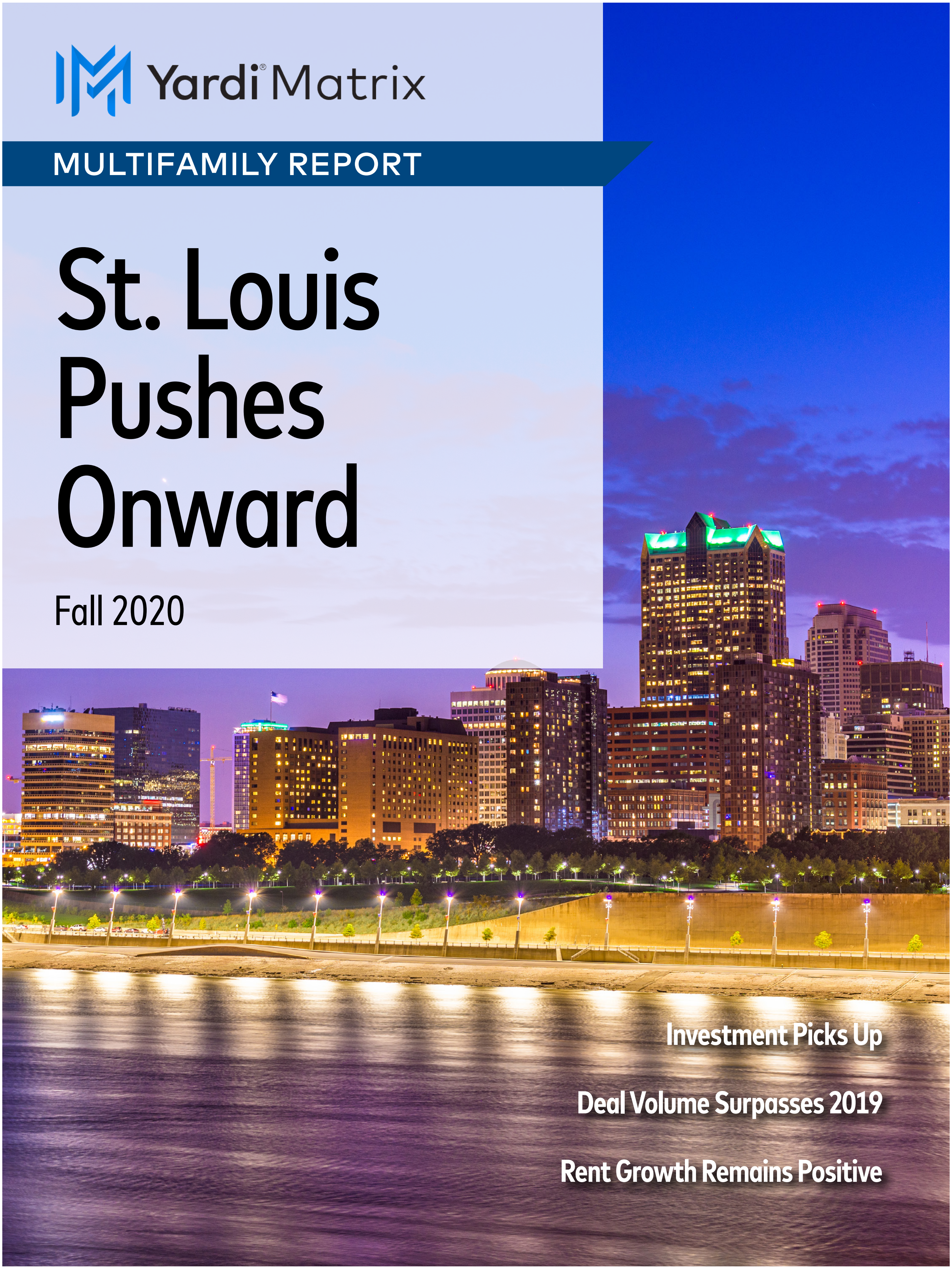
Yardi Matrix

MULTIFAMILY REPORT

St. Louis Pushes Onward

Fall 2020



Investment Picks Up

Deal Volume Surpasses 2019

Rent Growth Remains Positive

ST. LOUIS MULTIFAMILY

Yardi Matrix

Investor Interest, Rental Demand Grow

The St. Louis multifamily market has shown resilience this year. Rents continued to improve, pushing upward by 0.3% on a trailing three-month basis through October, even as growth remained flat at the national level. The average rent of $999—31.7% less than the U.S. average—positions St. Louis well as renter demand continues its shift toward more affordable options.

