

APARTMENT ADVISORY

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National headlines have been broadcasting the moderating price increases of new-lease rent growth. But there are two sides to the pricing coin: the new-lease side and the renewal side. While all operators want to generate great new-lease prices, often the most significant impact to revenues lies on the flipped side of the coin, in renewal pricing strategies.

Lease renewals are playing an oversized role in the overall revenue picture now that competition for new resident move-ins has heated up in many markets. More than half of the nation's leases are renewed when they expire, and renewal rent growth stretches notably beyond new-lease price increases.

National year-over-year renewal-lease rent growth was at 4.6% in 3rd quarter 2018, based on RealPage lease-transaction data. While this rate was below the peak of 5.2% seen in late 2015 and early 2016, renewal trade-out has held relatively steady over the cycle. Meanwhile, new-lease rent growth in the year-ending 3rd quarter was more modest at 3.0%, a rate that has moderated notably from the 5.3% peak reached in 3rd quarter

Renewal Rent Growth Tops New Leases



2015.

Among the nation's largest 50 metros, the top markets for renewal rent growth in 3rd quarter 2018 generally fell into two categories: those where renewal and new-resident rent growth were comparable, and those where renewal price increases notably outpaced the new-resident rate.

Markets with comparable rates included national leader Las Vegas as well as Phoenix, San Jose and Tampa. In each of these metros, lease pricing is growing notably for both the households renewing leases

and those moving into a property for the first time. Las Vegas also is the big-market leader for new-resident rent growth, based on market survey data.

A second group of markets on the renewal lease rent growth leaderboard consists of Salt Lake City, Sacramento, San Diego, Los Angeles and Seattle. In those spots, prices are climbing somewhat faster for renewal leases (5.4% to 6.1%) than for new-resident leases (1.7% to 4.5%).

The only exception on this list was Orlando, where renewal rent growth was strong at 5.6%, but still well behind new-lease rent growth of 6.6%. This market has seen prices for new leases accelerate in the past year, bolstered by strong job growth and a surge in the millennial population.

Even with renewal lease growth climbing substantially, more than half of apartment renters in the country's major metros tend stay in place once their initial lease ends. As of 3rd quarter, 52.1% of all expiring leases were renewed. This was in line with the nation's recent performance, as renewal rates have remained at or above 50% through-

Renewal Rent Growth Outpaces New-Lease Growth in Most Top Markets

| Rank | Market | Renewal Lease Rent Growth (Transactional) | New-Lease Rent Growth (Survey) |
|------|---|---|--------------------------------|
| 1 | Las Vegas-Henderson-Paradise, NV | 6.4% | 6.7% |
| 2 | Salt Lake City/Ogden/Clearfield, UT | 6.1% | 4.5% |
| 3 | Sacramento--Roseville--Arden-Arcade, CA | 5.7% | 3.7% |
| 4 | San Diego-Carlsbad, CA | 5.7% | 4.1% |
| 5 | Phoenix-Mesa-Scottsdale, AZ | 5.7% | 6.3% |
| 6 | Orlando-Kissimmee-Sanford, FL | 5.6% | 6.6% |
| 7 | San Jose-Sunnyvale-Santa Clara, CA | 5.6% | 4.9% |
| 8 | Los Angeles-Long Beach-Glendale, CA | 5.5% | 3.6% |
| 9 | Tampa-St. Petersburg-Clearwater, FL | 5.5% | 4.9% |
| 10 | Seattle-Bellevue-Everett, WA | 5.4% | 1.7% |

Rankings based on 50 largest U.S. markets
Source: RealPage, Inc.

