

# ApartmentResearch

M A R K E T U P D A T E

Marcus & Millichap

Louisville Metro Area

Fourth Quarter 2009

## SALES SLOW, DESPITE RESILIENT MARKET

In the Louisville apartment sector, renter demand is expected to remain soft over the balance of 2009, and rents will drop further. Still, the area has fared better than the rest of the country, despite the effects of the recession, as rental housing demand has been steady. Nationally, employment fell 4.1 percent in the 12 months ending in the third quarter, compared with a somewhat smaller decline in the metro. Vacancy in the market was on course to rise to 7.2 percent in the third quarter, the same rate as when the recession started, while average rents have receded only slightly thus far. Nonetheless, with the cumulative effects of recent job losses, and with an additional 1,400 jobs projected to be cut yet this year, property owners will be challenged to fill vacant units and raise rents. On the supply side, completions will be up in 2009 but do not represent a significant addition to inventory. Also, only 1,800 units are planned in the metro, and permitting has slowed to a trickle. Louisville has historically been a market of modest supply expansion, a trend that will persist for the next few quarters as job growth resumes and rental housing demand rebounds.

As in other markets around the country, a slowdown in activity has made it difficult to establish investment trends in Louisville. Generally, cap rates are estimated to range from 8 percent to 9 percent. Occupancy is typically underwritten at about 90 percent, reflecting expectations for diminished property performance in the early stages of ownership. Greater consideration also is being devoted to an asset's physical condition and projected capital expenditures, as more than 75 percent of the rental properties in the market were built before 1990. Despite reduced expectations for near-term asset performance and a more conservative approach to underwriting, out-of-state investors have maintained a presence in the market, searching for potential deals. Only a few transactions have occurred this year, but some involved the purchase of large properties by out-of-state investors. The Louisville market will continue to be a target for non-local buyers, as competitive prices enable buyers to build up portfolios quickly.

## 2009 ANNUAL APARTMENT FORECAST



**Employment:** This year, employers are expected to trim 16,000 jobs, a reduction of 2.6 percent. In 2008, employers let go 14,700 workers.



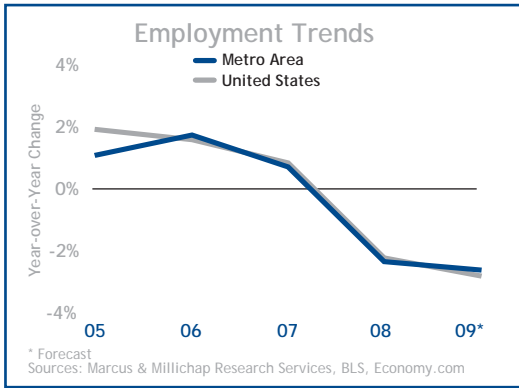
**Construction:** Developers will complete 584 units in 2009, all of which have already been delivered. Last year, 240 units were put into service.



**Vacancy:** It will take some time to fill new, vacant units, while demand will falter due to the economic downturn. As a result, vacancy is forecast to climb 60 basis points this year to a still-tight 7.6 percent. In 2008, the vacancy rate decreased 20 basis points.

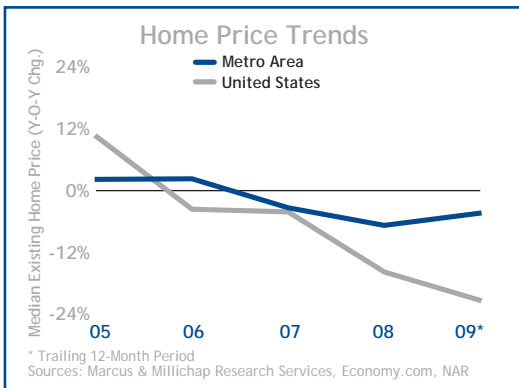


**Rents:** The effects of the recession on rental demand will pressure owners to decrease rents. In 2009, asking rents are expected to fall 1.9 percent to \$635 per month, and effective rents will decline 3.8 percent to \$596 per month. Asking rents rose 2.9 percent last year, accompanied by a 3.5 percent jump in effective rents.



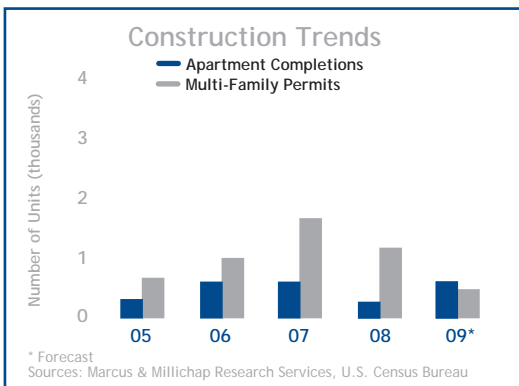
## ECONOMY

- ◆ In the Louisville market, employers were on track to cut 2,200 positions in the third quarter. Over the past year, 23,000 jobs have been eliminated in the metro area, a decline of 3.7 percent.
- ◆ The trade, transportation and utilities sector, the largest segment in the metro area, has contracted 6.3 percent during the last year due to the elimination of 8,600 jobs. Approximately 2,900 workers in the sector were let go in the third quarter, as demand for shipping, distribution and warehousing services remained weak.
- ◆ More than 29,000 jobs have been trimmed during the recession, and most of the cuts have occurred this year. While hiring is not expected to resume in 2009, the pace of reductions is nonetheless slowing; approximately 8,500 positions have been cut in the past six months, down from 14,500 jobs in the preceding six months.
- ◆ **Outlook:** This year, employers are expected to trim 16,000 jobs, a reduction of 2.6 percent. In 2008, employers let go 14,700 workers.



