

Louisville 1Q 2023 Multifamily Market Report

Welcome to the Louisville Multifamily Market Report. This comprehensive analysis provides valuable insights into the multifamily sector's performance and emerging trends. Our data-driven approach equips investors and stakeholders with the knowledge to make informed decisions and maintain a competitive edge. We invite you to explore this resource and leverage its findings to refine your investment strategy.

Supply and Demand

Completions in 1Q 2023

In the first quarter of 2023, the Louisville/Jefferson County multifamily market added 333 units. The Northwest Louisville submarket emerged as the primary recipient, accounting for 114 units of this new supply.

Annual Supply Trends

In 2022, a total of 2,001 apartment units were introduced to the market, expanding the local inventory by 2.1%. The Northwest Louisville submarket stood out as the focal point of growth, boasting the delivery of over 732 units during the calendar year.

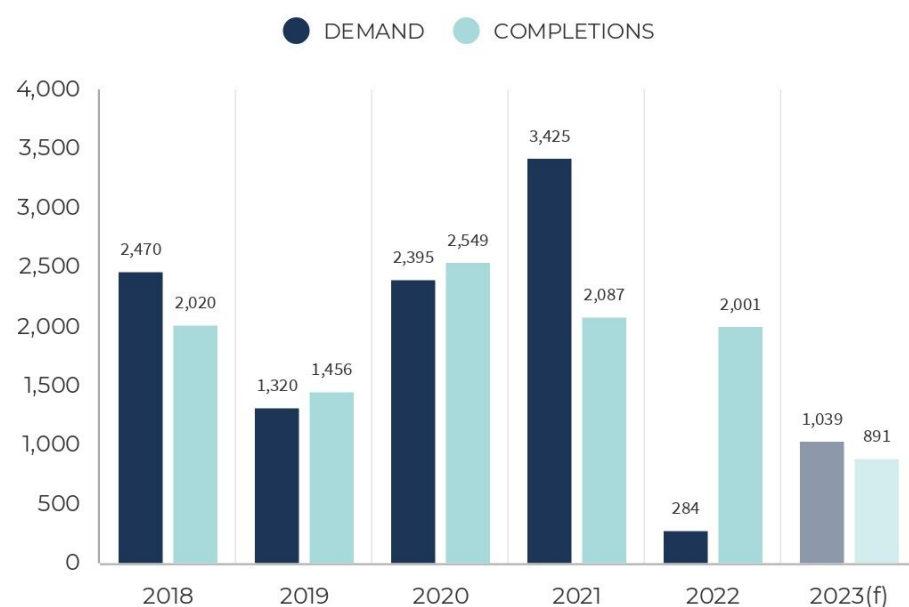
Units Under Construction

As 2022 concluded, a substantial figure of 1,576 housing units were in the midst of construction, with an estimated 891 projected to be completed in 2023. The first quarter of 2023 marked the successful delivery of 333 units. Notably, the Southwest Louisville submarket is projected to observe the most significant growth, with over 597 units anticipated to be completed in 2023.

Annual Absorption Trends

the first quarter of 2023 marked a unique occurrence as housing demand turned negative for the first time in five years. Yet, the Northwest Louisville submarket proved to be an exception, demonstrating robust demand with an annual absorption of 429 units. Additionally, positive quarterly absorption rates were witnessed in four out of the six submarkets, suggesting resilience within these areas amidst an overall declining demand.

ANNUAL DEMAND VS COMPLETIONS



Occupancy and Rent Trends

▼ Occupancy Trends

The Louisville apartment market is currently witnessing a surge in apartment construction, with a count of approximately 1,519 units under active development that is putting downward pressure on occupancy rates. In an examination of the past five years, occupancy levels within the metro have varied between 94.5% and 97.4%, with an average occupancy rate of 95.2% being recorded throughout this period. However, the past year saw a decline of 250 basis points in occupancy, bringing it down to 94.9% in the first quarter of 2023.

When assessing the product classes within the Louisville market, the first quarter of 2023 revealed that Class A units recorded an occupancy rate of 93.3%, while Class B units came in slightly higher at 94.8%. Class C units outperformed both with the highest occupancy rate at 96.7%. Historically, over the past five years, Class C units have consistently exhibited the highest occupancy levels.

▼ Rental Trends

The rate of rent growth in the Louisville apartment market is indeed slowing, however, the deceleration is notably less pronounced compared to the U.S. overall and other markets, particularly those in the Sun Belt region. As of the first quarter in 2023, the average rental rates in the metro stood at \$1,158, recording a an annual growth rate of 7.2%, placing it at number 18 in the South region and number 31 on a national scale. The fluctuations in rent growth for new leases have varied over the past five years, spanning from a minimal decrease of 0.1% to a significant increase of 12.0%.

