

Market Insights

Midwest Multifamily 3Q 2022



Construction Activity



52,090

Units under construction

25,543

Units delivered (YTD)

Market Fundamentals



4.4%

Vacancy

-40bps

Year over year change

\$1,438

Asking Rent

+8.8%

Year over year change

Transaction Activity



\$136,700

Median sales price per unit (YTD)

With Supply Growth Modest, Vacancies Inch Lower

Highlights

- Multifamily property performance across the Midwest region was healthy in the third quarter. While many higher-growth regions in the country posted weaker operating conditions and are facing the competitive threat of new supply, conditions in the Midwest are generally outperforming.
- The average vacancy in the region inched down 10 basis points during the third quarter, reaching 4.4 percent. This followed a 30-basis point decline in the preceding quarter. Year over year, vacancy has dropped 40 basis points. Nearly every market surveyed has tightened during the past 12 months.
- Asking rent growth in the Midwest totaled 8.8 percent over the past year, with markets including Omaha and Indianapolis posting double-digit percentage point increases. Many markets in the region continued to post healthy gains during the third quarter, outperforming the national average.
- Investment activity in the major Midwest markets during the third quarter closely tracked levels recorded during the second quarter. Trends were mixed across markets, with some cities posting healthy increases in transaction volume, while others posted declines. The repeated rises in interest rates have impacted the investment markets throughout the region.

Midwest Multifamily Market Overview

Multifamily operating conditions in the major Midwest markets generally improved during the third quarter. The overall vacancy rate tightened modestly, and nearly every market is posting a year-over-year improvement. Two factors are driving this performance. The first has been a fairly consistent pace of renter demand for units, while the second has been a modest pace of inventory growth across most markets. Demand is being supported by rebounding local labor conditions, with particularly strong recoveries being recorded in a handful of the region's largest markets. On the supply side, about 25,500 units have been delivered year to date, representing an increase to the regional inventory of less than 2 percent. Additional development is likely in the year ahead with more than 52,000 units currently under construction. Nearly half of the total units underway are located in Chicago and Minneapolis-St. Paul, where employment growth has been strongest to this point in the business cycle.

Sales velocity during the third quarter was mixed across the primary Midwest markets, but total transaction counts for the region were nearly identical to levels from the second quarter. Most markets in the region did not record the steep increases that were posted across the Sunbelt, and recent levels of activity are proving to be sustainable, even as interest rates have pushed higher. Cap rates are beginning to trend higher in response to rising borrowing costs, with averages in most markets generally falling between 4.5 percent and 5.5 percent during the third quarter. There will likely be some additional upward pressure on cap rates in the next few quarters, and with interest rates expected to remain elevated well into 2023, rates will likely remain elevated through the remainder of this year. Still, transactions will continue to execute, as sellers in the Midwest are more used to higher cap rate environments than owners in supply-constrained markets along the coasts.

Chicago

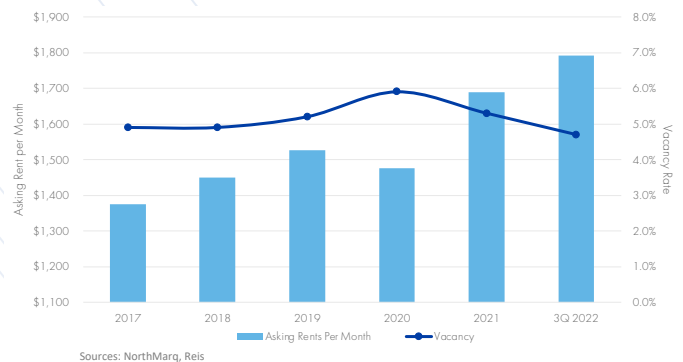
Construction/Vacancy/Rents

- Construction activity in Chicago continued to slow during the third quarter with the completion of roughly 640 units in the last three months. Year to date, approximately 3,320 apartment units have come online. Developers are actively breaking ground on new projects with nearly 11,800 units currently underway throughout the region.
- The vacancy rate in Chicago has consistently trended lower thus far in 2022, dipping 10 basis points during the third quarter to 4.7 percent. Year over year, the rate is down 60 basis points.
- Local asking rents continued to rise at a healthy pace during the third quarter, jumping 2.5 percent in the last three months to \$1,791 per month. Year over year, apartment rents are up 9.8 percent.
- **Forecast:** Property fundamentals in Chicago are set for modest gains in the final months of the year. Vacancy is expected to inch lower in the fourth quarter, finishing the year at around 4.6 percent. Local apartment rents are forecast to rise roughly 6.5 percent in 2022 to \$1,800 per month. Projects totaling approximately 4,000 units are projected to be completed in 2022, down from more than 5,100 units in the prior year.



