

MARKET REPORT

Multifamily
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

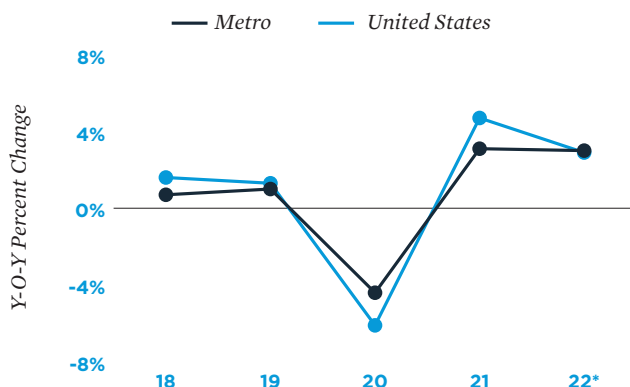
3Q/22

Renters Display a Preference for High-Tier Units, a Promising Sign for New Deliveries

Elevated demand drives record rent gains. Rapid household expansion throughout 2021 placed pressure on Louisville's apartment inventory. Vacancy has fallen accordingly, with the second quarter noting the second-lowest rate in the metro since at least 2000 at 3.2 percent. This lifted Louisville's average effective rent by a double-digit percentage during the past year ended in June, a substantially stronger pace than the 2.1 percent annual average from 2001 through 2020. Rapidly rising rents were noted across the apartment spectrum as all three property classes saw their respective mean effective rates increase by at least 13.0 percent. Rent growth in the market is expected to continue at an above-average pace this year, as vacancy holds well below the long-term mean.

Tight Class A vacancy warrants construction. Over the trailing 12 months ended in June, Class A vacancy in Louisville fell by 80 basis points to 4.0 percent. This sector has seen a sharp compression in availability during the last two years of 310 basis points. The Central and Northeast Louisville submarkets are two examples of this tightening, where availability over the trailing eight quarters dropped 410 and 380 basis points, respectively. Tight vacancy in these areas indicates that supply additions are warranted; however, both submarkets have minimal active pipelines, and completions expected in the near term as of August are limited. Few deliveries and high demand in these locales have the potential to spark a wave of project proposals and groundbreaking in the coming quarters.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook



**20,000
JOBS**

will be created

EMPLOYMENT:

Professional and business services positions accounted for around 75 percent of the 8,500 jobs added in the first half of this year. Overall, total employment will expand by 3.0 percent annually at year-end.



**2,200
UNITS**

will be completed

CONSTRUCTION:

Deliveries this year will expand the metro's inventory by 2.4 percent for a second consecutive year. Southwest and Northwest Louisville are slated to receive the greatest number of second half supply additions.



**60
BASIS POINT**

increase in vacancy

VACANCY:

Vacancy will tick up to 3.8 percent, as completions surpass the 2,000-unit threshold for a third consecutive year. Still, availability will be 110 basis points below the year-end 2019 rate.



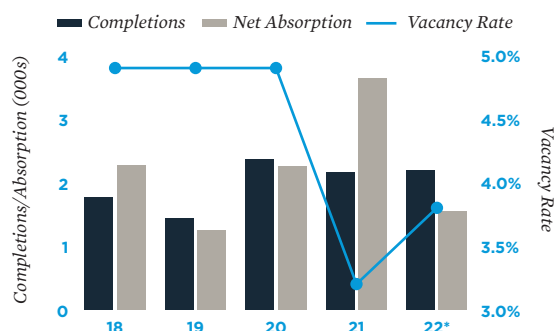
**8.2%
INCREASE**

in effective rent

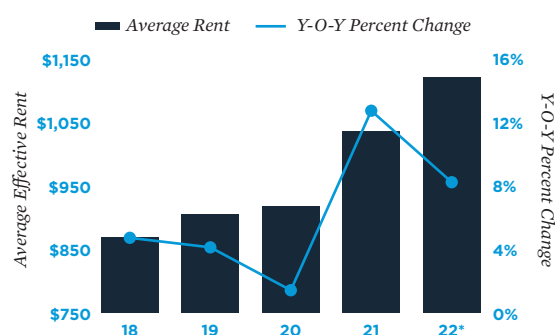
RENT:

The metro's average effective rent will finish 2022 at \$1,120 per month. Upward rent momentum will continue through the year, but will fall short of last year's 12.7 percent gain as vacancy climbs moderately.

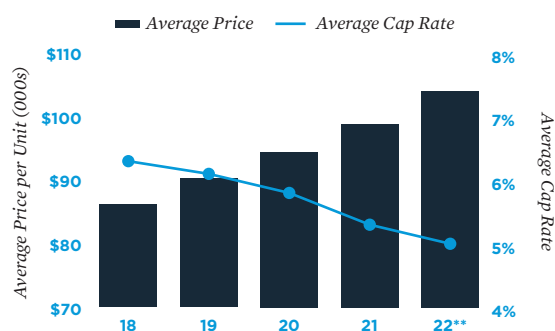
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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2Q 2022 - 12-Month Period



CONSTRUCTION

1,755 units completed

- Inventory expanded by 1.9 percent in the trailing 12 months ended in June, the smallest increase among equivalent spans since 2019.
- Northeast and Northwest Louisville received the bulk of completions in the yearlong period. Both submarkets noted 4.4 percent local stock expansion as most projects were larger in scale, featuring over 200 units.



VACANCY

110 basis point decrease in vacancy Y-O-Y

- After reaching a record low in March 2022, vacancy rose quarterly to 3.2 percent, but remained 170 basis points below the 2019 year-end level.
- Despite greater exposure to new supply pressure, Class A properties noted the least amount of quarterly movement from April through June 2022, as availability rose across all three property tiers.



RENT

14.7% increase in the average effective rent Y-O-Y

- Louisville maintains the lowest average effective rent among major U.S. markets, ending June at \$1,097 per month.
- All six of the metro's submarkets recorded annual rent growth over 11.0 percent. Northeast Louisville logged the greatest gain at 18.2 percent, and the mean effective rent here remained the highest at \$1,286 per month.

Investment Highlights

- Louisville's transaction velocity in the yearlong interval ended in June rose by 60 percent over the previous span. This increase was driven by 2022's first quarter having the highest number of trades in any single three-month period on record. Strong deal flow in the first half signals buyer demand may persist at healthy levels, even as interest rates rise.
- Average pricing in Louisville rose roughly 8 percent to \$104,000 per unit over the past year. Still, the metro is home to the fourth-lowest mean price point nationally. Institutions may be drawn as entry costs represent a notable discount to most other major markets. Relative to national averages, the metro's mean cap rate of 5 percent is 30 basis points higher, while its average price is around \$100,000 lower per unit.
- Institutional buyers targeting upper-and mid-tier buildings are most active in Northeast Louisville, specifically the East End. The area's 3.4 percent Class A and 2.2 percent Class B vacancy rates, coupled with market-leading rent growth, represent the primary investor attractants.
- Class A vacancy is down the most year-over-year in Central Louisville. Investors may show more interest here as residents return to urban lifestyles.

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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