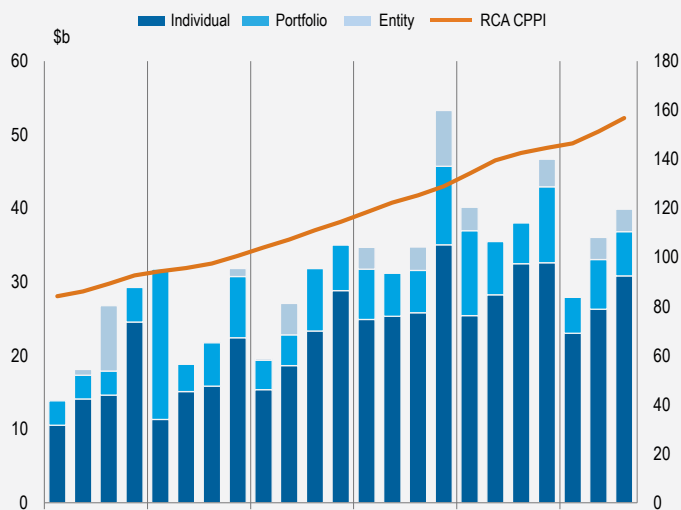


# US CAPITAL TRENDS | APARTMENT

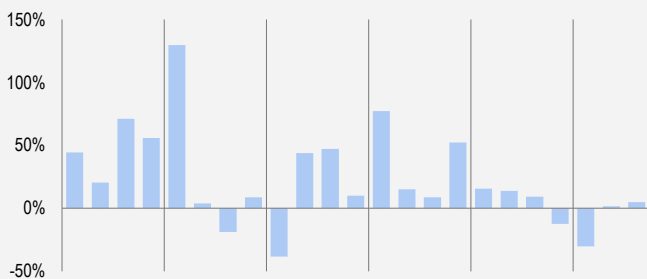
The apartment sector turned in positive growth in sales activity in Q3'17 after a disappointing first half of the year. The headline figures mask underlying weakness, however. Deals involving individual apartment buildings declined for the quarter with only one big portfolio deal driving overall growth.

**\$39.9b** Transaction volume  
**5%** YOY volume change  
**10.0%** YOY price change\*

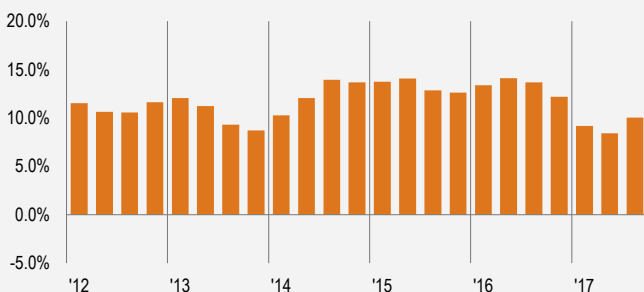
Quarterly Transaction Volume & Pricing



Change in Volume (YOY)



Change in Pricing (YOY)



\*RCA CPPI (commercial property price indices)

**Single asset deal volume dropped 5% YOY in Q3'17 and for September '17 volume was down 16% YOY, suggesting that there is concern over future trends at current prices.** The sale of individual assets can indicate investor perceptions of market health.

Underwriting acquisitions, after all, involves making assessments of the future income potential of a building based on leasing trends in the area, competitive supply and other aspects of the market and property.

**In contrast to single assets, megadeal investment activity spiked up 63% in Q3'17 versus a year ago.** This growth was not broad based. The Greystar acquisition of Monogram Residential Trust represented one-third of the megadeal activity. Without this deal, activity would have fallen 3% YOY in Q3'17.

The apartment sector has been favored by investors in recent years. So much in favor, that while deal volume began to fall in late 2015 and early 2016 for other property sectors, the apartment sector continued to post gains in sales volume until late in 2016. This pattern of growth in volume is mirrored by trends in asset pricing.

The RCA CPPI for the apartment sector posted double-digit rates of growth as late as Q4'16 when other property sectors were toying with price declines. **Apartment price growth slowed to a 9.2% YOY pace in H1'17 but prices picked up to a 10.0% YOY pace of growth in Q3'17.** The new and expanded version of the RCA CPPI examined on page 4 of this report shows that not all markets follow the same price trends.

**In This Issue:** We analyze the RCA CPPI and rank markets by price performance. We look at the top markets and players of the year so far, and the top deals of Q3'17. Recent volume trends are examined.

