

Market Insights

Midwest Multifamily 2Q 2022



Construction Activity



48,639

Units under construction

14,881

Units delivered (YTD)

Market Fundamentals



4.5%

Vacancy

-90bps

Year over year change

\$1,405

Asking Rent

+13.1%

Year over year change

Transaction Activity



\$134,100

Median sales price per unit (YTD)

Vacancies Drop and Rents Rise in 2Q

Highlights

- Multifamily property performance improved in the Midwest in the second quarter with vacancies tightening and rents on the rise.
- The average vacancy in the region dipped 30 basis points to 4.5 percent in the past three months. Year over year, vacancy has dropped 90 basis points.
- Most markets across the region have posted annual rent increases of more than 10 percent. The pace of growth moderated across several markets during the second quarter.
- Investment trends were mixed across the region in the second quarter. Prices are generally higher in 2022 than they were in 2021, and most markets have cap rates around 5 percent. Cap rates will likely trend higher in the second half.

Midwest Multifamily Market Overview

Multifamily property performance in the Midwest generally improved during the second quarter, building on gains recorded in the first three months of the year. The combined vacancy rate tightened from 4.8 percent to 4.5 percent during the second quarter, and the region has recorded a 90 basis point drop in average vacancy year over year. Nearly every major market in the Midwest has posted improving vacancy rates, even in markets such as Kansas City and Indianapolis, where elevated deliveries of new units have been occurring for the past year or more. This trend of accelerating supply growth to keep up with demand is likely to take hold in several Midwest markets in the second half and into 2023. One exception will be Chicago, where multifamily development has remained modest, despite a tightening vacancy rate. Another factor fueling new construction is a steep upward climb in rents across the region. The average asking rent in the key Midwestern markets has spiked by more than 13 percent year over year.

Investment activity in several Midwest markets cooled a bit after a strong start to 2022. The impact of rising interest rates and a less certain economic outlook may have curtailed some transaction flow, as investors take a pause to evaluate how the changing climate will impact property performance. In transactions that are closing, prices are generally higher than in recent periods. Markets including Kansas City, Indianapolis, and St. Louis have posted some of the strongest per-unit price gains from 2021 to this year. Cap rates remain low across much of the region, with many markets recording average cap rates below 5 percent. Cap rates will likely trend higher in the coming quarters, as buyers and sellers adjust expectations to changes in the lending markets. The increasing amount of new development will likely present new investment opportunities as projects are delivered, leased-up, and sold after being stabilized. In recent years, the bulk of the transaction activity has been concentrated in Class B and older, Class C properties.

Chicago

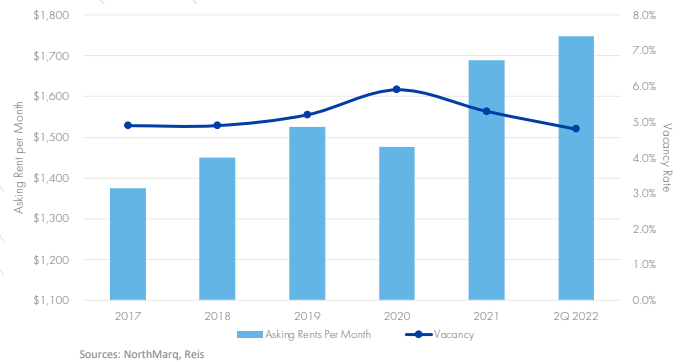
Construction/Vacancy/Rents

- Construction activity in Chicago slowed in the second quarter, following a strong start to the year. Projects totaling roughly 900 units came online in the last three months, and nearly 2,700 units have been delivered year to date. The construction pipeline continues to expand with projects totaling more than 9,300 units currently under construction, up 25 percent from one year ago.
- Local vacancy improved during the second quarter, dropping 40 basis points to 4.8 percent. Year over year, the rate declined by 100 basis points. The Loop submarket posted the largest vacancy improvement in the past 12 months, dropping 360 basis points.
- Apartment rents jumped in recent months after minimal growth at the start of the year. During the second quarter, average rents rose 3.5 percent to \$1,748 per month. Year over year, asking rents are up 16.2 percent.
- **Forecast:** Projects totaling roughly 5,100 units are slated to come online in 2022, similar to the total in the previous year. Vacancy is forecast to hold fairly steady in the coming quarters and finish the year at 4.7 percent, down 60 basis points from the end of 2021. Apartment rents in Chicago are expected to rise 5.5 percent this year to around \$1,780 per month.



