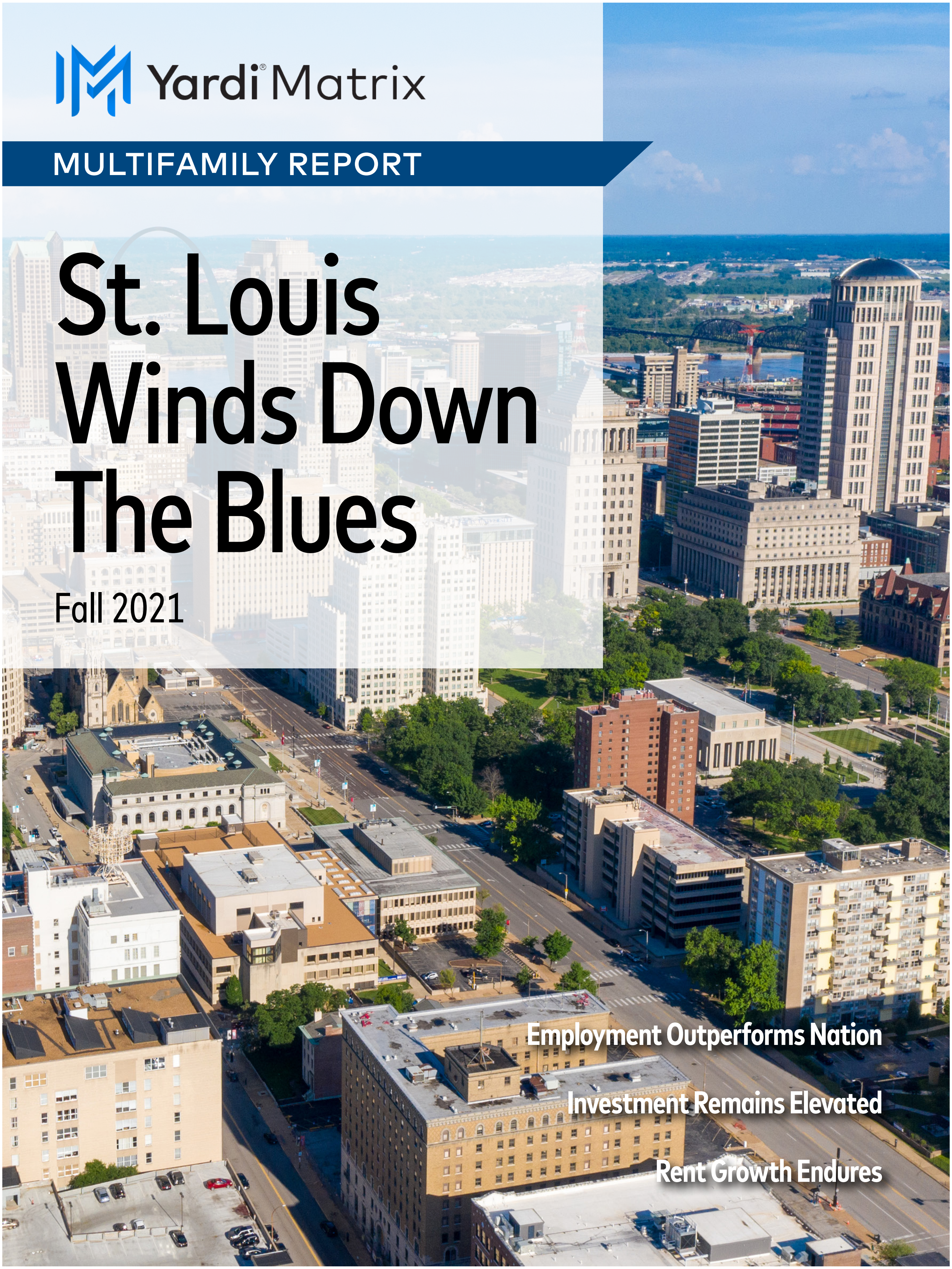
Yardi Matrix

MULTIFAMILY REPORT

St. Louis Winds Down The Blues

Fall 2021



Employment Outperforms Nation

Investment Remains Elevated

Rent Growth Endures

ST. LOUIS MULTIFAMILY

Yardi Matrix

Improving Market Fundamentals

St. Louis' diverse employment base helped prove its strength during the health crisis, placing it in the "stable markets" pool. Also boosted by the city's affordable cost of living and low-risk geography, the market's performance surpassed pre-pandemic values. St. Louis rents rose 1.1% on a trailing three-month basis through August to $1,075, still far behind the $1,539 U.S. average.

