

Capital Trends

US Apartment

15.9% YOY price change
\$74.1b Transaction volume
-17% YOY volume change

There are numerous qualities that investors like about the apartment sector and investment activity remained at elevated levels in the third quarter. Still, it is becoming more difficult to make deals work given the changed ability to finance acquisitions, and sale activity fell from a year earlier. Were it not for the second largest quarter of entity-level sales over history, the headline figures would look worse.

The take-private transaction involving American Campus Communities by BREIT in August changes the nature of information about the student housing market in the U.S. There are no more publicly-traded REITs focused on student housing and thus no public market information against which one might benchmark the performance of this segment.

This deal, however, was notable as it helped to drive entity-level sales up to near record levels for any quarter. The only other quarter that surpassed this level in history was the fourth quarter of 2007 which posted \$20.1b in entity-level sales.

Individual asset sales can present a clearer sign of the depth of investor demand in the market. Such deals involve buyers underwriting deals based on the strength of individual assets and the income growth potential without broader portfolio effects papering over any potential problems. These deals were down 24% from a year earlier in Q3'22 on sales of \$52.7b. While activity was down, it was still elevated relative to historic trends: sales averaged \$33.2b in the third quarters from 2015 to 2019.

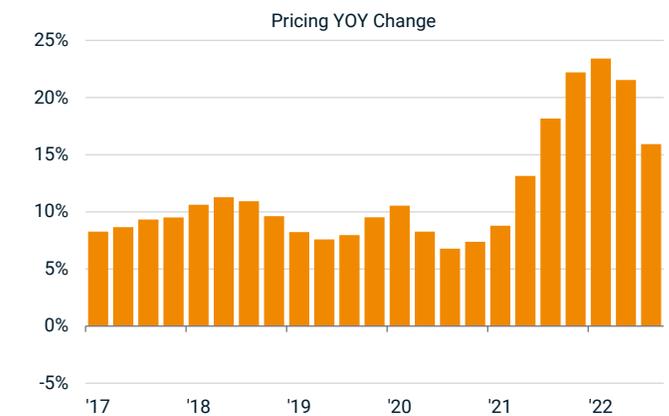
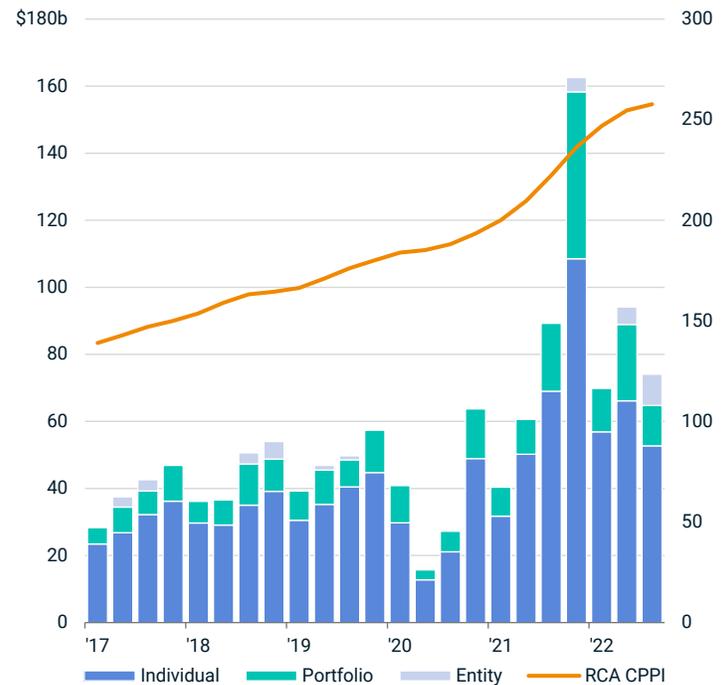
Changes in financing costs over the last year simply make it more difficult for some deals to close. In our report for August, we noted that the coupon on 7/10yr fixed rate apartment mortgages stood at 4.6% in July, a figure that has continued to face upward pressure. The 10yr UST, for instance, jumped from an average 2.9% in July to 3.5% in September. As shown on the following page, cap rates have remained at low levels, limiting the investment benefits from leverage.

Deal volume fell the most for portfolio sales in the quarter as volume dropped 41% from a year earlier. Again though, activity fell from an elevated level. The \$12.1b in portfolio sales in Q3'22 stands higher than the average \$7.8b in portfolio sales seen across third quarters from 2015 to 2019.