Although the metro has been impacted by the loss of 82,400 jobs during the 12 months ending in September, St. Louis' economy has made some notable strides. The unemployment rate was 5.5% in September, far below the national rate and continuing to improve from the peak of 11.3% in May. Additional challenges may be on the horizon, however. As state and local governments face decreasing tax revenues, budget cuts and reduced public spending may lead to a slower or delayed recovery.

Investment picked up in 2020, with transactions totaling $484 million through October, a nearly 35% increase from the same period last year. Per-unit prices jumped to $123,068, a 71% increase compared to 2019. However, even amid investment activity expansion, development has slowed. Fewer than 1,000 units were delivered in the first 10 months of the year, and an additional 2,239 were underway, nearly all aimed at Lifestyle renters. Few projects are expected to break ground in the coming months.

Market Analysis | Fall 2020

Contacts

Jeff Adler
Vice President & General Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Ron Brock, Jr.
Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Author

Jeff Hamann
Senior Associate Editor

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Recent St. Louis Transactions

Marian Heights

City: Alton, Ill.
Buyer: Harmony Housing
Purchase Price: $11 MM
Price per Unit: $87,795

Delor Park

City: St. Louis
Buyer: Neighborhood Properties
Purchase Price: $3 MM
Price per Unit: $31,250

Broadway Place

City: South Roxana, Ill.
Buyer: Harmony Housing
Purchase Price: $2 MM
Price per Unit: $35,714

RENT TRENDS

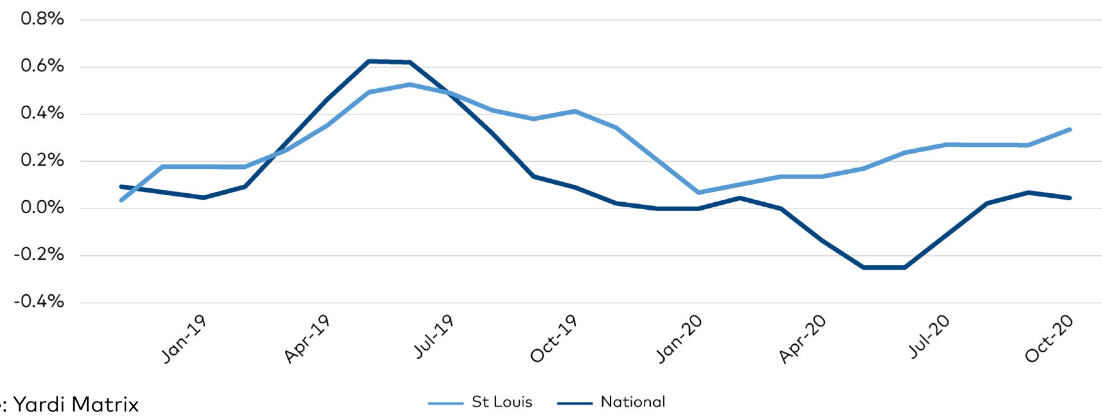
- The average St. Louis rent was up 0.3% on a trailing three-month (T3) basis through October, even as the U.S. rate remained flat. The metro's rent development has outperformed or been on par with the national rate for the past 15 months on a T3 basis. The average rate was $999 as of October, 31.8% lower than the $1,464 national figure.

- While Lifestyle rents grew by 0.1% to $1,446, working-class Renter-by-Necessity rates increased to $889, for a 0.3% uptick. St. Louis RBN prices remained positive on a T3 basis since the start of the year and will likely continue making gains due to shifts in renter demand toward more affordable housing options amid economic uncertainty.

- The Illinois–Edwardsville submarket had among the fastest-growing rents, up 12.1% year-over-year through October to $1,280. Though the submarket's inventory is more than 20 years old on average, demand has remained strong, benefiting from the Southern Illinois University Edwardsville campus. Other submarkets with high rent growth included O'Fallon (11.4% to $1,177) and St. Louis-Lafayette Square (11.4% to $1,214).

