

Market Insights

Midwest Multifamily 1Q 2022



Construction Activity



31,356

Units under construction

3,831

Units delivered (YTD)

Market Fundamentals



4.8%

Vacancy

-70bps

Year over
year change

\$1,363

Asking Rent

+12.9%

Year over
year change

Transaction Activity



\$139,000

Median sales price
per unit (YTD)

Rapid Rent Growth to Start 2022, Construction Heating Up

Highlights

- Deliveries of apartment properties in the Midwest region got off to a bit of a slow start to 2022 but are expected to accelerate across most markets through the end of this year and into 2023. Leading markets for new units include Chicago and Cincinnati.
- Rents in the Midwest have trended higher in the past several quarters. Rent growth in the first quarter averaged 2.5 percent, although a handful of markets posted gains ranging from 3 percent to nearly 4.5 percent. Year over year, rent growth reached 12.9 percent.
- Vacancy rates ended the first quarter averaging approximately 4.8 percent across the region, with some of the lowest rates in Milwaukee and St. Louis. Average vacancy rates are down 70 basis points from one year ago.
- The median price in the tracked Midwest markets during the first quarter was approximately \$139,000 per unit, while cap rates averaged 4.5 percent. The median price was pulled higher by transactions in a handful of markets. In many markets, pricing is closer to \$100,000 per unit.

Midwest Multifamily Market Overview

Multifamily operating conditions across many Midwest markets strengthened at the start of the year. The region has not been subject to overbuilding during the past several years, which has kept vacancy rates stable across the region's largest markets. In recent quarters, resumed hiring has led to a release of pent-up demand fueling tightening vacancy conditions and rapid increases in rental rates. A return to more normalized property performance is likely through the remainder of 2022. Multifamily construction is picking up with projects on pace to deliver through the remainder of this year and into 2023. Vacancy should level off and annual rent increases will be closer to 4 percent to 8 percent, after most markets posted double-digit spikes in the 12-month period ending in the first quarter.

Multifamily investment activity has been mixed across the region to this point in 2022. Several markets posted declines from near-peak levels reached at the end of last year. Still, transaction activity at the beginning of 2022 is ahead of the pace recorded in each of the past several years across the region. Most markets recorded significant per-unit pricing increases in 2021, and prices have generally remained near those levels across the majority of Midwest markets. There are some exceptions, led by Kansas City, where prices spiked at the outset of the year, while Indianapolis, Chicago, and St. Louis all posted price increases of approximately 10 percent. Cap rates have compressed across the region with nearly every major Midwest market posting averages near 4.5 percent. As recently as a few years ago, cap rates in these markets would have been closer to 6 percent.

Chicago

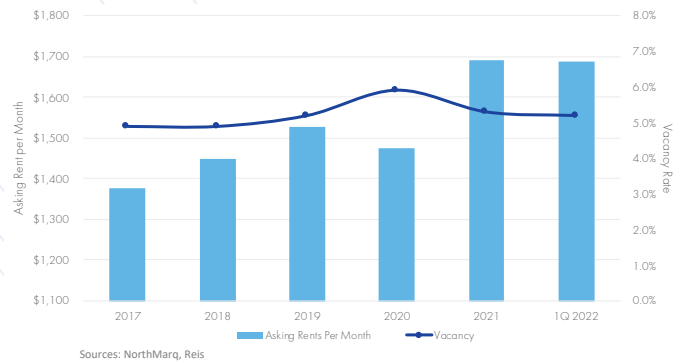
Construction/Vacancy/Rents

- Multifamily development activity started the year strong as 1,783 units came online in the first quarter. Apartment developers should remain active in the remainder of the year with 8,160 units currently under construction in Chicago, nearly a 20 percent increase from one year ago. The bulk of these projects are forecast to be completed in 2022.
- The vacancy rate in Chicago has been trending lower during the past several quarters, improving 60 basis points in the past 12 months. In the first few months of the year, the rate dipped 10 basis points to 5.2 percent. Vacancy averaged 4.7 percent from 2015 to 2019, before ticking higher during 2020.
- Average rents in Chicago were extremely stable in recent months. Asking rents ended the first quarter at \$1,688 per month, down just \$1 per month from the previous period. Despite no growth to this point in 2022, apartment rents jumped 14.5 percent during the past year.
- **Forecast:** Multifamily developers will continue to bring new projects online in the coming quarters with nearly 5,500 apartment units slated to be delivered in 2022. The vacancy rate is expected to drop 30 basis points in 2022, ending the year at 5 percent. Average rents in Chicago are forecast to rise 3 percent this year to \$1,740 per month.



