

APARTMENT INDEX

APARTMENT DEMAND REMAINS STRONG

The NCREIF apartment sector posted another strong return this quarter at 5.25%, bringing the trailing one-year return to 24.12%. The Mountain division was the strongest performer over the trailing one year (38.45%) but was outpaced on a quarterly basis by the Southeast division (8.23% vs. 7.60%). Garden-style apartments remained the favored property subtype, with a 6.74% return for the quarter and a 33.45% return over the past year. While still positive, high-rise apartments were the worst-performing sector returning “only” 4.47% over the quarter and 19.51% over the past year.

Tenant demand for apartment housing has been strong over the past year, and this momentum continued through to 1Q 2022. Many factors contributed to this positive trend, including migration from high-cost states into low-cost states, which is partly due to an increase in work flexibility, permanent job relocations and a continued re-opening of the economy. Additionally, many residents have higher disposable incomes due to government subsidies and significant wage/income growth as a result of a tight labor market. Another contributor to demand is an undersupply of U.S. housing. It is estimated that nearly five million homes would have needed to be constructed over the past eight years to keep up with the growth in demand. The actual number fell far short of that and FreddieMac estimates the U.S. is still short 3.8 million homes. With construction costs rising and supply-chain disruptions still occurring, the shortage is likely to persist. This has resulted in significant for-sale home price appreciation, forcing many people to rent by necessity. All of these factors led to apartment rent growth reaching historic levels, as evidenced by “lease trade-outs,” or the rents paid by new tenants compared to the previous tenants. While the velocity of rental rate growth will likely slow over time, there are reasons to remain bullish about the future performance of apartment properties.

Investor demand for the sector also remains high given the attractive fundamentals and potential for inflation protection. The Bureau of Labor Statistics reported that the year-over-year growth of the Consumer Price Index (CPI) reached 8.5% in March. The annual growth of the CPI has not gone above 8% since 1982. Apartments are a natural inflation hedge because leases are usually 12 months and scattered throughout the year, allowing owners to increase rents on new and renewal leases continuously as leases roll.

While there is uncertainty around the U.S. economy, the apartment sector should offer attractive risk-adjusted return potential for investors. This is due to the historical resiliency of the sector during prior market downturns. Due to all the demand factors mentioned and the sector’s defensibility during times of disruption, the apartment sector should continue to perform well, both on an absolute and relative basis.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2022	5.33	5.25	4.36	2.05	7.12	5.04
4th Q 2021	6.15	6.82	5.68	3.94	8.88	6.71
One Year	21.87	24.12	19.97	12.31	31.78	24.19
Three Years	9.60	10.19	8.43	4.66	13.17	10.60
Five Years	8.54	8.55	7.05	4.23	10.44	9.41
Ten Years	9.61	9.23	7.44	6.98	10.41	10.60
Twenty Years	8.89	8.66	7.58	7.15	9.41	9.72

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2022	0.99	0.93	0.94	0.96	1.00	0.86
4th Q 2021	1.03	0.97	0.97	0.98	1.07	0.90
One Year	4.18	3.81	3.76	3.78	4.19	3.58
Three Years	4.28	3.95	3.91	4.00	4.20	3.79
Five Years	4.41	4.10	4.01	4.12	4.34	3.99
Ten Years	4.83	4.51	4.30	4.59	4.86	4.42
Twenty Years	5.70	5.05	4.83	5.21	5.41	4.94

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
1st Q 2022	4.34	4.32	3.41	1.09	6.12	4.18
4th Q 2021	5.12	5.85	4.71	2.96	7.80	5.82
One Year	17.16	19.76	15.78	8.30	26.78	20.08
Three Years	5.16	6.06	4.40	0.64	8.70	6.62
Five Years	4.00	4.32	2.95	0.10	5.91	5.26
Ten Years	4.61	4.57	3.04	2.32	5.36	5.98
Twenty Years	3.06	3.48	2.66	1.87	3.85	4.60

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

