

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 Global Research's applied cap rate and the market's implied cap rate.

Our cap rates have increased; less than the equity market

Since March 2022, we have increased our applied cap rates by 193bp on average. Since March 2022, the market implied cap rates on Apartment REITs have increased 188bp on average. We note that 4Q22 private market cap rates are -14bp lower than 1Q22.

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 200bp. That compares to the average spread of 7bp 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 23bp. That compares to the average spread of 295bp from 2011-19.

We expect private market cap rates to trend higher.

Looking ahead we expect private market cap rates to trend higher. Public markets typically react faster than the private market. Conversations with management team's suggest cap rates have already risen 50-100bp but based on limited trades. We are closely watching to see how funding costs evolve post SVB.

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
			February	4Q22	2022	
AVB	5.6%	6.1%	3.9%	4.0%	4.2%	216bps
CPT	5.6%	6.4%	4.6%	4.5%	4.3%	181bps
EQR	5.8%	6.5%	3.9%	4.0%	4.1%	263bps
ESS	5.4%	6.0%	3.7%	3.8%	3.8%	229bps
IRT*	n.a.	6.5%	4.6%	4.4%	4.3%	190bps
MAA*	n.a.	6.1%	4.3%	4.0%	4.0%	176bps
UDR	5.3%	6.0%	4.0%	4.1%	4.1%	198bps
VRE	6.1%	6.5%	5.1%	5.3%	n.a.	141bps
Avg	5.7%	6.3%	4.3%	4.3%	4.1%	200bps

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

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' 4Q22 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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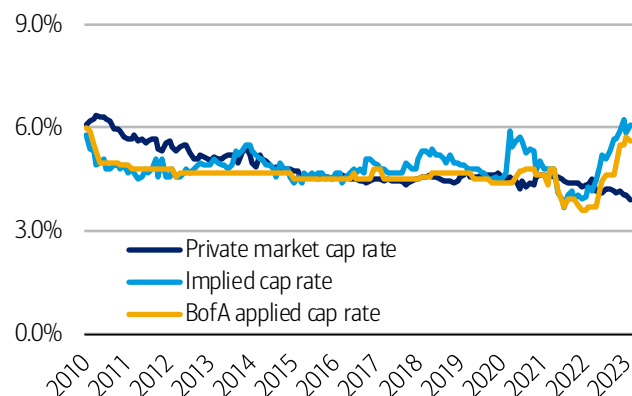
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REIT cap rate analysis

