

Multifamily Metro Outlook:

Louisville - Q1 2022

Overview:

- Louisville's economic recovery has turned the corner to begin 2022 after net job additions surged in the latter half of the prior year, thanks to robust growth in the logistics and consumer retail industries. The unemployment rate, which ended the year at 4%, is only slightly above its prerecession level, but the low rate is largely attributed to labor force departures. All told, both employment rates and the labor force remain 2 to 3 percentage points below February 2020 levels, trailing the region and nation.
- Lagging employment numbers have led to vacancy rates increasing 25 bps to an average of 4.75%. While this is still below the national average of 5.0%, there were only 150 units were added to the apartment inventory during the quarter.
- Rents were elevated 1.0% over the last quarter to an average of \$1,010. Prices were elevated across all three property classes over the past year, but the most pronounced growth was among Class A properties, where prices increased more than 12.5%, although the pace of growth has slowed from 15.0% in the previous quarter. However, concessions for all three property classes fell relative to last quarter.

Market Strengths:

- The metro's thriving transportation sector has been key to its economic recovery and will remain a bright spot through the medium term. Over the past decade, industry job gains have far outstripped the national average, and e-commerce sales have exploded over the past two years as the pandemic has driven consumers to order more goods online.
- UPS is investing \$750 million at its Worldport center over the next decade, which will create more than 1,000 full-time positions.

Market Weaknesses:

- The current outbreak of the Omicron variant has pushed daily case counts to record levels and will weigh on consumer industries; fear of contagion and declining consumer mobility are keeping activity at retail and recreational establishments about 20% below its baseline level, based on Google mobility data.
- Although demand for automobiles is high, the ability to satisfy it has been hampered by semiconductor shortages, and local assembly lines are still not firing on all cylinders. Low inventories will continue to weigh on sales in the short run, but the auto industry will benefit from improving global growth as shortages ease.

Development:

- Slightly more than 200 units were added to the development pipeline in Q1 2022, bringing the total to just over 3,050 units, an elevation of 11.9% over the past year. During the same period, close to 2,200 units were added to the metro's apartment inventory.
- The emphasis on development in the metro skews strongly towards apartment units; as such the shadow market in Louisville is essentially non-existent. There were no condo units delivered to the metro, nor added to the pipeline during the quarter. What's more is that over the past year only 30 condo units have been completed and there are only an additional 200 units in the pipeline.

Outlook:

- Multifamily Outlook – Steady. Apartment fundamentals in Louisville are okay for now, but the metro is on the precipice of easing should an influx of supply come online before employment levels pick up, especially considering rent growth has essentially lagged the rest of the nation since the first quarter of 2020 and is projected to decline over the next two years.
- Economic Outlook – Stable. Louisville can't recover completely until the subdued labor force makes a full return to the job market, and employers fill open positions. However, the logistics and industrial sectors should continue to prop up the economy through the rest of the year, and as such the metro is expected to outperform the state in the long run. Nonetheless, employment and personal income growth will trail the national average because of weaker-than-average population growth and demographics.

Five Year Metro Area Growth Forecast

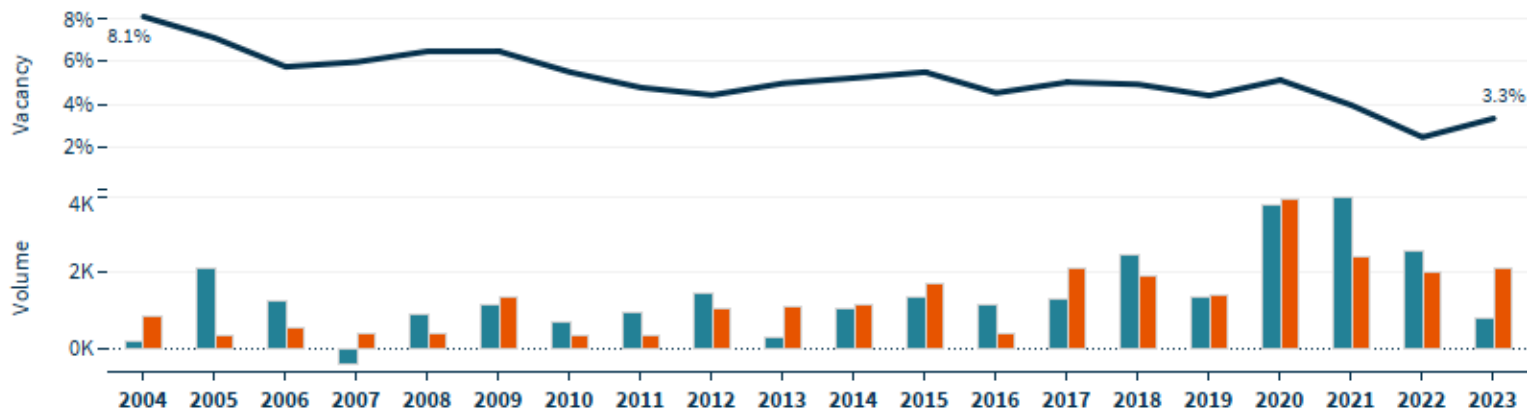
Source: Moody's Analytics	Q4 2021	Q4 2026	Louisville (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	1,301	1,313	0.18%	0.47%
Households (000s)	535	553	0.68%	0.90%
Renting Cohort (Ages 20-34) (000s)	260	259	-0.13%	-0.30%
Total Employment (000s)	660	691	0.92%	1.08%
Median Household Income	\$63,909	\$74,632	3.15%	3.30%
Median SF Home Price	\$241,005	\$249,081	0.66%	1.93%
Net Migration	563	867		

