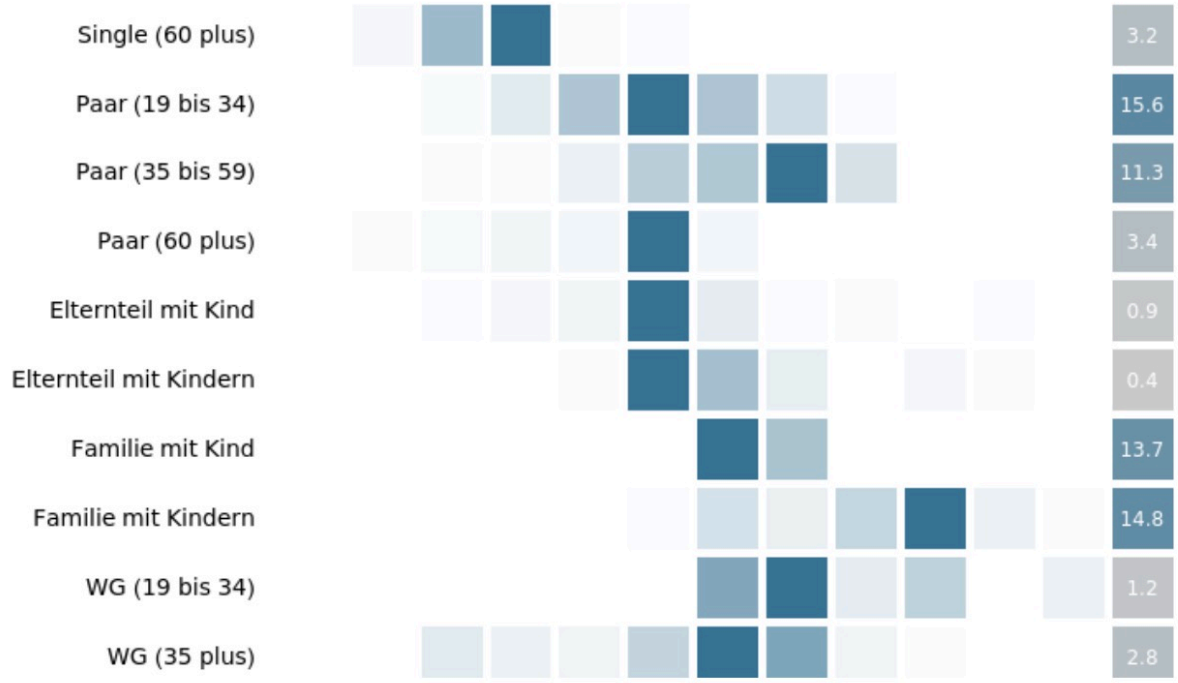
New ways to measure tenant preferences



Tenant surveys and the evaluation of search subscriptions are the classic methods for approximating the preferences of tenants and those looking for accommodation. However, structures and changes can be better read from the data of household-specific applications and rentals. Density of use, mixing, financial sustainability and the supply of specific social groups with living space are just a few of the findings that this method of "revealed preferences" enables.

By Christoph Craviolini & Marius Wehrle (emonitor AG), Christian Kraft & Daniel Steffen (HSLU)

The targeted dispositions of living space is becoming an ever greater challenge due to the changes, but also due to the existing social complexity in the competitive housing market. Whoever understands locations and their residents and is aware of new trends will win over existing or future residents. From a market perspective, the transparency of the preferences of apartment agencies leads to a more efficient allocation of living space. Owners and cities can react faster to change, and faster reactions lead to faster adjustments to market equilibria.

But what methods are available to private owners, planners and the public sector for measuring preferences? Inquiring, observing and disclosing are basically the three possible approaches.

Three approaches to capturing change

"Stated preferences" are determined in the classic way in the form of surveys. Tenant surveys are the traditional tool for this. The advantage of this method lies in the possibility of addressing specific topics in great detail. The disadvantages being very high organizational effort, the time burden on the residents, low response rates and the distortion of answers due to wishes and hypothetical answers.

"Observed Preferences" are derived from observations of the behavior of seekers and residents. An advanced variant of this method is, for example, the collection and

analysis of subscriptions from apartment agencies. These provide information about the demand for specific apartment types and price ranges in individual regions. By comparing it with the respective amount of the advertised offers, the demand can be compared with the available supply. This analysis thus enables regional indications of oversupply or shortages. Despite all its advantages, this method suffers from three disadvantages: First, the local limitation is very rough because many searchers specify larger search areas. Second, it is not clear to what extent the data suffer from bias, such as the systematic overestimation of financial possibilities. Third, and most relevantly, the socio-demographic characteristics of the seeker remain in the dark. It cannot be traced whether the 4.5-room apartment is in greater demand from four-person households than from singles.

