

The Next Boom: Will You be Ready?

Make sure your new construction includes the most competitive features and amenities

By Michael Ratliff, Associate Editor

Changes in renter demographics, pent up apartment demand and an improving economy have experts predicting and preparing for a major period of development, perhaps akin to the suburban apartment boom of 1969 to 1973, when monthly multifamily startups hit the 1 million mark. The next boom, however, will involve more planning than its suburban and inefficient ancestor. The 84 million Echo Boomers, 3 million of whom are graduating from college each year, are looking for hip and affordable spaces where the action is.

But three years with a lack of jobs have kept millions stuck at home with mom and dad. The good news is that the stars, it seems, are aligning for developers as job growth, likely the largest factor considered when deciding where to build, is improving. The U.S. Bureau of Labor reported a non-farm employment payroll increase of 216,000 in March 2011, and the jobless rate is down 1.0 percent from November 2010. The ability to land that first job or return to the workforce should set many Echo Boomers free in upcoming months, leaving empty nests for many of the 74 million Baby Boomers, a substantial portion of whom will downsize into rentals.

Combine these shifting demographics with three years of few startups, an aging stock of multifamily properties and dwindling interest in homeownership, and you have the recipe for a spectacular development boom. Developers' sentiment for building has increased accordingly, with NAHB's Multifamily Production Index (MPI) for market-rate rentals hitting 51.7 in the fourth quarter of 2010. It was the first time the number has breached 50 since the second quarter of 2007; a year ago the market-rate MPI was just 22.1. While the stars may be aligned, preparing for the upcoming development is no cakewalk.

"It is a great challenge out in front of us because this is a case of a future we can predict," says Mark Humphreys, CEO of Dallas-based Humphreys & Partners Architects LP, a firm that represented 15 percent to 20 percent of U.S. multifamily starts in 2010. "All of us just have to be smart enough not to build the past. Our mission with apartments is to design a new paradigm."

His firm is continuing to develop some of the most innovative and well-received apartment designs in the industry. The tried and true e-Urban community is extremely efficient and affordable to build, with over 100 projects breaking ground in the past four years. Its little brother, e-Max, has slightly smaller units and is the newest product from Humphreys & Partners, with a number of projects in planning and approval phases across the country. Both communities fit a lot of renters (up to 70 units per acre for a four-story e-Max) by eliminat-



KTGY Group Inc. designed The Crossing at Anaheim, a LEED Gold certified, 312-unit, transit-oriented development for the Sares-Regis Group. Units face interior courtyards to mitigate noise from the trains. (Photo by John Bare, inset by Vicaso.)

ing under-utilized common areas, thereby cutting construction costs and utility bills. But smart development involves much more than a well-thought-out design and attractive space. Where is just as important as what when it comes to the next stage of multifamily development.

Location is still 'king'

Humphreys jokes that he has "three very expensive Echo Boomer consultants on his pay role" to keep him in tune with current trends. They are his daughters, aged 19 through 25, all renters, all in different cities. He polled them independently on what they are looking for in an apartment.

"They want to be where the action is," he says. "They want to be where they can go out with their friends. They want it to be 'walkable.' They want to be in the cool part of town. Size is not as important. Smaller is all right, but as one of my girls said, 'I don't want to entertain in my bedroom.' What she is saying is that she doesn't want an efficiency unit. She wants a living area and a bedroom

area. They all said the same thing, which I found predictable. I wanted to be in the cool place, too, when I was a kid. But it is a different kind of thing now; they want to be in urban areas."

The Humphreys family is not alone in their urban affinity. When asked about the first feature Echo Boomers look for in an apartment, John Orehek, president & CEO of Seattle-based Security Properties could not have blinked before his reply: location.

"It's funny; the amenity that a resident looks for is not just what you provide, but what the neighborhood provides," Orehek says. His firm, which has developed or acquired 64,000 units in more than 40 states, is now focusing in on urban infill. "The lifestyle of the people we are appealing to goes way beyond

Adjusting Acquisitions

Acquisition targets are changing in preparation for the Echo Boomer, says Jay Jacobson, national acquisition director at Wood Partners. The days of buying just about anything you can get your hands on is over, as Jacobson feels that "future, long-term stabilized cash flow will come from more urbanized fields," areas with many of the same features developers seek. He has been finding the most stable properties are "located inside city centers, close to employment or good transportation corridors."

Jacobson uses Miami's Terrazas Village Park as an example of a property that exemplifies his checklist for success. Wood Partners purchased the failed-condo project located on Miami River, right off two of the city's major highways. The property is in walking distance to the metro rail, the rapidly expanding Miami Medical Center and the soon-to-be new home of the Florida Marlins, Miami Ballpark. "People are really paying attention to what we are calling 'walkability,' even in hot locations like South Florida," Jacobson says. "I know of a lot of institutional investors in public companies that have a 'walkability' checklist, which they are using as a ranking. So it is getting to be more cognizant on the investors side, especially as gas is trading toward \$5 a gallon."

