

Residential REITs

BofA Apartment REITs cap rate analysis

Industry Overview

Cap rate analysis for Apartment REITs

In this report, we track private market cap rates for apartments using Real Capital Analytics (RCA) transaction data by MSA. We then overlay these cap rates onto each Apartment REIT's geographic exposure to build up to a portfolio-wide private market cap rate. We then compare this private market cap rate with BofA's applied cap rate and the market's implied cap rate.

Our Apartment models reflect a rise in cap rates

Since September 2022, we have increased our applied cap rates by +165bp on average. Since September 2022, market-implied cap rates on Apartment REITs have increased +59bp on average. We note that 3Q23 private market cap rates are +70bp higher than 3Q22.

Public vs private market cap rates have disconnected

The spread between private market and market-implied cap rates has widened significantly since 2022. Across our REIT coverage the average spread is +193bp. That compares to the average spread of -3bp from 2011-19.

The spread over the 10-year Treasury has narrowed

The spread between private market cap rates and the 10-year Treasury has narrowed significantly. The narrowing spread has been driven by rising interest rates. Private market cap rates have adjusted by a much smaller degree. Across our REIT coverage, the average spread is +47bp. That compares to the average spread of +300bp from 2011-19.

Private market cap rates remain sticky

The latest commentary from REIT management teams support cap rate ranges of high 4s to low 5s. Please see inside for cap rate quotes from the 2Q earnings calls.

Summary table of Apartment REIT cap rates

Exhibit 1: Private market cap rates vs implied cap rates

The public market assures private market cap rates will increase

Ticker	BofA Applied cap rate	Public market Implied cap rate	Private market cap rate			Spread
			September	3Q23	2022	
AVB	5.9%	6.4%	5.4%	5.4%	4.2%	106bps
AIRC*	n.a.	7.4%	4.8%	4.8%	4.3%	258bps
CPT	6.5%	7.4%	4.9%	4.9%	4.3%	247bps
EQR	6.2%	7.0%	5.2%	5.2%	4.2%	175bps
ESS	5.8%	6.5%	4.8%	4.8%	3.8%	166bps
IRT*	n.a.	7.1%	4.8%	4.7%	4.3%	232bps
MAA	6.3%	7.2%	4.4%	4.5%	4.0%	278bps
UDR	6.1%	6.9%	5.2%	5.2%	4.2%	172bps
VRE	6.4%	6.8%	5.8%	5.8%	5.0%	100bps
Avg	6.2%	7.0%	5.0%	5.0%	4.3%	193bps

Source: RCA analytics, company filings, S&P Global

Note: *Cons implied cap rates for REITs not covered. Spread is public market implied cap rates minus the latest private market cap rates

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Equity
United States
REITs

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Key terms used:

Applied cap rate: The cap rate we apply to a REIT's NOI stream to build up to our Net Asset Value (NAV).

BP: basis points

Cap Rate: capitalization rate

Implied cap rate: The public market's implied cap rate based on the equity market capitalization.

MSA: Metropolitan statistical area

RCA: Real Capital Analytics

10 TSY: 10-year Treasury yield

See Exhibit 36 for a stock symbol key.

Definition: Private market cap rates are calculated using the Apartment REITs' 2Q23 portfolio geographic exposure by MSAs and RCA's latest private market cap rates by MSAs. Using the geographic exposures as weights, we calculated a weighted average by overlaying the private market cap rates from RCA.

What you will find inside the report: (1) REIT portfolio cap rate analysis, (2) Gateway market cap rate analysis and (3) Sunbelt cap rate analysis.

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Refer to important disclosures on page 11 to 13. Analyst Certification on page 10. 12614251

Timestamp: 20 October 2023 12:01AM EDT

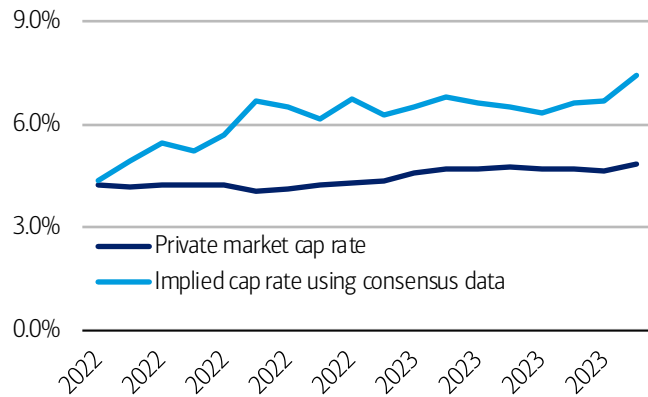
Latest cap rate commentary from REITs

- **AVB:** "current cap rates in the mid to high 4% range."
- **ESS:** "cap rates in the mid 4% to low 5% range for institutional quality properties."
- **MAA:** "we have seen average buyer cap rates move up to 4.9% in the second quarter from 4.7% in the first quarter with most cap rates ranging between 4.75% and 5.25%."
- **UDR:** "Our commentary really hasn't changed much from last quarter in that. When you look at current NOI, we're still seeing plus or minus 5% cap rates on the deals that we've been taking a look at."