Market Inventory

CBRE-EA Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

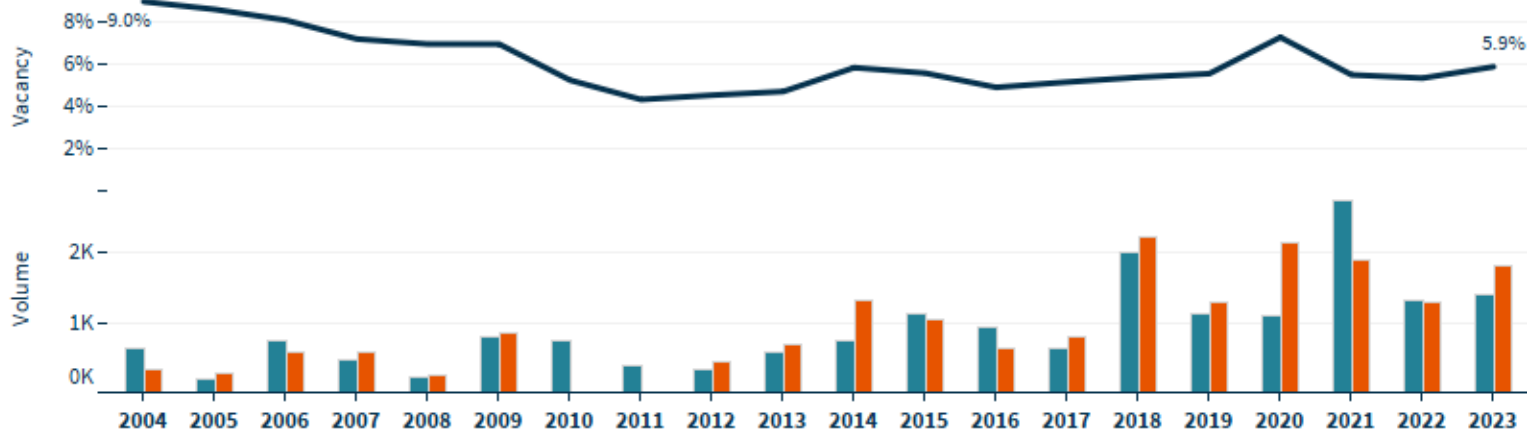
Q1 2022 Market Inventory:
100,000



REIS Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

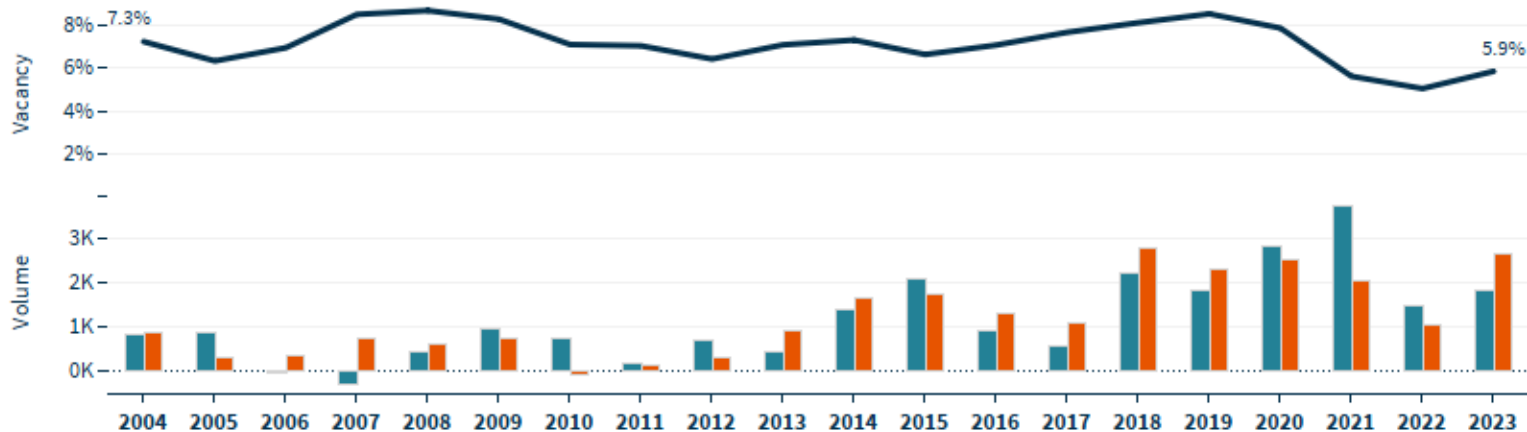
Q1 2022 Market Inventory:
55,700



CoStar Market Inventory

Net Absorptions | Net Completions | Vacancy Rate

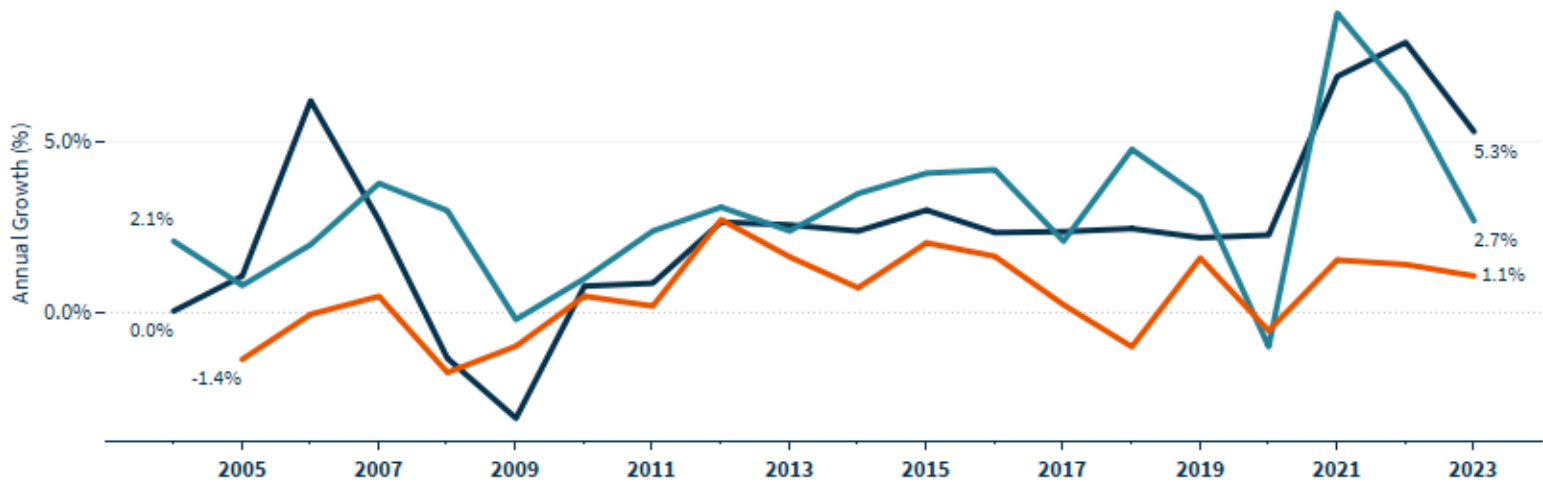
Q1 2022 Market Inventory:
83,300



Apartment Market Summary

Annual Rent Growth

CBRE-EA | REIS | CoStar



Apartment Market Supply

Sub Property Type Name	Planned		Started & Underway		Completed 2017 - Present	
	Apartments	Building Units	Apartments	Building Units	Apartments	Building Units
Apartments	3	919	12	2,579	86	11,265
Mixed Use			1	141	4	336
Subsidized/Mixed income			2	332	4	352
Unclassifiable					1	34
Grand Total	3	919	15	3,052	95	11,987

