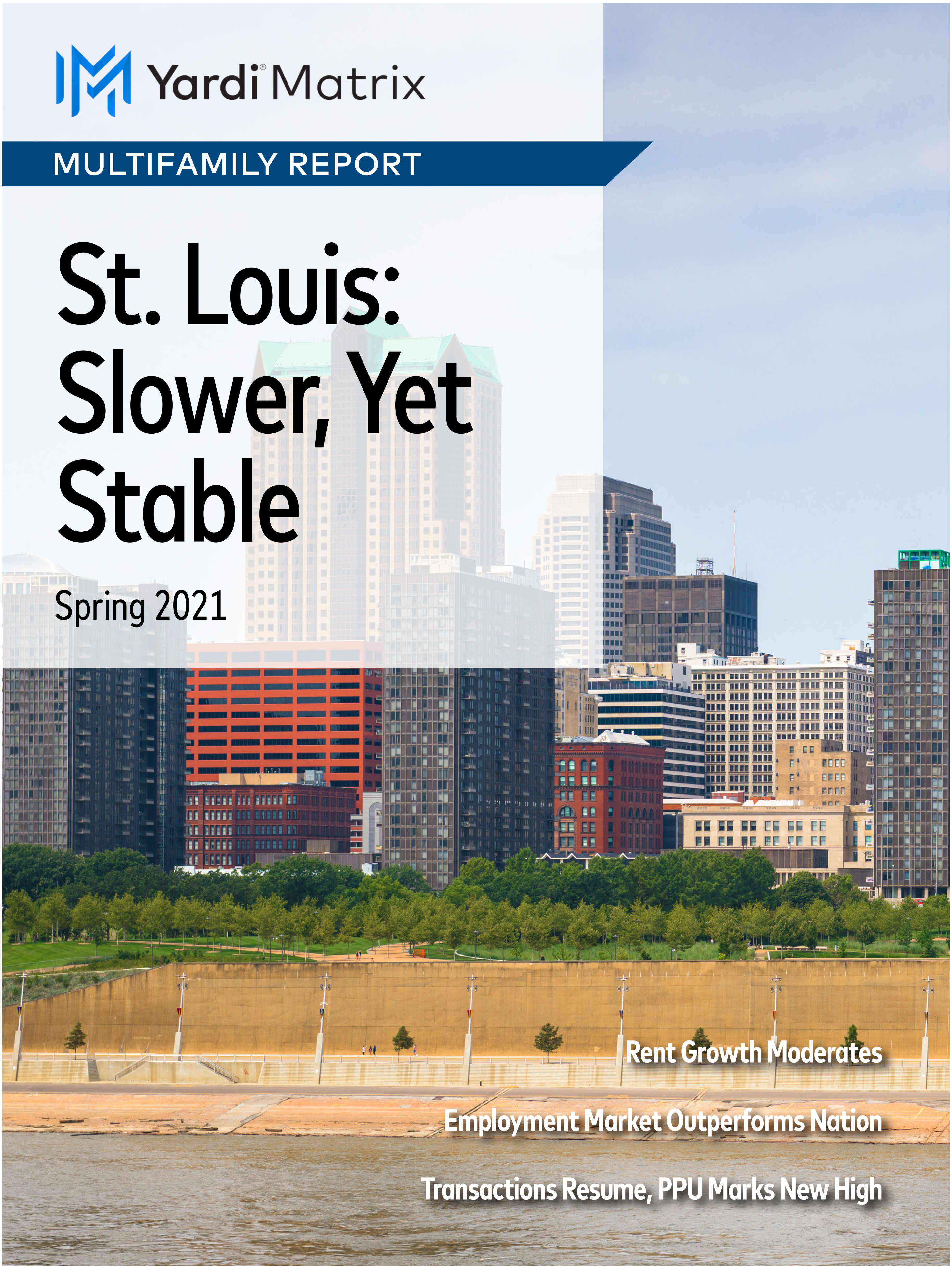
Yardi® Matrix

MULTIFAMILY REPORT

St. Louis: Slower, Yet Stable

Spring 2021



Rent Growth Moderates

Employment Market Outperforms Nation

Transactions Resume, PPU Marks New High

ST. LOUIS MULTIFAMILY

Yardi Matrix

Robust Supply Will Likely Outpace Demand

St. Louis sustained minor damage from the pandemic compared to the national economy, but signs suggest its rebound will unfold more slowly. Its multifamily market responded proportionally—rent growth softened, marking a 0.1% uptick on a trailing three-month basis through March to $1,003, while the U.S. average rose 0.3% to $1,407. Demand has kept up with the elevated supply so far, but the metro's shrinking population will likely continue to moderate rent growth.

