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Length of Stay

Earlier editions of this book have briefly described the importance of monitoring the residents' average *length of stay*, but it now becomes clear that this subject deserves a chapter unto itself. The average length of stay, with its related calculations, holds so many answers to the operation and financial success of an apartment property. Yet, as important as this number is, most managers can only guess at their property's average length of stay. It is rare to find an apartment registry, a management statement, or a computer rent roll that is tracking the length of stay of each resident. All managers know that some residents don't stay as long as others, and most managers understand that there are extra costs associated with short stays. But, in the end, little is being done to improve this statistic—or even to measure it.

TRACKING THE DETAILS

Everyone who owns or operates apartment properties soon learns that they need to come up with a system of tracking the information and status of each unit. Every unit needs a form of identification and an address, is a particular type, and contains a finite size. Everything else is changeable. The trick is to create a system, in an encapsulated view, that contains both the fixed information and all of the important variables. We call our example the "Apartment Registry" exhibit, but there are plenty of other name variations. The more information that can be packed into each entry grouping, the better this registry will be. Let's walk through this illustration.

Apartment Registry

Unit	Building	Type	Sq FT	Street Rent	Resident	Rent	Lease Expiration	Security Deposit	New Resident	Length of Stay to Date	Loss between Rentals	
101	200 Cypress Court	2B/2B	1,020	$1,250 *($1.23 /sq ft)*	Smith, Charles/Mary	$1,230	3-31-2010	$300	4-1-2009	90 Days *(3.0 Mos)*	56 Days	$2,265
102	200 Cypress Court	1B/1B	780	$1,050 *($1.35 /sq ft)*	Jackson, Rodney/Susan	$1,008	Mo.-to-Mo.	$0	6-1-2006	1,125 Days *(3.1 Yrs)*	32 Days	$1,105
103	200 Cypress Court	Studio	510	$765 *($1.50 /sq ft)*	Jones, Pamela R.	$748	9-30-2009	$200	9-15-2008	288 Days *(9.6 Mos)*	63 Days	$1,584

Looking at the three shaded boxes, there are no big surprises on the top line of each of these entries—except perhaps for the inclusion of "street rent." This concept was explained in Chapter 15, "Setting and Adjusting Rents," and it represents the next rent level, should this unit become available. It is subject to regular reviews and adjustment. The rent on a square-foot basis is a nice reference and something software programs handle easily.

The middle line for each entry is in a larger typestyle, and it identifies our rental guest(s), the current monthly rent, the next lease-end date, and the amount of any escrowed security deposit. The information on these first two lines is likely to be included, in some fashion, on most apartment rent rolls. Each unit is cross-referenced between the unit ID and the resident's name, making it easy to call up a particular file with a few key strokes.

And, finally, we come to the bottom line for each entry, with the smaller shaded boxes. The information on this last line—including the length of stay and the loss of time and money between rentals—is really the central focus of this chapter. When you think about it, we rent time (in our apartments, in monthly units). Every property has a certain number of rental units, and each year has just 12 time increments, which establish the maximum number of *unit months* (rents are based on 12 equal months of 30 days each; 360 days in total). Our job as managers is to make as many of those unit months as profitable as possible.

Without a means of measurement, it is really not possible to evaluate a property's performance. With the arrival of each new resident, we need to record a beginning date and click-start a counter to track the number of days of residency. Virtually every property management computer program available can be readily programmed to accomplish this task. Knowing each resident's length of stay, in days, allows us to determine the property's average length of stay. The longer the average stay, the fewer number of apartment turnovers and make-readies there are. Longer average stays also mean fewer lost days of rent between residents, less marketing expense, and reduced strain on the whole property staff.

Please note that the average length of stay is very property-specific and is not readily comparable between different properties. Major companies, with extensive but varied apartment portfolios, might be tempted to rank or evaluate property operations using the average length of stay for comparison. That, in most cases, would probably be unfair. What would work is to first determine each property's current length of stay and then set individual target goals to lengthen those stays. Regionally, lengths of stay can vary widely. For example, apartments in the Dallas area traditionally have much longer lengths of stay than those in San Antonio. Within a given city, you will normally find that older properties, on the downturn, will have higher lengths of stay than newer, garden properties. This is because moving is expensive and there is little to be gained from moving from one old apartment to the next.

The examples in our "Apartment Registry" exhibit above show these days being counted. The conversion to months and years saves the reader from having to make the translation. The final two boxes, in the lower right corner of each entry in the exhibit, deal with the rent losses sustained when a unit stands vacant. When we track each resident's length of stay, we are then in a position to calculate the number of days lost between residents.

