



Yardi® Matrix

St. Louis Gears Up

Multifamily Report Spring 2017

**Demand Outpaces
Supply**

**Health Care Leads
Job Gains**

**Transactions Reach
New High**

Market Analysis

Spring 2017

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Healthy Employment Drives Demand

Despite a slowly declining population, St. Louis continues to see positive economic trends, driven by job gains in education and health services, leisure and hospitality, and professional and business services. Demand for apartments remains elevated, and rents are growing moderately.

The metro's universities and medical institutions produce a skilled workforce that attracts health-care and technology firms. World Wide Technology and Lodging Hospitality Management partnered to anchor a \$95 million revitalization effort at Westport Plaza, a 42-acre mixed-use development that will ultimately accommodate more than 1,200 employees. St. Louis also has a strong manufacturing base, led by Boeing and General Motors. One bright spot is Boeing's new information technology center, which is expected to create more tech jobs.

Developers ramped up apartment deliveries in 2016, when 1,370 units came online. Upcoming supply is significant, with more than 13,600 units in the pipeline, of which roughly 4,000 were under construction as of April. Investment activity continues its upward trajectory, after having reached a cycle peak in 2016, when more than \$488 million worth of multifamily properties changed hands. With continued demand expected to outpace deliveries, we anticipate rents will rise moderately, reaching a 2.6% growth rate by the end of 2017.

Recent St. Louis Transactions

Oxford Hills



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

The Arlington



City: St. Louis
Buyer: FPA Multifamily
Purchase Price: \$40 MM
Price per Unit: \$140,657

The Groves



City: Florissant, Mo.
Buyer: Fireside Financial
Purchase Price: \$28 MM
Price per Unit: \$63,053

Ashwood



City: St. Charles, Mo.
Buyer: Eric J. Morgan
Purchase Price: \$27 MM
Price per Unit: \$99,323

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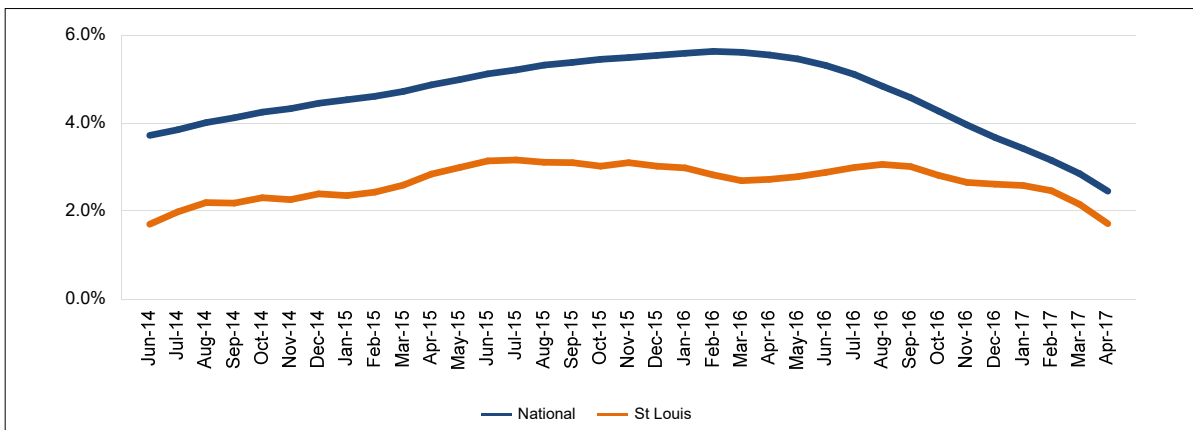
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Rent Trends

