

Multifamily Metro Outlook:

Louisville - Q4 2023

Overview:

- Lagging both the state and the nation, Louisville's economy can best be described as chugging along. Although more than half of the industries in the metro are adding jobs, with construction and manufacturing leading the way, employment growth is still struggling after growing +0.8% in 2023, below the 1.5% national average.
- However, considering many of the jobs fueling employment growth, or lack thereof, are concentrated in lower-wage industries, personal income in the metro advanced by 4.6% in 2023.
- The cost of housing does not necessarily present significant headwinds for residents in Louisville. Inflationary pressures never materialized in the metro, and as such both rents and mortgage P&I housing costs are below the rest of the nation. Further, single-family housing price growth continues to top price growth among multifamily rents; in turn, the cost of renting in the metro is a much more affordable option. The estimated P&I cost in Louisville commands more than an 80% premium over rents after essentially being on par with them at the end of 2020.

Market Strengths:

- The easing of supply-chain disruptions helped manufacturing's jobs recovery get back on track in 2023. 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 had been experiencing significant bottlenecks but are now contributing positively.
- 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, and was below average at +0.3% in 2023, below the 0.4% national average. 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 in 2022, and vehicle sales – which are integral to the metro's performance – remain muted relative to pre-pandemic levels. However, as supply problems eased, new-vehicle sales increased, but national economic uncertainty is a concern for the metro.

Development:

- Close to 1,000 units were delivered to the metro in 2023, which is roughly in-line with what was delivered in the prior year. However, the development in the metro has never been particularly active; even after reaching the highest level seen since 2018, barring the anomalous activity that occurred through the pandemic, with just 4,500 units underway, construction in Louisville is akin to other rural metros such as Oklahoma City, Knoxville, and Greensboro.

Outlook:

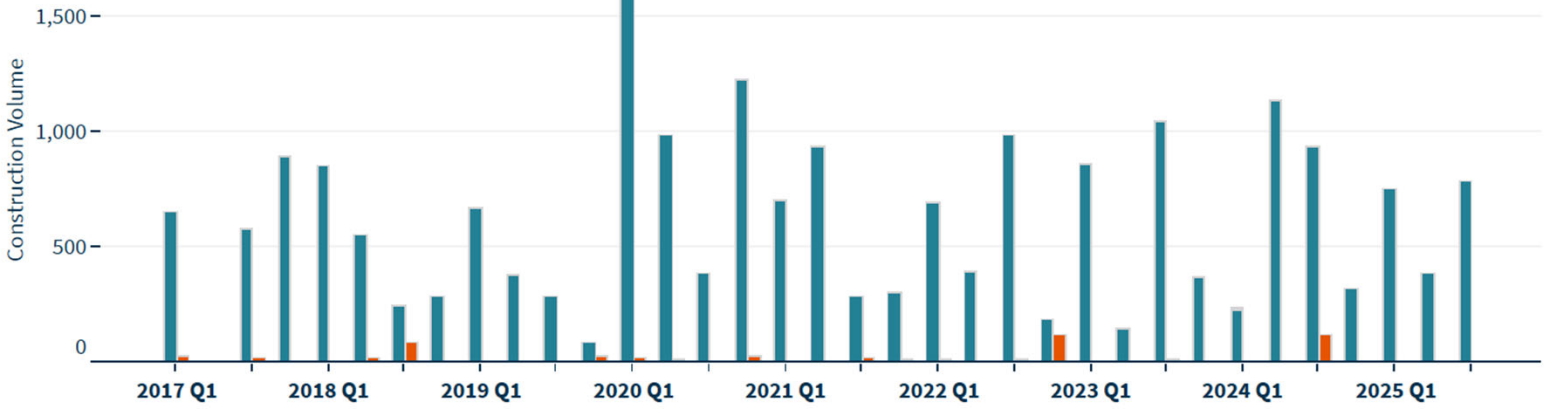
- Considering the size of the market, multifamily performance in the metro is sensitive to relatively modest changes in fundamentals; thus, the increase in supply – albeit marginal – pushed the market ever closer to easing. Vacancies have been increasing consistently since the first quarter 2022, reaching 6.0% in Q4 2023, just barely over the national average of 5.75%. Rents in the metro were up a slight +0.25% in Q4 2023 – in contrast to the rest of the nation, which saw a modest contraction – to an average asking price of \$1,120. The apartment market in Louisville is okay for now, but the metro is potentially facing some modest easing should an influx of supply come online, and the national economy has several quarters of weak growth.
- Louisville's economy is trending in the right direction but going forward will likely continue to advance at a below-average pace. Logistics and manufacturing will lead job gains, but consumer industries will probably expand slowly due to sluggish population growth and broader uncertainty. The metro should outperform the state in the longer term thanks to low business costs and key geographic advantages, but employment and personal income growth will likely trail the rest of the nation due to weaker-than-average population growth, demographics, and industry composition.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

