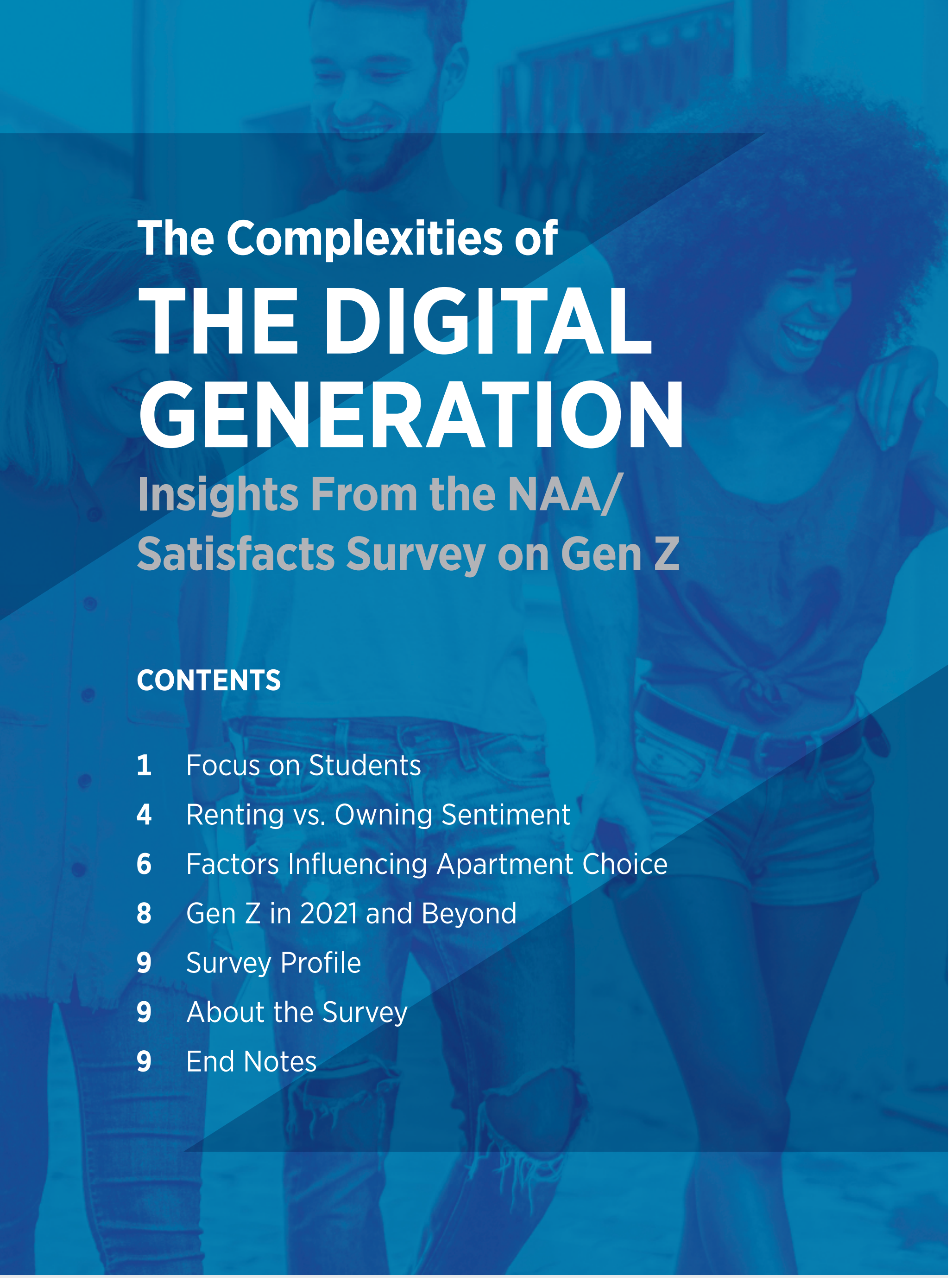
THE COMPLEXITIES OF THE DIGITAL GENERATION

Insights From the NAA/Satisfacts Survey on Gen Z

NAA
NATIONAL APARTMENT ASSOCIATION

ApartmentRatings SatisFacts



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The Pew Research Center defines Generation Z, also referred to as the “Digital Generation” or “Digital Natives,” as those born after 1996. The oldest of this most “connected” generation turned 23 years old in 2020 and are either already in, or about to enter, their prime renting years.