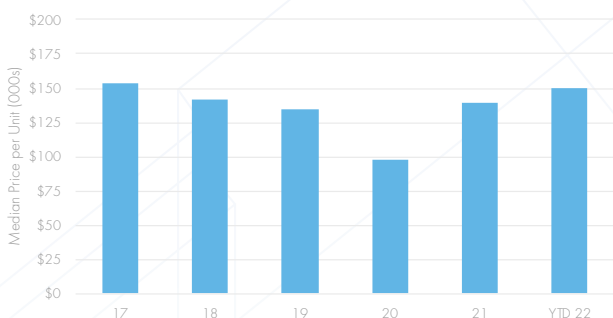
In the first few months of the year, vacancy dipped 10 basis points.

Vacancy and Rent Trends



The median sales price rose 8 percent from 2021 levels, reaching \$150,300 per unit.

Sales Trends



Multifamily Sales

- Multifamily transaction activity slowed to this point in the year, as the number of sales declined by more than 50 percent from the previous period. Despite the recent slowing, sales volume in the first quarter is ahead of levels recorded at the start of the past few years.
- The median sales price rose 8 percent from 2021 levels, reaching \$150,300 per unit in the first quarter. Approximately half of the properties that traded during January through March consisted of Class C assets built before 1975.
- After averaging about 5.6 percent at the start of last year, cap rates at the beginning of 2022 averaged approximately 4.6 percent.

Cincinnati

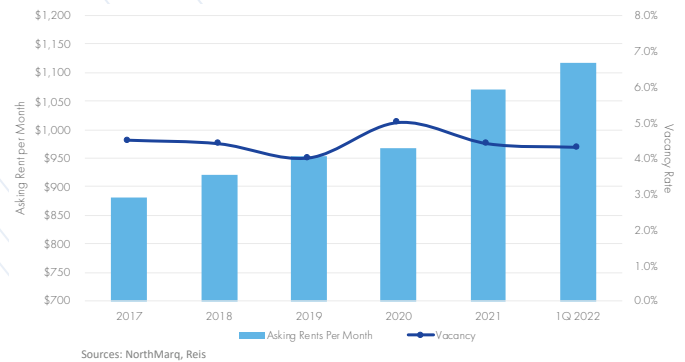
Construction/Vacancy/Rents

- Multifamily construction activity slowed in the first quarter. Approximately 140 units were completed from January through March, a 60 percent decline from the previous period. Development activity should ramp up in the coming quarters with projects totaling more than 6,000 units currently under construction.
- Net absorption outpaced new supply by more than 80 percent to this point in the year. As a result, the vacancy rate tightened slightly, dropping 10 basis points in the first quarter to 4.3 percent. Year over year, vacancy improved by 80 basis points.
- Apartment rents trended higher during the first quarter, rising 4.3 percent to \$1,117 per month. Asking rents advanced 15 percent in the past year, the fastest pace of growth ever recorded in Cincinnati.
- **Forecast:** Apartment deliveries should accelerate in the remainder of the year with projects totaling nearly 3,000 units scheduled to come online. With an uptick in supply, the vacancy rate is expected to rise, ending the year at 4.5 percent. Average asking rents in Cincinnati should reach about \$1,150 per month at year end, a 7.5 percent rate of expansion.



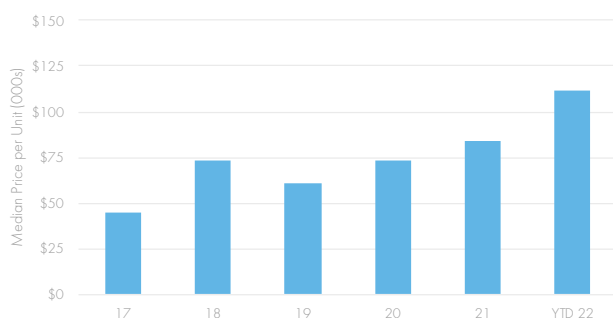
Asking rents advanced
15 percent in the past year.

