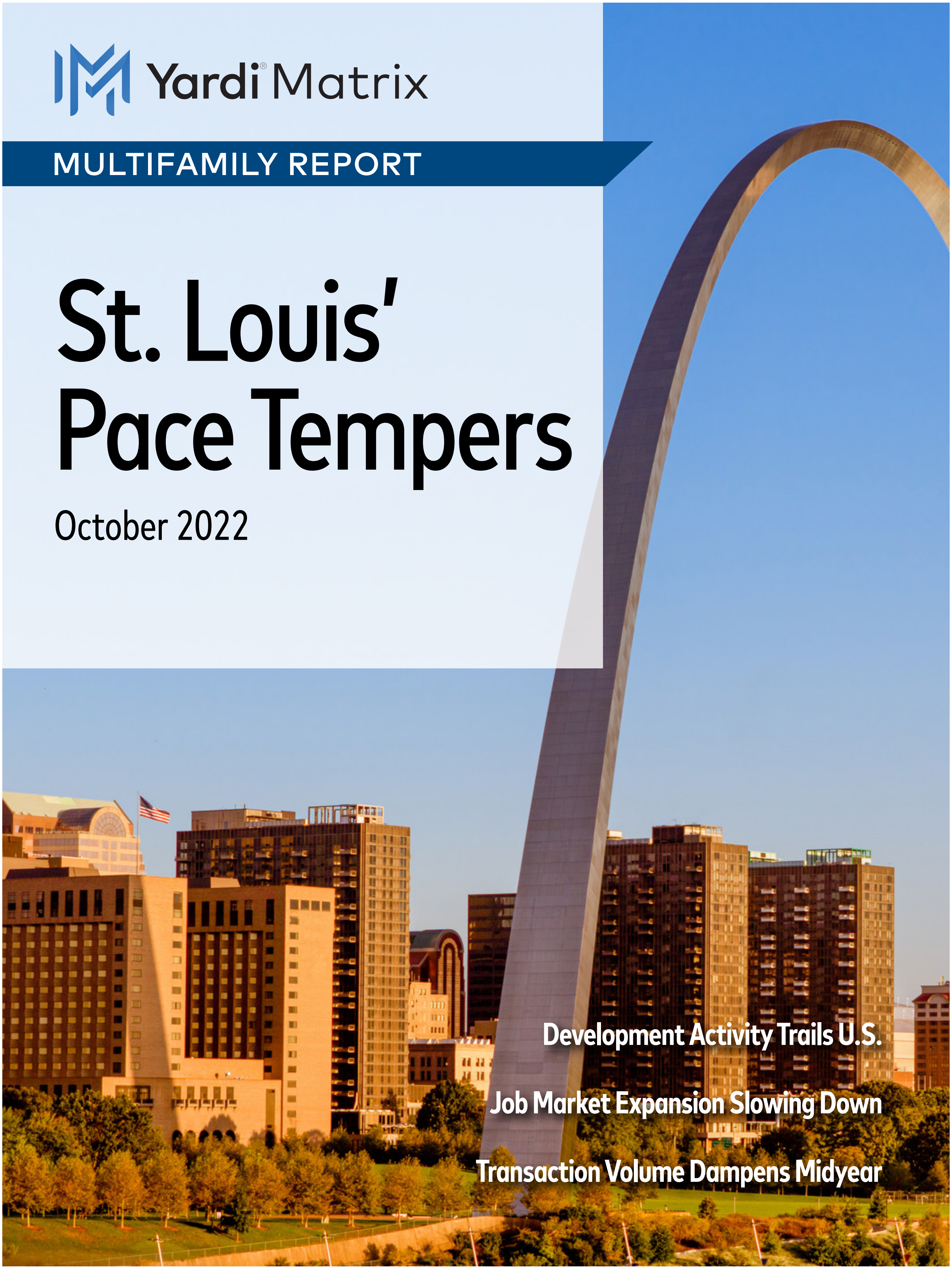
Yardi Matrix

MULTIFAMILY REPORT

St. Louis' Pace Tempers

October 2022



Development Activity Trails U.S.