The unemployment rate dropped to 5.5% in January, with February preliminary data pointing to 5.1%. The employment market slid 5.3% in 2020, outperforming the -6.8% U.S. rate. However, St. Louis continues to experience a shortage of workers with knowledge and skills and this could hinder growth in the long run. An indicator of this deficiency is the performance of the local economy. Only one sector gained jobs—other services—up by 3.9% during the period. Financial activities and mining, logging and construction remained flat.

Developers had 4,491 units under construction and 401 newly delivered as of March. Meanwhile, transaction activity amounted to $175 million, for a price per unit that appreciated by 26.3% year-over-year through March, to $148,386, marking a new high.

Market Analysis | Spring 2021

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Recent St. Louis Transactions

Fieldpointe of St. Louis

City: St. Louis
Buyer: JRK Property Holdings
Purchase Price: $59 MM
Price per Unit: $184,373

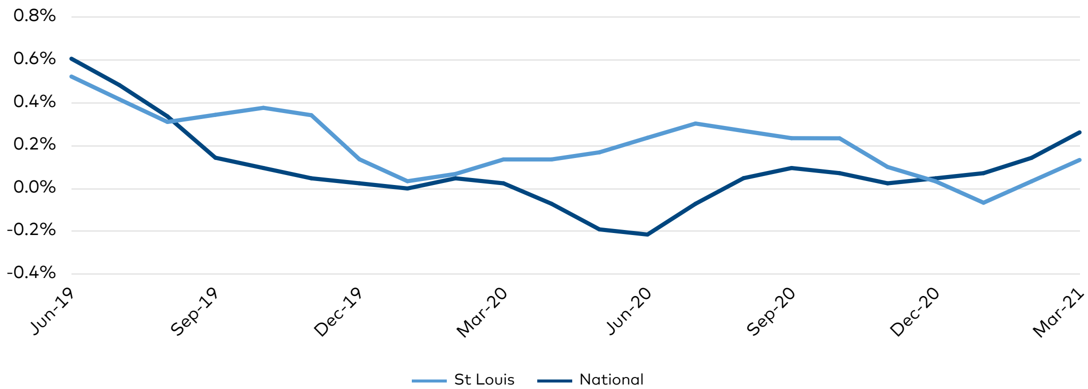
The District

City: St. Louis
Buyer: FPA Multifamily
Purchase Price: $46 MM
Price per Unit: $106,650

RENT TRENDS

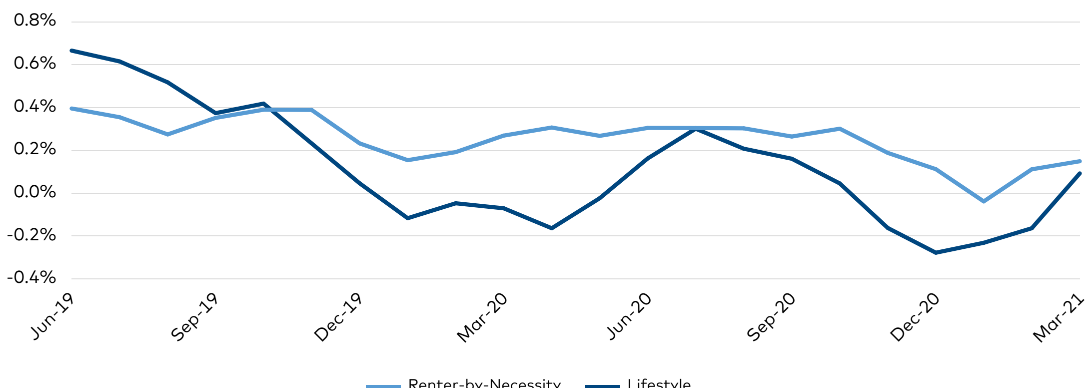
- St. Louis rents rose 0.1% on a trailing three-month (T3) basis through March to $1,003. Meanwhile, the national rate rose 0.3% on a T3 basis to $1,407.
- Rents in the working-class Renter-by-Necessity segment led growth, up 0.2% on a T3 basis through March, to $892. Meanwhile, Lifestyle rents rose 0.1% to $1,441, following four consecutive months of depreciation.
- The occupancy rate in stabilized properties, inched up just 10 basis points year-over-year through February, to 94.5%. Specifically, demand for RBN units pushed up the rate by 30 basis points for the segment, to 94.6%, while in the Lifestyle segment the rate declined by 50 basis points, to 94.0%. It's worth noting that the bulk of the construction pipeline consists of upscale projects.
- The number of submarkets with the average rent above the $1,000 mark increased. The former most expensive submarket—University City/Maplewood—marked the worst year-over-year performance in rent growth, declining by 3.2% in March to $1,337. Ranking first among the submarkets with the highest average rents was Edwardsville, up 9.3% to $1,343. Its performance was only behind Fairview Heights, where rents rose 10.8% to $1,208.