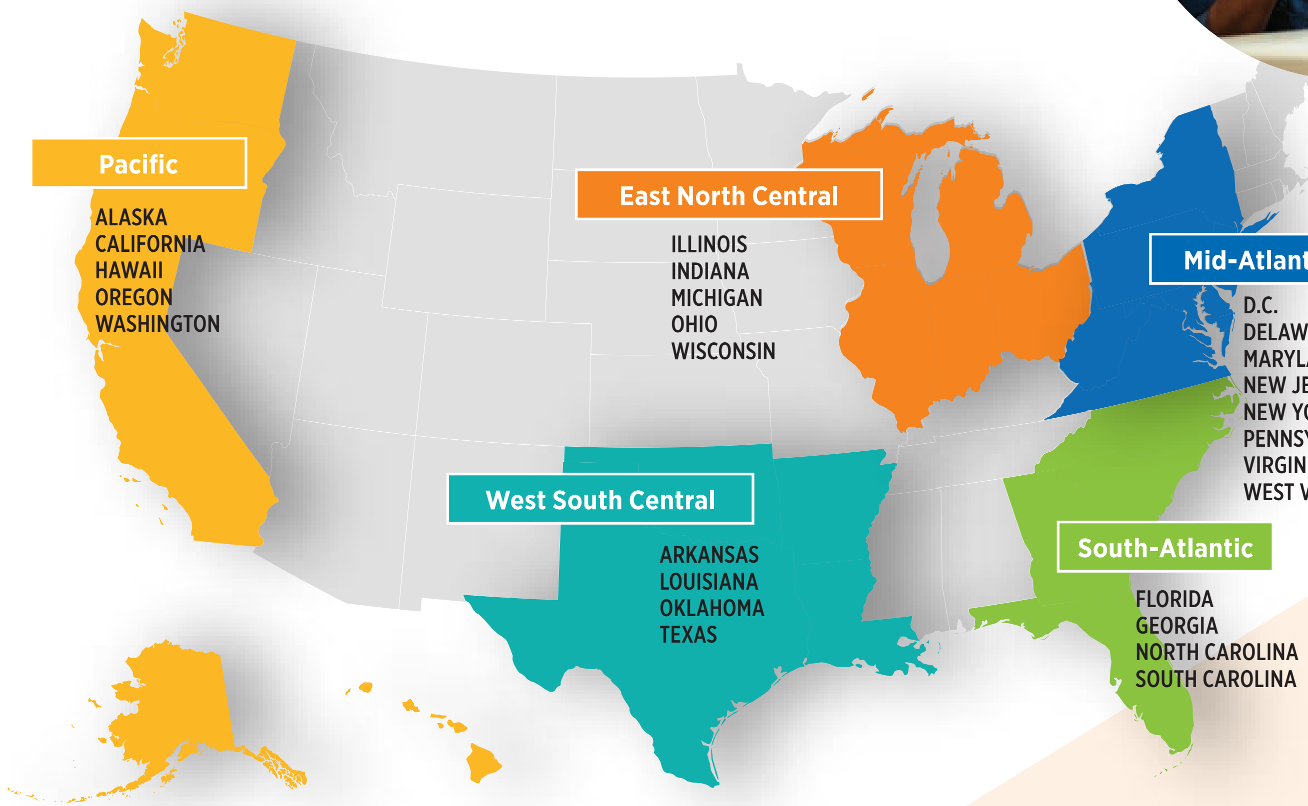
Gen Z is the most racially and ethnically diverse generation. They are more likely to be children of immigrants compared to their Millennial counterparts and are projected to become majority nonwhite in just five years’ time. They are on track to be the best educated generation, dropping out of high school less frequently, attending college at higher rates, and are more likely to have a parent with a college degree than prior generations.[1] This report focuses on 18- to 23-year-olds, an age cohort measuring roughly 25.6 million in the United States.[2]

FOCUS ON STUDENTS

Fifty-eight percent of college students plan to stay put after graduation. Of the five regions with statistically significant responses, the Mountain region stands to have the highest retention rate for this budding talent at 69 percent, followed by the South Atlantic region at 63 percent. Of those planning to relocate, 23 percent plan to move to the Pacific region, followed by the Mid-Atlantic at 20 percent and the Mountain region at 17 percent.

Approximately 39 percent of survey respondents were still in college. In contrast to those not currently enrolled in school and who have a propensity to work in the services industry, post-graduation plans for these students include joining the health care field in strong numbers. At 24.3 percent of responses, it was far and away the number one category. Business management/administration and STEM jobs came in second and third, respectively, at approximately 10 percent each. Fewer than seven percent are interested in sales, marketing and service-based industries – retail, hospitality, professional and personal services, etc.