Exhibit 2: AVB: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

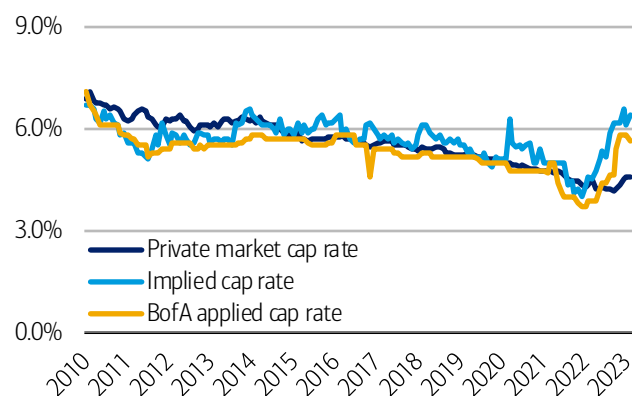


Source: RCA analytics, company filings

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

Private market and implied REIT cap rates typically track each other

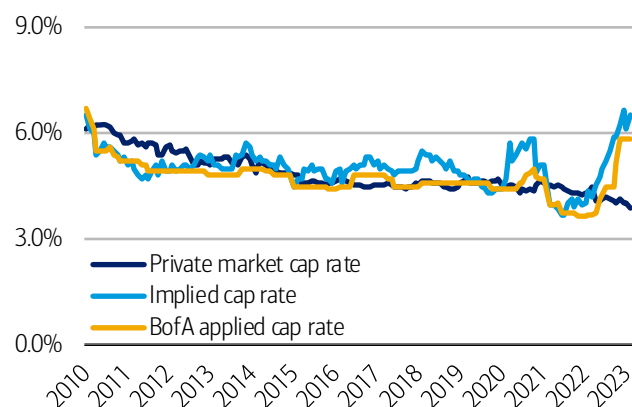


Source: RCA analytics, company filings

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

Private market and implied REIT cap rates typically track each other

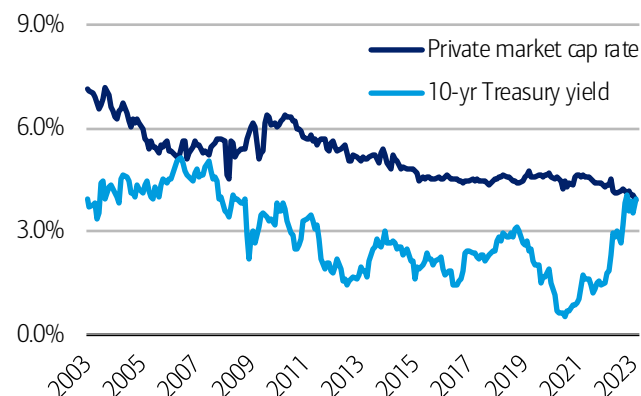


Source: RCA analytics, company filings

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

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

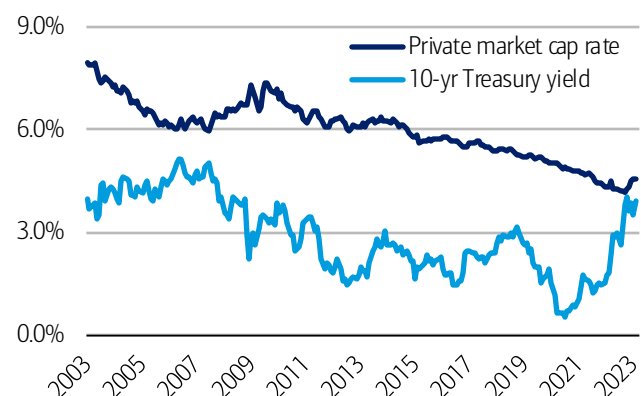


Source: RCA analytics, company filings, Bloomberg

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

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

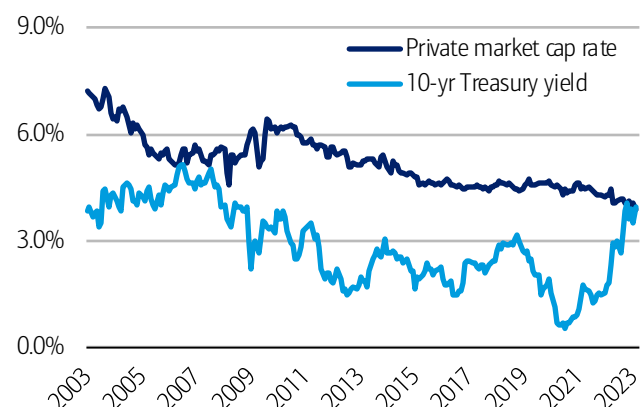


Source: RCA analytics, company filings, Bloomberg

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

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