The firm quickly completed the last stages of construction at Terrazas and began leasing the 312 units as market-rate apartments in July 2010. "We are getting a tremendous response to it," Jacobson says. "In fewer than six months we are more than 70 percent leased."

As far as building amenities go, the first question that Jacobson is usually asked is, "how can I connect? And can I do it wirelessly?" So, "the faster Wi-Fi you can give someone, the better off everything is," Jacobson says. He is also looking to include the most energy-efficient appliances and the ability to upgrade the property in the future. Wood Partners, one of the largest and most active multifamily developers, has a great construction team, so the acquisitions unit will not shy away from full-gut or major rehabs, as long as the location is right.

While the company is very active with acquisitions on the East Coast, Wood Partners recently opened a development office in Seattle this past December, and was looking to hire a West Coast acquisitions team, as of press time. The move is largely driven by evolving demographics and a lack of development in the region over the last three years.

Future Features

When you step back and think about how the younger Echo Boomers have had computers virtually since they day they were born, you begin to get a sense of what they have come to expect from their apartments. High-speed wireless Internet at no additional cost is first on that list. Designs coming from Humphreys & Partners Architects and those built by Security Properties go beyond, with business centers that offer a formal setting for presentations and hard-wired connections for video conferencing. Recreational features can include anything from a small movie theater, Nintendo Wii gaming center and virtual golf to keep that swing in form. The goal of such amenities is not just fun, but renter retention by laying down the fabric for a strong social network. "You have got to have a happening place—a feel good place," says Humphreys. "The number-one reason why people leave an apartment and move to another is the lack of feeling part of the community."

Orehek of Security Properties has been finding that residents are particularly accepting of the lounge areas, with seating, flat-screen televisions and a demonstration cooking area. "This is not the type of thing you saw in the suburban developments of the past with a kitchen room and a dance area," Orehek says. "It is a nice lounge where people can sit and talk and reserve a space for making a big dinner, with very high-end appliances." Another big hit is the ground-floor grocery store. Security Property's 268-unit Ballard on the Park in Seattle has a 200-by-200-foot courtyard located two floors above a 42,000-square-foot grocery store. Residents can run downstairs, grab some food for the outdoor grills, cook and then digest in the hot tub.

With denser communities like eUrban signing upward of 60 leases per month, Humphreys & Partners Architects has been redesigning and retrofitting the leasing centers to have more of a coffee house feel. They are putting in kiosks that show what units are available in real time and can offer a virtual tour of different floor plans. Booths are available for residents to set up in the morning with their laptops, as well as free newspapers and magazines, and multiple flat-screen televisions offer whatever news show the renter is inclined to watch. Just like your favorite neighborhood coffee shop, but "better than Starbucks," says Humphreys, "because you can actually open up the patio door in the leasing area, sit out in the lounge chairs by the pool with your coffee and paper and listen to the waterfall. What a fantastic environment."



The lounge and demonstration kitchen are a sleek addition to Security Properties' Ballard on the Park in Seattle. (Photo courtesy of Security Properties.)

the specific building. We have to be very careful about where this building is going to be and how people are going to get to work and their recreation activities from it."

While Security Properties has a number of projects in the pipeline, Orehek is most excited by a residential tower in the works in Seattle's South Lake Union neighborhood. The site is just blocks from where Vulcan recently completed the fourth phase of Amazon Inc.'s new 10-building headquarters. Ada Healy, vice president of real estate at Vulcan, predicted that the neighborhood will "go from 16,000 permanent jobs in 2003, to 40,000 jobs by 2015," in a *Seattle Post-Intelligencer* article.

Orehek likes these numbers. The tower his firm is developing, at its core, "will be appealing to a very high-tech, very professional, younger group of people earning good income, but not necessarily at the height of their earning power. At the higher-end units, the units with the fantastic views, you might find people downsizing who have decided they are not ready to buy a condo," says Orehek.

Transit trends

Echo Boomers want options when it comes to transit. Close access to highways is not enough. Nearly half of drivers aged 18 to 34 said they have consciously made an effort to reduce their driving, in an independent study commissioned by Zipcar Inc. in November 2010, back when the average national gas price was a cool \$2.86. Orehek's upcoming Seattle tower will be located close to metro rail and express buses. He plans on putting car-sharing services on site, as other developers have been doing, "so people have the choice not to have a car, but still have access to one."

Security Properties is also beefing up an under-developed site it has in Chicago that happens to have a designated elevated rail stop in the vetted 2030 Regional Transportation Plan. Orehek is getting ready to submit the property for the beginning of its entitlement process. If all goes as planned, it will be the largest project Security Properties has undertaken, with as many as 1,500 units and a substantial portion of retail.

