YARDI® Matrix

Steady In St. Louis

Multifamily Winter Report 2017

Hospitality Leads Job Gains

Construction Targets City Core

Property Values Hit Record High

Market Analysis

Winter 2017

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Forward Momentum

St. Louis is enjoying a spell of solid employment and rent growth, which has pushed investor activity to cycle highs. Both transaction volume and per-unit prices increased in 2016, as the high acquisition yields of assets and low barriers to entry facilitated interest from investors priced out of larger core and secondary markets.

Driven by growth in hospitality, trade, transportation and construction, St. Louis is also focusing on increasing its number of technology- and information-related jobs. The Cortex Innovation community is a project meant to improve the metro's standing with tech companies, continuing the push for the addition of science, technology, engineering and math (STEM) jobs in the area. The expansion of Southwest Airlines at Lambert Airport bodes well for mobility to and from the city.

More than 3,000 apartment units are under construction, the bulk of which will be added to the market's core. High rents and proximity to Washington University have helped the University City/Maplewood submarket lead the metro for both rent growth (21.7%) and actual rent ($1,724) in 2016. The submarket also boasts the most intense development activity, with more than 800 units underway. As occupancy is trending below 95% and multifamily stock continues to expand, we expect moderate rent growth to continue, producing a 3.1% gain for 2017.

Recent St. Louis Transactions

Sun Valley Lake

City: St. Charles, Mo.
Buyer: Priderock Capital Partners
Purchase Price:$55 MM
Price per Unit: $81,020

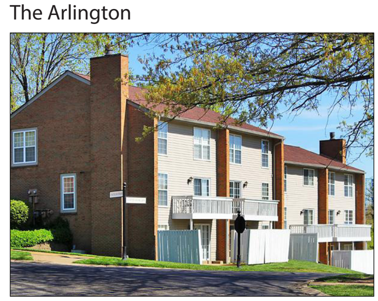
The Retreat at Seven Hills

City: Ballwin, Mo.
Buyer: Monarch Investment & Mgmt.
Purchase Price: $51 MM
Price per Unit: $95,865

Oxford Hills

City: St. Louis
Buyer: Aragon Holdings
Purchase Price: $47 MM
Price per Unit: $97,111

The Arlington



City: St. Louis
Buyer: Trinity Property Consultants
Purchase Price: $40 MM
Price per Unit: $140,657

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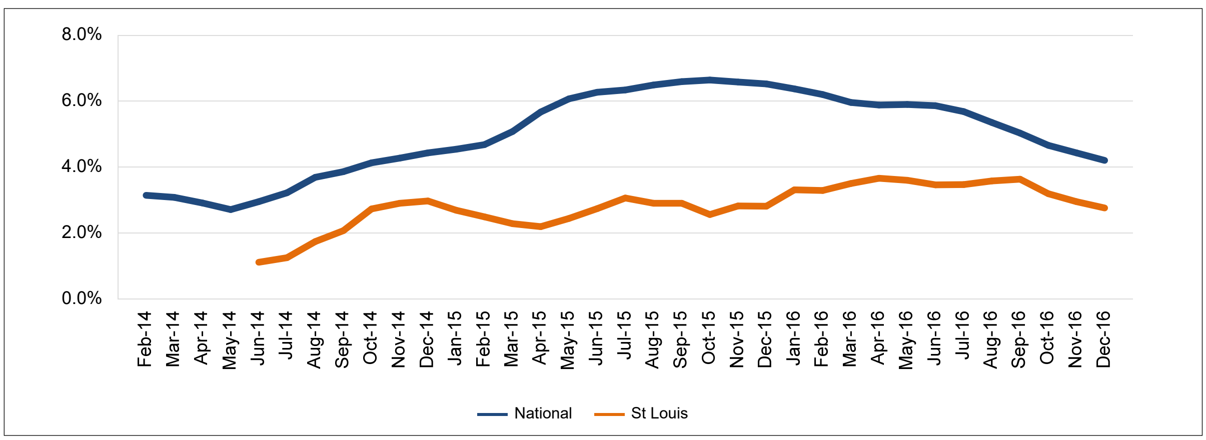
On the cover: Photo by JByard/iStockphoto.com