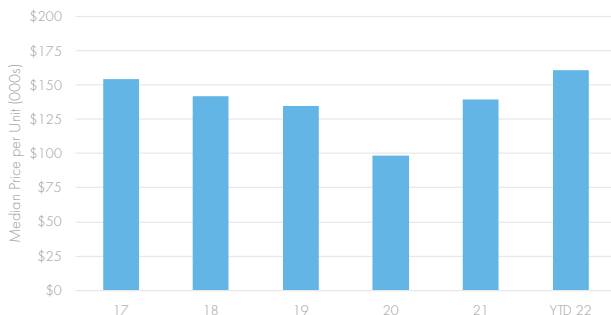
During the second quarter, average rents rose 3.5 percent.

Vacancy and Rent Trends



The median sales price reached \$160,800 per unit.

Sales Trends



Multifamily Sales

- Transaction activity cooled in the first half of the year after a spike in deal volume in the final few months of 2021. Despite the recent slowing, the number of sales thus far in 2022 is similar to levels recorded during the same period last year.
- The median sales price to this point in 2022 reached \$160,800 per unit, a 15 percent increase from the median price in 2021. In addition to activity near the city core, a handful of properties traded in the Porter County submarket.
- Cap rates trended higher from the start of the year and averaged approximately 5 percent in the second quarter. Cap rates have not significantly changed since the end of last year when most properties were trading with cap rates between 4.75 percent and 5.5 percent.

Cincinnati

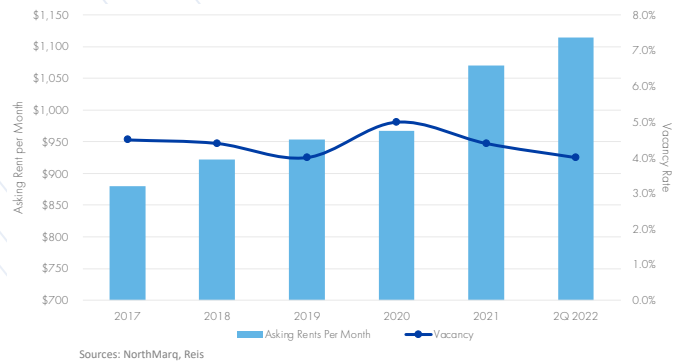
Construction/Vacancy/Rents

- Apartment development activity accelerated in recent months with the completion of more than 750 units in the second quarter. Nearly 900 multifamily units have come online to this point in the year. Projects totaling roughly 6,260 units are currently under construction in Cincinnati, up 32 percent from one year ago.
- Vacancy is trending lower, dropping 20 basis points during the second quarter to 4 percent. Year over year, the rate is down 90 basis points. Area vacancy peaked at the start of 2021 at 5.1 percent.
- Local asking rents dipped slightly during the second quarter, falling less than 1 percent to \$1,114 per month. Despite the recent decline, year over year, average rents have spiked 13.6 percent.
- **Forecast:** Construction activity is projected to ramp up in the coming quarters with projects totaling more than 3,000 rental units scheduled to come online in 2022. As developers deliver an elevated number of projects, the vacancy rate will likely tick higher from the midyear figure. Local vacancy is forecast to finish the year at 4.3 percent. Asking rents in Cincinnati are expected to rise more than 5.5 percent this year to roughly \$1,130 per month.



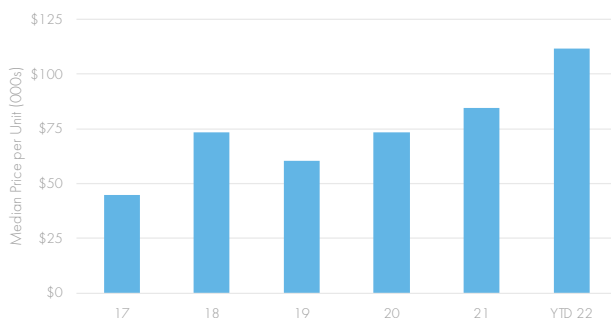
Year over year, the vacancy rate is down 90 basis points.

