

Multifamily Metro Outlook:

Louisville - Q3 2022

Overview:

- Louisville's economy has gathered steam and is now rolling along. Employment gains in the metro have been outsized compared to the rest of the nation, increasing by close to 4.0% thanks to robust growth in logistics and consumer retail, and pushing the unemployment rate down to 2.7%, well below the national average. However, considering these are low-wage industries, the average wage in the metro is just \$50,100, although this does represent an increase of 6.1% over the past year.
- Construction has also picked up with more than 700 units added to the metro, which is significantly above the usual amount of inventory added on a quarterly basis. However, inventory has only increased by 2,100 units relative to last year, which is slightly below what is typically seen, and as such vacancies remained at 5.0% in third quarter ending 2022. While this is on par with the national average, vacancies in Louisville managed to decline at a faster clip than the rest of the country from the levels seen at the height of the pandemic.
- Rents in the metro increased by 2.0% over last quarter's levels – nearly double the rest of the nation – to an average asking price of \$1,080. Consistent with trends seen across much of the country Class B properties – which saw rents advanced more than 15.5% over last year's levels – enjoyed the largest increase.

Market Strengths:

- Easing of supply-chain disruptions will help manufacturing's jobs recovery get back on track. The revival will provide a sizable boost since manufacturing's share of total employment is more than twice the national average. Local activity is concentrated in industrial and transportation equipment production, industries that have been experiencing significant bottlenecks.
- 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.

Market Weaknesses:

- Louisville's population declined for the first time on record in 2021, as the result of domestic out-migration. What's more is that a waning working-age population is expected to shrink the labor pool, tighten local government budgets, and weigh on demand for services and housing.
- Difficulty sourcing chips and other components has obstructed vehicle production over the past year, and vehicle sales – which are integral to the metro's performance – remain depressed. However, as supply problems ease, new-vehicle sales are expected to increase in the next 12 months, with sales forecast to hit 17 million units by next year.

Development:

- A little over 400 units were added to the construction pipeline during the third quarter of 2022, bringing the total units underway to slightly under 3,300. While this is an increase of 17.25% over last year's inventory, volume is still a far cry from the levels seen right before the pandemic struck.
- Despite the faltering apartment development, construction still skews away from the condo shadow market, which has seen less than 10 units delivered since the start of the year.

Outlook:

- Multifamily Outlook – Steady. The apartment market in Louisville is steady for now but considering fundamentals have yet to tighten even with a contraction in new supply delivered, the metro is on the precipice of easing should an influx of supply come online too quickly, and in a weakening economic environment.
- Economic Outlook – Stable. Louisville's economy is trending in the right direction but going forward will probably continue to advance at a below-average pace. With most industries now recovered, durable manufacturing and consumer industries offer the most room for growth in the near term. The metro will likely outperform the state in the longer term, but employment and personal income growth will probably trail the rest of the nation due to weaker-than-average population growth, demographics, and industry composition.