Consistent with previous trends, Class A units exhibited the most substantial rent performance among all asset classes, registering an annual effective rent change of 8.5%. Class B units followed with a 7.4% increase, and Class C units saw a moderate growth of 4.9%.

RENT AND OCCUPANCY TRENDS



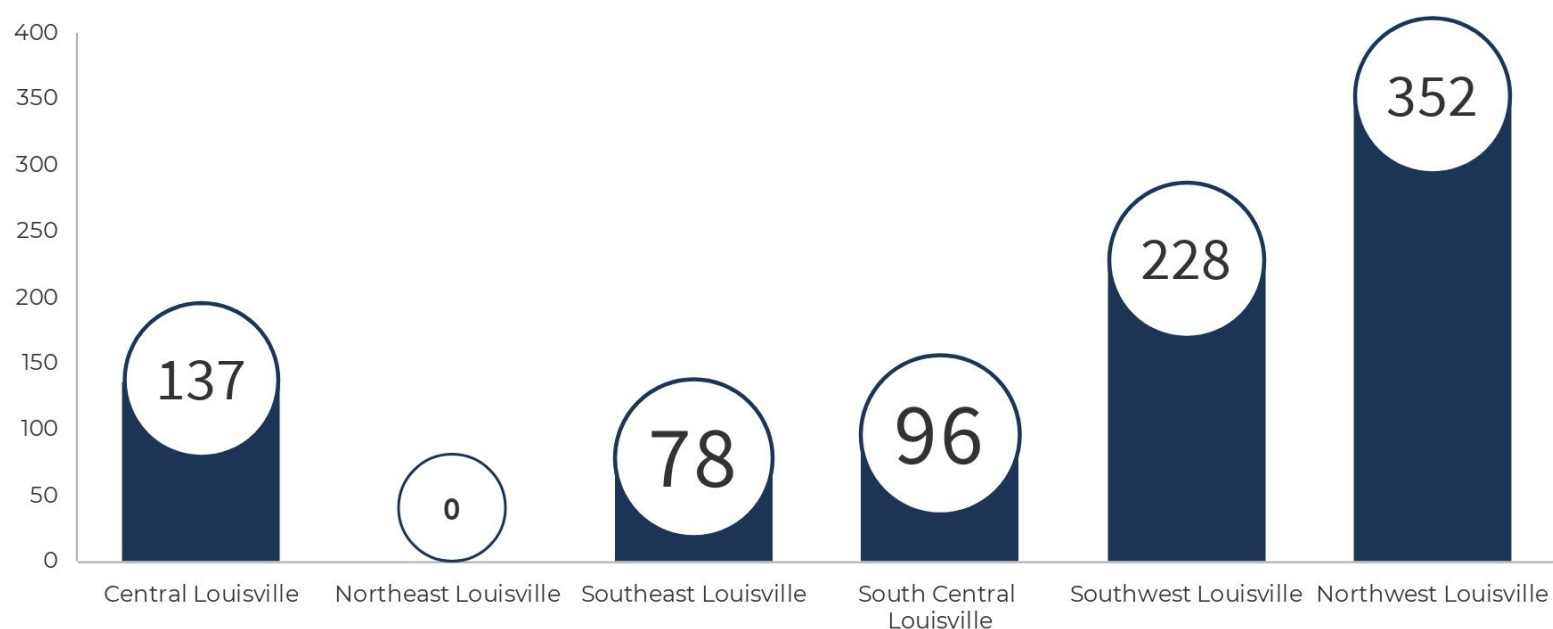
Submarket Analysis

In the first quarter of 2023, Northwest Louisville and South Central Louisville submarkets showed the highest occupancy rates at 95.8%, while Central Louisville registered the lowest at 93.1%. Historically, Northwest Louisville has consistently had the highest occupancy. The overall Louisville/Jefferson County area is projected to maintain around 95% occupancy in the upcoming year. In terms of rent changes over the past year, Southeast Louisville led with a 9.0% increase, while Central Louisville trailed with a 4.7% increase.

Apartment developers in the market have been active recently, delivering 2,030 units in the year ending first quarter of 2023, contributing to a 2.2% inventory expansion. Northwest Louisville had the highest influx of new units. One-third of total completions over the past five years went to Northeast Louisville.