Source: Dodge Pipeline, Q1 2022

Apartment Market Transaction Activity

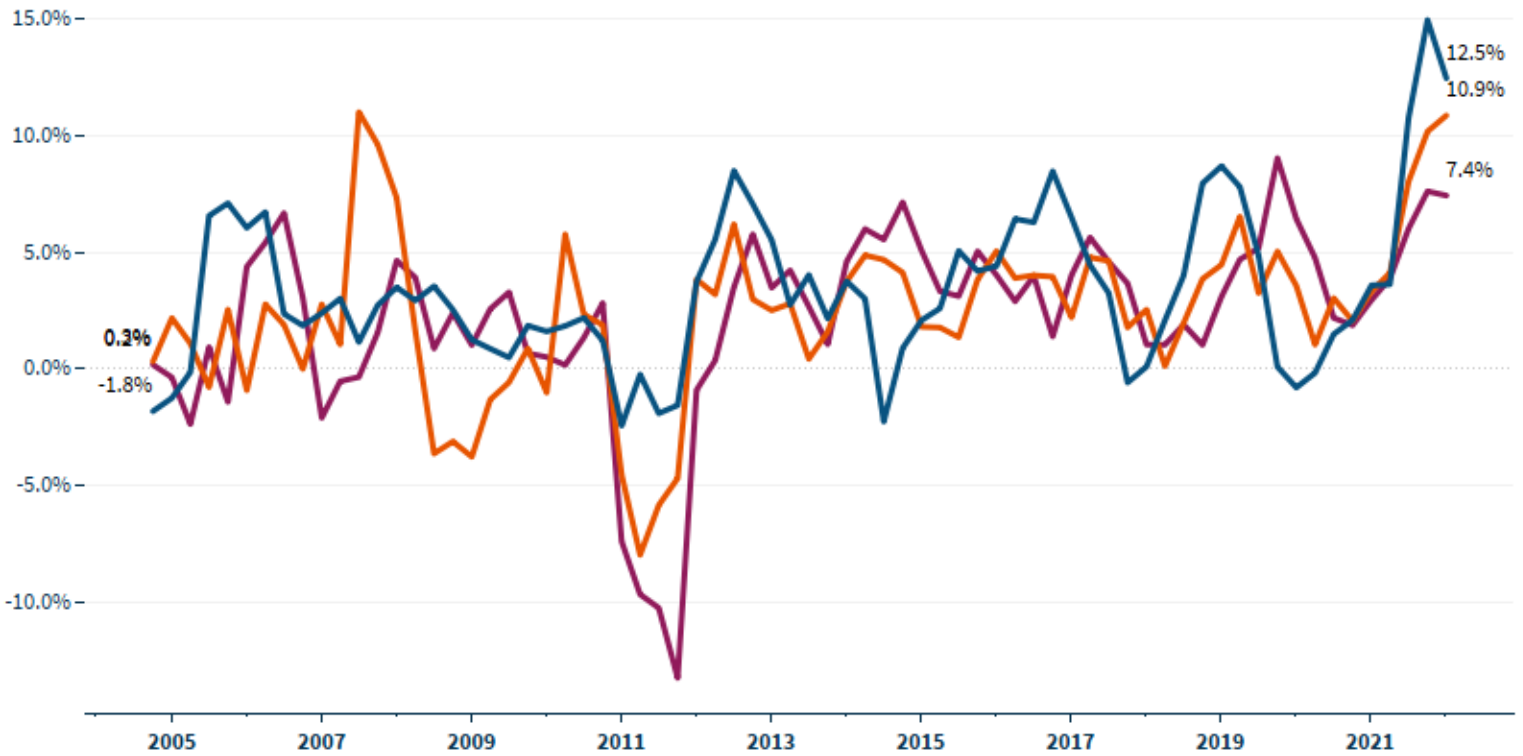
	2020 Q4	2021 Q4	2022 Q1		2022 Q1
Moving Sum of Price from the ..	\$543M	\$728M	\$1,130M	Price Pct Diff	55.13%
Unit Price	\$100,200	\$126,439	\$157,224	Unit Price (copy)	24.3%
Projected Units	5,419	5,761	7,187	Projected Units (copy)	24.75%

