

Midwest region expected to outperform

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **60,957**

UNITS DELIVERED **31,629**

MARKET FUNDAMENTALS



VACANCY RATE **4.5%**

YEAR-OVER-YEAR CHANGE **-30bps**

ASKING RENTS **\$1,466**

YEAR-OVER-YEAR CHANGE **+8.4%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$143,400**

HIGHLIGHTS

- The multifamily markets across the Midwest performed well throughout 2022 and are positioned for continued health in the year ahead. Vacancy rates are low, and rents are trending higher. The pace of construction is accelerating, but deliveries should closely track renter demand growth.
- Rents across the region spiked by 8.4 percent in 2022, and most markets continued to post quarterly increases through the end of the year. Looking ahead, most Midwest markets are forecast to record rent increases between 3 percent and 4 percent in 2023.
- Vacancy in the Midwest rose 10 basis points from the third quarter to the fourth quarter, reaching 4.5 percent. Despite the modest uptick late in the year, the rate posted an annual decline of 30 basis points in 2022.
- Regional investment activity slowed modestly in the fourth quarter, and most markets recorded fewer property sales in 2022 than in 2021. Prices inched higher, in part due to Class A properties accounting for a greater share of overall activity. Cap rates rose by about 75 basis points in 2022.

MIDWEST MULTIFAMILY MARKET OVERVIEW

As 2022 came to a close, multifamily markets across the Midwest were positioned to outperform more expensive regions in other parts of the country. Apartment vacancies across the Midwest generally remained low throughout the year and are not expected to trend significantly higher in 2023. While apartment construction is scheduled to accelerate in the coming quarters, the delivery totals will be far more modest than in the markets across the Sunbelt where an apartment building boom is under way. The results of the more moderate supply-side pressures will be a regional vacancy rate that remains low enough for operators to continue to raise rents. Most markets in the Midwest are expected to record rent growth ranging between 3 percent and 4 percent in 2023. During the fourth quarter, rents in the Midwest advanced at a faster pace than the rest of the country.

With the Midwest region recording less operational volatility and offering higher cap rates, investment activity has been less severely impacted by rising interest rates and a more restrictive capital markets environment. Sales activity in the fourth quarter was down about 11 percent across the Midwest region, and a few markets such as Kansas City and Indianapolis recorded increases in transactions at the end of the year. Many markets in the region recorded stable or increasing prices from 2021 to 2022, supported by annual rent increases that ranged between 7 percent and 10 percent across most markets. Cap rates have increased by an average of 75 basis points across the region, with averages across most of the major markets between 5 percent and 6 percent.