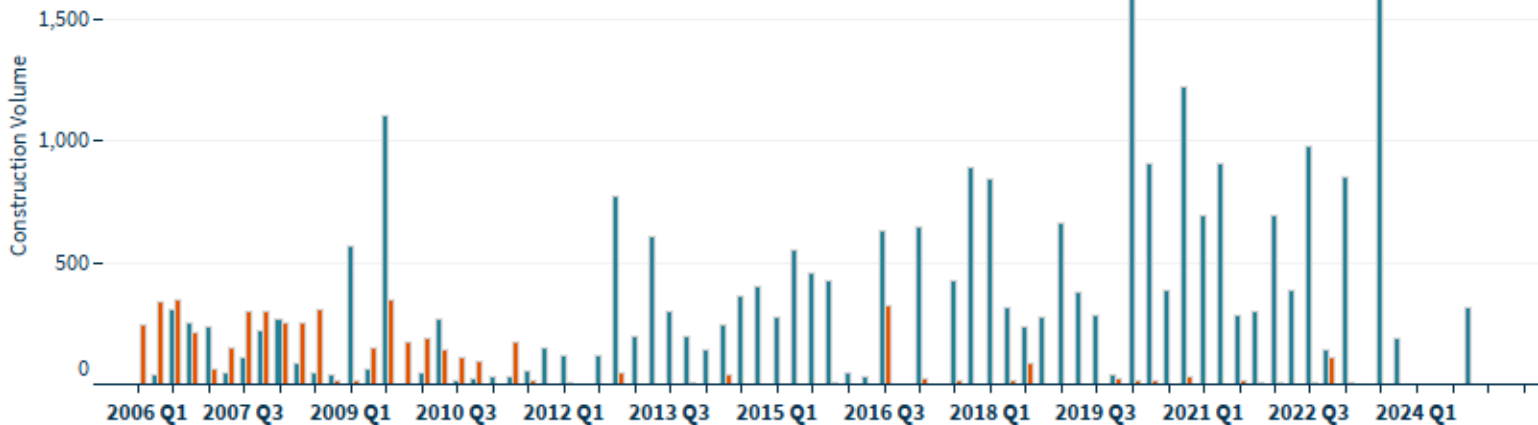
Five Year Metro Area Growth Forecast

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		

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



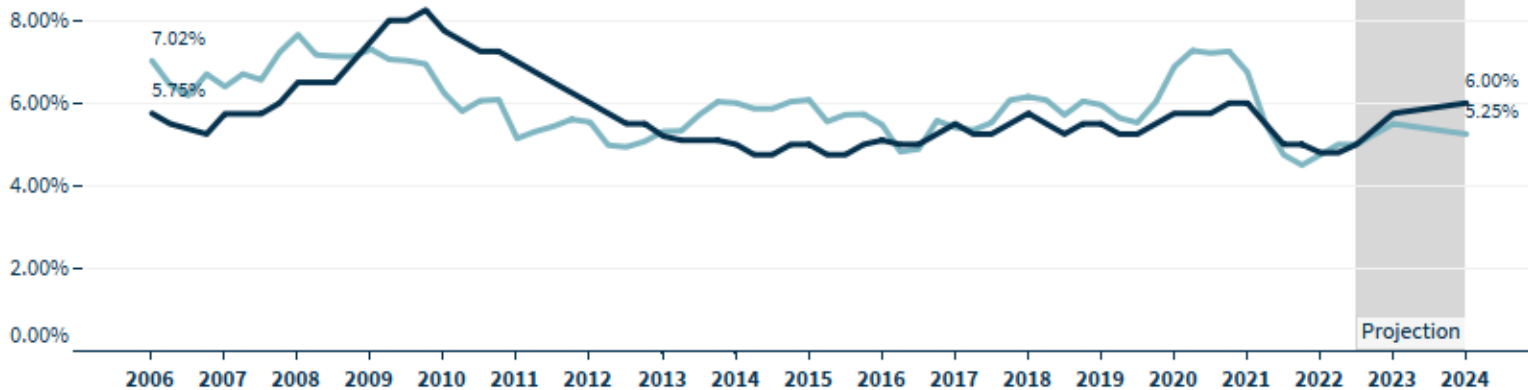
Vacancy & Rent Composite Estimates

Vacancy Rates

Louisville | National

Q3 2022 Vacancy Rate:

