

Capital Trends

US Apartment

22.3% YOY price change
\$21.5b Transaction volume
22% YOY volume change

The apartment sector has set yet another record with \$21.5b in sales for the month, the highest level for any May. Volume was up 22% on May of 2021, which had set the previous high-water mark. Still, this pace of growth and the pace in April are slower than the gains seen in the first quarter of 2022.

Despite record-setting volume, the source of the growth suggests this level of volume might not be sustainable. Single asset sales, the bedrock of the market, increased only 1% versus the prior May. Instead, a single entity-level transaction was behind nearly 10% of total dollar volume in the apartment market. That said, even without BREIT's privatization of Resource REIT, record-high volume would have been achieved.

Capital continues to follow population migration. In May, investors focused on assets located in the Southwest and Southeast. In the month, these two regions accounted for nearly 60% of all apartment investment. Cap rate compression for these regions has been significant, with each falling over 40 bps from the prior May. However, even with cap rates for the Southwest and Southeast at 4.4% and 4.7%, respectively, these regions offer relatively more yield than that of expensive coastal markets such as the West, where cap rates averaged 4.1%.

Of the apartment subtypes, garden apartments were the weaker performer. The 7% growth in sales volume for the month would have been a 6% decline had it not been for the M&A transaction by BREIT. Sales of mid/high-rise assets grew 64% versus the prior May. Here, both megadeal and single asset activity were positive, with single asset sales of \$5.7b reaching a record level for May.

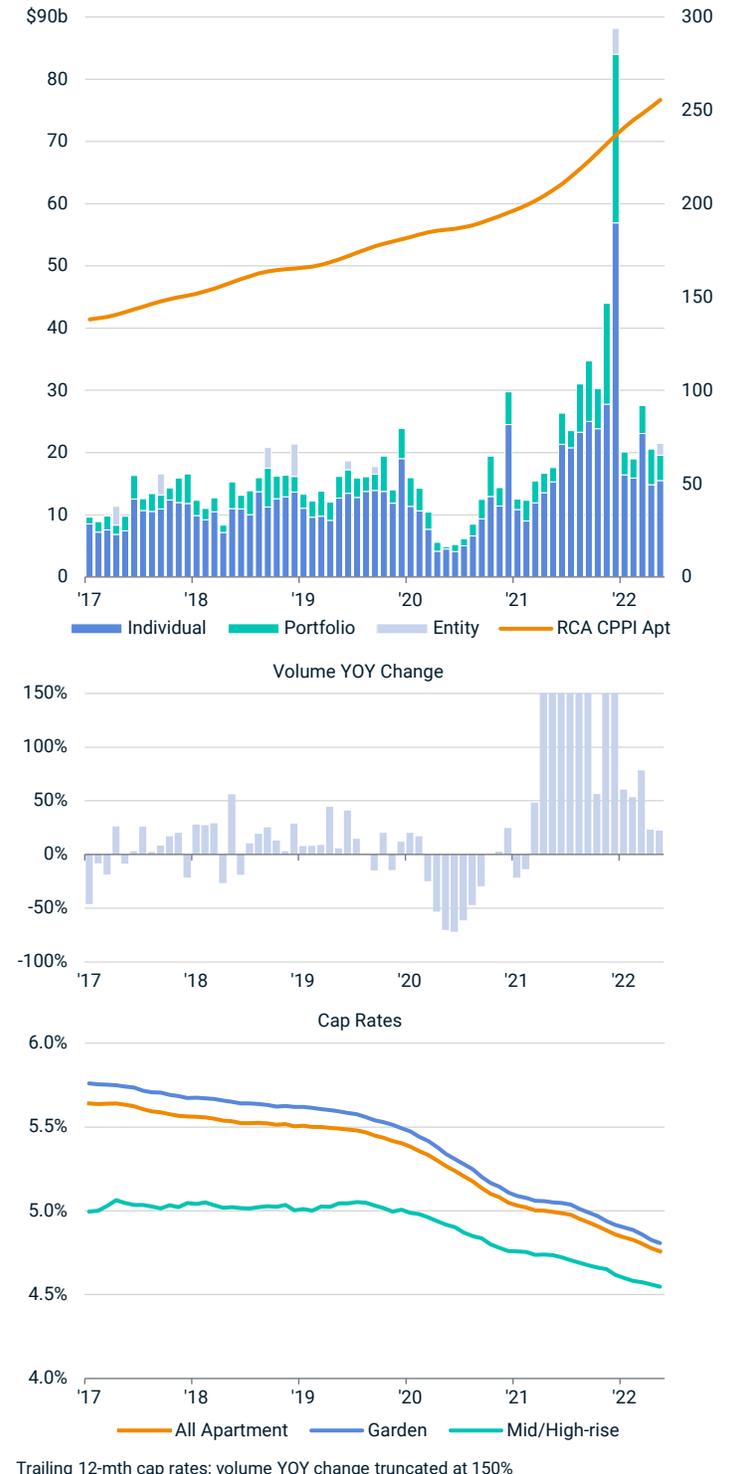
The RCA CPPI for apartments climbed 22.3% YOY in May, a pace which matches the record 22.3% rate seen in April. Cap rates stood at 4.8% in May, down 20 bps from a year earlier.