Rent Trends

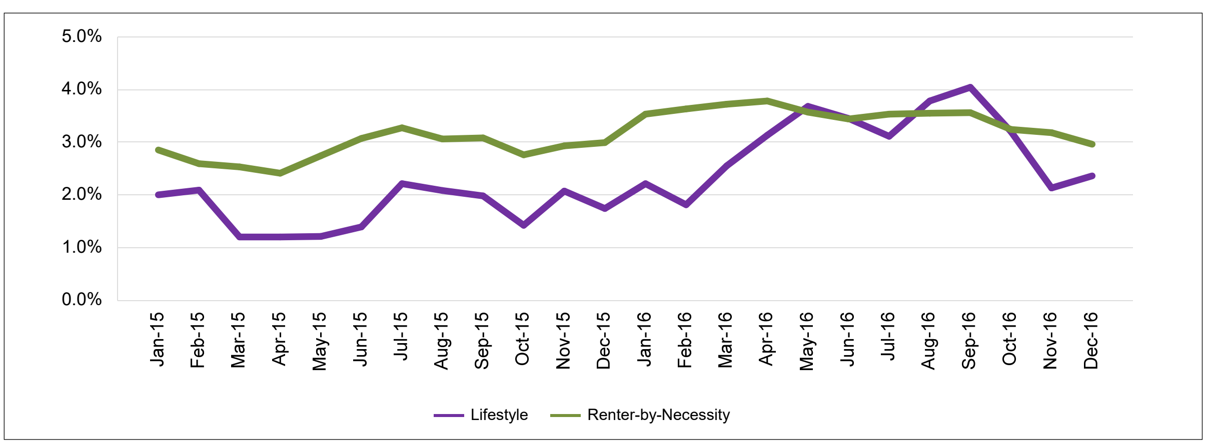
- Rents in St. Louis rose 2.8% year-over-year, trailing the national rate of 3.9%. Rents stood at $828, still well below the national average of $1,210. In line with the national trend, rents in St. Louis moderated over the course of the year.
- Rent appreciation in the metro's core has already spurred development in the inner ring, where the bulk of new supply will hit in coming years. Occupancy of stabilized properties was about 95% in November, an indication that new supply, although limited compared to the national trend, is making an impact.
- Of the existing multifamily housing stock, roughly 78% of units are in Renter-by-Necessity assets, which drove the bulk of rent gains, ending the year at an average of $774. Meanwhile, rents in Lifestyle properties rose by 2.2% to an average of $1,220.
- Submarkets located in St. Louis' inner ring led the way in growth, including University City/Maplewood and St. Louis-Forest Park, where rents increased by 21.7% and 18.7%, respectively. Eight submarkets had average rents of more than $1,000, after Chesterfield crossed that threshold during the last 12 months. Accelerated rent growth across the market's core led to significant contractions in St. Louis-Downtown, where rents downshifted by 9.2%.