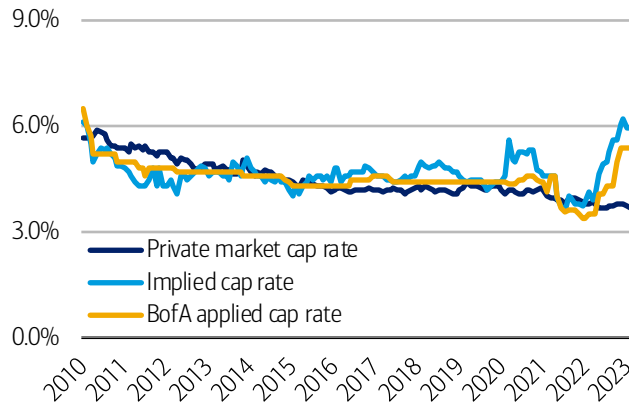


Source: RCA analytics, company filings, Bloomberg

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

Private market and implied REIT cap rates typically track each other

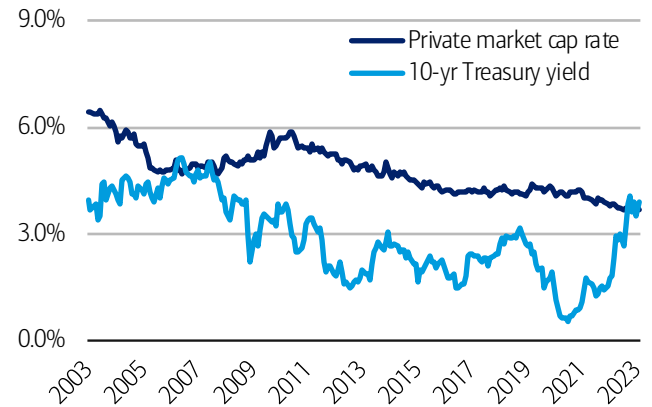


Source: RCA analytics, company filings

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

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

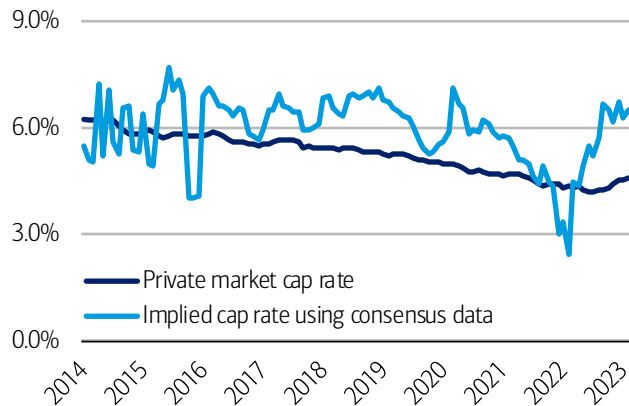


Source: RCA analytics, company filings, Bloomberg

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Exhibit 10: IRT: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

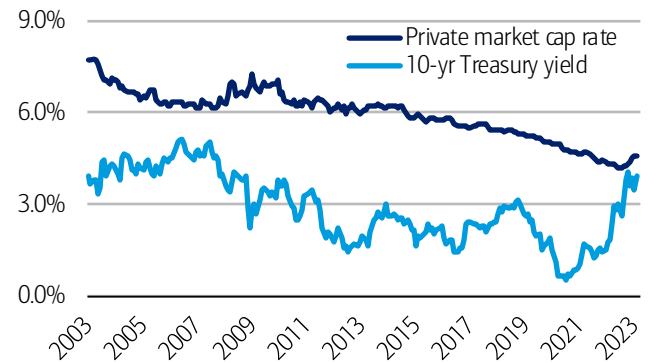


Source: RCA analytics, S&P Global for consensus implied cap rates

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

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



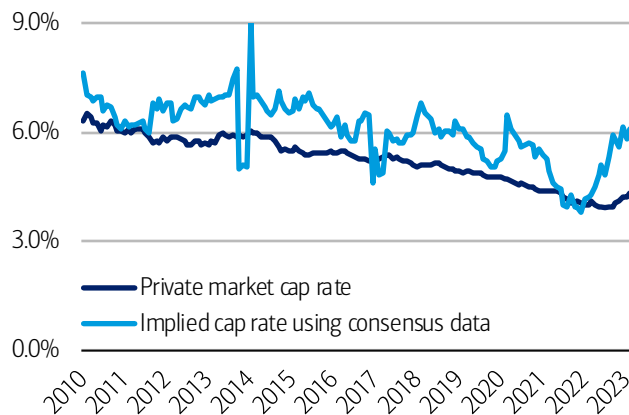
Source: RCA analytics, company filings, Bloomberg

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 12: MAA: private market vs implied cap rates