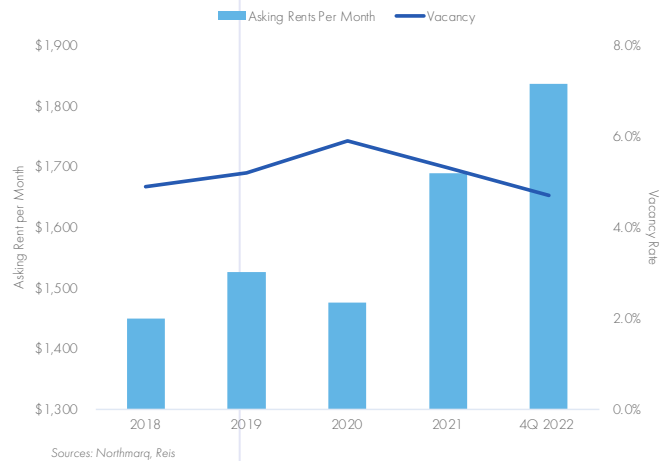
CHICAGO

CONSTRUCTION/VACANCY/RENTS

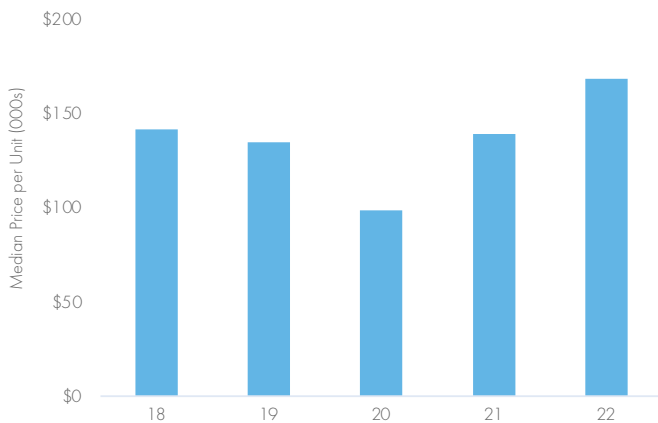
- Apartment developers were active in recent months as projects totaling roughly 1,170 units came online in the fourth quarter. Developers completed nearly 4,500 units for the full year, down 12 percent from the 2021 total. The construction pipeline continues to expand, as projects totaling approximately 13,950 units are currently under construction in the Chicago area, a 52 percent increase from one year ago.
- The vacancy rate in Chicago was mostly stable in recent months, after trending lower for three consecutive quarters. The rate finished the year at 4.7 percent, a 60-basis point improvement in 2022.
- After a slow start in 2022, asking rents rose at a healthy pace at the end of the year. Apartment rents rose 2.5 percent in the fourth quarter to \$1,836 per month. During the past 12 months, rents increased by 8.7 percent.
- **FORECAST:** Property performance metrics in Chicago are expected to slow somewhat in 2023. Local vacancy is anticipated to rise 20 basis points during the next 12 months to 4.9 percent, while rents are on track to gain 3 percent to \$1,890 per month. Projects totaling roughly 7,500 units are slated to come online in 2023.

During the past 12 months, rents increased by 8.7 percent.

VACANCY & RENT TRENDS



SALES TRENDS



Sales volume in 2022 was down 12 percent.

MULTIFAMILY SALES

- Multifamily sales velocity cooled in the final three months of 2022, as the number of transactions declined 17 percent from the third quarter to the fourth quarter. Total sales volume in 2022 was down 12 percent from levels recorded in 2021.
- The median sales price in 2022 was \$168,300 per unit, up 21 percent from the 2021 figure. Pricing has trended higher in recent months as the median sales price during the fourth quarter was \$201,600 per unit.
- Cap rates seem to have stabilized in the second half of 2022 and averaged around 5.1 percent during the fourth quarter.

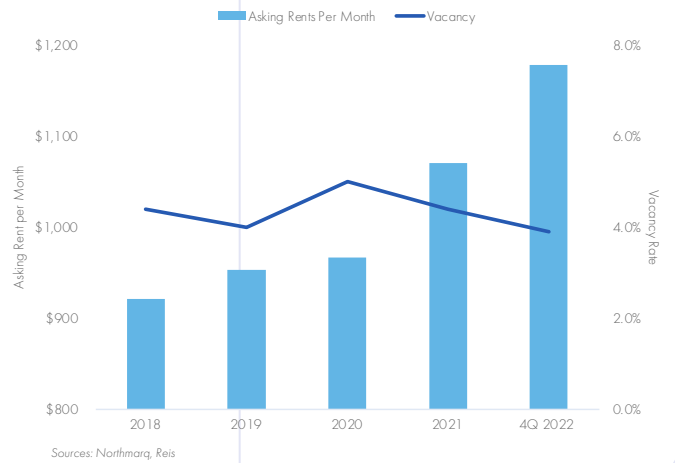
CINCINNATI

CONSTRUCTION/VACANCY/RENTS

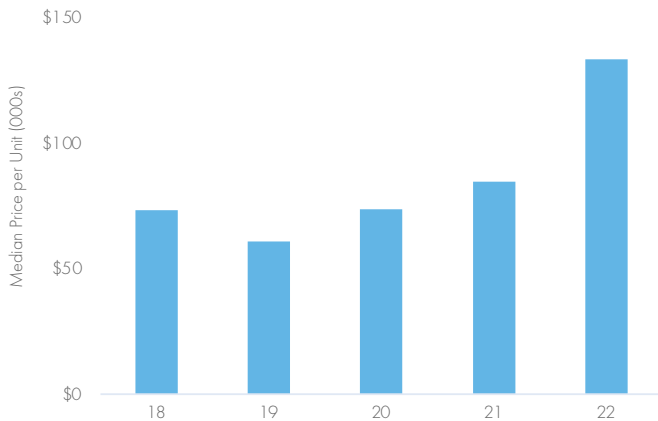
- Construction activity in Cincinnati slowed in the fourth quarter. Developers completed nearly 2,800 units in 2022, but fewer than 450 apartment units were delivered in the fourth quarter. Activity should pick up going forward; projects totaling roughly 6,280 units are currently under construction throughout the region.
- The vacancy rate in Cincinnati trended lower in recent years after reaching a cyclical high at the end of 2020. The rate dipped 10 basis points in the fourth quarter to 3.9 percent. During the past 12 months, vacancy improved by 50 basis points.
- Apartment rents continued to push higher in recent months, rising 1.6 percent in the final quarter to \$1,178 per month. For the full year, rents advanced more than 10 percent. The largest increases in the past 12 months occurred in the Northern Kentucky submarket, where rents rose 13.3 percent to \$1,231 per month.
- **FORECAST:** Multifamily developers are expected to remain active, with projects totaling more than 3,000 units scheduled to be delivered in 2023. The supply-side pressures will likely cause vacancy to inch higher. Vacancy is projected to rise 30 basis points in 2023 to 4.2 percent. Average rents are expected to gain around 3 percent in the next 12 months.

