

APARTMENT INDEX

APARTMENT PERFORMANCE – IS THE MOMENTUM SLIPPING?

Despite the headline figures on declining apartment sector growth, deal activity for the apartment sector closed at an elevated level for 2022, according to Real Capital Analytics (RCA)ⁱ. The challenge, however, is that momentum may have slipped throughout the year as uncertainty regarding future market conditions began to creep into the economy.

According to the latest NCREIF Property Index (NPI)ⁱⁱ statistics, the 4Q 2022 total return of -3.2% dipped from the 1.2% recorded last quarter and the 6.8% recorded in 4Q 2021. Appreciation returns were the major driver of the overall deceleration, declining from 5.8% in 4Q 2021 to -4.1% in 4Q 2022. Geographically, the south region recorded the strongest 4Q 2022 total return at -2.1%, with 11.5% total return for the full year.

Decreasing appreciation returns resulting from softening rents and increasing cap rates have created a difficult market for buyers to get deals done. All this amid a rising rate environment has contributed to the slowing pace in deal volume each quarter in 2022. According to RCAⁱⁱⁱ, prices are in retreat — down 18.1% from the third quarter, suggesting the market for apartment assets is starting to absorb the information around the changing costs to finance acquisitions. Until recently, there has not been any meaningful movement in cap rates despite rising interest rates. Furthermore, RCA states, the sales of apartment properties totaled \$294.1b in 4Q 2022, a 16.8% year-over-year decrease; an emerging trend not typically experienced by this sector.

One might expect that the stronger markets for growth are where prices are growing the fastest, as well. Dallas was the leading market in 2022 but posted falling deal activity for the year, down 26.1%, even though prices were up 10.4%. This was due to an overall lag in price measures that are not yet showing the impact of stress from the credit markets. Additionally, Phoenix was the fourth most active apartment market in 2022 but the annual data is already showing signs of similar stress, with prices down 2.5% and activity down 27.6% from 4Q 2021. Regardless of the signs, the apartment sector is still trading favorably compared to other sectors, accounting for the largest share of total CRE investment in 4Q 2022 at 36.2% and quarterly volume (\$50.3b) still in line with the five-year 4Q pre-pandemic average volume (\$51.7b). In the end, the question remains, whether activity will fall further to a below-average pace as uncertainty continues to sap all the waning pandemic momentum.

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ⁱ Costello, Jim. "Real Capital Analytics - Capital Trends." RCA Commercial Real Estate Sales Trends & Market Research, MSCR, 18 Jan. 2023, <https://app.rcanalytics.com/trends/reports>.

ⁱⁱ NCREIF. "News." NCREIF, 25 Jan. 2023, <https://www.ncreif.org/news/npi-4q2022/>.

ⁱⁱⁱ Costello, Jim. "Real Capital Analytics - Capital Trends." RCA Commercial Real Estate Sales Trends & Market Research, MSCR, 18 Jan. 2023, <https://app.rcanalytics.com/trends/reports>.

APARTMENT TOTAL RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2022	-3.50	-3.21	-3.17	-2.32	-2.10	-4.35
3rd Q 2022	0.57	1.20	1.44	0.74	1.58	0.77
One Year	5.53	7.07	6.02	2.88	11.76	4.89
Three Years	8.06	9.35	7.86	4.02	13.04	8.81
Five Years	7.46	7.91	6.60	3.73	10.38	8.04
Ten Years	8.82	8.56	6.91	6.07	9.97	9.63
Twenty Years	8.63	8.41	7.21	6.93	9.37	9.32

APARTMENT INCOME RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2022	0.95	0.91	0.92	1.04	0.98	0.81
3rd Q 2022	0.93	0.90	0.92	1.01	0.94	0.83
One Year	3.90	3.70	3.76	4.08	3.93	3.40
Three Years	4.11	3.80	3.78	3.95	4.07	3.58
Five Years	4.28	3.99	3.94	4.08	4.23	3.84
Ten Years	4.68	4.38	4.21	4.47	4.71	4.29
Twenty Years	5.54	4.93	4.69	5.11	5.30	4.82

APARTMENT APPRECIATION RETURNS

	Total NPI	Total Apartment	East	Midwest	South	West
4th Q 2022	-4.45	-4.12	-4.09	-3.36	-3.08	-5.16
3rd Q 2022	-0.37	0.30	0.53	-0.27	0.64	-0.06
One Year	1.58	3.28	2.20	-1.17	7.61	1.45
Three Years	3.83	5.40	3.97	0.06	8.71	5.10
Five Years	3.08	3.80	2.58	-0.34	5.96	4.09
Ten Years	3.99	4.05	2.62	1.55	5.08	5.18
Twenty Years	2.97	3.36	2.44	1.75	3.92	4.35

APARTMENT INDEX—QUARTILE RANGE OF RETURNS