REIT cap rate analysis

Exhibit 2: AIRC: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

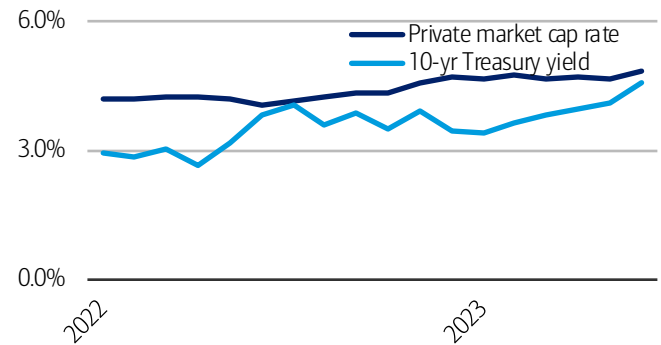


Source: RCA analytics, S&P Global for consensus implied cap rates

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Exhibit 3: AIRC: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 301bps (2011-2019)



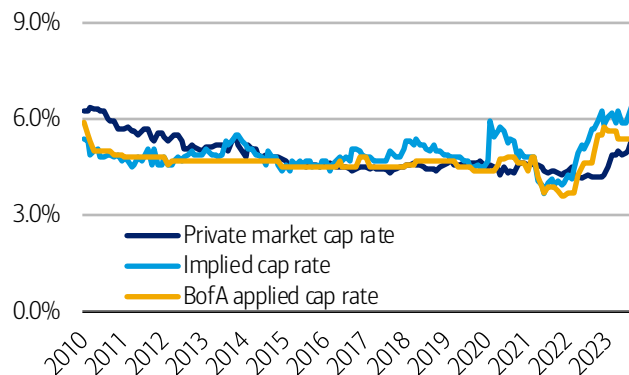
Source: RCA analytics, company filings, Bloomberg

AIRC split off on 12/3/20. We show the private market cap rates before the split off to highlight cap rate compression across their market

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Exhibit 4: AVB: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

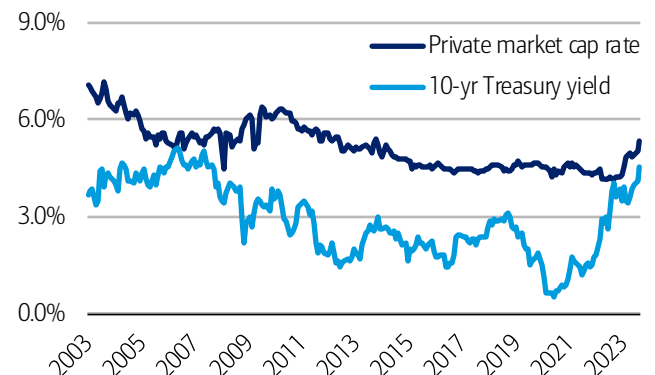


Source: RCA analytics, company filings

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Exhibit 5: AVB: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 258bps (2011-2019)

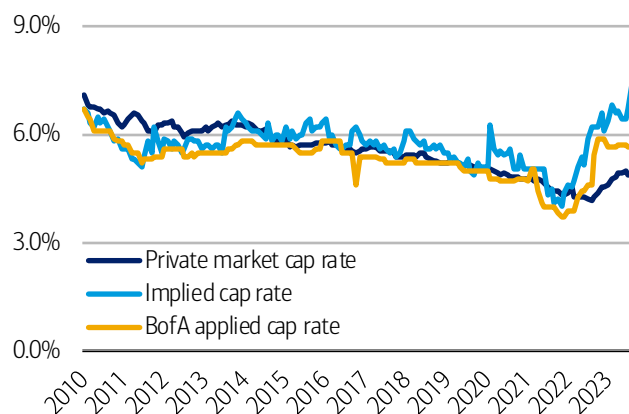


Source: RCA analytics, company filings, Bloomberg

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Exhibit 6: CPT: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

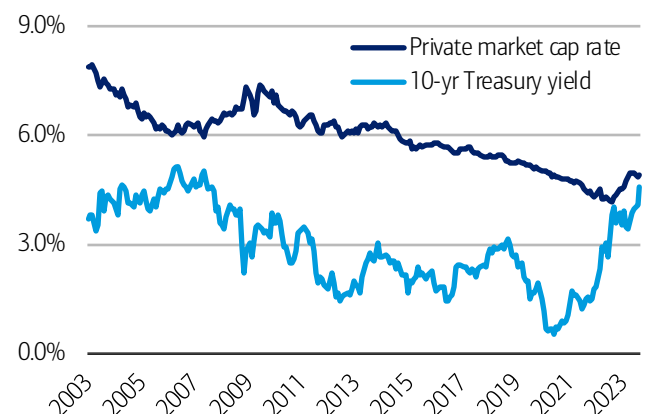


Source: RCA analytics, company filings

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Exhibit 7: CPT: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 353bps (2011-2019)

