APARTMENT INDEX

APARTMENT: APPRECIATION RETURN VARIBAILITY

The Apartment property type continued to deliver positive performance through the fourth quarter of 2018. Fundamentals are supporting investor interest, despite total returns continuing to slowly decline. Supply continues to play a role for the property type. While the upper income segment is slowly approaching balance, there is a shortfall nationally concentrated at the middle- and low-income segments and will continue to generate opportunities within the property type.

The NPI Apartment Subindex ("Subindex") quarterly total return of 1.35% was largely on par with the broader NPI Index ("Index") of 1.37%. The Subindex and Index both experienced quarterly declines in appreciation return of 20 and 30 bps, respectively, while income return was stable.

The Subindex annual return of 6.07% underperformed the broader Index of 6.72% by 65 bps, with the Subindex's income return of 4.28% trailing the Index's 4.56% by 28 bps and the Subindex's appreciation return of 1.73% trailing the Index's 2.08% by 35 bps. Contextually, cyclical peaks were achieved for these return components in the first quarter of 2011.

Apartment subtype performance for the fourth quarter continued to vary. High Rise continued to be the more challenged subtype of the three, albeit generating positive performance. Both High Rise and Low Rise subtypes continued to lag the Index respectively at 4.72% and 6.36%; however, Low Rise outperformed the Subindex. The Garden subtype annual return of 8.90% outperformed relative to both the Index and the Subindex.

Apartment annual total return performance for the largest five MSAs by ending market value (which constituted approximately 38% of the Subindex) lagged both the Index and Subindex: New York 3.76%, Washington, D.C. 5.40%, Los Angeles 5.99%, Chicago, 3.15%, Dallas 4.70%. While income return (ranging from 3.57% to 4.27%) was relatively healthy for these heavily-weighted markets in the Subindex, appreciation return was more challenged and variable (ranging from -0.82 to 2.11%, with Los Angeles the only MSA of the five to outperform the Index and Subindex on this measure).

The top five Apartment MSAs with annual total return outperformance relative to the Index and Subindex (these five markets constituted 3% of the Subindex): Las Vegas 26.77%, Sacramento 15.52%, Santa Rosa 15.07%, Phoenix 14.87%, and Riverside 12.50%. Income return (ranging from 5.06% to 5.71%) was very healthy for these lower-weighted markets in the Subindex, however, appreciation return (ranging from 7.10% to 20.23%) was outsized.

The bottom five Apartment MSAs with annual total return underperformance relative to the Index and Subindex (these five markets constituted 2.6% of the Subindex): Baton Rouge -2.17%, Kansas City 1.55%, Stamford 1.94%, Newark 2.55%, and Philadelphia 3.03%. Income return (ranging from 3.78% to 5.32%) was healthy for these lower-weighted markets in the Subindex, however, appreciation return (ranging from -5.79% to -1.12%) was challenged.

As both the business and real estate cycles further mature, appreciation return variability will be an important consideration in subtype and geographic allocation decision-making.

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APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2018	1.37	1.35	1.12	0.51	1.54	1.63
3rd Q 2018	1.67	1.55	1.12	0.80	1.68	2.06
One Year	6.72	6.07	4.92	3.63	6.81	7.28
Three Years	7.21	6.52	5.23	4.61	6.28	8.42
Five Years	9.33	8.34	6.48	6.94	8.49	10.51
Ten Years	7.49	7.52	5.63	7.78	8.16	8.95
Twenty Years	8.98	8.87	8.41	8.09	8.93	9.97

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2018	1.11	1.05	1.03	1.04	1.12	1.02
3rd Q 2018	1.11	1.04	1.00	1.03	1.09	1.05
One Year	4.56	4.28	4.15	4.22	4.52	4.25
Three Years	4.67	4.43	4.25	4.39	4.71	4.40
Five Years	4.88	4.59	4.35	4.60	4.95	4.57
Ten Years	5.48	5.02	4.70	5.21	5.45	4.95
Twenty Years	6.39	5.72	5.56	5.83	6.05	5.62

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2018	0.26	0.30	0.10	-0.53	0.42	0.60
3rd Q 2018	0.56	0.50	0.12	-0.23	0.59	1.02
One Year	2.08	1.73	0.75	-0.57	2.22	2.94
Three Years	2.46	2.02	0.94	0.20	1.52	3.90
Five Years	4.30	3.62	2.07	2.26	3.41	5.75
Ten Years	1.92	2.40	0.90	2.47	2.61	3.85
Twenty Years	2.47	3.02	2.75	2.17	2.75	4.17

APARTMENT INDEX—QUARTILE RANGE OF RETURNS