Vacancy and Rent Trends



The median sales price in the first half of the year reached \$111,600 per unit.

Sales Trends



Multifamily Sales

- Sales activity cooled at the beginning of the year, as the number of properties that traded in the first six months of 2022 trailed levels recorded during the final three months of 2021.
- Although fewer properties changed hands, sales prices have ticked higher thus far in 2022. The median sales price in the first half of the year reached \$111,600 per unit, up 32 percent from the median price in 2021.
- As prices trended upwards in Cincinnati, cap rates were stable in recent months. Cap rates have averaged in the low 5 percent range to this point in the year.

Indianapolis

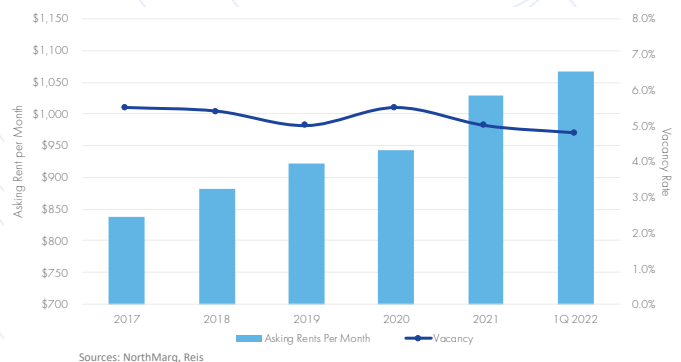
Construction/Vacancy/Rents

- Apartment development activity slowed during the first quarter of 2022 with 164 units coming online. In 2021, the average quarterly completions topped 500 units. The pace of multifamily deliveries should accelerate, as projects totaling 3,500 units were under construction at the end of the first quarter, up 43 percent from one year ago.
- Supply growth trailed absorption to begin 2022, allowing for a modest decline in vacancy. The vacancy rate in Indianapolis dropped 20 basis points in the first quarter to 4.8 percent. Year over year, the rate improved by 60 basis points.
- Asking rents continued to record healthy gains at the start of the year. During the first quarter, apartment rents rose 3.6 percent to \$1,066 per month. During the past 12 months, average rents in Indianapolis expanded by 12.5 percent.
- **Forecast:** Multifamily developers in Indianapolis will deliver approximately 2,000 units to the area in 2022, closely tracking levels from the previous year. The vacancy rate is forecast to tick slightly lower, reaching 4.7 percent. Asking rents are on pace to rise to more than \$1,100 per month by the end of the year, roughly a 7 percent gain.



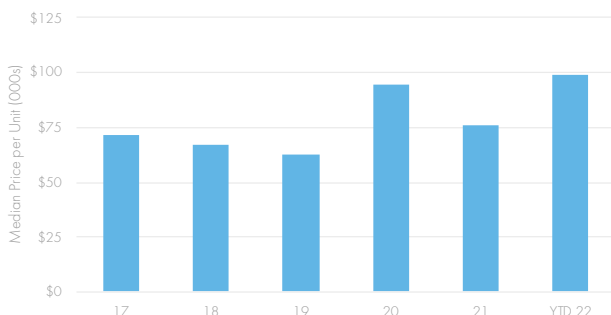
During the first quarter, apartment rents rose 3.6 percent to \$1,066 per month.

Vacancy and Rent Trends



The median sales price during the first quarter was \$99,000 per unit.

Sales Trends



Multifamily Sales

- The momentum gained in the multifamily investment market in the final few months of last year carried over to the beginning of 2022. The number of deals that closed during the first quarter was more than double the average first-quarter total recorded during the past five years.
- As activity picked up in the Indianapolis investment market, sales prices continued to climb. In transactions where pricing was available, the median sales price during the first quarter was \$99,000 per unit, up 30 percent from the median price in 2021. The bulk of the transaction mix in recent months consisted of Class B properties built in the 1970s and early 1980s.
- With prices ticking higher, cap rates inched lower. Cap rates to this point in 2022 averaged around 5 percent.