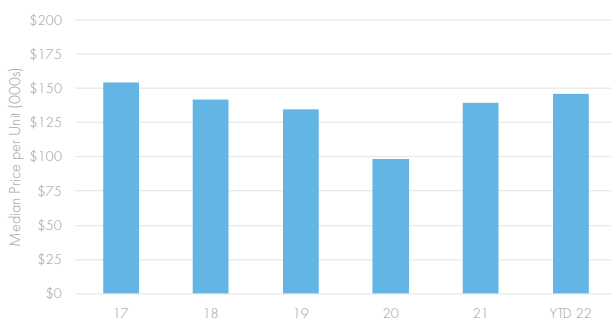
Year over year, apartment rents are up 9.8 percent.

Vacancy and Rent Trends



The median price to this point in the year is approximately \$145,700 per unit.

Sales Trends



Multifamily Sales

- Sales activity was mostly stable in recent months as transaction volume during the third quarter closely tracked levels from the preceding period. The number of deals to this point in the year is up nearly 5 percent from the same period in 2021.
- Although pricing has begun to cool somewhat in recent months, the median sales price year to date remains above last year's figure. The median price to this point in the year is approximately \$145,700 per unit, up almost 5 percent from the median price in 2021.
- Properties are being sold with cap rates across a fairly wide range between 4 percent and 5.5 percent. During the third quarter, cap rates averaged approximately 4.7 percent.

Cincinnati

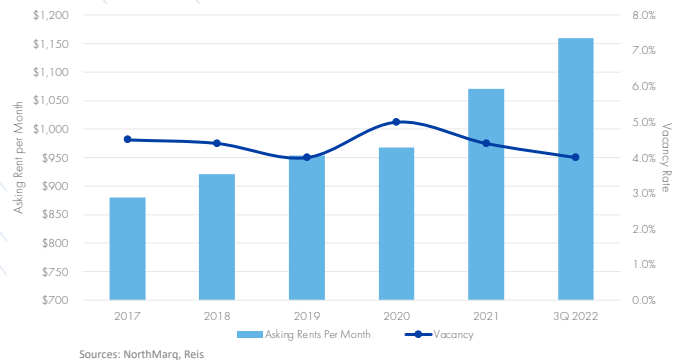
Construction/Vacancy/Rents

- The pace of apartment deliveries accelerated during the third quarter with the completion of 1,460 units in the last three months. Year to date, developers completed more than 2,350 multifamily units across Cincinnati. Projects totaling approximately 5,360 units are currently under construction throughout the region, up 9 percent from one year ago.
- After falling for five consecutive quarters, the vacancy rate held steady in recent months at 4 percent. Year over year, local vacancy improved by 30 basis points.
- Local apartment rents gained ground during the third quarter after ticking lower in the previous period. Area asking rents ended the third quarter at \$1,159 per month, up 9.7 percent from one year earlier.
- **Forecast:** Multifamily developers are expected to finish the year strong as projects totaling nearly 2,900 units are slated to come online in 2022. With an elevated number of projects delivering this year, vacancy should inch higher in the coming months. Local vacancy is forecast to finish the year at 4.1 percent. Area rents are projected to rise 9 percent this year to more than \$1,165 per month.



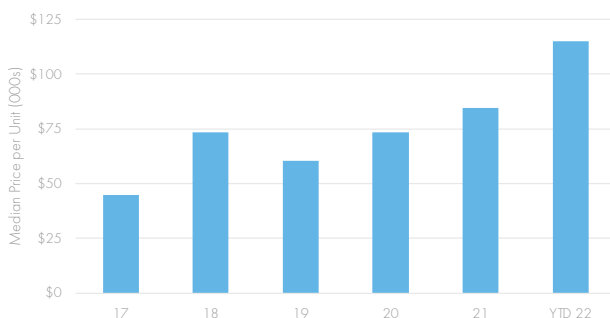
Asking rents ended the third quarter at \$1,159 per month.