Vacancy and Rent Trends



The median sales price to this point in 2022 is \$111,600 per unit.

Sales Trends



Multifamily Sales

- The pace of deals during the second quarter closely tracked levels from the start of the year. While the investment market has been stable from one quarter to the next, total sales volume through the first half of 2022 lagged levels from the same period one year earlier.
- Although fewer properties changed hands, sales prices ticked higher through the first six months of the year, sparked by the rapid increases in rental rates. The median sales price to this point in 2022 is \$111,600 per unit, up 32 percent from the median price last year.
- With prices on the rise, cap rates inched lower in recent months, averaging in the high-4 percent range during the second quarter. As recently as 2018-2019, cap rates in the region were closer to 7 percent.

Indianapolis

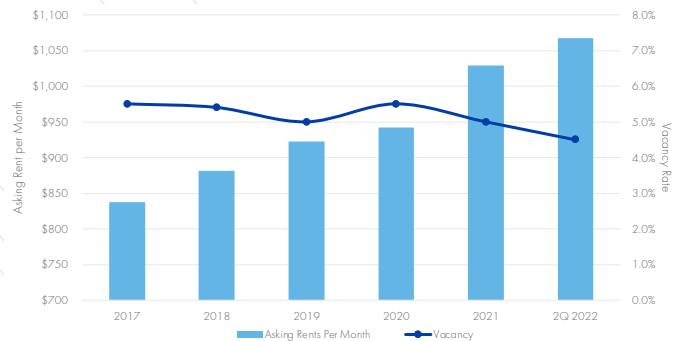
Construction/Vacancy/Rents

- Projects totaling nearly 700 units were completed during the second quarter, following minimal deliveries at the start of the year. Multifamily developers will continue to bring projects online with approximately 3,600 units currently under construction, up 8 percent from one year ago.
- The vacancy rate in Indianapolis fell 30 basis points to 4.5 percent during the second quarter. Vacancy has fallen 90 basis points in the past year, reaching an all-time low for the market.
- Asking rents finished the second quarter at \$1,067 per month, essentially unchanged from rents in the first quarter. Despite minimal growth in the most recent period, rents are up 11.6 percent from one year ago.
- **Forecast:** The pace of apartment completions should accelerate in the next several quarters with projects totaling approximately 2,000 units set to be completed in 2022. As construction accelerates, vacancy will likely trend higher and finish the year around 4.7 percent. Asking rents are projected to rise roughly 5 percent in 2022 to approximately \$1,085 per month.



Approximately 3,600 units are currently under construction.

Vacancy and Rent Trends

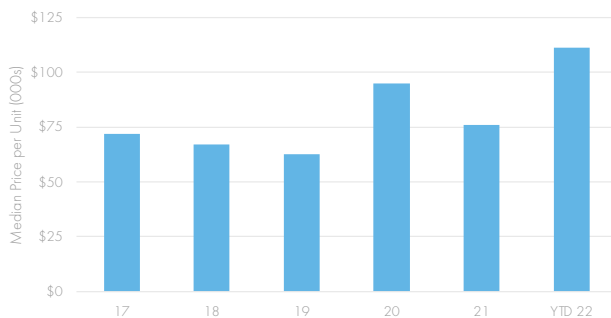


Sources: NorthMarq, Reis



The median sales price reached \$111,100 per unit.

Sales Trends



Multifamily Sales

- Multifamily transaction activity slowed in recent months, following a robust first quarter. While fewer deals closed than at the start of the year, sales volume during the second quarter was up 62 percent from the same period in 2021.
- Pricing continued to trend higher with the median sales price reaching \$111,100 per unit through the first half of the year, up 46 percent from the 2021 figure. The bulk of the transactions in recent periods consisted of middle-tier assets as Class B properties accounted for nearly every deal during the second quarter.
- Cap rates ticked lower as sales prices rose. Cap rates averaged around 4.8 percent during the second quarter. Cap rates in Indianapolis are generally among the lowest in the Midwest region due to the market's strong growth profile.