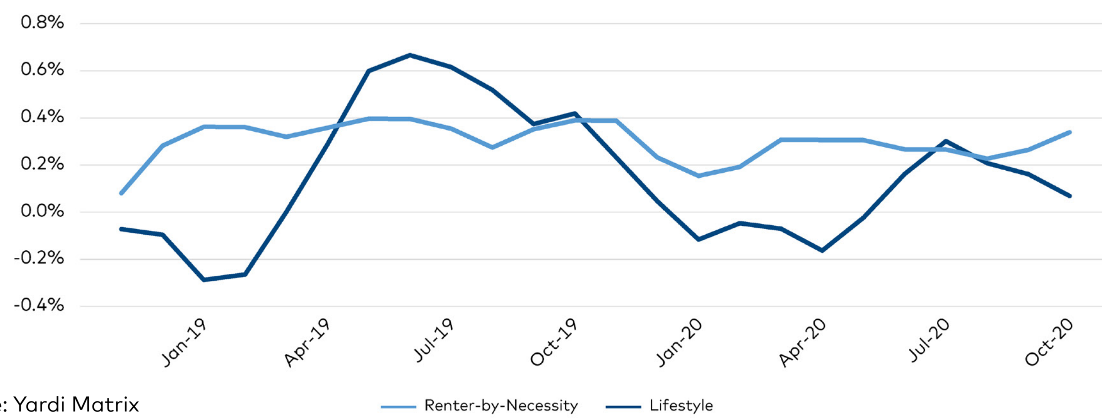
- Some of St. Louis' highest rents were in University City/Maplewood, averaging $1,343 in October. Rents contracted by 3.1% year-over-year, however, marking the steepest submarket-level decline. The most affordable submarkets included Franklin County ($599) and Ferguson ($646).

St. Louis vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

St. Louis Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- Though St. Louis faced its share of challenges this year, the metro's economy made notable gains in the second half of the year. In September, the unemployment rate was 5.5%, a marked improvement from the previous month and well below the national rate of 7.9%. Altogether, economic volatility has been more measured at the local level, though some employment sectors will face a lengthy recovery.

- Even while overall employment had fallen by 5.9% year-over-year through September, the metro's job losses have leveled off faster than at the national level. Although the leisure and hospitality sector was the hardest hit—shedding 33,100 jobs during the 12 months ending in September—other sectors began to show gains. Employment in St. Louis' financial activities sector grew by 1.1%, with the addition of 1,000 jobs during the same period.

- Government budget cuts approved or proposed amid economic uncertainty may reduce St. Louis' appeal in the short term. Following a $200 million cut to 2020 spending in June, Gov. Michael Parson later announced a nearly $450 million withholding from the state's 2021 budget, with public education seeing the largest reduction. No tax increases were proposed.

St. Louis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
80	Other Services	53	4.0%
55	Financial Activities	94	7.1%
50	Information	24	1.8%
15	Mining, Logging and Construction	68	5.2%
30	Manufacturing	116	8.8%
40	Trade, Transportation and Utilities	249	18.9%
65	Education and Health Services	250	18.9%
60	Professional and Business Services	202	15.3%
90	Government	144	10.9%
30	Manufacturing	235	6.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- St. Louis' population fell by nearly 0.1% in 2019, for a loss of 2,237 residents. The metro's population has held relatively steady over the past decade.

- The metro's affordability has long played a role in driving international migration to the city.

St. Louis vs. National Population

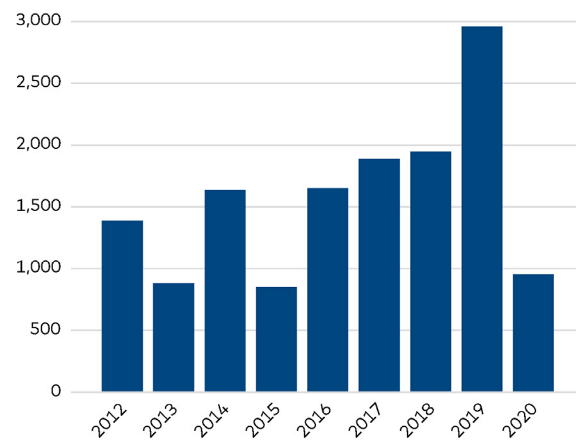
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
St. Louis Metro	2,805,437	2,805,850	2,805,465	2,803,228

