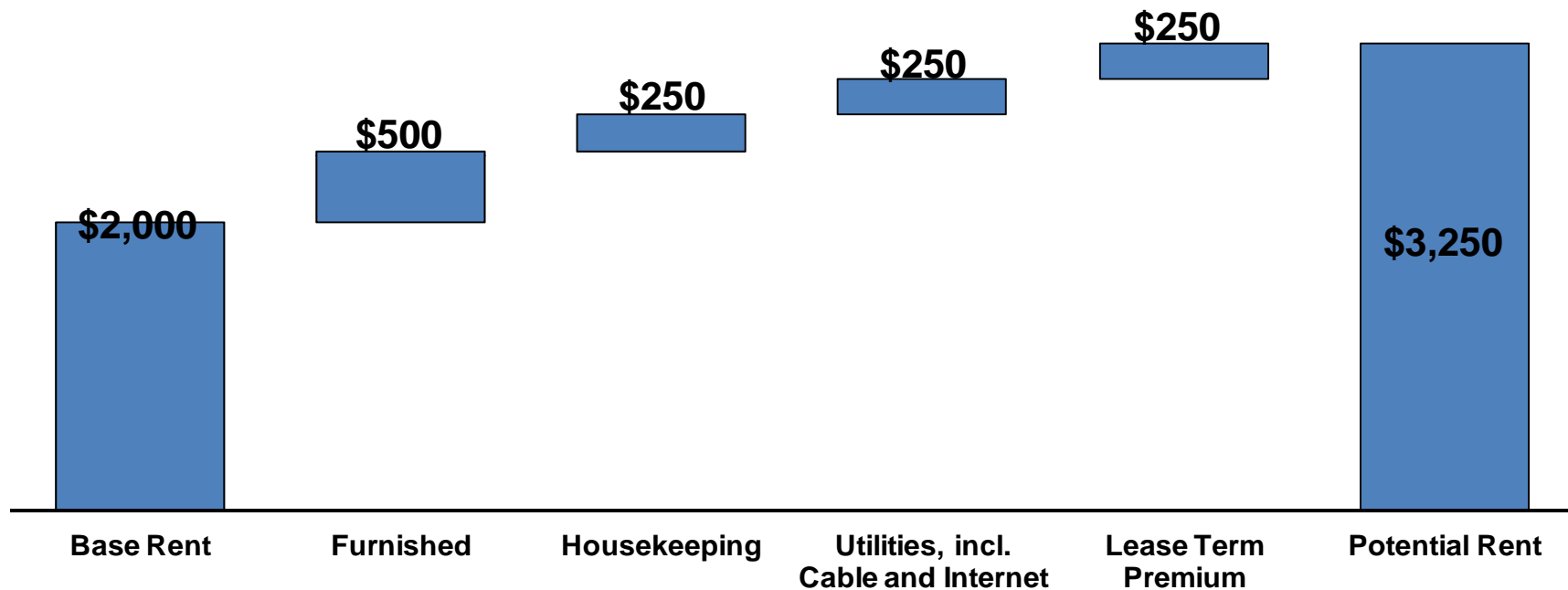
PRODUCT FILLS A MARKET GAP



4. HIGHLY SERVICED SHORT TERM RENTALS

SERVICE AND "MOBILITY PREMIUM"

Achievable Asking Rent for a Short-Term Furnished Studio
A+ Urban Transit Rich Location
\$ Asking Rent



4. HIGHLY SERVICED SHORT TERM RENTALS

The Challenges

- ▶ Probably requires 100% location (and related land costs)
- ▶ Operational costs more like a hotel than an apartment building
- ▶ Market depth untested
- ▶ Capital market sell is touch (cap rates?)