"Revealed preferences", on the other hand, are derived directly from the factual behavior of seekers and residents. Data is rare in this area, but it is growing steadily. Data from digital application and rental processes enable clear conclusions to be drawn as to which household types are bindingly applying for which specific apartment dispositions.

Particularly meaningful: data from specific rental processes

The strength of the data from apartment applications is not only that binding and actual preferences can be reliably determined, but also that detailed socio-demographic characteristics of the applicants are known. When applying, people looking for a home provide information on their household income, type of household, age, family size, place of residence, etc. This information is of high quality because applicants know that their information will be checked via references. This information allows preferences to be analyzed, e.g. according to population groups, income structures or age, and a targeted mix, financial sustainability or density of use to be determined. By comparing them with available apartments, the supply for individual population groups can also be observed and shortages or surpluses can be identified at an early stage. The population structure of the surrounding perimeter can also be used to show deviations between existing population structures and thus to identify current developments at an early stage.

First analyzes for the city of Zurich

The figures below give a brief insight into the first evaluations of the application data. For example, preferences with regard to apartment space, rent or the relative rent burden can be broken down according to population group. Likewise, the absorption of offers according to net rental interest but also other characteristics can be shown. The demand data comes from emonitor AG and is obtained from applications for first-time rental projects in the city of Zurich over the past three years.

