

# APARTMENT INDEX

## COMMERCIAL REAL ESTATE COMMENTARY: APARTMENTS

The year started with strong employment gains portending continued demand for new apartment units but the onset of the COVID-19 pandemic quickly turned these gains into historic losses. However, the crisis had muted impacts on first quarter numbers as positive economic momentum coming into the quarter continued to drive rent growth. According to data provided by CBRE, average effective monthly rents increased 2.7 percent in the quarter as net absorption continued at historically high levels and vacancy rates remained under 5 percent.

Transaction activity remained robust with strong investor demand driving year-over-year increases in volume. Volumes were down versus the first quarter of 2019, but the decline was predominantly driven by an abrupt halt in transactions in March as buyers began to walk away from deals and bid/ask spreads widened.

During the quarter, the sector produced a positive total return of 95 basis points due to income with values declining 10 basis points. For the year, the sector produced a total return of 5.1 percent down from the prior year return of 5.5 percent. Valuations were weak across all regions with only the West producing a modest 9 basis point increase. In the Midwest region, values declined 91 basis points in the quarter and 145 basis points over the one-year period. This stands in stark contrast to the West's valuation gains of 177 basis points, continuing the region's positive relative performance. From a property type perspective, garden style continued to outperform low- and high-rise product. High rise was universally weak across all regions of NPI and experienced value declines on a one-year basis. From an MSA (Metropolitan Statistical Area) perspective, Phoenix remained strong while difficulties in the oil patch drove down prices in Houston leading to nearly 400 basis points in relative valuation performance between the two MSA's in the quarter alone.

Capitalization rates held steady during the quarter on a year-over-year basis but ticked up slightly from year end. The 10-year treasury rate experienced much greater volatility as rates fell to historic lows, finishing the quarter at 67 basis points. At these levels, multi-family spreads to treasuries are at their highest levels in the last 20 years. Given the lack of transactions, there remains uncertainty as to where capitalization rates will settle out, but it is difficult to envision any significant expansion in the near term given investor interest in the sector.

Investor interest shifted to April as rent collections became the key barometer for how real estate fundamentals, particularly net operating income, would perform. As governments placed restrictions on evictions and the unemployment rate increased, investors became concerned that tenants would be unwilling or unable to pay with limited recourse. Early indications appeared positive with the National Multi-Family Housing Council's Rent Payment Tracker indicating 94.6 percent collections versus 97.7 percent in the prior year, strong performance versus other sectors of the real estate market.

*Paul Von Steenburg*  
 Managing Director  
 Commonfund Asset Management

### APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2020	0.71	0.95	1.02	0.17	0.90	1.12
4th Q 2019	1.55	1.46	1.36	0.66	1.60	1.65
One Year	5.28	5.10	4.28	2.88	5.65	6.02
Three Years	6.41	5.79	4.76	3.34	6.18	7.11
Five Years	7.65	6.99	5.58	4.97	6.82	9.03
Ten Years	10.17	10.25	8.95	9.20	10.41	11.80
Twenty Years	8.64	8.48	7.77	7.43	8.67	9.70

### APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2020	1.10	1.05	1.04	1.09	1.09	1.02
4th Q 2019	1.10	1.06	1.06	1.07	1.11	1.02
One Year	4.51	4.29	4.26	4.38	4.42	4.20
Three Years	4.57	4.31	4.20	4.33	4.50	4.27
Five Years	4.68	4.44	4.28	4.42	4.71	4.40
Ten Years	5.26	4.88	4.61	5.02	5.26	4.80
Twenty Years	6.15	5.48	5.29	5.59	5.82	5.38

### APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2020	-0.39	-0.10	-0.02	-0.91	-0.19	0.09
4th Q 2019	0.45	0.40	0.30	-0.41	0.49	0.63
One Year	0.74	0.79	0.02	-1.45	1.19	1.77
Three Years	1.77	1.44	0.55	-0.95	1.63	2.75
Five Years	2.87	2.47	1.26	0.53	2.04	4.49
Ten Years	4.73	5.19	4.21	4.04	4.97	6.76
Twenty Years	2.38	2.89	2.40	1.76	2.73	4.15

### APARTMENT INDEX—QUARTILE RANGE OF RETURNS