Vacancy and Rent Trends



The median sales price reached \$115,000 per unit.

Sales Trends



Multifamily Sales

- Sales activity gained momentum in recent months as the number of deals during the third quarter outpaced the previous two periods combined. Transaction volume year to date is up nearly 12 percent from the same period in 2021.
- As more properties are changing hands, sales prices have trended higher to this point in the year. Through the first three quarters, the median sales price reached \$115,000 per unit, up 36 percent from the median price in 2021.
- With prices trending higher over the years, cap rates have compressed, now averaging in the mid- to high-4 percent range. Cap rates will likely trend higher in the coming quarters as financing costs increase.

Indianapolis

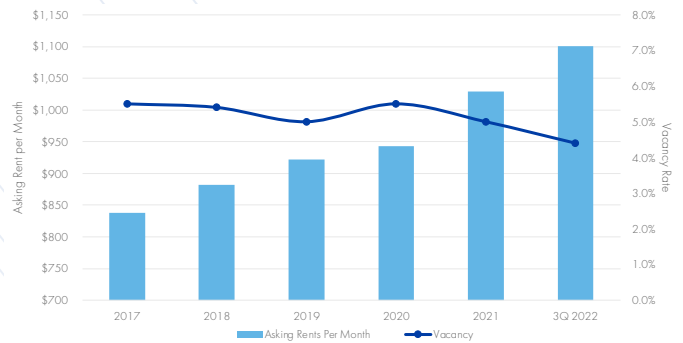
Construction/Vacancy/Rents

- The pace of deliveries has been fairly consistent in recent quarters with more than 400 units coming online in the last three months. Year to date, projects totaling roughly 1,270 units have been delivered. Apartment developers continue to break ground on new projects with nearly 4,500 units currently under construction, up 15 percent from one year ago.
- The vacancy rate in Indianapolis dipped 10 basis points during the third quarter to 4.4 percent. During the past 12 months, the rate fell by 70 basis points with the largest declines occurring near the city center. In the Central submarket, vacancy improved by 380 basis points in the last year to 9 percent.
- Average rents rose 3.2 percent during the third quarter, reaching \$1,101 per month. Year over year, asking rents are up 10.1 percent.
- **Forecast:** Multifamily projects totaling approximately 1,750 units are slated to be delivered in 2022. After reaching its lowest rate on record in recent months, vacancy should tick higher in the fourth quarter but will remain below the 2021 year-end figure; vacancy is expected to finish the year at 4.7 percent. Asking rents are projected to rise nearly 8 percent in 2022 to approximately \$1,110 per month.



Average rents rose 3.2 percent during the third quarter.

Vacancy and Rent Trends

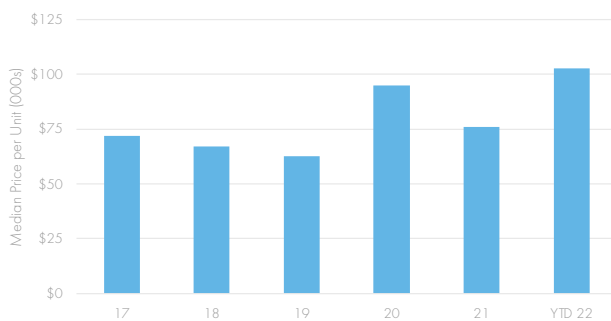


Sources: NorthMarq, Reis



The median sales price thus far in 2022 is approximately \$102,600 per unit.

Sales Trends



Multifamily Sales

- Multifamily transaction activity slowed in recent months as the number of deals declined 45 percent from the second quarter to the third quarter. Despite the recent slowing, sales activity year to date is up 15 percent from the same period in 2021.
- Per-unit pricing remains well above last year's figure. The median sales price thus far in 2022 is approximately \$102,600 per unit, a 35 percent increase from the median price last year. While mid-tier assets accounted for the bulk of the transactions in recent quarters, activity picked up in the sale of Class C apartments in the last three months.
- Cap rates have trended lower during the past year with most properties now selling with cap rates between 4.5 percent and 5.5 percent.