Kansas City

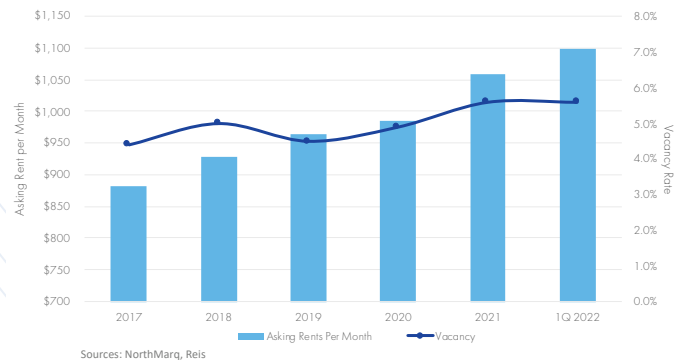
Construction/Vacancy/Rents

- Multifamily construction activity slowed in the first quarter as nearly 380 units came online at the start of 2022. Projects totaling around 4,500 units are currently being built in Kansas City, down 26 percent from one year ago.
- The vacancy rate held steady in the first few months of the year. The rate finished the first quarter at 5.6 percent, matching the figure from the end of 2021. The average vacancy is heavily affected by two submarkets, Downtown/East Kansas City and Midtown, where vacancy rates are both above 12 percent. Excluding these two submarkets, the average vacancy rate is in the mid-4 percent range in the rest of the Kansas City area.
- Apartment rents climbed at a rapid pace to start the year, rising 3.9 percent in the first quarter to nearly \$1,100 per month. Year over year, asking rents jumped 10.7 percent, the largest annual growth ever recorded in Kansas City.
- **Forecast:** Projects totaling approximately 2,200 units are forecast to be delivered this year. Renter demand and new supply growth should closely track each other in the coming quarters, allowing for a slight decline in vacancy. The vacancy rate is expected to end 2022 at 5.4 percent. Area rents are forecast to rise 8.7 percent in 2022, reaching \$1,150 per month.



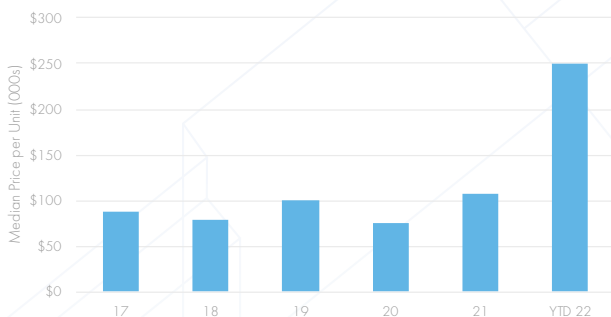
Year over year, rents in Kansas City are up 10.7 percent.

Vacancy and Rent Trends



The median sales price spiked in the first quarter, rising to \$250,000 per unit.

Sales Trends



Multifamily Sales

- Multifamily sales activity has been fairly stable, with sales velocity to this point in 2022 closely tracking the number of deals from the end of last year. Transaction volume in the first quarter is ahead of levels recorded at the start of the previous two years.
- The median sales price spiked in the first quarter, rising to \$250,000 per unit, up from about \$107,000 per unit in 2021. Prices began to gain momentum in the fourth quarter of last year when the median price approached \$175,000 per unit. The recent surge in prices is primarily due to activity picking up in the sale of newer, Class A properties as well as strong rent growth.
- Cap rates in Kansas City continued to tighten in recent months. Cap rates averaged 3.6 percent during the first quarter, down 20 basis points from the previous period.