## HOUSING AND DEMOGRAPHICS

- ◆ Residential developers continue to thin pipelines due to the economic downturn. Over the past 12 months, permits for 2,400 units of single- and multi-family housing have been issued, representing a decrease of 43 percent from the preceding year. From 2004 to 2008, an average of 6,200 permits were issued per year.
- ◆ The median price of an existing single-family home in the metro area was forecast to fall 9 percent year over year to \$120,700 in the third quarter. Velocity has improved each quarter this year due to sales of distressed properties and the first-time homebuyer credit.
- ◆ Currently, residents with an annual household income of \$30,900 or higher can afford the monthly payments on a median-priced home.
- ◆ **Outlook:** Permitting is expected to fall further in the near term, reducing the possibility that supply growth will act as a drag on the housing market as the economy recovers.

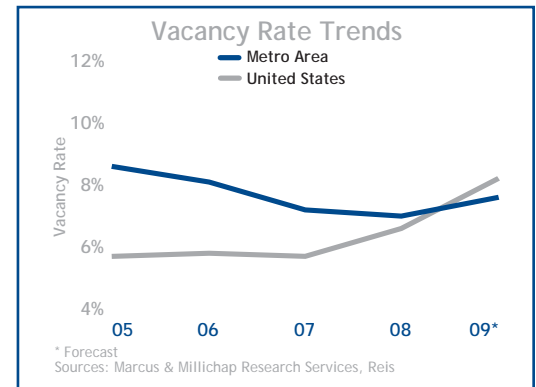


## CONSTRUCTION

- ◆ So far this year, 584 units have been completed, expanding rental stock 1.4 percent. In the preceding three quarters, 240 units were delivered.
- ◆ Projects brought online this year consist of the 472-unit Clearwater Farm in the South Central submarket and 112 apartments in the second phase of the Orchard Hills complex in the Jeffersonville submarket. Currently, there are no multi-family rentals under construction in the market.
- ◆ Developers have pulled permits for only 476 units of multi-family housing over the past 12 months, a decline of 60 percent from the preceding year. A decline in permitting will suppress supply growth in the next several quarters, enabling a rebound in demand to drive improvements in fundamentals.
- ◆ **Outlook:** Developers will complete 584 units in 2009, all of which have already been delivered. Last year, 240 units were put into service.

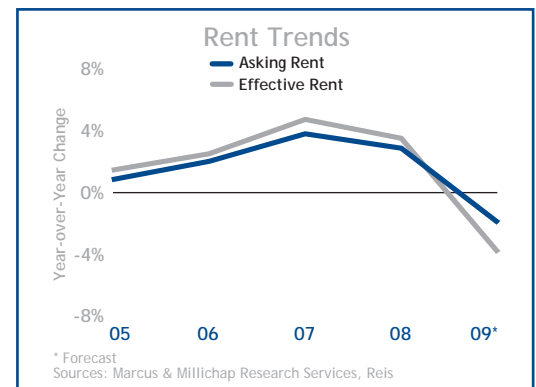
## VACANCY

- Recent completions and a downturn in demand stemming from a weak employment market contributed to an estimated 60 basis point increase in the marketwide vacancy rate during the third quarter to 7.2 percent. In the past 12 months, vacancy has climbed 110 basis points.
- Class A vacancy was 7.6 percent in the third quarter, 80 basis points more than in the preceding quarter. Over the past year, the delivery of 584 units offset an increase in occupied units, resulting in a 140 basis point jump in vacancy.
- Third quarter vacancy in the Class B/C segment was 7.2 percent, up 50 basis points from the second quarter. During the last 12 months, lower-tier vacancy has climbed 90 basis points, although the rate is virtually unchanged year to date.
- Outlook:** It will take some time to fill new, vacant units, while demand will falter due to the economic downturn. As a result, vacancy is forecast to climb 60 basis points this year to a still-tight 7.6 percent. In 2008, the vacancy rate decreased 20 basis points.