Stiff competition may be helping to fuel price growth. The pool of unique buyers in the apartment market was 13% larger in Q1'22 than in Q1'21.

Transaction Volume Summary

	May 2022		YTD 2022	
	Vol (\$b)	YOY	Vol (\$b)	YOY
Apartment Total	21.5	22%	108.7	46%
Garden	13.9	7%	71.4	34%
Mid/Highrise	7.6	64%	37.3	74%
Single Asset	15.5	1%	85.8	42%
Portfolio	6.0	160%	22.9	63%

Monthly Transaction Volume and Pricing



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Spotlight on Student Housing

On the heels of a record-breaking year for investment activity, the student housing sector continued to grow in the first quarter of 2022 and cap rates remained at record lows. Deal volume totaled \$2.4b in Q1'22, up 121% compared to the same period a year ago.

Sales growth at the start of the year was bolstered by sales of individual assets – the bedrock of the market. The \$1.8b in single asset trades was a record-high level for any first quarter and accounted for more than 75% of total sales volume. Portfolio sales activity more than doubled from a year ago to total \$545m.

Student housing cap rates, as measured by the RCA Hedonic Series (RCA HS), were at 5.1% in Q1 2022. (This cap rate series controls for quality and locational differences in the underlying sample.) The 5.1% figure is the same level as seen a year ago and still the lowest level the sector has shown. While student housing cap rates were static, the spread to comparable multifamily assets was not.

Most student housing properties are located on the outskirts of large universities, which are often situated outside of the major metros. The RCA HS cap rates for multifamily assets found in these non-major locales fell 40 bps from a year earlier and reached a record low of 4.5% in Q1'22. The spread between this series and student housing cap rates started to expand back in Q2'21 and now stands at 65 bps.

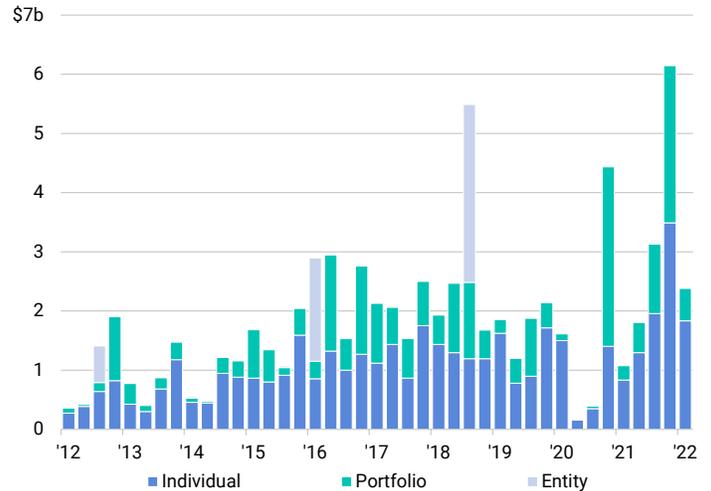
For the first five months of 2022, private capital sources were the largest source of capital for student housing properties. Their 62% market share was up from the average share of 47% they held in the same period for the years 2017-19, before the pandemic struck. Institutional/fund investors were the second largest class of investors year to date, capturing 28% of the market, up from the 20% average share they held in the first five months of 2017-19.