Milwaukee

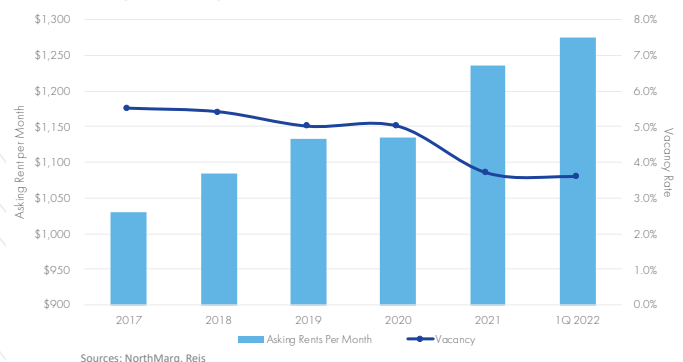
Construction/Vacancy/Rents

- Multifamily developers were fairly quiet in the first few months of 2022 with no significant projects coming online in the first quarter, after roughly 1,000 units were delivered in 2021. Several projects are scheduled to be completed in 2022 as projects totaling nearly 1,700 units are currently under construction.
- With supply growth limited, the vacancy rate inched lower. Vacancy in Milwaukee dipped 10 basis points in the first three months of 2022, reaching 3.6 percent. Year over year, the local vacancy rate has improved by 120 basis points.
- Asking rents climbed at a rapid pace in recent quarters, rising 12.3 percent during the past year. Apartment rents in Milwaukee rose 3.1 percent in the first quarter to \$1,274 per month.
- **Forecast:** Projects totaling approximately 950 multifamily units are forecast to be delivered in 2022, similar to the number of completions in the previous year. Vacancy should hold steady at 3.6 percent. Asking rents are forecast to end the year at about \$1,330 per month, a 7.5 percent growth rate.



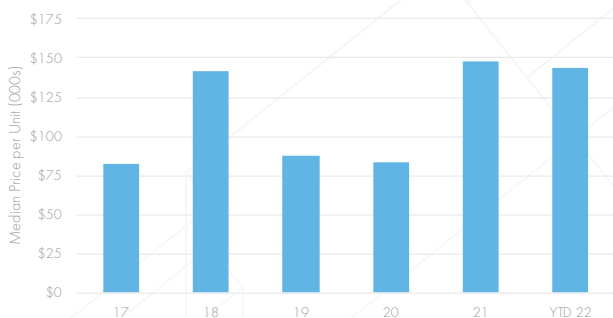
Apartment rents rose
3.1 percent in the first quarter.

Vacancy and Rent Trends



The median price is approximately
\$143,500 per unit.

Sales Trends



Multifamily Sales

- Multifamily sales activity cooled to this point in 2022, following an extremely active investment market in the previous year. The number of transactions that closed during the first quarter was down about 45 percent from the average first-quarter total recorded during the past five years.
- Prices spiked in 2021 and have remained elevated year to date. The median price in transactions that have closed in 2022 is approximately \$143,500 per unit.
- Cap rates in Milwaukee have remained in a fairly tight range since 2020. Most properties are changing hands with cap rates between 4.75 percent to 5.5 percent.

Omaha

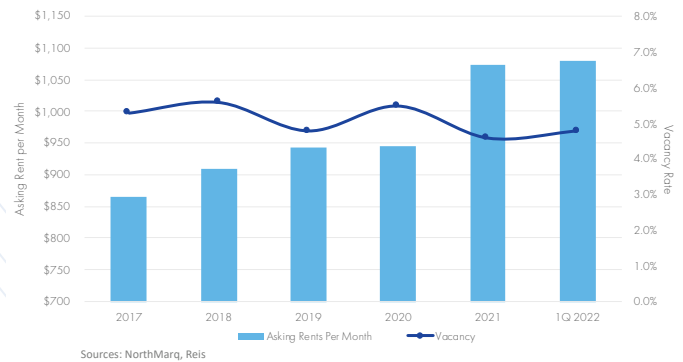
Construction/Vacancy/Rents

- Construction activity in Omaha slowed during the first quarter as 77 units came online, following the delivery of 632 units at the end of 2021. Despite a slow start, the pace of apartment completions will pick up in the coming quarters with projects totaling more than 2,600 units currently under construction.
- Vacancy inched higher in Omaha in the first quarter, rising 20 basis points to 4.8 percent. Year over year, the vacancy rate dropped by 130 basis points with the largest improvements occurring during the third quarter of 2021.
- The pace of rent growth cooled in recent months as apartment rents rose less than 1 percent in the first quarter to \$1,080 per month. During the past year, asking rents spiked by nearly 14 percent.
- Forecast:** The bulk of the projects that are currently under construction are scheduled to come online in 2022 as roughly 1,800 units are slated to be delivered this year. The vacancy rate is expected to hold steady in the remainder of the year, finishing 2022 at 4.8 percent. Apartment rents are forecast to rise 4 percent in 2022 to \$1,117 per month.



