

APARTMENT INDEX

APARTMENT RETURNS HOLD STEADY, SOUTH AND WEST REGIONS OUTPERFORM

The Apartment segment of the NCREIF Property Index (NPI) registered a 1.6% return in the third quarter of 2018, bringing the sector's annual return to 6.4%. Results were largely in line with the property type's performance over the past two years, during which it has trailed the overall NPI by 70-80 basis points (bps) on an annual basis. Though the Apartment segment outpaced the Retail sector by a wide margin over the past year, it lagged Industrial and Office.

Market fundamentals remain strong despite elevated construction activity. Occupancy among Apartments in the NPI is at 94.2%, its highest point in over two years. Rent growth nationwide is still well off the rates seen several years ago, but growth has reaccelerated according to Axiometrics.

Large disparities between subtype performance persisted in the third quarter. Despite the share of High-Rise Apartments increasing from 40% to over 50% in the past five years, Garden continues to outperform. The segment returned 2.1% for the quarter and 9.3% over the past year. High-Rise Apartments returned 1.2% for the quarter and 4.9% on the year. The gap between the two segments is near the widest it has been all cycle. Garden continues to exhibit sizeable gains through capital appreciation (4.1% in the past year) along with strong income returns, while High-Rise has relied almost exclusively on income for the past two years. The value-weighted appraisal cap rate for High-Rise Apartments hit a cyclical low of 3.8% in the third quarter.

Regional performance is similarly bifurcated. Returns in the West and South regions totaled 7.9% and 7.0%, respectively, over the last year. Economic growth in these regions continues to outpace the rest of the country, supporting strong fundamentals and fueling investor interest. Conversely, the East and Midwest regions lagged, returning 4.9% and 4.0%, respectively.

Performance in the West has been bolstered by Phoenix, Riverside, and San Diego, among others. Bay Area markets have lagged the region over the past two years, but results have been trending up in recent periods. Meanwhile, annual returns for Portland and Seattle have fallen below the regional average. Houston's resurgence is part of the reason returns are rising in the South. Returns in the metro are now outpacing the overall Apartment market for the first time in several years. Double-digit returns in Nashville, Tampa, and Orlando also contributed.

Sub-4% returns in New York and Chicago over the past four quarters have weighed heaviest on the East and Midwest regions given the relative size of both metros. Although still an underperformer, Washington, D.C. recorded a 1.6% return in Q3, its best quarterly performance in five years. Similarly, Boston had its strongest quarter of the year, returning 1.9%.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2018	1.67	1.55	1.12	0.80	1.68	2.06
2nd Q 2018	1.81	1.54	1.26	1.31	1.56	1.83
One Year	7.16	6.35	4.93	3.98	7.03	7.86
Three Years	7.75	7.00	5.59	4.92	6.61	9.23
Five Years	9.57	8.58	6.66	7.30	8.87	10.70
Ten Years	6.42	6.44	4.47	7.04	7.23	7.73
Twenty Years	9.09	8.97	8.57	8.30	8.98	10.06

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2018	1.11	1.04	1.00	1.03	1.09	1.05
2nd Q 2018	1.14	1.06	1.03	1.01	1.10	1.07
One Year	4.62	4.30	4.15	4.21	4.53	4.30
Three Years	4.70	4.46	4.28	4.41	4.77	4.44
Five Years	4.92	4.63	4.37	4.65	5.00	4.61
Ten Years	5.50	5.03	4.69	5.24	5.46	4.96
Twenty Years	6.44	5.78	5.62	5.89	6.09	5.67

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
3rd Q 2018	0.56	0.50	0.12	-0.23	0.59	1.02
2nd Q 2018	0.67	0.48	0.23	0.30	0.45	0.77
One Year	2.46	1.98	0.76	-0.23	2.41	3.45
Three Years	2.95	2.46	1.27	0.50	1.78	4.64
Five Years	4.49	3.82	2.22	2.56	3.73	5.89
Ten Years	0.88	1.36	-0.21	1.73	1.70	2.68
Twenty Years	2.53	3.07	2.84	2.31	2.76	4.22

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