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

- The unemployment rate in St. Louis was down to 5.1% as of February, with preliminary data pointing to a new decline to 5.1%, according to BLS. This has put the metro's performance above the 6.2% national rate in February.

- The employment market posted a 5.3% contraction in the 12 months ending in December, outperforming the 6.8% national decline rate. Even though St. Louis appears to have withstood the pandemic's impacts better than other regions, the issue regarding the sustainability of this performance in the long run lingers on. One of the main barriers to employment market expansion remains the shortage of workers with skills or knowledge. Consequently, only one sector expanded in the 12 months ending in December—other services, which comprises activities including personal care and pet care services, climbed by 3.9%. Financial activities and mining, logging and construction remained flat during the period.

- The worst hit sectors were leisure and hospitality (-22.6%), government (-8.7%) and information (-8.7%). Meanwhile, its largest employment sectors—trade, transportation and utilities and education and health services—shrunk by just 2.0% and 1.4%.

St. Louis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
80	Other Services	54	4.0%
15	Mining, Logging and Construction	67	5.0%
55	Financial Activities	93	7.0%
50	Information	24	1.8%
30	Manufacturing	117	8.8%
65	Education and Health Services	257	19.2%
40	Trade, Transportation and Utilities	263	19.7%
60	Professional and Business Services	204	15.3%
90	Government	145	10.9%
70	Leisure and Hospitality	113	8.5%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- St. Louis lost 2,237 residents in 2019 for a 0.1% slide, while the U.S. population marked a 0.3% increase.

- For the first part of the decade, the metro's demographics kept ascending; in 2016, the trend reversed. Between 2010 and 2019, the metro's population expanded by just 0.5%.

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

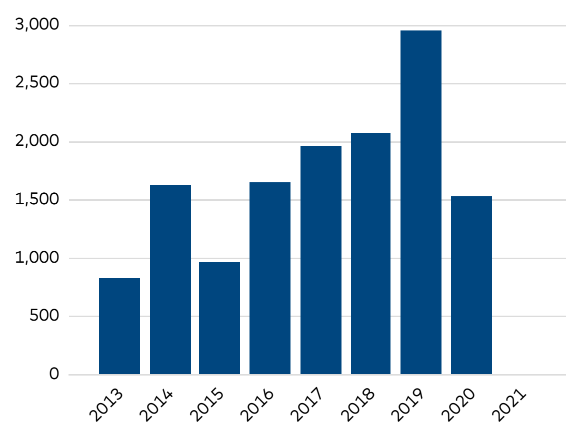
- In 2021 through March, developers brought online 401 units in three Lifestyle communities, 0.3% of total stock, 10 basis points below the U.S. average. This comes after 1,532 units delivered in 2020, which is about half of 2019's volume. Since 2013, 14,044 units have been added to the metro's multifamily inventory.

- The construction pipeline consisted of 4,491 units under construction and 9,800 in the planning and permitting stages as of March. Of the projects underway, about 500 units targeted the Renter-by-Necessity asset class, of which 364 units were in four fully affordable properties. The bulk of under construction properties, or about 4,000 units, were geared toward the upscale segment. By the end of the year, 2,291 units were slated for completion, but delays are still likely to occur due to permitting, prolonged construction timelines, as well as labor shortages and the effects of supply-chain disruptions.

- Development activity was intense in the northwestern part of St. Louis' core, with nearly half of the units underway located within a 9-mile radius of downtown. Forest Park, St. Peters, O'Fallon and Lafayette Square, each had more than 500 units under construction.