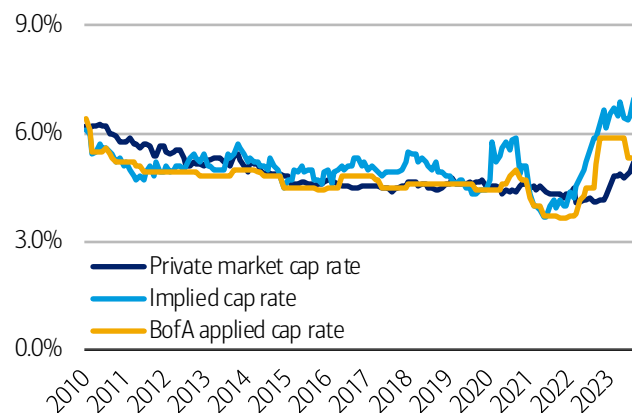


Source: RCA analytics, company filings, Bloomberg

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Exhibit 8: EQR: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

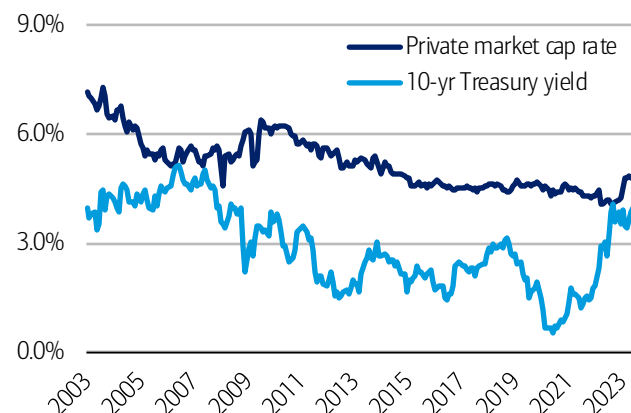


Source: RCA analytics, company filings

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Exhibit 9: EQR: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 262bps (2011-2019)

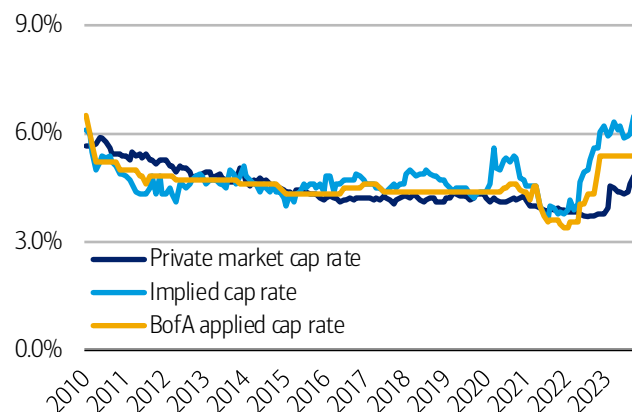


Source: RCA analytics, company filings, Bloomberg

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Exhibit 10: ESS: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

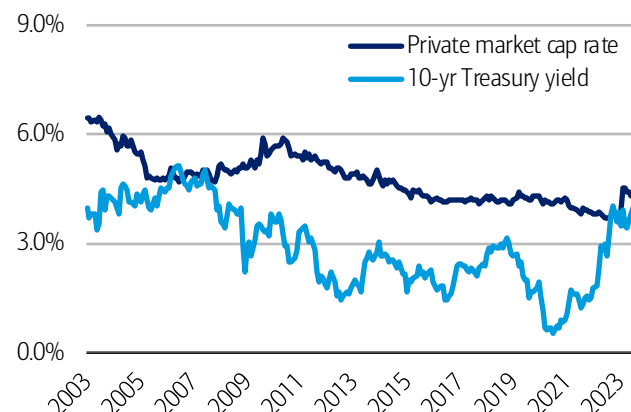


Source: RCA analytics, company filings

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Exhibit 11: ESS: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 227bps (2011-2019)

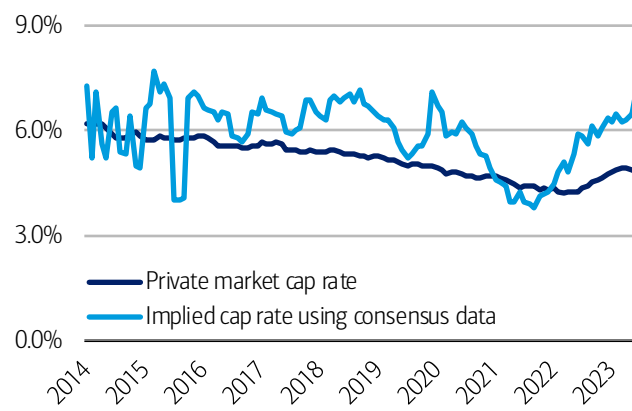


Source: RCA analytics, company filings, Bloomberg

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Exhibit 12: IRT: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

