

# APARTMENT ADVISORY

MAY 2018

U.S. apartment renters are choosing to renew their expiring leases at historically high rates and are paying a premium to do so. Overall, the monthly renewal rate has trended above 50% over the past six years. By comparison, renewal rates typically hovered in the mid- to upper-40% range prior to 2012. Meanwhile, renewal price growth has trended above new lease trade-out since 2015.

Renewal rates – also called resident retention rates – can serve as a meaningful gauge for an investment manager to use in conjunction with his or her bigger operational picture. In addition to revenue opportunities, line items related to turn costs are some of the primary contributors to operating expenses. Move-outs don't just add to vacancy loss. They also increase marketing, maintenance and utilities costs. The likelihood of a renewal should not be used in isolation, but rather should help mold the mosaic of an asset's relative performance. Factors such as single-family prices, crime rates, walkability, amenities, customer service and cleanliness, among others, influence a resident's likelihood of renewal. But these are not strong predictors at the market level.

What does correlate with resident retention? Examining markets with the highest and lowest average renewal rates over the past two years provides insight.

## Top Markets for Resident Retention

Market	Renewal Rate
Newark-Jersey City, NJ-PA	64.0%
Milwaukee-Waukesha-West Allis, WI	62.2%
Miami-Miami Beach-Kendall, FL	60.2%
Providence-Warwick, RI-MA	60.1%
Cleveland-Elyria, OH	59.7%
New York-White Plains, NY	58.2%
Minneapolis-St. Paul-Bloomington, MN-WI	57.1%
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	56.4%
Detroit-Warren-Dearborn, MI	56.4%
Chicago-Naperville-Elgin, IL-IN-WI	55.5%

## Top Markets for Resident Turnover

Market	Renewal Rate
San Antonio-New Braunfels, TX	45.7%
San Diego-Carlsbad, CA	47.1%
Phoenix-Mesa-Scottsdale, AZ	47.7%
Denver-Aurora-Lakewood, CO	48.2%
Charlotte-Concord-Gastonia, NC-SC	48.2%
Salt Lake City/Ogden/Clearfield, UT	48.5%
Jacksonville, FL	48.7%
Portland-Vancouver-Hillsboro, OR-WA	49.2%
Orlando-Kissimmee-Sanford, FL	49.5%
Raleigh/Durham, NC	49.6%

Data expressed as a two-year average of retention rates as of 1st quarter 2018

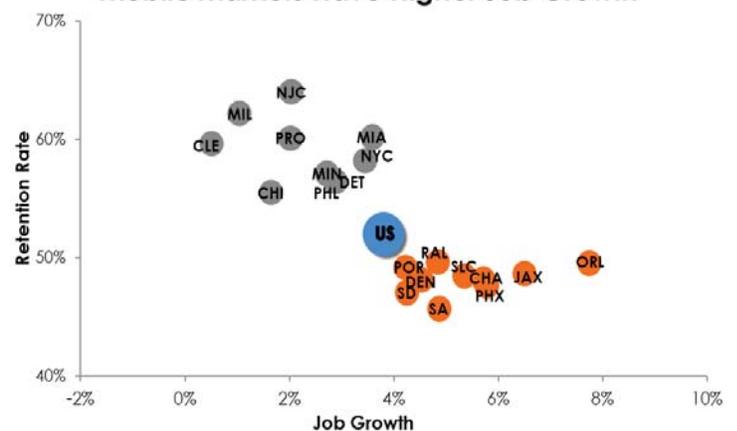
Source: RealPage, Inc.

## WHAT CORRELATES WITH RETENTION?

Among these groups, there are clear correlations between renewal rates and certain market conditions. The first, employment growth, tends to be a strong predictor of resident retention. People like to live near their work, and areas with robust employment opportunities see a higher degree of mobility. In fact, over the past two years, markets reporting the lowest resident retention averaged cumulative net job growth of nearly 6%. On the flip side, turnover tends to be lower in metros with fewer employment opportunities. High retention markets averaged about 2.6% net employment growth over the last two years.

