

from NAA's Chairman of the Board, Dave Watkins, CAPS

Celebrating a Year of Growth and Success



An already healthy apartment industry got healthier this year as the need for rental housing throughout the country increased. Homeownership recently hit a four-year low and key demographics such as retiring Baby Boomers and Generation Y's young professionals entered our markets. With the ongoing national crisis in the credit markets, our industry also responded by welcoming back former homeowners who have now made apartment living a lifestyle choice.

NAA and the NAA Education Institute followed a Back to Basics approach throughout the year. Together, we found ways to enhance our current products and services while introducing new ones that meet the industry's financial and operational needs. I am proud to report that a list of achievements is included in Landmarks, the NAA's annual report, which is enclosed in this issue.

UNITS magazine continues to play a critical role in educating and informing members on strategies that helped their bottom lines.

Smoke-free apartment communities not only promote a healthy resident population, but also a healthy bottom line for owners and investors. Susan Schoenmarklin and Jacque Petterson, with contributions from Jim Wiard and an independent rental owner viewpoint from Rich Sommer, detail the reasons for banning smoking, the proper implementation of such a policy, the legal ramifications of staying smoker-friendly, how to inform residents of a change in policy and the dangers smoke poses to a community. Read the comprehensive **Smoke Signals** package, beginning on page 18.

As the industry looks ahead to 2008, national brokerage firm Sperry Van Ness has chosen its top 10 markets to watch for industry growth in the coming year. From Dallas/Fort Worth and The Inland Empire to San Francisco and Tacoma, you cannot afford to miss the firm's detailed descriptions of where to invest in 2008. Read **Top 10 Markets to Watch**, page 30.

In 2007, we've seen downturn in real estate investment, but as Rory Ferlauto writes in **Reality's Return to Realty**, page 38, the stage is set for stabilization in real estate transactions, with cap rates returning to more realistic levels in the 5 percent to 6 percent range.

Speaking of issues with real estate, the rental housing market is not immune to issues in for-sale stock. Economist Richard Moody explains how the effects of the subprime mortgage meltdown have reached international proportions, including independent rental owners in the United States, in **Mortgage Mess Multiplies**, page 40.

What do residents want? Renowned consumer research firm J.D. Power surveyed apartment residents from four key markets and found that a sense of community was the preferred "amenity." Read **The "Power" of Satisfaction**, page 45.

Disasters can happen at any time and at any apartment community. So how should an owner or manager react when one strikes close to home? When a community sustains wind, flood or fire damage, public adjusters' tact enables owners to minimize losses, maximize settlements and get back to business. Wes Baldwin describes how in **Adjusting to Disaster**, page 48.

Student housing is a growing niche market in the industry from which owners, developers and investors can stand to make great gains. In **Student Housing Grows Up**, David J. Adelman writes that student housing has become more attractive not only to developers, but also to their investment partners and financiers—some of whom are underclassmen when it comes to operational knowledge. Learn the basics on page 54.

On a personal note, it has been a pleasure serving as your 2007 NAA Chairman of the Board. I look forward to another successful year with NAA's 2008 Chairman of the Board, Michael Tompkins.

Happy New Year!



Smoke Signals

BY SUSAN SCHOENMARKLIN AND JACQUE PETERSON

About This Report

Whether change comes voluntarily or through the passage of laws, the demand for smoke-free housing is only going to increase, according to recent studies and apartment executives. More and more cities and states are banning smoking in public places and residents are becoming increasingly knowledgeable about the hazards of secondhand smoke.

In this new era, many owners and managers are choosing not to ignore the problems that can result from a smoke-friendly community. They are finding that keeping the smoke out is the best way to retain both residents and profits.

Following is a five-part look at smoke-free apartment communities, including reasons for such a policy, implementing a policy at large and small communities, awareness of legal implications and efforts and effects of remediating rental homes previously occupied by smokers.

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As public awareness about second-hand cigarette smoke's hazards grows stronger, pressure is mounting for owners and managers of the nation's apartment communities to provide smoke-free living spaces.

Fortunately, what is in the best interest of resident health is also in the best interest of community owners' bottom lines. Surveys from market research firms in Portland, Ore., and in Minneapolis and St. Paul, Minn., as well as informal polls of renters from across the country, show a high demand for smoking to be banned in apartments, which means more residents and more revenue for those owners who meet that demand.

Before smoke-free air laws became prevalent in the mid-1990s, it would have been difficult to imagine renting an apartment without tobacco stains on the bathroom vanity and carpet. Although the smoking rate may be higher in some areas, the Centers for Disease Control note that less than one quarter (21 percent) of American adults smoke today. That means almost 80 percent of adults do not smoke, and of those who do, some smoke outdoors to protect loved ones and to avoid allowing the odor to seep into their furnishings.

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To assess the market's impression of secondhand smoke in the apartment arena, the Portland-Vancouver Metro Area Smokefree Housing Project commissioned a market survey of area renters in 2006. It found that 75 percent of renters would prefer living in a smoke-free building, and more than half would be willing to pay more rent to live in a smoke-free community.

Kirk Taylor, Executive Vice President in the Portland office of real estate firm CB Richard Ellis, said business for owners with no-smoking policies will improve because they will be able to show healthier-looking apartment home rentals. "For a [prospective resident who is a] non-smoker, it's like walking into a place with

a dirty toilet," Taylor said. "They think, 'Why would I want to rent this thing?'"

Three-quarters of respondents supported the right of owners to prohibit smoking in order to prevent secondhand smoke from seeping into neighboring units. The survey also found that while one-fourth of residents smoke, most are already taking the habit outside; only 11 percent of renters smoke inside their apartment homes on a regular basis.

Other surveys show a similarly strong preference for no-smoking apartments on the East Coast and in the Midwest. A recent survey by the New York Coalition for a Smoke-Free City found that more than 69 percent of New Yorkers want to live in smoke-free buildings, and nearly half of them would pay more to live in communities that ban smoking.

In a 2006 survey of King County Housing Authority residents conducted by the University of Washington, 84 percent reported that they did not allow smoking in their apartment homes. Surprisingly, although disabled respondents had a smoking rate of 39 percent, more than two-thirds did not allow smoking in their apartment homes.

Nearly three-quarters (73 percent) of residents surveyed supported prohibiting smoking inside apartments in housing authority buildings.

Many market leaders across the country are discovering that, contrary to conventional thought, when they ban smoking from their communities they attract new residents—those seeking apartments that do not allow smoking. These community owners' profits are encouraging others to join the trend.

Katie Zuleski, who manages 160 residences for Flo Mar Apartments in Ypsilanti, Mich., said that she believes the change to a smoke-free community "has been a selling point for us. It has made our community that much more attractive to prospective residents. I think it is beneficial to our bottom line."

On Sept. 1, Guardian Management, a real-estate investment and management