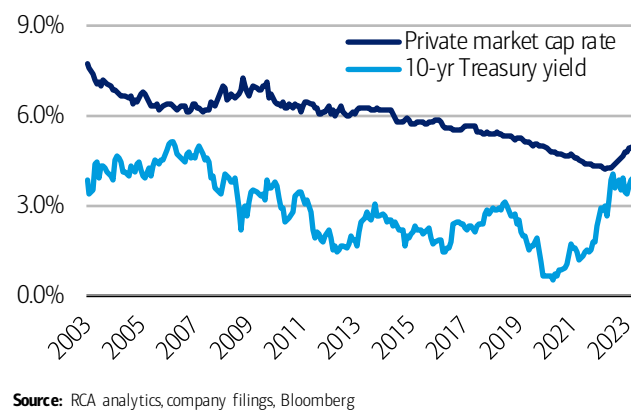


Source: RCA analytics, S&P Global for consensus implied cap rates

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Exhibit 13: IRT: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 355bps (2011-2019)



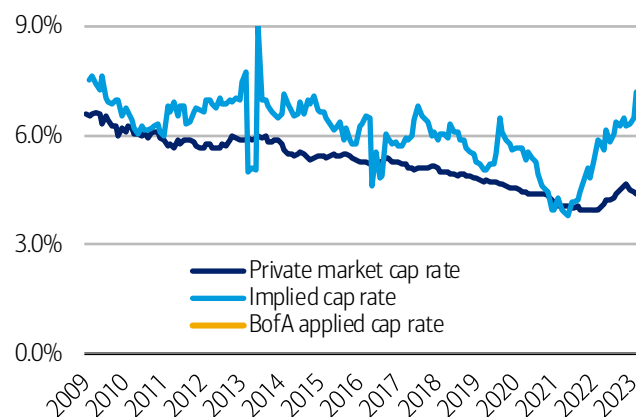
Source: RCA analytics, company filings, Bloomberg

IRT IPO-ed on 8/13/13. We show the private market cap rates before the IPO to highlight cap rate compression across their market

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Exhibit 14: MAA: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

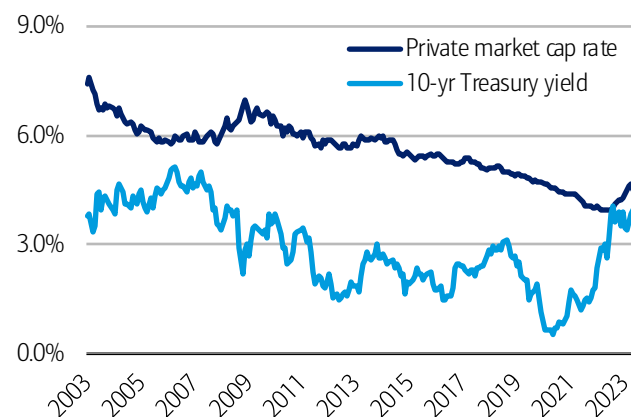


Source: RCA analytics, S&P Global for consensus implied cap rates. Implied cap rates prior to Sep-23 are consensus estimates

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Exhibit 15: MAA: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 321bps (2011-2019)

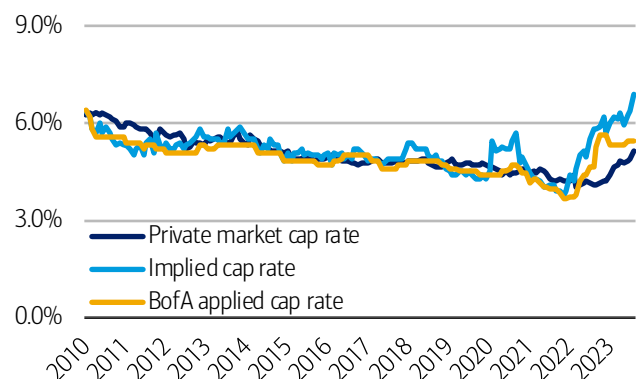


Source: RCA analytics, company filings, Bloomberg

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Exhibit 16: UDR: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

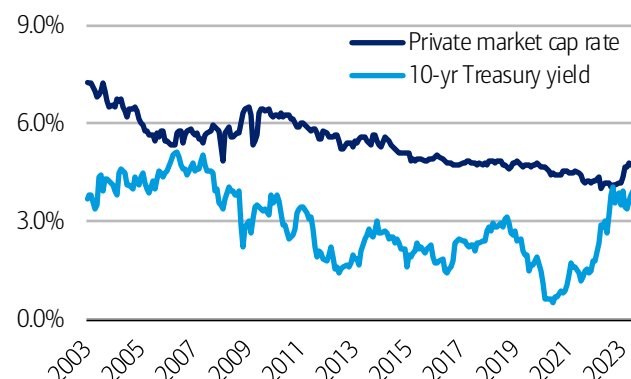


Source: RCA analytics, company filings

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Exhibit 17: UDR: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 286bps (2011-2019)