For the full year, rents advanced more than 10 percent.

VACANCY & RENT TRENDS



SALES TRENDS



The median sales price in 2022 was \$133,000 per unit.

MULTIFAMILY SALES

- After only a handful of properties traded in the first half of the year, sales activity in Cincinnati steadied in the second half of 2022. Transaction velocity was mostly stable from the third quarter to the fourth quarter, and total deal volume in 2022 was similar to the number of sales in 2021.
- Pricing surged during the past 12 months. The median sales price in 2022 was \$133,000 per unit, up 57 percent from the median price in 2021. Properties changed hands throughout the region in recent quarters, including a handful of deals in the Downtown Cincinnati and Northern Kentucky submarkets.
- Cap rates pushed higher at the end of the year, but there was a fairly wide range in deals that closed. Most properties sold with cap rates in the mid-4 percent to mid-5 percent range during the fourth quarter. The average cap rate for the full year was about 5.3 percent.

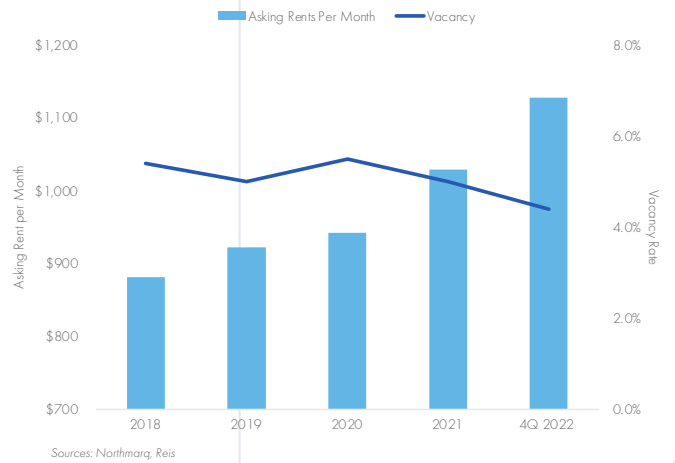
INDIANAPOLIS

CONSTRUCTION/VACANCY/RENTS

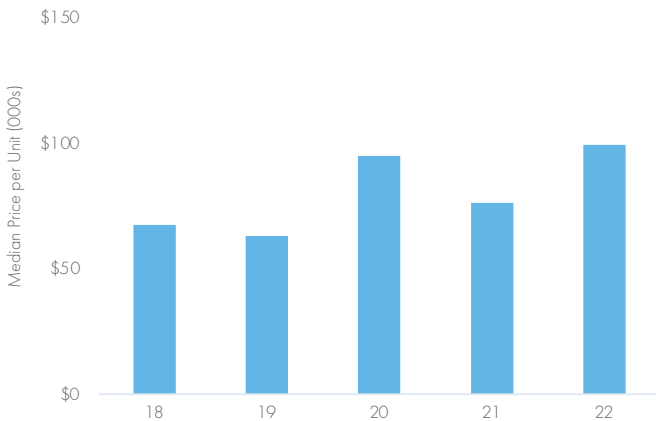
- Developers remained active in the fourth quarter, completing roughly 500 units in the last three months of 2022. The annual total in Indianapolis reached nearly 1,770 completed units. The construction pipeline expanded in recent months with 6,460 units currently underway, up 42 percent from one year.
- Vacancy tightened by 60 basis points in 2022, although the rate held steady at 4.4 percent from the third quarter to the fourth quarter. Vacancy in the Central submarket is elevated—averaging 9.5 percent—but the rate retreated 320 basis points in 2022.
- Apartment rents continued to advance at a healthy pace at the close of the year, rising 2.5 percent in the fourth quarter to \$1,128 per month. For the full year, local asking rents increased by 9.6 percent.
- **FORECAST:** The pace of apartment deliveries is projected to pick up in the coming quarters with projects totaling 3,000 units slated to come online in 2023. As construction activity gains momentum, vacancy will tick higher. The local vacancy rate is expected to rise 50 basis points in 2023, finishing the year at 4.9 percent. Asking rents are forecast to gain 3.5 percent to nearly \$1,170 per month.