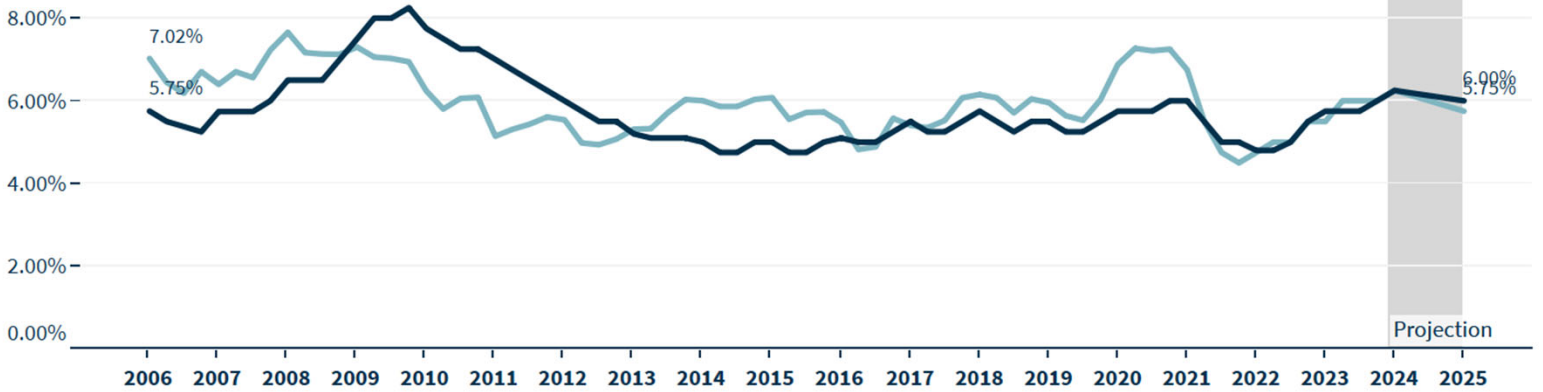
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Louisville | National

Q4 2023 Vacancy Rate:

6.00%

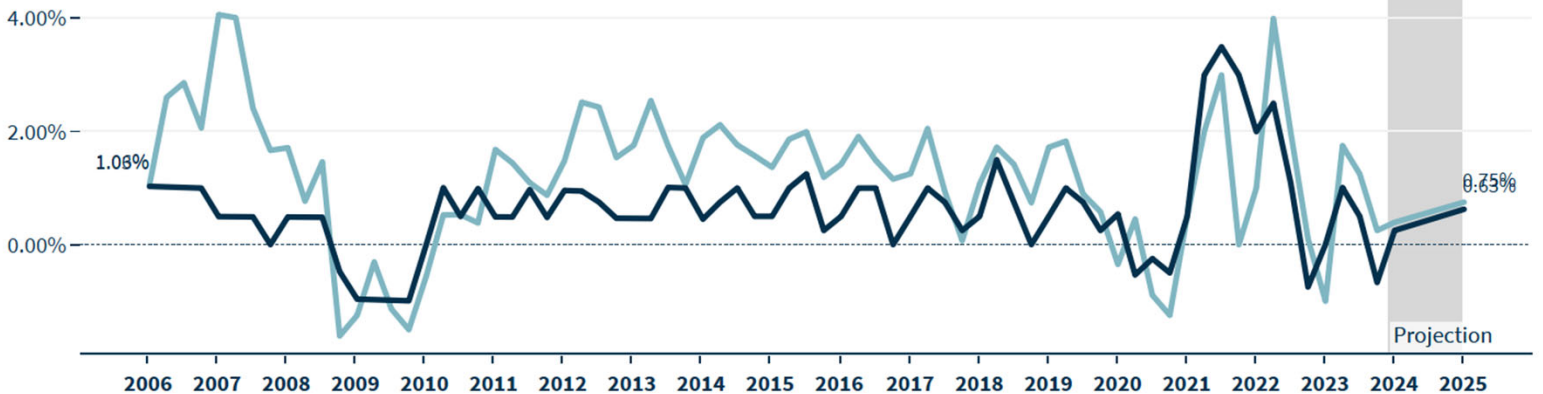


Asking Rent Growth

Louisville | National

Q4 2023 Asking Rent:

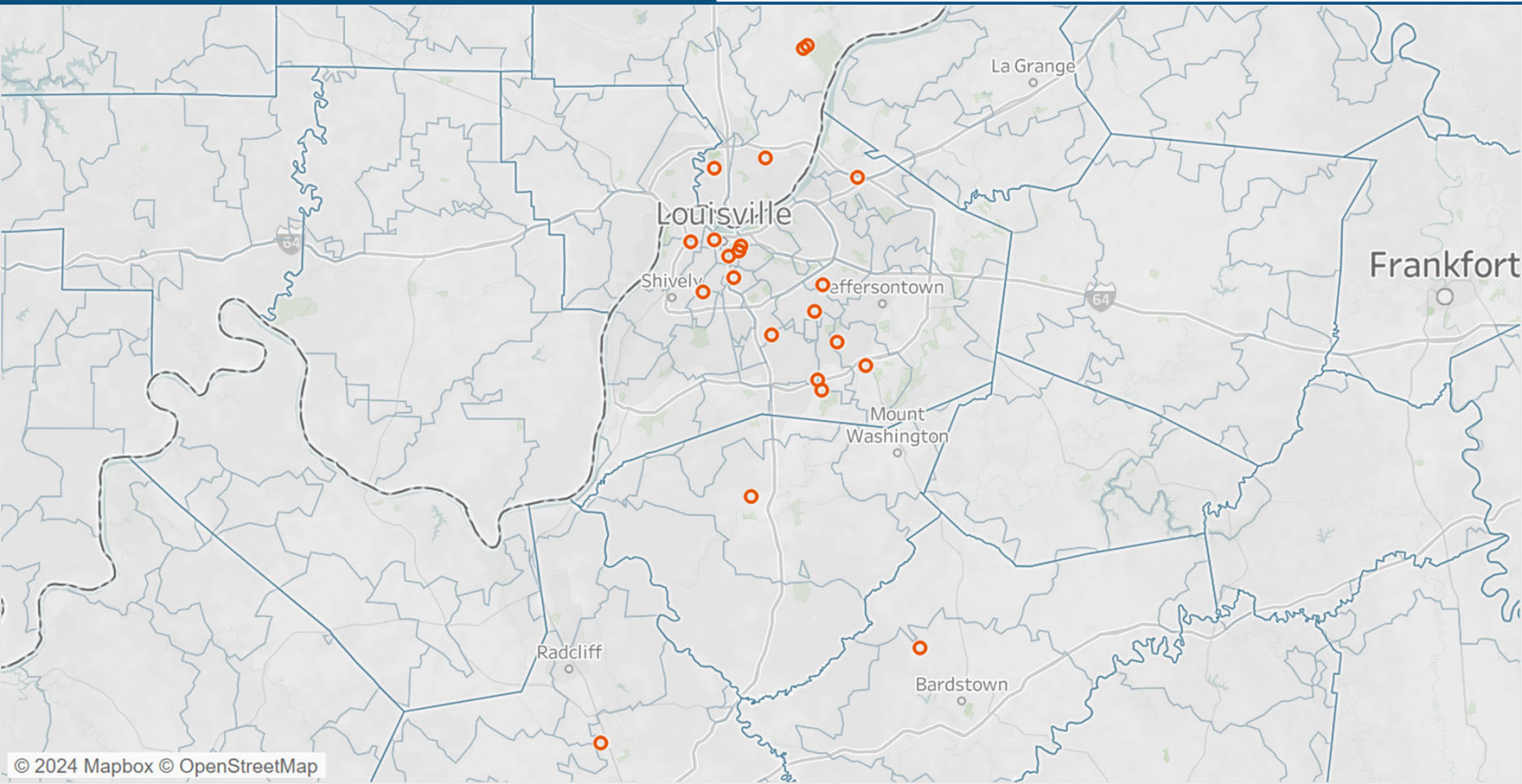
\$1,120



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Bardstown, KY	1	24
Central Louisville	1	8
Elizabethtown-Fort Knox, KY	1	216
Northeast Louisville	1	302
Northwest Louisville	4	938
South Central Louisville	5	1,296
Southeast Louisville	3	684
Southwest Louisville	7	1,033
Grand Total	23	4,501

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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