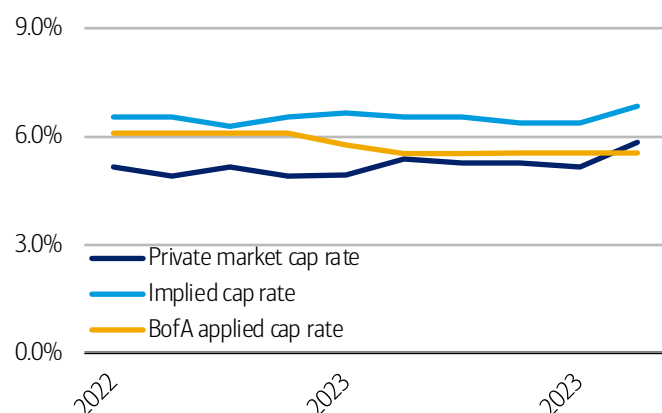


Source: RCA analytics, company filings, Bloomberg

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Exhibit 18: VRE: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

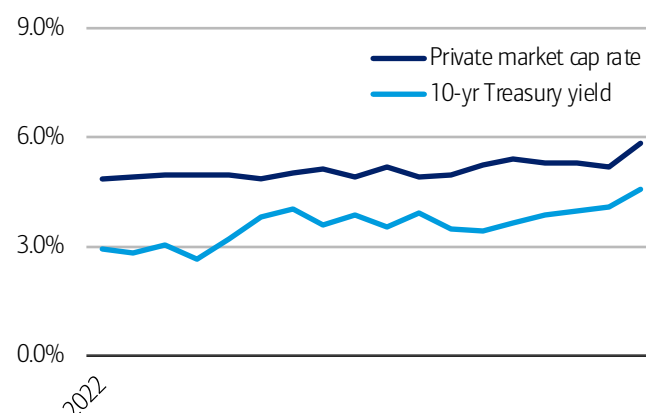


Source: RCA analytics, company filings

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Exhibit 19: VRE: private market cap rates vs 10-yr Treasury

Private market cap rate spreads over the 10yr averaged 337bps (2011-2019)



Source: RCA analytics, company filings, Bloomberg

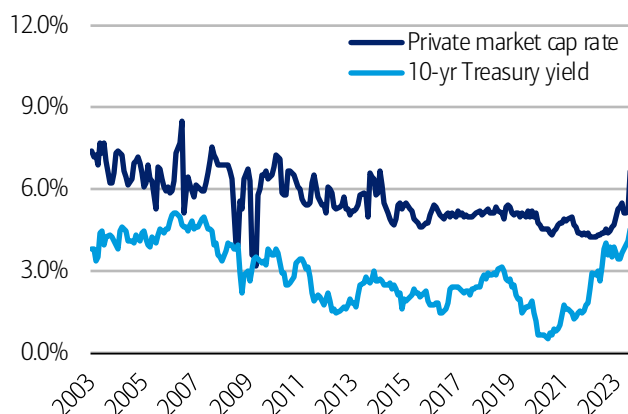
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Cap rates in Gateway markets

Exhibit 20: Boston private market cap rates

Private market cap rate spreads over the 10yr averaged 306bps (2011-2019)

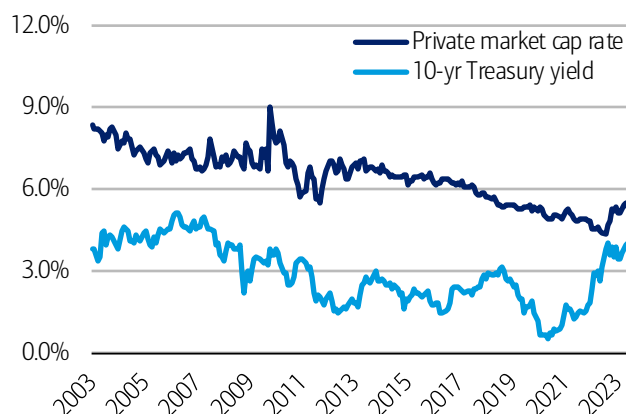


Source: RCA analytics, Bloomberg

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Exhibit 21: Houston private market cap rates

Private market cap rate spreads over the 10yr averaged 397bps (2011-2019)

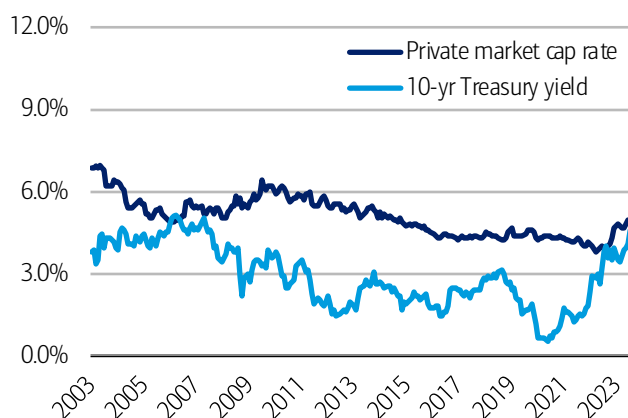


Source: RCA analytics, Bloomberg

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Exhibit 22: Los Angeles private market cap rates