Top Regions for Retention & Migration Combined



Note: Responses for retention and migration were weighted by 2019 population estimates to adjust for geographical survey bias.

States Most Likely to Draw New Graduates Based on Career Plans

HIGHEST LOCATION QUOTIENTS OF TOP 3 FIELDS COMBINED

	Healthcare	Business	STEM
COLORADO	1.5	1.8	1.6
ARIZONA	1.6	1.2	1.5
D.C.	0.6	1.6	2
WASHINGTON	1.2	1.4	1.2
MASSACHUSETTS	1.1	1.3	1.3
VIRGINIA	1	1	1.5
CALIFORNIA	1	1.3	1.2
DELAWARE	1	1.5	1
IDAHO	1.4	0.9	1.1
NORTH CAROLINA	1.1	1	1.2

Location quotients display concentrations of demand within MSAs. U.S-wide average demand equals 1.0; a location quotient of 1.5 indicates 50% higher demand than the US average.

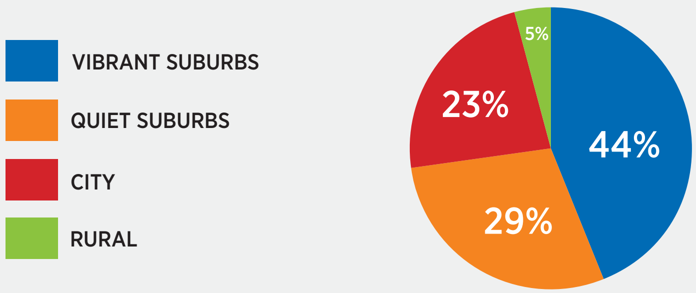
Burning Glass Technologies. http://www.burning-glass.com. Labor Insight™ 2021

While many factors play a role in where someone ultimately chooses to live, for recent college grads, work has a major impact on that decision, particularly in an economy that might still be in recovery mode when Gen Z enters the workforce. According to job postings data from Labor Insight™, Arizona, Colorado, Alaska and Idaho ranked at the top for demand for health care workers in 2020 as measured by location quotients. A location quotient measures how concentrated demand is for a job or industry in a particular geography compared to the U.S. Demand for health care workers in those four states ranged from 40 to 60 percent higher than the U.S. average. Business management jobs span many industries and 2020 job availability data showed Colorado, D.C., Delaware and Washington at the top. Finally, demand for STEM positions was most concentrated in D.C., Colorado and Arizona.[3]

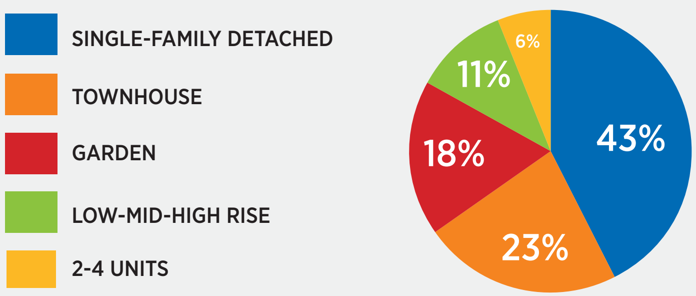
The suburbs handily beat out cities for preferred locations after college graduation. Approximately 44 percent of respondents said they would prefer to live in a vibrant suburb, followed by 29 percent in quieter suburbs and 23 percent who plan to land in a city. The movement away from cities to suburbs is not a new trend and, by some estimations, has been playing out for decades. According to a Brookings study, population growth in the suburbs during the first decade of this century was more than three times greater than cities. And although cities gained some ground in the early years of the recovery from the Great Recession, suburbs took the lead again in 2016 and have

The suburbs handily beat out cities for preferred locations after college graduation.

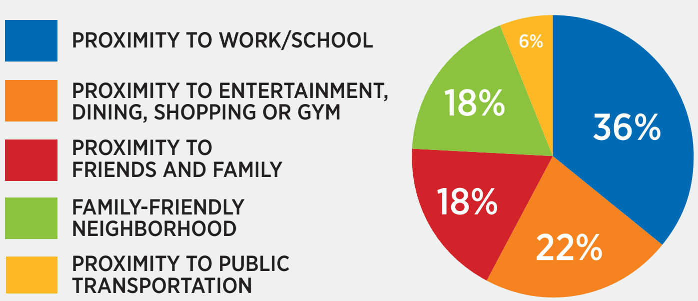
What type of area do you plan to live in after graduation?