Kansas City

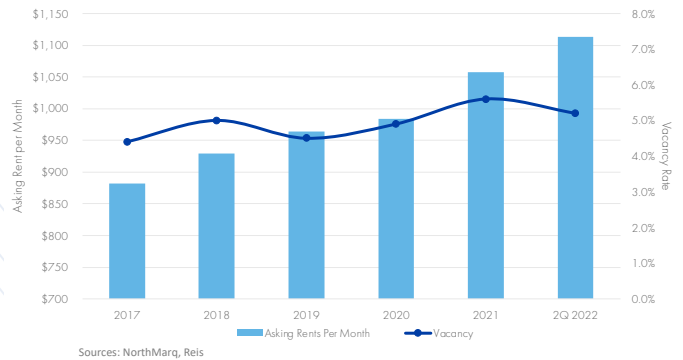
Construction/Vacancy/Rents

- Multifamily development activity gained momentum in recent months as nearly 1,400 apartment units came online in the second quarter. Year to date, projects totaling more than 1,750 units have been delivered. Developers are active throughout the region with more than 5,500 multifamily units in the construction pipeline.
- After holding steady for the past several periods, the vacancy rate improved in Kansas City during the second quarter, dropping 40 basis points to 5.2 percent. Year over year, the rate is down 50 basis points.
- Asking rents continued to tick higher in recent months, rising 1.3 percent during the second quarter to \$1,113 per month. Year over year, area rents are up 10.2 percent. Apartment rents in the Downtown/East Kansas City submarket jumped 13.8 percent in the past year to nearly \$1,490 per month.
- **Forecast:** Projects totaling approximately 3,500 units are slated to be delivered in 2022, a slight increase from last year's total. The vacancy rate is projected to inch lower by the end of the year, finishing 2022 at around 5.1 percent. Asking rents are on pace to rise by more than 7.5 percent this year to roughly \$1,140 per month.



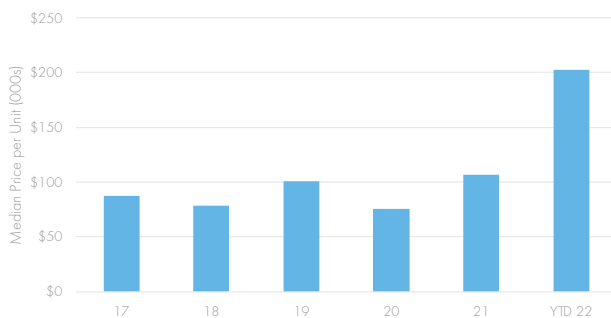
Vacancy dropped 40 basis points in the second quarter.

Vacancy and Rent Trends



The median sales price to this point in the year is \$202,600 per unit.

Sales Trends



Multifamily Sales

- The pace of sales dipped during the second quarter as transaction activity slowed 10 percent from the first few months of the year. The number of deals year to date is also down slightly from the first half of 2021.
- After spiking in the first quarter, sales prices have leveled off in recent months but are still well above last year's figures. The median sales price to this point in the year is \$202,600 per unit.
- Cap rates ticked higher in the second quarter after compressing at the start of the year. Cap rates averaged around 3.8 percent in the last three months. With interest rates pushing higher, cap rates at the current levels are unlikely to be sustained.