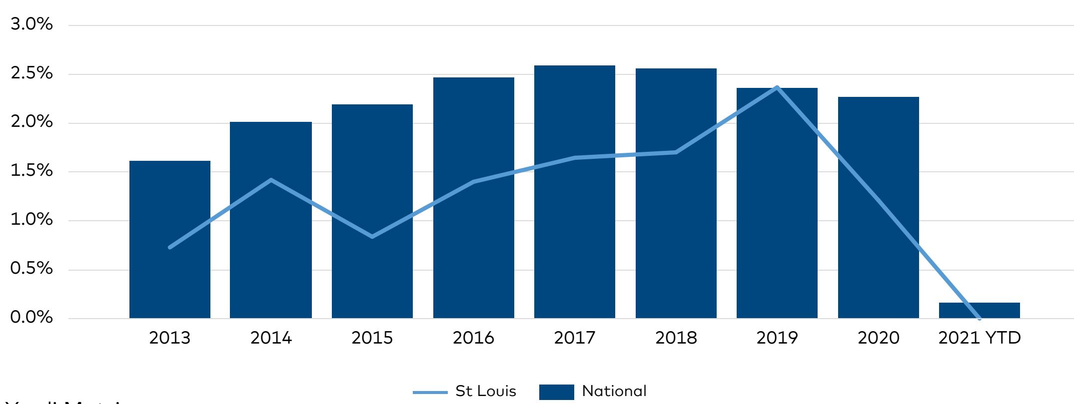
- The largest delivery in 2021 through March was Aventura at Wild Horse Creek, a 176-unit property owned by Above All Development and built with aid from a $24 million construction loan originated by Great Southern Bank.

St. Louis Completions (as of March 2021)



Source: Yardi Matrix

St. Louis vs. National Completions as a Percentage of Total Stock (as of March 2021)



Source: Yardi Matrix

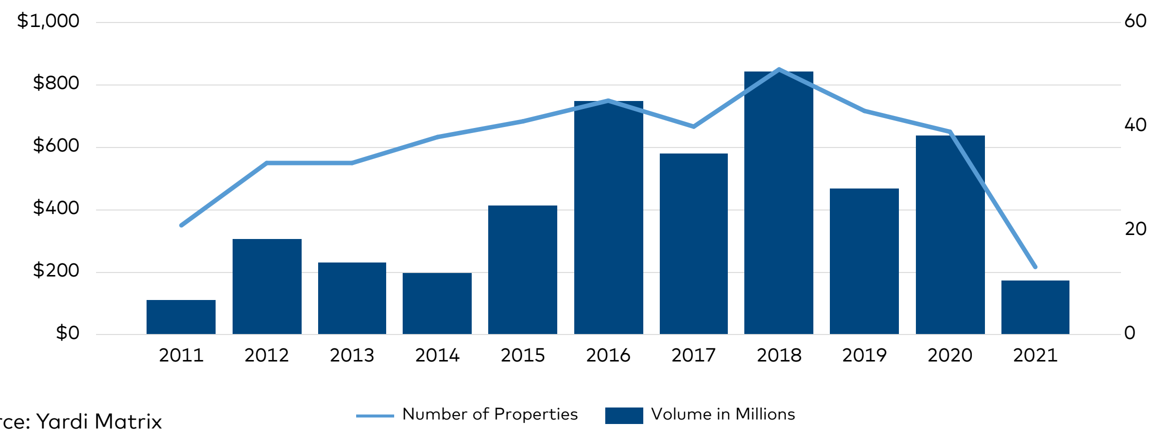
TRANSACTIONS

- Coming on the heels of last year's volume—which at $637 million marked the third best year of the decade—$175 million in multifamily assets traded in St. Louis in 2021 through March.

- The transaction volume registered in 2021 through March is below last year's value, when $252 million in rental assets traded. Despite this year's deals' composition—with two-thirds of the properties in the RBN segment—the price per unit rose by a hefty 26.3% to $148,386, marking a new record high. Still, St. Louis remains affordable compared to the $170,611 national average. Mirroring the national trend, last year's second quarter was the weakest in transaction activity, amounting to just $42 million.

- University City/Maplewood drew by far the most investment, with sales totaling $166 million year-over-year through March. Next in line was Lafayette Square, which totaled $70 million.

