

MARKET REPORT

Multifamily
Louisville Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

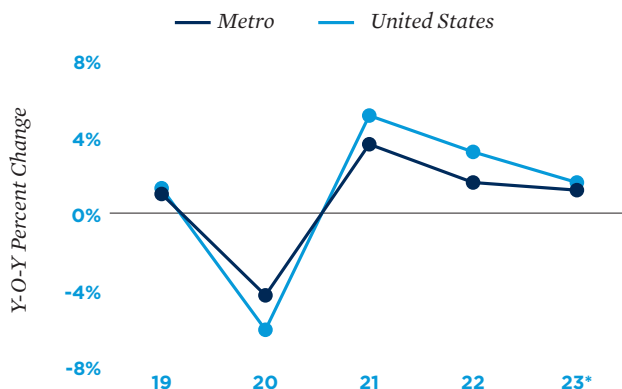
3Q/23

New Construction Presents Some Near-Term Headwinds, Lessened by Long-Run Prospects

The metro is positioned for stable growth. While Louisville does not expect a large influx of in-migration, the metro will welcome nearly 6,000 new residents on net in the next five years, surpassing the preceding half-decade addition. This slow but steady gain of residents will be a long-term supplement to multifamily demand. Net absorption has remained consistently positive for the last 15 years, a trend that will continue in 2023. Growing demand is reflected in total occupied stock reaching a new record high this year. Continued corporate investment will also backstop demand, such as Congo LLC's expansion announced in April. The employee service company will undertake an \$8.25 million expansion to its Louisville headquarters, creating 500 high-wage jobs over the next 10 years.

Construction has a varying impact. In the second quarter of 2023, Class A vacancy in Louisville was just below the segment's 23-year average at 6.2 percent. New supply may place some upward pressure on vacancy in these properties, but some areas appear well-equipped to absorb the impact of construction. Northwest Louisville is slated to receive the greatest volume of new units; however, the submarket is also home to the only sub-4 percent Class A vacancy rate in the metro. Demand for upper-tier space here may mitigate some headwinds. Southeast Louisville, on the other hand, may feel a greater impact from nearly 300 units of new supply as available Class A space reached 7.7 percent locally in June.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook



**8,000
JOBS**

will be created

EMPLOYMENT:

In Louisville, total employment will expand by 1.2 percent in 2023. At the end of July, the unemployment rate was at 3.3 percent, a slight uptick from the previous month. Positions created this year will slightly trail 2022's total of 10,700 new jobs.



**1,200
UNITS**

will be completed

CONSTRUCTION:

Deliveries this year will be at their lowest level since 2016, and inventory will expand by just 1.2 percent. Most new units are slated to come online outside of downtown. Northwest Louisville expects over 400 rentals.



**70
BASIS POINT**

increase in vacancy

VACANCY:

Metro vacancy will inch up to 5.8 percent. Supply pressure will begin to ease as fewer projects exit the proposal phase, but completions will still outpace net absorption, contributing to a rise in vacancy.



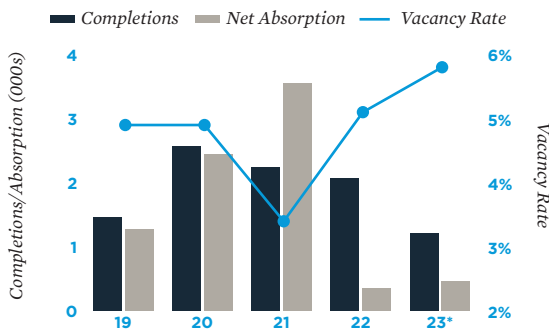
**3.6%
INCREASE**

in effective rent

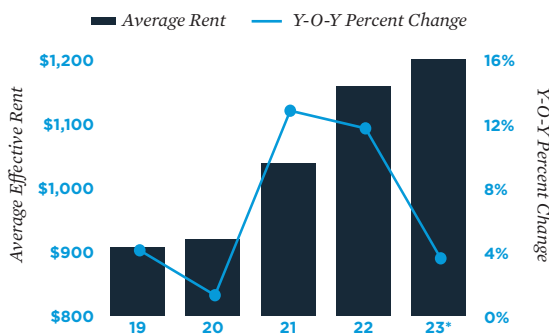
RENT:

The average effective rent in Louisville will inch up to \$1,200 per month, marking the metro's 12th consecutive year of rent gains. By the end of 2023, the metric will sit 32 percent higher than the 2019 mark.

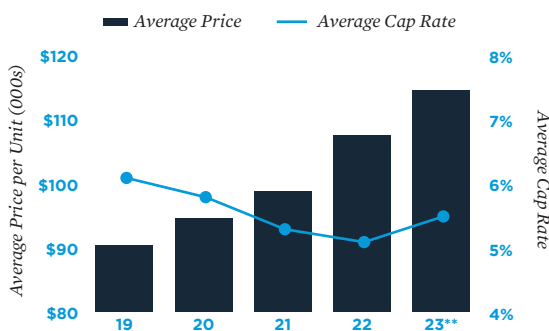
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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Price: \$250

2Q 2023 - 12-Month Period

CONSTRUCTION

1,843 units completed

- Northwest Louisville received the greatest volume of supply in the trailing 12 months ended in June. The submarket welcomed nearly 700 new units, expanding local inventory by 5.4 percent.
- Overall stock in Louisville grew by 1.9 percent. The majority of builds came online in the third and fourth quarters of 2022.

VACANCY

230 basis point increase in vacancy Y-O-Y

- Net absorption dipped into the red during the second quarter, pushing vacancy up to 5.5 percent in June.
- All six of Louisville's submarkets logged vacancy increases over the trailing 12 months. Northwest and South Central Louisville maintained the lowest vacancy rates in June, with both submarkets at 4.5 percent.

RENT

8.1% increase in the average effective rent Y-O-Y

- The average effective rent elevated to \$1,191 per month in the second quarter. Class B properties noted the greatest increase at 8.6 percent year-over-year, pushing the mean rate in the property tier up to \$1,145 per month.
- South Central Louisville logged a 10.3 percent surge in the local average effective rent, pushing the metric here up to \$1,070 per month.

Investment Highlights

- In the first two quarters of the year, transactions in Louisville fell from record pandemic-era highs, returning to more historically consistent levels. As a result of higher-than-average deal flow in 2022, the mean sale price per unit surpassed \$100,000 for the first time on record last year. An elevated entry cost and higher borrowing requirements are contributing to hindered transaction velocity in 2023.
- Sales generally took place in close-in Kentucky submarkets. Outside of the urban core, assets in Crescent Hill and South Jefferson County traded most frequently. Trades in South Jefferson County were more commonly post-2000 assets that were part of bulk or portfolio sales, targeted by institutional buyers. Most of these properties sold well-above the metro mean, reaching in the mid- to high-\$100,000 per unit band.
- In Indiana, properties in Clarksville and New Albany traded hands most frequently. Companies like Vsimple and Cimtech have announced moves to or expansions in the area, a strong signal for long-term growth. Additional high-paying positions in the area may draw interest in local Class A assets from institutional buyers.

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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