Vacancy tightened by 60 basis points in 2022.

VACANCY & RENT TRENDS



SALES TRENDS



The median sales price in 2022 was \$99,000 per unit.

MULTIFAMILY SALES

- After slowing in the previous period, sales activity in Indianapolis gained momentum in recent months, as the number of deals rose 43 percent from the third quarter to the fourth quarter. Despite the increase at the end of the year, total transaction volume in 2022 fell 20 percent from levels recorded in 2021.
- While sales velocity dipped in the past year, pricing trended higher. The median sales price in 2022 was \$99,000 per unit, up 30 percent from the 2021 figure. Properties traded across all asset classes in recent months, with Class B assets accounting for the largest share of the transaction mix during the fourth quarter.
- Cap rates averaged around 5 percent during the final three months of 2022. In recent years, most properties sold with cap rates between 5.5 percent and 6 percent.

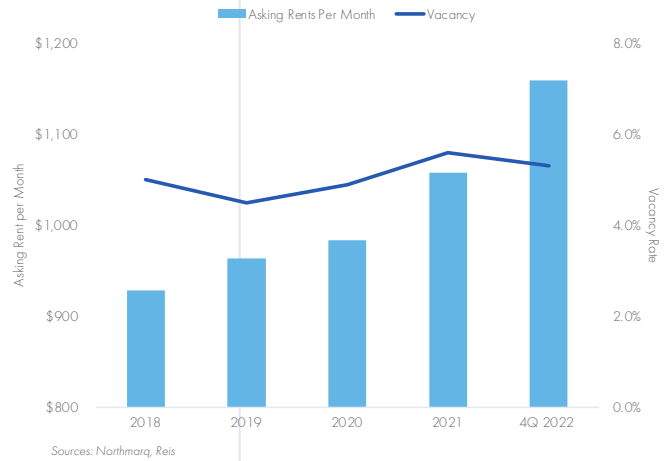
KANSAS CITY

CONSTRUCTION/VACANCY/RENTS

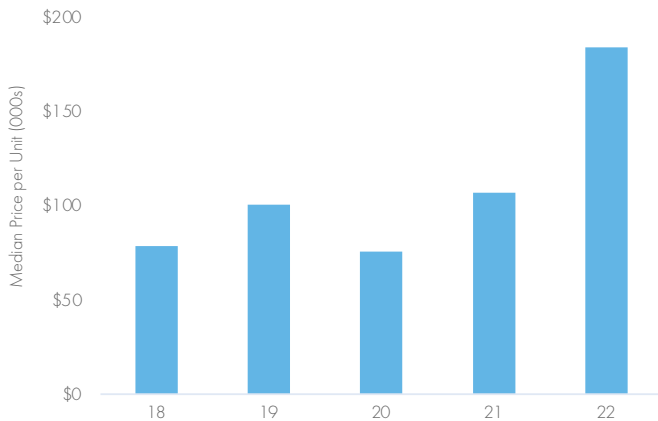
- Multifamily construction activity remained strong in recent months with approximately 1,325 units coming online in the fourth quarter. Developers completed more than 4,350 units in 2022, up 38 percent from the total in 2021. Projects totaling more than 4,600 units are currently under construction throughout Kansas City, an 8 percent increase from one year ago.
- After trending lower for two consecutive quarters, vacancy ticked higher during the final three months of the year. The rate rose 20 basis points in the fourth quarter to 5.3 percent.
- Asking rents in Kansas City continued to increase at a healthy pace in the fourth quarter, rising 1.8 percent to \$1,159 per month. Local rents are up 9.5 percent in 2022. Upper-tier units recorded the steepest rent increases. Rents for Class A properties jumped 10.8 percent in the last 12 months, reaching \$1,421 per month.
- **FORECAST:** Multifamily construction activity is expected to hold fairly steady in the coming quarters, as projects totaling roughly 4,250 units are slated to come online in 2023. Vacancy in Kansas City is forecast to finish the year at 5.7 percent, while asking rents are expected to rise roughly 3 percent in 2023 to nearly \$1,200 per month.

