

# APARTMENT INDEX

## IMPROVING FUNDAMENTALS ACCELERATE APPRECIATION

The financial and labor market rebound in 2Q21 supported healthy occupancy and rent levels in the Apartment sector. According to Clarion Partners, the U.S. multifamily sector absorption rate reached the highest level on record. The national vacancy rate, at 4%, is now below pre-pandemic levels. Demand made a strong comeback across all markets, including large U.S. coastal cities, as many people returned to normal, pre-pandemic living arrangements. In addition, investment sales for the Apartment sector reached approximately \$53 billion, up by 238% year-over-year, and well outpacing all other sectors.

Investment performance reflects these improving fundamentals. The total return for Apartments accelerated to 3.6% in 2Q, the fifth consecutive quarter total return has improved since the sector's cyclical trough in 2Q20. While the income return was on par with 1Q at 0.9%, the appreciation return was over three times that of the prior quarter at 2.7% (compared to 0.7% 1Q21), supported by strong investment demand. The trailing one-year period returned 6.9%, driven by income at 3.7% and appreciation at 3.2%.

Garden-style apartments continue to be the best-performing apartment sub-type, returning 13.0% for the trailing one-year period and 5.4% for the quarter. The appreciation return, at 4.5%, more than doubled quarter-over-quarter. Performance of low-rise apartments was strong for the quarter returning 3.7%, driven by appreciation at 2.7%. While the total return from the high-rise sub-type continued to lag both garden-style and low-rise apartments, it did show improvement, with the appreciation return 171 bps greater than the prior quarter at 1.9% and the total return rising to 2.7%. Notably, the appreciation return for high-rise apartments in the Northeast region turned positive, at 1.2%, for the first time in the past five quarters.

Regional performance showed that the South outperformed the Apartment index by 101 bps and in particular, the Southeast division drove the return at 5.6% for the quarter. As noted by Clarion Partners, three Sun Belt markets—Nashville, Orlando, and West Palm Beach—recorded the highest leasing absorption as a percentage of total apartment stock. In addition, a few of the largest U.S. cities most impacted by increased departures from their central business districts last year reported a strong comeback in absorption, led by New York and followed by Chicago and Los Angeles; total return for the Apartment sector has shown some improvement in these markets.

Apartment fundamentals have strengthened into 2021. With continued reopening of the economy and associated job growth, apartment demand should remain robust, which should ultimately be reflected in investment performance.

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### APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
2nd Q 2021	3.59	3.62	3.04	2.13	4.63	3.71
1st Q 2021	1.72	1.69	1.50	0.35	2.24	1.72
One Year	7.37	6.96	5.70	2.43	9.52	7.18
Three Years	5.50	5.23	4.29	1.94	6.42	5.99
Five Years	6.13	5.68	4.65	2.94	6.28	6.86
Ten Years	8.79	8.33	6.76	7.07	8.95	9.77
Twenty Years	8.21	8.00	7.13	6.83	8.47	9.04

### APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
2nd Q 2021	1.06	0.92	0.89	0.88	1.02	0.87
1st Q 2021	1.04	0.90	0.87	0.89	0.98	0.85
One Year	4.19	3.66	3.57	3.68	3.98	3.49
Three Years	4.37	4.05	3.99	4.10	4.27	3.94
Five Years	4.49	4.20	4.09	4.22	4.44	4.12
Ten Years	4.96	4.62	4.38	4.75	4.99	4.55
Twenty Years	5.87	5.19	4.99	5.33	5.54	5.09

### APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
2nd Q 2021	2.54	2.71	2.16	1.25	3.60	2.84
1st Q 2021	0.67	0.79	0.62	-0.54	1.26	0.87
One Year	3.08	3.22	2.08	-1.21	5.39	3.60
Three Years	1.09	1.14	0.29	-2.10	2.08	1.99
Five Years	1.59	1.44	0.54	-1.23	1.79	2.66
Ten Years	3.69	3.58	2.31	2.25	3.82	5.05
Twenty Years	2.25	2.70	2.07	1.44	2.81	3.80

### APARTMENT INDEX—QUARTILE RANGE OF RETURNS

