

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 June 2022, we have increased our applied cap rates by +112bp on average. Since June 2022, the market-implied cap rates on Apartment REITs have increased +110bp on average. We note that 2Q23 private market cap rates are +61bp higher than in 2Q22.

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 +150bp. That compares to the average spread of -5bp 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 +81bp. That compares to the average spread of +295bp 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 1Q 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
			June	2Q23	2022	
AVB	5.4%	5.9%	4.9%	4.9%	4.2%	103bps
AIRC*	n.a.	6.2%	4.6%	4.6%	4.2%	158bps
CPT	5.7%	6.4%	4.8%	4.8%	4.3%	163bps
EQR	5.3%	6.4%	4.7%	4.8%	4.1%	169bps
ESS	5.4%	5.9%	4.3%	4.4%	3.8%	158bps
IRT*	n.a.	6.3%	4.8%	4.7%	4.3%	144bps
MAA*	n.a.	6.3%	4.5%	4.3%	4.0%	183bps
UDR	5.3%	5.9%	4.7%	4.7%	4.2%	128bps
VRE	5.5%	6.5%	5.1%	5.1%	5.0%	145bps
Avg	5.5%	6.2%	4.7%	4.7%	4.2%	150bps

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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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

Definition: Private market cap rates are calculated using the Apartment REITs' 1Q23 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.

See the stock symbol key on page 10 for full company names.

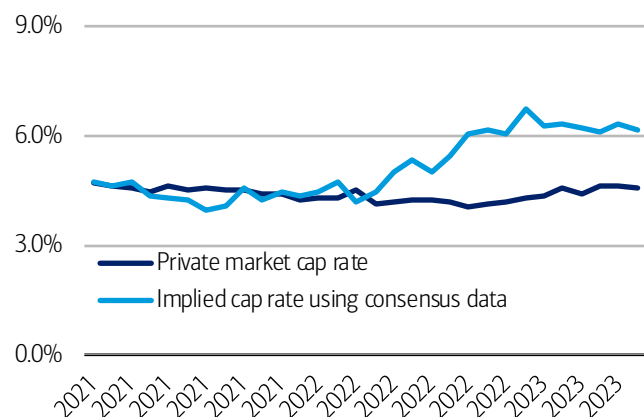
Latest cap rate commentary from REIT

- **AVB:** "I would kind of put them into 2 buckets, kind of the haves and the have nots. The haves, which is highly desirable assets in locations, either markets or submarkets that are on a lot of investors' lists. For growth, those assets are still trading in the mid-4s cap rates. I think, in fact, I would have -- if you'd asked me 90 days ago, I probably would have said high 4s, but -- and we do have some assets actively in the market today that hopefully will close during Q2, and we have at least one that's in that haves category, I would say, that's probably more of a mid-4s cap rate." and "The other side of the equation is the assets that maybe have a little bit less of an interest that have a less deep pool of bidders. And there, the have nots, you might have 1 or 2 that are seriously interested. And there, I'd say cap rates are probably more like low 5s and so call that range anywhere from 4.5 to 5.25. And we may have an asset or 2 that's in that latter category as well that's currently working in the market."
- **EQR:** "a lot less activity, but the sellers that do act now understand that cap rates are somewhere between 5% and 5.25%."
- **ESS:** "institutional quality transactions occur from the mid to high 4% market cap rate with a deeper buyer pool towards the high end of this range."
- **UDR:** "I think pricing is definitely more in that 5% to 5.25% range today."

REIT cap rate analysis

Exhibit 2: AIRC: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

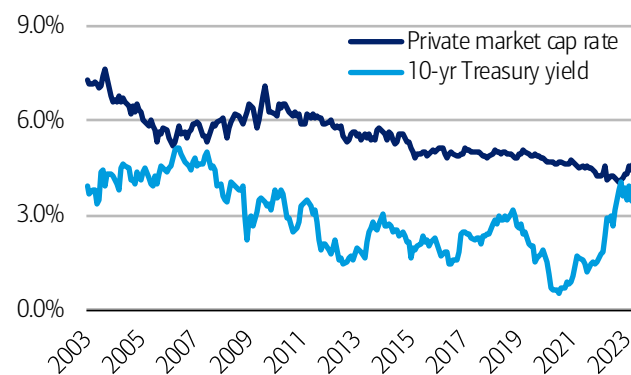


Source: RCA analytics, S&P Global for consensus implied cap rates

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

Private market cap rate spreads over the 10yr averaged 300bps (2011-2019)