Preference in terms of living space

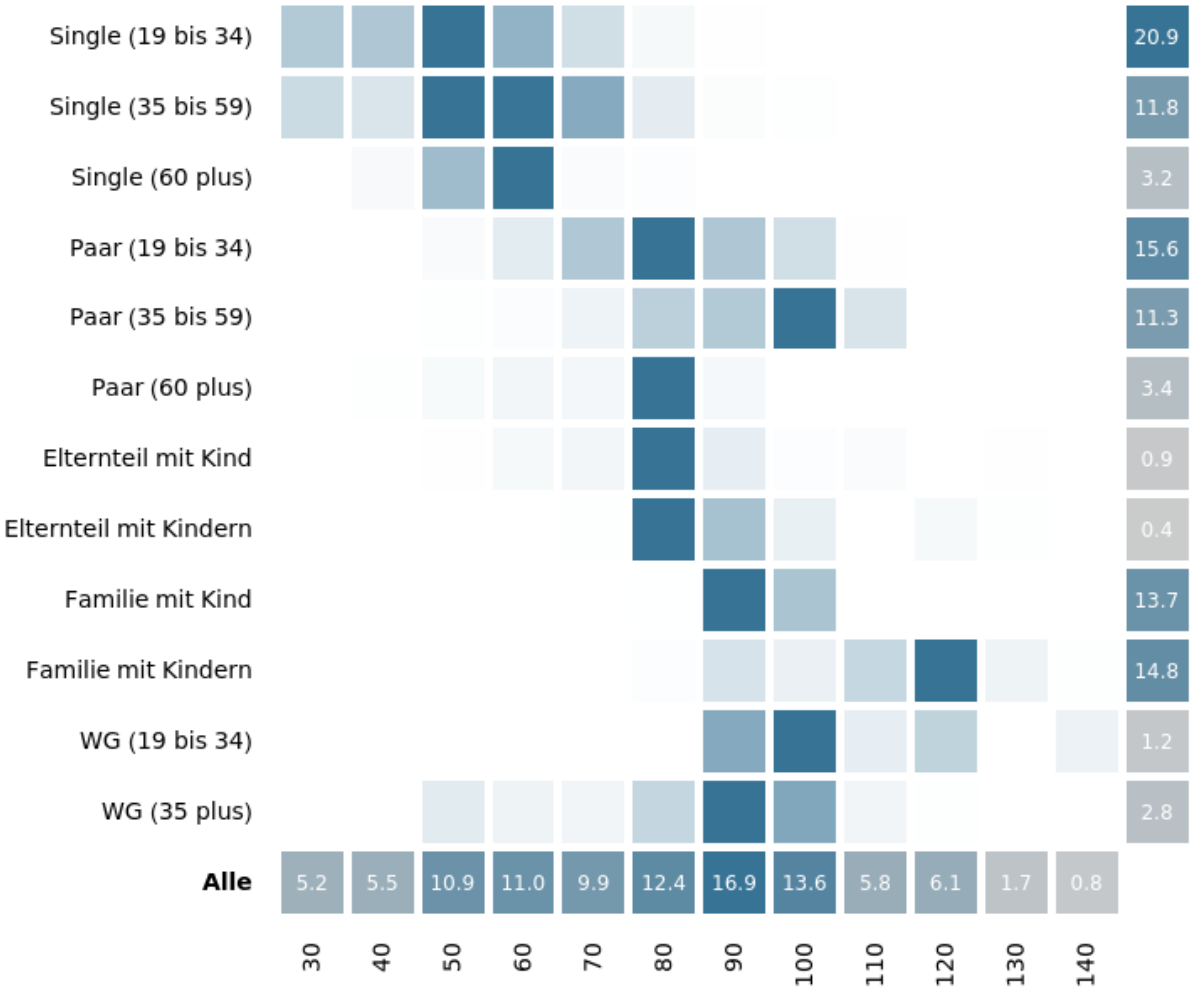


Figure 1: Preference regarding living space (in m2); Source: emonitor insightLab

Figure 1 shows the tenant preferences in terms of living space (in m2). The darker the color, the greater the demand for a certain size of apartment in a certain phase of life. On the right-hand side, the proportion of the respective life phases in the total of applications is shown. Overall, in the existing sample from the city of Zurich, apartments with an area between 80m2 and 100m2 are the most sought-after. There are clear differences in preferences according to life phases. For example, most couples between 19 and 34 years of age are looking for an apartment with around 80m2 of space, while couples between 35 and 59 years of age are looking for larger apartments with 100m2 of space.

Price structure of demand

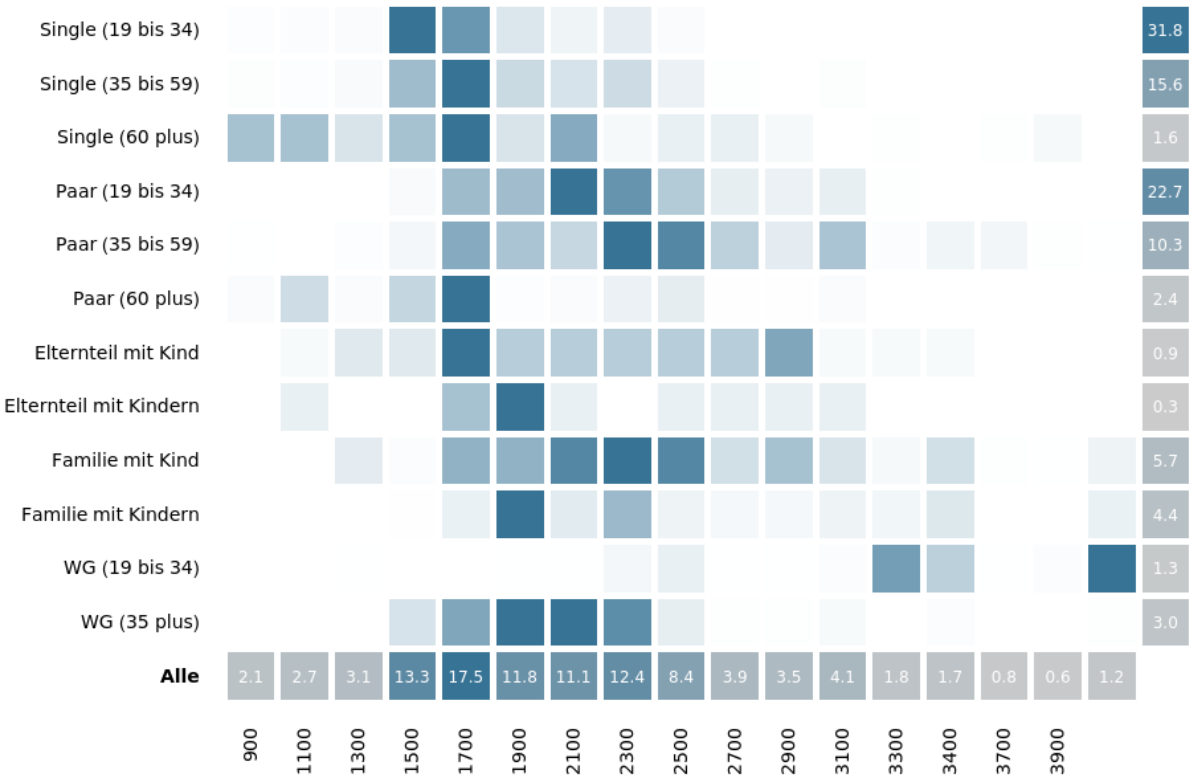


Figure 2: Preferences regarding net rent (in CHF per month); Source: emonitor insightLab

Figure 2 shows the price structure of the demand for different monthly net rent in CHF and life phases. The most popular are apartments with a net rent of around CHF 1,700 per month. Couples between the ages of 35 and 59 and families with children, for example, have an above-average willingness to pay. Flat shares with residents between 19 and 34 years of age also usually have a very high willingness to pay.