Source: Real Capital Analytics

Property Class Summary

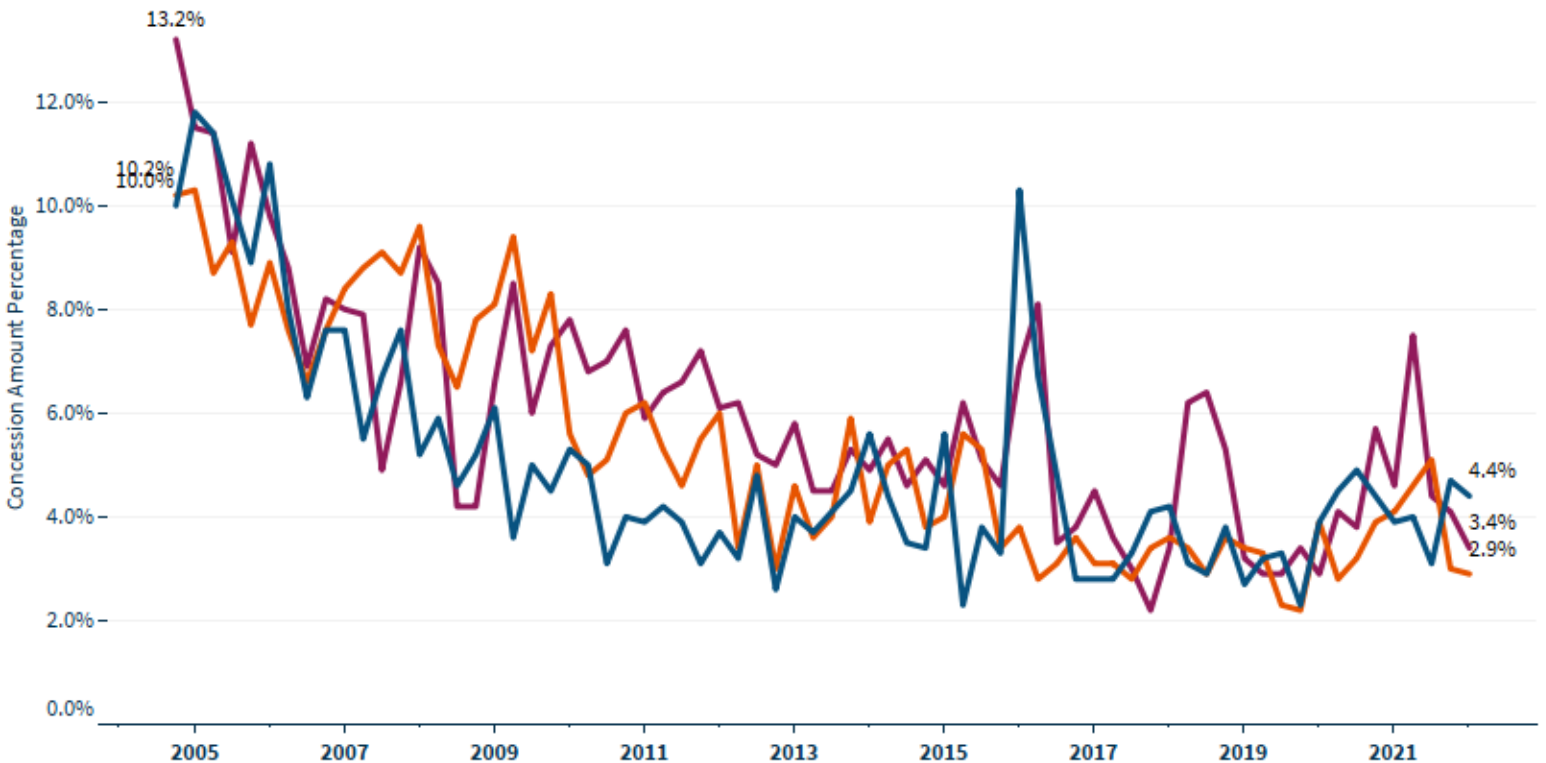
Annual Rent Growth by Property Class

Class A | Class B | Class C



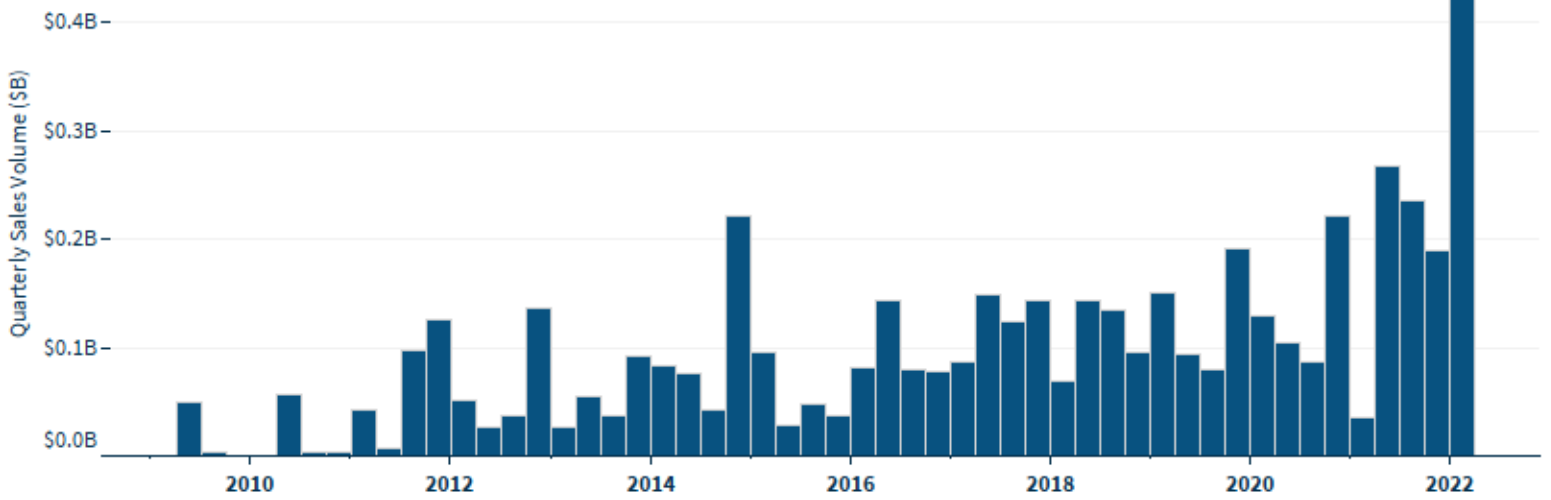
Concession Percentage

Class A | Class B | Class C