Employment growth in the 12 months ending in June marked a 0.6% uptick, double the 0.3% national rate. Unemployment in St. Louis improved to 4.4% in July, leading the 5.4% U.S. rate. Leisure and hospitality expanded by 25.5%, adding 27,700 jobs in the 12 months ending in June, but reassuring stability stems out of the trade, transportation and utilities sector, as e-commerce is driving a warehouse boom: Fenton Logistics Park has been rapidly adding tenants, including Grey Eagle Distributors and Amazon. Education and health services is also poised for growth, while Mercy and BJC HealthCare will increase their minimum wage to $15 per hour.

Developers delivered 769 units this year through August and had another 5,233 apartments under construction, half of which are located within a 5-mile radius of downtown. Meanwhile, investors traded $617 million in multifamily assets and the average price per unit rose 12.8% from last year, to $135,694.

Recent St. Louis Transactions

Sun Valley Lake

City: St. Charles, Mo.
Buyer: Beitel Group
Purchase Price: $101 MM
Price per Unit: $148,732

Haven on the Lake

City: Maryland Heights, Mo.
Buyer: Monument Capital Management
Purchase Price: $67 MM
Price per Unit: $127,462

Market Analysis | Fall 2021

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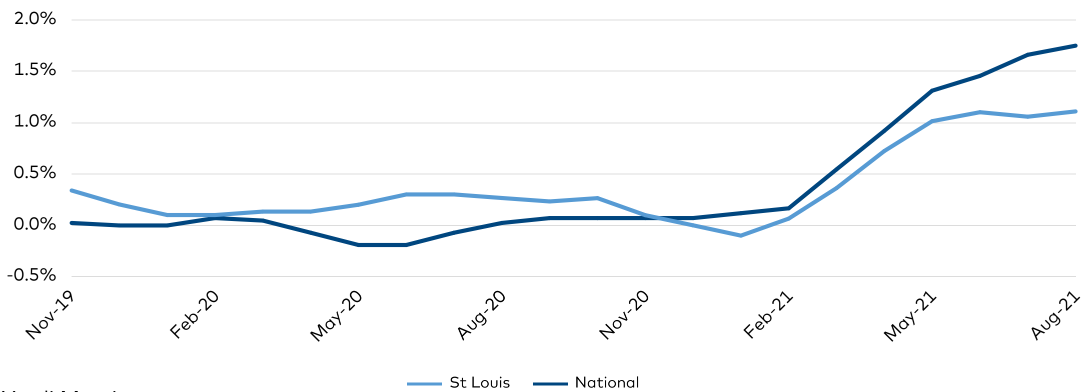
RENT TRENDS

- Rents in St. Louis climbed 1.1% on a trailing three-month (T3) basis through August, to $1,075. Meanwhile, the U.S. average was up 1.7%, to $1,539. Although St. Louis rents are rising slower than the national average, the pace surpassed pre-pandemic levels in the second quarter of this year and remained there for five consecutive months.

- Mirroring the national trend, Lifestyle units led rent growth, up 1.8% on a T3 basis through August, to $1,583. Rates in the working-class Renter-by-Necessity segment increased by 0.9%, to $941. Counterintuitively, on the occupancy side, the dynamic was the opposite: The RBN rate rose 60 basis points in the 12 months ending in July, to 95.1%, while in the Lifestyle segment it marked a 40-basis-point dip, to 94.0%. The drop in occupancy is likely due to recent inventory expansion, which consisted exclusively of upscale apartments. Overall, the occupancy rate in stabilized properties in St. Louis rose 40 basis points to 94.9% in the 12 months ending in July.