Remember, a unit is either rented or it is not rent-producing. The days lost can be a very revealing number and can pinpoint a series of problem situations. Most management computer programs track the number of days a unit is vacant. What is not normally accounted for is the rent that is lost during this period. The owner and management need to see this number as well. It is not a difficult calculation, as you have already programmed each unit's street rent and the length of the vacancy. What is your property's average number of days between rentals? Typically that number is in the range of 40 to 50 days.

CALCULATING TURNOVER

When measuring the cost of turnover, we will need to know these losses between residents. These are numbers that can easily be compared

Length of Stay Calculations

256 Total Units × 90.6% Occupancy = 232 Rented Units

			Total Days	Average # of Days
Less than One Year	12	*5.2%*	1,848	154
One Year to Two Years	156	*67.2%*	79,872	512
More than Two Years	64	*27.6%*	50,432	788
Rented Units	232	*100.0%*	132,152	570 *Avg*

$\frac{365}{570}$ = 64% Turnover Rate

232 × 64% = 148 Change of Residents

One Year Later

			Total Days	Average # of Days
Less than One Year	8	*3.4%*	1,368	171
One Year to Two Years	157	*67.7%*	83,053	529
More than Two Years	57	*28.9%*	54,404	812
Rented Units	232	*100.0%*	138,825	598 *Avg*

$\frac{365}{598}$ = 61% Turnover Rate

232 × 61% = 142 Change of Residents

6 Fewer Unit Make-Readies

between properties, and they are always subject to improvement. Analysis can also point to problems with certain unit types when they produce atypical results. The rent loss amounts in our examples will be on the high side, because they were calculated using the current street rent and not the rent that was sought in earlier months.

Our next exhibit, "Length of Stay Calculations," applies some numbers to this discussion. Assume that we have a 256-unit apartment property that has averaged 232 units rented (90.6 percent occupancy) during the course of the past year.

Notice the breakdown of those residents who have been in occupancy for less than a year, one year to two years, and in excess of two years. These groupings are valuable for tracking and yearly comparisons, and they are easily obtained once days of occupancy are counted. The total number of days of occupancy and their respective occupancy averages are detailed in the adjacent columns. The average length of stay in this example is 570 days (total number of days, 132,152, divided by the average number of rented units, 232).

When the 570-day average is divided into the 365 days in a year, we arrive at this property's annual *turnover rate* (64 percent). Finally, if we multiply the average number of rented units, 232, by the annual turnover rate of 64 percent, we can estimate the number of apartment units (148) that changed hands. Notice that we used the number of rented units, not the total number of units in the complex. (There can be slight mathematical differences in these calculations due to rounding.) While length-of-stay figures count up on a daily basis, it is best to do this evaluation and any comparison processes only once per year, perhaps at the end of each calendar or fiscal year.

Now let's say that we work hard all year to improve the property's appearance and operation, we do a more careful job of resident selection, and we do much better with our resident relations. Because of this, we are able to improve the average length of stay to 598 days, a 28-day improvement (see the "One Year Later" panel in the exhibit). In real life, that would almost certainly mean an increase in our average occupancy level as well, but for this illustration, assume that it remains the same, at 232 units. When we repeat our calculations, we find that our turnover rate is lower (61 percent) and we suffered only 142 changes in residents; giving us six fewer units to make ready and rent. Take some time to study the interaction of the different numbers. Consider the "drag" that occupancies of less than a year have on the property's average length of stay.

You may not know or want to invest the time to calculate each resident's length of stay. If this is the case, you can approximate the average length of stay by reversing the formula and dividing the property's annual turnover rate into the 365-day figure. To find the annual turnover rate, divide the average number of rented apartments into the number of changes in residents. The calculation looks like this:

$$\frac{\text{148 Changes of Residents}}{\text{232 Average Occupied Units}} = \text{64\% Annual Turnover Rate}$$

$$\frac{\text{365 Days in a year}}{\text{64\% Annual Turnover Rate}} = \text{570 Days (Average Length of Stay)}$$

Longer lengths of stay mean fewer apartment turnovers and less lost rent, plus lower expenses for fix-ups and leasing and administration. Just reducing the number of make-readies by 4 percent reduces the workload while delivering increased profits.