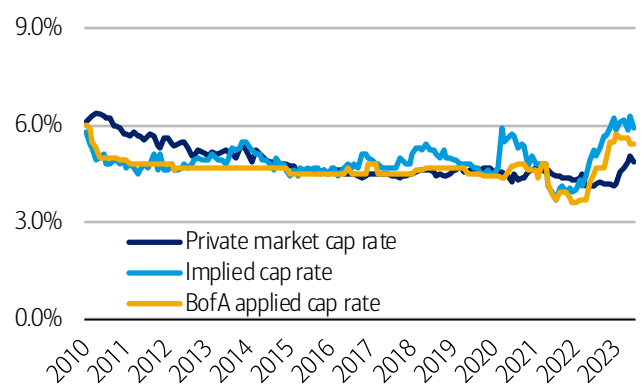
Source: RCA analytics, company filings, Bloomberg

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

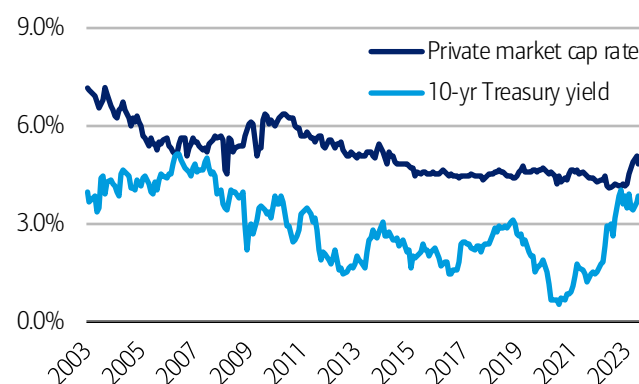


Source: RCA analytics, company filings

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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)

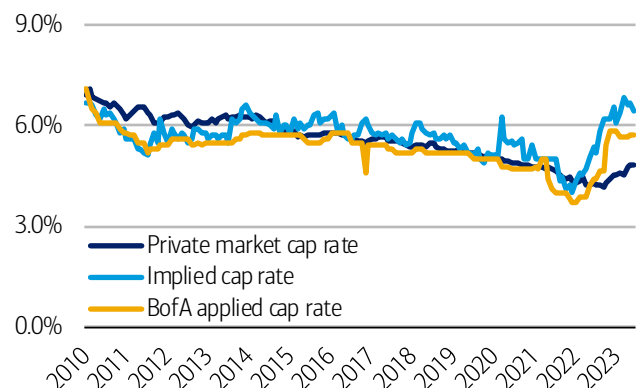


Source: RCA analytics, company filings, Bloomberg

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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

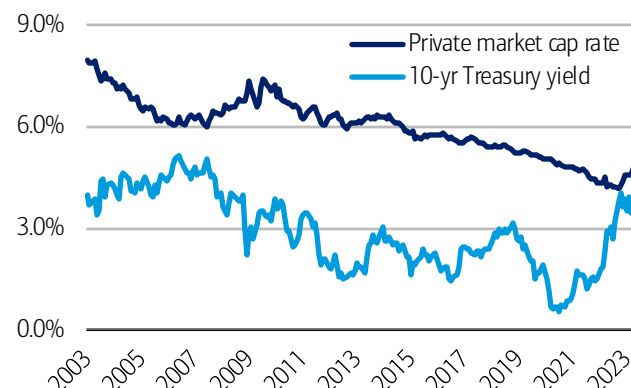


Source: RCA analytics, company filings

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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)



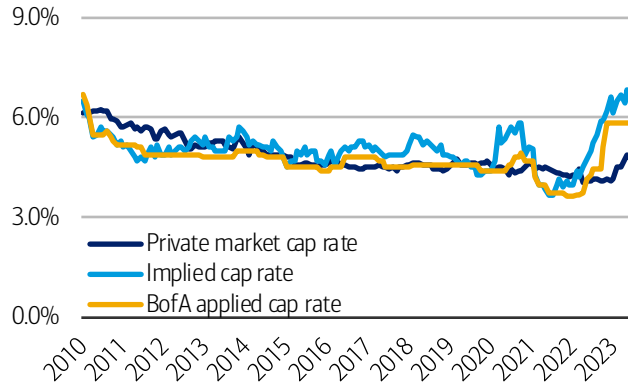
Source: RCA analytics, company filings, Bloomberg

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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