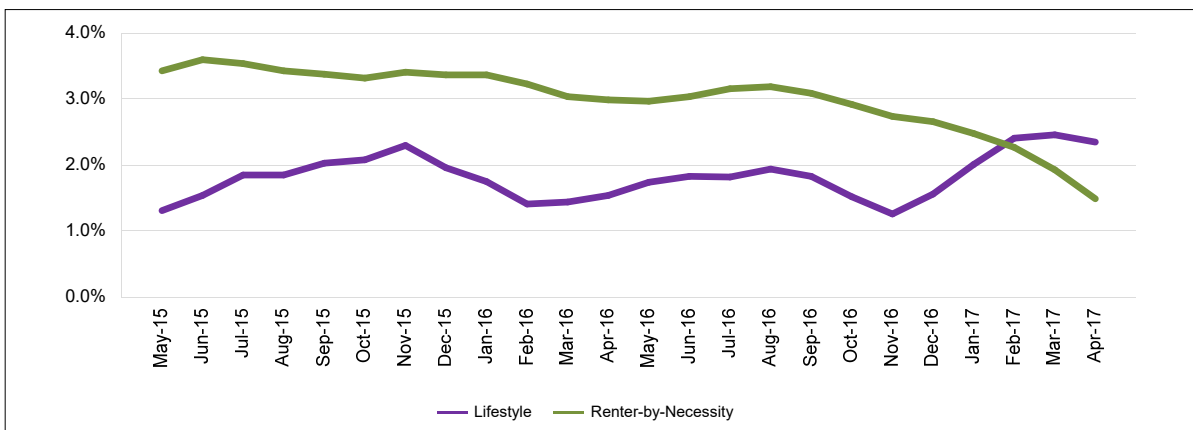
- Rents in St. Louis grew 1.7% in the year ending in April, 30 basis points below the national average, according to the latest Yardi Matrix survey. At an average of \$872, the monthly rent was well below the U.S. average of \$1,314. Occupancy for stabilized properties was 94.1% in March, and has increased 130 basis points since 2014. Going forward, the occupancy rate is expected to rise, as demand remains strong while supply is growing moderately.
- Rent growth in the working-class Renter-by-Necessity segment has decelerated in recent months to 1.5% year-over-year through April, reaching an average of \$794. Rents in the Lifestyle segment, which saw weak gains in recent years, rose 2.4% to \$1,310 as of April. Demand for luxury rentals is expected to stay solid due to job growth in high-income sectors.
- Only 12 submarkets, all within the metro's inner ring, have average rents above \$1,000, including St. Louis–Central West End, Illinois–Edwardsville and University City/Maplewood. Some of these areas command the highest rates due to the increasing density of mixed-use projects that attract young professionals.
- We expect rents to rise moderately, thanks to the strong demand and slow pace of new development. In 2017, rent increases should reach 2.6%.

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)