## Recent Trends

The prevalence of megadeal activity in Q3'17 distorts not just the headline deal volume figures but also the breakout to apartment subtypes. Volume fell year-over-year for the garden apartment subtypes (down 2%) but climbed for mid/highrise properties (up 22%). Looking past the influence of megadeal activity to single asset deals however, sales volume fell 7% YOY for the garden sector and were unchanged for mid/highrise assets.

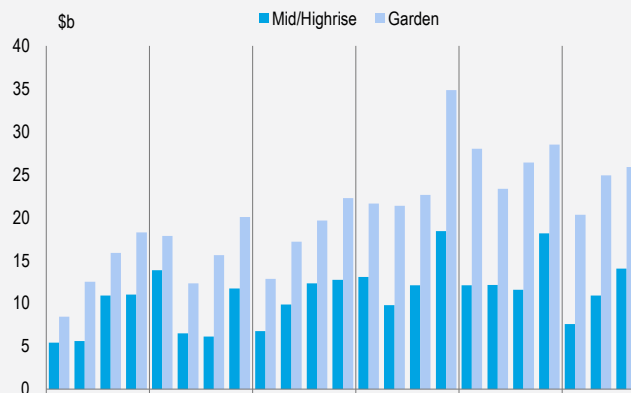
The cap rate trends for this apartment subtype breakout suggests that pricing for mid/highrise assets has hit a bit of a ceiling. Cap rates for mid/highrise assets hit a low of 4.9% in Q1'16 and averaged 5.0% in Q3'17. There is a bit of period-to-period noise, however, so it may not absolutely be a 10 bps increase. Smoothing through the noise it may be flat since Q1'16.

By contrast, cap rates for the garden apartment sector averaged 5.6% in Q3'17, down 30 bps from Q1'16. Even cutting through period-to-period noise the signal is one of ongoing compression in garden apartment cap rates. The assets have seen a 20 bps decline from Q3'16.

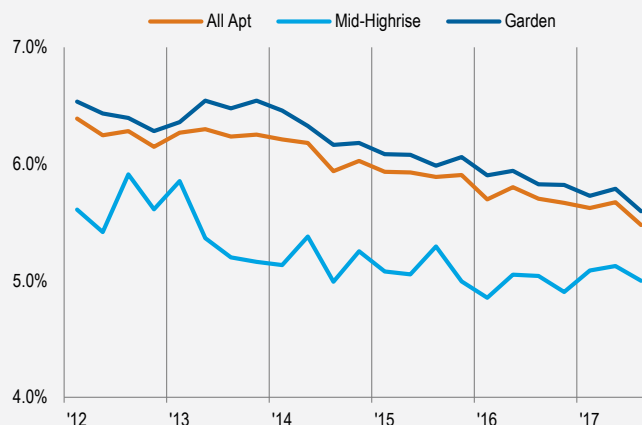
Deal volume is falling more sharply in the markets where the mid/highrise assets tend to dominate. Within the 6 Major Metros, deal volume is down 18% for the year to date. By contrast in the Non-Major Metros where garden apartments dominate the inventory, deal volume is down only 3% for the year to date. The combination of higher average cap rates and ongoing cap rate compression in markets dominated by the garden apartment sector are likely driving this least-worse performance on deal volume.

While deal volume is down overall, certain niche apartment segments are outperforming. While not included in our apartment volume and pricing data, the senior housing sector posted 6% YOY growth in Q3'17. Volume here is also up 7% for the year to date. More detail on the senior housing sector is available in our quarterly senior housing report.

**Quarterly Transaction Volume**



**Cap Rates**



	Q3 '17		YTD '17	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Apartment Total	39.9	5%	103.9	-9%
Garden	25.8	-2%	71.3	-8%
Mid/Highrise	14.1	22%	32.6	-9%
Single Asset	30.8	-5%	80.1	-7%
Portfolio	9.0	63%	23.8	-14%
Major Mkts	12.4	3%	29.8	-18%
Secondary Mkts	21.1	6%	58.0	-4%
Tertiary Mkts	6.1	2%	15.9	-5%
Student Housing	1.3	-20%	4.9	-33%
Seniors Housing & Care*	5.1	6%	12.0	7%

\*Not included in apartment volume or pricing statistics

# Market Table | All Apartment

Volume figures in orange denote record Q1-Q3 high. Pricing figures in orange denote all-time high.