Kansas City

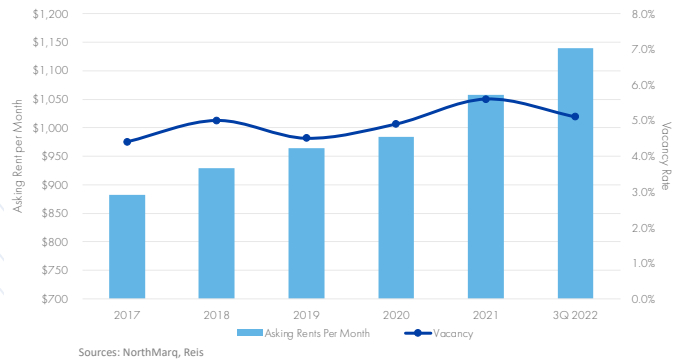
Construction/Vacancy/Rents

- Construction activity remains strong throughout Kansas City as nearly 1,270 multifamily units came online in the third quarter, bringing the year-to-date total to more than 3,000 units. Developers are active throughout the region with projects totaling more than 5,200 units in the construction pipeline.
- Local vacancy continued to inch lower in recent months, dipping 10 basis points during the third quarter to 5.1 percent. Year over year, the rate is down 40 basis points. During the past 12 months, the vacancy rate in Class A properties tightened by 130 basis points, reaching 6.2 percent.
- Rent growth accelerated during the third quarter, rising 2.3 percent in the last three months to \$1,139 per month. Year over year, asking rents advanced by 8.4 percent.
- **Forecast:** Multifamily development is expected to remain active in the coming months, as local developers are forecast to deliver 5,100 new units during 2022. The vacancy rate is expected to finish the year at 5.2 percent, down 40 basis points from the end of 2021. Apartment rents are projected to rise more than 8 percent this year to roughly \$1,145 per month.



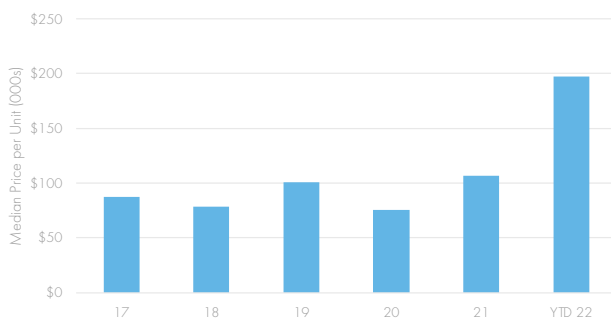
Year over year, asking rents advanced by 8.4 percent.

Vacancy and Rent Trends



Class A property sales have accounted for nearly half of all transactions.

Sales Trends



Multifamily Sales

- Sales activity remained steady in recent quarters as transaction volume in the last three months closely tracked levels recorded in the previous period. To this point in the year, sales velocity is up 5 percent from the same period in 2021.
- The median sales price thus far in 2022 is \$197,200 per unit, up nearly 85 percent from the median price in 2021. Class A property sales have accounted for nearly half of all transactions thus far in 2022.
- Cap rates averaged approximately 4 percent in the third quarter and have been low because of the number of premium properties that have sold. Most properties sold during the third quarter with cap rates between 3.5 percent and 4.5 percent.

