Midwest Market Brief | Issue 14

Durable Growth Begins with Strong Foundations

Milwaukee • Madison • Racine

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ORINOVA CAPITAL

The Cost of Scarcity: When Limited New Supply Meets Durable Renter Demand

EXECUTIVE SUMMARY

Multifamily investors have spent much of the past several years focused on the risks of oversupply. In parts of Wisconsin, however, the emerging question may be the opposite: what happens when new development slows while renter demand remains strong?

Milwaukee vacancy remains just 4.2%, with Class B vacancy at 3.6%, while only 3,826 units—or roughly 3.1% of existing inventory—are currently under construction. The imbalance is even more pronounced in Shorewood/Whitefish Bay, where no units are under construction, overall vacancy has fallen to 3.2%, and rents have increased 4.4% over the past year.

As development becomes increasingly difficult to finance, limited new supply could create an important tailwind for existing apartment owners—particularly in established neighborhoods where housing demand remains durable.

KEY INSIGHT

Supply constraints can be just as consequential as supply growth.

New construction plays an important role in keeping rental markets balanced. But when development slows while renter demand persists, existing properties must absorb a greater share of that demand. Over time, that can translate into tighter occupancy and greater pricing power. That dynamic is becoming increasingly visible in supply-constrained submarkets such as Shorewood, where Class B vacancy has fallen to just 2.0% and no multifamily projects are currently under construction.

MARKET FUNDAMENTALS SNAPSHOT

Milwaukee

Milwaukee continues to demonstrate a healthy balance between new supply and renter demand. Approximately 3,045 units were absorbed over the past year compared with just 1,284 deliveries, pushing vacancy down 150 basis points year over year to 4.2%. Asking rents increased 2.7%, more than twice the national average.

Milwaukee Market Stats

	Milwaukee MSA	Downtown	Shorewood
Inventory:	124,003 ↑	19,210	2,440
Asset Value:	$20.0 billion	$4.0 billion	$369 million ↓
Under Construction:	3,826 ↓	438	0
12 Mo Absorption:	3,045 ↓	746 ↓	47 ↑
Vacancy Rate:	4.2%	5.0% ↓	3.2% ↓
Class-A Vacancy Rate:	*7.0%* ↑	*5.8%*	*4.9%* ↑
Class-B Vacancy Rate:	*3.6%*	*4.4%*	*2.0%* ↓
Market Asking Rent/Unit:	$1,514 ↓	$1,711 ↓	$1,534 ↑
Annual Rent Growth:	2.7% ↓	1.9%	4.4% ↑
12 Mo Sale Volume:	$566 million ↑	$137 million ↑	$13 million

MARKET FUNDAMENTALS SNAPSHOT (cont.)

Milwaukee (cont.)

Looking forward, the development pipeline remains relatively measured. Approximately 3,826 units are under construction, equal to roughly 3.1% of existing inventory, while Class B vacancy remains just 3.6%. With demand currently outpacing deliveries, existing properties remain well positioned as the pipeline continues to moderate and competition from new supply becomes increasingly selective.

Madison

Madison remains further along in its current supply cycle, with 3,777 units delivered over the past year compared with approximately 2,603 units of absorption. That imbalance has kept vacancy elevated at 7.4%, while annual asking rent growth has moderated to 0.7%.

The forward picture, however, is beginning to shift. Units under construction have declined to approximately 3,051, below Madison's 10-year average construction level. As recent deliveries stabilize and the pipeline contracts, the market should gradually move toward a healthier supply-demand balance after several years of elevated development activity.

Madison Market Stats	
Inventory:	83,820 ↑
Asset Value:	$16.1 billion
Under Construction:	3,051 ↓
12 Mo Absorption:	2,603 ↓
Vacancy Rate:	7.4% ↑
Class-A Vacancy Rate:	*8.5%* ↓
Class-B Vacancy Rate:	*8.0%* ↑
Market Asking Rent/Unit:	$1,662 ↓
Annual Rent Growth:	0.6% ↓
12 Mo Sale Volume:	$353 million ↓

Racine

Racine continues to work through a concentrated wave of new development. Approximately 600 units were delivered over the past year against 389 units of absorption, pushing vacancy to 8.6%. Yet rents continue to grow 2.9%, suggesting underlying renter demand remains intact despite the temporary increase in available inventory.

Supply remains the key variable to watch, with another 626 units currently under construction. Because Racine is a much smaller market, individual projects can have an outsized impact on headline vacancy as they enter lease-up, making the timing of new deliveries particularly important.

Racine Market Stats	
Inventory:	9,852
Asset Value:	$1.4 billion
Under Construction:	626
12 Mo Absorption:	389 ↓
Vacancy Rate:	8.6% ↓
Class-A Vacancy Rate:	*17.6%* ↓
Class-B Vacancy Rate:	*12.5%* ↓
Class-C Vacancy Rate:	*3.4%* ↑
Market Asking Rent/Unit:	$1,334 ↓
Annual Rent Growth:	2.9% ↑
12 Mo Sale Volume:	$55.5 million ↑

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MARKET THEMES

Scarcity is creating pricing power.
Shorewood/Whitefish Bay offers the clearest example. Overall vacancy has fallen to 3.2%, rents have grown 4.4%, and no multifamily units are under construction. Within Class B properties, vacancy is now just 2.0%.

Development pipelines are beginning to moderate.
Milwaukee's current pipeline represents only about 3.1% of existing inventory, while Madison's units under construction have fallen below their 10-year average. Fewer new starts today could translate into a more constrained delivery environment over the coming years.

Capital is still finding high-quality assets.
The recent $94.1 million sale of Park Lafayette Towers materially increased trailing transaction volume in Downtown Milwaukee. One transaction does not establish a broader capital-markets trend, but a sale of this scale provides another indication of investor appetite for well-located Milwaukee multifamily.

INVESTOR PERSPECTIVE

For several years, multifamily underwriting has appropriately focused on the risks created by elevated development pipelines. As development pipelines begin to moderate, investors should also consider the implications of limited replacement supply.

For existing owners, particularly within well-located Class B and workforce housing, fewer new deliveries can create a favorable operating environment. When renter demand persists but development becomes more difficult, occupancy and rent growth increasingly accrue to the inventory already in place.

INVESTMENT OUTLOOK

We expect the development environment to remain increasingly selective as higher construction costs, financing requirements, and required rents challenge the economics of new projects.

For investors, that reinforces the appeal of existing assets in markets and submarkets where vacancy is already tight and future supply is limited. Scarcity alone does not create a good investment—but when paired with durable demand, it can provide existing owners with a meaningful competitive advantage.