If you plan to rent after graduation, what does your ideal home look like?



What factors will influence your decision for the next location of your apartment?



Totals may not sum to 100% due to rounding.

experienced higher growth rates since.[(4)]

While some of Gen Z's desires are inherently at odds with one another, particularly when it comes to amenities, property type and location are not. Some 43 percent of future Gen Z grads said a single-family detached rental would be their ideal home, clearly more likely to be located in a suburb. Townhouse-style homes came in second at 23 percent, followed by an apartment in a garden-style community at 18 percent.

But will other factors outweigh location and property type preferences when Gen Z actually makes a choice? The number one determinant for those still enrolled in college is proximity to work or school, followed by proximity to entertainment, dining, shopping and gyms. Although COVID-19 turned the idea of needing to be close to one's place of work on its head, in a post-pandemic world, it is highly likely that a majority of jobs will need to be in somewhat close proximity to an office, hub, colleagues or clients at least some of the time.

Some of the location factor choices and amenity importance conflict with property type and the preference for city versus suburb. For instance, higher-tech amenities are more often found in newer properties. During the past decade (2010-2019), single-family rentals comprised only 18 percent of all newly completed rental housing.[(5)] Cities and vibrant suburbs will fill the need for dining, shopping and entertainment far more readily than quiet suburbs.

It is important to note that the survey was open in November and December of 2020, months after the onset of the pandemic when many people had adjusted to the new normal. How much of a role the COVID experience played in responses is impossible to measure, but we can draw on other Gen Z surveys for guidance. For example, a Freddie Mac survey published in August 2019 found that Gen Z have more positive perceptions of homeownership than Millennials did at the same age. When asked about homeownership preferences, medium-sized single-family homes in the suburbs rose to the top.[(6)]

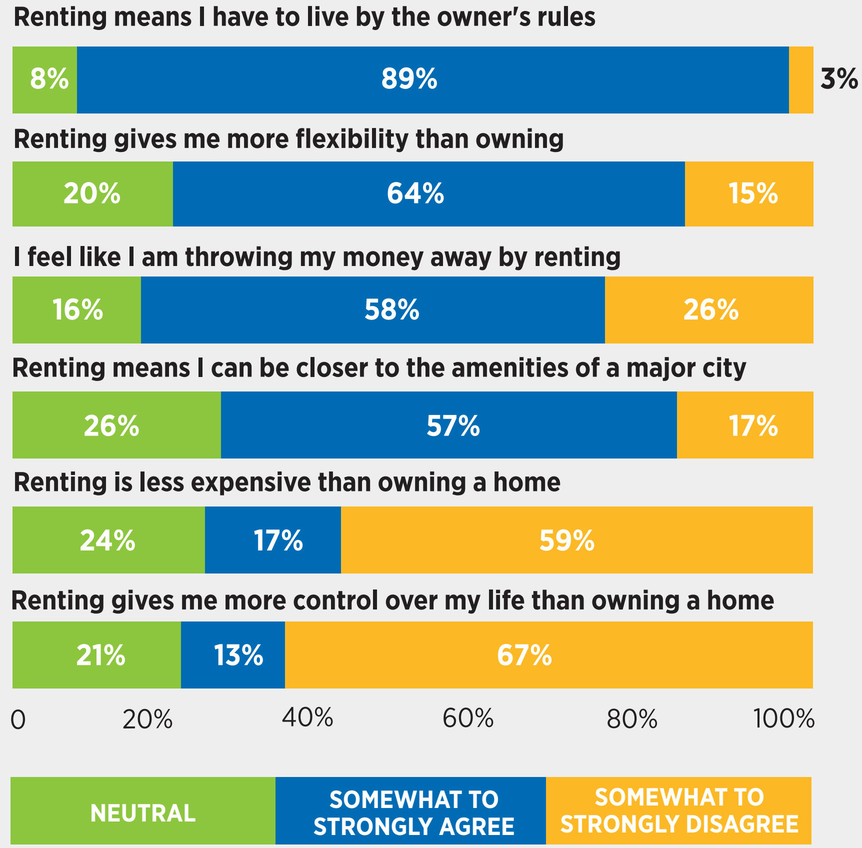
RENTING VS. OWNING
SENTIMENT

Some Gen Z's believe that buying a home, rather than renting, is the more financially sensible option. Fifty-eight percent of Gen Z's surveyed indicated that renting feels like throwing their money away. Similarly, 59 percent opposed the notion that it costs less to rent than to own a home – a factor that is highly dependent on location. According to a Fourth Quarter 2020 report from ATTOM Data Solutions, for-sale housing affordability worsened in 55 percent of counties analyzed across the U.S., up from 43

Our survey revealed that the leading sentiment Gen Z's have toward renting is that when you rent, you must live according to a property owner's rules, for which 89 percent agreed. Correspondingly, 67 percent disagreed that renting gives you more control than owning a home. These findings are to be expected as residents are required to abide by the terms and conditions given in their lease agreements.