Milwaukee

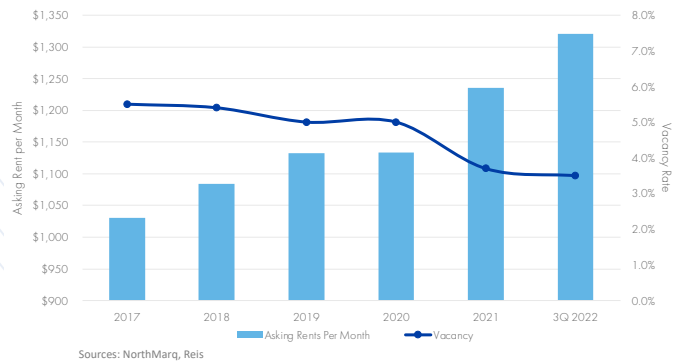
Construction/Vacancy/Rents

- Multifamily developers maintained a strong pace of deliveries in recent months. Projects totaling more than 550 new units came online during the third quarter, bringing the year-to-date total to nearly 1,200 units. Construction activity continued to expand during the third quarter as a few larger projects broke ground.
- After trending lower in the first half of the year, local vacancy held steady during the third quarter, remaining at 3.5 percent. Year over year, the rate dipped 10 basis points. The combined vacancy for Class B and Class C properties recorded the largest improvement during the last 12 months, dropping 60 basis points to 2.7 percent.
- Asking rents advanced 2.5 percent in the last three months to \$1,321 per month. Year over year, rents have risen 7.1 percent.
- **Forecast:** Developers are forecast to complete more than 1,300 multifamily units in 2022. Local vacancy should inch higher in the coming months with the rate projected to close the year at 3.6 percent. Asking rents are expected to rise roughly 7.5 percent in 2022 to approximately \$1,330 per month.



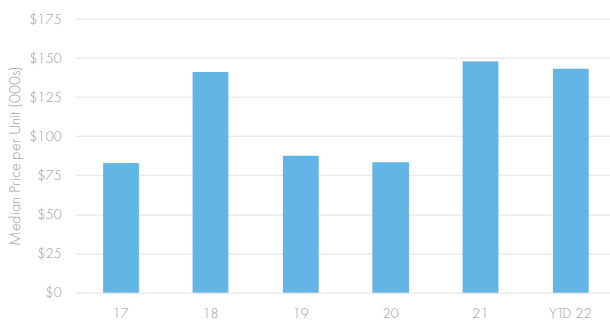
Year over year, rents have risen 7.1 percent.

Vacancy and Rent Trends



The median sales price thus far in 2022 is \$143,500 per unit.

Sales Trends



Multifamily Sales

- Sales activity in the Milwaukee multifamily investment market picked up in recent months, as a handful of properties sold during the third quarter. Class B assets made up the majority of recent sales with a concentration of activity in the Historic Third Ward, West Allis, Brown Deer, and Fox Point submarkets.
- Sales prices remained fairly steady through the first three quarters of 2022. The median sales price thus far in 2022 is \$143,500 per unit, down approximately 3 percent from the median price last year.
- Cap rates in Milwaukee have been extremely steady to this point in the year. Most properties are selling with cap rates between 5 percent and 5.5 percent.

Minneapolis

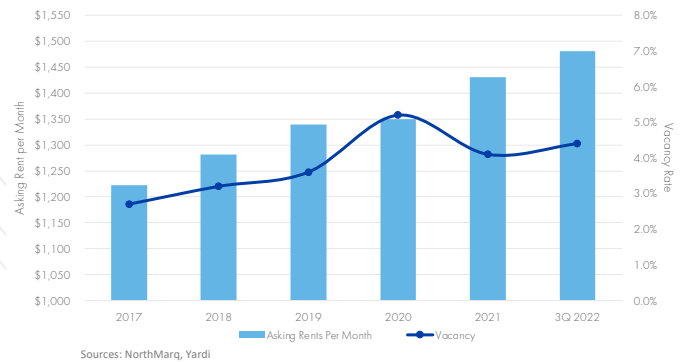
Construction/Vacancy/Rents

- The pace of apartment construction picked up during the third quarter with the delivery of roughly 3,450 units in the last three months. Year to date, more than 8,900 multifamily units have come online. Projects totaling approximately 13,500 units are currently under construction throughout the Minneapolis-St. Paul area with a concentration of activity around Downtown Minneapolis.
- After maintaining a stable rate in the first half of the year, local vacancy ticked higher in recent months, rising 20 basis points during the third quarter to 4.4 percent. Year over year, the rate is up 40 basis points.
- Asking rents continued to push higher in recent months, although the pace of growth cooled from earlier periods. Average rents rose 1 percent during the third quarter to \$1,481 per month. Year over year, apartment rents in the Twin Cities area are up 5 percent.
- **Forecast:** Projects totaling approximately 10,400 units are scheduled to come online in 2022, closely tracking last year's levels. Local vacancy is projected to hold steady in the final months of the year, finishing 2022 at around 4.4 percent. Rent growth is forecast to advance 4.2 percent this year, reaching approximately \$1,490 per month by the end of 2022.