St. Louis vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

St. Louis Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

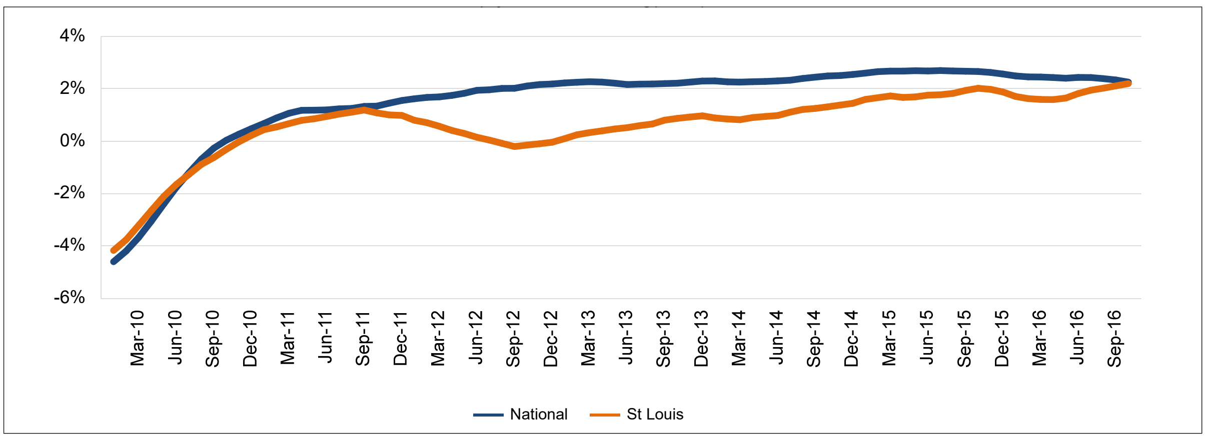


Source: YardiMatrix

Economic Snapshot

- St. Louis added 32,700 jobs in the year ending in October on the back of broad-based employment growth. The metro added jobs at a rate of 2.2%, largely in line with the national average, although overall employment in the U.S. is slightly trending downwards while St. Louis has been constantly improving for the past four years.
- Leisure and hospitality added 12,400 jobs, following the lead of most Central and North Plains markets. Occupancy and room demand were up, as business travel continued to rise in 2016. Strengthening has occurred in spite of the city's loss of a major sports franchise, following the move of the NFL's Rams to Los Angeles.
- Last summer, Monsanto announced a corporate expansion that would add 675 new jobs to the metro. Ostensibly the most substantial corporate expansion in recent memory, the move calls for a new $400 million research facility at the chemical and biotech company's Chesterfield campus.
- With leasing up and vacancy now below the 15%-mark, the St. Louis office market is on the rise. The race is on to add new space, while important tenants Cigna and Siemens each inked renewals for more than 80,000 square feet in 2016. According to CBRE, roughly 7 million square feet of space is still vacant, although new tenants will most likely prefer new Class A space to the existing stock.

St. Louis vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

St. Louis Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	157	11.2%	12,400	8.6%
60	Professional and Business Services	221	15.8%	8,100	3.8%
65	Education and Health Services	251	17.9%	4,500	1.8%
40	Trade, Transportation and Utilities	260	18.6%	4,100	1.6%
15	Mining, Logging and Construction	70	5.0%	3,000	4.5%
55	Financial Activities	88	6.3%	2,000	2.3%
90	Government	165	11.8%	1,000	0.6%
80	Other Services	48	3.4%	400	0.8%
50	Information	28	2.0%	-700	-2.5%
30	Manufacturing	111	7.9%	-2,100	-1.9%

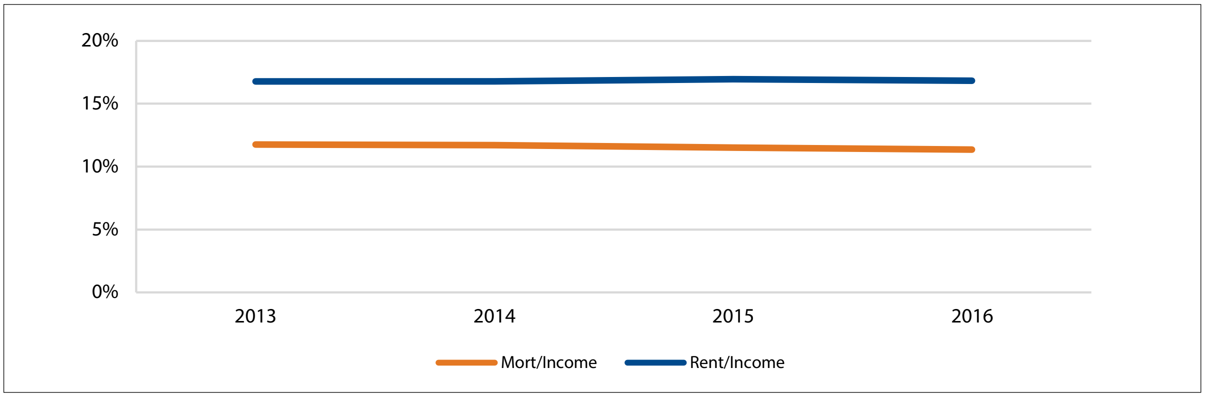
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