Job Market Expansion Slowing Down

Transaction Volume Dampens Midyear

ST. LOUIS MULTIFAMILY

Yardi Matrix

Demand Keeps Up With Slowing Supply

Recovery has been slower in St. Louis, as the metro significantly lags its pre-pandemic metrics. But the St. Louis multifamily market has its bright spots—rent gains surpassed the national rate for the first time in 20 months, up 0.8% on a trailing three-month basis as of August, to $1,174, making the metro one of the most affordable in the country. The occupancy rate in stabilized properties kept up with robust supply additions and inched up 10 basis points in the 12 months ending in July, to 95.6%.

The unemployment rate clocked in at 3.2% in July, 40 basis points higher than the June figure, but outperformed Illinois (4.4%) and the U.S. (3.5%), according to preliminary data from the Bureau of Labor Statistics. The employment market advanced 2.3% year-over-year as of June, continuing a softening trend that began in September 2021. Three sectors lost jobs—government, education and health services, and financial activities. Professional and business services led gains, followed by the steady rebound of the leisure and hospitality sector. Good news could be coming from the Mississippi River's shore, as several redevelopment plans are being explored.

Developers delivered 858 units through August, marking a softening from a year ago, and had another 6,111 units under construction. Mirroring the national trend, investment activity also softened, with sales volume totaling $642 million through August. The price per unit rose 26.7% this year, to $171,661.

Market Analysis | October 2022

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Recent St. Louis Transactions

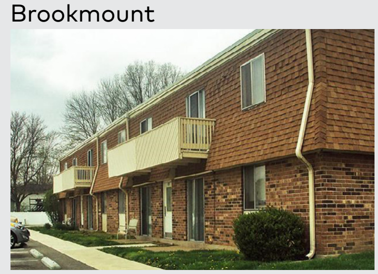
Legends Terrace

City: Eureka, Mo.
Buyer: Broadmoor Group
Purchase Price: $54 MM
Price per Unit: $241,861

Forest View

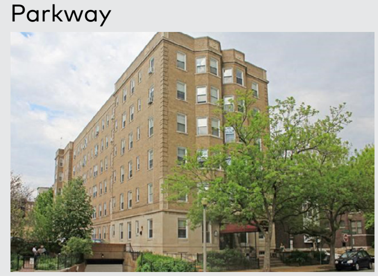
City: St. Louis, Mo.
Buyer: Pepper Pike Capital Partners
Purchase Price: $33 MM
Price per Unit: $162,142

Brookmount



City: St. Peters, Mo.
Buyer: The Wellington Group
Purchase Price: $16 MM
Price per Unit: $121,592

Parkway

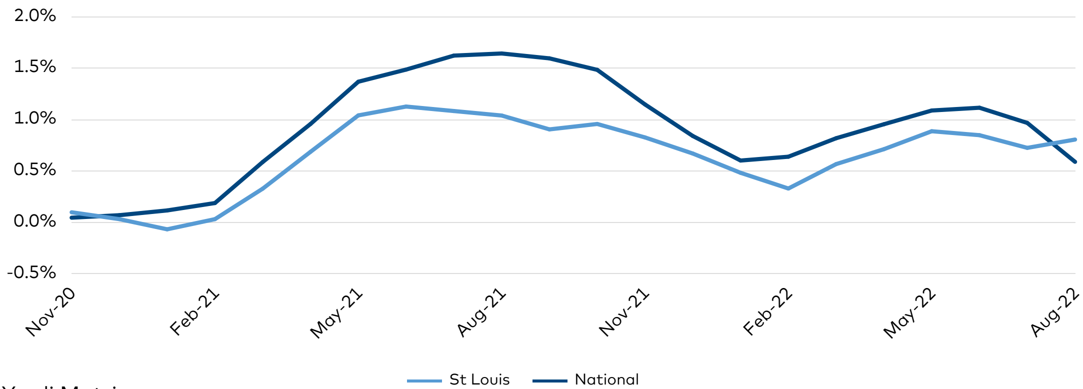


City: St. Louis, Mo.
Buyer: Benefit Finance Partners
Purchase Price: $12 MM
Price per Unit: $166,655