Sources: U.S. Census, Moody's Analytics

SUPPLY

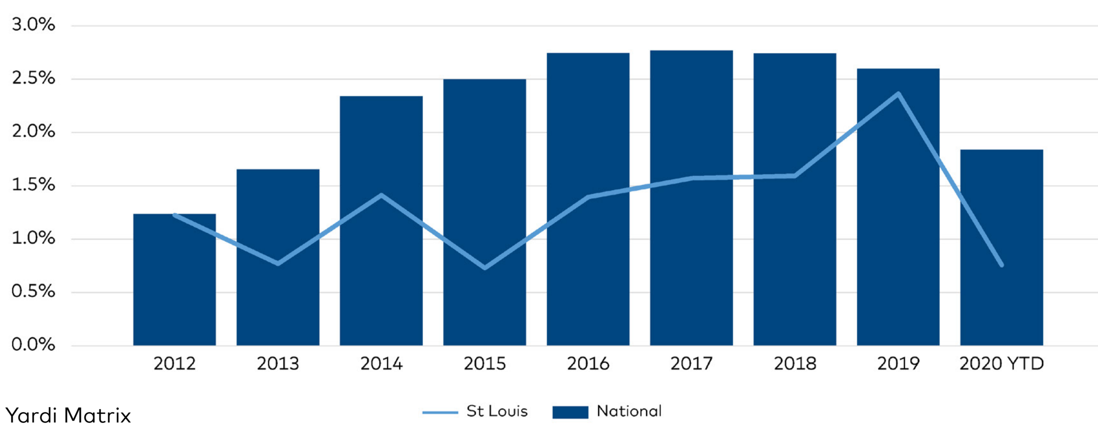
- St. Louis had 2,239 units under construction as of October, accounting for 1.8% of total stock. Projects targeting Lifestyle renters comprised more than 80% of units underway, with high-end developments continuing to break ground. Construction has begun on more than 600 units across the metro since July.
- Developers added 957 units to St. Louis' inventory year-to-date through October, a sharp decrease from the 2,958 units delivered in 2019. Construction timelines will continue to be pushed out amid social distancing requirements, and construction starts are also expected to slow moving into 2021.
- Antheus Capital's 316-unit One Hundred was the largest multifamily project underway as of October. The 39-story luxury development broke ground in St. Louis' Central West End submarket in early 2018 and is slated to deliver before year-end. The property is targeting LEED Gold certification and will include a multilevel parking structure and ground-floor retail space.
- St. Louis' largest delivery through October was The Cordish Cos.' One Cardinal Way. The 297-unit Class A community rises 29 stories opposite Busch Stadium in downtown. Construction began in late 2017, and Wells Fargo provided the developer with an $85 million HUD construction loan that matures in 2060. The property is located within an Opportunity Zone and has an underground parking garage and some 15,000 square feet of retail space.

St. Louis Completions (as of October 2020)



Source: Yardi Matrix

St. Louis vs. National Completions as a Percentage of Total Stock (as of October 2020)

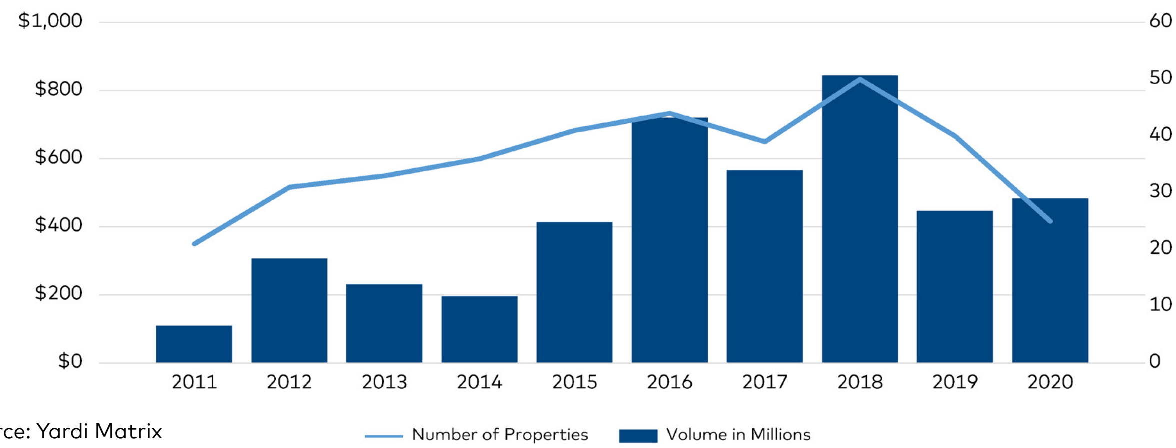


Source: Yardi Matrix

TRANSACTIONS

- A total of $484 million in multifamily assets traded across metro St. Louis year-to-date through October, a nearly 35% increase over the $359 million closed during the same period in 2019. Although investments slowed to $83 million in the second quarter, velocity picked up in the second half of the year, with more than $160 million closing in the third quarter.
- Sales averaged $123,359 per unit in 2020. While 25% less than the national average, it represented a 71.4% uptick in the metro compared to the previous year. Investment volume was evenly split between RBN and Lifestyle assets.
- The University City/Maplewood submarket had the highest level of investment activity in 2020, totaling $120 million across three transactions. The largest deal closed was Carter-Haston Real Estate's August acquisition of The Barton, a 229-unit community, from Covington Realty Partners.