5. FAMILY ORIENTED DEVELOPMENT

The Concept

- ▶ Rental product that works for families committed to urban lifestyle

The Rationale

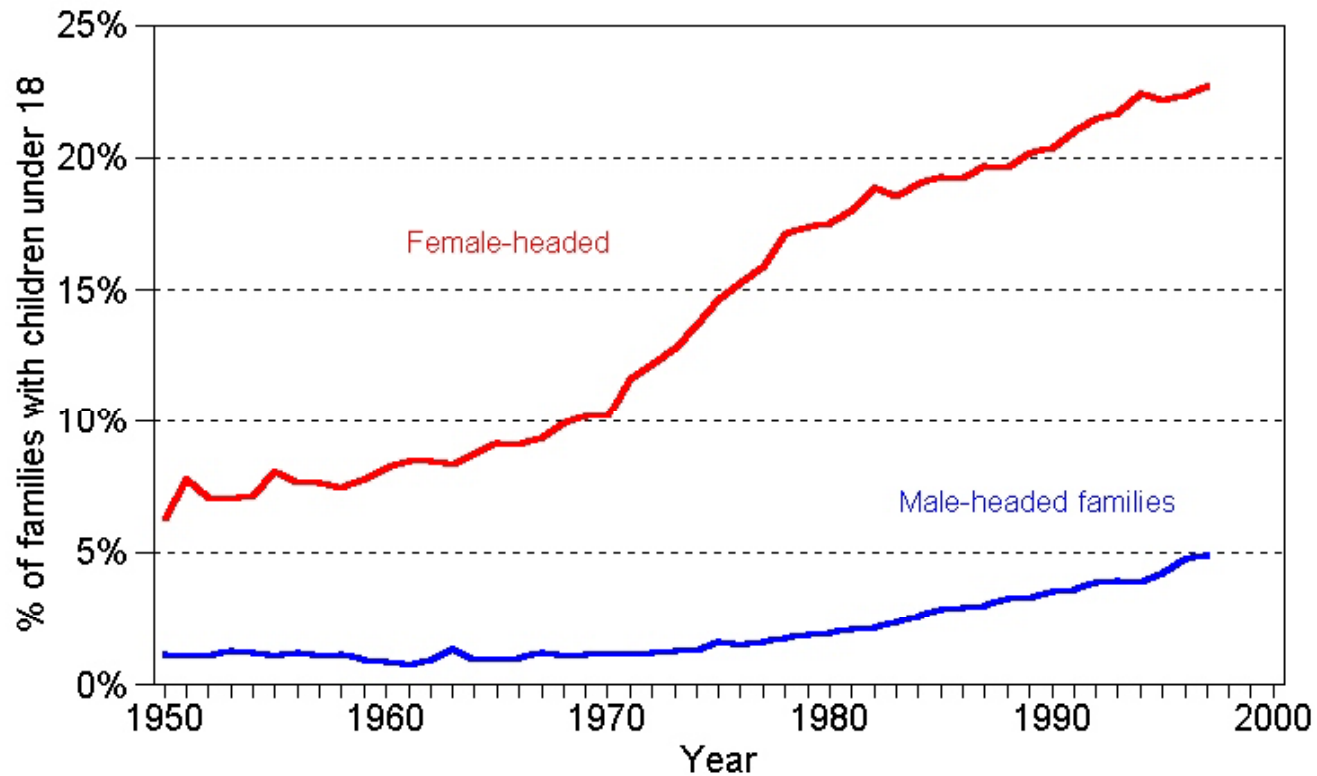
- ▶ Lots of young people committed to cities, but don't have condo down payment
- ▶ Most contemporary buildings don't have product/amenities for this group
- ▶ Location premium perhaps the highest across the age spectrum
- ▶ Compelling conversion opportunity for well maintained 1960s/70s buildings



5. FAMILY-ORIENTED DEVOPMENT AND NOT JUST TRADITIONAL FAMILIES

Female- & male-headed families

(of families with children under 18)