Submarket Name	1Q23 Occupancy Rate	Annual Change	1Q23 Effective Rent	Annual Change
Central Louisville	93.1%	-2.7%	\$1,206	4.7%
Northeast Louisville	94.6%	-2.4%	\$1,333	6.7%
Southeast Louisville	94.6%	-3.6%	\$1,175	9.0%
South Central Louisville	95.8%	-1.9%	\$1,041	8.3%
Southwest Louisville	94.8%	-2.2%	\$1,037	7.8%
Northwest Louisville	95.8%	-2.5%	\$1,010	6.5%

UNITS BY SUBMARKET DELIVERING IN 2023



Sales Activity

According to Real Capital Analytics' data, the transaction volume for individual conventional multifamily deals in the Louisville/Jefferson County market reached approximately \$4.9 million in the first quarter of 2023. This represents a significant decline of 97.1% compared to the previous year, making it one of the weakest quarters in the past decade. During this period, only one property was transacted, indicating a substantial decrease from the first quarter of the previous year.

The tighter financial conditions in the market have resulted in a slowdown in investment activities in recent months. The average price per unit in the region may have experienced a slight decline year-over-year, reaching \$136,000. This falls below the average price per unit in the Midwest region, which stands at \$207,738, as well as the national average of \$245,640. As a result, muted investment activity is expected to persist in the coming months, as high interest rates create a wider gap between buyer and seller expectations regarding property values.

Transaction Trends

Transaction Volume

\$4.9M

1Q 2023 Transaction Volume

Pricing

\$136k

1Q 2023 Price Per Unit

-97.1%

Annual Volume Change

-10.4%

Annual Price Change

Top Buyers (Prev. 24 Mos)

1. Capital Square 1031
2. 29th Street Capital
3. Covenant Capital Group
4. West Shore LLC
5. The Connor Group

Top Sellers (Prev. 24 Mos)

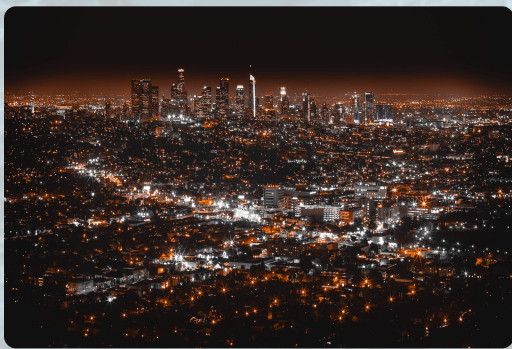
1. Bristol Development
2. REI RE Services
3. LIV Development
4. Cityscape Residential
5. Passco Companies

Economy

In the year-ending first quarter of 2023, the metro experienced a notable increase of 9,800 jobs, expanding its employment base by 1.5%. Currently, the city's unemployment rate is below the national average, sitting at 3.5%.

Over the past year, job gains in Louisville were most prominent in the trade, transportation, and utilities sector, followed by the Manufacturing sector. Despite the job losses caused by the pandemic, the current employment base in the Louisville metro area is now approximately 1.8% higher than the pre-pandemic level in February 2020. The region has established itself as a hub for innovative healthcare and is home to the University of Louisville James Graham Brown Cancer Center, a national leader in cancer research. Major employers such as Norton Healthcare, Humana, and the University of Louisville Health collectively employ nearly 40,000 workers. The regional healthcare industry generates an estimated \$80 billion in revenue, showcasing its significant contribution to the local economy.