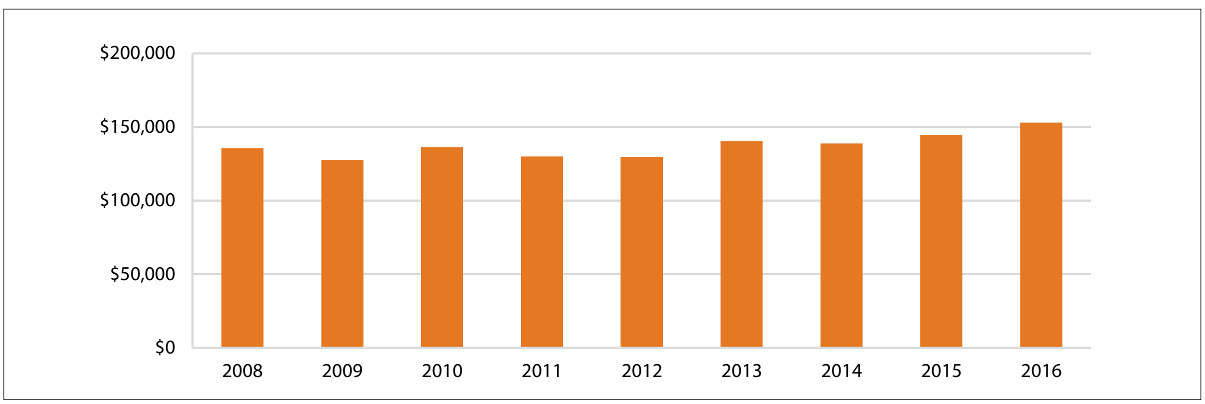
- Stability has reined in St. Louis during the current cycle, and although rents and home prices have steadily increased, wages have been able to keep up. The average rent in St. Louis stood at $828 as of December 2016, and was the costlier option by some margin, accounting for roughly 17% of the average renter's income.
- Although the median home price rose to $152,912 in 2016, the highest post-downturn mark, homeowners only dedicate 11% of their incomes to make their mortgage payments. St. Louis is one of the most affordable major metros in the U.S. and is largely in line with comparable Midwestern metros such as Indianapolis and Kansas City.

St. Louis Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

St. Louis Median Home Price



Source: Moody's Analytics

Population

- St. Louis expanded by just 0.2% in 2015, a growth rate that's one-quarter of the national average (0.8%).
- Population gains have been minimal during the cycle, leading to tepid inventory expansion in that time.