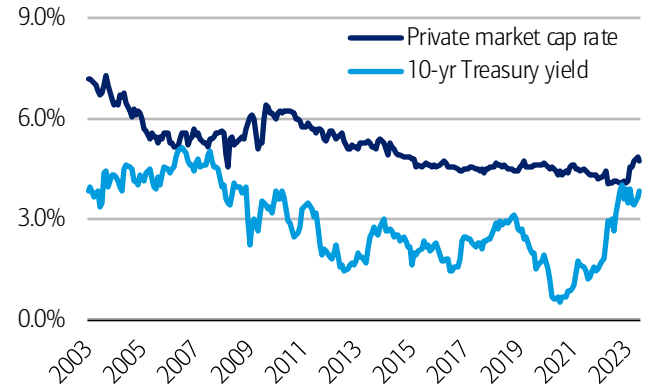


Source: RCA analytics, company filings

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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)

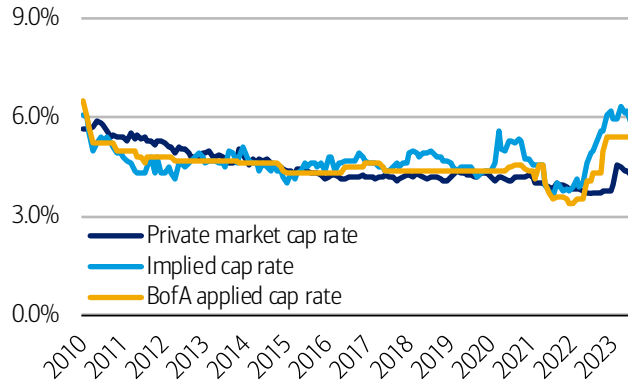


Source: RCA analytics, company filings, Bloomberg

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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

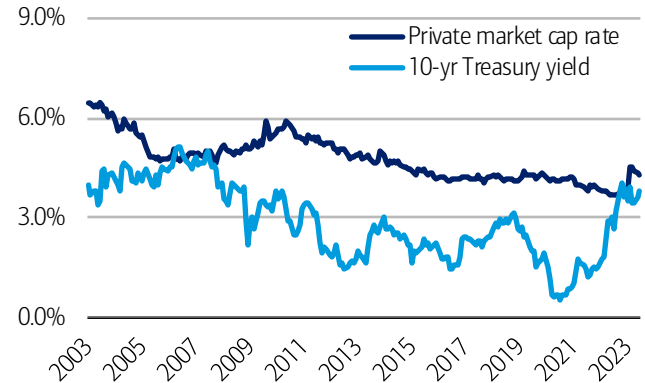


Source: RCA analytics, company filings

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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)

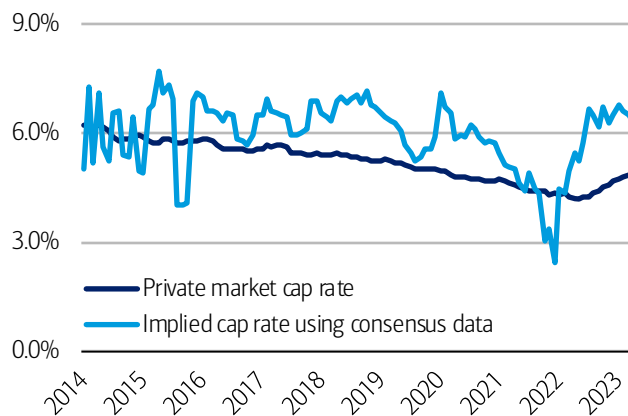


Source: RCA analytics, company filings, Bloomberg

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Exhibit 12: IRT: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

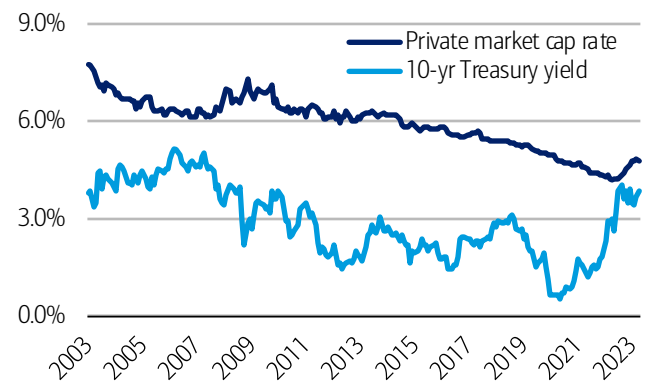


Source: RCA analytics, S&P Global for consensus implied cap rates

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

Private market cap rate spreads over the 10yr averaged 354bps (2011-2019)