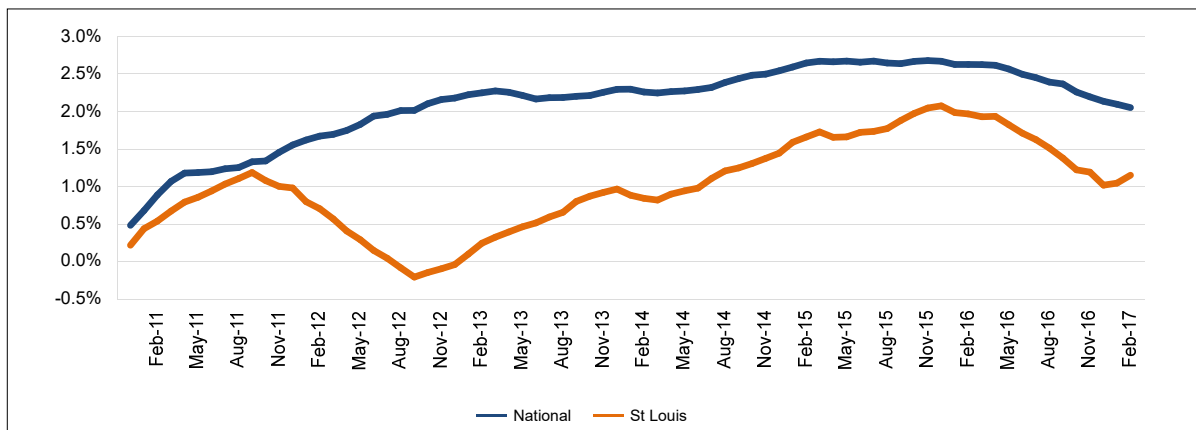


Source: YardiMatrix

Economic Snapshot

- St. Louis added 24,300 jobs in the 12 months ending in February, a 1.2% year-over-year increase. Although growth fell below the 2.1% national average, employment in the metro has been consistently increasing since bottoming in 2012.
- The education and health services sector contributed the largest gains, adding 9,200 jobs, a 3.8% increase. The metro's health-care industry remains a reliable source of new employment, as medical institutions expand and research startups emerge. BJC HealthCare is continuing its billion-dollar expansion, primarily on the Central West End Campus. Centene is planning a two-tower addition to its Clayton headquarters, and Pfizer's \$200 million plan to develop a 460,000-square-foot facility will add 625 new jobs.
- The leisure-and-hospitality sector is also growing. New projects include the \$25 million redevelopment of the local Habitat for Humanity headquarters in Midtown into an eight-story hotel with ground-floor retail, and a proposal to redevelop a downtown municipal courthouse into a 150-key hotel.
- Corporate expansions in the health-care and tech sectors will also support office rent growth and absorption. Upon the completion of CityPlace in the Central West End, Microsoft plans to move in and add 150 jobs.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	254	18.6%	9,200	3.8%
70	Leisure and Hospitality	147	10.8%	7,000	5.0%
60	Professional and Business Services	212	15.6%	5,400	2.6%
15	Mining, Logging and Construction	61	4.5%	1,500	2.5%
55	Financial Activities	87	6.4%	1,500	1.8%
80	Other Services	48	3.5%	1,300	2.8%
40	Trade, Transportation and Utilities	251	18.4%	-	0.0%
50	Information	29	2.1%	(200)	-0.7%
90	Government	161	11.8%	(600)	-0.4%
30	Manufacturing	113	8.3%	(800)	-0.7%

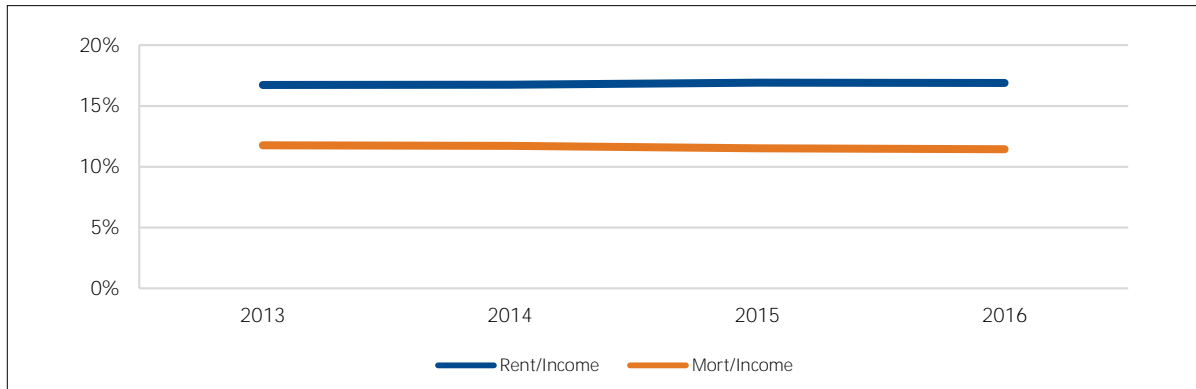
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

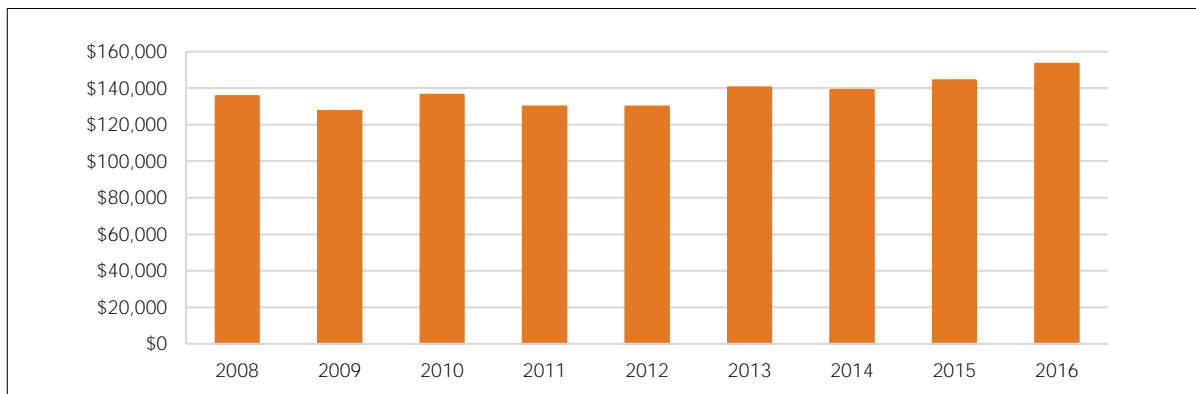
- St. Louis' median home value has consistently increased in the last five years, reaching a new cycle high of \$153,241 in 2016. However, owning remains a more affordable option than renting, with the average mortgage payment accounting for 11% of the area's median income. The average rent in the metro was \$872 as of April, comprising roughly 17% of the median income.
- While certain submarkets, such as the Central West End and University City, remain out of reach for most residents, general affordability does not appear to be a pressing issue in the coming years.

