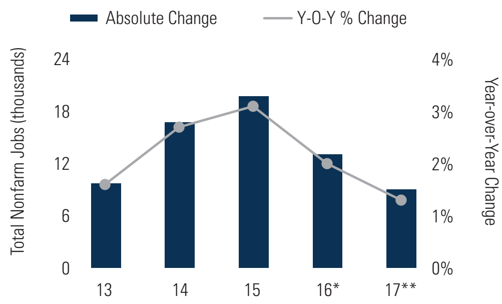
IPA

Large Supply Influx in Louisville Pressuring Vacancy Rate, Trimming Rent Growth

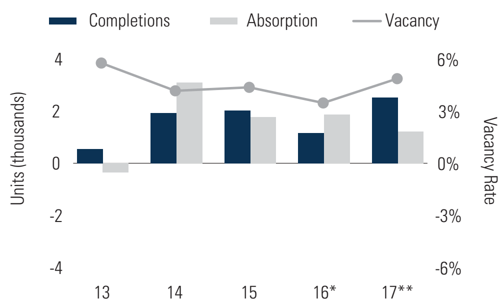
Demand growth will ease as pipeline empties. A year of transition is in store in the Louisville market during 2017. Developers will step up efforts and raise completions to a cycle high this year, coinciding with a projected slowdown in hiring. A substantial rise in the vacancy rate is likely metrowide, one year after a 16-year low was recorded, and rent growth will moderate from the nearly 6 percent pace recorded during 2016. Projects comprising more than 1,500 units are on tap in Central Louisville and the northeastern section of the city. The vacancy rate in these areas ended last year in the low-4 percent range but appears likely to rise notably during 2017, potentially prompting the more frequent use of concessions. The coming year will test the limits of demand for upper-tier rental housing in the urban core.

Local investors shifting focus, expanding searches to other neighborhoods. Although the Louisville market may have peaked last year, the still-strong performance outlook and attractive yields should maintain buyer interest. Local investors who are intimately familiar with the nuances of the market will adjust search criteria, with some favoring the suburbs over downtown Louisville and popular East End neighborhoods. Areas with minimal near-term deliveries and more seasoned rental stock could present opportunities for investors in Class B/C complexes, where strong workforce housing demand is maintaining vacancy of less than 4 percent. These assets will trade at cap rates from the mid-6 percent to the 8 percent range, depending on location and access to transportation. Out-of-state investors are also active in the metro, drawn by an average cap rate of 7 percent. Investors seeking to trade out of more costly markets to capture potentially higher yields and add geographic diversification to their portfolios will continue to scour the metro. Assets in the East End or adjacent to major employers including hospitals and universities will elicit interest.

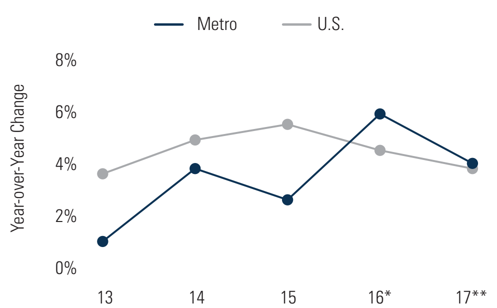
Employment Trends



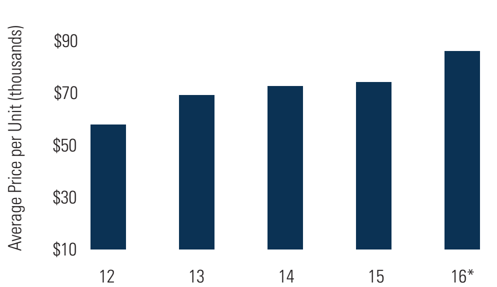
Supply and Demand



Effective Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

2017 Market Forecast

NMI Rank 45, down 7 places — A large increase in vacancy prompted the decrease in Louisville's ranking this year.

Employment up 1.3% — Employers will add 9,000 workers during 2017. Expansions in healthcare and additions to retail staffing underpinned a gain of 13,000 jobs last year.

Construction 2,500 units — The pipeline contains 2,500 apartments scheduled for delivery throughout 2017, up from the 1,200 rentals delivered in 2016.

Vacancy up 140 bps — Higher completions propel a jump in the vacancy rate to 4.9 percent in 2017. A decrease of 90 basis points to a historical low of 3.5 percent occurred last year.

Rent up 4.0% — This year's projected gain raises the average effective rent to $858 per month but trails the increase posted last year of 5.9 percent.

Investment — Several projects will open during 2017, creating an opportunity for out-of-area investors seeking to geographically diversify portfolios.