Private market and implied REIT cap rates typically track each other

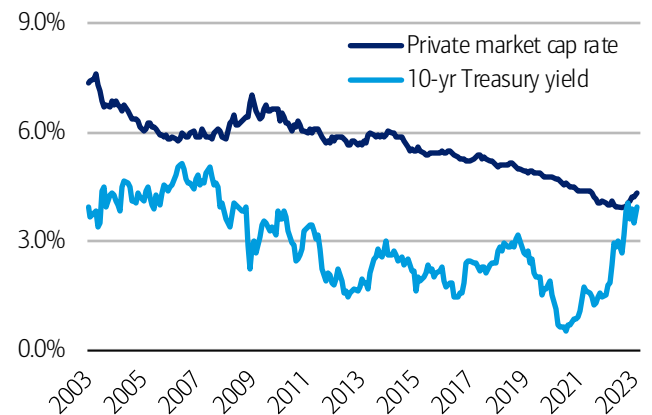


Source: RCA analytics, S&P Global for consensus implied cap rates

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

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

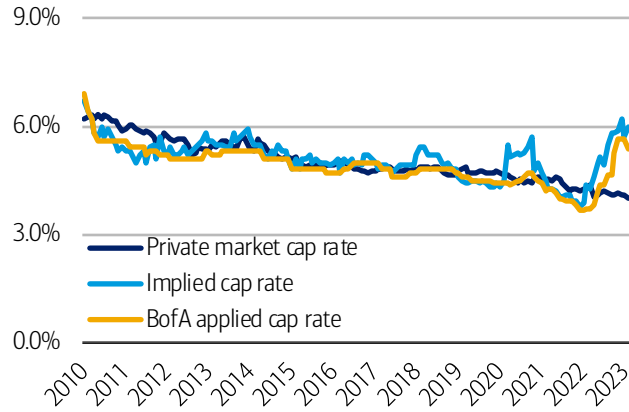


Source: RCA analytics, company filings, Bloomberg

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Exhibit 14: UDR: private market, implied and applied cap rates