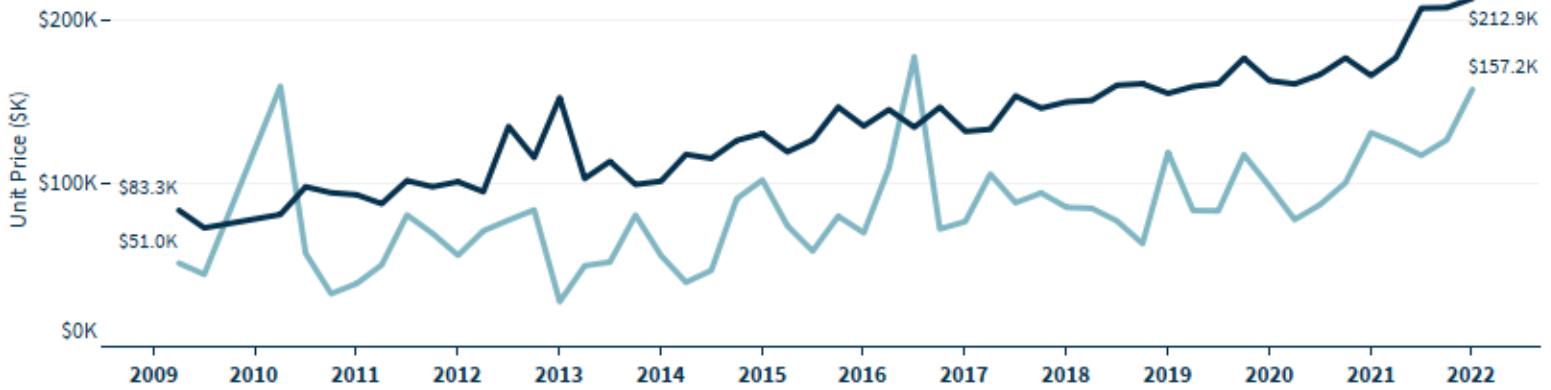
Pricing & Investment Trends

Quarterly Sales Volume



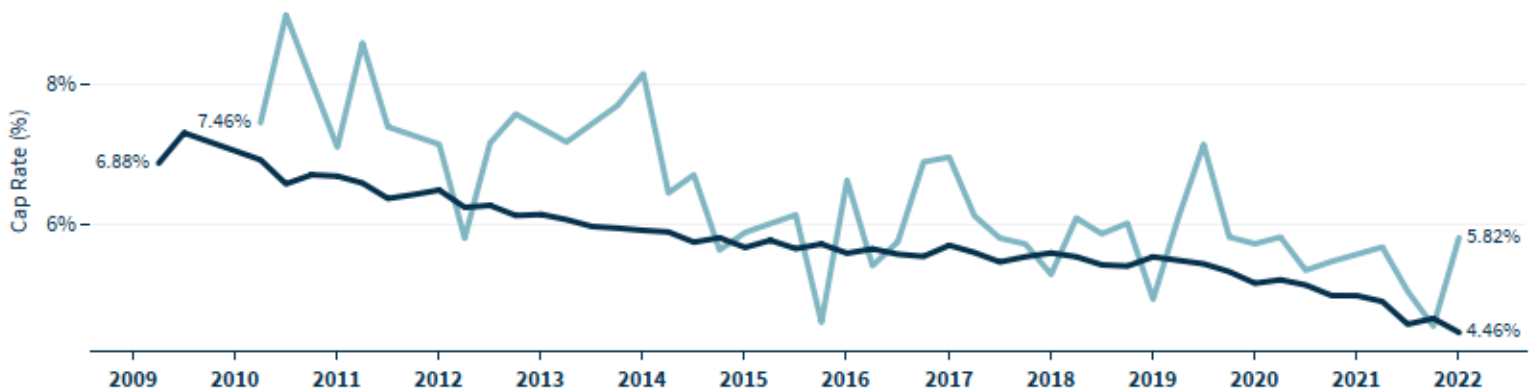
Price Per Unit

Louisville Average | US Average



Cap Rates

Louisville Average | US Average

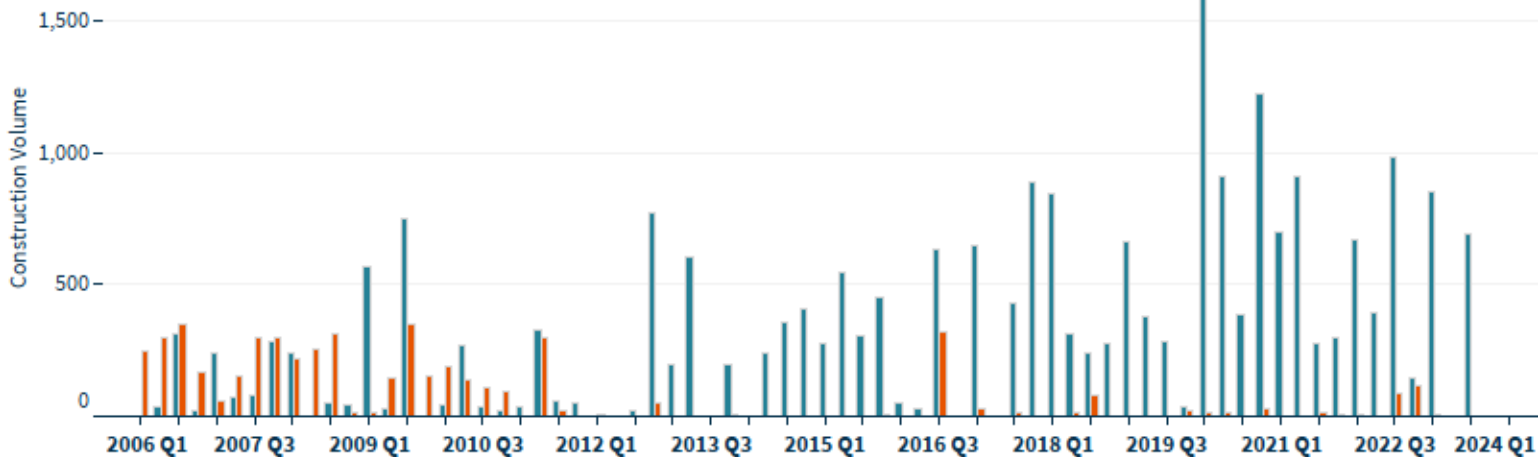


