

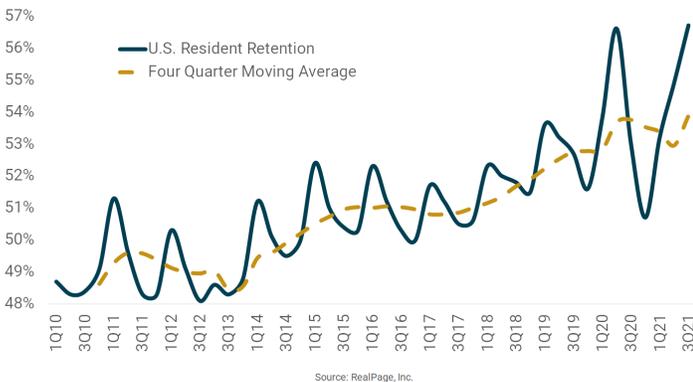
APARTMENT ADVISORY

OCTOBER 2021

Renter retention spiked to historic highs as government stay-at-home orders essentially halted mobility in the months following the initial COVID-19 outbreak last year. Renters are, of course, no longer required to shelter in place, but remarkably, they are choosing to stay in their apartments after their leases expire at higher rates than they did during the pandemic. The result has been renter retention rates that have surpassed the pandemic-era highs.

Market conditions such as surging rents for new leases and limited availability across the nation's conventional apartment stock have helped to push retention rates past previous highs. Retention rates represent the share of renters with expiring leases who sign renewal leases in a given period. As of third quarter 2021, resident retention in U.S. apartments hit a new peak of 56.8%, meaning more people are staying in place than ever previously recorded - even during the peak of the COVID-19 pandemic lockdowns in second quarter 2020. By comparison, the historical average hovers in the mid- to upper-40% range.

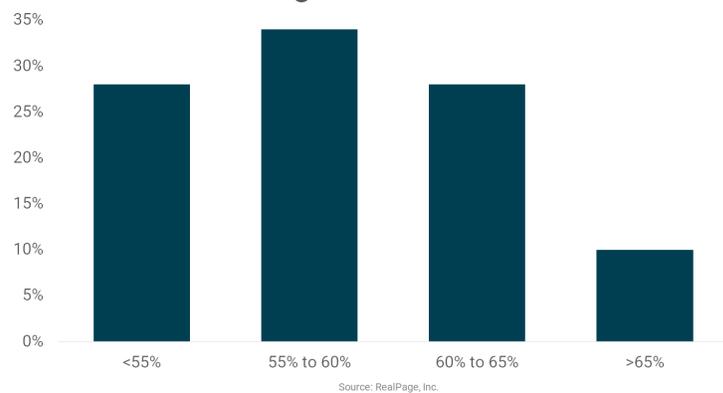
Retention Rates Hit Historic High



Like in mid-2020, the renewal phenomenon is a trend seen across the nation. Just looking at the nation's largest 50 apartment markets, 19 saw resident retention surpass 60% in 2021's third quarter. The strongest renewal conversion rate was in Riverside, with 66.9% of residents staying put. Two South Florida markets made the top five, with Miami registering retention of 65.8% and Fort Lauderdale holding onto 65.3% of its resident base at lease expiration. Two Midwest locales - Milwaukee and Cleveland - rounded out the top five national markets with retention of 65.6% and 65.1%, respectively.

On the low end, the five worst performing markets saw renewal conversion rates range from 46.8% in San Jose to 52.3% in San Francisco. Oakland is also in the bottom five, with a renewal rate of 51.3%, which means all three Bay Area markets are among the nation's worst for renewal conversions. Such low rates in the Bay Area are not surprising, given the leasing challenges that have faced the region throughout the past 12 to 18 months.

Retention High in Most U.S. Markets



Even in the Bay Area, however, renewal conversion rates are up significantly from the prior year. San Francisco renewal propensity is up 1,400 bps from 38.3% in third quarter 2020. This was one of the nation's biggest increases in the past year, beat out only by New York, where renewals went up 1,520 bps to 64.8%.