5.00%

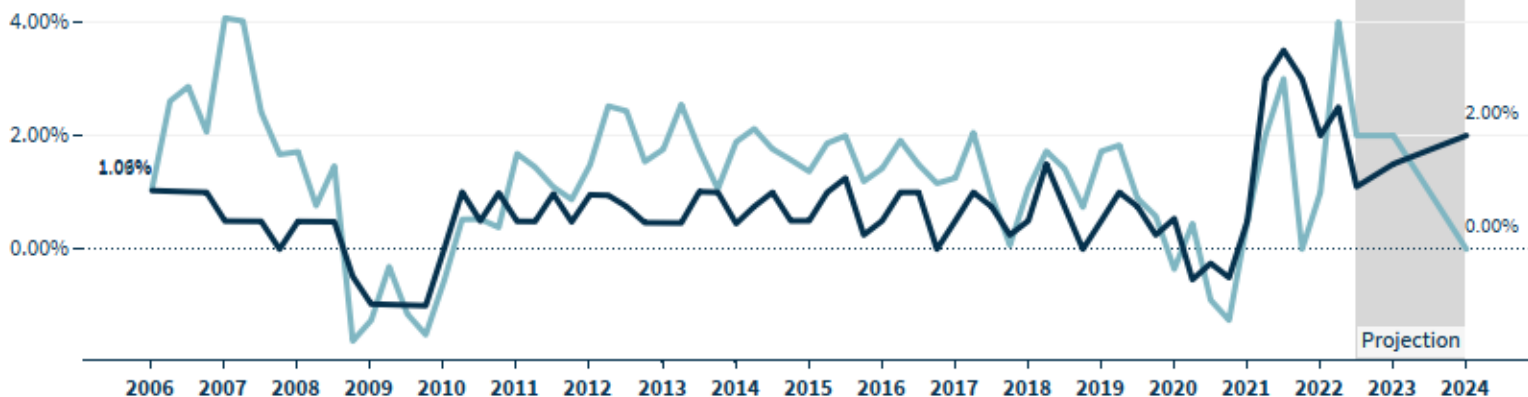


Asking Rent Growth

Louisville | National

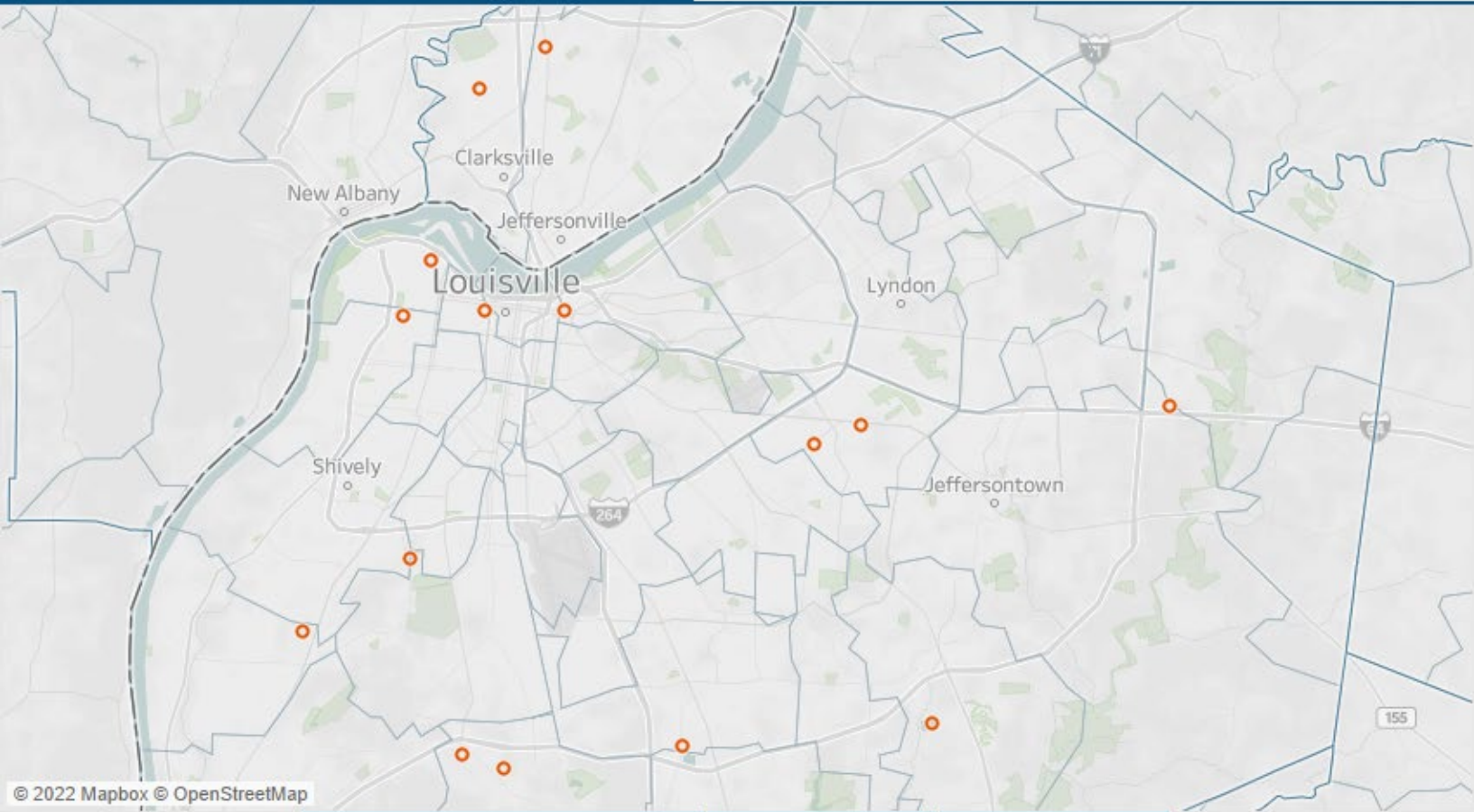
Q3 2022 Asking Rent:

\$1,080



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Apartments</i>	<i>Building Units</i>
Central Louisville	1	141
Northwest Louisville	2	576
South Central Louisville	1	312
Southeast Louisville	4	485
Southwest Louisville	7	1,748
Grand Total	15	3,262

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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