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

- The metro's population decreased by roughly 1,300 in 2016, and overall growth has been relatively flat for years.
- Over the past five years, the metro's population grew by 0.5%, slower than the 3.7% national average.

St. Louis vs. National Population

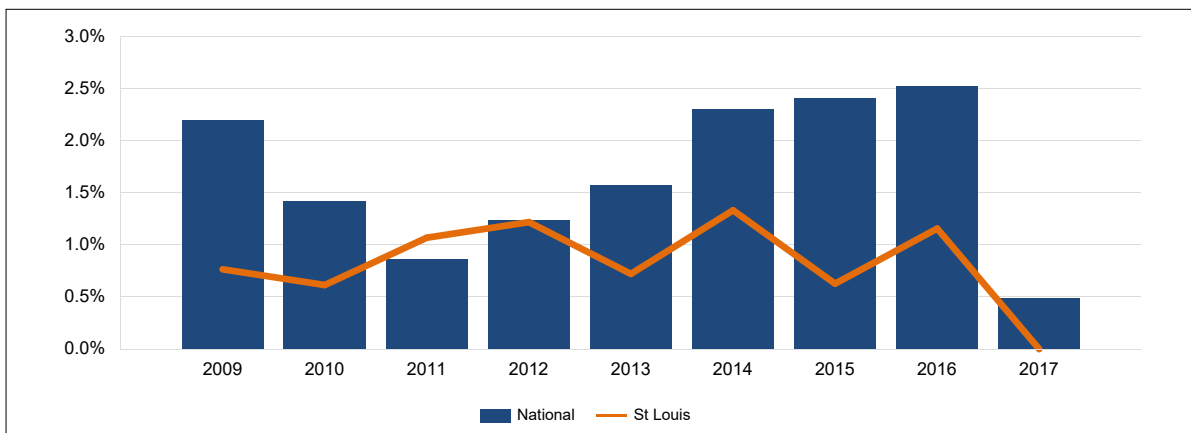
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
St. Louis Metro	2,796,903	2,800,154	2,804,862	2,808,330	2,807,002

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

Supply

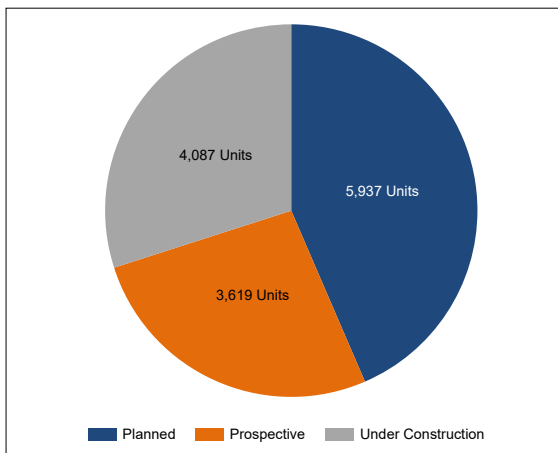
- Inventory is growing at a glacial pace in the metro. Only 1,370 new units were delivered in 2016, a 1.2% increase in total supply, well below the national average of 2.5%. However, even that slow growth was an increase over 2015, when only 736 units came online.
- Supply growth is expected to accelerate, though, as roughly 4,000 units were underway and more than 13,600 units were in some stage of development as of April. The expansion of major health-care and tech companies—such as BJC HealthCare, Centene and Pfizer, along with World Wide Technology’s revitalization project of Westport Plaza—will continue to stimulate the demand for apartments.
- Developers are concentrating on core submarkets, such as University City/Maplewood, St. Louis–Downtown and Central West End, as well as Charles County, where more than 2,600 units were underway as of April. The Villages at Lake Silvercote in Charles County, which ranks as the largest development in the metro, is expected to add 381 units by the end of 2018. The community was 49% pre-leased as of January, according to Yardi Matrix.
- Occupancy in stabilized properties was 94.1% as of March.

