

# APARTMENT INDEX

## STRONGER INVESTOR DEMAND HELPS APARTMENT PERFORMANCE

Apartment investment performance improved in the third quarter of 2020 as the U.S. economy started to recover from record losses sustained during the shutdown earlier this year. Market conditions remained challenging as evidenced by the weak operational performance in many major markets. The national labor market did add 3.9 million jobs since June but remains 10.7 million below the February peak and still faces a long road to a full recovery. Despite the uncertain macro environment, real estate investment started to rebound last quarter with the apartment sales volume increasing by more than 50% from the prior quarter according to Real Capital Analytics. Stronger investment demand for apartments was the primary driver of property appreciation, with values of garden-style apartments rising slightly.

The total return for apartments turned positive, with the sub-index gaining 0.51% in the third quarter following a decline of 0.63% in the second quarter. Most of the difference in the total returns between the two periods was accounted for by the appreciation component, which declined by 0.4%, an improvement of 124 basis points. Meanwhile, the income return compressed by 9 basis points to 0.92%. Garden-style apartments reported a slight positive appreciation of 0.23% this quarter, yet high-rise apartments, which account for over 60% of the apartment value in the index, still posted a negative 0.77% appreciation return.

The divergence in appreciation and overall investment performance for garden-style versus high-rise apartments is not a new phenomenon but the pandemic has reinforced the trends that were already at play through much of the last cycle. The differences in operational performance between the two segments became more pronounced this year. In most gateway cities, urban core properties are facing dual pressures of flat or weaker resident demand and rising new supply, which resulted in falling rents and occupancies.

New York, San Francisco, Boston, and Chicago were the only major markets reporting negative total returns in the third quarter of 2020 and San Jose, Newark, Miami, and Los Angeles were also among the weakest performers. In contrast, less dense markets with higher concentrations of suburban apartments such as Riverside, Raleigh/Durham, Phoenix, Denver, and Dallas were in the lead based on last quarter's total returns. Judging by the recent transaction activity, investors were also focusing more on the areas with lower costs of living and doing business that are benefiting from positive domestic migration flows. Most of the gain in apartment sales volume last quarter was driven by non-gateway markets.

Thus far, apartment fundamentals and investment performance have shown remarkable resilience in the face of unprecedented losses in employment. With the economy and labor market starting to regain their footing, apartment demand is also showing some signs of strengthening, but with wide variation across markets, submarkets, and product sub-types. Until an effective medical solution is found to contain and manage the spread of the pandemic, some of the factors contributing to this variation are likely to persist.

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### APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2020	0.74	0.51	0.33	-0.07	0.76	0.62
2nd Q 2020	-0.99	-0.63	-0.65	-1.06	-0.54	-0.58
One Year	2.00	2.31	2.07	-0.31	2.73	2.82
Three Years	5.11	4.67	3.77	2.16	5.28	5.71
Five Years	6.28	5.73	4.62	3.44	5.73	7.37
Ten Years	9.37	9.12	7.69	8.14	9.42	10.64
Twenty Years	8.30	8.16	7.39	7.05	8.41	9.36

### APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2020	1.02	0.92	0.93	0.94	0.94	0.88
2nd Q 2020	1.01	1.01	1.03	1.05	1.03	0.97
One Year	4.30	4.10	4.12	4.21	4.23	3.95
Three Years	4.48	4.23	4.16	4.25	4.41	4.15
Five Years	4.58	4.35	4.23	4.35	4.60	4.30
Ten Years	5.13	4.77	4.52	4.90	5.15	4.70
Twenty Years	6.04	5.37	5.17	5.49	5.71	5.27

### APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2020	-0.28	-0.40	-0.60	-1.01	-0.18	-0.26
2nd Q 2020	-2.00	-1.64	-1.67	-2.11	-1.57	-1.55
One Year	-2.22	-1.74	-1.99	-4.38	-1.46	-1.10
Three Years	0.61	0.43	-0.38	-2.03	0.85	1.51
Five Years	1.64	1.33	0.38	-0.88	1.10	2.98
Ten Years	4.09	4.20	3.08	3.13	4.12	5.75
Twenty Years	2.17	2.68	2.14	1.50	2.59	3.93

### APARTMENT INDEX—QUARTILE RANGE OF RETURNS