Private market cap rate spreads over the 10yr averaged 262bps (2011-2019)

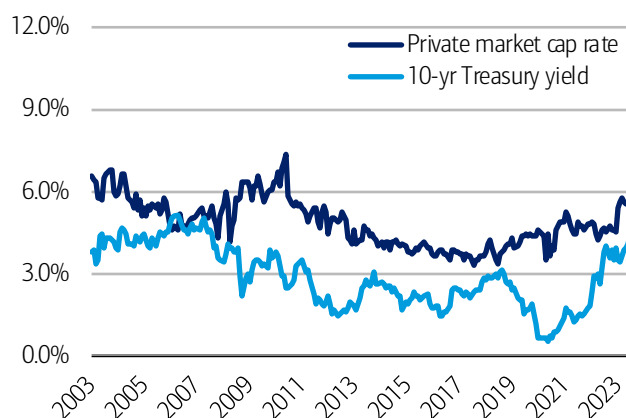


Source: RCA analytics, Bloomberg

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Exhibit 23: New York City private market cap rates

Private market cap rate spreads over the 10yr averaged 196bps (2011-2019)

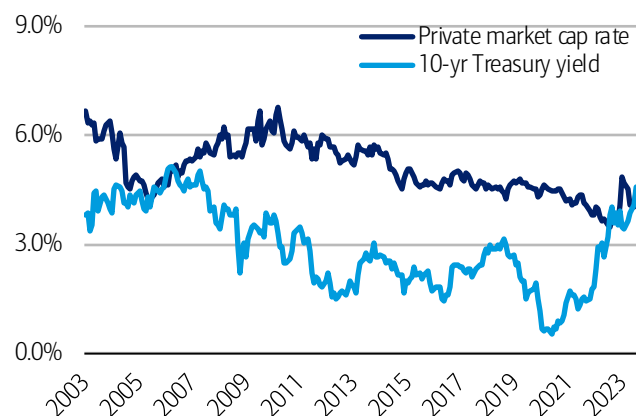


Source: RCA analytics, Bloomberg

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Exhibit 24: San Diego private market cap rates

Private market cap rate spreads over the 10yr averaged 279bps (2011-2019)

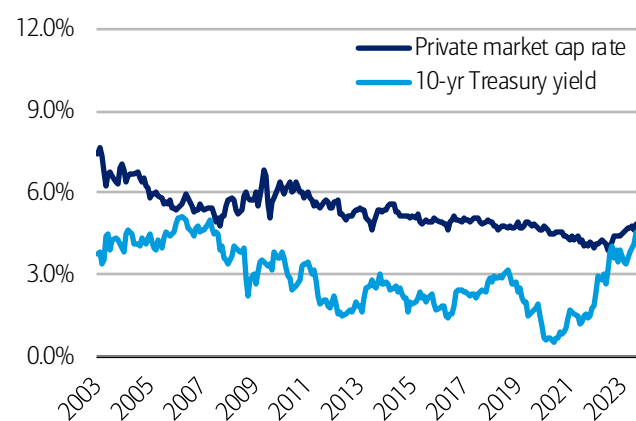


Source: RCA analytics, Bloomberg

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Exhibit 26: Seattle private market cap rates

Private market cap rate spreads over the 10yr averaged 287bps (2011-2019)

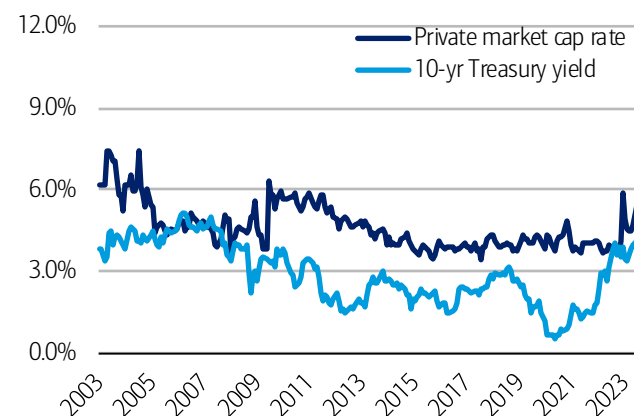


Source: RCA analytics, Bloomberg

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Exhibit 25: San Francisco private market cap rates

Private market cap rate spreads over the 10yr averaged 203bps (2011-2019)