St. Louis Sales Volume and Number of Properties Sold (as of March 2021)



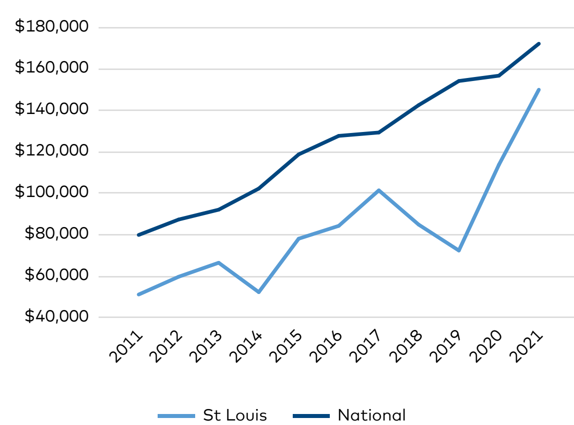
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
University City/Maplewood	166
St. Louis - Lafayette Square	70
Maryland Heights	59
Ballwin	48
Illinois - Alton	36
St. Louis - Central West End	34
St. Louis - Clayton Tamm	32

Source: Yardi Matrix
[1] From April 2020 to March 2021

St. Louis vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

COVID-19 Shines Light on Midwest Markets

By Evelyn Jozsa

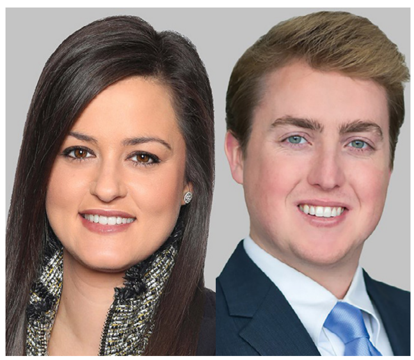
Thanks to its diverse economic profile, St. Louis was able to withstand the COVID-19-induced uncertainties over the past year. The multifamily market in St. Louis also proved resilient and remained active throughout the health crisis. Bobby Mills, director at Berkadia, along with Berkadia Senior Director Andrea Kendrick provide a broad picture of the current state of multifamily in the metro and discuss where the market is heading.

How would you describe St. Louis' multifamily market before the pandemic? How do you see the market now?

Kendrick: The St. Louis multifamily market pre-pandemic was very healthy. We experienced record-high occupancy trends, rent growth average of more than 3 percent and even greater growth in certain submarkets, and record pricing in transactions. In general, these trends have continued through the pandemic.

Which aspect of St. Louis' multifamily sector has been most affected by the health crisis and why?

Mills: New development activity was most affected by the pandemic. St. Louis has experienced a surge of new development over the past five years, with approximately 2,000 units that came online in 2020 and another 1,200 units that will begin lease-up over the next few quarters. However, during the pandemic, developers have seen construction costs continue to increase and have had a more difficult time sourcing materials due to many shipping delays.



Andrea Kendrick *(left)* and Bobby Mills *(right)*

What surprised you most about St. Louis in the past 12 months?

Mills: What surprised me most about the St. Louis multifamily market over the past 12 months is its resilience to the COVID-19 pandemic. Initially, many believed property performance would suffer with regards to collections and occupancy, and transaction volume would decrease. However, our team experienced the opposite. We have remained extremely active throughout the pandemic, both from a sales and financing perspective.

