

APARTMENT INDEX

APARTMENT PERFORMANCE REMAINS VARIED ACROSS GEOGRAPHIES AND SUBTYPES

Apartment sector fundamentals continue to trend at relatively tight levels with sustained health in the labor markets and barriers to homeownership supporting strong levels of new demand. Reported occupancy rates for apartment properties belonging to the NPI finished 2019 slightly up from a year ago and was at its highest level to end a year since 2011. Continued strength in sector fundamentals helped reaccelerate growth in net operating income during 2019.

Investor interest in the apartment sector remains ample. Real Capital Analytics data indicates transaction volume set a new record in 2019, increasing 4% from 2018. Garden style properties were the primary contributor to the volume increase while mid and high-rise sales volume remained largely unchanged.

However, capitalization rate trends suggest discipline among buyers. The 10-year treasury rate finished 2019 over 70 basis points lower but capitalization rate trends in the apartment sector remained largely unchanged throughout the year after declining for much of the cycle. In fact, 2019 marks the first year since 2012 that the market value weighted cap rate of the NPI apartment sector did not decrease. The trend has weighed on appreciation returns which totaled a modest 1.19% over the last year, compared to 1.73% in 2018.

As a result, total return performance compressed 55 basis points on the year to 5.51% with income returns remaining largely steady. However, it is worth noting that 4Q19 total return rebounded to 1.46% from 1.18% a quarter prior. Regionally, performance has favored the West and South which experienced 1-year total returns of 6.52% and 6.20%, respectively. The Midwest reported a 1-year total return of only 3.00% and was the only region to report a negative appreciation return.

Garden style apartments, which account for roughly 28% of the NPI apartment sector by market value, continued to outperform both high and low-rise apartments as well as the broader NPI index. Garden style properties achieved a total return of 8.00% in 2019, 371 basis points more than high-rise style apartments which account for the bulk of the market value in the NPI apartment sector.

Metro level performance remained varied as well. When reviewing performance for metros with at least 10 properties reporting, the top five performing metros achieved an average total return of 10.44% in 2019 compared to an average of just 0.96% for the bottom five. Phoenix, Riverside, Tampa, Durham, and Orlando were among the strongest performing metros while Philadelphia, Bridgeport, New York, Baltimore, and Chicago were among the biggest laggards.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2019	1.55	1.46	1.36	0.66	1.60	1.65
3rd Q 2019	1.41	1.18	0.64	0.78	1.52	1.52
One Year	6.42	5.51	4.56	3.00	6.20	6.52
Three Years	6.70	5.91	4.82	3.59	6.32	7.25
Five Years	8.25	7.39	5.82	5.51	7.41	9.41
Ten Years	10.18	10.20	8.63	9.41	10.45	11.90
Twenty Years	8.73	8.56	7.87	7.53	8.74	9.77

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2019	1.10	1.06	1.06	1.07	1.11	1.02
3rd Q 2019	1.11	1.05	1.03	1.07	1.06	1.04
One Year	4.52	4.29	4.24	4.35	4.44	4.21
Three Years	4.59	4.32	4.20	4.33	4.53	4.29
Five Years	4.71	4.46	4.29	4.45	4.75	4.43
Ten Years	5.32	4.92	4.64	5.06	5.31	4.85
Twenty Years	6.20	5.53	5.34	5.63	5.86	5.43

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2019	0.45	0.40	0.30	-0.41	0.49	0.63
3rd Q 2019	0.30	0.13	-0.40	-0.28	0.46	0.48
One Year	1.84	1.19	0.32	-1.31	1.71	2.25
Three Years	2.04	1.54	0.60	-0.72	1.72	2.87
Five Years	3.42	2.83	1.48	1.02	2.57	4.83
Ten Years	4.67	5.10	3.86	4.19	4.95	6.81
Twenty Years	2.42	2.91	2.44	1.82	2.75	4.17

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