Blackstone is one of the leading buyers of student housing properties so far this year. While four other private and institutional players outpaced their acquisition activity through the end of May, Blackstone has more in the pipeline. BREIT, Blackstone's non-traded REIT, and other Blackstone funds plan to acquire American Campus Communities in a multibillion-dollar deal which is slated to close in the third quarter of 2022.

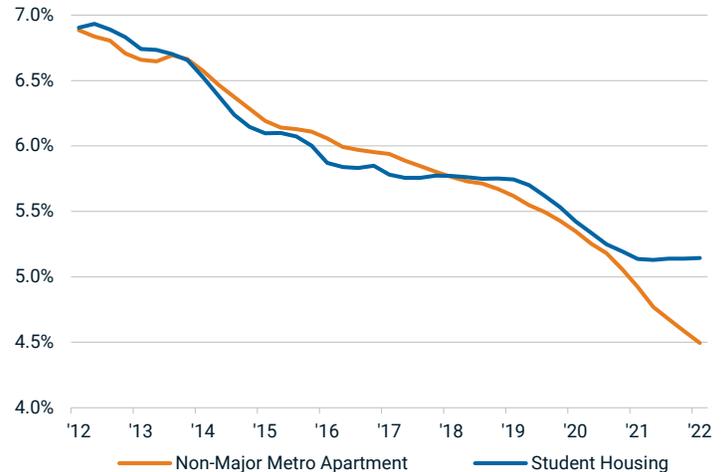
The momentum of construction starts in the student housing sector has not mirrored that of acquisition activity. In the four quarters through Q1'22, starts totaled 12,500 units, down 5% YOY. This is the seventh consecutive quarter, on a four-quarter trailing basis, that the sector has registered declines in construction starts. Despite increased demand for student housing, developers appear to be showing restraint.

As cap rates of traditional multifamily assets push to new record lows, the relative yield opportunity offered by student housing may further pique investor interest.

Quarterly Deal Volume

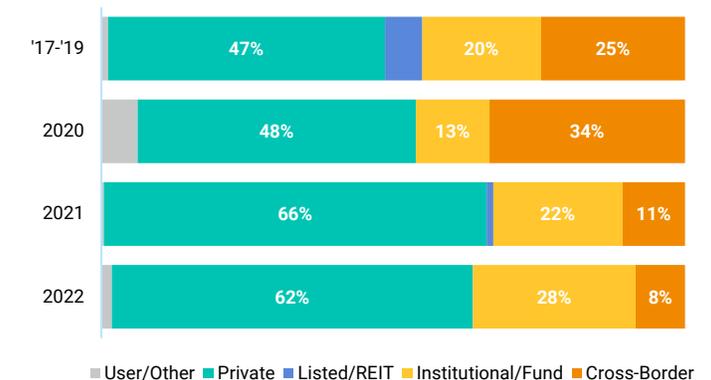


Cap Rates



RCA Hedonic Series

Investor Composition



January through May for each period

Jim Costello

Chief Economist, Real Estate Research

Alexis Maltin

Vice President, Real Estate Research

Haley Crimmins

Vice President, Real Estate Research

Wyatt Avery

Senior Associate, Real Estate Research

Michael Savino

Senior Associate, Real Estate Research

Cole Barker

Analyst, Real Estate Research

Methodology

Data based on properties and portfolios \$2.5m and greater unless otherwise stated. Data as of June 21, 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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