TURNOVER COSTS

Many managers would say that real estate taxes are their biggest single operating expense. I suggest that the cost of turning over residents is a very

Turnover Cost Example

Average Occupancy of 232 Units with Average Monthly Rent of $1,120

Turnover Cost Assumptions

Lost Rent - 48 Days between Rentals @ $37.33 per day	$1,792
Average Fixup Expenses Calculated @ 75% of 1 Month' s Rent	840
Marketing, Leasing, & Administrative Costs @ 65% of 1 Month's Rent	728
Total Estimated Turnover Costs per Unit	$3.360

Turnover Costs / Savings Using 3 Turnover Rates

	Example	Improvement Goals	
Annual Turnover Rate	64%	61%	58%
Number of Units Turned over /Year	148	142	135
Average Length of Stay in Days	570	598	629
Estimated Turnover Costs per Unit	$3,360	$3,360	$3,360
Annual Turnover Cost	$497,280	$475,507	$453,600
Dollar Gain in Bottom Line		+$21,773	+$43,680
Units Requiring Fix-up & Lease		6 Fewer	13 Fewer

close second. The problem is that we rarely see a true accounting of all of the costs associated with a change in tenants. The charges are spread all over an income and expense statement, and intermixed with other routine operating costs. Instead, they need to be consolidated into a single control group titled "turnover expense."

Unit cleanup, repairs and replacements, painting, upgrades, daily maintenance, utility charges, advertising, leasing, and administrative costs are just a sample of expense items occasioned with every change in tenancy. A good portion of an apartment property's legal bills and charged-off rent rightfully belongs with these expenses as well. In our example of turnover costs, we will just have to make due, like most properties, with our best guess. In the top panel of the "Turnover Cost Example" above, the charges are limited to three basic categories; and past experience has been used to approximate a total turnover cost per unit. The bottom panel details turnover costs and cash savings using three different turnover rates.

You may be astounded by the nearly one-half million dollars attributed to turnover in this illustration's moderately sized apartment property. This

Shorter Time Period Between Rentals

Average Occupancy of 232 Units with Average Monthly Rent of $1,120

Lower Costs and Greater Savings with Quicker Turn Arounds

		Example	Improvement Goals	
Annual Turnover Rate		64%	61%	58%
Number of Units Turned over /Year		148	142	135
Average Length of Stay in Days		570	598	629
Loss Between Rentals	Days	48	43	38
	Rent	$1,792	$1,605	$1,419
Combined Fix-up & Marketing		1,568	1,568	1,568
Estimated Turnover Cost /Unit		$3,360	$3,173	$2,987
Annual Turnover Cost		$497,280	$450,566	$403,245
Dollar Gain in Bottom Line			+$46,714	+$94,035

helps to explain our constant attention to finding good residents and keeping them happy. In our example, by lengthening the average stay by just 28 days (a little more than a 4 percent improvement), we save ourselves the need to re-rent six units and add $21,773 to the profit column. Increase the average by 59 days, and those numbers grow to 13 fewer units to re-rent and $43,680 in added profit.

There is a number in the exhibit's first panel that may attract your attention: 48 days of lost income between residents. That might appear high, but it is very close to the apartment industry's average.

Next, let's examine what happens when we lessen the average number of days that the apartments are out of the income stream between rentals. It doesn't take much of a change to make a handsome improvement in the property's bottom line. The "Shorter Time Period between Rentals" exhibit uses the same assumptions as our last example, with one exception: We compare the 48-day rent loss to two lower goals—43 and 38 days. The extra step of shortening the time loss between rentals increases the bottom line an additional $24,941 and $50,355, respectively.

Consider how often vacated units are left sitting before the fix-up process even gets started. Or, think of the intervals of time that pass between getting the different trades in to do their work. Most managers will agree that once a unit is properly prepared and presented, a prospect usually comes along to rent it. It's the delay in getting the apartment ready that really adds to the time between rentals.

Before we leave the subject of length of stay, follow this thought as to why so much money is lost each year as a result of the downtime between rentals. The progression is this: Apartments are either occupied or vacant; if vacant, they are either ready or not ready; and, if ready, they are either typical or special. To improve occupancy levels, you need an inventory of special units that are ready to rent. The primary reason for extended time lapses between rentals is the prolonged unit fix-up periods and the vast inventory of "ho-hum" apartments. We have all been to very successful restaurants that prepare their tables for the next diner within minutes. We have also witnessed restaurants that aren't busy and yet a large portion of their empty tables have not been re-prepared. Whether at a restaurant or an apartment complex, that difference in turnover time demonstrates the difference in management.

WHAT MAKES RESIDENTS LEAVE?

It would definitely make things easier if, after all of our marketing efforts, we could attract customers who would move in and just *stay*. But people are on the move for a number of reasons and circumstances. Job transfers and other area relocations form a market segment. Home purchases are responsible for many losses of renters. Lifestyle changes and health issues also account for a growing number of housing switches.