Private market and implied REIT cap rates typically track each other

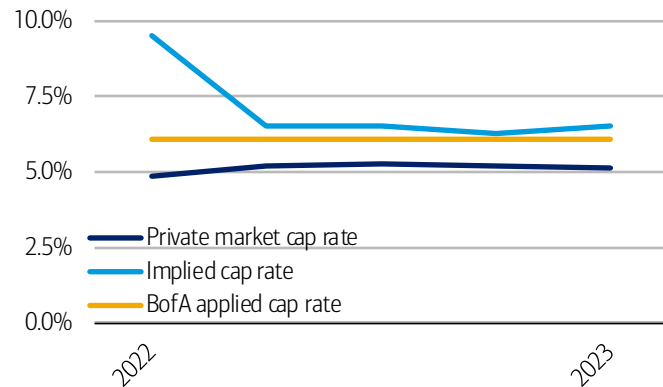


Source: RCA analytics, company filings

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

Private market and implied REIT cap rates typically track each other

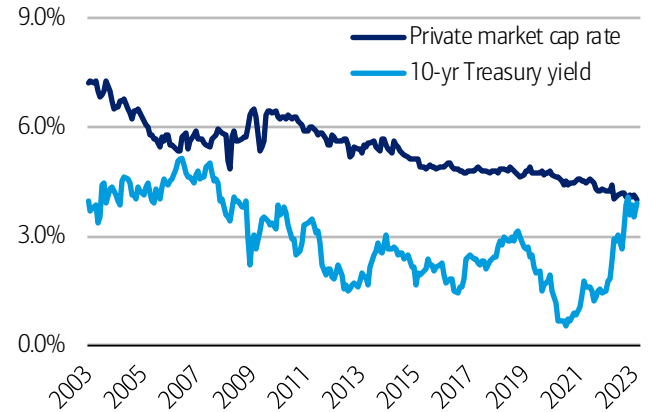


Source: RCA analytics, company filings

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

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

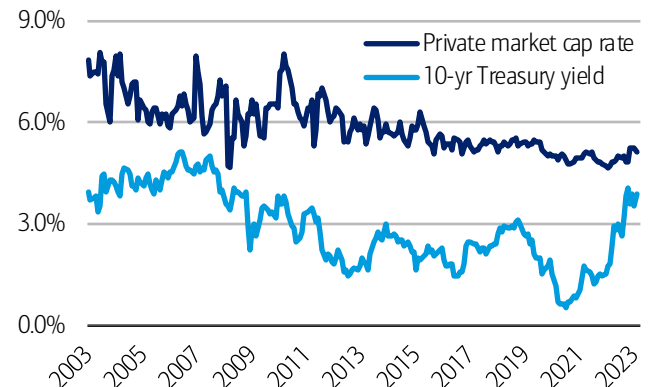


Source: RCA analytics, company filings, Bloomberg

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

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



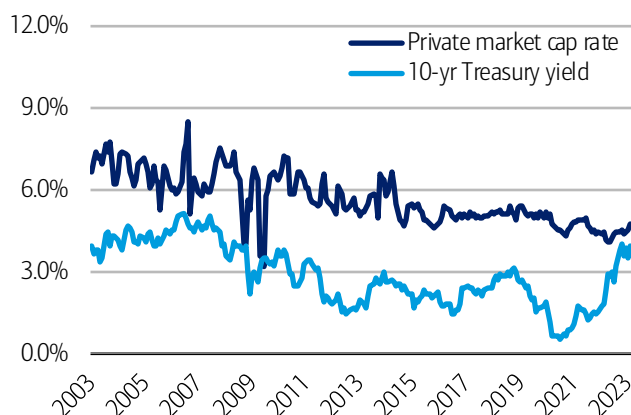
Source: RCA analytics, company filings, Bloomberg

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Cap rates in Gateway markets

Exhibit 18: Boston private market cap rates

Private market cap rate spreads over the 10yr averaged 304bps (2011-2019)

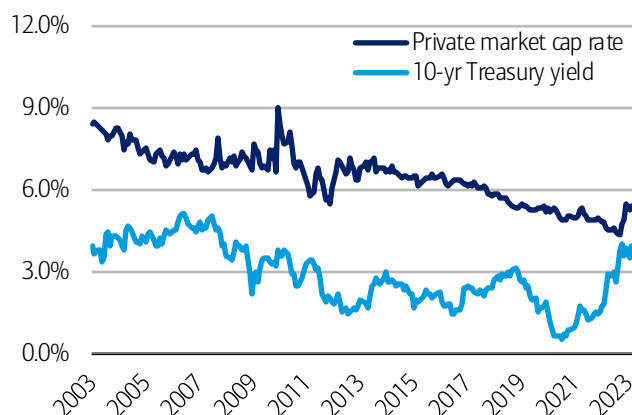


Source: RCA analytics, Bloomberg

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Exhibit 19: Houston private market cap rates

Private market cap rate spreads over the 10yr averaged 394bps (2011-2019)

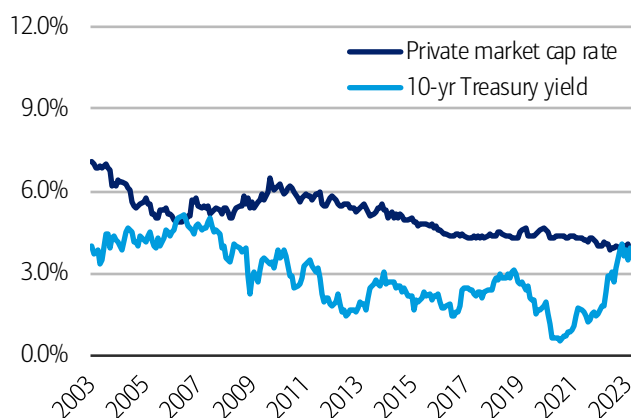


Source: RCA analytics, Bloomberg

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Exhibit 20: Los Angeles private market cap rates

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

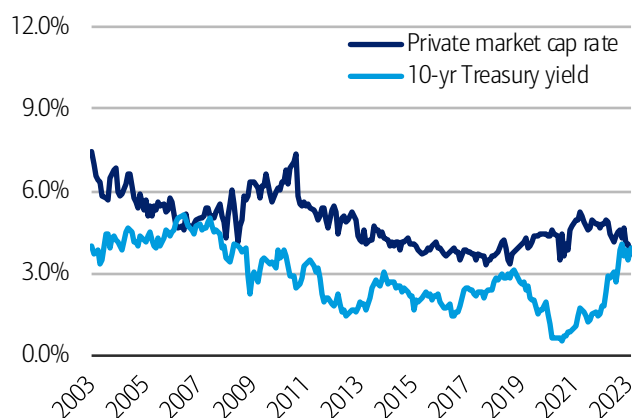


Source: RCA analytics, Bloomberg

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Exhibit 21: New York City private market cap rates

