

MARKET REPORT

Multifamily
Milwaukee Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

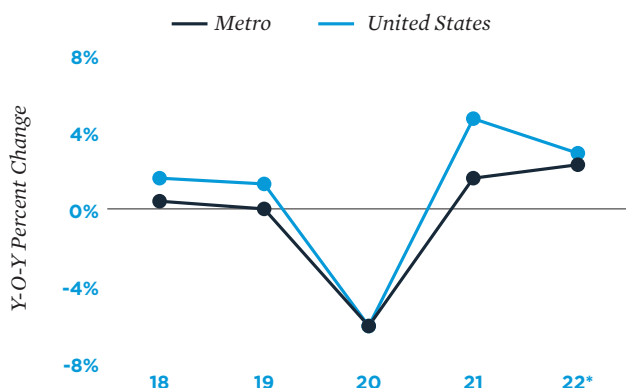
3Q/22

Supply Additions Tumble, Fortifying Demand for Rentals Amid Homeownership Barriers

Metro fundamentals warrant additional construction. The expected number of new multifamily units for 2022 is set to be the lowest since 2014 at 1,700 new doors. This decrease in deliveries will support continued demand as accelerated job creation boosts Milwaukee's renter pool. Having a Class A vacancy rate of 2.7 percent in the second quarter, its lowest point since 2013 and the country's second lowest among major markets, this tightness will allow annual rent growth to more than double the historic average. Additionally, historically low vacancy presents heightened demand being countered by over 3,600 units in the current pipeline, which should be well received via quick lease-up.

Housing prices considerably outpace rental growth. Milwaukee's average effective rent increased 12 percent year-over-year in June, yet single-family home prices rose even faster. Rising mortgage rates are magnifying price increases in the housing sector, resulting in a significant cost burden to potential buyers. The affordability gap, the difference between a monthly mortgage payment on a median priced home and the average rent obligation, stretched to about \$1,000 in the second quarter, a nearly 60 percent increase since 2018. With homeownership out of reach for a growing share of the populace, rentals will generate greater interest from higher-income earners. This trend already appears to be underway, as half of all submarkets experienced triple-digit basis point vacancy compression year-over-year, with six noting double-digit rent hikes in the second quarter.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook



**19,000
JOBS**
will be created

EMPLOYMENT:

The professional and business services, health care, and education sectors will continue to lead employment growth during 2022, supporting a 2.3 percent annual rate of job creation. During the first half, these segments were responsible for 5,300 new roles.



**1,700
UNITS**
will be completed

CONSTRUCTION:

Completions are anticipated to slow again in 2022, dropping below 2,000 units for the second year in a row. With only 800 rentals finished through June, this was the metro's slowest first half since 2014.



**50
BASIS POINT**
increase in vacancy

VACANCY:

The lack of near-term supply additions has left renters with select housing options, keeping vacancy tight. Following an all-time low of 1.9 percent in the first quarter, vacancy will rise slightly to 2.6 percent by year-end.

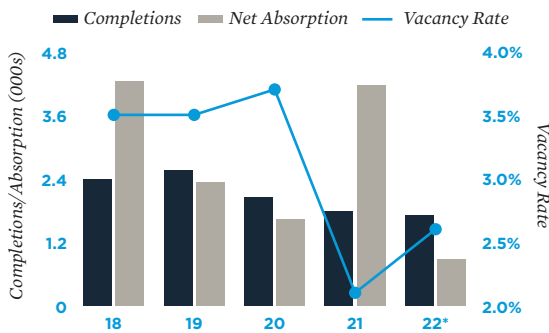


**8.3%
INCREASE**
in effective rent

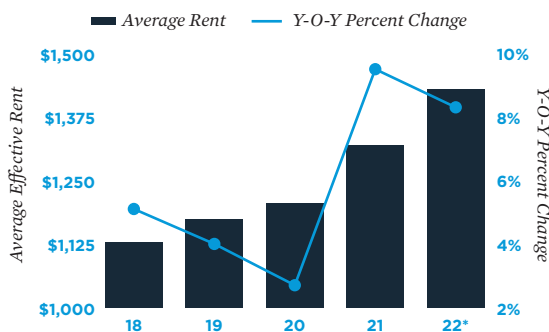
RENT:

Greater demand for metro rentals over the past few years has warranted a heightened pace of rent growth. After the average effective rate grew by nearly 10 percent last year, the measure is expected to reach \$1,430 per month by the end of 2022.

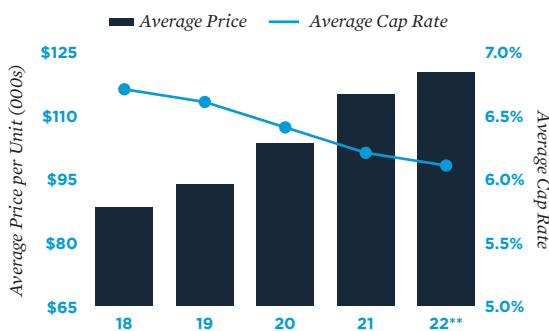
Supply and Demand



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 1,393 units completed

- Deliveries fell by nearly 30 percent over the 12 months ending in June, as less than 500 units were completed in each of the past four quarters.
- Racine’s rental inventory grew by 2.3 percent over the past year, the largest stock increase among submarkets. Waukesha County recorded the highest number of supply additions at 440 rentals.

VACANCY 100 basis point decrease in vacancy Y-O-Y

- Net absorption was negative in the second quarter for the first time since 2020. This was largely due to a slower pace of household creation amid inflation and economic headwinds.
- Class A and B vacancy dropped by 170 and 130 basis points year-over-year, respectively, the result of spillover demand from the single-family market.

RENT 12.0% increase in the average effective rent Y-O-Y

- Moderate inventory growth and amplified renter demand drove the average effective rent up to \$1,407 per month.
- Infrastructure improvements and local attractions have boosted the appeal of Franklin-Oak Creek and South Side-West Allis-Greenfield. Each locale posted 16 percent-plus rent growth, tops among submarkets.

Investment Highlights

- Substantial transaction activity continued over the 12-month period ending in June, as the number of assets changing hands grew over 60 percent compared to 2019 deal flow. Furthermore, sales volume expanded during the recent 12-month period, rising over 85 percent as the average per unit price breached \$120,000, up 10 percent from the year prior.
- Lower-tier assets accounted for over 70 percent of all transactions recorded during the initial six months of 2022, as private buyers continue to dominate the investment market in Milwaukee. However, more institutional investors could tune in, as Class A and B vacancy rates are near historic lows, which has facilitated robust rent growth. Demand for upper- and mid-tier rentals is not set to retreat in the near term, with homeownership barriers inhibiting the millennial cohort’s ability and willingness to purchase a house.
- Institutional investors active in the market are drawn to its comparatively higher cap rates, and the ability to maintain relatively stable vacancy during periods of economic headwinds. Over the past year, Milwaukee rental assets traded at a 6.4 percent average return, a yield at least 100 basis points above most coastal and Sun Belt markets.