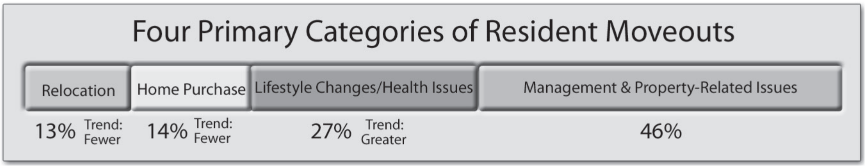
These occurrences happen and will continue to happen, some at an increasing rate. Currently, these losses represent about one-half of the apartment move-outs each year. So what is prompting the other half? The answer is management- and property-related issues. A fair number of these moves are preventable or at least can be minimized. The "Four Primary Categories of Resident Moveouts" barchart provides a breakdown of the major reasons rental residents leave, and these four categories are detailed in the sections below.

Relocation

One of the reasons that people choose rental housing in the first place is the plan or expectation that they might want or need to relocate sometime in the future. Business transfers make up a significant portion of this segment. Fortunately, the expense and disruption of relocations has prompted businesses to minimize these moves in the past several years. This trend is resulting in fewer losses of rental customers.

Home Purchase

It wasn't too many years back when renters becoming homebuyers raised a serious threat to the rental housing industry. Attractive pricing and even more attractive financing enticed a great many to exchange renting for own-



ership. Many millions of foreclosures and surrenders resulted when the real cost effects of mortgage payments, real estate taxes, and home maintenance expenses became apparent. Many of these buyers subsequently returned to renting, with the trend moving toward fewer people venturing into the ownership world. This shift accounts for strengthening rental occupancy levels, particularly in the newer and better-quality developments.

Lifestyle Changes / Health Issues

Those who experience lifestyle changes or health issues compose a major segment of the rental audience—one that warrants special attention. This group contains a wide variety of lifestyles and situations. Marriages create new households that typically begin as a rental. Divorces can also create additional rentals as one household becomes two. The lack of affordability of housing is prompting more “doubling-up” and roommate situations. Changes in family sizes, both increases and decreases, prompt housing changes. An unstable economy forces housing sacrifices and switches. And the normal transitions of people upscaling and downscaling never end.

A big change beginning to affect the rental industry is the boom of retirees making shifts in their housing arrangements. Many will opt to sell their homes and return to a more carefree rental lifestyle. More will go in search of less expensive rural living or relocate to milder climates. Retirement homes and assisted living facilities have been gearing up to accommodate larger numbers of residents and that, of course, comes at the expense of rental housing. The net trend, however, in the lifestyle and health grouping, indicates a greater number of renters in the near future.

As you can see with these first three categories, there is just not much that we, as apartment operators, are going to be able to do to prevent these transitions in our housing stock. We will always have the burden and expense of marketing and re-preparing these units for rent. But we do have one last category to explore, and that single category has plenty of room for improvement and savings.

Management- and Property-Related Issues

This might hurt a bit, but we actually drive a good many residents out of our properties. Don’t expect to detect this when reading the “Monday Morning Occupancy Reports.” So many of the underlying problem issues are hidden in these reports by managers listing the more *legitimate* reasons for most of the week's move-outs, such as relocations, home purchases, and lifestyle changes. But nearly one-half of our losses of residents are either management- or property-related.

Very few people spend their time and money to move into a rental property with the thought that they will be dissatisfied and want to move on to another place. Yet incidents or problems prompting dissatisfaction are often not recognized by management. While we might not remember that a resident had a problem, the resident rarely forgets. Generally, it is not a single problem, but a combination of conditions and events that prompts the decision to change housing. Even exit interviews with departing residents often do not reveal the authentic root causes of the move. Most residents would rather not get into a discussion about their feelings and experiences, particularly because, by the time you learn about their plans to move, they have already made their decision. They would rather not endure your attempts to "save" their occupancy.

Renter dissatisfaction is almost never caused by a single issue. Instead it is created by a combination of problems, with some being more important than others. At the top of the list is frequently the property's condition and, in particular, the particular unit the resident is renting. A renter's care and concern for the unit drop correspondingly as their "good feelings" about the property begin to fade. The renter begins thinking of a newer, better place to live.

Naturally, the economy plays a critical role in the level of apartment move-outs. Rent is clearly the biggest monthly expense, and it is therefore the item that can provide the most relief to a very strained budget. When times are tough, renters become offended by the amount of rent they must pay each and every month. This problem is exacerbated when the unit's utility charges increase as well. Many will go in search of a better value or a competitor's move-in special.