Transaction Volume Summary

	Q3 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Apartment Total	74.1	-17%	238.0	25%
Garden	45.3	-19%	155.3	23%
Mid/Highrise	28.8	-14%	82.7	29%
Single Asset	52.7	-24%	175.8	16%
Portfolio & Entity	21.3	4%	62.3	57%

Quarterly Transaction Volume and Pricing



Volume YOY change truncated at 150%

Recent Trends

Total investment activity fell less in Q3'22 for the mid/highrise space than for the garden apartment segments, but entity-level activity clouds the underlying trend. The American Campus Communities deal was heavily skewed towards mid/highrise assets, so looking to individual asset sales paints a clearer picture of market trends.

Garden apartment transactions fell less in the quarter when looking at individual asset sales. Activity here fell 19% from a year earlier on sales of \$33.9b. As is the case with other figures for the apartment sector, this level for the quarter remained elevated in comparison to pre-pandemic trends. Individual asset sales involving garden apartments in third quarter periods from 2015 to 2019 averaged \$22.1b.

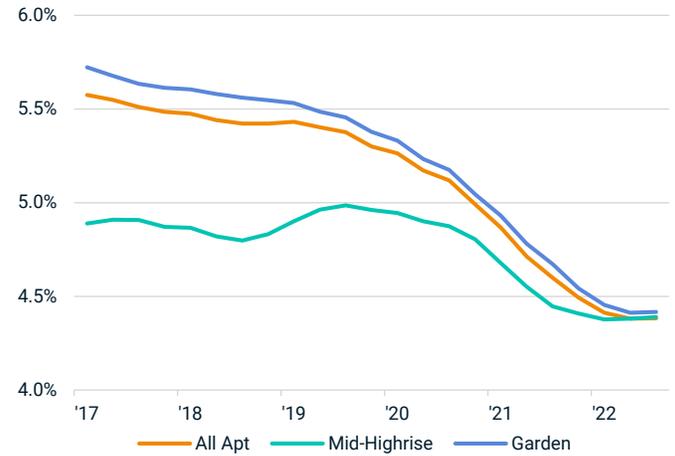
Investors are less excited by the opportunities in the apartment sector relative to a year ago thanks in part to the change in the ability to finance these deals. The RCA Hedonic Series cap rate for apartments stood at 4.6% in Q3'21, with the average coupon on 7/10yr fixed rate mortgages at 3.4%. The 120 bps of spread in these measures provided investors with positive benefits from leverage that drove deal activity to high levels last year.

With garden apartment cap rates at 4.4% for Q3'22, mortgage rates are now 20 bps higher, limiting the types of buyers and deals that can work today. Buyers must either have a deep pool of equity and not really be using debt, or be underwriting income growth strong enough to overcome the negative leverage situation in short order.

The RCA Hedonic Series cap rates for mid/highrise assets stood at 4.4% in both Q3'21 and Q3'22. Here too, deal volume was down relative to a year earlier but elevated in comparison to the same periods from 2015 to 2019.

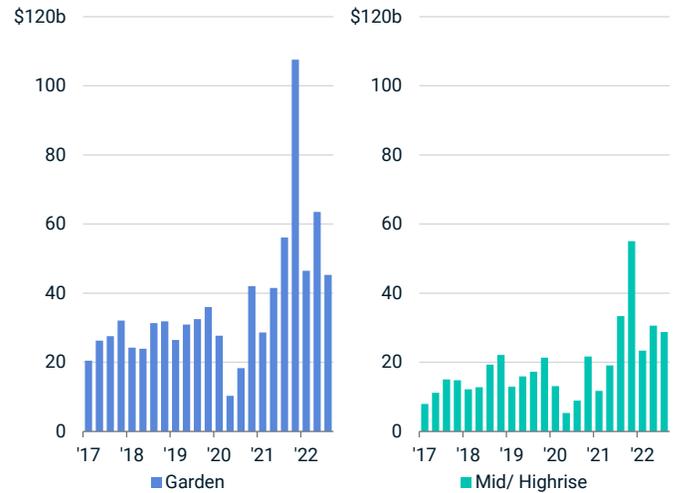
Despite challenges to deal volume and financing changes, prices continued to climb in the quarter. The RCA CPPI for apartments rose 15.9% from a year ago in Q3'22. This pace has been decelerating in recent periods, however, with the index up only at a 4.9% annualized pace from Q2'22.