All Apartment Transactions Reported Closed		Volume				Pricing					
YTD through Q3'17		Vol (\$m)	YOY Change	# Props	YOY Change	Price Per Unit			Cap Rate		
						Low	Avg	High	Low	Avg	High
<b>Mid-Atlantic</b>	Baltimore	1,261.6	-9%	45	18%	29,124	145,438	299,180	5.3%	6.4%	10.8%
	DC	241.1	-55%	34	55%	16,497	109,371	448,810	3.7%	5.1%	5.9%
	DC MD burbs	1,151.1	-40%	30	-6%	80,870	153,286	213,048	4.9%	5.7%	6.2%
	DC VA burbs	2,884.2	101%	44	69%	130,500	255,054	772,727	3.8%	5.2%	6.7%
	Philadelphia	1,113.5	136%	62	94%	35,914	159,679	505,025	4.3%	5.9%	7.5%
	Pittsburgh	260.7	44%	17	89%	34,559	68,296	127,959	3.4%	5.3%	7.2%
	Richmond/Norfolk	805.4	14%	48	-11%	19,200	95,345	362,069	4.2%	6.6%	8.4%
	Tertiary Mid-Atlantic	796.9	-13%	60	-3%	38,123	102,134	367,284	5.3%	6.5%	7.7%
	<b>Total</b>	<b>8,514.5</b>	<b>13%</b>	<b>340</b>	<b>24%</b>	<b>16,497</b>	<b>147,757</b>	<b>772,727</b>	<b>3.4%</b>	<b>6.0%</b>	<b>10.8%</b>
<b>Midwest</b>	Chicago	3,284.7	12%	138	5%	30,620	193,215	562,500	4.7%	6.0%	9.8%
	Cincinnati	232.7	-21%	23	21%	20,730	61,228	115,546	5.2%	7.4%	12.8%
	Cleveland	69.7	-42%	6	20%	27,292	66,536	169,565	5.7%	7.3%	9.9%
	Columbus	314.2	-13%	16	-41%	18,827	69,067	204,167	5.8%	6.3%	7.1%
	Detroit	351.1	4%	31	19%	53,294	109,864	158,841	6.0%	7.2%	7.9%
	Indianapolis	520.6	9%	29	-17%	21,240	59,480	197,619	2.6%	6.1%	7.2%
	Kansas City	771.8	40%	47	38%	28,704	93,183	490,132	2.8%	6.5%	12.9%
	Minneapolis	1,276.9	4%	85	39%	40,152	152,971	414,286	4.6%	5.6%	6.6%
	St Louis	582.0	-13%	41	17%	8,389	91,137	257,331	4.0%	6.3%	8.2%
	Tertiary Midwest	2,109.7	-16%	221	-5%	18,180	71,765	347,222	2.5%	6.7%	11.2%
	<b>Total</b>	<b>9,513.3</b>	<b>0%</b>	<b>637</b>	<b>5%</b>	<b>8,389</b>	<b>117,164</b>	<b>562,500</b>	<b>2.5%</b>	<b>6.5%</b>	<b>12.9%</b>
<b>Northeast</b>	Boston	2,173.1	20%	62	7%	136,036	334,321	961,538	3.5%	5.1%	6.1%
	Hartford	173.1	-54%	18	-14%	53,061	113,334	237,500	4.9%	6.7%	10.1%
	Long Island	392.3	14%	7	-30%	101,667	268,113	395,833	5.3%	5.5%	5.7%
	Manhattan	2,680.4	-60%	165	-38%	134,375	456,019	1,583,333	1.7%	3.5%	7.0%
	No NJ	2,234.3	8%	182	84%	47,222	186,074	601,172	4.0%	5.6%	12.1%
	NYC Boroughs	2,706.0	-42%	262	-27%	66,164	240,989	1,207,143	2.4%	4.4%	6.0%
	Stamford	209.2	-33%	20	122%	231,481	304,007	495,833	4.9%	5.3%	5.7%
	Westchester	190.9	-58%	18	6%	73,884	191,802	437,500	5.4%	6.1%	9.3%
	Tertiary Northeast	893.5	24%	81	27%	32,273	115,639	291,360	2.8%	6.4%	11.3%
	<b>Total</b>	<b>11,652.7</b>	<b>-34%</b>	<b>815</b>	<b>-10%</b>	<b>32,273</b>	<b>240,985</b>	<b>1,583,333</b>	<b>1.7%</b>	<b>5.1%</b>	<b>12.1%</b>
<b>Southeast</b>	Atlanta	5,113.1	-8%	206	-2%	15,625	101,348	426,400	4.5%	6.1%	8.4%
	Broward	1,340.2	-45%	34	-45%	71,053	199,737	525,787	3.6%	5.3%	6.6%