Milwaukee

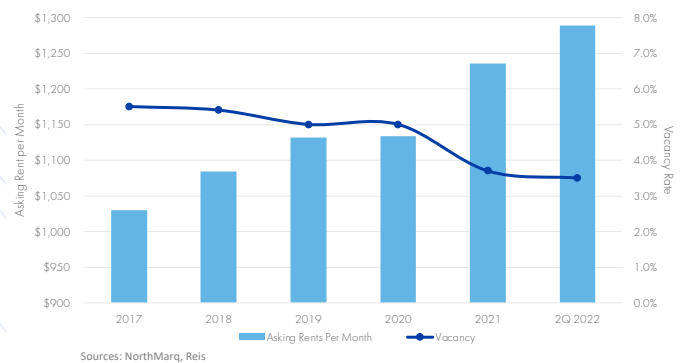
Construction/Vacancy/Rents

- After a slow start to the year, multifamily developers delivered more than 640 units in the last three months. The construction pipeline swelled during the second quarter as a number of projects broke ground. There are now nearly 2,200 apartment units currently under construction in Milwaukee, up nearly 30 percent from the beginning of the year.
- The vacancy rate continued to inch lower during the second quarter, dipping 10 basis points to 3.5 percent. Year over year, the rate dropped by 120 basis points. The most significant vacancy improvements in the past year occurred in Class A properties, where the rate fell by 250 basis points to 4.6 percent.
- Average asking rents rose 1.2 percent in the last three months to \$1,289 per month. Rents in the market have spiked 12.5 percent in the past 12 months.
- **Forecast:** Construction activity is forecast to remain elevated in the second half of the year with more than 1,500 multifamily units set to come online in 2022. Local vacancy is projected to finish the year at 3.7 percent, matching the figure at the end of 2021. Asking rents are expected to increase roughly 6 percent in 2022, ending the year at approximately \$1,310 per month.



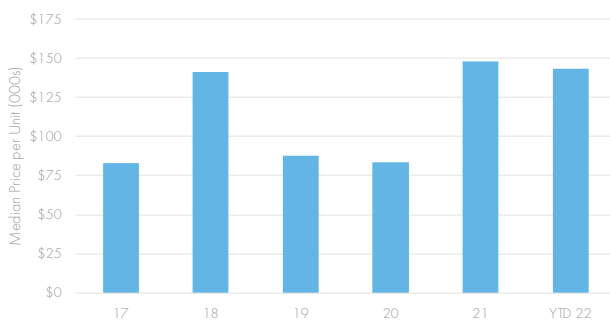
Average rents rose 1.2 percent in the last three months to \$1,289 per month.

Vacancy and Rent Trends



Transactions recorded cap rates between 5 percent and 5.5 percent.

Sales Trends



Multifamily Sales

- The Milwaukee multifamily investment market cooled through the first half of the year with just a handful of significant properties changing hands. Class C assets accounted for the bulk of the recent deals. Preliminary indications show transaction activity likely to gain momentum in the second half.
- Sales prices held fairly steady thus far in 2022. The median sales price to this point in the year is \$143,500 per unit, down less than 3 percent from the 2021 figure.
- Cap rates in Milwaukee have been mostly stable in recent quarters. Transactions through the second quarter recorded cap rates between 5 percent and 5.5 percent.

Minneapolis-St. Paul

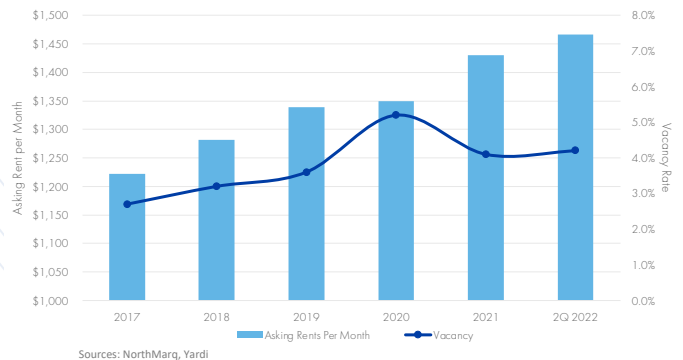
Construction/Vacancy/Rents

- Minneapolis is one of the most active cities in the Midwest for apartment construction. Projects totaling nearly 5,550 units have come online to this point in the year, a 21 percent increase from the same period in 2021. Multifamily development is underway throughout the region with roughly 13,300 apartment units currently under construction.
- Local vacancy has been steady in recent periods, ending the second quarter at 4.2 percent. Year over year, the rate is down 10 basis points. Vacancy is highest near the city centers of Minneapolis and St. Paul where rates are 8.8 percent and 7.8 percent, respectively.
- Asking rents gained momentum during the second quarter, rising 1.9 percent to \$1,466 per month. Year over year, average rents are up 5.9 percent. Apartment rents have grown the fastest in outlying suburban neighborhoods; rents have jumped between 10 percent and 12 percent in a handful of suburban submarkets.
- **Forecast:** Construction activity will stay elevated in the second half of the year with projects totaling nearly 9,400 units expected to be delivered in 2022. Vacancy is forecast to remain near its current range in the coming quarters, ending the year at around 4.3 percent. Asking rents are projected to increase roughly 4 percent this year to \$1,490 per month.