Cap Rates



RCA Hedonic Series

Quarterly Transaction Volume by Subtype



Q3 2022 Deal Volume and Pricing Summary

	Quarterly Volume				RCA CPPI		Price Averages		
	\$b	YOY Chg	#Props	YOY Chg	1-qtr Chg	1-yr Chg	\$/unit	Cap Rate	YOY Chg (bps)
Apartment	74.1	-17%	2,269	-29%	1.2%	15.9%	240,829	4.4%	-20
Garden	45.3	-19%	1,731	-30%	1.8%	20.0%	204,022	4.4%	-30
Mid/Highrise	28.8	-14%	538	-25%	-0.9%	5.2%	357,341	4.4%	-10
6 Major Metro	15.9	-9%	484	-41%	-0.5%	3.6%	355,081		
Non-Major Metro	58.2	-19%	1,785	-25%	0.7%	18.1%	217,174		

RCA Hedonic Series cap rates

Top Markets

Sixteen of the top 25 U.S. apartment markets recorded record high levels of transaction activity through the first nine months of the year. Of the remaining markets, all but four were within 5% of the prior record.

Wrapped up in the third quarter was the largest deal of the year – the take-private of American Campus Communities by two entities tied to Blackstone. Entity-level transactions provided a boost to investment volume, but they did not paint too rosy a picture of the top markets. Using only single asset sales as a benchmark for record investment shows that 17 markets surpassed their prior high-water mark, and an additional four were within 5% of the record.

Dallas retained its #1 position by a \$6b margin. While the market was exposed to the American Campus Communities transaction, its place in the standings would not have been impacted had it not been: single asset activity alone would have ranked it as the top apartment market. Still, third quarter activity was not as robust as one might have expected. Between 2015 and 2019, third quarter

activity accounted for 40% of year-to-date volume, on average. In 2022, third quarter activity was behind less than 30% of investment for the year.

Regardless of its exposure to megadeals, Houston’s #2 position in the rankings and record-setting apartment volume would have remained intact. For Houston, single asset investment alone was enough to break its prior record for year-to-date deals of any structure. With over 240 closed apartment sales, only Dallas and the #5 market, Los Angeles, saw more deal flow. For Houston, this is the highest number of transactions ever to close through the first nine months of the year.

Rising 17 slots to #7, Manhattan climbed further from its year-end rank than any other market. With \$6.6b in apartment sales, investment during the period is nearly twice that for the prior year. This level of investment is just 3% off from Manhattan’s existing record, and nearly 40% above its pre-pandemic average.

Most Active Markets Year to Date 2022

2020	2021	YTD'22	Market	Sales Volume (\$m)	YOY Change
1	1	1	Dallas	18,185	1%
9	4	2	Houston	11,815	47%
2	2	3	Atlanta	11,394	-3%
3	3	4	Phoenix	10,799	-1%
4	6	5	Los Angeles	7,666	14%
6	7	6	Austin	6,609	12%
10	24	7	Manhattan	6,560	198%
17	8	8	Orlando	6,358	85%
23	19	9	Nashville	5,354	100%
11	9	10	Seattle	5,172	15%
8	11	11	Charlotte	5,145	57%
21	14	12	San Antonio	4,645	51%
5	5	13	Denver	4,487	-26%
12	10	14	Tampa	4,354	17%
13	23	15	Boston	4,228	35%
16	12	16	Raleigh/Durham	4,075	12%
33	13	17	Miami/Dade Co	3,722	36%
14	20	18	NYC Boroughs	3,515	26%
19	16	19	Chicago	3,477	11%
28	30	20	Philadelphia	3,460	108%
39	22	21	Las Vegas	3,336	35%
7	15	22	DC VA burbs	3,183	23%
27	21	23	Broward	2,709	27%
18	25	24	No NJ	2,703	-8%
20	18	25	San Diego	2,507	-24%

Markets in orange denote record high volume for the first nine months of the year; YOY change truncated at 150%.

Market Momentum

A linear relationship between deal volume and price growth did not emerge across markets in Q3'22. Looking at just individual asset sales to clear away the distortions of one-time events, there is not a clear pattern of stronger growth in prices for markets with stronger deal volume.