	Charlotte	1,435.8	-17%	59	-11%	34,375	116,065	190,033	5.0%	5.8%	7.6%
	Jacksonville	1,097.6	28%	36	-20%	44,878	91,929	190,833	5.3%	6.0%	6.6%
	Memphis	249.3	-38%	24	-14%	7,156	45,390	136,715	3.6%	6.4%	7.3%
	Miami	1,155.9	-14%	63	-22%	47,620	163,375	420,240	2.2%	5.6%	9.8%
	Nashville	1,003.5	-7%	31	-21%	47,231	148,750	232,276	5.4%	6.0%	7.4%
	Orlando	2,366.6	23%	62	-3%	56,410	138,319	267,965	5.1%	5.8%	7.5%
	Palm Beach	1,035.5	-28%	27	-27%	86,290	228,900	421,429	4.5%	5.2%	5.6%
	Raleigh/Durham	1,406.9	-15%	51	-11%	35,603	136,976	347,938	2.9%	5.4%	6.7%
	Tampa	1,684.0	-18%	69	-23%	25,463	118,011	322,981	4.5%	6.4%	8.7%
	Tertiary Southeast	8,128.0	4%	481	-2%	8,191	92,061	540,854	4.2%	6.5%	12.4%
	<b>Total</b>	<b>26,016.4</b>	<b>-8%</b>	<b>1,143</b>	<b>-10%</b>	<b>7,156</b>	<b>110,481</b>	<b>540,854</b>	<b>2.2%</b>	<b>6.1%</b>	<b>12.4%</b>
<b>Southwest</b>	Austin	2,654.3	-6%	77	-16%	75,676	186,306	553,073	3.6%	5.4%	7.2%
	Dallas	7,103.0	13%	303	4%	25,485	122,491	560,000	4.0%	6.1%	10.2%
	Denver	4,137.1	-20%	125	-7%	69,072	208,724	632,323	3.7%	5.5%	7.2%
	Houston	3,206.4	-14%	140	-25%	44,737	103,102	222,222	3.9%	6.4%	8.1%
	Phoenix	3,493.5	-11%	160	-10%	39,535	117,695	395,833	3.3%	5.7%	10.3%
	San Antonio	1,543.3	39%	63	-2%	39,205	115,238	206,667	4.9%	6.0%	7.3%
	Tertiary Southwest	3,046.7	-7%	230	-12%	17,884	87,245	600,000	5.0%	6.4%	8.9%
	<b>Total</b>	<b>25,184.4</b>	<b>-4%</b>	<b>1,098</b>	<b>-9%</b>	<b>17,884</b>	<b>129,130</b>	<b>632,323</b>	<b>3.3%</b>	<b>6.0%</b>	<b>10.3%</b>
	<b>West</b>	East Bay	915.4	-34%	89	-7%	45,918	253,915	606,061	3.1%	4.6%
Inland Empire		1,116.1	-41%	65	-3%	49,801	163,767	309,259	3.1%	5.2%	9.8%
Las Vegas		1,889.0	8%	74	12%	40,477	108,735	468,750	5.0%	5.9%	8.1%
Los Angeles		5,409.6	20%	490	0%	61,940	277,531	1,071,396	2.2%	4.2%	8.2%
Orange Co		1,223.0	-21%	73	-1%	58,280	250,153	580,000	2.5%	4.5%	12.1%
Portland		999.5	-26%	68	-28%	43,391	182,161	354,478	3.7%	5.4%	8.0%
Sacramento		879.3	-19%	69	3%	45,455	144,721	449,153	3.6%	6.2%	11.6%
Salt Lake City		768.8	132%	40	135%	58,725	155,646	440,758	4.8%	5.9%	7.0%
San Diego		1,981.0	9%	112	-3%	29,730	248,818	650,000	2.2%	4.8%	7.0%
San Francisco		909.4	-50%	83	-37%	131,632	394,235	914,706	2.4%	3.6%	5.0%
San Jose		1,136.0	20%	46	-6%	164,773	428,318	813,755	2.9%	4.2%	5.6%
Seattle		3,154.7	-6%	157	3%	52,083	223,038	530,328	2.5%	5.1%	8.0%
Tertiary West		2,451.7	-5%	199	10%	32,292	141,305	770,455	4.4%	6.2%	12.1%
<b>Total</b>	<b>22,833.4</b>	<b>-6%</b>	<b>1,565</b>	<b>-2%</b>	<b>29,730</b>	<b>200,023</b>	<b>1,071,396</b>	<b>2.2%</b>	<b>4.9%</b>	<b>12.1%</b>	
<b>Total</b>	<b>Total US</b>	<b>103,890.7</b>	<b>-9%</b>	<b>5,641</b>	<b>-4%</b>	<b>7,156</b>	<b>143,495</b>	<b>1,583,333</b>	<b>1.7%</b>	<b>5.6%</b>	<b>12.9%</b>