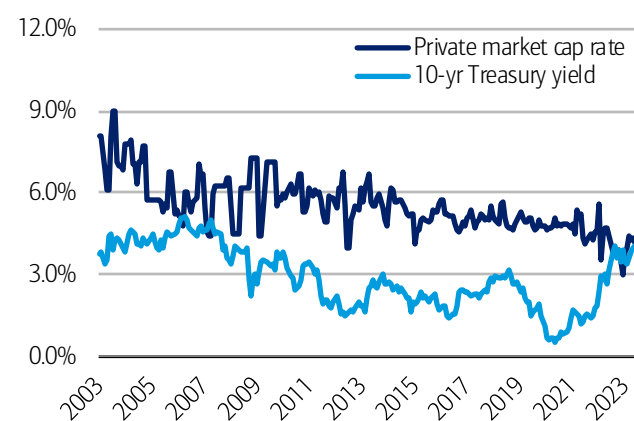


Source: RCA analytics, Bloomberg

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Exhibit 27: Washington DC private market cap rates

Private market cap rate spreads over the 10yr averaged 305bps (2011-2019)



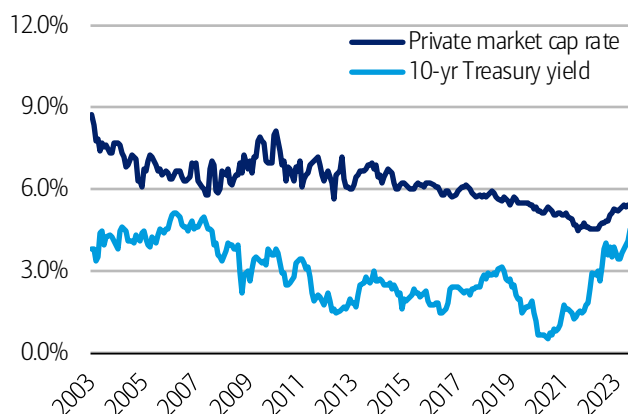
Source: RCA analytics, Bloomberg

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Cap rates in Sunbelt markets

Exhibit 28: Atlanta private market cap rates

Private market cap rate spreads over the 10yr averaged 389bps (2011-2019)

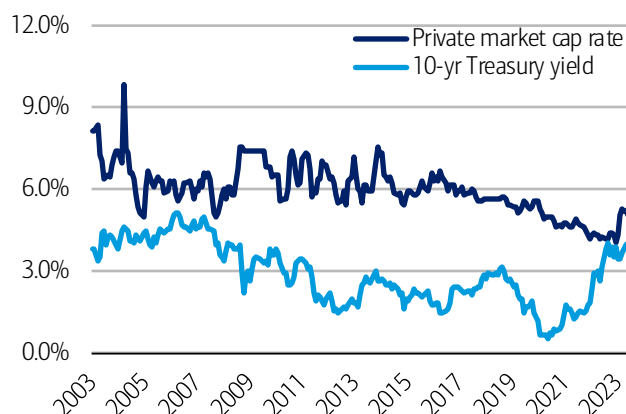


Source: RCA analytics, Bloomberg

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Exhibit 29: Charlotte private market cap rates

Private market cap rate spreads over the 10yr averaged 379bps (2011-2019)

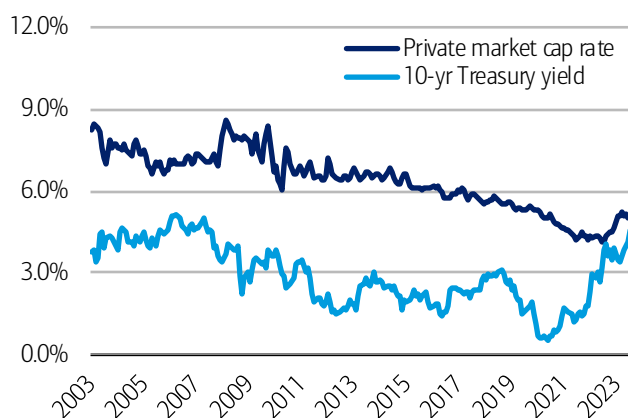


Source: RCA analytics, Bloomberg

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Exhibit 30: Dallas private market cap rates

Private market cap rate spreads over the 10yr averaged 390bps (2011-2019)

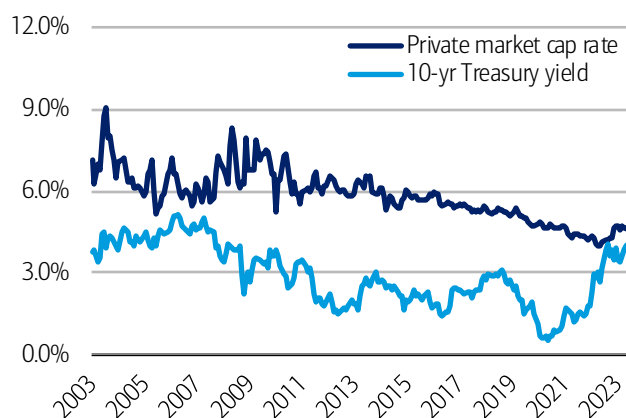


Source: RCA analytics, Bloomberg

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Exhibit 31: Denver private market cap rates