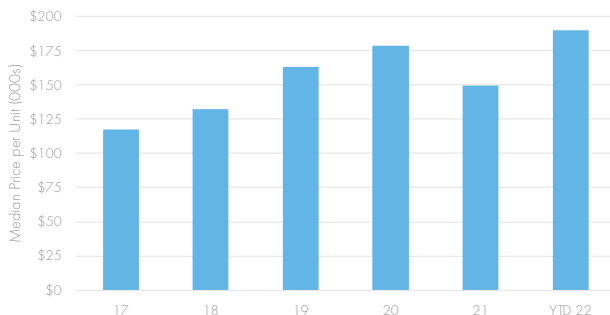
Year over year, apartment rents are up 5 percent.

Vacancy and Rent Trends



The median sales price to this point in 2022 reached \$190,000 per unit.

Sales Trends



Multifamily Sales

- Sales activity in the Minneapolis-St Paul multifamily investment market gained momentum in recent months, running counter to the prevailing national trend. The number of deals that closed in the last three months increased 36 percent from the second quarter.
- With transaction activity on the rise, per-unit pricing remains above last year's figure. The median sales price to this point in 2022 reached \$190,000 per unit, up 27 percent from the median price last year. Sales activity in the last three months was mostly concentrated in outlying suburban submarkets.
- Despite increases in capital costs, cap rates in Minneapolis-St. Paul have been mostly steady in recent quarters. During the third quarter, cap rates averaged 4.5 percent, nearly identical to levels in the preceding period.

Omaha

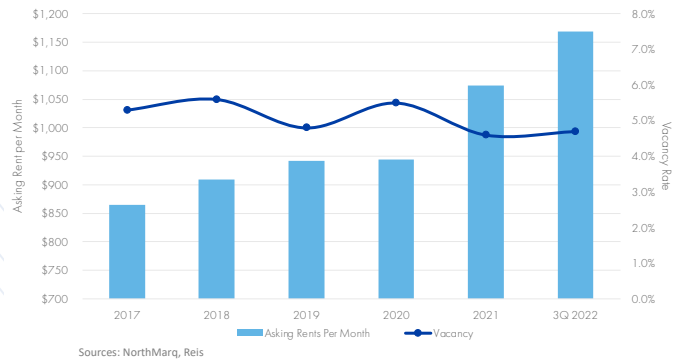
Construction/Vacancy/Rents

- Developers continued to bring projects online as more than 500 units were delivered during the third quarter. Year to date, more than 1,300 apartment units have been completed. Development activity is up nearly 40 percent from one year ago with projects totaling more than 4,300 units currently under construction.
- After holding steady in the previous quarter, local vacancy dipped 10 basis points in the last three months to 4.7 percent. Year over year, the vacancy rate is up 20 basis points.
- Asking rents advanced at a healthy pace during the third quarter, increasing 3.4 percent to \$1,169 per month. During the past 12 months, rents rose 11.3 percent. The combined average rents in Class B and Class C properties increased by 11.5 percent in the past year, reaching \$934 per month.
- **Forecast:** Multifamily developers will remain active in the last few months of the year as projects totaling more than 1,700 units are expected to come online in 2022. Vacancy should inch higher in the coming months and close out the year at 4.8 percent. Area rents are projected to reach \$1,173 per month during the fourth quarter, rising 9.3 percent for the full year.



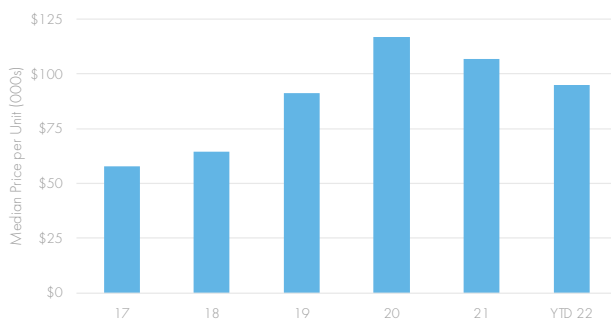
During the past 12 months, rents rose 11.3 percent.