Source: www.census.gov/population/www/socdemo/hh-fam.html

5. FAMILY-ORIENTED DEVELOPMENT CASE STUDY – THE RAMONA (PORTLAND, OR)



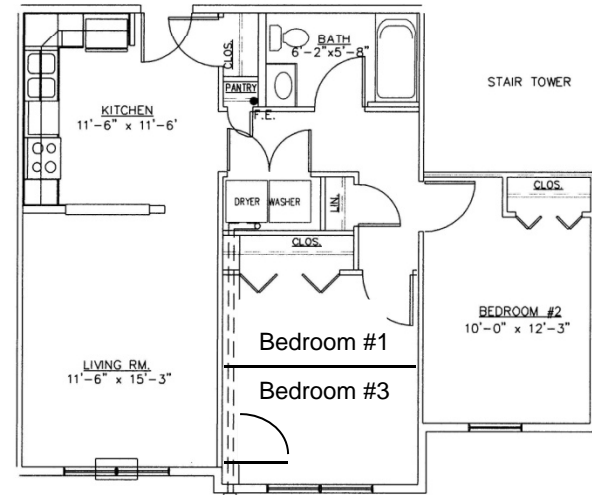
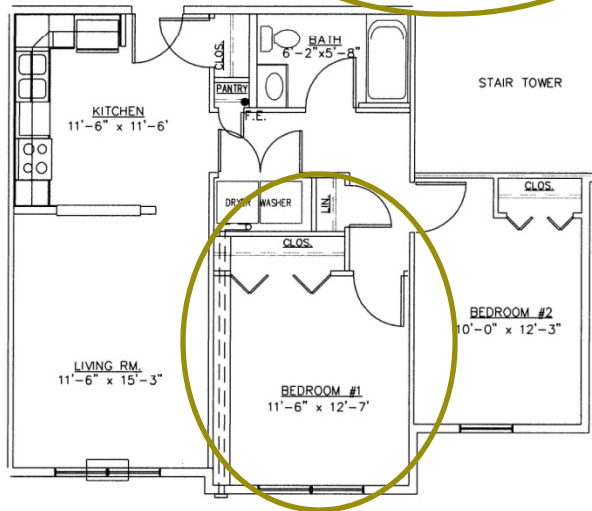
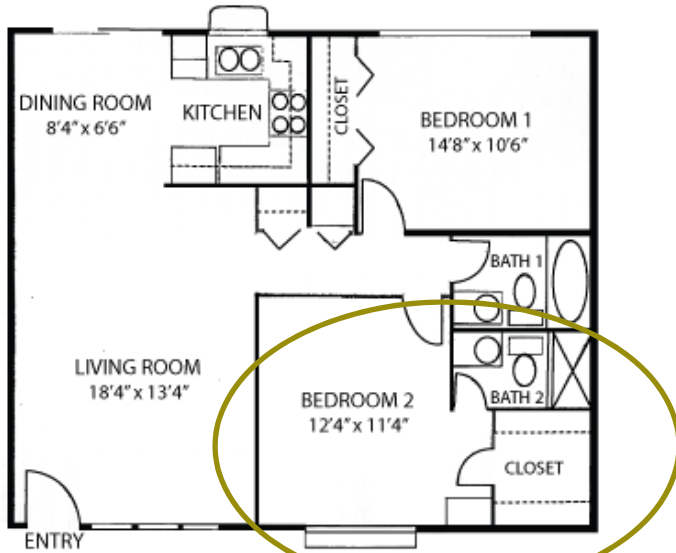
- ▶ LIHTC community built on top of an “early childhood center”
- ▶ Pearl District location
- ▶ LEED Gold



1,077 sf
3B/2b
(with interior
bedroom)

5. FAMILY-ORIENTED DEVELOPMENT

OPPORTUNITY TO CONVERT HARD TO LEASE LARGE 2Bs?



5. FAMILY-ORIENTED DEVELOPMENT

The Challenges

- ▶ Still hard to provide appropriate product at a deep price point
- ▶ Doesn't address the real problem - schools
- ▶ Entitlement opposition still high in many places (school capacity)
- ▶ What about starting with family friendly floors?

6. MOBILE HOME PARKS...THE NEW MULTIFAMILY?

The Concept

- ▶ It is a rental business after all, and prime for consolidation and professionalization