St. Louis vs. National Completions as a Percentage of Total Stock (as of April 2017)



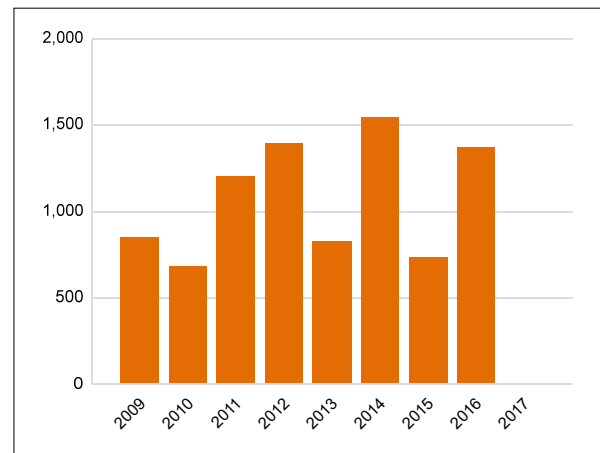
Source: YardiMatrix

Development Pipeline (as of April 2017)



Source: YardiMatrix

St. Louis Completions (as of April 2017)

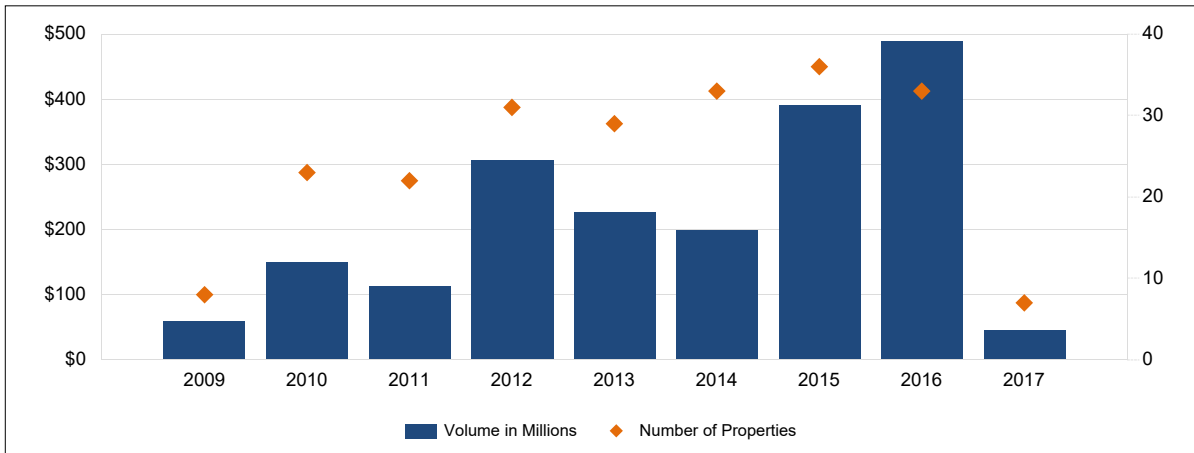


Source: YardiMatrix

Transactions

- Sales slowed in the first quarter, reaching a total of \$45 million. However, more than \$488 million worth of assets traded in 2016, marking a new cycle high and eclipsing the 2015 activity by nearly \$100 million.
- Although a smaller number of deals closed, the transaction volume is higher, indicative of the rapidly growing average per-unit price, at \$93,147 as of April, the highest in the past seven years. However, the metro average remains 38% lower than the national average of \$128,486.
- Investors particularly targeted downtown St. Louis and the northwestern corner of the metro, Creve Coeur, Maryland Heights, Florissant and St. Peters. Aragon Holdings' acquisition of the 480-unit Oxford Hills ranked as the largest multifamily transaction in St. Louis. Bell Partners purchased the asset for \$47 million, or \$97,000 per unit, a 57% increase since the property first traded in 1999.

St. Louis Sales Volume and Number of Properties Sold (as of April 2017)



Source: YardiMatrix

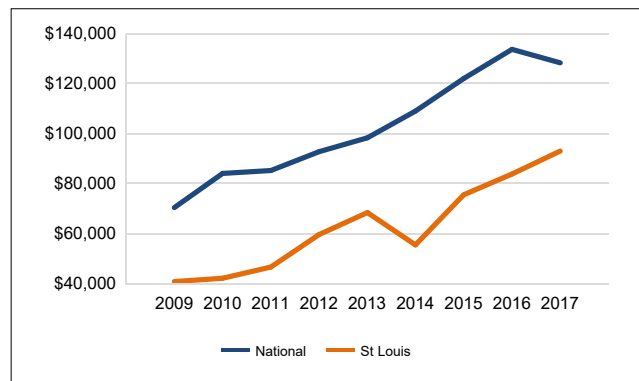
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Creve Coeur	87
Maryland Heights	62
Florissant	57
St. Peters	54
St. Louis–Downtown	27
Affton	25
Illinois–Edwardsville	23
O'Fallon	23