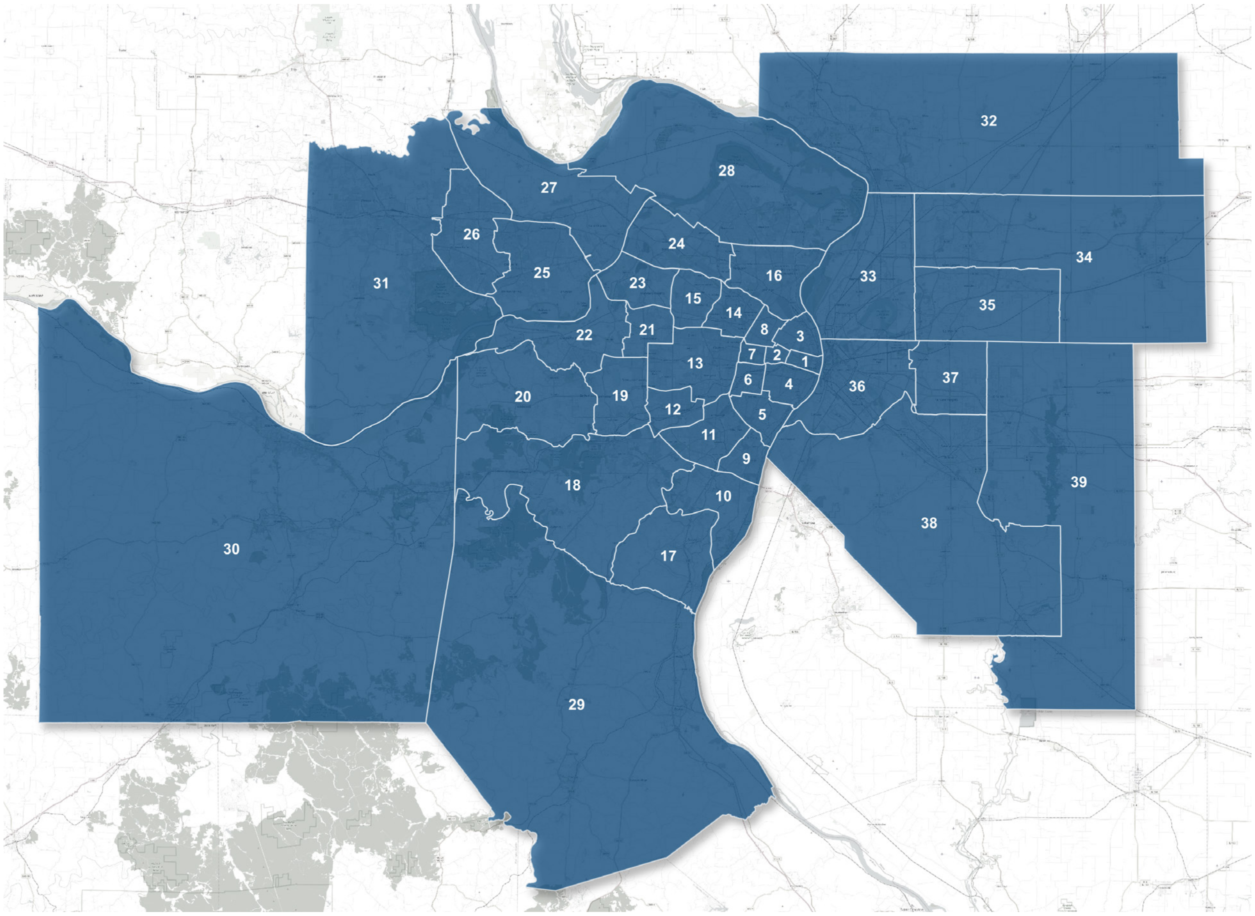
How has the pandemic shaped investor interest?

Kendrick: The pandemic has shaped investor interest by shining a light on stabilized Midwest markets experiencing steady rent growth and returns, while properties in high-density, urban locations have struggled. We continue to see strong demand from investors for all types of multifamily, including both core properties and value-add opportunities in St. Louis.

What are your predictions for the St. Louis multifamily market?

Mills: We foresee the St. Louis multifamily market remaining very strong throughout 2021 and into 2022. St. Louis has increasingly attracted the interest of coastal buyers who are searching for higher yields. While cap rates have compressed in St. Louis, they remain very attractive compared to the major markets, such as New York or Los Angeles.

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 December 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 December 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, December 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.

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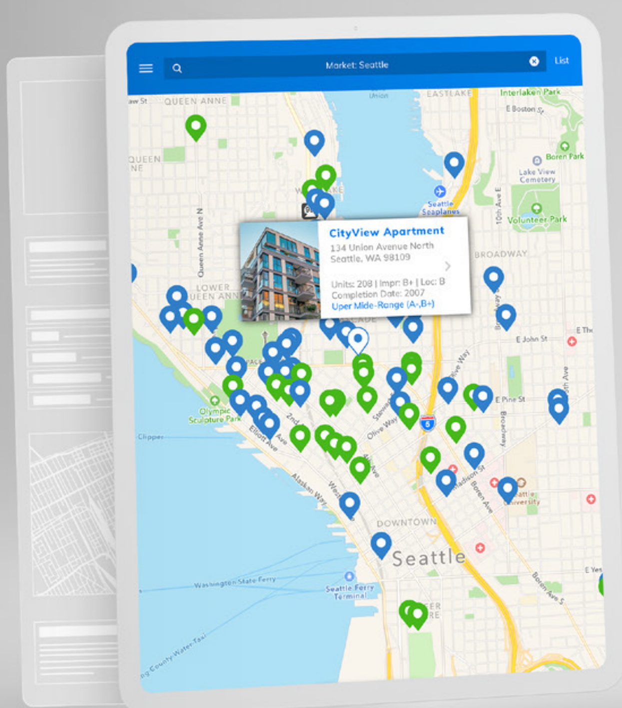

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