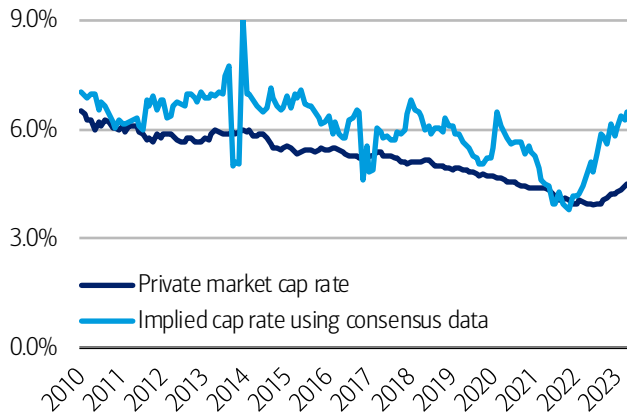
Source: RCA analytics, company filings, Bloomberg

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

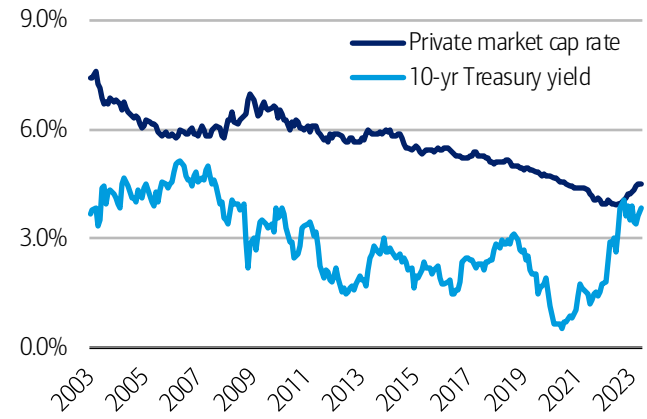


Source: RCA analytics, S&P Global for consensus implied cap rates

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

Private market cap rate spreads over the 10yr averaged 320bps (2011-2019)

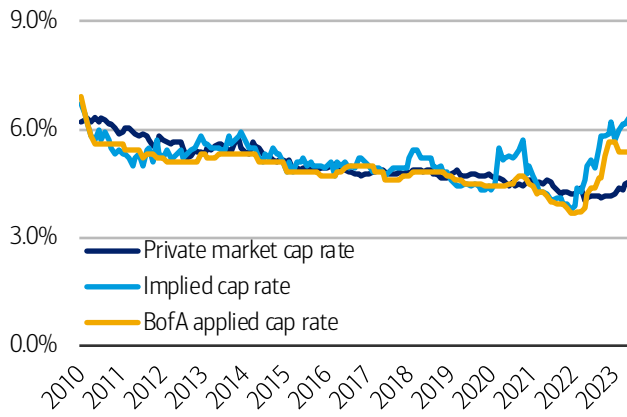


Source: RCA analytics, company filings, Bloomberg

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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

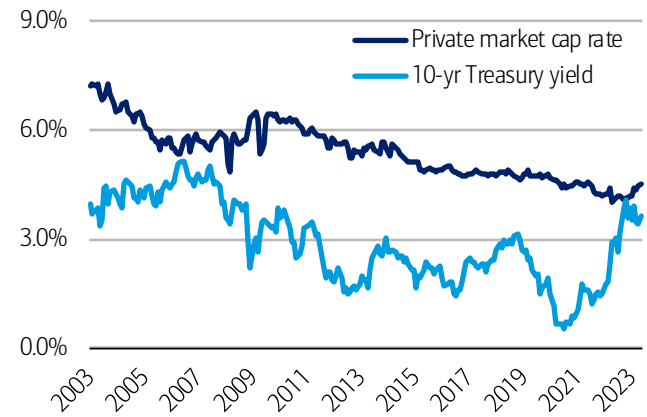


Source: RCA analytics, company filings

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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)