St. Louis vs. National Population

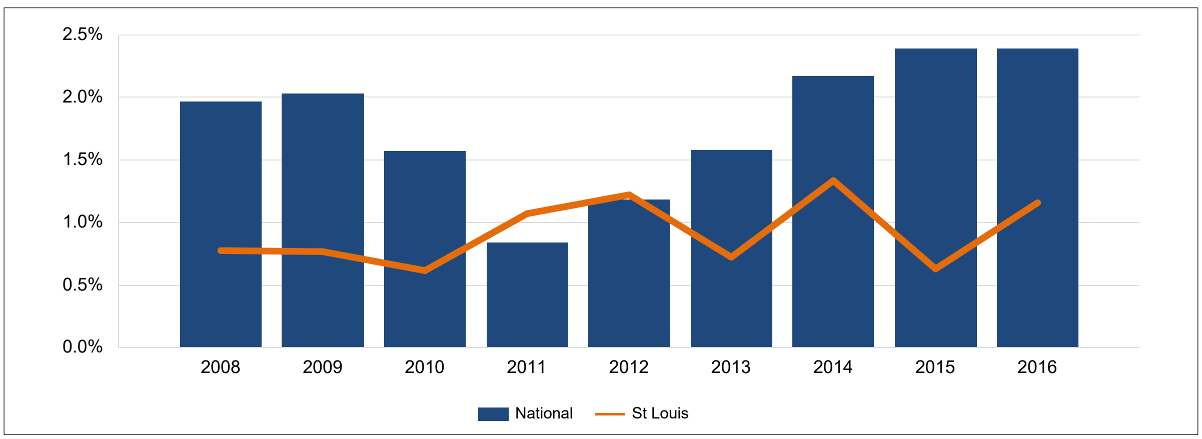
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
St. Louis, MO-IL Metropolitan Statistical Area	2,793,783	2,797,113	2,800,914	2,806,191	2,811,588

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

Supply

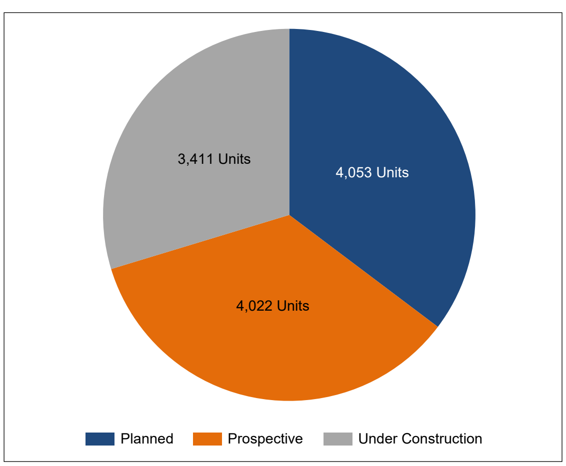
- Only 1,370 units were completed in 2016, an inventory expansion of 1.2%, exactly half of what the national rate was last year. Construction is dropping off at the Illinois end of the metropolitan area, with the bulk of interest being directed toward the city's core and St. Charles County.
- The market's total development pipeline consists of roughly 11,500 units, a third of which are already underway. At the same time, occupancy in stabilized properties was at 95% following a few consecutive months of vacancy increase.
- Developers are focusing on the market's inner ring, where more than 2,000 units are being built. University City/Maplewood (801 units) and Central West End (382 units) are leading the way in multifamily development activity. Collinsville is the metro's only Illinois submarket where units are underway (80).
- The largest project under construction is Villages at Lake Silvercote in Charles County, which is set to add 381 units in 2018. Another large development is Draper & Kramer's 281-unit Evo community in University City/Maplewood, which was scheduled for completion in February 2017.

St. Louis vs. National Completions as a Percentage of Total Stock (as of December 2016)



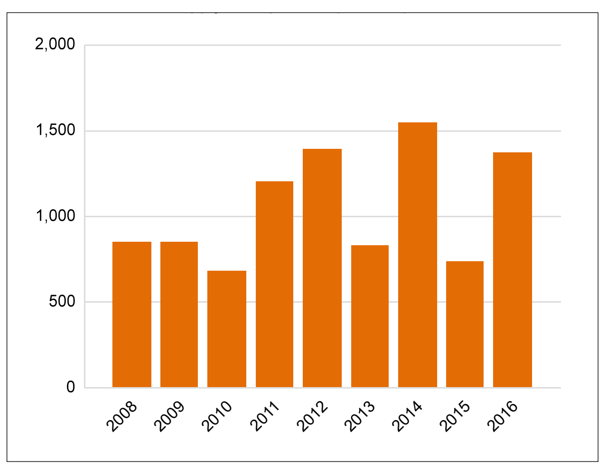
Source: YardiMatrix

Development Pipeline (as of December 2016)



Source: YardiMatrix

St. Louis Completions (as of December 2016)