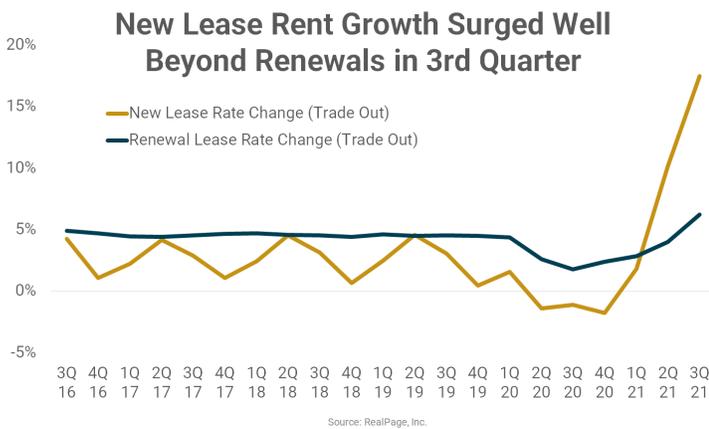
In fact, only a handful of apartment markets saw retention rates fade in the past year. Among them were national retention leaders Milwaukee and Cleveland, as well as Pittsburgh and Minneapolis. Each market saw retention decline by roughly 100 bps to 300 bps since third quarter 2020.

There are many reasons why a resident might elect to renew their lease rather than shop the market for another apartment unit. In the past year, this option has become especially attractive, as the effort involved in finding a new apartment has increased exponentially. A surge in leasing activity in recent months led to an all-time high in apartment occupancy at 97.3% in September. With very few apartments available on the market today, those that are available tend to be priced at a level that discourages bargain shoppers, who may ultimately decide moving isn't worth the extra time, effort and expense.

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When renters are deciding whether to renew their current lease or seek alternative housing, pricing is generally a guiding factor. With limited vacancies, rents are rising faster for new leases than they are for renewals. New lease trade-out, which measures the change in rents when a unit turns over, hit 17.5% in third quarter. This was the fastest momentum the market has seen since RealPage’s monthly reporting measures started tracking this trend in 2008. For perspective, new lease trade-out has averaged closer to 3.2% over the past five years.



In comparison, renewal lease rent growth is much more moderate at 6.2%. While notably behind new lease trade-out, however, renewal rent growth was still the highest ever recorded.

Throughout the past decade, renewal rent change of roughly 4.5% to 5% has been common. In fact, this was one of the steadier metrics in the marketplace, with individual markets rarely straying from that 4% to 5% renewal growth range.

In some markets across the nation, however, the gap between new lease rent growth and renewal rent growth is much more pronounced.

All six major Florida apartment markets – Miami, West Palm Beach, Fort Lauderdale, Orlando, Jacksonville and Tampa – logged new lease rent growth well ahead of renewal rent growth in third quarter, with rent growth between new resident leases surpassing renewal lease trade-out by 17% to 24%.

In addition to Florida, a handful of West region markets are also registering a big gap between these rent growth measures. New lease trade-out was 18% to 20% ahead of renewal trade-out in Phoenix, Las Vegas, San Diego, Anaheim, and Riverside in third quarter.

In many of the markets recording new lease trade-out well ahead of renewal rent growth, very few vacancies remain.

Among the nation’s largest 50 apartment markets, Anaheim is the nation’s tightest, with occupancy at 98.9% in September. Vacancies were also minimal in Providence, Riverside, San Diego, and Miami. For the most part, these markets have benefited recently from offering more affordable product that attracted residents away from more expensive employment hubs nearby.

In fact, vacancies are slim across most markets. Houston had the nation’s softest occupancy reading in September, with a rate of 95.4%.

Markets Where New Lease Trade-Out is Much Higher Than Renewal Trade-Out

Market	New Lease Trade-Out	Renewal Lease Trade-Out	Difference	Retention
West Palm Beach	33.3%	8.9%	24.4%	61.6%
Tampa	30.3%	7.9%	22.4%	58.2%
Miami	29.7%	8.3%	21.4%	66.0%
Phoenix	30.7%	11.1%	19.7%	56.0%
Fort Lauderdale	26.4%	7.0%	19.4%	65.4%
Las Vegas	29.6%	11.2%	18.4%	60.6%
Jacksonville	26.6%	8.3%	18.3%	55.5%
San Diego	23.3%	5.8%	17.5%	55.8%
Anaheim	22.4%	5.3%	17.1%	64.7%
Riverside	22.1%	5.3%	16.8%	69.0%
Orlando	23.8%	7.0%	16.7%	56.1%

Source: RealPage, Inc.

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