Private market cap rate spreads over the 10yr averaged 344bps (2011-2019)

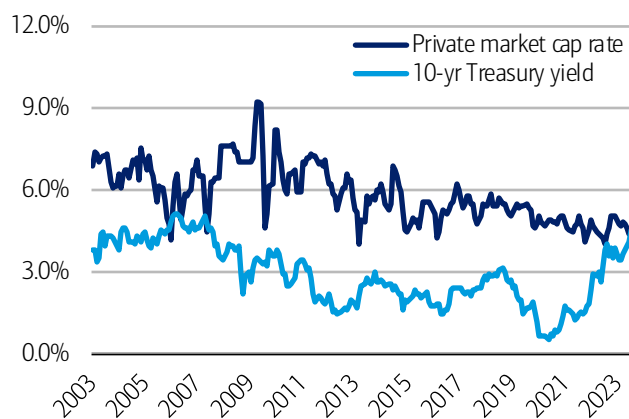


Source: RCA analytics, Bloomberg

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Exhibit 32: Miami private market cap rates

Private market cap rate spreads over the 10yr averaged 340bps (2011-2019)

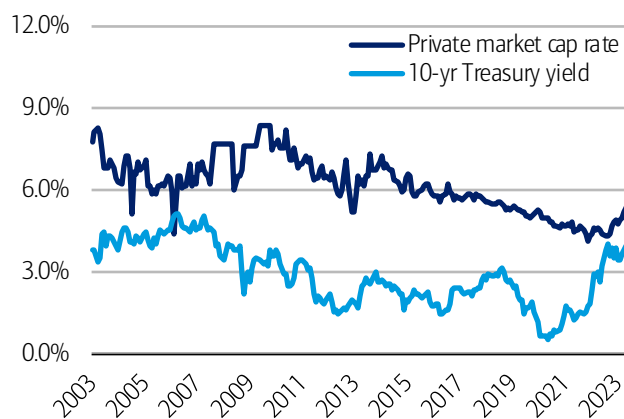


Source: RCA analytics, Bloomberg

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Exhibit 33: Orlando private market cap rates

Private market cap rate spreads over the 10yr averaged 379bps (2011-2019)

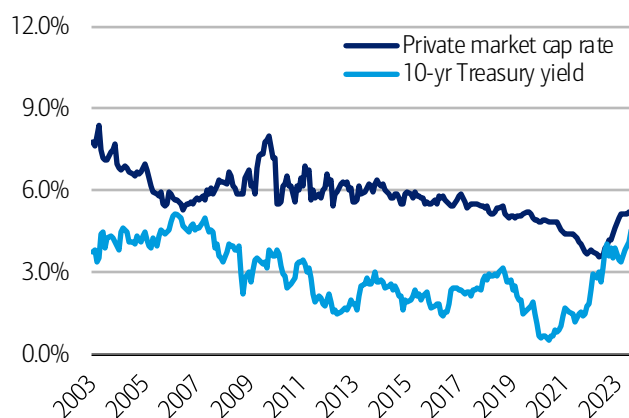


Source: RCA analytics, Bloomberg

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Exhibit 34: Phoenix private market cap rates

Private market cap rate spreads over the 10yr averaged 347bps (2011-2019)

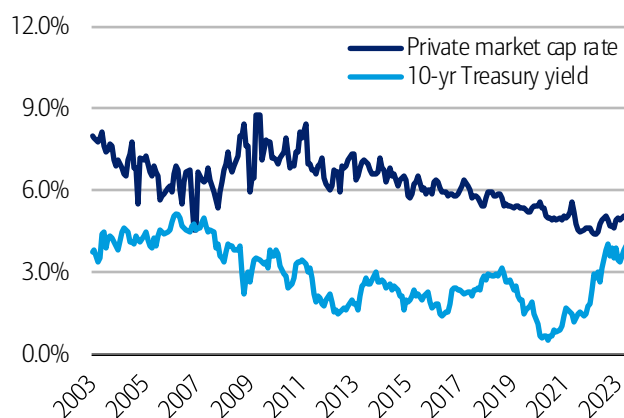


Source: RCA analytics, Bloomberg

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Exhibit 35: Tampa private market cap rates

Private market cap rate spreads over the 10yr averaged 400bps (2011-2019)



Source: RCA analytics, Bloomberg

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Exhibit 36: Companies mentioned

Full company names below

Ticker	Company name
AIRC*	Apartment Income REIT Corp
AVB	AvalonBay Communities, Inc.
CPT	Camden Property Trust
EQR	Equity Residential, Inc.
ESS	Essex Property Trust, Inc.
IRT*	Independence Realty Trust, Inc.
MAA	Mid-America Apartment Communities, Inc.
UDR	UDR, Inc.
VRE	Veris Residential, Inc.

Note: * for companies that are not under our coverage

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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