

Multifamily Metro Outlook:

Louisville - Q2 2024

Overview:

- Lagging both the state and the nation in employment growth, Louisville's economy can best be described as chugging along. Although many industries in the metro are adding jobs, with health care and education leading the way (4.4% growth year-over-year), employment growth for all industries is still struggling after increasing just 1% in the year ending Q2 2024, below the national average of 1.7%, per CBRE Econometric Advisors.
- Many of the jobs in the metro fueling employment growth, or lack thereof, are concentrated in lower-wage industries. Moody's estimated at the end of 2023 that Louisville's median household income was just \$68,800, which is significantly lower than the national median household income of \$80,500.
- Offering an affordable cost of living could be a continued benefit for Louisville. Absorption remained strong in Q2 2024 at 1,137 units, per CBRE.

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, transportation industry job gains have far outpaced the national average.
- Louisville's health care industry has become one of the major sectors in the metro. With multiple universities and research centers such as James Graham Brown Cancer Center, Norton Healthcare, and University of Louisville, the metro's health care industry has generated an estimated \$80 billion in revenue and employs nearly 40,000 workers.

Market Weaknesses:

- Louisville struggles greatly with domestic outmigration, as total migration numbers have been negative for the past four years. Recent international immigration patched up net migration numbers by the end of 2023, but this is a less sustainable solution in the long term. Domestic migration is typically more predictable because it is not predicated on political administration sentiments toward international immigration. In addition, Louisville's waning working-age population is expected to shrink the labor pool, tighten local government budgets, and weigh on demand for services and housing.
- The metro's demographics are weaker than other major cities in the Southeast, with the prime renting cohort of 20-34-year-olds only representing 19.7% of the total population, which is lower than the national average of 20.3%, according to Moody's.

Development:

- Fewer than 25 units have been delivered so far in 2024, and in Q2, Louisville saw demolitions of around 400 units, according to CoStar. This is fairly unsurprising, as development in the metro has never been particularly active, except for the anomalous activity that occurred through the pandemic.
- Deliveries are expected to pick up slightly in the near term, with just under 4,100 units underway, per Dodge Data & Analytics. Overall, construction in Louisville is akin to other metros with adjacent rural areas such as Oklahoma City, Knoxville, and Greensboro.

Outlook:

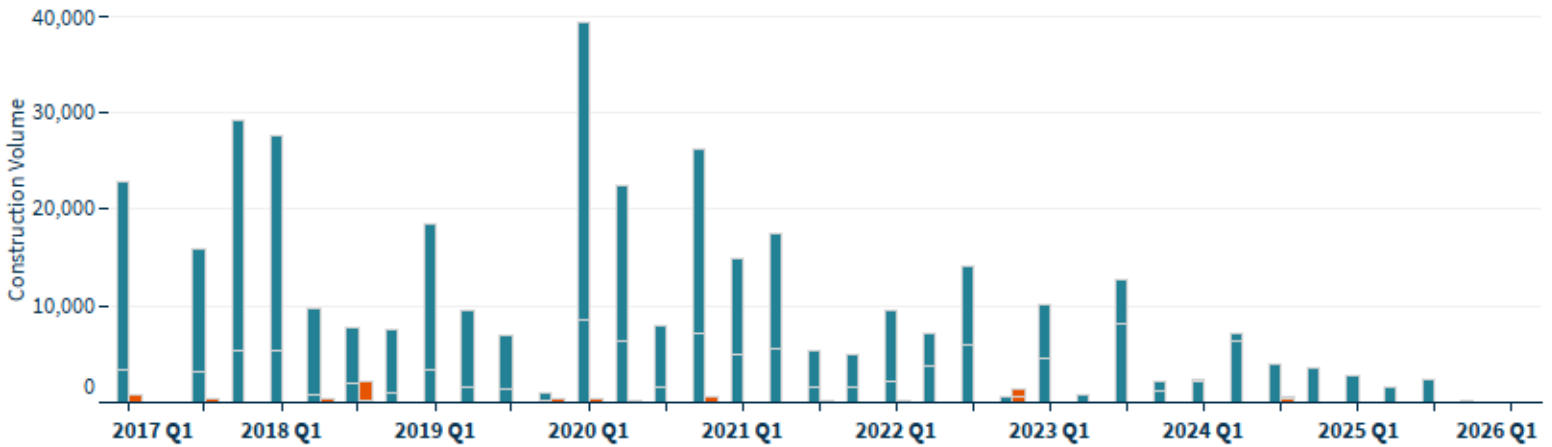
- Considering the size of the market, multifamily performance in the metro is sensitive to relatively modest changes in fundamentals and supply dynamics. The lack of supply coming online this quarter, combined with high demand, created strong absorption metrics and reduced the vacancy rate to 5.6% from 6% last quarter. Rents in the metro were up 2.2% in Q2 2024, up to an average asking price of \$1,155. The apartment market in Louisville is performing well, and if deliveries of new supply remain spread out over time, rent growth could prove to be very steady.
- Louisville's economy is highly exposed to the fluctuations in the ICE and EV car industries. Recently high interest rates, coupled with high production costs, have slowed manufacturing job gains in the metro. The metro should outperform the state in the longer term thanks to key geographic advantages, expected interest rate cuts, and key investment in domestic chip production in areas such as Glendale and Bowling Green. Nonetheless, employment and personal income growth will likely trail the rest of the nation due to weaker-than-average population growth, demographics, and concentrated industry composition.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