Another measurement that correlates with the resident retention rate is median age. Simply put, mobility tends to decrease with age. High turnover markets have an inherently younger renter base and higher degree of mobility. Younger people are less likely to have children and more likely to

## Mobile Markets Have Higher Job Growth



Source: Realpage, Inc.; BLS

switch jobs. Markets with the highest retention also tended to have an older median age than those where residents were likely to move out. In fact, seven of the 10 high retention metros reported median ages above the national aver-

# APARTMENT ADVISORY

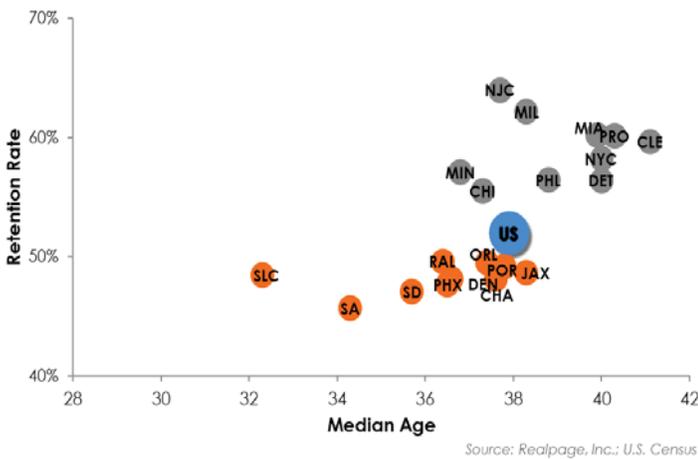
MAY 2018

age. Meanwhile, only one metro with high turnover – Jacksonville – reported a median age above the national norm.

The final metric that correlates with retention is apartment supply growth. Markets with more new supply tend to see lower retention, as apartment openings create more choices for renters and a more competitive leasing environment. Many high-turnover markets have also been development leaders since the current cycle began in 2010.

how long a renter might stay. Income levels are primarily a function of other factors – like single-family prices, housing demand, employment opportunities, cost of living and the tax environment – which median age and job growth don't directly capture. Resident turnover is an effect, not the cause, of a market's underlying demographic and economic drivers. Income levels and income growth were all over the board for both groups, indicating no correlation. Simply stated, the cost of living has virtually no statistical relationship to the likelihood of renewal.

## Transient Markets Are Younger

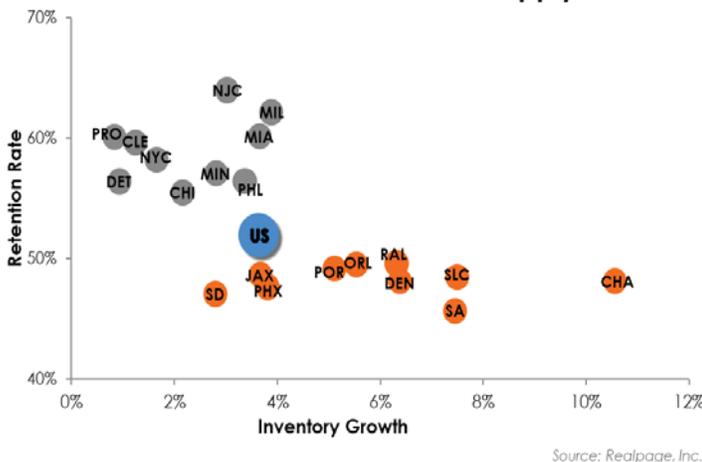


Rent growth also did not correlate strongly with renter retention. The average annual increases over the past two years among the high and low retention groups varied wildly. Smoothing out the noise, high retention markets averaged annual rent growth of 3.2%, while low retention markets averaged 3.4%.

## Non Correlation: Rent growth



## Low Retention Markets Have More Supply Growth



## WHAT DOES NOT CORRELATE?

While the primary indicators are interesting, it's also insightful to see what does not correlate with renewal conversion. Some of the more obvious are median household income and income growth, which can vary wildly by market independent of

As stated earlier, resident turnover will significantly impact gross potential revenue. Turn costs carry some of the most expensive operating expenses. But the goal is not 100% resident retention. The ideal balance is offering exceptional renter value while simultaneously testing the market with rent increases using a foundation of robust, granular data.

It's important for investment managers to understand market-level economic indicators that drive performance at the asset level. Leveraging relevant market data can add tremendous insight into a manager's operational decisions, regardless of whether the asset is in high-turnover Denver or high-retention Chicago.

© 2018 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 website 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](http://www.berkadia.com/legal/licensing.aspx)