Although renting may seem to involve more rules, many Gen Z respondents recognize the flexible benefit of renting. Sixty-four percent agree that renting provides an adaptable living arrangement. The option to pick up and go when their lease has expired is beneficial for them, as is the ability to move to new areas without making a long-term financial commitment. During the COVID-19 pandemic, flexibility has become more valuable than ever, especially for renters experiencing hardships. Property owners have responded by offering flexible or shorter lease terms, waiving late fees and creating payment plans.

Gen Z Renter Sentiment



Totals may not sum to 100% due to rounding.

percent during Q4 2019 and 33 percent 3 years prior.[7]

The survey also uncovered that 62 percent of Gen Z's intend to purchase a home before the age of 30. Considering that the oldest of Gen Z are currently 23, it is noteworthy that 16 percent of the U.S. Gen Z population see themselves entering the real estate market within seven years. When asked how long they planned to rent an apartment, nearly equal amounts said between 1 to 2 years (39.8 percent) and 3 to 5 years (39.3 percent).

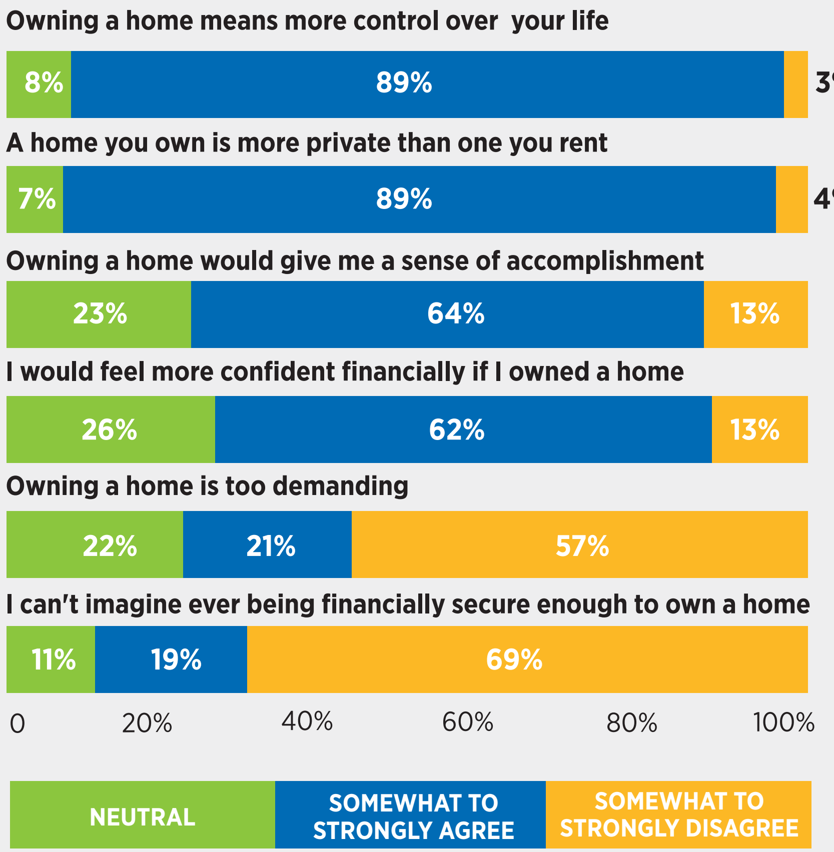
Although renting may seem to involve more rules, many Gen Z respondents recognize the flexible benefit of renting.

Eighty-nine percent of Gen Z's surveyed believe that homeownership provides both more control and privacy than renting. Realtor.com reported that a quiet location ranked as the second most desired home feature behind a garage in a survey of prospective homebuyers conducted over the summer.[8]

Close to 60 percent disagreed that being a homeowner is too demanding, indicating the optimistic attitude Gen Z's have toward homeownership. It's important to note that, unsurprising, only four percent of Gen Z participants actually had personal experience with homeownership. Despite 41 percent expressing that owning a home is not as significant as it used to be, 64 percent of Gen Z participants still consider homeownership a sign of accomplishment.