Rent burden on households

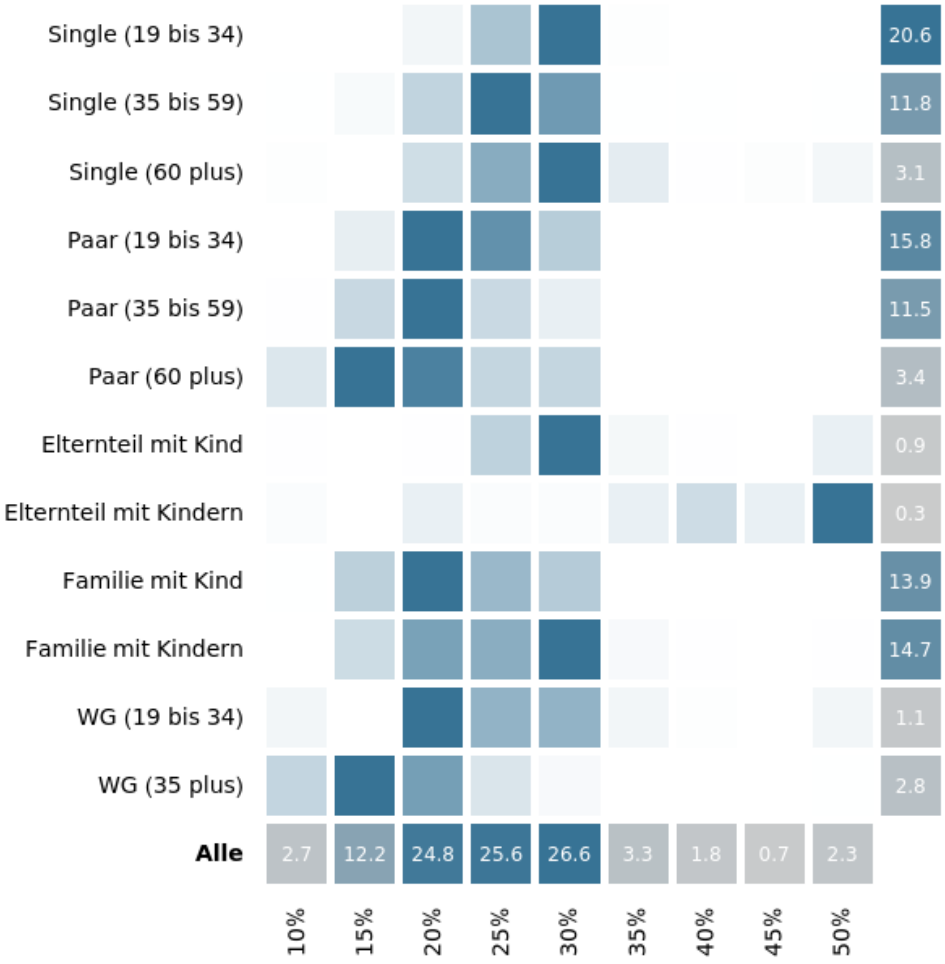


Figure 3: Rent burden (gross rent in% of gross income); Source: emonitor insightLab

Figure 3 shows the rent burden according to life phase. The rent burden corresponds to the share of gross rent in gross income. The most common rent is between 20% and 30%. The rent burden for single parents is much higher, often around 50% of gross income. The rent is least burdensome on average over 35-year-olds who live in a shared apartment or over 60-year-old couples.

A new type of demand monitor at market level is being planned

These first analyzes show the potential of application data for the analysis of tenant preferences and why they represent another important step in digitizing tenant preferences and being able to track changes promptly and reliably. The data from application and rental applications stand out in particular through two attractive properties. First, actual and binding preferences, “revealed preferences”, are observed. This promises more reliable and more precise assessments of developments in the housing market. Secondly, detailed socio-demographic characteristics of the applicants are known, which means that the supply of specific population groups, the financial sustainability or the mix can be observed.

The emonitor AG data pool is currently focused on Zurich, but is growing every day across Switzerland. Together with emonitor, the Lucerne University of Applied

Sciences and Arts is planning to use this data to develop a demand monitor for systematic analysis and benchmarking at market level. This monitor promises an early, reliable and detailed detection of trends and allows private owners, planners and the public sector to tailor the living space to the preferences of certain population groups. This leads to the avoidance of vacancies and an efficient use of the scarce resource space.

Are you interested in further information about this method or the underlying project? Then contact Christoph Craviolini or Daniel Steffen directly or register for the “Sustainable Housing Industry 2021” conference.