Capital Watch

The Turnover Chain

July 29, 2019

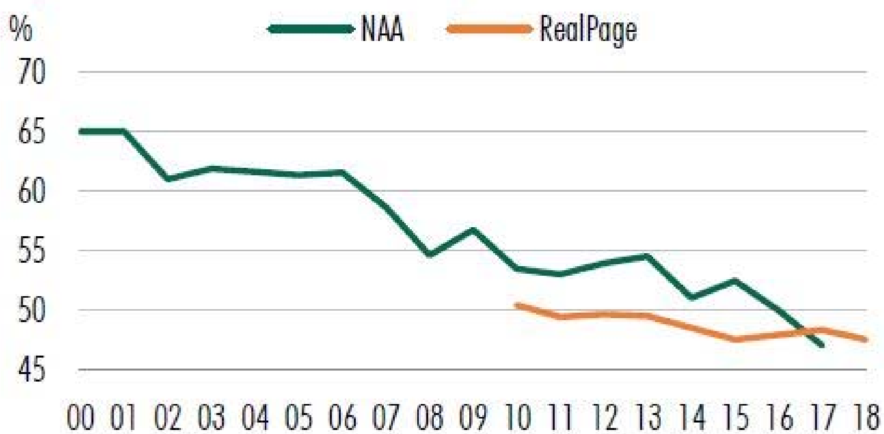
Multifamily turnover rates continue to drop.

RealPage reported 47.5% for 2018, down 80 basis points from 2017. The six major multifamily REITs provide further evidence. Five recorded lower turnover in Q1 2019 than the prior year. For AvalonBay, Camden, Equity Residential (EQR), MAA and UDR, the average annualized Q1 rate fell by 2 percentage points to 42.0%. Essex was the exception with a 1-point rise to 41.0%.

The REITs' historical data also confirm that turnover has been falling for many years. For example, EQR's Q1 annualized rate of 39.2% was the lowest level since at least 2005. Camden's Q1 trailing four-quarter rate of 48.0% was the lowest since at least 2002. (Note: availability of historical data varies by REIT.)

Benefits of lower turnover rates generally outweigh disadvantages. Turnover hurts a property due to loss of rent while the unit is vacant, possible rent concessions needed to release the unit, and "make-ready expenses. The National Apartment Association estimated that turnover costs are at least $1,000 per unit and can easily rise to over $3,000. Yet owners often achieve more rent growth when units turn (even with the ability to increase rents at lease renewal). Higher turnover can be advantageous during periods where the market (or product segment) is achieving better-than-average rent growth.

Figure 1: Historical Multifamily Turnover - U.S.



Source: CBRE Research, National Apartment Association, RealPage, Q4 2018.
NAA will release the 2018 figure in fall 2019.

Long-Term Decline in Turnover

Turnover rates have fallen significantly over the past few decades. In the 1980s, when lease terms averaged six to seven months, turnover reportedly averaged 100% in the high-growth Sunbelt markets. Since 2000, nationally, turnover has dropped to less than 50% from 65%, according to the National Apartment Association.

Figure 2: REIT Turnover Summary, Q1 2019 vs. 5 Years Ago

Q1 Annualized	Units	Q1 2019 (%)	Q1 2014 (%)	Change (BPs)
AvalonBay Communities	85,300	41.5	44.9	-340
Camden Property	57,500	48.0	55.0	-700
Equity Residential Props.	80,100	39.2	45.2	-600
Essex Property	49,400	41.0	44.0	-300
UDR	49,800	39.2	43.9	-470
Averages	-	**41.8**	**46.6**	**-480**
Trailing 4-Quarter Average				
AvalonBay Communities	85,300	52.3	56.3	-400
Camden Property	57,500	54.3	65.0	-1080
Equity Residential Props.	80,100	50.2	54.9	-470
Essex Property	49,400	47.5	51.8	-430
MAA	102,000	47.5	56.8	-930
UDR	49,800	49.1	53.0	-390
Averages	-	**50.1**	**56.3**	**-610**

Source: CBRE Research, REITs' supplemental reports, Q1 2019. MAA does not report individual quarter turnover.

The market cycle also creates short-term variability in turnover, as evidenced by fluctuations in the past 15 years. Turnover rose in the mid-2000s, due to a combination of greater economic opportunity for residents, availability of new product, entrance of many young millennials to the rental market and some rental concessions as the cycle matured.

During the 2008-2009 recession, turnover fell due to less employment opportunity (reduced resident mobility), residents facing challenges qualifying for new leases and minimal development activity thereby reducing new options for renters.

Turnover's decline in the mid-2010s came principally from multi-family's significant rent growth and high occupancy (limiting options for renters). More recently, rent gains have moderated, so high occupancy is one major driver of lower turnover now. Through the 2010s, turnover decline has also come from apartment residents becoming older (due to younger individuals staying in multifamily housing for longer periods and new older Americans coming into the rental market); older residents tend to move less often than younger ones. The recent turnover decline, concurrent with the large amount of new multifamily supply each year, is a sign of market strength.

Turnover Shows Dramatic Seasonal Patterns

The industry's well-known leasing seasonality affects turnover. The wide adoption of revenue management systems and variable lease terms designed to distribute lease expirations more evenly through the year have only slightly mitigated turnover's high seasonal fluctuation. Weather plays a role in this seasonality. However, seasonality is driven more by holidays, school calendars and tradition.

Residents vacate apartments at much lower rates in the fall and winter months (Q4 and Q1). The highest levels of turnover occur in Q2 and Q3. For multifamily REITs, Q1 has the lowest turnover and Q3 the highest almost every year.

Northeast & Midwest Have Lowest Turnover

For the two REITs (EQR and UDR) reporting turnover by metro, New York and Washington, D.C. had the lowest turnover rates for Q1 2019. New York is a market where finding housing remains a challenge even with the large amount of new supply built in recent years. Washington, D.C.'s relatively low Q1 turnover rate likely reflects seasonality (economic as well as the usual seasonal factors).

RealPage reported that Northeast and Midwest metros dominated its list of metros with the lowest 2018 turnover. Metros in the South and West had the highest rates. Among 50 metros analyzed, Milwaukee and Northern New Jersey tied for the lowest 2018 turnover rate of 38.1%, followed by Providence (38.7%), Miami (39.4%), St. Louis (40.5%), Philadelphia (41.1%), Cleveland (41.2%), New York (41.4%) and Minneapolis (42.8%). Salt Lake City and San Antonio had the highest turnover rates at 53.7% and 53.6%, respectively. Other metros with high turnover included San Diego, Charlotte and Phoenix.

Cyclical and secular factors influencing national turnover patterns also help explain differences between metros. Metros with more vibrant economies typically have higher-than-average turnover rates.

Class & Age Influence Turnover Patterns

Anecdotal evidence indicates that older properties and Class B and C assets have lower turnover rates than newer assets, at least at this point in the cycle. Vacancy rates are low in older, Class B and C assets (limited options for residents). Conversely, rental concessions in many Class A properties, especially those in lease-up, help to attract residents and thereby encourages turnover. (The burnoff of concessions also can lead to turnover.)

Small multifamily assets typically have lower turnover rates, in part due to management's philosophy of maintaining high occupancy over maximizing rent growth potential. Markets and assets governed by rent-control regulations also usually have much lower turnover due to the restricted rent increases for occupied units.

By Jeanette Rice, Americas Head of Multifamily Research, CBRE.