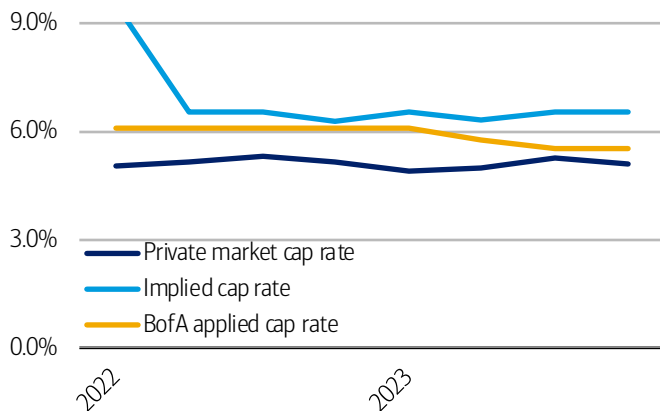


Source: RCA analytics, company filings, Bloomberg

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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

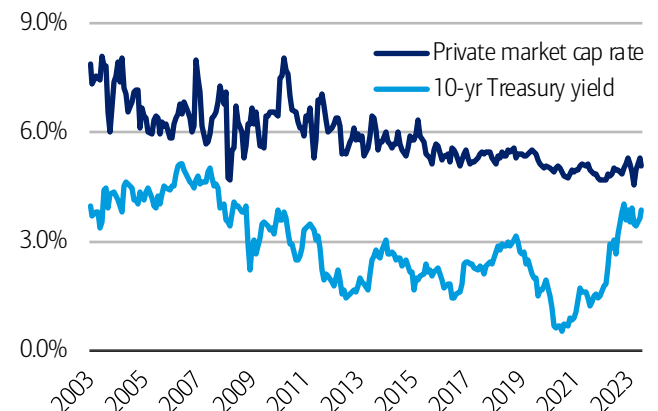


Source: RCA analytics, company filings

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

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



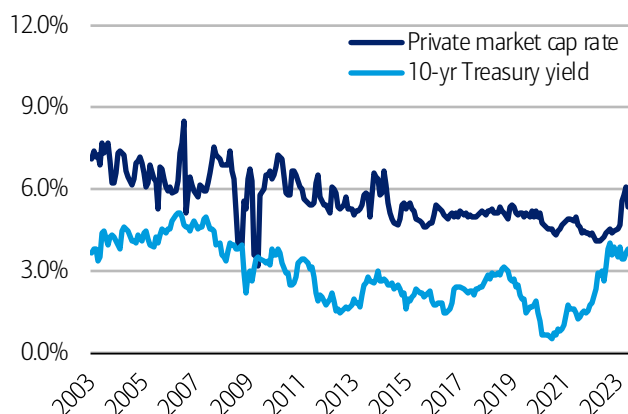
Source: RCA analytics, company filings, Bloomberg

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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 305bps (2011-2019)

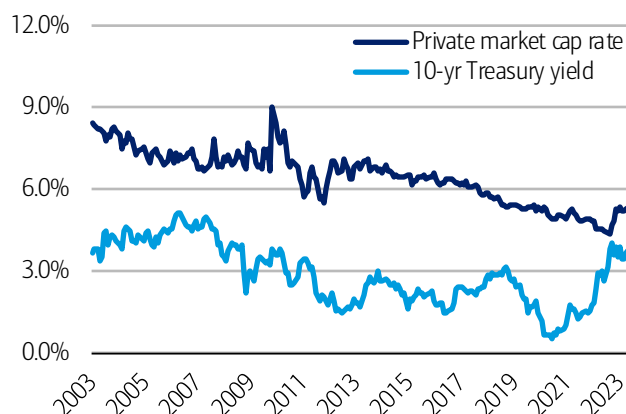


Source: RCA analytics, Bloomberg

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Exhibit 21: Houston private market cap rates

Private market cap rate spreads over the 10yr averaged 395bps (2011-2019)

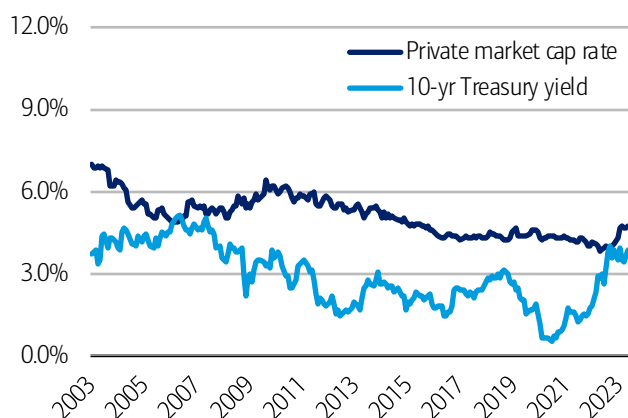


Source: RCA analytics, Bloomberg

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Exhibit 22: Los Angeles private market cap rates