Few Gen Z's consider home prices an obstacle toward homeownership, as 69 percent are confident that it will be financially feasible to own a home at some point in their life. In comparison, Millennials are more pessimistic when it comes to homeownership. Twenty-two percent of Millennial participants indicated that homeownership did indeed seem unattainable for them financially.

Gen Z Homeowner Sentiment



Totals may not sum to 100% due to rounding.

FACTORS INFLUENCING

APARTMENT CHOICE

Our survey showed that Generation Z focuses on technology, functionality and convenience when choosing an apartment home.

Ninety-four percent of Gen Z responses indicated that internet connection inside the apartment would be a significant factor when shopping for an apartment. Growing up in the digital age, they are the most internet-dependent generation who rely on the internet for working, learning, communicating, shopping, socializing and entertainment. Likewise, strong and reliable mobile phone reception is a necessity at 83 percent of responses. As far as community-level amenities, Wi-Fi-enabled communities as well as security and access control features both ranked high at 86 percent.

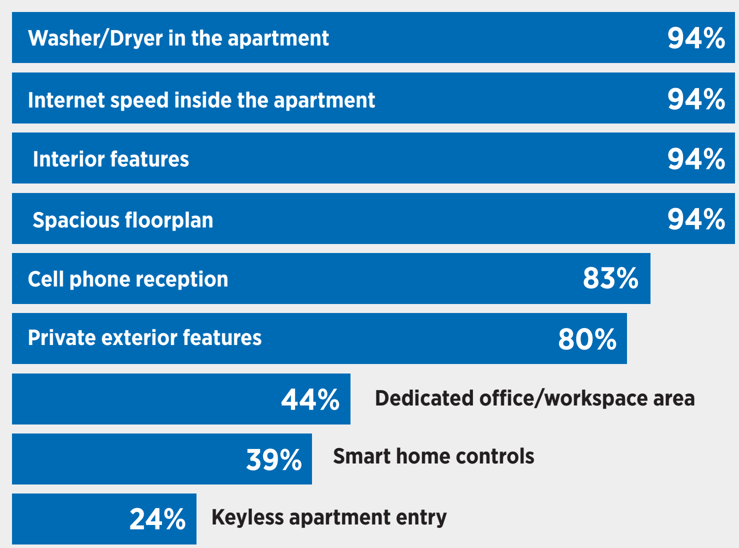
Gen Z renters are practical consumers who additionally value a functional living space with upgraded features. The majority of Gen Z survey participants said that spacious floor plans and premium features such as a washer/dryer, walk-in closets, balconies and hardwood floors are key factors in their decision-making. They would prefer a multifunctional open floor plan to work, live and play as opposed to specialized areas. A dedicated office/workspace ranked lower on the list at 44 percent.

While internet speed and cell phone reception are of utmost importance for Gen Z's, other tech features such as smart-home controls and keyless entry ranked further down on the list, at 39 percent and 24 percent, respectively.

Above all other community amenities, 91 percent of responses indicated that a guaranteed parking spot was a significant community amenity. It is important to note that regional differences can impact survey responses. Most respondents live in the southern region of the U.S., which generally has higher rates of car ownership. According to Census, only 14 percent of renters in the South do not have a car, far less than the 36 percent of renters living in the Northeast.[5] However, it fits with the college cohort of survey respondents who stated a