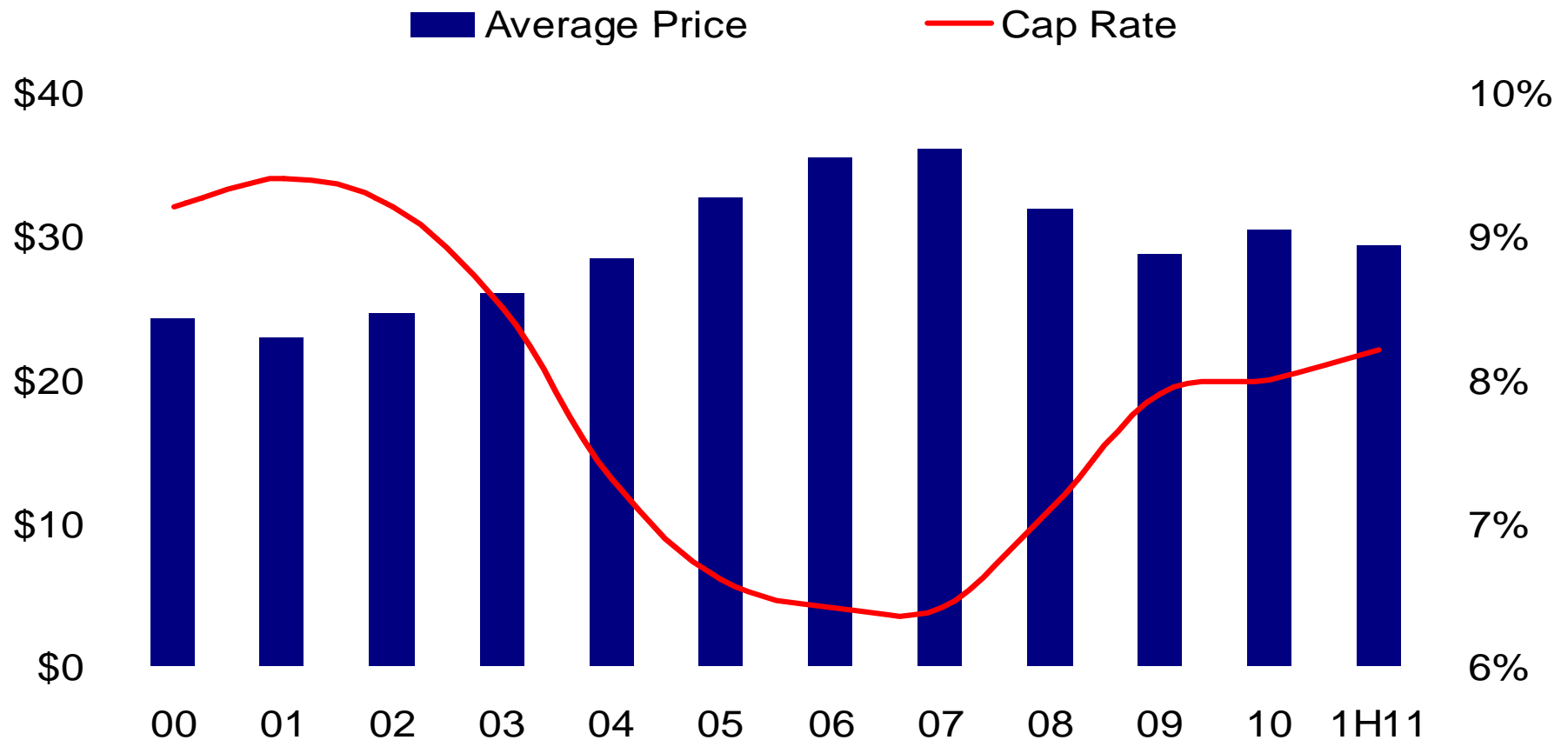
The Rationale

- ▶ Another way to deliver low density, affordable, family oriented product
- ▶ Stigma is burning off
- ▶ Investment economics far better than rental apartments today (cap rates 8%+)
- ▶ Or can you make your operating platform available (off brand?) to other increasingly large and institutional owners?



6. MOBILE HOME PARKS...THE NEW MULTIFAMILY? STILL REMARKABLY RARE TODAY

Mobile Home Parks Average Price per Space (\$,000s) and Cap Rates
U.S.A.
2000 - 2Q 2012