Private market cap rate spreads over the 10yr averaged 261bps (2011-2019)

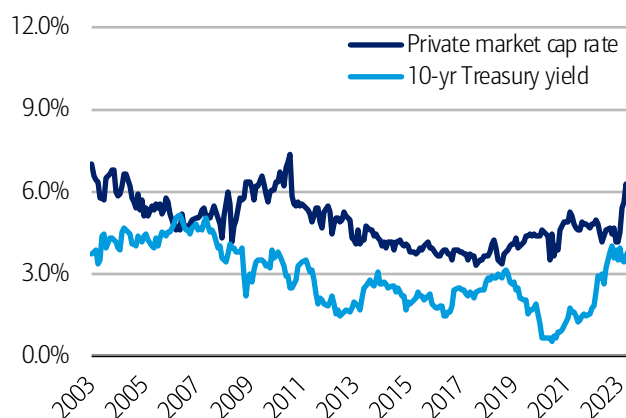


Source: RCA analytics, Bloomberg

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Exhibit 23: New York City private market cap rates

Private market cap rate spreads over the 10yr averaged 195bps (2011-2019)

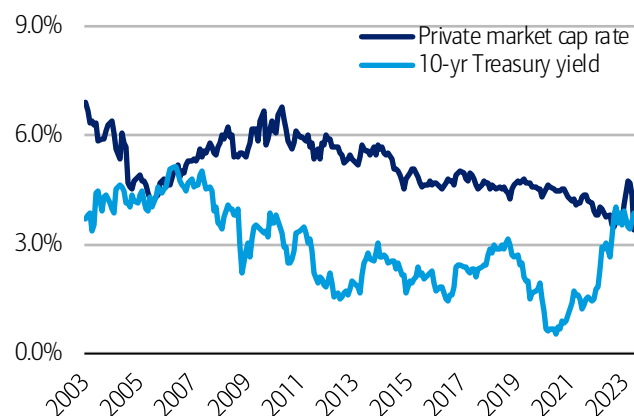


Source: RCA analytics, Bloomberg

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Exhibit 24: San Diego private market cap rates

Private market cap rate spreads over the 10yr averaged 278bps (2011-2019)

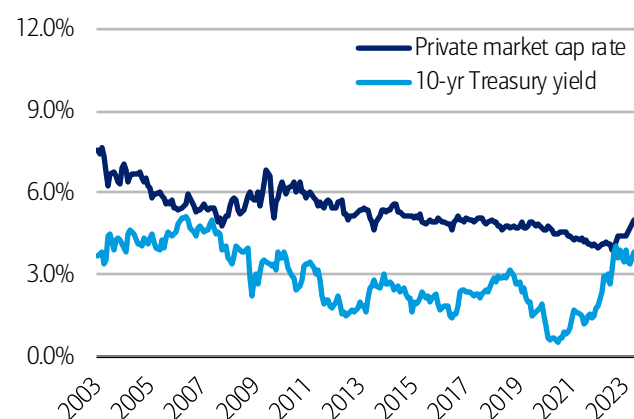


Source: RCA analytics, Bloomberg

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Exhibit 26: Seattle private market cap rates

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

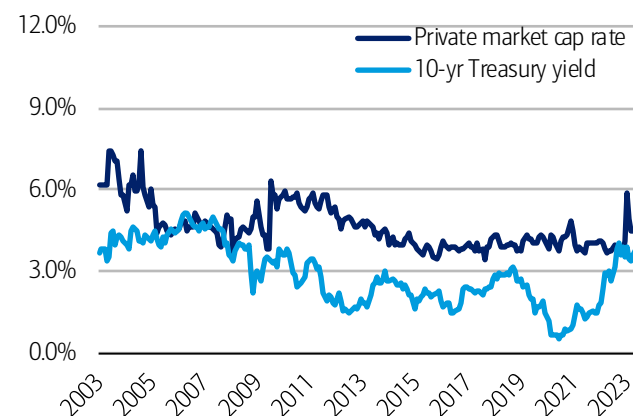


Source: RCA analytics, Bloomberg

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Exhibit 25: San Francisco private market cap rates