Major Economic Developments



Ford's \$5.8B Battery Park in Hardin County

5K Jobs

to be created

\$5.8B

billion battery park

1,500-acre

facility size

2025

Phase 1 Completion
date



\$78M Global Aviation Training Facility

315 Jobs

high-wage created

\$78M

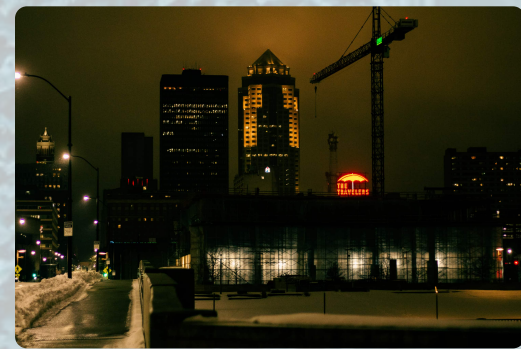
Total Investment

32,000SF

facility size

2023

Completion date



Inception \$125M HQ Expansion in Downtown Louisville

200 Jobs

created over the next
five years

\$125M

To be Invested

18,000 SF

office Location

**Downtown
Louisville**

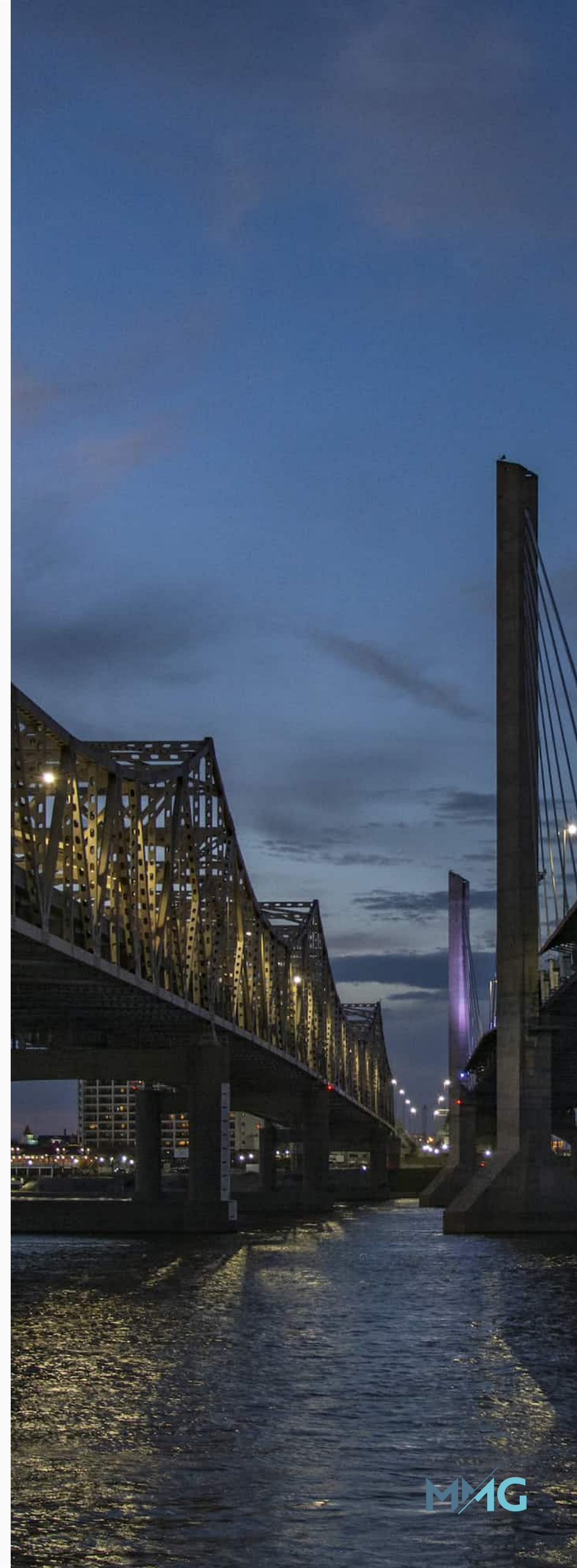
location

Market Outlook

The outlook for the Louisville apartment market in 2023 is positive, with expectations of a return to historical norms. Around 828 units are projected to be completed in the next year, approaching pre-pandemic levels. This can be attributed in part to the city's recovering job sector, which added 9,800 workers in the 12-month period ending March 2023. This increase in employment is anticipated to generate household formation and contribute to net demand through 2024.

Although the apartment market experienced a significant softening in fundamentals, including net move-outs in the first quarter of 2023, the outlook for rent growth and occupancy remains positive for both 2023 and 2024. Class A and B units are expected to outperform Class C units. Based on a one-year forecast, annual demand is projected to surpass supply, with a demand of 980 units while only 828 units are scheduled to be supplied in the next year. Occupancy is expected to increase by 0.2 percentage points over the next year, and an annual rent change of 3.6% is anticipated. The completion of new units will be concentrated in the Southwest Louisville submarket, which is also expected to have the highest demand for apartment units.

Although demand has decreased from recent record levels, there are several factors that will likely keep demand for rental units healthy in Louisville. The inventory of homes available for sale remains historically low, resulting in higher home prices. Additionally, mortgage rates are currently at their highest level since 2009. These factors may encourage individuals looking to purchase a home to remain in the rental market for the time being. Moreover, Louisville's affordability in comparison to markets with a higher cost of living may attract prospective renters seeking a more affordable housing option.





Alex Blagojevich

**Founding Partner & Executive
Managing Director**

alex.blagojevich@mmgrea.com



Brian Hall

Senior Advisor

bryan.hall@mmgrea.com



David Huey

Senior Director

david.huey@mmgrea.com