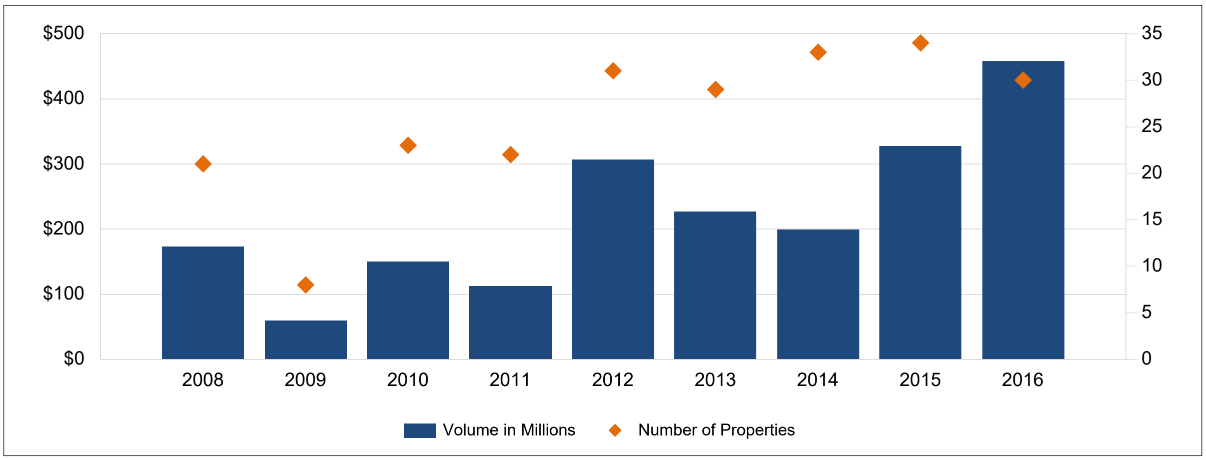


Source: YardiMatrix

Transactions

- More than $457 million worth of multifamily assets changed hands in St. Louis in 2016, setting a new cycle high in the process. Institutions have largely avoided the Midwest in recent years, but some are taking a second look at markets in the region that might offer steady fundamentals and higher yields.
- Although a smaller amount of deals have been closed, transaction volume is higher, indicative of the rapidly growing average per-unit price, at $85,351 for 2016. That's 24% higher than it was in 2015, when the previous cycle high was recorded.
- Investors focused on properties located in the metro's northwestern corner, such as in Florissant, Creve Coeur and St. Charles. The latter was also the submarket with the largest transaction, as Priderock Capital Partners acquired the 680-unit Sun Valley Lake community in St. Charles for $55 million, or a per-unit price of $81,020.

St. Louis Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

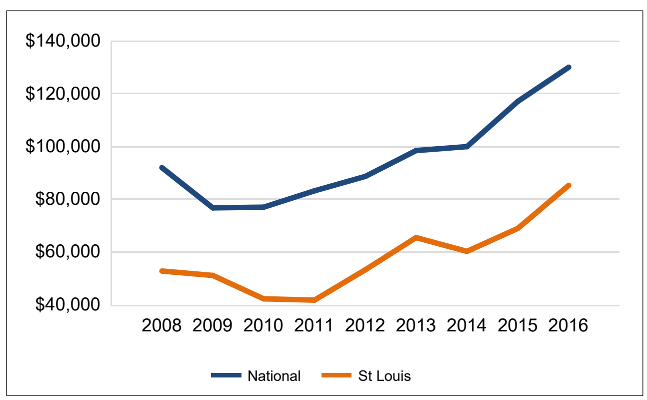
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Florissant	89
Creve Coeur	87
St. Charles	55
Ballwin	51
Maryland Heights	46
St. Peters	27
Mehlville-South	27
Affton	25

