

APARTMENT INDEX

APARTMENT INVESTMENT RETURNS SHOWS SIGNS OF ACCELERATION

With the rollout of vaccines and the lifting of COVID restrictions in several states, the U.S. economy is gaining momentum and the U.S. apartment sector is accelerating its recovery from the effects of the onset of the pandemic. Apartment fundamentals rebounded in the first quarter with the second-highest quarterly occupancy gains on record according to data released by CoStar. Apartment rents in the suburbs and in urban cores alike are showing signs of acceleration. Notably, rents at properties located in high-cost central business districts (CBDs) such as Boston, San Francisco, and Seattle are growing after posting some of the most acute rent losses in 2020.

Reflecting this momentum, apartment returns improved to 1.69% in the first quarter—the fourth consecutive quarter that results have improved following the sector’s cyclical trough for investment performance in the second quarter of 2020. This was the strongest quarterly return since the third quarter of 2016. Most of the improvement in total returns in the first quarter was due to the appreciation component, which grew by 0.79%, an improvement of 68 basis points. Meanwhile the income return held nearly steady, growing 2 basis points to 0.90%. Apartments returned 2.6% on annualized basis, composed of a 4.14% income return and a 1.48% decline in capital values.

In the metro level results, there were signs of improvement in nearly every market. Significantly, first quarter returns showed that several of the higher-cost, more-urbanized markets are stabilizing. Total returns for San Francisco and New York turned positive in the first quarter at 0.5% and 0.2% respectively, after three consecutive negative quarters. Similarly, Chicago reported slight improvement although still negative returns of -0.1%, the metro’s fifth consecutive quarter of negative returns. Meanwhile, Phoenix and Raleigh continued to outperform, with strong first-quarter results of 5.6% and 5.4%, respectively. Quarterly returns accelerated for many other Sun Belt markets as well, including Tampa, Charlotte and Atlanta at 4.2%, 3.9% and 2.9% respectively.

Behind these improving results, vacancy rates tightened over the quarter across subtypes. The apartment sub-index vacancy rate edged down 40 basis points to 7.2% due in large part to the 60 basis point decrease for high-rise apartments this quarter. However, at 8.6%, the vacancy rate for high-rise properties remains above levels seen during the Global Financial Crisis. Both garden-style and low-rise properties saw continued improvement in occupancy with moderate 20 basis point declines in vacancy.

The anticipated surge in economic growth in the middle of 2021 should provide further support and all apartment subtypes are expected to soon stabilize. Even the high-rise market, which was disproportionately impacted by the pandemic, has seen signs of improvement although certain headwinds remain. Trends point to a very busy 2021 Spring leasing season which should continue to push rents upwards, accelerating the emerging recovery in urban coastal markets and further tightening suburban rental markets.

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APARTMENT TOTAL RETURNS

| | Total NPI | Total Apartment | East | Midwest | South | West |
|--------------|-----------|-----------------|------|---------|-------|------|
| 1st Q 2021 | 1.72 | 1.69 | 1.50 | 0.35 | 2.24 | 1.72 |
| 4th Q 2020 | 1.15 | 0.99 | 0.73 | 0.01 | 1.62 | 0.97 |
| One Year | 2.61 | 2.57 | 1.91 | -0.78 | 4.12 | 2.74 |
| Three Years | 4.89 | 4.52 | 3.69 | 1.67 | 5.37 | 5.34 |
| Five Years | 5.81 | 5.33 | 4.31 | 2.92 | 5.65 | 6.62 |
| Ten Years | 8.82 | 8.39 | 6.88 | 7.36 | 8.85 | 9.86 |
| Twenty Years | 8.15 | 7.95 | 7.14 | 6.83 | 8.36 | 9.00 |

APARTMENT INCOME RETURNS

| | Total NPI | Total Apartment | East | Midwest | South | West |
|--------------|-----------|-----------------|------|---------|-------|------|
| 1st Q 2021 | 1.04 | 0.90 | 0.87 | 0.89 | 0.98 | 0.85 |
| 4th Q 2020 | 1.01 | 0.88 | 0.83 | 0.92 | 0.98 | 0.84 |
| One Year | 4.14 | 3.75 | 3.71 | 3.85 | 3.99 | 3.59 |
| Three Years | 4.40 | 4.10 | 4.04 | 4.15 | 4.30 | 4.01 |
| Five Years | 4.52 | 4.25 | 4.13 | 4.27 | 4.48 | 4.18 |
| Ten Years | 5.01 | 4.67 | 4.42 | 4.80 | 5.03 | 4.59 |
| Twenty Years | 5.93 | 5.25 | 5.05 | 5.38 | 5.60 | 5.15 |

APARTMENT APPRECIATION RETURNS

| | Total NPI | Total Apartment | East | Midwest | South | West |
|--------------|-----------|-----------------|-------|---------|-------|-------|
| 1st Q 2021 | 0.67 | 0.79 | 0.62 | -0.54 | 1.26 | 0.87 |
| 4th Q 2020 | 0.14 | 0.11 | -0.10 | -0.91 | 0.64 | 0.13 |
| One Year | -1.48 | -1.15 | -1.75 | -4.50 | 0.12 | -0.83 |
| Three Years | 0.48 | 0.40 | -0.34 | -2.41 | 1.03 | 1.30 |
| Five Years | 1.25 | 1.05 | 0.17 | -1.31 | 1.13 | 2.37 |
| Ten Years | 3.68 | 3.60 | 2.38 | 2.47 | 3.68 | 5.09 |
| Twenty Years | 2.13 | 2.60 | 2.02 | 1.39 | 2.66 | 3.71 |

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