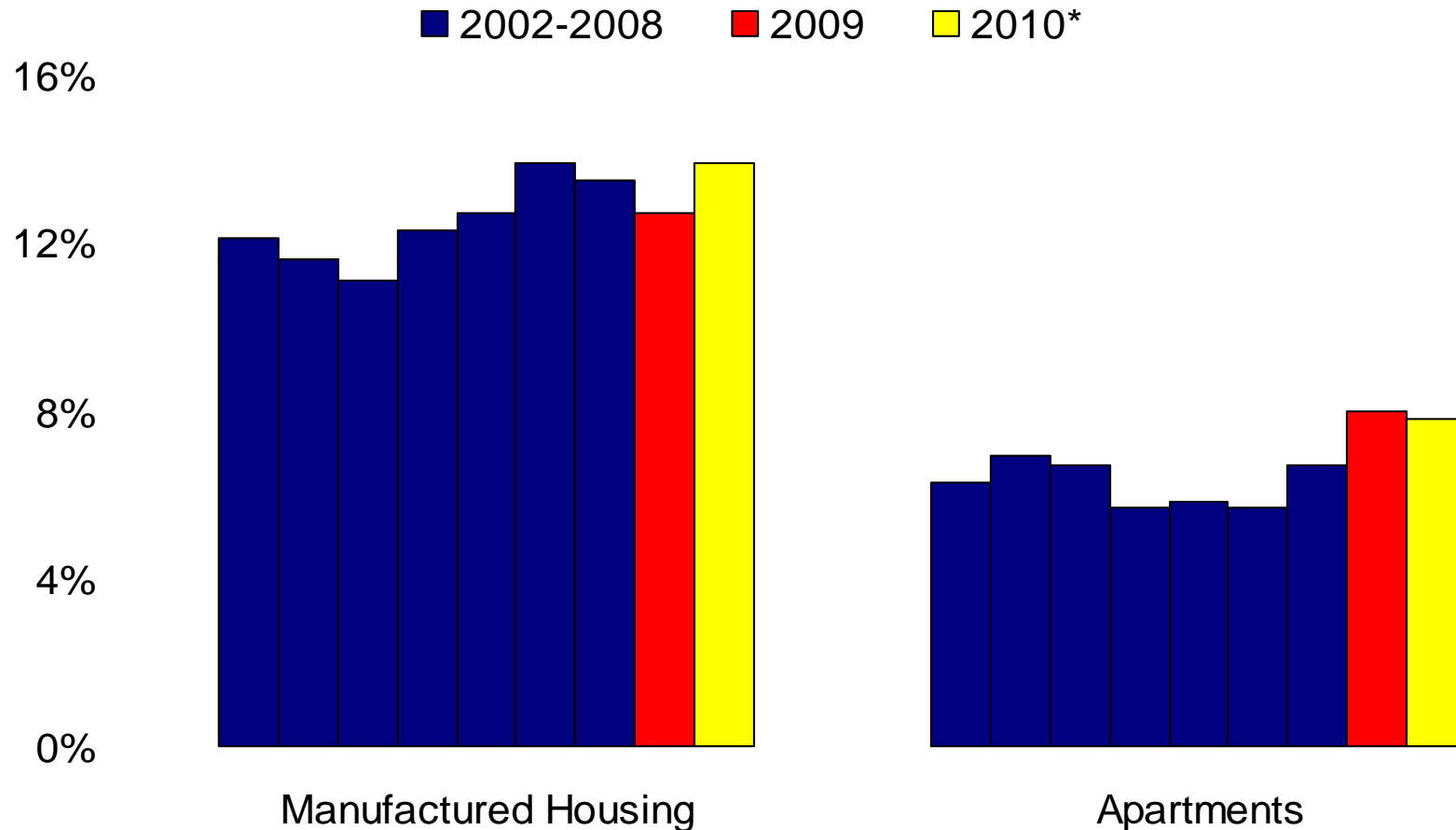
SOURCE: Marcus & Millichap; CoStar

6. MOBILE HOME PARKS...THE NEW MULTIFAMILY? STRUCTURAL CHANGE IN HOUSEHOLD COMPOSITION

Average Vacancy – Manufactured Housing Versus Apartments

U.S.A.

2002 - 2Q 2010



SOURCE: Marcus & Millichap; REIS; JLT & Associates

6. MOBILE HOME PARKS... THE NEXT MULTIFAMILY?

The Challenges

- ▶ Operationally very intensive proposition
- ▶ Acquisitions process difficult – small assets and non-professional sellers
- ▶ Capital markets not yet fully engaged with asset class

FINAL THOUGHTS

1. Dramatic opportunity to change who rents in America, but the window will close
2. Imperative for our industry to evolve away from being reactive to customer evolution
3. Innovation is time consuming and expensive, but those who achieve it do get paid
4. Segmentation opportunities not just about development, explore repositioning well located but dated stock