



DISPROPORTIONATE ASSET VALUE DROPS

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Apartments have seen a massive drop in value (not new news), but the value drops have not been even across asset quality. In our analysis the asset value drops from peak pricing are the following:

- **Class A: 30% - 60%**
- **Class B: 40% - 70%**
- **Class C: 50% - 90%**

The biggest reason for the drops is the **increase in interest rates**, which have caused the **expansion of cap rates** but below are several other reasons for the changes:

- Economic Outlook
- Poor Management
- Lower Revenue:
 - Higher Vacancy
 - Concessions
 - Lower Rents
 - Increased Bad Debt
- Increased Costs
 - Wages
 - Taxes
 - Materials
 - **Insurance**

These factors are not the only factors and are not spread evenly across properties and operators, but we see the biggest value decline in the C space, resulting in the majority of class C apartments being underwater.

Disproportionate Losses In Class C Multifamily From Peak			
Class B+ / A-		Class C	
Units	100	Units	100
Sale Price at Peak	48,000,000	Sale Price at Peak	20,571,429
Price Per Unit	\$480,000	Price Per Unit	\$205,714
Cap Rate at Sale	3.0%	Cap Rate at Sale	3.5%
Revenue at Sale	2,400,000	Revenue at Sale	1,440,000
Expenses	960,000	Expenses	720,000
NOI At Sale	1,440,000	NOI At Sale	720,000
Economic Outlook	Strong	Economic Outlook	Strong
New Revenue	2,640,000 10.0%	New Revenue	1,224,000 -15%
New Expenses	1,104,000 15.0%	New Expenses	828,000 15%
New NOI	1,536,000 6.7%	New NOI	396,000 -45.0%
New Cap Rate	6.5% 350 bp Increase	New Cap Rate	8.0% 450 bp Increase
New Value	23,630,769 -50.8%	New Value	4,950,000 -75.9%
Price Per Unit	236,308	Price Per Unit	49,500
Economic Outlook	Soft	Economic Outlook	Weak

Analysis Notes:

- This analysis uses generalized numbers based on properties we have seen that have been marketed but in large part did not sell.
- Some properties, particularly coastal properties, have seen larger increases in expenses due to insurance. We have observed multiple properties with negative or near negative NOIs.
- There exists a bid ask spread between buyers and lenders holding the loans on properties (this used to be a bid ask spread between buyers and sellers before seller equity was wiped out). The cap rates in the analysis reflects the cap rates we believe to exist if the assets were selling at true market values.
- The drop in values are reflective of peak values seen in 2021 and 2022.