

APARTMENT INDEX

APARTMENT SECTOR MAINTAINS DESIRABILITY IN 3RD QUARTER

Besides industrial, the apartment market has been among the strongest markets since the onset of the Pandemic and remains so. The 3Q2021 NCREIF Property Index was 5.23%: the largest quarterly return in more than 10 years, and was accelerated by the Apartment return of 6.53%, which was nearly double the 2Q2021 return (which was more than double the Q1 return).

According to Moody's Analytics, asking and effective apartment rents increased 7.5% and 7.9%, respectively, triple the prior quarterly record that was achieved in 2000 (3Q). 3Q net absorption was greater than the prior two quarters combined, and according to RealPage, was led by the New York metro area, which displaced Dallas/Fort Worth, the perennially leader. Other areas with significant absorption (above 10,000 units) included Los Angeles, Houston, Dallas/Fort Worth, the San Francisco Bay area, Washington, DC, and Chicago. Fueled by the reported absorption, the vacancy rate for primary national market areas was reduced to 4.7%. Multi-Family construction continues at a significant pace, currently exceeding 650,000 units, though supply-chain issues and rapidly rising material and labor costs continue to present obstacles.

Of the three Apartment Subtypes, Garden, High-Rise and Low-Rise, Garden remains the superior performing category, exhibiting a 3Q return of 8.67%, surpassing Low-Rise at 6.39% and High-Rise at 5.53% (High-Rise properties continue to be influenced by locations and operations impacted by COVID). Garden apartments have demonstrated increasing returns each quarter during 2021, totaling 18.13% YTD. Similarly, Low-Rise and High-Rise properties have shown increasing quarterly returns, totaling 12.20% and 9.52%, respectively, YTD. Unless something unexpectedly occurs, with the rapidly increasing quarterly trends exhibited, it appears that each property subtype is on-pace to easily surpass the returns noted for the trailing 12-month period.

From a location perspective, the South Region performed the best in 3Q, expressing a return of 8.00%, followed closely by the West Region at 6.83%. The East and Midwest areas lagged behind at 5.57% and 3.67%, respectively. A note of significance: while the Midwest trailed the other regions, the increasing 3Q return is a distinct positive from the virtually non-existent returns in 1Q2021 and 4Q2020, which followed a negative return in 3Q2020. The South displayed the greatest return increase from 2Q, rising from the reported return of 4.63% while the West provided a slightly lesser increase from the prior quarter (3.71%). A similar trend is noted YTD, with returns ranging from 6.26% to 15.53%. MSA 3Q returns generally followed the pattern of the regional returns, with one noted exception: MA-Cambridge-Newton Framingham at 9.23%. MSA's that correlated with the regional data and led the way include NC-Raleigh with a 12.56% return; AZ-Phoenix-Mesa-Scottsdale at 12.12%; TN-Nashville-Davidson-Murfreesboro-Franklin-11.65%; West Palm Beach-Boca Raton-Delray Beach (10.87%); and CA-Riverside-San Bernardino-Ontario indicating a return of 10.52%.

With an expanding economy, presuming inflation can be reigned-in, workers can be located to fill unoccupied jobs, and supply-chain issues resolved, apartment demand and analytics should remain robust. That said, a quickly expanding property subtype, Single-Family Rentals, is on the horizon to provide additional alternatives and competition to the apartment rental and investment market.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2021	5.23	6.53	5.57	3.67	8.00	6.83
2nd Q 2021	3.59	3.62	3.04	2.13	4.63	3.71
One Year	12.15	13.37	11.22	6.27	17.40	13.79
Three Years	6.72	6.92	5.80	2.90	8.58	7.61
Five Years	6.84	6.67	5.46	3.40	7.70	7.77
Ten Years	8.99	8.63	6.99	7.04	9.36	10.13
Twenty Years	8.40	8.22	7.29	6.92	8.77	9.28

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2021	1.05	0.94	0.91	0.90	1.03	0.90
2nd Q 2021	1.06	0.92	0.89	0.88	1.02	0.87
One Year	4.22	3.68	3.55	3.64	4.07	3.51
Three Years	4.35	4.02	3.96	4.06	4.25	3.89
Five Years	4.47	4.16	4.05	4.18	4.40	4.08
Ten Years	4.92	4.58	4.35	4.69	4.95	4.50
Twenty Years	5.81	5.14	4.93	5.29	5.49	5.05

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2021	4.18	5.59	4.66	2.77	6.97	5.92
2nd Q 2021	2.54	2.71	2.16	1.25	3.60	2.84
One Year	7.69	9.43	7.48	2.56	12.94	10.02
Three Years	2.29	2.82	1.79	-1.12	4.19	3.61
Five Years	2.30	2.43	1.37	-0.76	3.19	3.58
Ten Years	3.93	3.91	2.56	2.27	4.25	5.44
Twenty Years	2.48	2.96	2.29	1.57	3.15	4.08

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