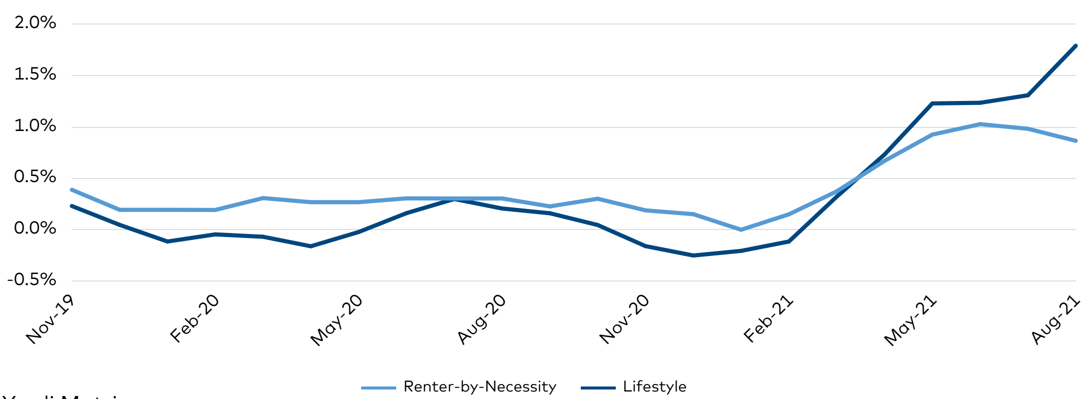
- Of the 39 submarkets tracked by Yardi Matrix, 20 posted an average rent above the $1,000 mark, four more than a year ago in August. University City/Maplewood regained the top spot among the metro's most expensive areas, following an increase of 4.1% on a year-over-year basis through August, to $1,432. Even with a substantial construction pipeline, O'Fallon had one of the best performances in rent growth during the period, marking a 13.3% rise, to $1,244.

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 improved to 4.4% in July, according to preliminary data from the Bureau of Labor Statistics, outpacing the 5.4% national average.
- Employment growth turned positive in the 12 months ending in June, up 0.6% and outperforming the 0.3% U.S. rate. A pressing issue for the metro's economic expansion, however, is finding workers.
- Leisure and hospitality recovered 27,700 jobs, expanding by 25.5%, while solid signs of growth came from St Louis' largest employment sectors. Education and health services added 11,500 jobs. Meanwhile, the National Geospatial-Intelligence Agency is building its new headquarters in north St. Louis. The building is slated to open in 2025.
- Trade, transportation and utilities added 4,700 jobs and is poised for more growth, with Fenton Logistics Park rapidly growing and adding tenants—one is Grey Eagle Distributors, which broke ground on its headquarters across a 250,000-square-foot warehouse and office building. Upon completion in 2022, the facility will double the size of the company's current operations. Another tenant is Amazon, which completed a new 148,800-square-foot distribution center in July.

St. Louis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	136	10.0%
65	Education and Health Services	253	18.7%
60	Professional and Business Services	207	15.3%
90	Government	155	11.4%
40	Trade, Transportation and Utilities	255	18.8%
15	Mining, Logging and Construction	72	5.3%
80	Other Services	48	3.5%
55	Financial Activities	90	6.6%
30	Manufacturing	114	8.4%
50	Information	25	1.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- St. Louis gained 2,245 residents in 2020, marking less than 0.1% of demographic expansion. Although small, it marks the first year of growth since 2017.
- The U.S. population increased by 0.4% in 2020.

St. Louis vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
St. Louis Metro	2,805,850	2,805,465	2,803,228	2,805,473

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

SUPPLY

- Developers brought online 769 units in 2021 through August, 0.6% of total stock, or less than half the 1.3% national rate. Yardi Matrix expects another 1,633 apartments to be completed by the end of 2021.

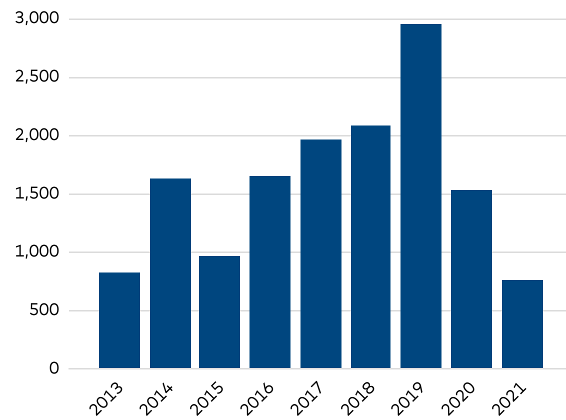
- The construction pipeline had 5,223 units underway and another 12,867 in the planning and permitting stages as of August. Projects under construction are heavily tilted toward the Lifestyle segment (4,288 units), while the Renter-by-Necessity component had just 935 units, 474 of which were in six fully affordable communities.

- All deliveries in 2021 through August were upscale properties, and nearly half were in the Chesterfield submarket. The submarket also holds the largest project completed this year through August, the 188-unit Wildhorse. The Pearl Cos. asset was built with aid from a $38 million construction loan issued by CIBC Bank USA.