Source: Real Capital Analytics, Q1 2022

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



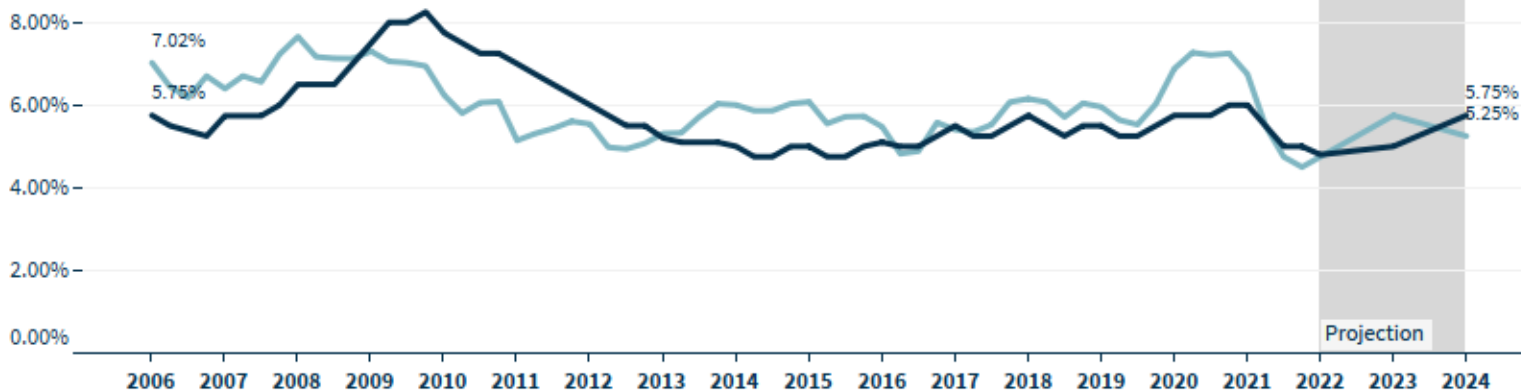
Vacancy & Rent Composite Estimates

Vacancy Rates

Louisville | National

Q1 2022 Vacancy Rate:

