

PROPERTY FUNDAMENTALS - RENTS



**Lease Renewal Rates at 2.7% Y-o-Y**

Through the COVID-19 period, more attention has been given to changes of lease rates by whether they are renewals or new leases. Increases on renewals are typically higher than leases for vacant units (new leases). This trend, plus higher-than-normal renter retention rates, have helped mitigate downward revenue movement.

Yet, rent changes have been falling for both new leases and renewals, as is typical during recessions. Q2 annual lease rates for new leases were essentially flat. Renewals were still positive at 2.7%. However, the 2.7% rate was the lowest level since 2010.

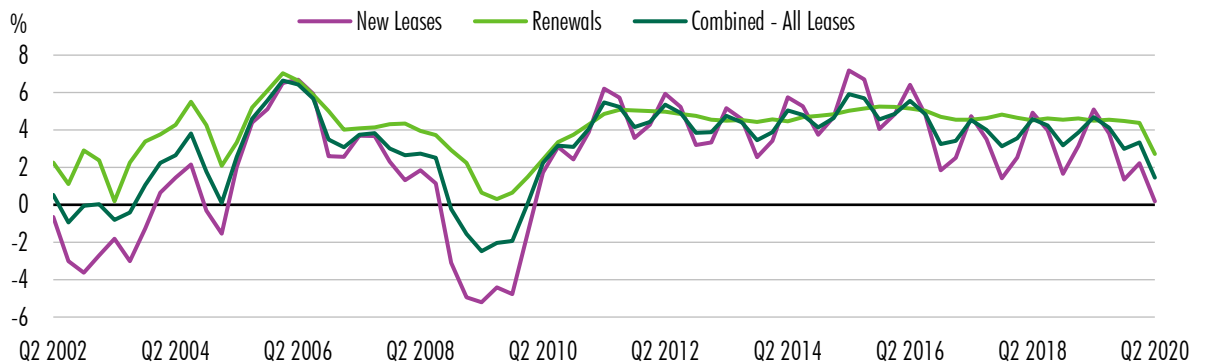
In past cycles, year-over-year changes on renewals fell to very close to zero at the cycle troughs, but never went negative. For new leases, in the Dot.com Crisis, the worst quarter (Q4 2002) experienced a 3.6% year-over-year drop in rents. The GFC's worst quarter (Q2 2009) had a 5.2% decline. The current outlook is for similar magnitude of overall rent change as was experienced in the GFC (about -9% from peak to trough). The rate changes on renewals and new leases over the next few quarters, therefore could be similar to those experienced in the 2008-2010 period.

Figure 2: Summary of Year-over-Year Lease Rate Changes, Q2 2020

Category	New	Renewal	All
All	0.2	2.7	1.4
Structure Type	Low-Rise	1.2	1.8
	Mid-Rise	(2.1)	0.3
	High-Rise	(3.9)	(0.5)
Class	Class A	(2.6)	0.0
	Class B	0.5	1.5
	Class C	3.1	3.0
Year Built	< 1970	(0.2)	1.2
	1970s	2.5	2.7
	1980s	1.5	2.0
	1990s	0.1	1.3
	2000s	0.2	1.5
	2010s	(2.4)	0.0
	2010s	(2.4)	0.0
Region	West	(1.1)	0.7
	Midwest	2.2	2.7
	South	0.4	1.5
	Northeast	0.5	2.3

Source: CBRE Research, RealPage, Q2 2020. Keep in mind that year-over-year changes reflect not only COVID-19 influences of Q2, but the pre-COVID-19 expansion of the preceding three quarters. Regions are U.S. Census.

Figure 1: Historical Year-over-Year Effective Rent Changes



Source: CBRE Research, RealPage, Q2 2020.

Figure 3: Summary of Y-o-Y Lease Rate Changes by Metro, Q2 2020

Category	New	Renewal	All
<b>Mountain West</b>			
Denver	-1.3	2.6	0.6
Las Vegas	-0.4	2.1	0.7
Phoenix	3.6	4.1	3.7
Salt Lake City	4.8	4.7	4.6
<b>Pacific West</b>			
Inland Empire	3.1	2.1	2.5
Los Angeles	(5.5)	0.8	(2.7)
Oakland	(3.4)	1.1	(0.1)
Orange County	(2.1)	1.9	0.4
Portland	(1.0)	2.1	0.7
Sacramento	3.4	1.8	2.5
San Diego	(1.3)	1.8	0.2
San Francisco	(10.6)	1.1	(3.4)
San Jose	(8.4)	1.2	(2.4)
Seattle	(1.0)	1.6	0.5

**Highest Increases Found in Midwest & Older Assets**

National statistics mask great variation in performance by geography, type of product and age. In general, low-rise assets (garden), older properties and Class C assets had the highest rent growth for both renewals and new leases for the year ending Q2. The Midwest also outperformed the other regions. The differences between the increases on renewals vs. new leases, however, were not that great in these outperforming categories. The greatest difference by the various categories was for new leases. Lease rates for renewals fluctuate less than for new leases.

The underperforming categories had greater differences between renewals and new leases. For example, in the West, renewal increases averaged 2.1% while new leases were down 1.1%. For Class A properties, increases on renewals were 2.7% compared to the 2.6% drop in rates for new leases. Similarly, for properties built in the last decade renewals achieved an average 2.9% year-over-year increase while new leases were down 2.4%.

**MULTIFAMILY RESEARCH**

Jeanette I. Rice CRE®  
Americas Head of Multifamily Research  
+1 214 979 6169  
jeanette.rice@cbre.com

Metro	New	Renewal	All
<b>Western Midwest</b>			
Kansas City	4.7	3.0	3.4
Milwaukee	2.7	2.1	2.3
Minneapolis	1.2	2.7	2.1
St. Louis	2.2	3.1	2.7
<b>Eastern Midwest</b>			
Chicago	(1.1)	2.8	1.2
Cincinnati	3.2	3.2	3.4
Cleveland	3.6	4.1	3.7
Columbus	2.1	4.0	3.2
Detroit	1.9	3.7	2.9
Indianapolis	4.3	3.3	3.7
<b>Northeast</b>			
Boston	(0.9)	3.6	1.8
New York	(3.2)	3.4	1.2
Newark/NNJ	(1.6)	3.5	1.8
Philadelphia	0.8	3.0	1.9
Pittsburgh	2.3	3.6	3.1
<b>Mid-Atlantic</b>			
Baltimore	0.3	3.3	1.8
Washington, D.C.	(0.8)	2.5	1.0
<b>Southeast</b>			
Atlanta	0.2	2.7	1.5
Charlotte	0.5	3.3	1.7
Ft. Lauderdale	(1.9)	1.8	0.1
Jacksonville	4.0	4.6	4.1
Miami	(1.5)	2.5	0.4
Nashville	0.5	3.8	2.1
Orlando	(2.5)	2.7	0.1
Raleigh	0.8	3.2	2.2
Tampa	1.0	3.0	1.7
W. Palm Beach	(0.4)	3.4	1.7
<b>South Central (Texas)</b>			
Austin	0.3	3.4	1.4
Dallas	1.5	2.9	2.0
Ft. Worth	1.7	2.5	2.0
Houston	(1.2)	2.4	0.6
San Antonio	(1.1)	2.4	0.4

Source: CBRE Research, RealPage, Q2 2020. To find this information on the website, go to RealPage "Market Analytics," then select "Trends."