Vacancy and Rent Trends



Cap rates averaged 5 percent during the third quarter.

Sales Trends



Multifamily Sales

- While sales velocity slowed from the second quarter to the third quarter, transaction activity to this point in the year is closely tracking last year's levels. The bulk of the transactions that have closed in recent months have been in excess of \$10 million, after transactions averaged about \$5 million during the first half of the year.
- Sales prices have come down from the surge in pricing recorded during 2020 and 2021. Year to date, the median sales price is approximately \$94,700 per unit, approximately 11 percent lower than the 2021 figure. Nearly all of the transactions to this point in 2022 occurred in Northwest Omaha or Bellevue.
- Cap rates averaged 5 percent during the third quarter. Cap rates are expected to trend higher in the coming months and will likely average between 5.25 percent and 6 percent during the fourth quarter.

St. Louis

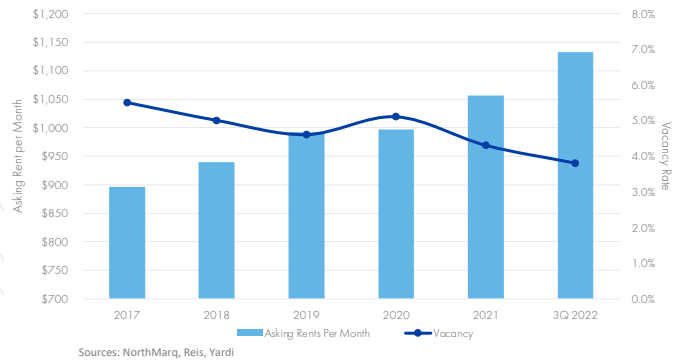
Construction/Vacancy/Rents

- Multifamily developers in St. Louis were extremely active in recent months as projects totaling more than 2,350 units were delivered during the third quarter. Approximately 4,150 units have come online to this point in the year, an all-time high for the region. Additional deliveries are in the pipeline; projects totaling roughly 4,250 units are currently under construction.
- Even with the recent spike in deliveries, vacancy still crept lower, dropping 20 basis points during the third quarter to 3.9 percent. Year over year, the rate improved by 70 basis points.
- Rents continued to push higher at a modest pace during the third quarter, after surging at the start of the year. Asking rents ended the quarter at \$1,132 per month, 8 percent higher than one year earlier.
- **Forecast:** Deliveries are forecast to reach approximately 4,500 units in 2022, although nearly all of this year's completions have already come online. The vacancy rate will likely tick higher in the remainder of the year, finishing 2022 at 4.1 percent. Local asking rents are forecast to reach \$1,140 per month at year end, an annual rise of 7.9 percent.



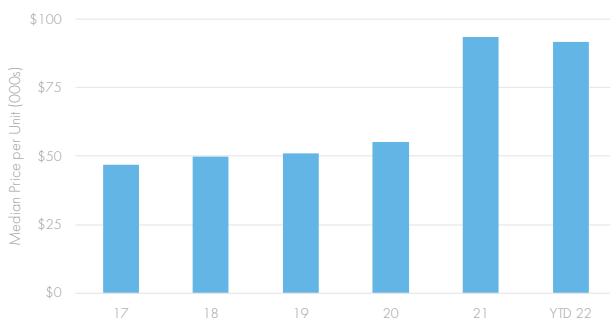
Asking rents ended the third quarter at \$1,132 per month.

Vacancy and Rent Trends



Cap rates averaged approximately 5.5 percent in the third quarter.

Sales Trends



Multifamily Sales

- While property fundamentals are strong, investment activity cooled in recent months, following a particularly active period in the first half of this year. Despite the recent slowing, sales velocity year to date is up nearly 45 percent from the same period in 2021.
- The median price through the first nine months of 2022 reached approximately \$91,500 per unit, slightly lower than the median price in 2021. In the Class C segment of the market, which accounts for a large share of transactions, properties typically change hands near \$50,000 per unit.
- Cap rates averaged approximately 5.5 percent in the third quarter, about 70 basis points higher than in the first half of the year. The rise in cap rates reflects the increases in interest rates throughout the broader economy and the capital markets.



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