RENT TRENDS

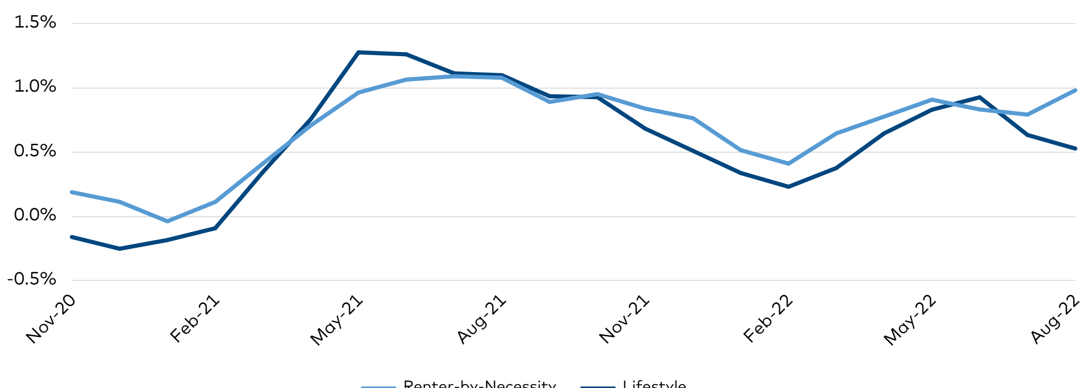
- St. Louis rents posted a 0.8% increase on a trailing three-month (T3) basis through August, surpassing the U.S. rate (0.6%) for the first time in 20 months. Still, at $1,174, the metro is one of the most affordable markets in the country, trailing the $1,718 national figure. On a year-over-year basis, rents in the metro appreciated by 8.9%, lagging the 10.9% U.S. figure.
- Rent development was positive across the quality spectrum, showcasing stronger demand for Renter-by-Necessity units, with figures rising 1.0% on a T3 basis, to an average of $1,040. Meanwhile, Lifestyle figures rose 0.5% on a T3 basis, to $1,660. This dynamic is likely related to the recent supply additions, which tilted heavily toward upscale stock.
- Bucking the rent growth trend, occupancy saw boosts in the upscale segment, where the rate climbed 40 basis points year-over-year as of July, to 96.3%. Meanwhile, occupancy in the RBN segment inched up just 10 basis points, to 95.4%. Overall, occupancy in the metro stood at 95.6%, up 10 basis points year-over-year.
- Rent development was positive in all but one submarket on the Illinois side of the metro, and of the 39 submarkets tracked by Yardi Matrix, 15 posted double-digit annual increases. Furthermore, 21 submarkets had an average asking rate above the $1,000 mark, led by Chesterfield (14.4% to $1,613), St. Louis-Clayton Tamm (7.6% to $1,571) and University City/ Maplewood (7.1% to $1,564).

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

- St. Louis unemployment stood at 3.2% in July, a 40-basis-point increase from June, trailing the Missouri rate (2.5%) but still ahead of Illinois (4.4%) and the U.S. (3.5%), according to data from the BLS. Employment growth stood at 2.3% year-over-year as of June, on a steady downward trend since the 5.8% high in September 2021. The U.S. job market grew 4.7%. during that time.

- Job losses were recorded across three sectors—government (-2,900 jobs), education and health services (-2,400) and financial activities (-2,300). Professional and business services (12,100 jobs) led gains, surpassing leisure and hospitality (11,500 jobs). Due to its slower economic growth, the area has seen some residents target high-growth metros such as Dallas, Denver and Phoenix. Still, low business costs can be a boost for local demographics in the long run. In addition, construction on the National Geospatial-Intelligence Agency is underway, which will help cement the metro's status as an aerospace hub.

- Several projects are in the planning stage, including Lighthouse Point—a $325 million 67.5-acre redevelopment project, and The Gateway South project—a $1.2 billion, 80-acre mixed-use project, both along the Mississippi River. Meanwhile, Procter & Gamble plans to invest $180 million at its plant north of downtown.

St. Louis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	222	15.9%
70	Leisure and Hospitality	147	10.5%
40	Trade, Transportation and Utilities	265	19.0%
30	Manufacturing	119	8.5%
15	Mining, Logging and Construction	75	5.4%
80	Other Services	53	3.8%
50	Information	26	1.9%
55	Financial Activities	90	6.4%
65	Education and Health Services	249	17.8%
90	Government	151	10.8%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- St. Louis lost 9,000 residents in 2021, a 0.3% decline. Meanwhile, the U.S. population rose 0.1%.