Part of the issue with the lack of a linear relationship in these figures is the impact of rebounding activity. As noted on the Top Markets page of this report, Manhattan jumped 17 slots in our ranking of markets for the year so far. This jump was not a case of investors suddenly discovering Manhattan – the growth in sales was a rebound after the pandemic pushed buyers to the sidelines.

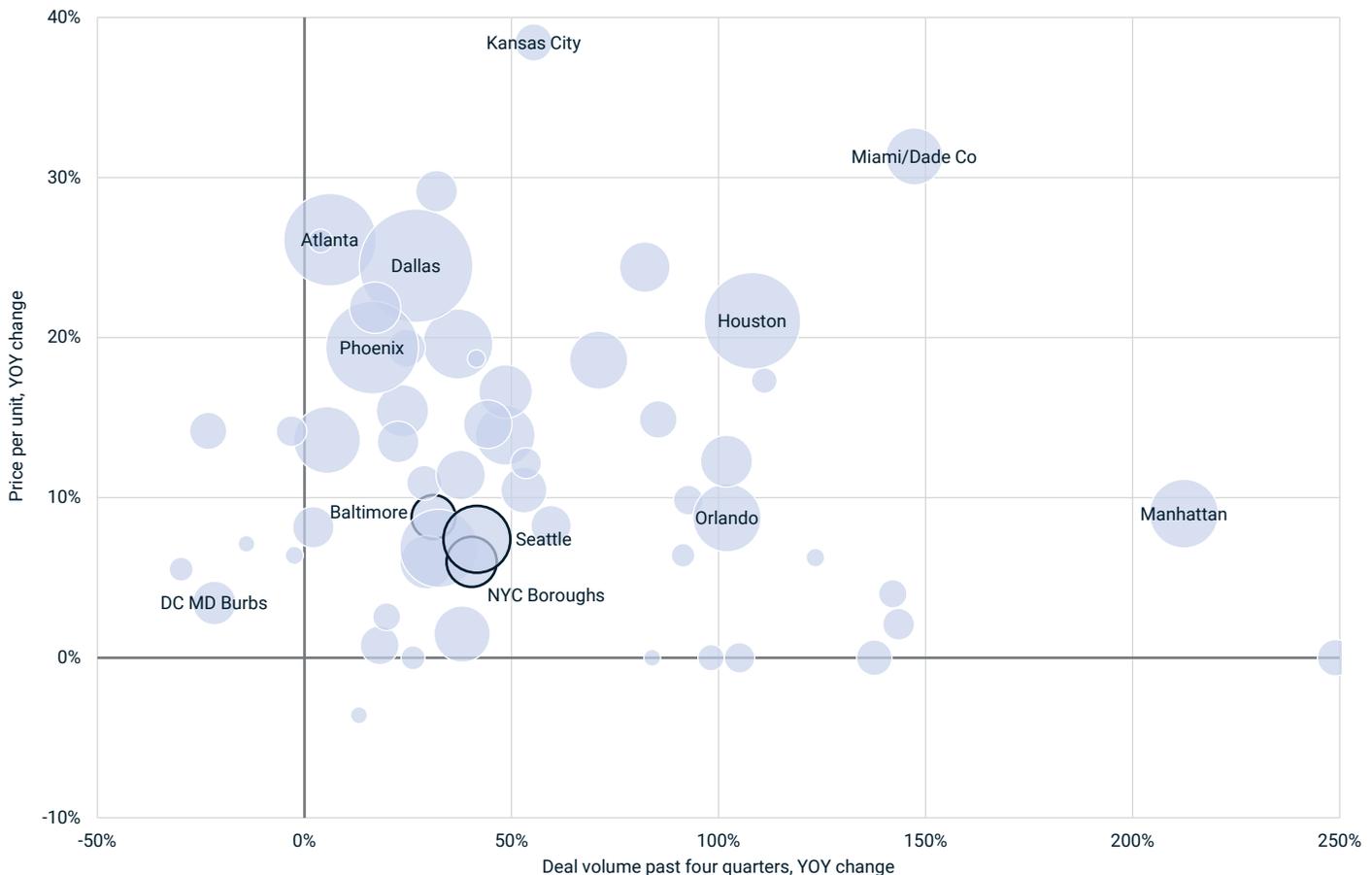
Manhattan posted 212% YOY growth for individual asset sales in the four quarters through September. Prices as measured by the RCA Hedonic Series (RCA HS) were up 9.0% YOY for Manhattan. Other

markets in the same range for price growth as Manhattan include Baltimore, Seattle and the NYC Boroughs. Deal volume for these three markets averaged a 39% pace of growth.

