

APARTMENT ADVISORY

JANUARY 2020

Over the course of the past decade, apartment renters have increasingly chosen to renew their leases upon expiration rather than move. In 2010, it was typical that about 50% of expiring leases were renewed by in-place residents. By the close of 2019, however, that number had risen to 53.4%, an all-time high.

than those that expire in summer months. Moving to a new apartment in the middle of a cold and snowy January is not as convenient as moving in June when weather is a lot more favorable. Additionally, apartment operators are incentivized to renew leases in the colder months when demand is usually softer.

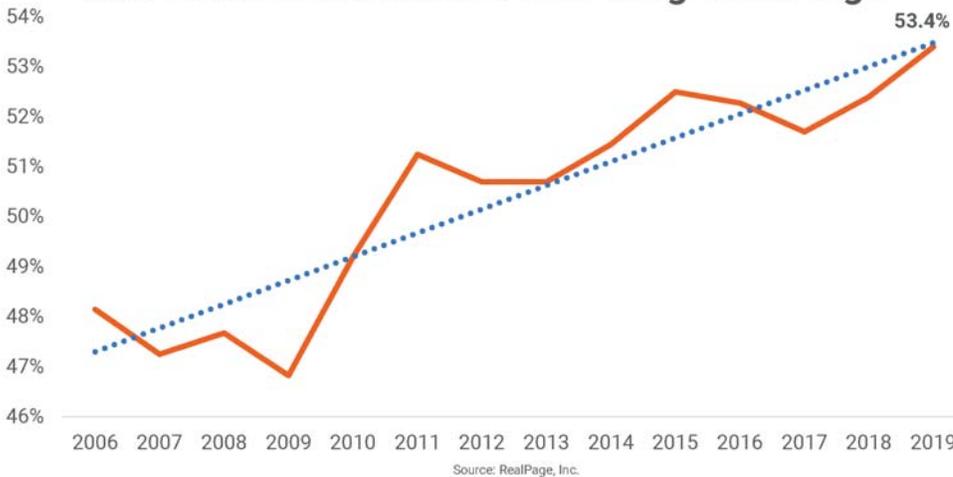
tively by a number of market factors. But overall, the upward trend reflects the strength of apartment demand in recent years. Simply put, there is more demand for apartments at the national level than there are available units at certain price points.

But by default, renters in some individual markets have a higher propensity to renew leases than in others. In Milwaukee, for instance, more than 65% of expiring leases were renewed in 2019. Seven other markets in the U.S. are also at or above 60%.

The prevailing trend among the highest renewal conversion markets is that most are mature economies in the Northeast and in the Rust Belt. Residents in these two parts of the country clearly choose to stay in place for longer than other pockets of the country. One possible reason for less resident attrition is that moving in these markets is a logistics headache during the cold weather months. A cross-town move in the frigid Chicago winter isn't quite as appealing as moving one's belongings in, say, Nashville or Atlanta.

Another contributing factor in many of these markets is that the population base is older. The median age of renters in this selec-

U.S. Lease Renewal Rate Hits Long-Term High



While a 3% increase might not sound all that significant, the sheer number of leases across the U.S. is so large that the 3% increase is indeed quite remarkable. Considering there are nearly 18 million investment-grade apartments in the U.S., that would suggest that hundreds of thousands more lease renewals are being signed today than 10 years ago.

Lease length also shapes a local market's renewal rate. The longer a renter has leased an apartment, the higher the likelihood that they will renew the lease at the end of the term.

Additionally, lease renewals are influenced both positively and nega-

There is obvious seasonality from quarter to quarter, but the clear trend is, the percentage of expiring leases that are being renewed has climbed fairly steadily over the course of the current real estate cycle. Seasonality coincides with the broader market trend that leasing activity peaks each year during the summer months and declines during the winter. So conversely, leases that end during the winter have a higher chance of renewal

Highest Lease Renewal Markets

Rank	Market	Renewal Conversion in 2019	Change from 2018
1	Milwaukee-Waukesha-West Allis, WI	65.6%	320 bps
2	Providence-Warwick, RI-MA	64.0%	10 bps
3	Newark-Jersey City, NJ-PA	61.7%	170 bps
4	Miami-Miami Beach-Kendall, FL	61.4%	-230 bps
5	New York-White Plains, NY	61.4%	380 bps
6	St. Louis, MO-IL	61.0%	160 bps
7	Cleveland-Elyria, OH	60.6%	330 bps
8	Chicago-Naperville-Elgin, IL-IN-WI	60.0%	120 bps
9	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	57.3%	-100 bps
10	Pittsburgh, PA	57.1%	80 bps

Source: RealPage, Inc.