Planning multifamily around an emerging urban district and developing transit systems is never easy, no matter what the capital situation, says Ken Ryan, principal and head of community planning and urban design studio with KTG Group. "It is more than just doing an apartment project," Ryan says. "You need to consider if the mix of residential, commercial and retail is organized in a way where you get great synergy." Ryan is working as a design advisor for the City of Anaheim and the California High-Speed Rail Authority on the logistics for a future transit center called AR-

TIC, the Anaheim Regional Transportation Intermobile Center. The hub also includes expanded Amtrak and Metro Line services, and it is a future destination for the Maglev line to Las Vegas. The High-Speed Rail Authority could prove to be a game-changer for California's urban framework with a proposed 800 miles of track and 24 stations. Ryan is currently helping the authority put together a vision for transit stops in Anaheim and Corona that are not just train stations, but are centers that "facilitate urban development that is affordable and sustainable."

KTG Group has designed recent success in the TOD realm with The Cross-



Left: The e-Max multifamily concept can fit 70 units-per-acre with a garage. Above: A courtyard at Tortuga Pointe, an e-Urban project in St. Petersburg, Fla. (Photos courtesy of Humphreys & Partners Architects LP.)



ing at Anaheim, a 312-unit LEED Gold-certified project adjacent to Anaheim Metrolink and Amtrak train stops. The Sares-Regis owned property fits 60 units per-acre, a bit more spread than Humphreys & Partners newest designs, but it offers a variety of floor plans in an emerging neighborhood with a soon-to-be complete hospital that will increase employment.

Humphreys & Partners Architects has taken note of the transit trend, with 14 projects under its belt. And while Humphreys believes that TOD sites "generally have a high success rate given that an urban sub-center is created at that stop," he is quick to point out that the demand for apartments arrived before any railroad revolution. With a finite (or non-existent) stock of transit stops suitable for development in most cities, the TOD, while catering to the discerning and sophisticated Echo Boomer, is unlikely to make up the majority of their generation's homes.

Demographically driven design

A small enough footprint and a dense enough building should be able to get a substantial portion of the Echo Boomers into those trendy urban infill locations where walking or cycling will suffice most of the time. Changes in technology and design are allowing Humphreys to create a product that packs a lot of punch into a small bowl. As an avid pilot, he likens our country's largest stock of apartments (the ones from the early 1970s) to the Leer Jet, an aircraft destined to become the world's heaviest paperweight. "You know what is wrong with the Leer Jet today?" he asks. "Someone has come out with a new product—the carbon fiber jet." These new planes can carry the same amount of passengers, but are smaller, lighter and use about one-fifth of the fuel. These personal jets are akin to what Humphreys has done with e-Urban and is doing with e-Max.

By ditching corridors in favor of a design where all units open up to an elevator lobby, e-Urban is able to achieve a staggering 87 percent efficiency. "We have already, by design, reinvented the corridor apartment by doing no corridors," Humphreys says. "It is revolutionary."

The design offers two easily recognizable advantages. For one, it is cheaper to build because it eliminates 40,000 to 50,000 square feet of space per project,

which, at \$100 per square foot, can save \$4 million. Second, you don't need to heat or air-condition those hallways, which reduces operating costs.

Since mid-year 2010, Humphreys & Partners has experienced a nearly 40 percent increase in the number of projects in its eight U.S. offices. The e-Urban design has found success as both student housing and urban infill, and can be tailored to fit regional styles and parking needs with either a wood frame garage, podium or surface park configuration. An unprecedented demand for market-rate apartments close to campus for upperclassmen (a result of more kids staying in school) has led Humphreys to tailor the e-Urban concept for students in projects like Canopy in Gainesville, Fla., a 250-unit, 770-bed project that achieves 45 beds per acre with three stories and surface parking.

Specifically designed for the Echo Boomer is e-Max, a product that fits a comfortable studio into 340 square feet. There is a small desk inside the front door to toss down your laptop or keys, as well as space-utilizing features like a rolling island that complies with handicap codes and a fireplace tucked beneath a closet. Even in an expensive neighborhood, say at \$2 per square foot (as some of Humphreys projects are getting in Dallas), the Echo Boomer would only be paying \$640 a month.

One-bedrooms fit in 558 square feet, thanks to a keen attention to details like a flat-screen television mounted over the kitchen island, a feature that allows for a very narrow living room with just enough space to get together and watch the game or reality TV. Sliding doors open up to a nine-by-11 foot bedroom. These smaller units not only benefit the cost-conscious renter, but also give the operator an extreme advantage over competitors using an older design. Humphreys recently had a developer call him up and decide to go with an e-Urban building over a traditional corridor complex based on the ability to fit 20 percent more units on site, enabling him to "economically blow away" the competition across the street.

"Everyone is frankly set in their ways of doing apartments," Humphreys says. "But if you're slow to change, you're going to be like the steam engine, the sailing ship and the Smith Corona typewriter. You are going to be obsolete." MHN

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