Private market cap rate spreads over the 10yr averaged 194bps (2011-2019)

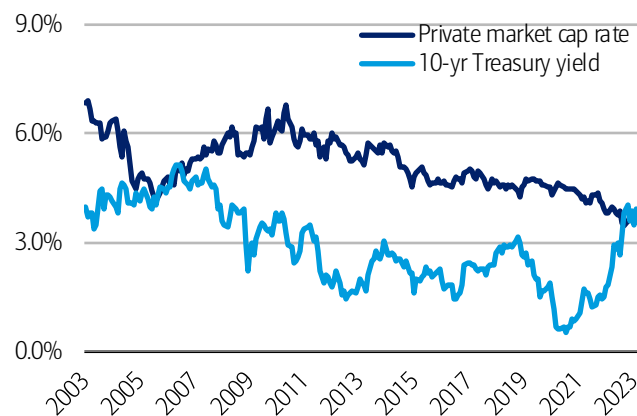


Source: RCA analytics, Bloomberg

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Exhibit 22: San Diego private market cap rates

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

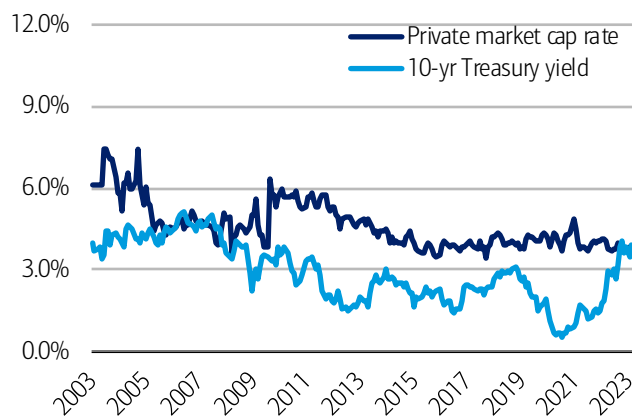


Source: RCA analytics, Bloomberg

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Exhibit 23: San Francisco private market cap rates

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

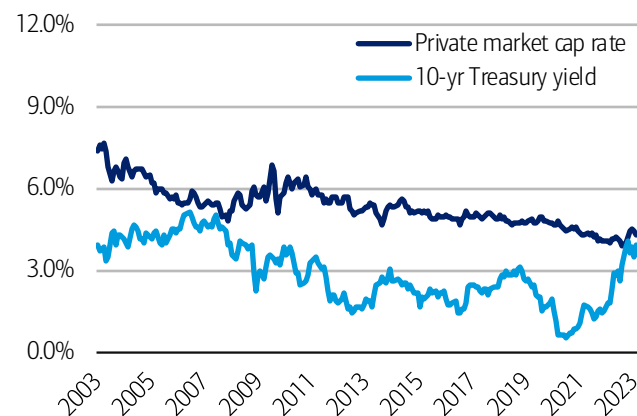


Source: RCA analytics, Bloomberg

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Exhibit 24: Seattle private market cap rates

Private market cap rate spreads over the 10yr averaged 285bps (2011-2019)

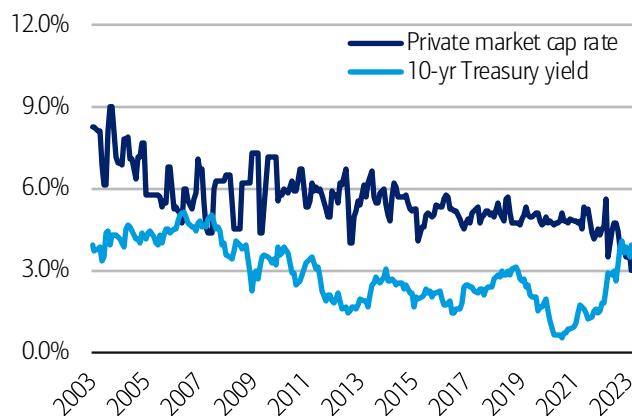


Source: RCA analytics, Bloomberg

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Exhibit 25: Washington DC private market cap rates