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

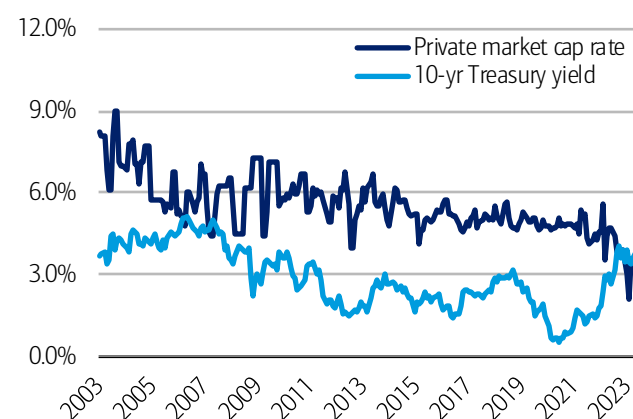


Source: RCA analytics, Bloomberg

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Exhibit 27: Washington DC private market cap rates

Private market cap rate spreads over the 10yr averaged 303bps (2011-2019)



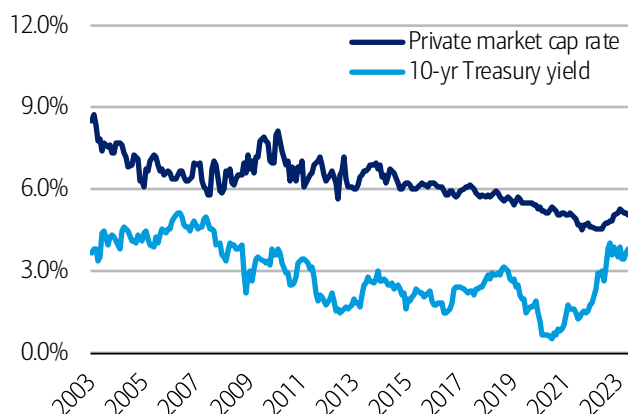
Source: RCA analytics, Bloomberg

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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)

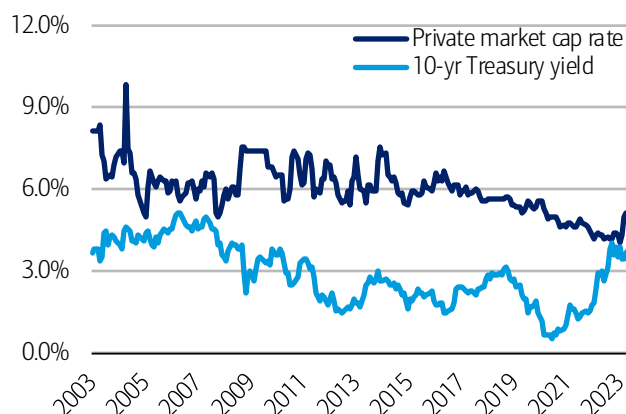


Source: RCA analytics, Bloomberg

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Exhibit 29: Charlotte private market cap rates

Private market cap rate spreads over the 10yr averaged 377bps (2011-2019)

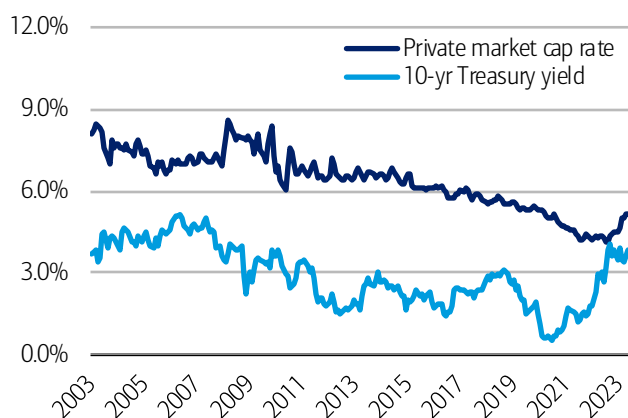


Source: RCA analytics, Bloomberg

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Exhibit 30: Dallas private market cap rates

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

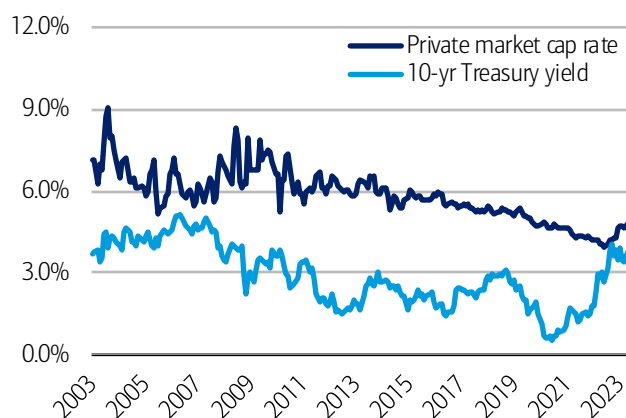


Source: RCA analytics, Bloomberg

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Exhibit 31: Denver private market cap rates

