

# APARTMENT INDEX

## NCREIF APARTMENTS

During the third quarter, dramatic shifts in the capital markets, the broader housing environment, and the macroeconomic outlook weighed on multifamily performance. Quarterly total returns for apartments ebbed to 1.2% - well below the stimulus-fueled gains of 6%+ in the second half of 2021, but close to the average quarterly return over the past decade. In response to the highest inflation in 40 years, the Federal Reserve has increased short-term rates at the fastest pace in four decades. These rate hikes have sent shockwaves across the economy and capital markets. Multifamily debt costs soared above cap rates (negative leverage) and resulted in much slower appreciation of 0.3% in 3Q22. Reduced rates of value increases occurred across all property types (garden, high-rise, and mid-rise) and in all regions, including a decline in values along the West Coast and the upper Midwest. Both debt and equity capital providers have become extremely cautious as they await more clarity and price discovery before deploying funds for new investments.

Similar to the shift in investment markets, operating fundamentals have begun to soften after soaring in 2021 and into early 2022. The combination of greater economic uncertainty and a reversal of post-Covid impacts (less stimulus and redoubling) caused recent overall household formation to stall. In turn, multifamily recorded net move-outs in both the second and third quarters, reversing the large gains typically seen in the spring and summer leasing seasons. Despite the net decline in the number of renters, occupancy remains well above its long-term average (96.3% as of 3Q22 vs. the 94.7% historical norm). Even with occupancy decreasing, income returns remained solid at 0.9% in the third quarter, as rent rolls across the nation continue to benefit from the sizeable loss-to-lease embedded, which will bolster net operating incomes into next year.

Going forward, the consensus forecast now calls for a job-loss recession built into the base case outlook, with layoffs beginning in the middle of 2023, persisting into 2024, and then a recovery emerging in late 2024. Given this economic backdrop, multifamily absorption should remain meager in the near term, and then head higher as the economy improves. However, the recent ramp-up in construction will result in the number of new projects being delivered reaching highs not seen since the 1980s. As completions outstrip demand, occupancy should soften further in the coming years, but remain above or close to its equilibrium level. With vacancy rising and many new projects competing to reach stabilization, rent increases should decelerate from a 7% increase in 2022 to near 1% growth per year in 2024-2025 (trending below the historical average of 3% annual gains). Even with the expected economic downturn, multifamily will weather the economic storm relatively well in the short run, and apartments will continue to produce solid returns over the long term.

Ryan Davis  
CEO  
Witten Advisors

### APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2022	0.57	1.20	1.44	0.74	1.58	0.77
2nd Q 2022	3.23	3.86	3.42	2.44	4.91	3.60
One Year	16.08	18.17	15.70	9.47	24.29	17.02
Three Years	9.91	11.08	9.51	5.06	14.44	11.04
Five Years	8.62	8.97	7.53	4.40	11.23	9.48
Ten Years	9.48	9.22	7.46	6.68	10.56	10.47
Twenty Years	8.91	8.69	7.50	7.13	9.58	9.71

### APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2022	0.93	0.90	0.92	1.01	0.94	0.83
2nd Q 2022	0.97	0.92	0.93	1.01	0.96	0.86
One Year	3.98	3.77	3.81	4.03	4.03	3.49
Three Years	4.17	3.85	3.83	3.96	4.11	3.65
Five Years	4.33	4.02	3.97	4.08	4.26	3.89
Ten Years	4.73	4.42	4.24	4.51	4.76	4.33
Twenty Years	5.59	4.96	4.73	5.14	5.33	4.85

### APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2022	-0.37	0.30	0.53	-0.27	0.64	-0.06
2nd Q 2022	2.26	2.94	2.49	1.43	3.95	2.74
One Year	11.76	14.02	11.57	5.28	19.68	13.19
Three Years	5.58	7.03	5.53	1.07	10.03	7.19
Five Years	4.15	4.80	3.46	0.31	6.75	5.43
Ten Years	4.59	4.64	3.12	2.10	5.60	5.95
Twenty Years	3.19	3.60	2.68	1.92	4.08	4.68

### APARTMENT INDEX—QUARTILE RANGE OF RETURNS