- Construction activity was uneven across the map, with the city core remaining the favorite, as about half of the projects underway are located within a 5-mile radius of downtown.

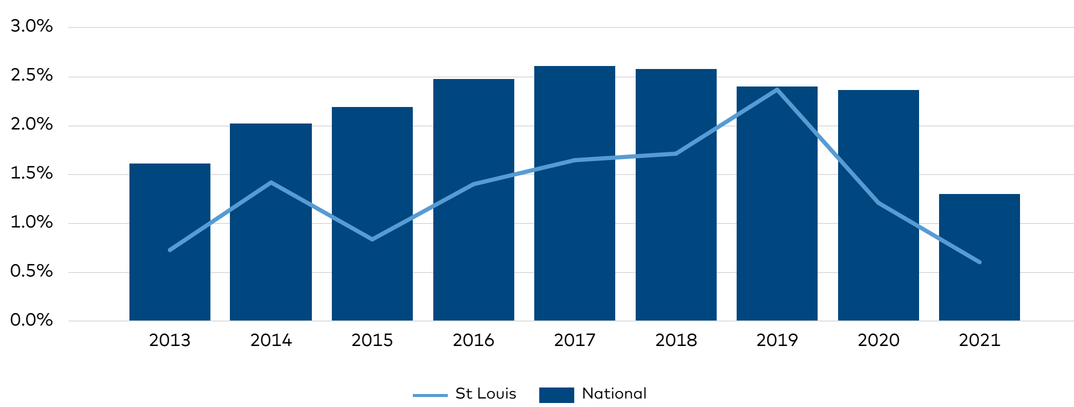
- Submarkets with the highest number of units under construction included Lafayette Square (870 units), O'Fallon (616 units) and Forest Park (594 units). The largest project under construction as of August 2021 was the 462-unit Reserve at Mid Rivers, a Terra West project in St. Peters, slated for completion in 2023.

St. Louis Completions (as of August 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

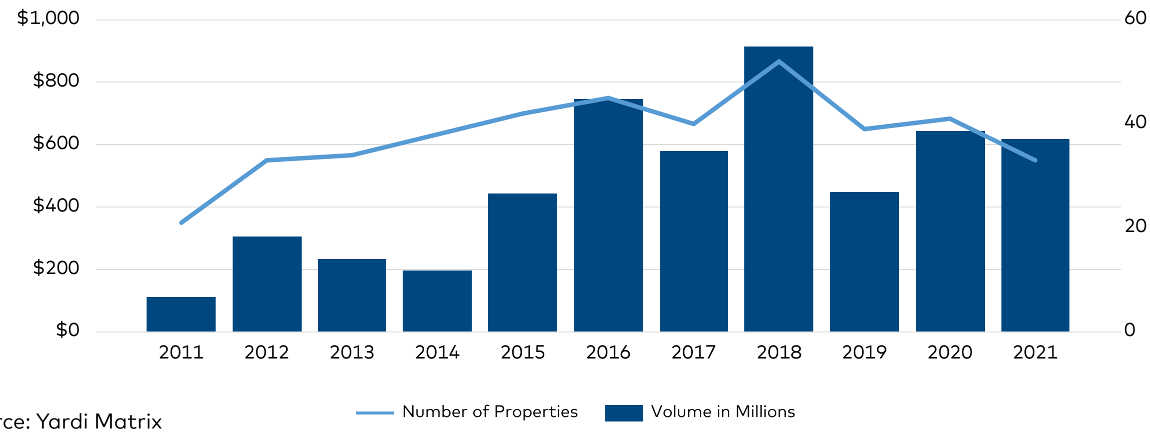
TRANSACTIONS

- Transaction activity remained relatively high in St. Louis, with multifamily sales amounting to $617 million in 2021 through August, nearing last year's $643 million total. During the last five years, sales volumes fluctuated, with the annual average at $658 million.

- Although 26 of the 33 assets that traded in 2021 through August were Renter-by-Necessity properties, the average price per unit in St. Louis rose 12.8% this year through August to $135,694. Even though the average is well below the $176,903 national figure, it marks a new high for the metro.

- The largest deal recorded in 2021 through August was B&M Management's sale of the 680-unit Sun Valley Lake in St. Charles. Beitel Group acquired it for $101 million, or $148,732 per unit, with aid from a $93.5 million loan held by Arbor Realty Trust.