Private market cap rate spreads over the 10yr averaged 343bps (2011-2019)

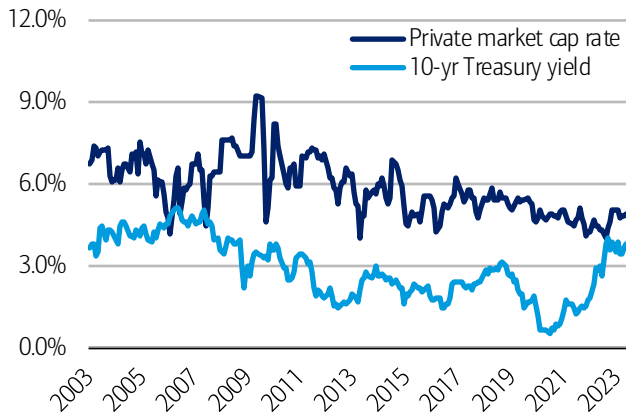


Source: RCA analytics, Bloomberg

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Exhibit 32: Miami private market cap rates

Private market cap rate spreads over the 10yr averaged 339bps (2011-2019)

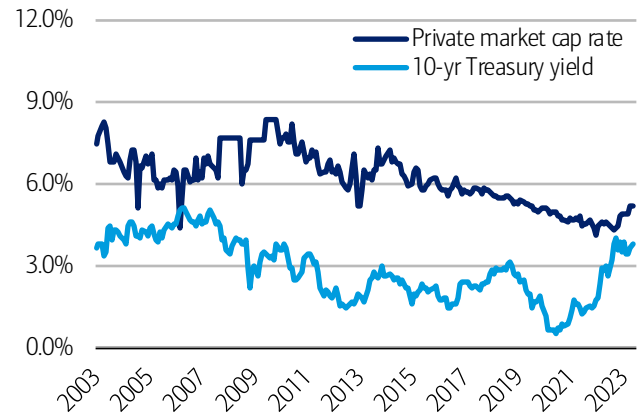


Source: RCA analytics, Bloomberg

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Exhibit 33: Orlando private market cap rates

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

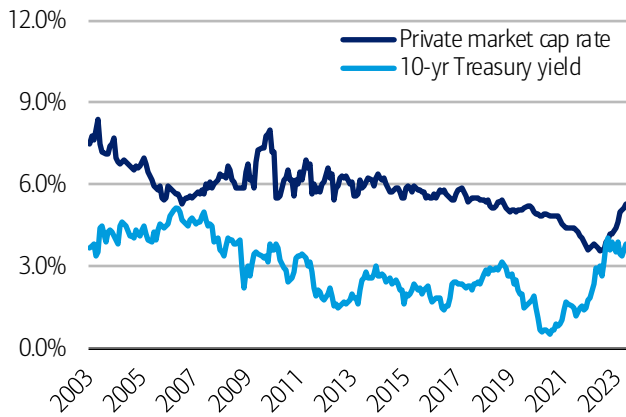


Source: RCA analytics, Bloomberg

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Exhibit 34: Phoenix private market cap rates

Private market cap rate spreads over the 10yr averaged 346bps (2011-2019)

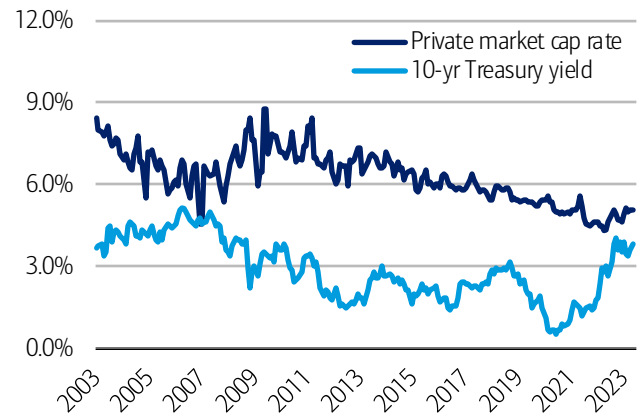


Source: RCA analytics, Bloomberg

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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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