Developers completed more than 4,350 units in 2022.

VACANCY & RENT TRENDS



SALES TRENDS



MULTIFAMILY SALES

- The multifamily investment market gained momentum in the final few months of 2022, as transaction volume rose 40 percent from the third quarter to the fourth quarter. Kansas City was one of only a few markets that recorded an increase in transaction counts from 2021 to 2022.
- Prices trended higher in the first half of 2022 before cooling somewhat in the second half of the year. The median sales price for the full year in 2022 was \$183,900 per unit, while the median sales price in the fourth quarter was \$157,100 per unit.
- While transaction volume was elevated and prices pushed up, investors did require higher cap rates during acquisitions. Cap rates averaged 4.5 percent during the fourth quarter, after averaging 3.8 percent to 4.0 percent in the middle part of the year.

Cap rates averaged 4.5 percent during the fourth quarter.

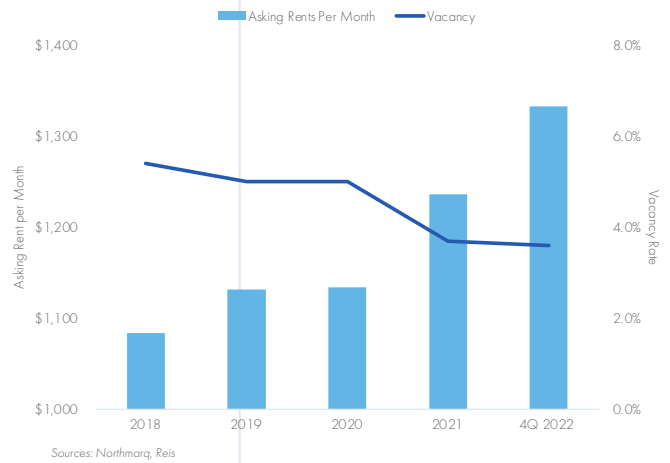
MILWAUKEE

CONSTRUCTION/VACANCY/RENTS

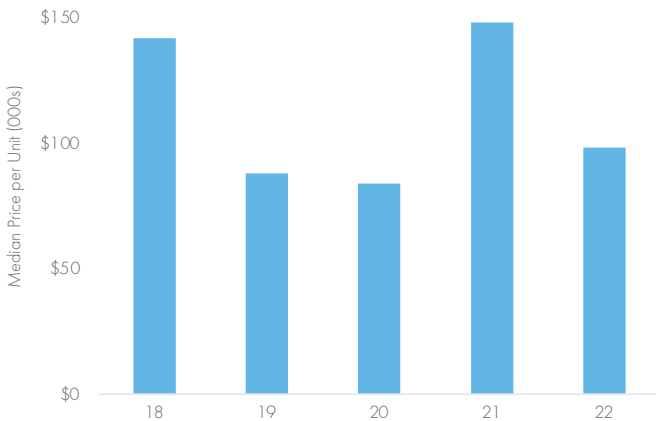
- Projects totaling approximately 1,700 units came online in Milwaukee in 2022, including about 500 units that were delivered during the fourth quarter. New projects continued to break ground; the number of units under construction rose 28 percent in 2022, reaching more than 4,850 units.
- Local vacancy inched higher in the fourth quarter, rising 10 basis points to 3.6 percent in the final three months of 2022. For the full year, vacancy improved by 10 basis points. Recent levels are below trend; the rate averaged around 5 percent from 2016 to 2020.
- Asking rents continued to climb in the final quarter, although the pace of rent growth tapered off from recent periods. Apartment rents in Milwaukee rose nearly 1 percent in the fourth quarter to \$1,333 per month. Rent growth reached 7.9 percent in 2022.
- **FORECAST:** Multifamily construction activity will remain elevated, as developers are scheduled to complete approximately 2,000 units in 2023. The vacancy rate should tick higher; local vacancy is forecast to rise 20 basis points to 3.8 percent. Vacancies will remain low enough to support continued rent increases. Asking rents are projected to rise 3 percent in 2023 to nearly \$1,375 per month.

