

MARKET REPORT

Multifamily
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

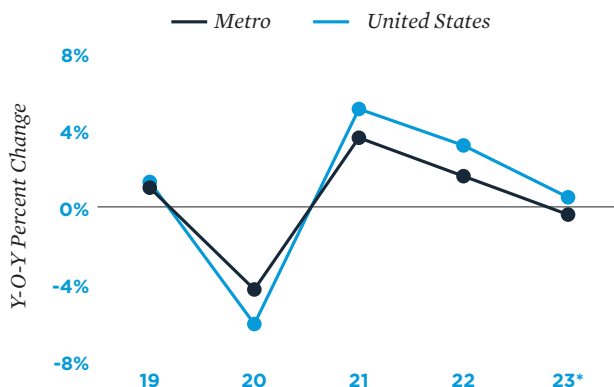
2Q/23

Suburban Rentals Set for Favorable Year As Budget-Conscious Renter Pool Grows

New units outpace renter demand. Deliveries in Louisville will surpass the 2,000-unit mark for the sixth time in the last seven years. Despite supply additions placing upward pressure on vacancy in 2023, the metro will still record a 16th consecutive year of positive net absorption, allowing total occupied stock to reach a new record high. Sustained demand for rentals is likely to carry on long-term as Louisville is expected to log consistent population growth across the next five years. However, some employment sectors may face near-term headwinds caused by a challenged hiring environment amid broad macroeconomic uncertainty entering the year. Inflationary pressures could dampen renter demand for high-tier units as consumers shift focus to more budget-friendly apartment options.

Outer submarkets poised for growth. Of Louisville's six submarkets, four recorded positive net absorption in the first quarter of 2023. Northwest Louisville accounted for the largest volume of newly-occupied units as the mean effective rent here was the lowest in the metro, drawing budget-conscious renters. Suburban cities in Indiana may increasingly attract households looking to reduce monthly payments. Additionally, the city of New Albany in southern Indiana has gained commitments from tech firms, adding high-paying jobs long-term. In late 2022, RxLightning announced it would add 175 new jobs over the next few years, and Vsimple will create 70 jobs by 2025. Fewer than 200 apartment units were underway in the city as of April 2023, positioning the area for future vacancy compression.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**3,000
JOBS**
will be lost

EMPLOYMENT:

Louisville's job base will decline this year by 0.4 percent as hiring slows and some industries reduce staff counts amid macroeconomic concerns. Still, total employment will remain approximately in-line with the pre-pandemic peak recorded in February 2020.



**2,400
UNITS**
will be completed

CONSTRUCTION:

Inventory expands by more than 2 percent for the fourth consecutive year. At least three projects coming online in 2023 are comprised of more than 200 units. Larger builds are mostly concentrated in Northwest and South Central Louisville.



**100
BASIS POINT**
increase in vacancy

VACANCY:

Availability will reach its highest year-end rate since the Global Financial Crisis, ending 2023 at 6.1 percent. While net absorption will remain positive, the number of newly-occupied units will fall below metro supply additions.

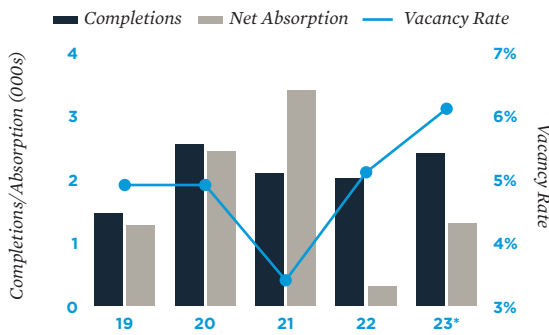


**2.6%
INCREASE**
in effective rent

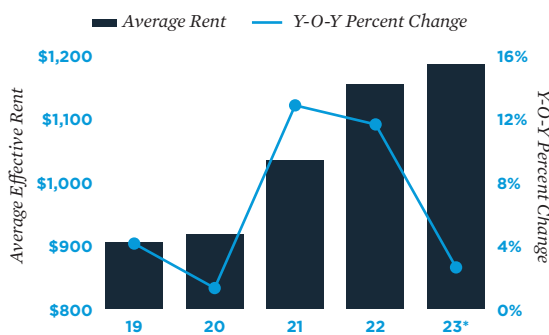
RENT:

The average effective rent will reach \$1,184 per month in 2023. The rate has risen by more than 30 percent since 2019, but this year will note a more moderate gain compared to the year-over-year double-digit increases during the last two years.

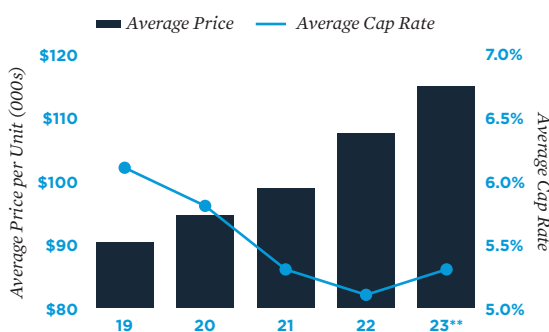
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

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

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Price: \$250

1Q 2023 - 12-Month Period

CONSTRUCTION

2,030 units completed

- Inventory expanded by 2.2 percent in the trailing 12 months ended in March. The first quarter of 2023 received about one-sixth of these new units as over 300 doors opened up.
- Northwest Louisville received the largest volume of deliveries in the year-long interval as more than 770 units came online.

VACANCY

250 basis point increase in vacancy Y-O-Y

- Vacancy stayed consistent on a quarterly basis at 5.1 percent in March. This is the highest rate since the first half of 2020.
- South Central Louisville noted the only year-over-year vacancy increase below 200 basis points in the first quarter. Availability here rose by 190 basis points to 4.2 percent.

RENT

10.1% increase in the average effective rent Y-O-Y

- The average effective rent rose to \$1,158 per month in March, a continuation of double-digit year-over-year rent gains seen in 2022. Louisville began the year with the lowest mean rent among all major U.S. markets.
- Northwest Louisville was the only submarket with an average effective rent below \$1,000 per month at the onset of 2023.

Investment Highlights

- Transaction velocity in Louisville rose nearly 40 percent in 2022, surpassing the record high number of trades recorded in 2021. Deal flow, however, began to slow in the fourth quarter of last year amid persistent interest rate hikes. A tightened lending environment, following the bank failures earlier this year, and macroeconomic uncertainty appears to be carrying this reduced activity into the first half of 2023.
- South Central Louisville recorded the lowest vacancy rate in the metro in the first quarter, drawing buyers looking for stabilized assets with consistent rent growth. High-tier properties may also draw interest to downtown-adjacent areas here. In March 2023, South Central Louisville noted the lowest Class A vacancy rate in the metro.
- Investors targeting new builds could focus on the Northeast Louisville submarket as stock here has expanded by over 20 percent since 2018. The area also maintains the highest average effective rent in the market, with rates increasing by over 11 percent last year. Assets in the East End with over 200 units were heavily sought after last year, a trend that may continue in 2023 as the area maintains the highest Class A mean effective rent in Louisville.

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.