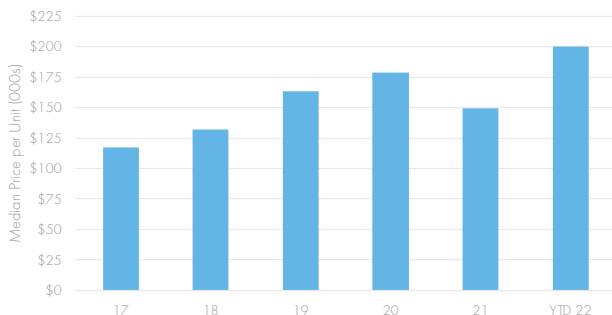
Year over year, average rents are up 5.9 percent.

Vacancy and Rent Trends



The median sales price through the first half of the year is roughly \$200,400 per unit.

Sales Trends



Multifamily Sales

- Multifamily sales activity slowed in recent months after a solid start to the year. It is typical in the Minneapolis-St. Paul market for transaction volume to dip from the first quarter to the second quarter.
- Despite fewer properties trading than in previous periods, per-unit pricing continued to climb. The median sales price through the first half of the year is roughly \$200,400 per unit, up 34 percent from the median price in 2021.
- Cap rates have inched higher in recent quarters with most deals now closing with cap rates in the mid-4 percent range.

Omaha

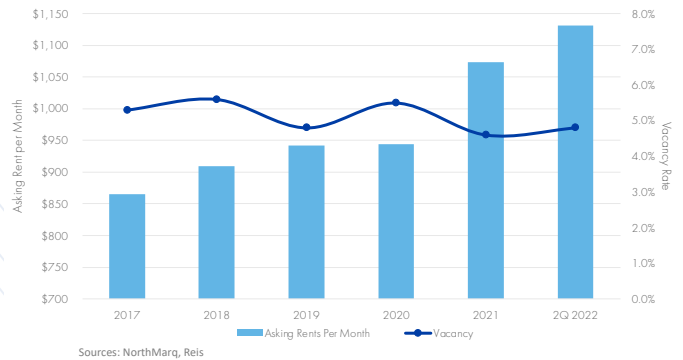
Construction/Vacancy/Rents

- Multifamily developers were active in the second quarter as more than 725 apartment units were completed, after fewer than 100 units came online at the start of the year. A 2,000-unit project in the Elkhorn submarket broke ground in recent months, bringing the total construction pipeline to approximately 4,200 units.
- After ticking higher at the beginning of the year, vacancy held steady at 4.8 percent in the second quarter. Year over year, the rate is down 110 basis points. The South Omaha submarket posted the greatest vacancy improvement in the past 12 months, falling 300 basis points to 4.4 percent.
- Rent growth accelerated during the second quarter as area rents rose 4.7 percent to \$1,131 per month. Year over year, average rents increased by 17.4 percent. While rents surged across all asset classes in recent periods, the largest gains in the past year occurred in lower-tier assets. The combined average rent in Class B and Class C properties rose nearly 18 percent in the past year to \$889 per month.
- **Forecast:** Projects totaling more than 1,500 units are slated to come online in 2022, while the vacancy rate should finish the year at 4.6 percent. Asking rents will trend higher, rising nearly 7 percent in 2022 to approximately \$1,150 per month.