There is a multitude of additional factors that influence the move-out decision. Annoying neighbors, and especially noise and smell irritations, prompt many moves. Security incidents and concerns about a declining neighborhood always cause a higher move-out rate. Confrontations with the management staff often continue to fester long after the actual occurrence. Inequities in rule enforcement never go unnoticed. Traffic congestion can become a daily irritant, as may problems with parking arrangements.

IMPROVING OCCUPANCY DURATIONS

The primary goal at lease renewal time is to retain as many residents as possible. The period of greatest risk for losing residents comes at the end of the first lease period. The allure, the excitement, and much of the expectation that existed prior to move-in no longer exist. Residents have now experienced some of the property's shortcomings. Introductory deals, offered initially, may not be repeated at renewal time. Those whose leases are up for renewal may decide that their family budget is "stretched" too thin and decide to find housing with a lower monthly rent. Studies show that as many as three out of four first-time leases are not renewed. Subsequent lease anniversaries fare much better, with about one-half or more renewing.

There are several policies to be considered when encouraging current residents to stay with your property.

Lease Renewals

It is standard practice to offer the resident a renewal lease or a *lease extension agreement* prior to the expiration of the current lease. Frequently, the new term will be for an additional year.

However, this practice may actually increase resident turnover. Presenting existing residents with renewal leases has the effect of forcing them to decide what they want to do with their lives for the next one-year period of time. There are many people currently renting their accommodations who have long-range plans to relocate or to own their own home. By presenting a lease to them, the decision is brought forward. When the renewal lease arrives in the mail, it is common for a couple to set aside the next few weekends to explore other housing opportunities. They owe it to themselves to see if they can improve their situation. Bypassing the formality of a renewal lease does not eliminate the thought of moving, but neither does it force people to action.

You will probably experience the least resident turnover if you use an initial lease term of a year or six months and follow that by an invitation to continue on a month-to-month basis. You should assure residents that rent increases will be limited to once a year, usually corresponding with the anniversary date of the original lease.

Some building owners fear that residents who are renting on a monthly basis will opt to move during off-season (when there are few replacement prospects available), or the owner may be concerned that the property's lender prefers the security of having annual leases in the file. While the risk exists that people will move out during off-season, the vast majority do not. Also, lenders are coming to the realization that signed residential leases in a file cabinet do not offer the same security as major commercial credit-tenant leases. Hence, they are not as troubled by month-to-month tenancies as they have been in the past.

Renewal Rewards

One of your most important policy considerations is how you will encourage residents to renew their leases and stay for another year. Existing residents will certainly notice that new renters move into freshly prepared apartments, often with physical improvements or new carpet or appliances. To counter this, you need a specific policy about rewarding existing residents with an apartment improvement at each lease anniversary. Without it, the property will face a constant procession of move-outs, and turnover costs will consume what could be cash flow.

Many apartment operators provide a display showing the various apartment upgrades and improvement packages that can be selected by a resident who continues in occupancy. For example, if the person is just completing one year, the renewal reward might be a fairly inexpensive improvement such as wallpaper for the kitchen or bath, a ceiling fan, new cabinet hardware, or one or more new light fixtures. On the second anniversary, the improvements should have more value. Examples might be a large, framed bathroom mirror, a new medicine cabinet, new kitchen floor covering, crown moldings, or a decorative chair rail. Four- or five-year anniversaries might be rewarded with solid surface counters, a major appliance, new carpeting, or new tile in the bathroom.

We know that the cost of turnover is one of the highest categories of expense in the operation of an apartment property. Reallocating money saved by reducing high turnovers to property and unit improvements is a wise move. Making your residents more comfortable is never as costly as replacing them.

Security Deposit Reductions

One of the best ways of showing confidence in your residents and expressing appreciation for their tenancy is to return some of the security deposit at given lease anniversary points. If the full security deposit was $300, you might have a policy to return $150 after one year and the remainder after the second. This process certainly acts as a reward and is appreciated by residents. Many of the fix-up costs are already amortized after two years, anyway. Returning the security deposit during the term of the lease has the added advantage of partially offsetting rent increases.

Such a policy has an additional benefit: It affects the resident's cash outlay if he or she decides to move to another property. Suppose you decide to hold a resident's full security deposit for the duration of tenancy. When that resident moves, he or she effectively transfers the security deposit from you to the next landlord, and the out-of-pocket cash needed is only the rent on the new apartment. If you have already returned the security deposit, the resident must come up with additional cash to fund the deposit at the next apartment community. An important factor in the decision to move is cost. Managers should adjust their thinking to make it more cost-effective for the resident to stay.