Top In-Unit Amenities Having a Significant Impact on Rental Decision

% of Responses

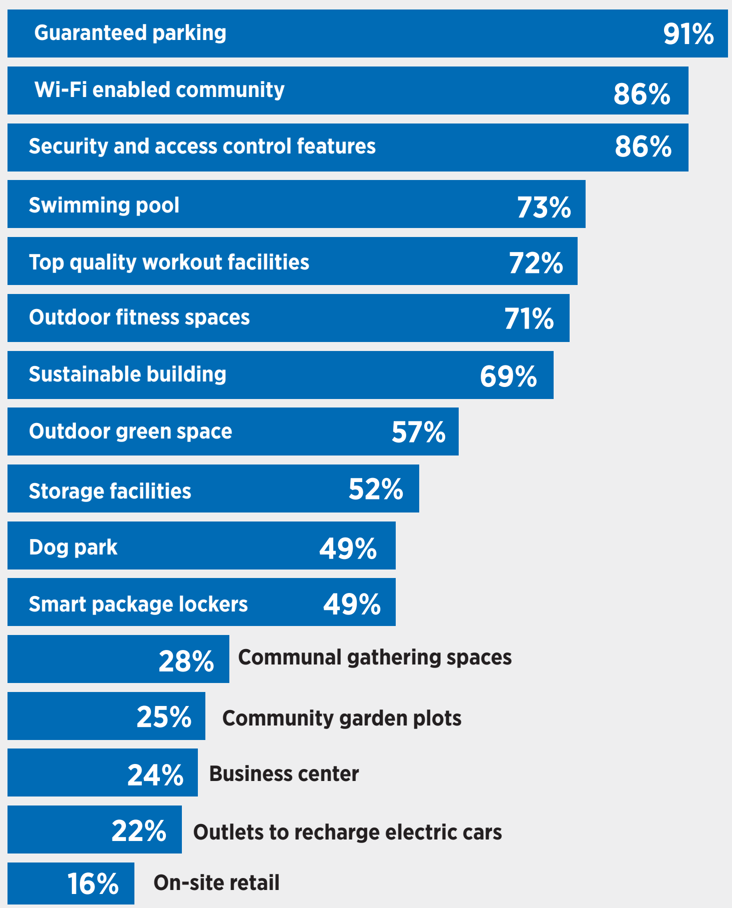


preference for the suburbs after they graduate in addition to the low score for proximity to public transportation.

Having access to onsite health and wellness amenities also ranked top of the list for many Gen Z renters. We found that roughly 73 percent of responses reflected that swimming pools as well as indoor and outdoor state-of-the-art fitness centers to be a high priority. Fitness centers are not only desirable for physical health but also gym membership cost savings. We know from other surveys that Gen Z has clear financial goals[9] and are generally financially savvy.[6]

Top Community Amenities Having a Significant Impact on Rental Decision

% of Responses



Renters now more than before value efficient and secure delivery of packages.

Similar to Millennials, Gen Z's are highly conscious of their environmental impact and are seeking sustainable communities and green amenities. Our survey data showed that sustainable communities and outdoor green spaces are an important amenity, representing 69 percent and 57 percent of responses, respectively.

Approximately half of all the survey responses showed storage facilities, smart package lockers and dog parks to be essential in Gen Z's apartment community. Online shopping and delivery services usage has surged during the coronavirus pandemic. Renters now more than before value efficient and secure delivery of packages. The convenience of onsite retail may be of obsolete importance due to delivery services, as just 16 percent of responses reflected onsite retail to be a valuable amenity.

According to survey results, Gen Z renters may be shifting away from shared community spaces because of COVID-19 and social distancing practices. Approximately three-fourths suggested that business centers, community gardens and community rooms were ranked as some of the least important amenities.

Community car charging stations are not yet in high demand among the Gen Z cohort, comprising only 22 percent of responses, signifying that electric charging stations would not significantly impact their decision. Although it is important to note that other generations ranked car charging stations as less important compared to Gen Z.

GEN Z IN 2021 AND BEYOND

The enduring appeal of suburban communities cannot be denied.

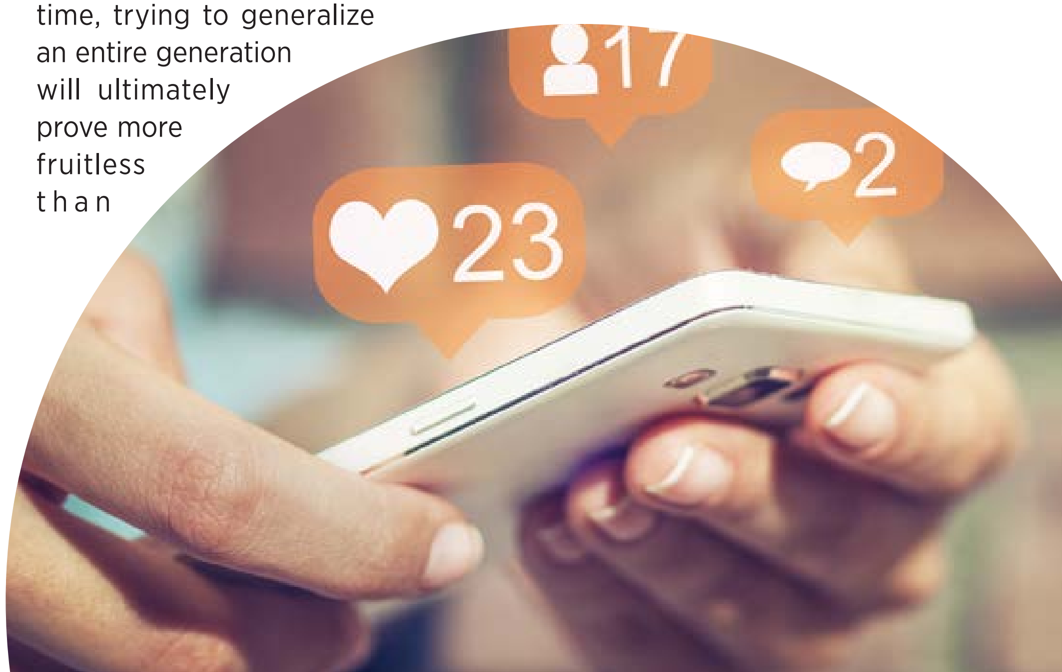
So, what does this all mean for apartment owners, operators and investors? The biggest question that this study cannot answer is how much the COVID-19 crisis may have impacted responses and whether these responses would even change in a post-pandemic world. But if the novel coronavirus has taught us anything, it is that it has been more of an accelerant of trends rather than a cause of trends. While Gen Z might land in an urban core because of job proximity or the desire to be close to entertainment, the enduring appeal of suburbs, particularly of the growing variety of vibrant suburbs – the live/work/play walkable communities – cannot be denied.