Dallas was the leading market for deal activity as well as one of the leading markets for price growth. The RCA HS price measure was up 24.5% for apartments in Dallas. There were five markets with stronger price growth, with two above the 30% level. Miami/Dade posted price growth of 31.3% with a 147% pace of growth in deal volume. That pace of growth is reminiscent of the rebound activity seen in Manhattan as opposed to a broader market trend.

Kansas City posted the strongest growth in prices, but the activity is thin. The level of volume here was only 11% of the size of that set in Dallas. Deal volume in Kansas City was up 55% YOY for the four quarters through September.

Investment Momentum of Markets Q3 2022



RCA Hedonic Series pricing; bubbles sized for volume in past four quarters.

Top Players and Deals Year to Date 2022

Top Apartment Buyers and Sellers

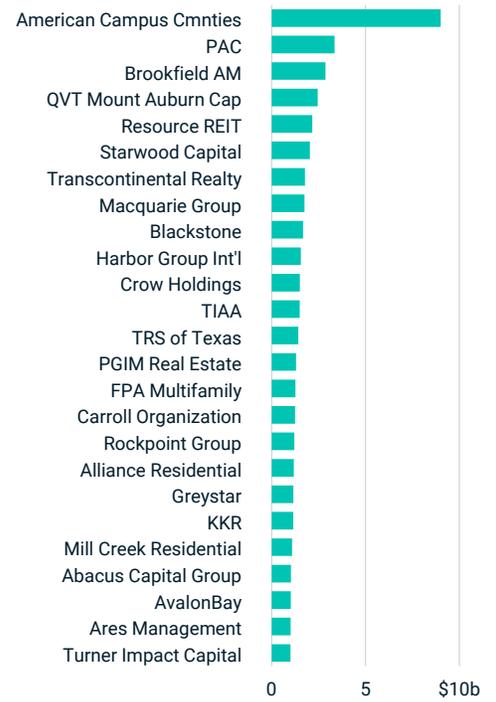
Buyers by Region

Mid-Atlantic	Southeast
Cortland	BREIT
Blackstone	Blackstone
BREIT	SREIT
AION Partners	GV&A RE Invmts
Rushmore Mgmt	Harbor Group Int'l
Midwest	Southwest
BREIT	BREIT
Blackstone	Blackstone
Morgan Properties	SREIT
Pepper Pike Cap Ptnrs	Tides Equities
Redwood Capital Grp	Lone Star
Northeast	West
BREIT	Blackstone
Blackstone	BREIT
Orbach Group	MG Properties
Black Spruce Props	Tides Equities
A&E Real Estate	Pacific Urban Invtrs

Buyers



Sellers



Ranked by investment volume.

Methodology: Rankings are based on the pro-rated share of the total property or portfolio value. In the case of joint ventures, full credit is assigned to each investor. For more information please visit the MSCI Real Capital Analytics website.

Top Apartment Single Asset Property Sales

Property	Location	Size	Type	Volume(\$m) ^A	\$/unit	Buyer	Seller
1 New York by Gehry	New York, NY	903 units	APT	930.0	1,029,900	BREIT	Brookfield AM JV TIAA
2 American Copper	New York, NY	761 units	APT	837.0	1,099,869	Black Spruce Props JV Orbach Grp	JDS Development JV Baupost Group
3 19 Dutch	New York, NY	483 units	APT	487.5	1,009,317	Pontegadea	Carmel Partners
4 Parkline Miami	Miami, FL	816 units	APT	440.0	539,216	Harbor Group Intl JV AB Asset Mgmt	Fortress
5 Life Time Coral Gables	Coral Gables, FL	495 units	APT	429.4	867,460	Hines	NP Intl JV 54 Madison Partners
6 Oak Creek Apartments	Palo Alto, CA	759 units	APT	-	-	Stanford University	Gerson Bakar & Assocs
7 160 Riverside Boulevard	New York, NY	455 units	APT	415.0	912,088	A&E Real Estate	Equity Residential
8 685 First	New York, NY	408 units	APT	387.5	949,755	Black Spruce Props JV Orbach Grp	Solow Realty
9 Cortland Rosslyn	Arlington, VA	455 units	APT	334.6	735,477	Cortland	Penzance
10 1221 Ocean Avenue	Santa Monica, CA	120 units	APT	330.0	2,750,000	Douglas Emmett Realty	Irvine Co
11 The Platform	San Jose, CA	551 units	APT	320.0	580,762	MG Properties JV Oaktree	Anchor RE Cap JV Western National
12 Halstead Framingham	Framingham, MA	1,020 units	APT	312.0	305,882	Taurus JV Kayne Anderson	DSF Group
13 Vista at Town Green	Elmsford, NY	617 units	APT	306.0	495,948	Harbor Group Intl JV Azure Partners	AvalonBay
14 Cortland Pentagon City	Arlington, VA	534 units	APT	305.2	571,536	Cortland	Polinger Co JV State Street Global
15 Skylark	Larkspur, CA	455 units	APT	300.0	659,341	Prime Group	Pell Development