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



Source: Yardi Matrix

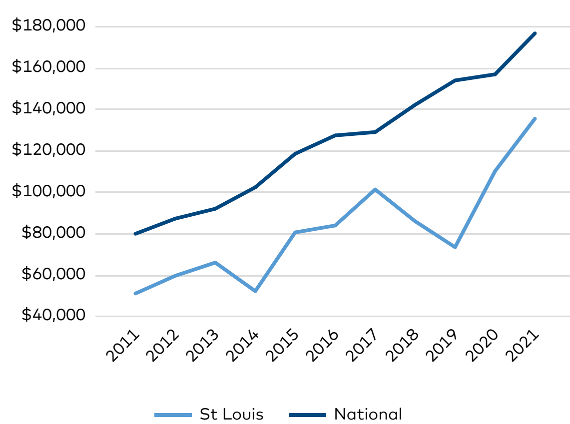
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
University City/Maplewood	131
Maryland Heights	126
St. Charles	101
Chesterfield	83
Ballwin	48
Lafayette Square	40
Central West End	34

Source: Yardi Matrix

[1] From September 2020 to August 2021

St. Louis vs. National Sales Price per Unit



Source: Yardi Matrix

St. Louis Maintains Steady Pace

By Lucia Morosanu

St. Louis has shown resilience in front of the latest downturn. In-migration supported the metro's housing market, as the affordable prices attracted remote workers looking for more space. While this trend might slow down once employees fully return to their offices, the strengthening job market could be instrumental going forward. Draper and Kramer Assistant Vice President & Regional Property Manager Kristen Alessi weighs in on the metro's strengths.

How has the pandemic altered the St. Louis multifamily market??

At our properties in St. Louis, the pandemic seemed to strengthen our retention numbers. In fact, we saw some of the highest monthly retention percentages and occupancy in years, which stands in contrast to trends seen in many urban markets, where properties in the immediate downtown area experienced an occupancy dip in the early months of the shutdown.

One possible explanation for the strong performance of our St. Louis assets is that the communities are a little outside the immediate downtown area, close to quality schools and ample green space. This helped us bring in new residents that were seeking more attainably priced housing in lower-density locations.

Have you encountered any rent collection difficulties across your St. Louis portfolio? How did you go about them?

Like all companies in our industry, we have experienced some rent

collection difficulties over the course of the pandemic. We produced a thoughtfully planned and executed rent deferral program across our properties that allowed our residents to defer rent and pay it back as they could.

Why is The Hill in such high demand now? What makes it so appealing?

Known for its rich history, The Hill is attracting residents who appreciate its walkability and variety of local restaurants, shops, markets and parks. That's in line with what we're seeing in other markets, where renters are gravitating to housing that gives them all of the urban conveniences and cultural experiences they seek in lower-density residential enclaves that embrace their own authentic identities.