Rent growth reached 7.9 percent in 2022.

VACANCY & RENT TRENDS



SALES TRENDS



MULTIFAMILY SALES

- Investment trends were mixed in 2022. For the full year, transaction activity increased 20 percent from the 2021 total. Fewer properties sold at the end of the year, however, sales velocity dipped 20 percent from the third quarter to the fourth quarter. Typically, only a handful of properties change hands in each period in Milwaukee.
- After surging in 2021, pricing has come down in recent quarters. The median sales price in 2022 was \$98,100 per unit, down 33 percent from the median price in 2021. Class B and Class C assets accounted for nearly all of the transactions that closed in the past 12 months.
- As prices have trended lower, cap rates have held fairly steady. Cap rates in Milwaukee averaged 5.5 percent during the fourth quarter. Earlier this year, cap rates generally ranged from 4.75 percent to 5.5 percent.

Cap rates averaged 5.5 percent during the fourth quarter.

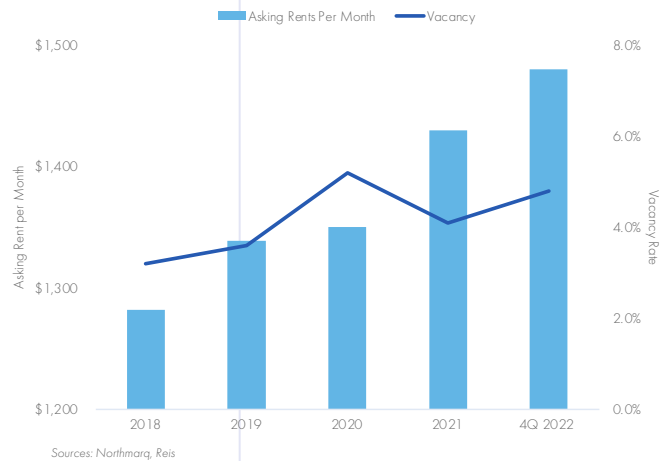
MINNEAPOLIS

CONSTRUCTION/VACANCY/RENTS

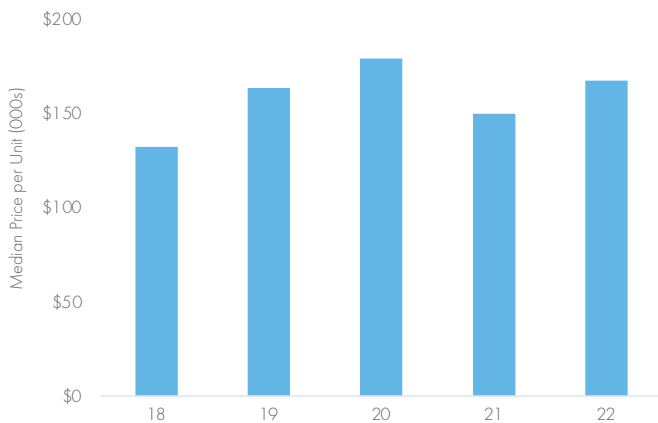
- Developers completed nearly 9,800 units in the Twin Cities in 2022, although fewer than 900 units were delivered during the fourth quarter. Projects totaling 14,560 units are currently under construction throughout the region with a concentration of activity in Downtown Minneapolis, Carver County, and Coon Rapids/Fridley/Blaine.
- Vacancy in the region has trended higher in recent quarters, following elevated construction levels during the past two years. The vacancy rate increased 40 basis points during the fourth quarter to 4.8 percent. The rate rose 70 basis points in 2022.
- Rents rose 3.5 percent during the past 12 months but were essentially flat in the fourth quarter. Asking rents ended 2022 at \$1,480 per month.
- **FORECAST:** Multifamily developers will continue to deliver projects at an active pace with approximately 9,000 apartment units slated to come online in the next 12 months. Renter demand should be healthy, driving a modest dip in the area vacancy rate to 4.6 percent. Average rents in the Twin Cities region are forecast to rise 2 percent in 2023 to \$1,510 per month.

Rents rose 3.5 percent during the past 12 months.