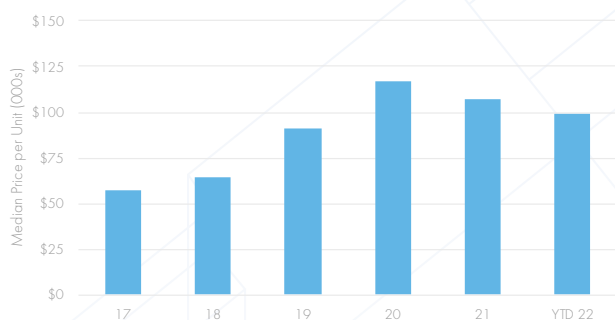
During the past year, asking rents spiked by nearly 14 percent.

Vacancy and Rent Trends



The median sales price to this point in 2022 is \$99,400 per unit.

Sales Trends



Multifamily Sales

- Typically, only a handful of significant properties trade in Omaha every year. At the start of 2022, transaction activity closely tracked levels from the same period in previous years.
- The median sales price to this point in 2022 is approximately \$99,400 per unit, down 7 percent from the median price in 2021. The Northwest Omaha submarket was the most active area for recent sales.
- Cap rates in Omaha have been fairly steady in the past several years. Most properties are trading with cap rates between 4.8 percent to 5.8 percent.

St. Louis

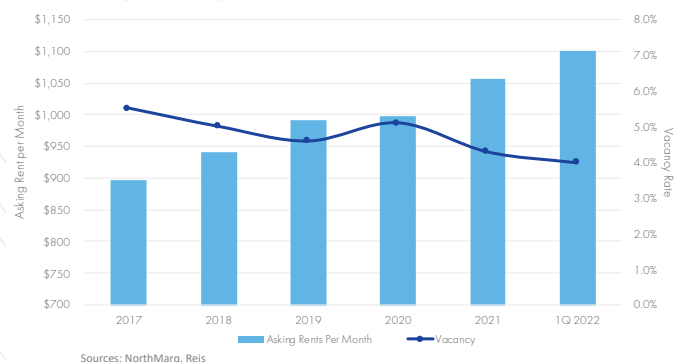
Construction/Vacancy/Rents

- The pace of apartment completions accelerated in the first few months of 2022. Approximately 730 units were delivered in the first quarter, outpacing the total number of deliveries in 2021. The multifamily construction pipeline expanded in recent months, with projects totaling roughly 4,880 units currently under construction.
- Vacancy in St. Louis tightened to its lowest figure in more than 20 years, dropping 30 basis points in the first quarter to 4 percent. Year over year, the rate declined by 150 basis points.
- Rent growth surged in the first quarter, advancing 4.1 percent from January through March to \$1,101 per month. Year over year, rents in St. Louis grew by 8.4 percent.
- Forecast:** Multifamily developers should remain active in the next few quarters with nearly 2,200 units scheduled to come online in 2022. Vacancy in St. Louis is forecast to end the year at 4.2 percent, down 10 basis points from the end of 2021. Asking rents will continue to trend upwards, reaching approximately \$1,145 per month, reflecting an annual gain of about 8.3 percent.



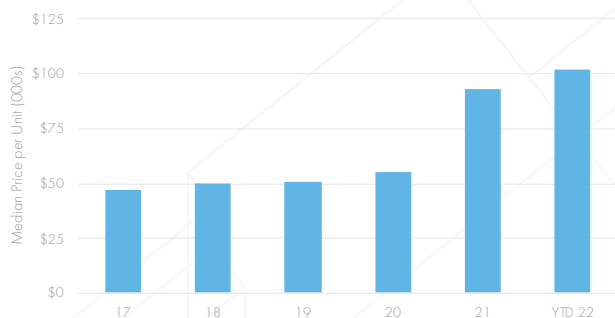
Vacancy in St. Louis tightened to its lowest figure in more than 20 years.

Vacancy and Rent Trends



Sales velocity in the first quarter increased 41 percent.

Sales Trends



Multifamily Sales

- The multifamily investment market got off to a strong start in 2022, as sales velocity in the first quarter increased 41 percent from the previous period.
- With sales activity picking up in St. Louis, transaction prices pushed higher in recent months. The median sales price in the first quarter reached \$101,900 per unit, a 9 percent increase from the median price in 2021.
- Cap rates during the first quarter averaged around 4.5 percent, down 130 basis points from one year ago.



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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.