Depending on location and obviously, individual as opposed to generation-wide preferences, owners of urban core mid- or high rise buildings will be able to attract Gen Z with state-of-the-art technology, both in-unit as well as community-wide, sound-proof walls to appeal to their need for privacy, outdoor space and a robust package of health and wellness amenities.

Between being Digital Natives and a propensity for more remote work in the future, Wi-Fi-enabled communities will also be crucial as is the need for space to work, even if it is not compartmentalized.

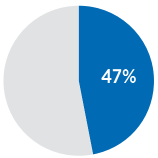
Flexibility with common areas was important pre-COVID as resident preferences evolved. While some Gen Z renters may not value shared spaces right now, they may feel differently in a post-pandemic world as friends, family and neighbors begin to gather again and in-person events eclipse virtual ones.

We also need to be mindful that while survey data can provide us with insights from a moment in time, trying to generalize an entire generation will ultimately prove more fruitless than enlightening. But for the generation that has always been connected, keeping them connected is obviously key. And for a generation that may well be buying – or renting – single-family homes sooner than their Millennial counterparts, engagement and the customer experience becomes even more important for resident attraction and retention.

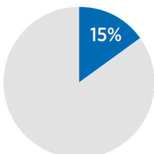


SURVEY PROFILE

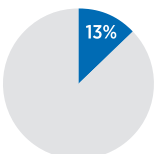
Top Regions



South Atlantic
Florida, Georgia, North Carolina, South Carolina

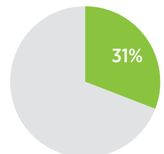


Mountain
Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming

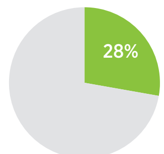


East South Central
Alabama, Kentucky, Mississippi, Tennessee

Top Educational Attainment



Bachelors/Undergraduate Degree



Some College

ABOUT THE SURVEY

The survey was conducted by Satisfacts/Apartment Ratings for the National Apartment Association in November/December 2020 and received 927 responses from 18- to 23-year-old apartment dwellers.

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End Notes

(1) "On the Cusp of Adulthood and Facing an Uncertain Future: What We Know About Gen Z So Far," by Kim Parker and Ruth Igielnik, Pew Research Center, May 14, 2020.

(2) U.S. Census Bureau, 2019 Population Estimates by Age, Sex, Race and Hispanic Origin.

(3) Burning Glass Technologies. http://www.burning-glass.com. Labor Insight™ 2021.

(4) "American Cities Saw Uneven Growth Last Decade, New Census Data Show," by William H. Frey, Brookings, May 26, 2020.

(5) U.S. Census Bureau 2019 American Community Survey.

(6) "Generation Z Study, Key Takeaways and Insights," Freddie Mac, August 2019.

(7) "Homeownership Slips Into Unaffordable Territory Across Majority of U.S. in Fourth Quarter of 2020," ATTOM Data Solutions, December 31, 2020.

(8) "Home Buying 2020: Consumer Preferences Post-COVID," by George Ratiu, realtor.com, July 22, 2020.

(9) "The State of Gen Z 2019-2020," The Center for Generational Kinetics, 2020.

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