

MARKET REPORT

Multifamily

Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

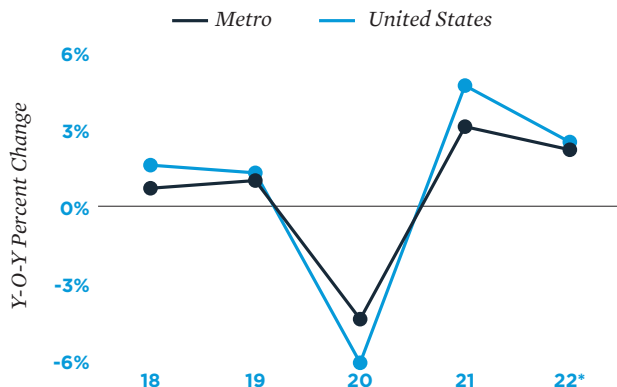
Importance in U.S. Supply Chain Sparks Near-Nation Leading Vacancy Retreat

Mild development amid absorption boom aids outlook.

Demand is surging in Louisville, and the performance of higher-quality assets reflects this. Few deliveries of note have arrived in the core in recent years, and the appeal of housing in urban areas returned in great magnitude during 2021. The result is a 390-basis-point reduction in Class A vacancy in Central Louisville between when the pandemic began and March 2022, and year-over-year Class A rent growth of nearly 11 percent last year. At the same time, the return of workers to offices along Interstate 264 has aided higher-tier demand in Northeastern locales, resulting in a 170-basis-point drop to Class A rates here in 2021. Current conditions warrant an increase in supply; however, development is slated to ease in the coming quarters.

Demand for lower-cost rentals widespread. With proximity to the largest UPS cargo hub in the world and the Ford Motor Plant, Southeast Louisville is a preferred destination for renters. Both Class B and Class C vacancy fell at least 220 basis points here last year to 2.1 percent and 2.2 percent, respectively. Limited availability has resulted in spillover demand into lower-cost submarkets like Southwest and Northwest Louisville, both of which reported at least a 70-basis-point drop in vacancy in the first quarter of this year. Record low vacancy across these submarkets is poised to persist as headcounts in the retail trade, transportation and utilities sector are slated to reach a new high this year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook



**15,000
JOBS**

will be created

EMPLOYMENT:

Labor market growth of 2.2 percent puts the metro roughly 10,000 jobs ahead of the pre-pandemic employment count. Hiring in the trade, transportation and utilities sector allows the market to achieve a rate of job creation higher than the 2019 level.



**2,000
UNITS**

will be completed

CONSTRUCTION:

Development eases moderately from the 2020 and 2021 figures, but still surpasses the five-year trailing average by nearly 100 units. South Jefferson County and Southern Indiana are the locales with the most rentals slated for 2022 arrival.



**90
BASIS POINT**

decrease in vacancy

VACANCY:

Vacancy is set to tighten to 2.3 percent this year — the lowest level since at least 2000. The 90-basis-point drop is the third-largest reduction forecast for major U.S. metros in 2022, leaving Louisville with just over 2,000 available units by year-end.



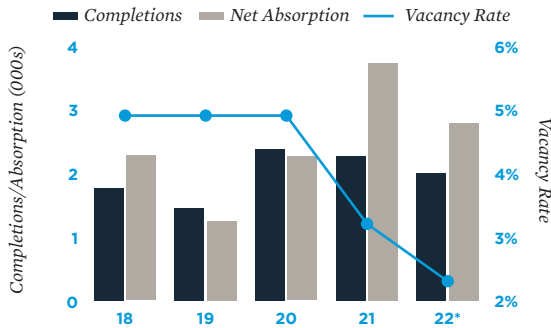
**6.8%
INCREASE**

in effective rent

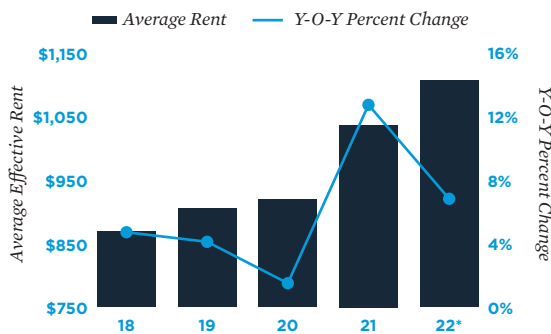
RENT:

After reporting the largest gain on record last year at 12.7 percent, the average effective rate is set to climb again in 2022. The rise to \$1,106 per month represents the second-quickest rate of rent growth in the metro, dating back to at least 2000.

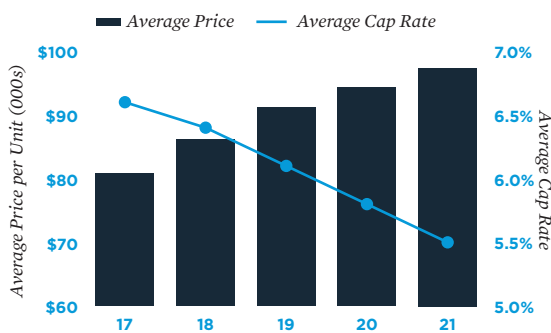
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

1,968 units completed

- The neighborhoods and submarkets proximate to the core, including Southern Indiana and East End, recorded the majority of new development during the 12-month period ended in March.
- Developers have 3,500 units under construction in the metro, with scheduled arrival dates well into 2023 for some of the properties.



VACANCY

240 basis point decrease in vacancy Y-O-Y

- First quarter data shows tightening in all six of the metro's submarkets, with Central and Southwest Louisville both reporting vacancy compression of at least 80 basis points in the first quarter of 2022.
- Growth in the shipping and logistics job segment has helped bolster rental demand, easing metrowide vacancy to 2.6 percent.



RENT

12.7% increase in the average effective rent Y-O-Y

- Dwindling vacancy and the corresponding competition for available units raised the metrowide average rental payment to \$1,055 per month at the end of the first quarter of 2022.
- Class A rents grew by 12.4 percent last year, with high-end properties in South Central Louisville reporting rent growth over 16 percent.

Investment Highlights

- Transaction velocity climbed last year across classes. Increased buyer interest amid low interest rates resulted in sales pricing growing 3 percent to just over \$97,000 per unit and cap rate compression of 30 basis points. Despite the retreating cap rates, the metro's 5.5 percent average yield is 60 basis points higher than the national average, contributing to the growing number of out-of-state investors in the metro.
- Improving fundamentals sparked a record quarter for sales volume in the final period of 2021. South Jefferson County recorded the most transactions, but downtown-adjacent neighborhoods like Portland, East End and St. Matthews also reported elevated trading activity.
- Class A properties are changing hands often in South Jefferson County, and some similar deals are closing Downtown and in East End. Cap rates on these trades often fall in the low-4 percent range.
- Investors targeting assets priced below the market average are pursuing Class B/C assets in South Jefferson County and the Portland-Shawnee area. Returns for these assets can be as high as 7 percent, but usually fall in the 5 percent to 6 percent range.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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