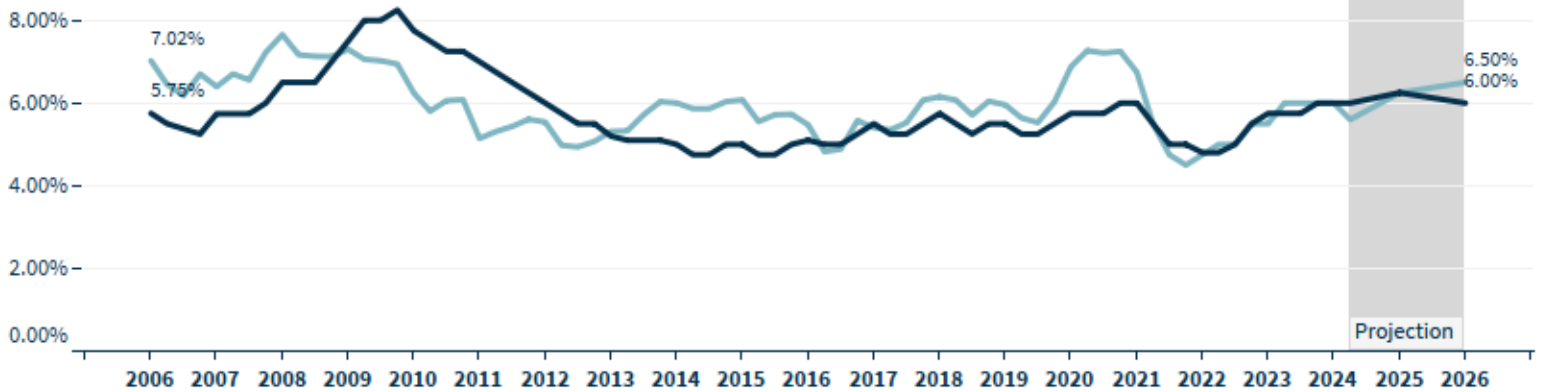
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Louisville | National

Q2 2024 Vacancy Rate:

5.60%

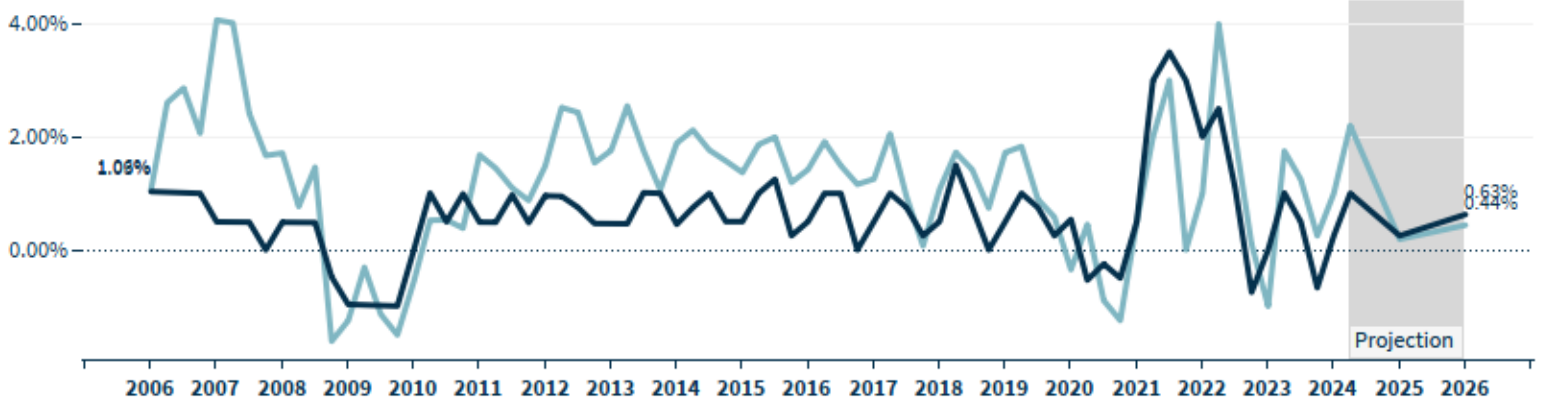


Asking Rent Growth

Louisville | National

Q2 2024 Asking Rent:

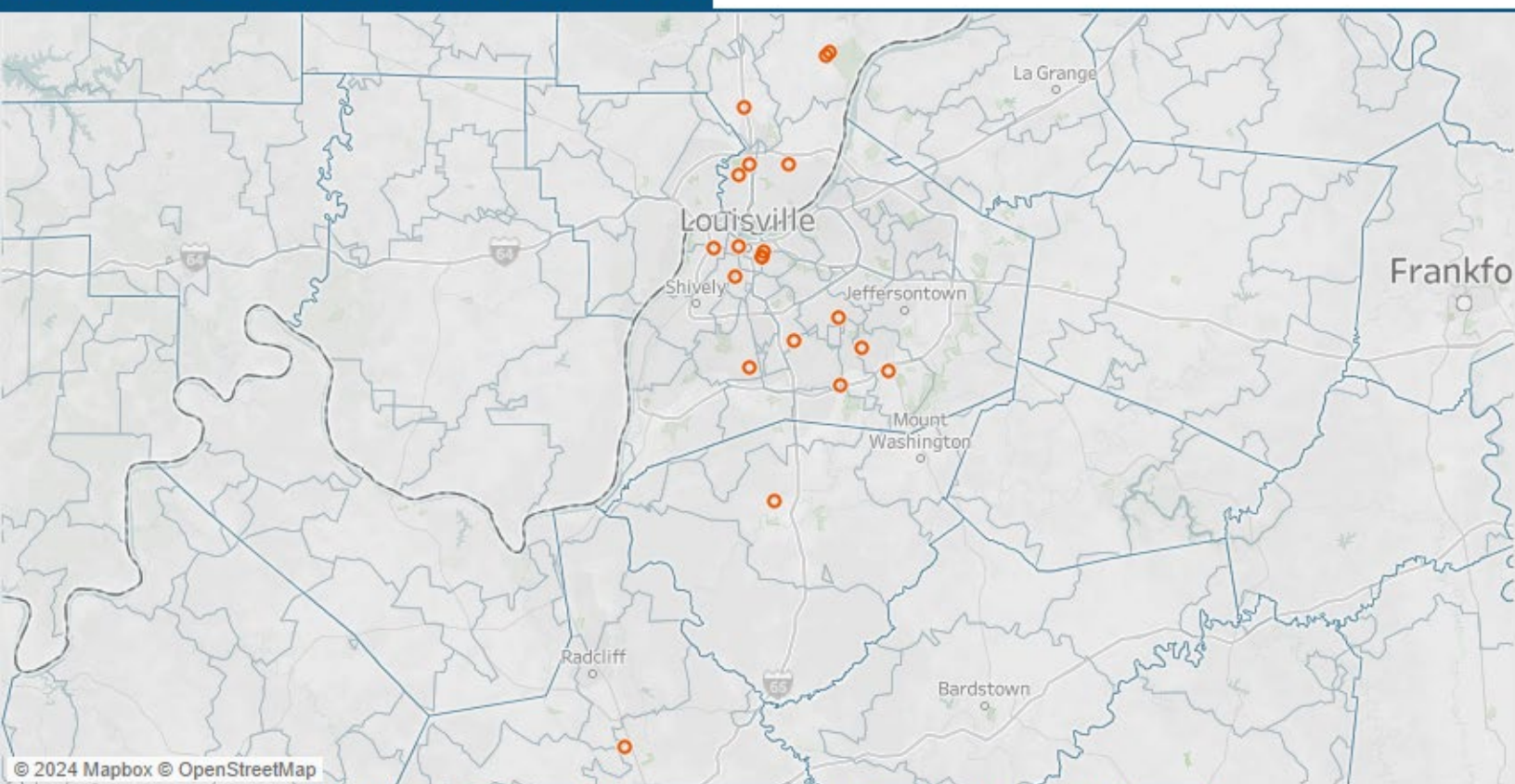
\$1,160



Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Louisville	1	233
Elizabethtown-Fort Knox, KY	1	216
Northwest Louisville	6	1,209
South Central Louisville	4	1,032
Southeast Louisville	2	408
Southwest Louisville	6	1,029
Grand Total	20	4,127

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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