Source: YardiMatrix

[1] From January 2016 to December 2016

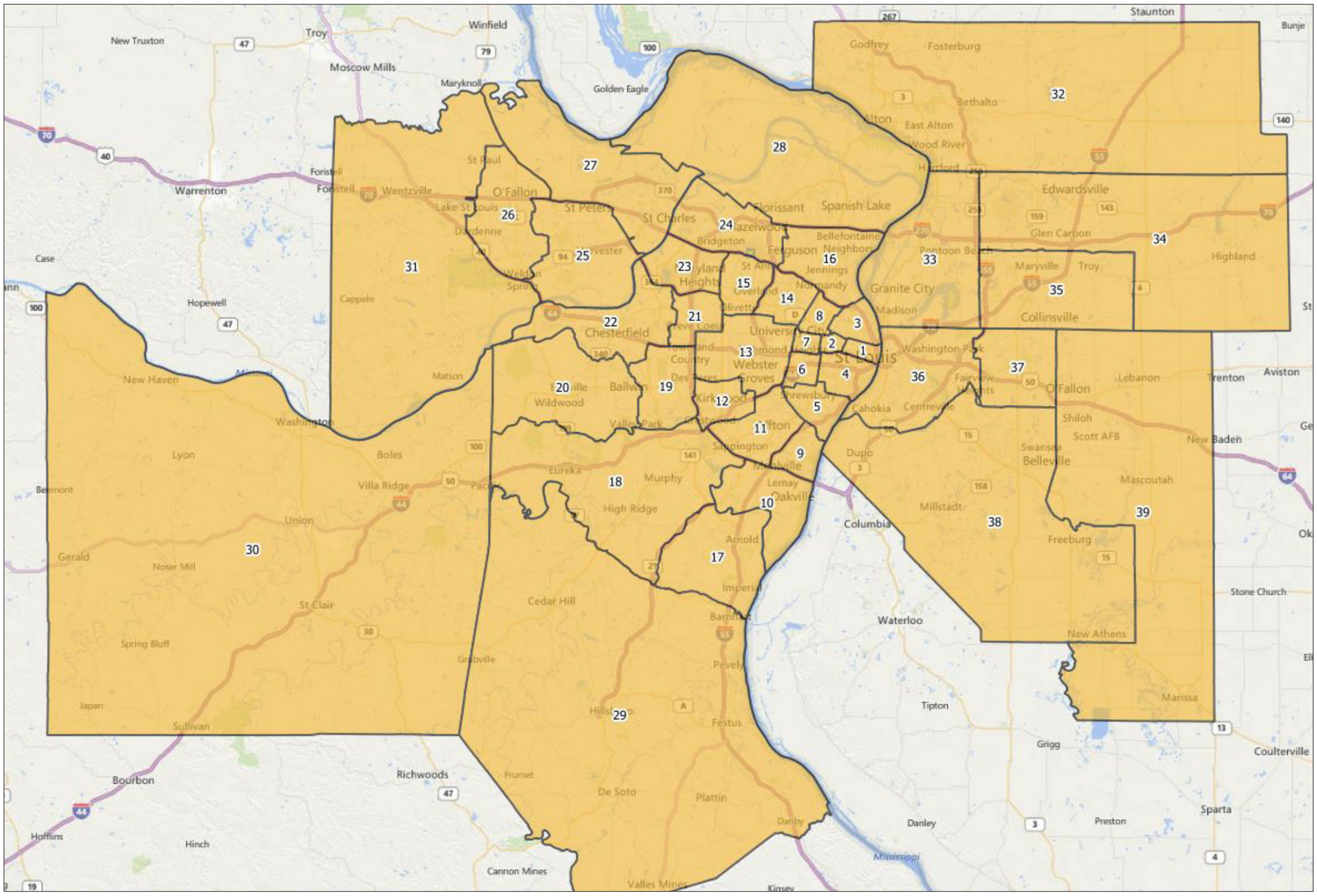
St. Louis vs. National Sales Price per Unit



Source: YardiMatrix

St. Louis image by LMaru/iStockphoto.com

St. Louis Submarkets



Area #	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 #	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 #	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 may 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 may 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, may 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.