

APARTMENT INDEX

APARTMENT VALUES STABILIZE AS INVESTORS LOOK PAST NEAR-TERM HEADWINDS

Despite a year of historically high numbers of job losses, the apartment sector managed to provide investors with positive returns in 2020, yet that resiliency has been uneven across both markets and subtypes—a trend that continued through the fourth quarter.

Apartments returned 1.8% for the full-year 2020, composed of a 3.9% income return and a 2.1% decline in capital values. Quarterly returns increased to 1.0% in the fourth quarter—the second consecutive quarter that results improved—indicating that the second quarter was probably the sector’s cyclical trough for investment performance. Values stabilized in the fourth quarter, increasing a modest 0.1% after three straight quarters of capital losses.

However, performance is not uniform across subtypes and locations. High-rise apartment returns are lagging—especially returns from properties located in central business districts (CBDs). Such a return disparity is in line with the sharp occupancy and rent declines in urban locations as renters have eschewed high-cost CBDs while the pandemic negated many of the benefits of city life. Fourth-quarter high-rise total returns were barely positive, at 0.2%, showing little improvement from the previous quarter. Total returns were weighed down by a minus 0.6% capital return—the fourth quarter of capital value losses in a row. For CBD buildings specifically, capital returns were minus 1.1% in the fourth quarter, deteriorating further from minus 0.9% in the third quarter and keeping total returns negative for the quarter and for the year.

Garden-style properties represent the best-performing apartment subtype. This is nothing new: garden-style returns have outpaced other subtypes in every quarter since 2013, yet the disparity in quarterly returns is at its widest over that span. Garden-style apartments returned 5.0% for the year and 2.6% in the fourth quarter alone—the subtype’s highest quarterly return since 2015. Low-rise apartments, too, demonstrated notable improvement in the fourth quarter, returning 1.5% and bringing full-year-2020 returns to 3.1%.

The foregoing trends are also evident in metro-level results, with higher-cost, more-urbanized markets faring worst. Total returns for both the quarter and the year were negative in New York, San Francisco and Chicago, weighed down by annual value losses from minus 4.7% to minus 5.9%. Returns were also weaker in many West Coast markets, including Portland, Los Angeles, San Jose and Seattle. Meanwhile, Phoenix and Riverside did exceptionally well, with strong fourth-quarter results driving annual returns of 9.7% and 8.9%, respectively. Additionally, Jacksonville, Raleigh-Durham and Denver all performed well during the quarter and the year, with annual returns in excess of 6%.

Although the worst may be behind the apartment sector, there are headwinds to a recovery in 2021. Construction activity remains at high levels, and recent data indicates the labor market recovery has stalled for now. But with the COVID-19 vaccine now being distributed, property incomes may already have hit bottom. Transactions markets indicate investors are willing to look past the near-term headwinds. According to Real Capital Analytics, apartment transaction activity in the fourth quarter of 2020 was just shy of levels from the final quarter of 2019.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2020	1.15	0.99	0.73	0.01	1.62	0.97
3rd Q 2020	0.74	0.51	0.33	-0.07	0.76	0.62
One Year	1.60	1.83	1.43	-0.95	2.75	2.13
Three Years	4.89	4.45	3.63	1.87	5.24	5.29
Five Years	5.91	5.37	4.32	3.15	5.55	6.76
Ten Years	9.00	8.56	7.09	7.62	8.95	10.04
Twenty Years	8.19	7.99	7.22	6.90	8.35	9.07

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2020	1.01	0.88	0.83	0.92	0.98	0.84
3rd Q 2020	1.02	0.92	0.93	0.94	0.94	0.88
One Year	4.20	3.91	3.89	4.05	4.09	3.76
Three Years	4.43	4.16	4.09	4.21	4.35	4.07
Five Years	4.55	4.30	4.18	4.32	4.53	4.23
Ten Years	5.06	4.72	4.46	4.85	5.09	4.64
Twenty Years	5.98	5.31	5.11	5.44	5.65	5.21

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2020	0.14	0.11	-0.10	-0.91	0.64	0.13
3rd Q 2020	-0.28	-0.40	-0.60	-1.01	-0.18	-0.26
One Year	-2.52	-2.02	-2.38	-4.86	-1.31	-1.59
Three Years	0.44	0.29	-0.45	-2.26	0.86	1.18
Five Years	1.32	1.04	0.14	-1.13	0.98	2.45
Ten Years	3.80	3.72	2.54	2.68	3.73	5.22
Twenty Years	2.11	2.59	2.04	1.41	2.59	3.71

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