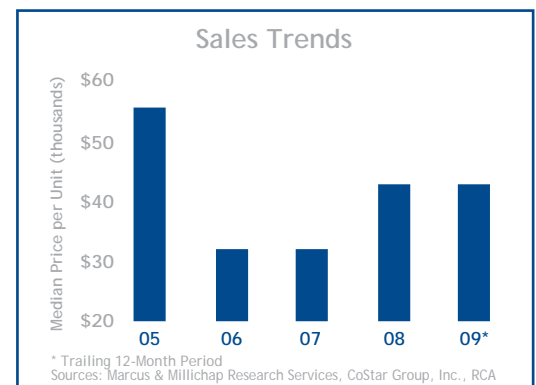
## RENTS

- An increase in vacancy during the third quarter pushed down asking rents 0.9 percent to \$641 per month, after a modest increase in the second quarter. Effective rents declined 1.3 percent in the third quarter to \$604 per square foot and are down 1.8 percent over the past year.
- Class A asking rents slipped 1.3 percent in the third quarter to \$788 per square foot; year over year, asking rents in the upper tier have tumbled 0.9 percent. Class B/C asking rents of \$558 per month in the period were down 1.2 percent from the second quarter and 0.5 percent year over year.
- Effective rents have fallen in two of the three quarters this year. As a result, concessions have climbed to 5.8 percent of asking rents from 4.2 percent of asking rents at the end of 2008.
- Outlook:** The effects of the recession on rental demand will pressure owners to decrease rents. In 2009, asking rents are expected to drop 1.9 percent to \$635 per month, and effective rents will decline 3.8 percent to \$596 per month. Asking rents rose 2.9 percent last year, accompanied by a 3.5 percent jump in effective rents.



## SALES TRENDS\*\*

- Few apartment properties trade in the market. Velocity over the past 12 months is similar to the level of activity over any recent 12-month span.
- In deals executed so far this year, prices have ranged from \$35,000 per unit for a Class C property to approximately \$87,000 per unit for a new Class A asset purchased by an out-of-state investor.
- Cap rates on properties currently for sale are generally in the 8 percent to 9 percent range.
- Outlook:** Capital is available to finance transactions, as lenders have not downgraded Louisville due to its steady fundamentals. In the near term, property underwriting will reflect slightly higher near-term vacancy and diminished rents.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

# Marcus & Millichap

## NATIONAL MULTI HOUSING GROUP

Visit [www.NationalMultiHousingGroup.com](http://www.NationalMultiHousingGroup.com) or call:

**Linwood C. Thompson**

Senior Vice President, Managing Director

National Multi Housing Group

Tel: (678) 808-2700

[lthompson@marcusmillichap.com](mailto:lthompson@marcusmillichap.com)

# Marcus & Millichap

## Real Estate Investment Services

Prepared and edited by

**Art Gering**

Market Analyst  
Research Services

For information on national  
apartment trends, contact

**John Chang**

National Research Manager

Tel: (602) 687-6700 ext. 6803

[john.chang@marcusmillichap.com](mailto:john.chang@marcusmillichap.com)

Louisville Office:

**Gary Lucas**

Regional Manager

[glucas@marcusmillichap.com](mailto:glucas@marcusmillichap.com)

9300 Shelbyville Road

Suite 1012

Louisville, Kentucky 40222

Tel: (502) 329-5900

Fax: (502) 329-5910

**Price: \$150**

© Marcus & Millichap 2009

[www.MarcusMillichap.com](http://www.MarcusMillichap.com)

## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Compared to other core property sectors, apartments have fared best due to the availability of financing through government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac. Recent modifications to GSE guidelines will impact lender decisions, however, as borrower requirements include more substantial apartment ownership experience.
- ◆ Loan-to-value requirements range from 55 percent to 75 percent. Portfolio lenders are issuing loans at all-in rates of 6.00 percent to 6.75 percent for a five-year term and 6.9 percent to 8.0 percent for a 10-year term. Rates among agency lenders are roughly 150 basis points to 175 basis points lower. The government recently assumed full control of Fannie Mae and Freddie Mac, which may boost confidence in the GSEs, putting downward pressure on rates, but it also creates several near-term uncertainties.
- ◆ Delinquencies will rise further as a wave of maturities approaches; however, at-risk borrowers may find lenders amenable to loan extensions/modifications. Furthermore, Freddie Mac is under way on its second securitization of multi-family debt this year, and the government's TALF program is expected to at least provide a much-needed spark to the traditional CMBS market.

## SUBMARKET OVERVIEW

- ◆ Class B/C vacancy in the South Central submarket has declined 30 basis points this year to 7.5 percent, as renter demand has been resilient. Concessions, though, have risen from 2.7 percent of asking rents at year-end 2008 to 3.8 percent of asking rents currently.
- ◆ The subsidized, low-income Liberty Green rental project in the West Central submarket is under construction and slated for delivery later this year. The development contains 333 units.
- ◆ Bullitt County is the emerging warehouse and distribution hub in the metro area, as developers have more than 3 million square feet of product planned along Interstate 65. Construction of distribution centers ultimately will create jobs, which should boost rental housing demand in nearby areas of Jefferson County.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents	Y-O-Y % Change
1	Northeast Jefferson County	5.4%	60	\$721	-2.0%
2	Southwest Jefferson County	5.8%	250	\$515	-1.9%
3	East Central	6.4%	120	\$644	-0.6%
4	Jeffersonville	6.7%	-50	\$562	-1.9%
5	West Central	8.6%	-90	\$603	1.7%
6	South Central	8.8%	110	\$529	-1.3%
7	Chenoweth/Taylorsville	9.7%	240	\$619	-1.3%