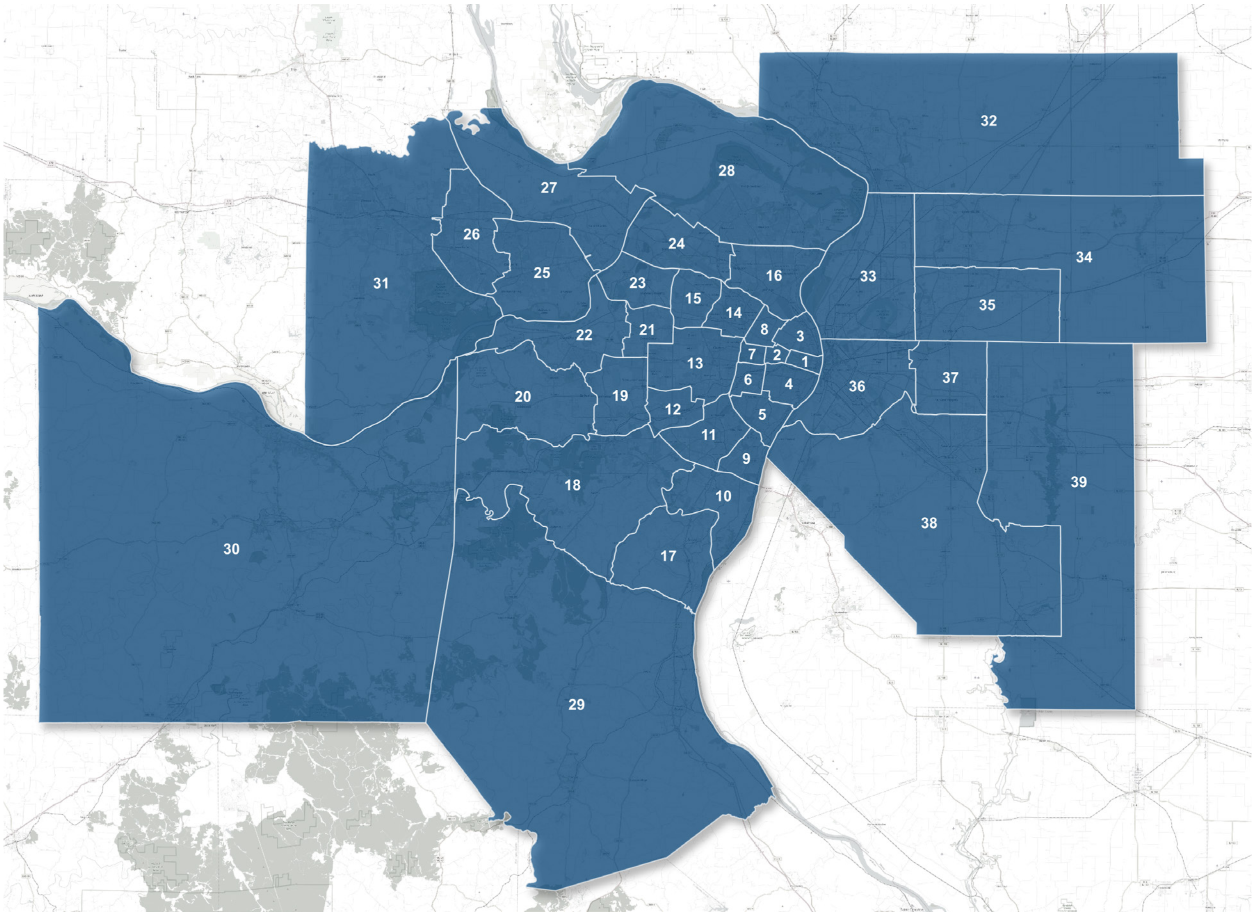
Are there any vulnerabilities across the market?

The biggest challenge we see—in St. Louis and across our portfolio—is lingering uncertainty around any future restrictions or mandates related to the pandemic.

Please tell us how you think the St. Louis multifamily market will evolve for the remainder of the year and beyond.

The local multifamily market emerged from the pandemic relatively unscathed and continued rent growth is an encouraging sign going into the final months of the year. Unit deliveries are expected to rebound in 2021 after a decline last year, and while absorption may lag in the short term, the region's improving job market will help keep supply and demand largely in balance.

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.

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

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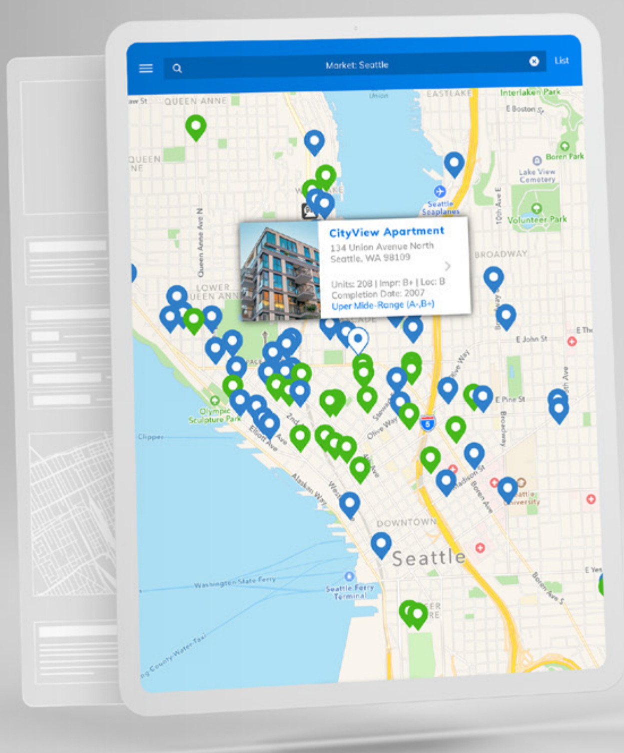

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