^A When prices are not known, estimated prices are used in the ranking but are not shown. Volume is adjusted pro-rata for partial interests although \$/unit reflects 100% valuation.

* Partial interest ** Forward sale Excludes development site sales

The number of buyers or sellers shown on a deal is truncated to two. For full deal and player information go to the RCA website.

Top Brokers Year to Date 2022

By Region

Mid-Atlantic

CBRE
JLL
Newmark
Berkadia
Cushman & Wakefield

Midwest

CBRE
Berkadia
Newmark
Cushman & Wakefield
JLL

Northeast

CBRE
Cushman & Wakefield
JLL
Eastdil Secured
Marcus & Millichap

Southeast

Cushman & Wakefield
Newmark
Walker & Dunlop
CBRE
Berkadia

Southwest

CBRE
Marcus & Millichap
Newmark
JLL
Berkadia

West

Marcus & Millichap
CBRE
Eastdil Secured
Berkadia
JLL

Ranked by investment volume

By Apartment Investment Volume

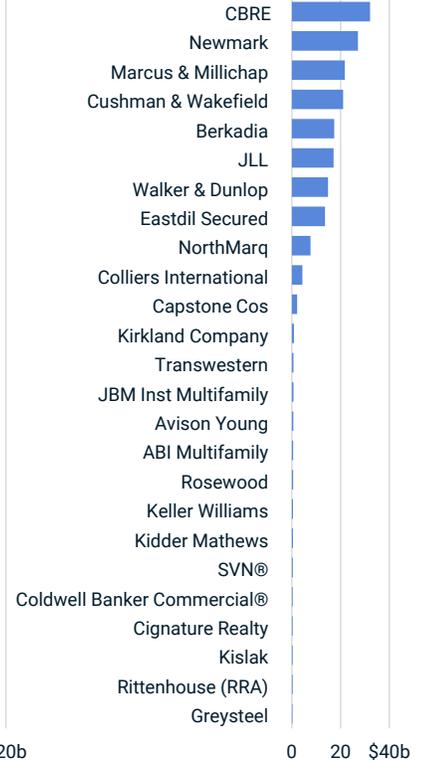
Garden



Mid/Highrise



All Apartment



By Number of Apartment Properties

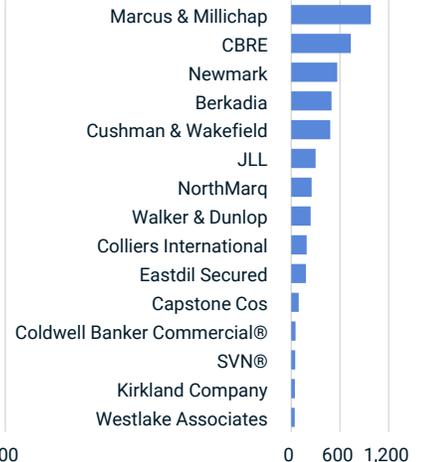
Garden



Mid/Highrise



All Apartment



Methodology: Full credit assigned to each broker when multiple brokers involved. For partial-interest, volume is based on the pro-rated share of the total property or portfolio value. Based on sell-side representation. The transaction volume of brokerage firms that have merged before the merger date and are attributed to the surviving or newly formed company after the merger date. For more information on rankings please visit the MSCI Real Capital Analytics website.

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Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of Oct. 18, 2022 unless otherwise stated.

About Capital Trends

Capital Trends reports analyze and interpret trends in the global real estate market. US Capital Trends is a monthly edition comprising an overview of the U.S. market and separate reports on the five main property types. Asia Pacific, Australia, Europe and Global Capital Trends are published quarterly.

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