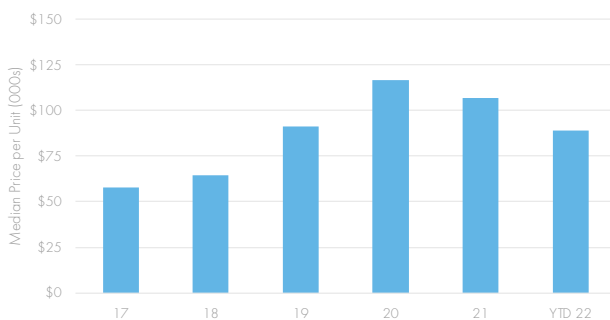
Year over year, average rents increased by 17.4 percent.

Vacancy and Rent Trends



The median sales price was approximately \$89,100 per unit.

Sales Trends



Multifamily Sales

- Sales activity in Omaha accelerated in the last three months after a quiet start to the year. Transaction volume thus far in 2022 is on track to outpace levels recorded in recent years.
- The median sales price through the first half of 2022 was approximately \$89,100 per unit, down nearly 17 percent from the median price last year. Properties sold across the quality spectrum in the past three months with the majority of the deals trading in Northwest Omaha.
- Cap rates have been fairly consistent in recent periods with most properties transacting with cap rates between 5 percent and 5.5 percent.

St. Louis

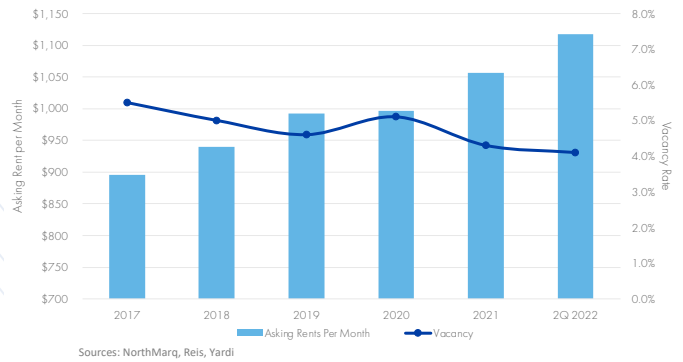
Construction/Vacancy/Rents

- Deliveries accelerated during the second quarter as more than 1,050 apartment units were completed, up from 730 units in the previous period. Projects totaling roughly 4,250 units are currently underway in St. Louis, a 16 percent increase from one year ago.
- With an uptick in new supply, the vacancy rate inched higher. Vacancy in St. Louis increased 10 basis points during the second quarter to 4.1 percent. Prior to rising in the second quarter, vacancies had tightened in each of the preceding four quarters.
- Average rents pushed higher in recent months, rising 1.6 percent during the second quarter to \$1,118 per month. Year over year, apartment rents are up 9.8 percent. Annual rent growth averaged 4.2 percent during the past five years.
- **Forecast:** Construction is expected to gain momentum in the coming quarters with projects totaling roughly 3,700 units slated to come online in 2022. Vacancy is forecast to end the year at 4.3 percent, matching the figure at the end of 2021. Asking rents are expected to advance at a modest pace in the second half, rising 8.3 percent in 2022 to \$1,145 per month.



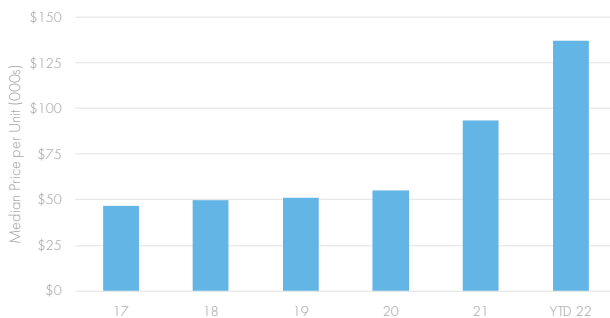
Year over year, rents are up 9.8 percent.

Vacancy and Rent Trends



The median sales price reached \$136,900 per unit.

Sales Trends



Multifamily Sales

- The multifamily investment market has been stable through the first half of the year. Thus far in 2022, sales volume is up 9 percent from the same period last year.
- The median sales price ticked higher, reaching \$136,900 per unit through the second quarter, up 47 percent from the 2021 figure.
- Cap rates inched higher in recent months as a result of rising interest rates. Cap rates averaged around 4.8 percent during the second quarter.



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