Capital Accepting Lower Returns for Multifamily's Other Benefits

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Q2's one-year unlevered return for institutionally-owned multifamily assets was a moderate 5.78%, according to the NCREIF Property Index (NPI), down slightly from Q1's 5.90%.

The quarterly return of 1.42% was on par with the prior two quarters but under most previous quarters in recent years. Over the post-recession period, the appreciation return has fallen considerable, but income returns have been relatively stable.

Q2's mediocre return stands somewhat at odds with relatively healthy property fundamentals and sustained peak investment levels. The institutional bias of the NCREIF database and the current underperformance of higher-quality assets overall partly explains this. The seeming contradiction also provides further evidence that capital is willing to accept lower returns for the other investment benefits of multifamily.

Garden Achieves One-Year Return of 8.25%

Garden assets had higher returns than high-rise assets, although the differential between the two categories narrowed. Garden's one-year return was 8.25%, nearly double the 4.61% for high-rise assets.

The return for garden assets was down from the prior quarter (8.60%) and prior year (9.60%). High-rise returns have held virtually stable over the past year.

In Q2, the main variation between the two subtypes was appreciation: garden was 3.25% vs. high-rise's 0.60%. Income returns were closer at 4.87% and 3.99%, respectively.

Phoenix Rises to Top Position

Among 27 major metros tracked, Phoenix, Tampa and the Inland Empire had the best one-year total returns. These are all markets that recovered later from the last recession, have somewhat constrained construction pipelines and are experiencing very healthy demand. Chicago (2.17%), New York (2.80%) and Portland (3.09%) had the weakest returns.

Appreciation returns had the largest variation and ranged from 9.15% for Phoenix to -1.86% for Chicago. The income-return range was narrower— from Orlando's 5.63% to New York's 3.57%.

The Mountain division had the best one-year return for both garden and high-rise assets. The Pacific and Southeast (largely Georgia, Florida & Tennessee) had the next best returns of NPI's eight divisions.

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