Private market cap rate spreads over the 10yr averaged 302bps (2011-2019)



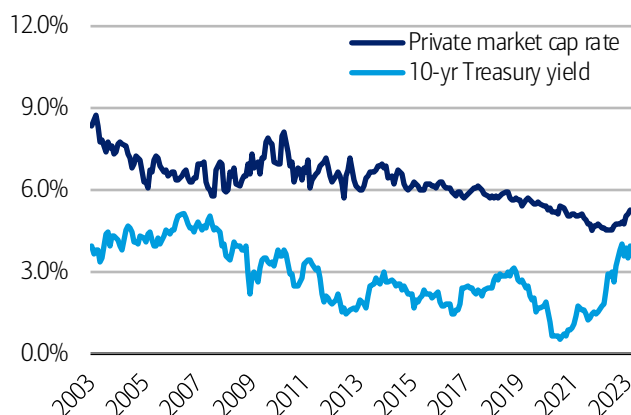
Source: RCA analytics, Bloomberg

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Cap rates in Sunbelt markets

Exhibit 26: Atlanta private market cap rates

Private market cap rate spreads over the 10yr averaged 388bps (2011-2019)

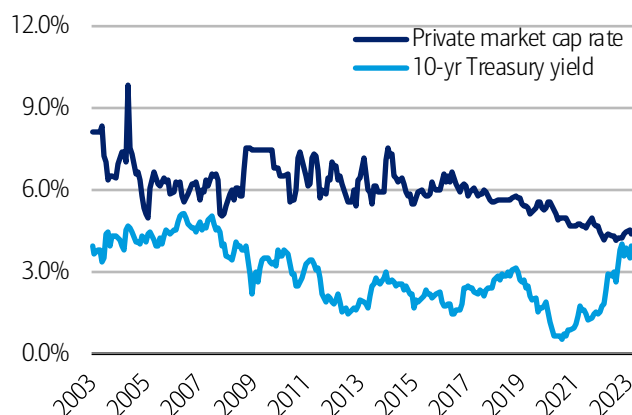


Source: RCA analytics, Bloomberg

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Exhibit 27: Charlotte private market cap rates

Private market cap rate spreads over the 10yr averaged 376bps (2011-2019)

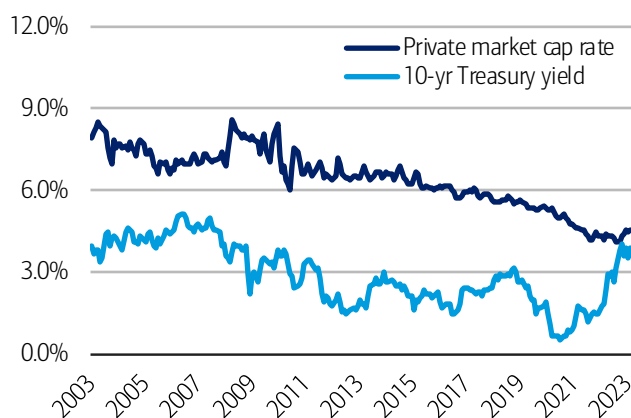


Source: RCA analytics, Bloomberg

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Exhibit 28: Dallas private market cap rates

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

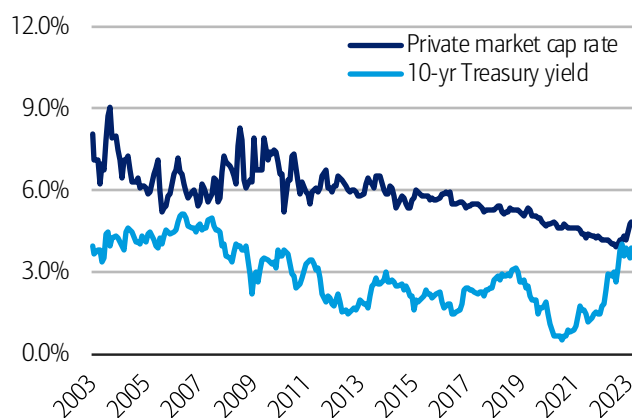


Source: RCA analytics, Bloomberg

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Exhibit 29: Denver private market cap rates