VACANCY & RENT TRENDS



SALES TRENDS



The median sales price in 2022 was approximately \$167,000 per unit.

MULTIFAMILY SALES

- Following the trend recorded across many markets, total sales volume in Minneapolis fell nearly 25 percent from 2021 to 2022. Sales velocity in the fourth quarter was down 15 percent compared to the prior quarter.
- With sales activity declining in recent quarters, pricing remains strong throughout the Minneapolis region. As activity picked up in sales of Class A properties, prices trended higher. The median sales price in 2022 was approximately \$167,000 per unit, up 12 percent from the median price in 2021.
- While prices pushed higher and top-tier assets changed hands, cap rates still rose. During the fourth quarter, cap rates averaged between 5 percent and 5.5 percent. Current cap rates are about 75 to 100 basis points higher than in 2021.

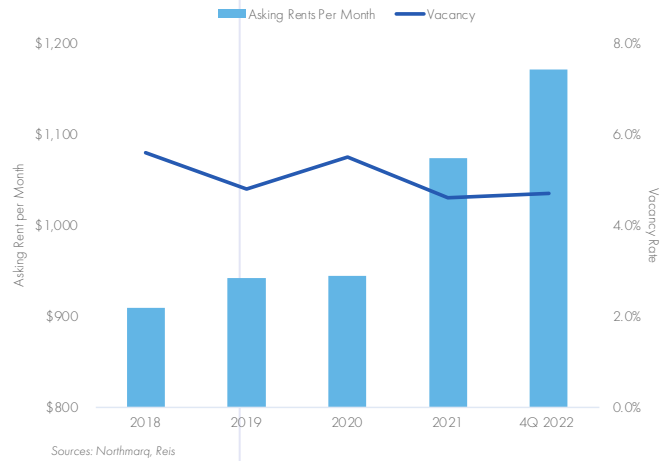
OMAHA

CONSTRUCTION/VACANCY/RENTS

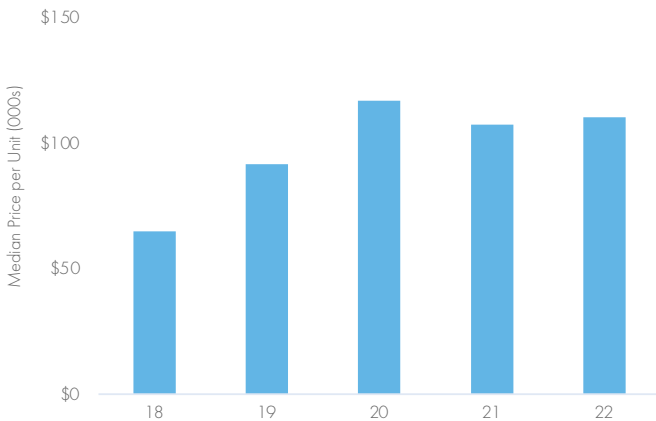
- Apartment developers continued to bring projects online in recent months with the delivery of more than 550 units in the fourth quarter. Projects totaling nearly 1,900 units came online in Omaha in 2022. Going forward, the pace of deliveries should accelerate; projects totaling roughly 5,870 units are currently under construction, a 90 percent increase from one year ago.
- Local vacancy held steady at 4.7 percent in the final three months of 2022. The rate remained in a tight range throughout the year; in 2022, vacancy inched up just 10 basis points.
- Asking rents rose less than 1 percent in the final quarter to \$1,171 per month, after recording rapid increases in earlier periods. For the full year, rents in Omaha jumped 9.1 percent.
- **FORECAST:** Construction activity will gain momentum in the coming quarters with projects totaling approximately 3,000 units scheduled to come online in 2023. Local vacancy should hold fairly steady before inching higher in the latter half of 2023. The rate is expected to increase to 4.8 percent. Area rents are forecast to rise 3 percent in 2023 to around \$1,205 per month.

For the full year, rents jumped 9.1 percent.

VACANCY & RENT TRENDS



SALES TRENDS



MULTIFAMILY SALES

- Typically, only a handful of transactions occur in Omaha each quarter. While fewer properties traded in the fourth quarter compared to the third quarter, total sales volume in 2022 was up slightly from levels recorded in 2021.
- The median sales price in 2022 was approximately \$110,100 per unit, up 3 percent from the median price in 2021. Class C properties accounted for the bulk of the transactions in the last 12 months, with most sales prices ranging from \$10 million to \$20 million.
- Cap rates inched slightly higher in recent months. Cap rates in Omaha averaged 5.25 percent in the fourth quarter, up 25 basis points from the previous period.