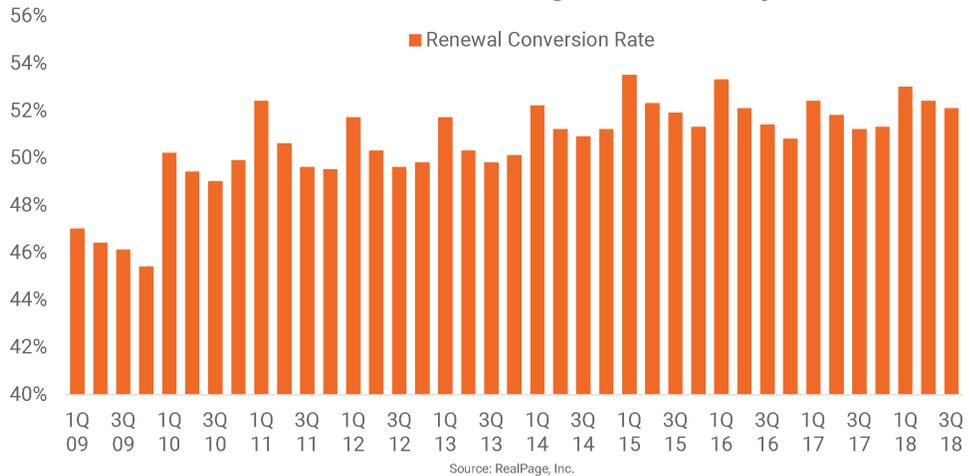
out much of the current economic cycle. In the five years before the cycle started, renewal conversions were lower, averaging at 46.5%.

Among individual metros, renewal conversion rates tended to register higher in markets with higher median ages, sparse to moderate volumes of new supply and slower job growth. About 58% to 62% of expiring leases were renewed in the past year in Newark, Milwaukee, Miami, St. Louis, Cleveland and Providence. In all but St. Louis, each of these metros is recording renewal price increases below the national average.

On the other hand, in markets with more economic growth, younger populations and bigger completion volumes, conversion rates were lower. A more mobile renter base is common in these areas, where more opportunity for employment leads to higher turnover. Metros where less than 50% of expiring leases were renewed as of 3rd quarter were San Antonio, Salt Lake City, Charlotte, San Diego, Phoenix, Austin and Denver. Most of these markets saw their inventory base climb 2.2% to 5% in the past year alone, well ahead of the national norm. Additionally, the median age in each of these markets remains well below the national average.

As the cycle continues, and operators continue to seek the best returns in current conditions, flipping the pricing coin could prove valuable, as renewals should continue to provide a key opportunity for revenue growth. Replacing an existing rent with a higher rent without incurring vacancy, turn cost, marketing and leasing expenses yields higher revenue. Between vacancy loss, cleaning, maintenance and marketing costs, the price tag of a turn is high.

Renewal Conversions Strong in Current Cycle



Highest Renewal Markets

| Rank | Market | 3Q18 Renewal Rate |
|------|---|-------------------|
| 1 | Newark-Jersey City, NJ-PA | 62.3% |
| 2 | Milwaukee-Waukesha-West Allis, WI | 61.2% |
| 3 | Miami-Miami Beach-Kendall, FL | 60.4% |
| 4 | St. Louis, MO-IL | 59.5% |
| 5 | Cleveland-Elyria, OH | 59.4% |
| 6 | Providence-Warwick, RI-MA | 58.3% |
| 7 | New York-White Plains, NY | 57.0% |
| 8 | Minneapolis-St. Paul-Bloomington, MN-WI | 56.6% |
| 9 | Pittsburgh, PA | 56.6% |
| 10 | Philadelphia-Camden-Wilmington, PA-NJ-DE-MD | 56.4% |

Rankings based on 50 largest U.S. markets
Source: RealPage, Inc.

Highest Turnover Markets

| Rank | Market | 3Q18 Renewal Rate |
|------|-------------------------------------|-------------------|
| 1 | San Antonio-New Braunfels, TX | 44.6% |
| 2 | Salt Lake City/Ogden/Clearfield, UT | 46.6% |
| 3 | Charlotte-Concord-Gastonia, NC-SC | 47.8% |
| 4 | San Diego-Carlsbad, CA | 47.9% |
| 5 | Phoenix-Mesa-Scottsdale, AZ | 48.0% |
| 6 | Austin-Round Rock, TX | 48.4% |
| 7 | Denver-Aurora-Lakewood, CO | 49.5% |
| 8 | Tampa-St. Petersburg-Clearwater, FL | 50.1% |
| 9 | Orlando-Kissimmee-Sanford, FL | 50.8% |
| 10 | Jacksonville, FL | 51.1% |

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