Source: YardiMatrix

¹ From May 2016 to April 2017

St. Louis vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Downtown St. Louis
Luxury Communities
Land \$26M in Financing



Kraft Heinz Opens Facility
After \$250M Expansion



Opus Completes 217-Unit
Luxury Community

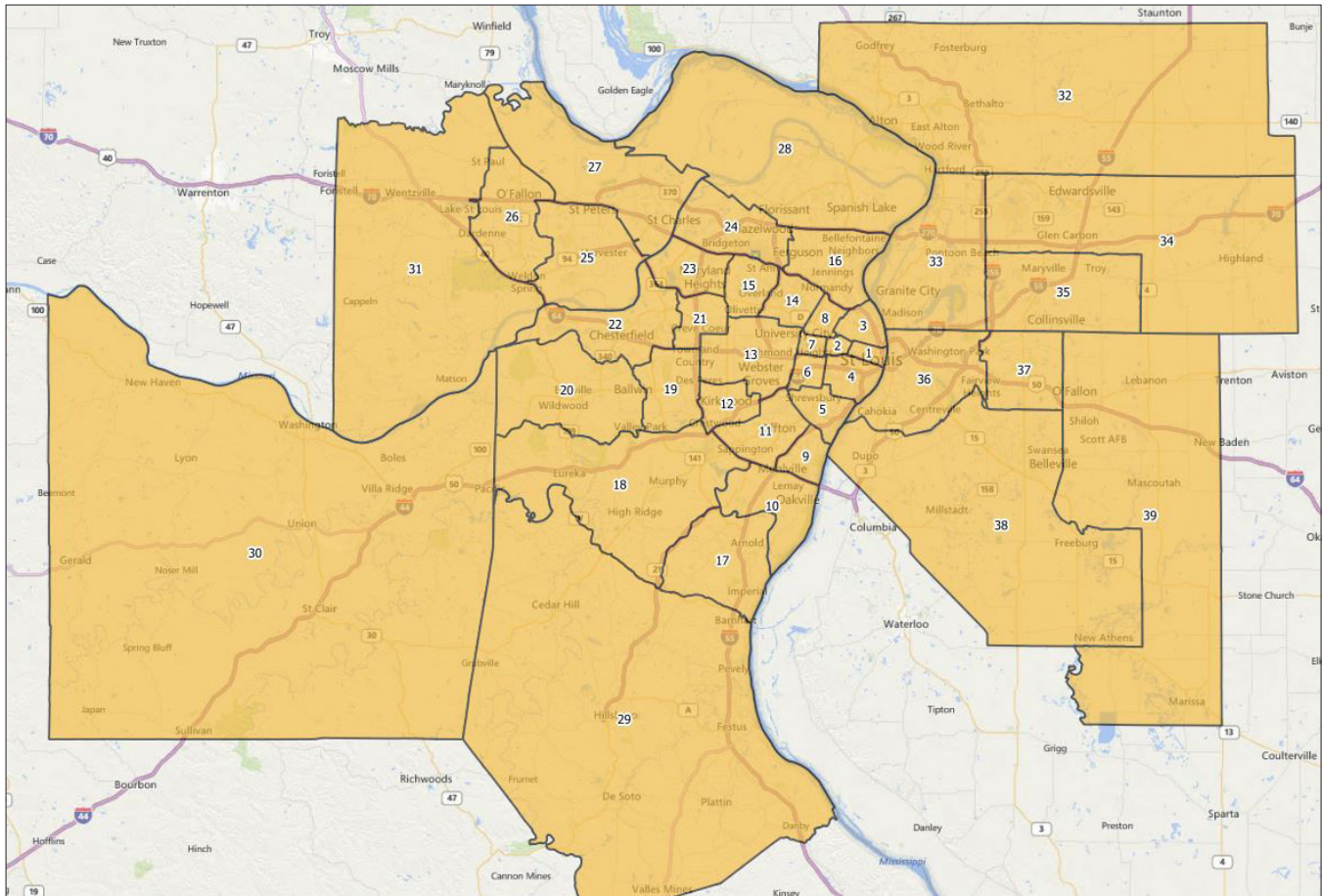


Marriott St. Louis
Grand Hotel Lands
\$57M Refinancing

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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.

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