St. Louis Sales Volume and Number of Properties Sold (as of October 2020)



Source: Yardi Matrix

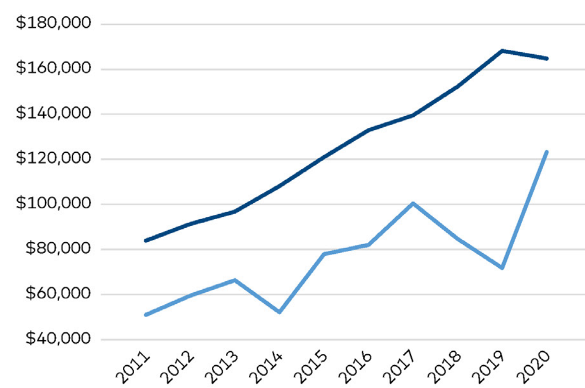
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
University City/Maplewood	120
St. Charles	85
St. Louis–Forest Park	66
St. Louis–Lafayette Square	50
St. Louis–Central West End	46
Illinois–Alton	36
Charles County	31

Source: Yardi Matrix

[1] From November 2019 to October 2020

St. Louis vs. National Sales Price per Unit



Source: Yardi Matrix

LISTICLE

MHN MULTI-HOUSING NEWS

data by Yardi Matrix

Top 5 Midwestern Markets for Multifamily Transactions

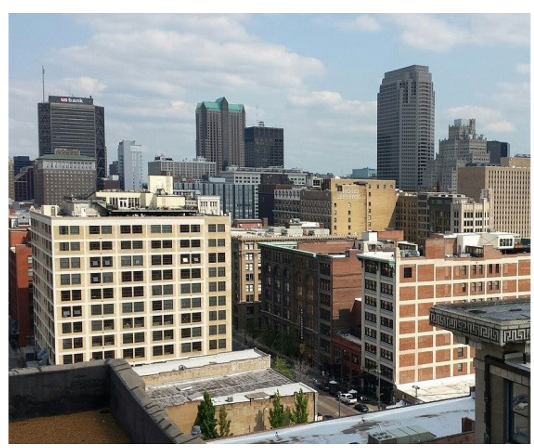
By Jeff Hamann

Multifamily transaction volume in the Midwest slowed this year, with $4.5 billion in sales closing through October. This marks a 38.7 percent decrease compared to the same period last year, similar to the decline in activity nationwide. While fewer deals and lower price points may be unsurprising given ongoing economic volatility, investment—particularly in well-located, stabilized Renter-by-Necessity communities—still pushes on.