Lowest Lease Renewal Markets

Rank	Market	Renewal Conversion in 2019	Change from 2018
1	San Diego-Carlsbad, CA	48.0%	120 bps
2	Cincinnati, OH-KY-IN	48.4%	-50 bps
3	San Antonio-New Braunfels, TX	48.5%	160 bps
4	Detroit-Warren-Dearborn, MI	48.6%	120 bps
5	Salt Lake City/Ogden/Clearfield, UT	49.0%	100 bps
6	Denver-Aurora-Lakewood, CO	49.2%	-30 bps
7	Orlando-Kissimmee-Sanford, FL	49.8%	-150 bps
8	Jacksonville, FL	49.9%	-90 bps
9	Phoenix-Mesa-Scottsdale, AZ	50.1%	200 bps
10	Austin-Round Rock, TX	50.5%	160 bps

Source: RealPage, Inc.

tion of markets tend to be greater than the U.S. norm. Further, those older residents tend to move less frequently than the younger generations - likely a result of having already put down roots in their locale versus the more fluid younger generations.

Finally, these markets are seeing relatively little new apartment supply. As new supply increases, it creates more opportunity for renters to move, and sometimes those renters are enticed to move through rent concessions in new properties. As a result, new supply tends to suppress renter retention.

Alternatively, there are some markets in which fewer than half of expiring resident leases were renewed in 2019. The nation's lowest renewal conversion was in the San Diego market, where just 48% of expiring leases were renewed.

Whereas most of the higher renewal conversion markets were in the Midwest or Northeast, the immediate takeaway in the lower renewal conversion markets is that most are in the Sunbelt region.

One potential driving factor in these markets is they are faster growing economies. With more economic opportunity, locals tend to migrate within the market more often.

Additionally, these markets have built far more new product than their Rust Belt counterparts. As a result, there's likely a confluence of ancillary factors, one of which would include lease-up shoppers bouncing from property to property.

As markets evolve, so do some of their resident patterns. For instance, Greensboro/Winston-Salem is a market where renewal con-

version rates have vastly increased over the past decade.

In 2010, only about 39% of expiring leases in Greensboro/Winston-Salem were renewed. By 2019, that rate had risen to almost 56%. Detroit and Las Vegas also saw big increases in their conversion rates. In 2019, about 49% of expiring leases were renewed in Detroit while Las Vegas had approximately 55% of local leases renewed.

Only five markets saw declining lease renewal rates. Three markets that technically declined were Cleveland, Minneapolis, and Philadelphia. But the declines in all three were 50 basis points or less between 2010 and 2019.

The one striking market among this particular subset was Chicago, which saw a 270-basis-point decline over the past decade. In 2010, about 60% of expiring resident leases were renewed. By 2019, that number had eroded to 57%.

Markets Where Retention Rose Most This Cycle

Rank	Market	Renewal Conversion in 2019	Change from 2010
1	Greensboro/Winston-Salem, NC	55.8%	1,660 bps
2	Cincinnati, OH-KY-IN	48.4%	1,370 bps
3	Detroit-Warren-Dearborn, MI	48.6%	1,280 bps
4	Las Vegas-Henderson-Paradise, NV	54.4%	980 bps
5	Providence-Warwick, RI-MA	64.0%	970 bps

Source: RealPage, Inc.

Markets Where Retention Fell This Cycle

Rank	Market	Renewal Conversion in 2019	Change from 2010
1	Chicago-Naperville-Elgin, IL-IN-WI	57.3%	-270 bps
2	Los Angeles-Long Beach-Glendale, CA	52.0%	-90 bps
3	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	57.1%	-50 bps
4	Minneapolis-St. Paul-Bloomington, MN-WI	57.1%	-40 bps
5	Cleveland-Elyria, OH	60.6%	-10 bps

Source: RealPage, Inc.

© 2020 Berkadia Proprietary Holding LLC Berkadia® is a trademark of Berkadia Proprietary Holding LLC. RealPage® is a trademark of RealPage Inc. Commercial mortgage loan origination and servicing businesses are conducted exclusively by Berkadia Commercial Mortgage LLC and Berkadia Commercial Mortgage Inc. This newsletter is not intended to solicit commercial mortgage loan brokerage business in Nevada. Investment sales and real estate brokerage businesses are conducted exclusively by Berkadia Real Estate Advisors LLC and Berkadia Real Estate Advisors Inc. For state licensing details for the above entities, visit: www.berkadia.com/legal/licensing.aspx