Cap rates averaged 5.25 percent in the fourth quarter.

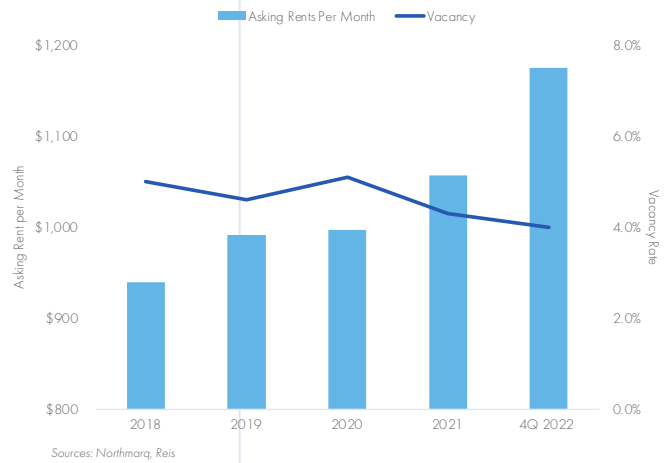
ST. LOUIS

CONSTRUCTION/VACANCY/RENTS

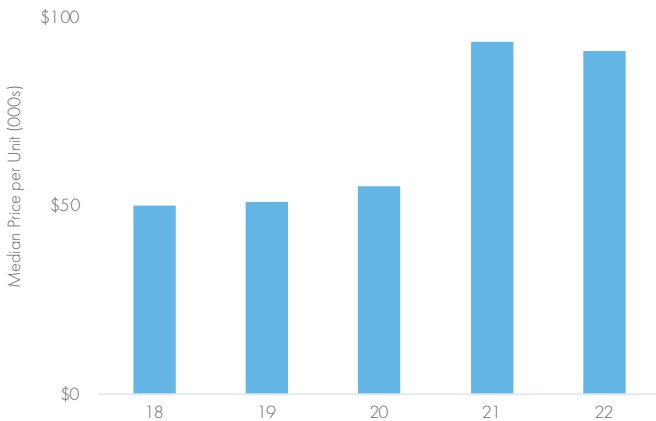
- Deliveries in 2022 totaled more than 4,850 units, nearly tripling the market’s trailing five-year annual average. The pace of development will slow; projects totaling approximately 4,350 units were under construction at the end of the fourth quarter, down 11 percent from the start of the year.
- Vacancy ticked higher at the end of 2022 after reaching a cyclical low in the third quarter. The rate rose 10 basis points in the fourth quarter to 4 percent. Despite the recent uptick, local vacancy improved by 30 basis points in 2022. This marked the second consecutive year where vacancy declined.
- Asking rents pushed higher at a healthy pace during each quarter of 2022. For the full year, apartment rents in St. Louis increased 11.2 percent to \$1,175 per month. The largest rent increases during the past 12 months occurred in Class B and Class C units.
- **FORECAST:** After construction activity surged in 2022, the pace of deliveries is expected to slow in the year ahead. Projects totaling 3,400 units are scheduled to come online in 2023. The vacancy rate is projected to rise 50 basis points in the next 12 months to 4.5 percent. Following rapid rent increases in recent quarters, the pace of rent growth will cool to about 3.5 percent in 2023.

Local vacancy improved by 30 basis points in 2022.

VACANCY & RENT TRENDS



SALES TRENDS



The median sales price in 2022 was \$91,000 per unit.

MULTIFAMILY SALES

- Transaction volume in St. Louis in the fourth quarter was lower than activity levels in the previous period. While sales activity in 2022 closely tracked the 2021 total, the bulk of the deals occurred in the first six months of the year.
- The median sales price in 2022 was \$91,000 per unit, similar to the 2021 figure. There are significant per-unit price disparities based on property class. In 2022, Class C properties accounted for the bulk of the transactions; in the fourth quarter, most Class C assets were selling at prices between \$50,000 per unit and \$60,000 per unit.
- Cap rates trended higher in recent months, averaging approximately 6.25 percent during the fourth quarter. This marks an increase of more than 150 basis points from levels at the beginning of the year.



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