Private market cap rate spreads over the 10yr averaged 342bps (2011-2019)

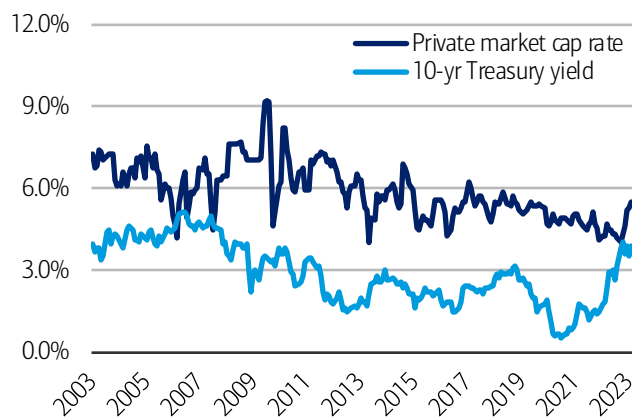


Source: RCA analytics, Bloomberg

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Exhibit 30: Miami private market cap rates

Private market cap rate spreads over the 10yr averaged 338bps (2011-2019)

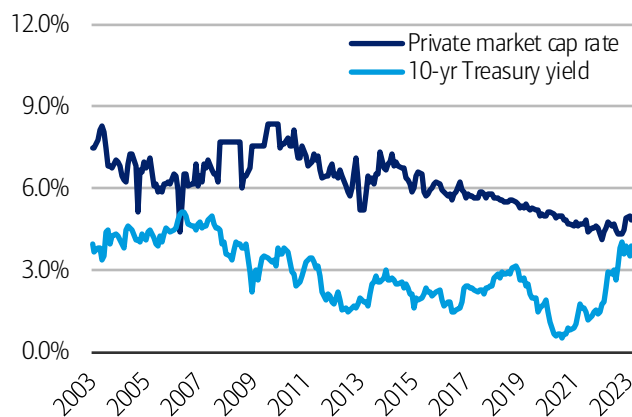


Source: RCA analytics, Bloomberg

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Exhibit 31: Orlando private market cap rates

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

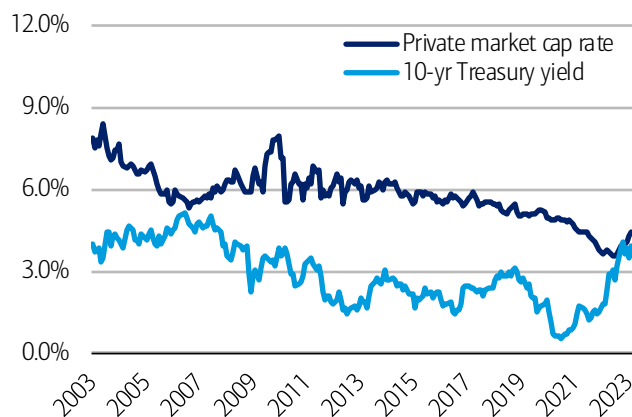


Source: RCA analytics, Bloomberg

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Exhibit 32: Phoenix private market cap rates

Private market cap rate spreads over the 10yr averaged 345bps (2011-2019)

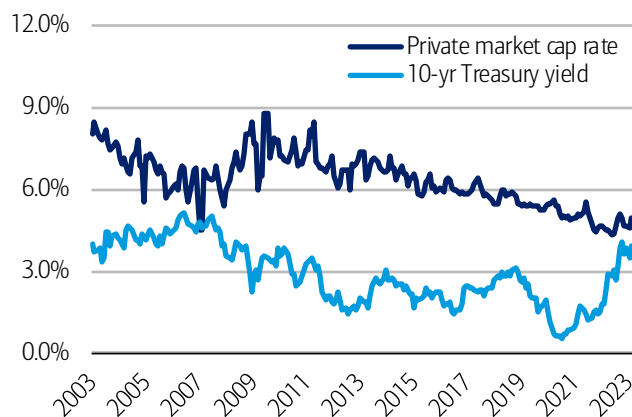


Source: RCA analytics, Bloomberg

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Exhibit 33: 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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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.

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