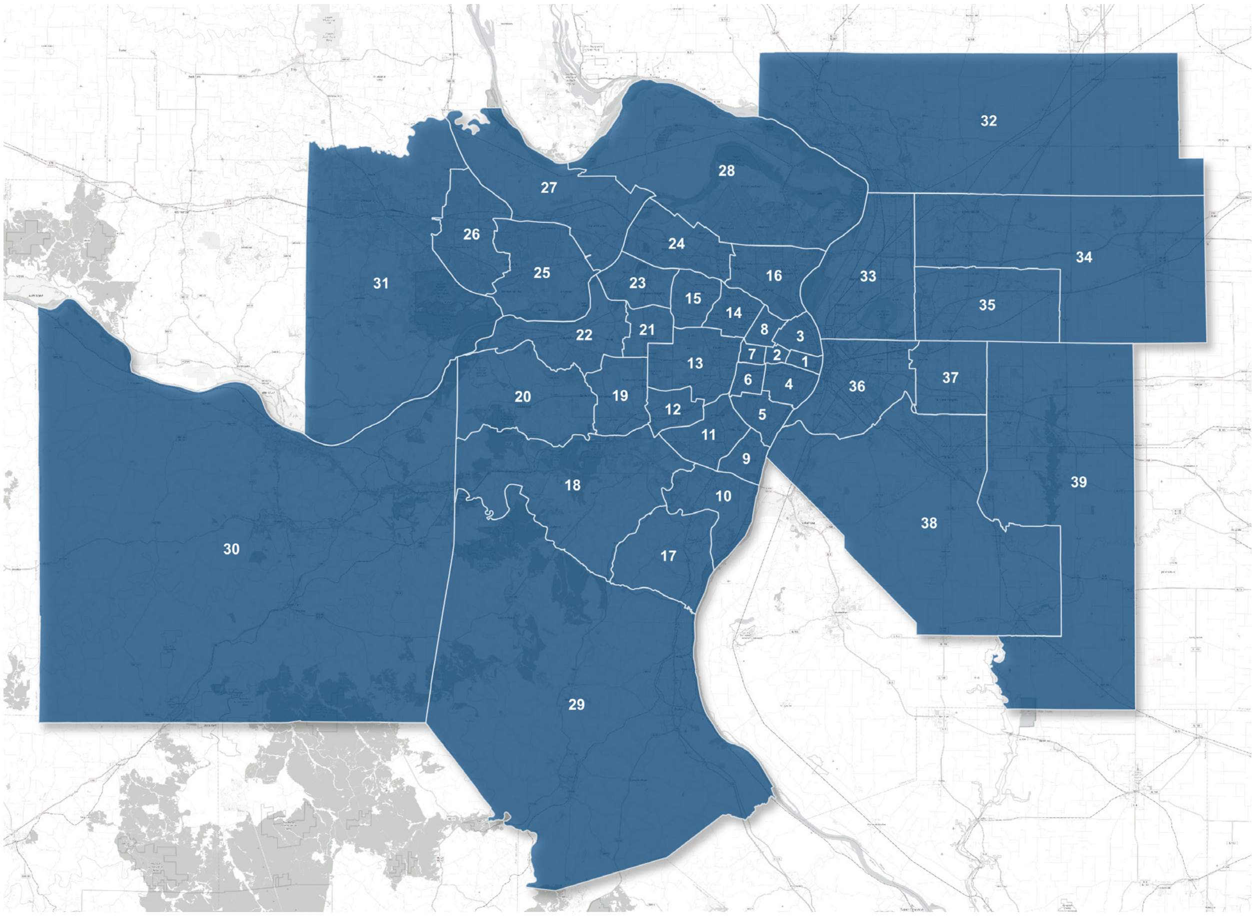
Rank	Market	Transaction Volume (MM)	Average Price Per Unit	Units Sold
1	Chicago	$1,005.5	$233,837	6,471
2	St. Louis	$531.8	$148,597	4,595
3	Kansas City	$470.9	$106,575	8,094
4	Twin Cities	$467.8	$148,836	3,319
5	Indianapolis	$423.4	$94,471	6,120

ST. LOUIS

St. Louis ended October with $531.8 million in closed multifamily transactions. The metro started the year off on strong footing, though volatility in the second quarter led to a near complete halt in sales. However, St. Louis' activity surged to nearly $210 million in the third quarter, roughly on par with Q1. This puts the year's investment volume nearly 50 percent higher than the same period in 2019, a greater increase than all but a handful of markets nationwide.



ST. LOUIS SUBMARKETS



Area No.	Submarket
1	St. Louis–Downtown
2	St. Louis–Central West End
3	St. Louis–North
4	St. Louis–Lafayette Square
5	St. Louis–South
6	St. Louis–Clayton Tamm
7	St. Louis–Forest Park
8	St. Louis–Northwest
9	Mehlville–North
10	Mehlville–South
11	Affton
12	Kirkwood
13	University City–Maplewood

Area No.	Submarket
14	Bel-Ridge
15	St. Ann–Overland
16	Ferguson
17	Arnold
18	Fenton–Eureka
19	Manchester–Valley Park
20	Ballwin
21	Creve Coeur
22	Chesterfield
23	Maryland Heights
24	Hazelwood–Bridgeton
25	St. Peters
26	O'Fallon

Area No.	Submarket
27	St. Charles
28	Florissant
29	Festus
30	Franklin County
31	Charles County
32	Illinois–Alton
33	Illinois–Granite City
34	Illinois–Edwardsville
35	Illinois–Collinsville
36	Illinois–East St. Louis
37	Illinois–Fairview Heights
38	Illinois–Belleville
39	Illinois–O'Fallon

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also October span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which October barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, October extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.