4.75%

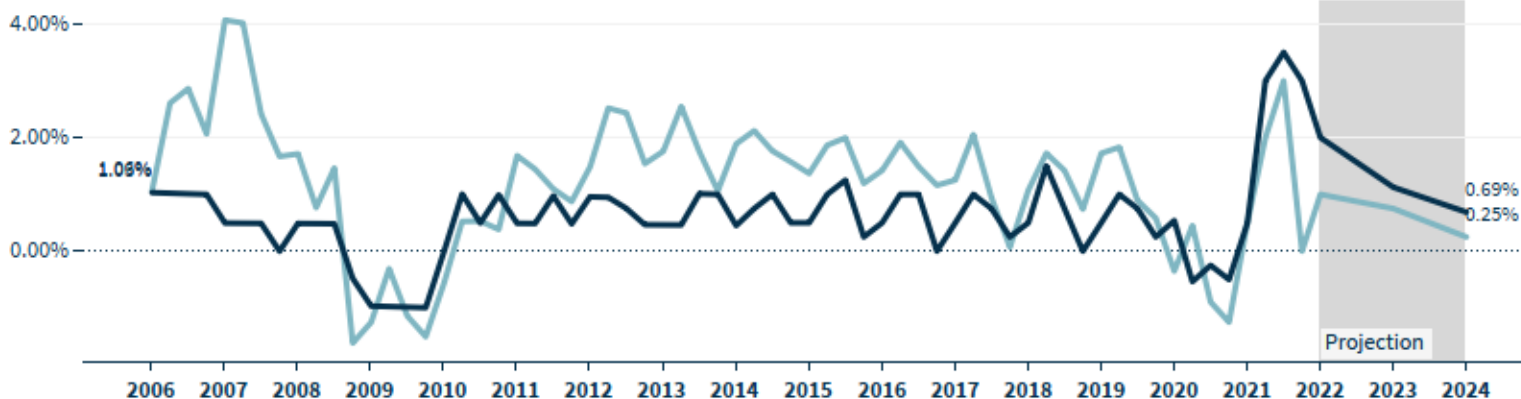


Asking Rent Growth

Louisville | National

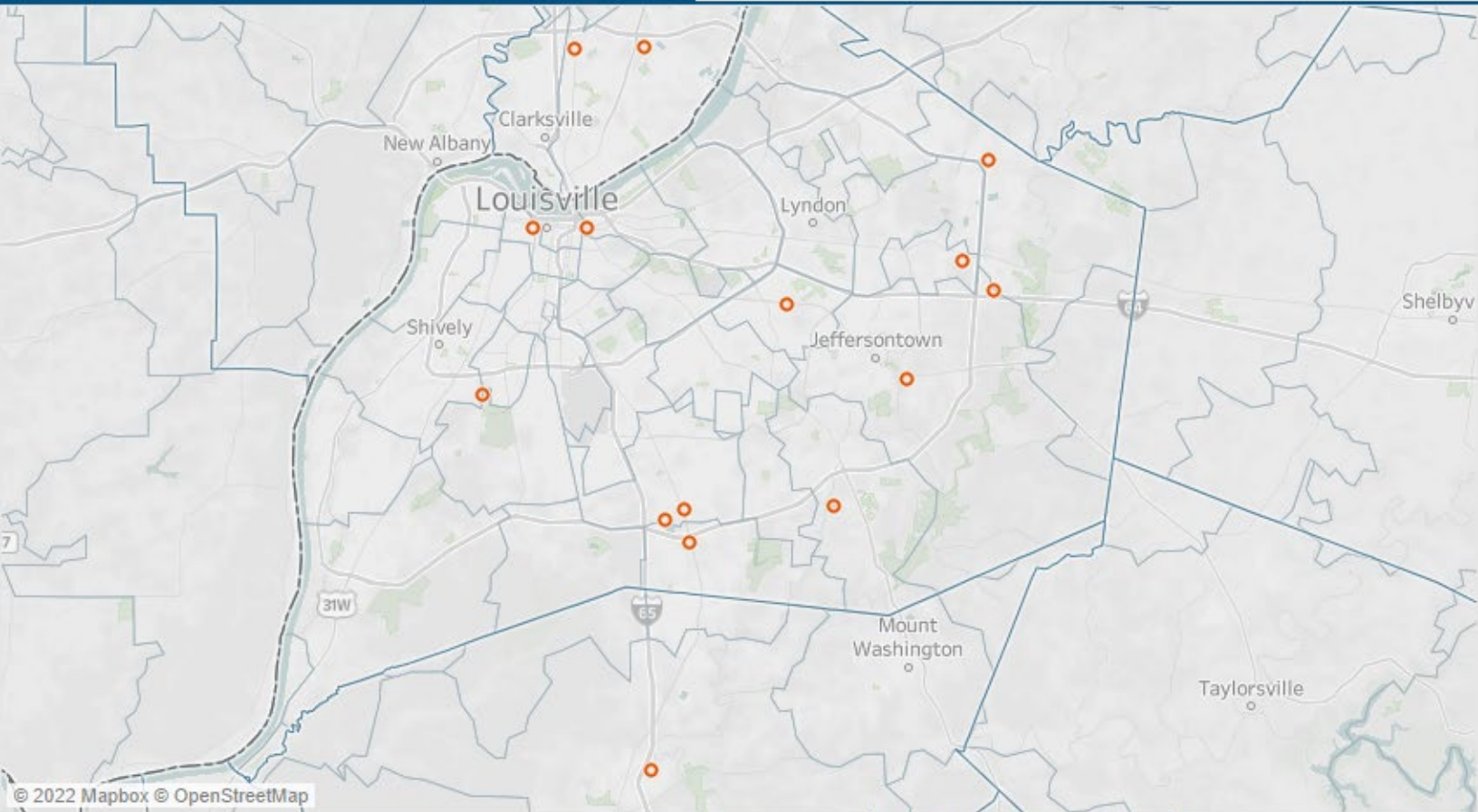
Q1 2022 Asking Rent:

\$1,010



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>	<i>Building Area SF</i>
Central Louisville	1	141	0.15M
Northeast Louisville	2	600	0.81M
Northwest Louisville	2	624	0.82M
South Central Louisville	4	410	0.40M
Southeast Louisville	4	521	0.81M
Southwest Louisville	2	756	0.98M
Grand Total	15	3,052	3.97M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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