

Market Insights

Milwaukee Multifamily 1Q 2022



Construction Activity



1,689

Units under construction

0

Units delivered (YTD)

Market Fundamentals



3.6%

Vacancy

-120 bps

Year over year change

\$1,274

Asking Rent

+12.3%

Year over year change

Transaction Activity



\$143,500

Median sales price per unit (YTD)

Vacancy Reaches 20-Year Low, Rents on the Rise

Highlights

- After significant improvement throughout 2021, the Milwaukee multifamily market continued to strengthen at the beginning of this year. Vacancy ticked lower and rents advanced at a rapid clip.
- Vacancy in Milwaukee ended the first quarter at 3.6 percent, down 10 basis points year to date. The rate has declined 120 basis points in the past 12 months.
- Rent growth is gaining momentum; asking rents have advanced 12.3 percent year over year, reaching \$1,274 per month as of the first quarter. Rents spiked 9 percent in 2021.
- After investment activity nearly doubled in 2021, the pace of transactions has slowed in the first few months of 2022. While only a handful of properties have traded, prices have remained elevated. The median price to this point in 2022 is approximately \$143,500 per unit, closely tracking the 2021 median price.

Milwaukee Multifamily Market Overview

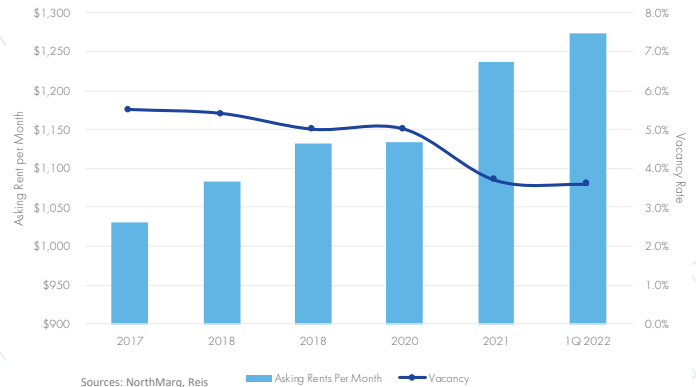
The Milwaukee multifamily market is recording some of its strongest operating performance on record. During the first quarter, the vacancy rate dipped to its lowest point in more than 20 years, and renter demand for units should essentially match additions to new supply this year. The pace of deliveries has slowed in each of the past three years, dipping below 1,000 new units in 2021. Developers are on pace to complete projects totaling a similar number of units this year, after no significant projects came online in the first quarter. The tight vacancy conditions are supporting rent increases that are two- and three-times as rapid as the market's average annual gains. During the first quarter, rents advanced 3.1 percent, building on a 9 percent increase in 2021. Rents will top \$1,300 per month this year, after being below \$1,000 per month as recently as 2017.

Investors are adjusting expectations in response to the rapid strengthening in market fundamentals. Operators are seeing rents climb as much in a quarter as they would typically expect to advance in a year, and this has changed how properties are being underwritten. Investment activity gained momentum in 2021, and the number of properties that sold was up about 50 percent from the average sales velocity recorded from 2018 to 2020. In the properties that have sold, prices are elevated; the median price year to date is over \$143,000 per unit. Transaction activity will likely gain momentum as the market gains greater certainty on where interest rates will end the year. While interest rates have been volatile, cap rates have been mostly steady, largely remaining between 4.75 percent and 5.5 percent for most transactions.

Construction/Vacancy/Rents

- The pace of construction slowed during the first quarter. No significant projects were delivered in the first three months of this year, after nearly 1,000 units came online in 2021. The pace of construction is scheduled to pick up in the coming quarters; projects totaling nearly 1,700 units were under construction as of the first quarter.
- Vacancy in Milwaukee has been on a steady improvement cycle during the past few years. Vacancy inched down 10 basis points in the first quarter, reaching 3.6 percent. Year over year, the local vacancy rate has dropped 120 basis points.
- Rents in Milwaukee are on the rise. Asking rents are up 12.3 percent year over year, ending the first quarter at \$1,274 per month. Rents spiked 3.1 percent in the first quarter.
- **Forecast:** Construction is forecast to accelerate by the end of the year, and developers are on pace to deliver about 950 units. Vacancy should remain unchanged, ending the year at 3.6 percent. Rents are expected to increase more than 7.5 percent in 2022, ending the year at about \$1,330 per month.

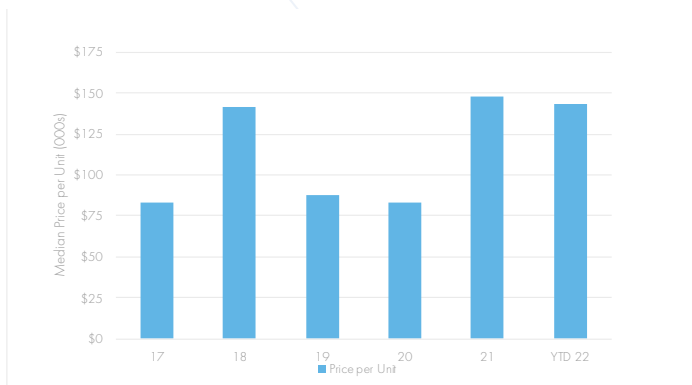
Vacancy and Rent Trends



Sources: NorthMarq, Reis

Asking Rents Per Month Vacancy

Sales Trends



Multifamily Sales

- After sales activity nearly doubled and investment dollar volume more than tripled in 2021, the pace of transactions has cooled to this point in 2022. 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, nearly identical to the 2021 median price.
- Cap rates 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.



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