- St. Louis demographics have been fluctuating throughout the decade ending in 2021, overall posting a 0.4% rise, lagging the 5.7% U.S. rate.

St. Louis vs. National Population

	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
St. Louis	2,805,800	2,805,617	2,818,267	2,809,299

Source: U.S. Census

SUPPLY

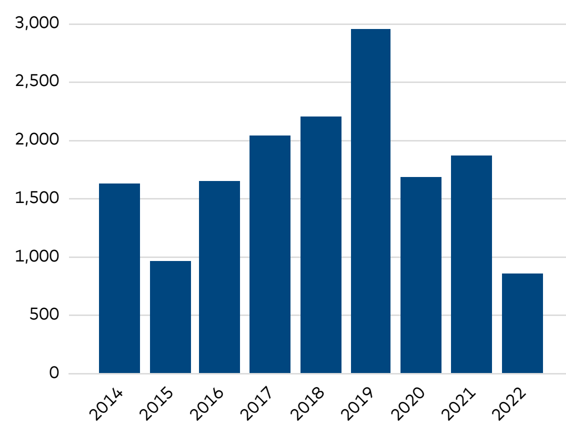
- Development moderated in the metro, with just 858 units coming online in 2022 through August, accounting for 0.7% of existing stock and trailing the 1.3% U.S. figure. Deliveries also only reached roughly half of the 1,632 units delivered during the same time frame in 2021. The metro is notorious for its limited supply increases, as incoming multifamily stock has accounted on average for 1.5% of existing inventory every year since 2014.

- Although rent growth indicates stronger demand for Renter-by-Necessity units, developers focused on upscale projects, with Lifestyle apartments accounting for about three-quarters of the units delivered through August. Another 8.4% were market-rate units and roughly 14% were units in fully affordable communities.

- The construction pipeline comprised 6,111 units underway and another 16,000 units in the planning and permitting stages. Of these, 1,424 units broke ground in 2022, just slightly below the 1,685 units that started construction during the same period last year. Similar to completions, the composition of projects underway consists of mainly Lifestyle units (72%). Just 200 units in fully affordable communities were under construction as of August.

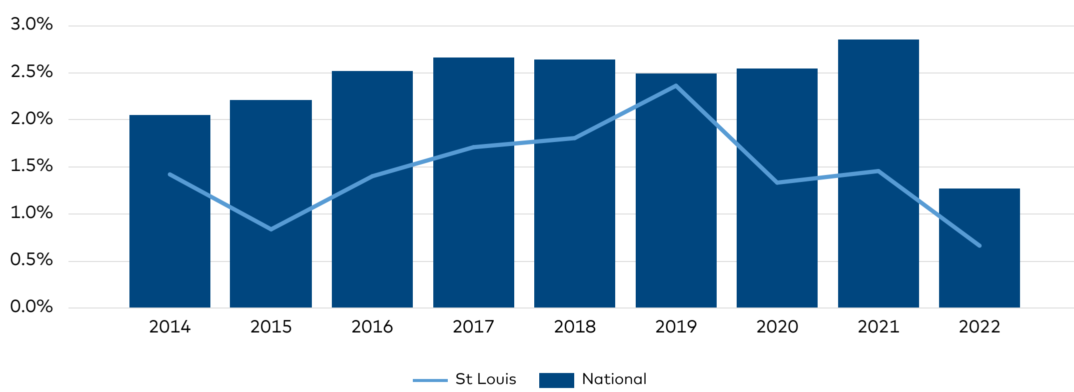
- Development activity was uneven across the map, with Lafayette Square leading by far (1,114 units underway), followed by St. Peters (742 units). The latter also houses the largest project delivered this year, the 272-unit Bold on Blvd. The property was built by TWG Development with aid from a $31 million construction loan originated by Fifth Third Bank.

St. Louis Completions (as of August 2022)



Source: Yardi Matrix

St. Louis vs. National Completions as a Percentage of Total Stock (as of August 2022)



Source: Yardi Matrix

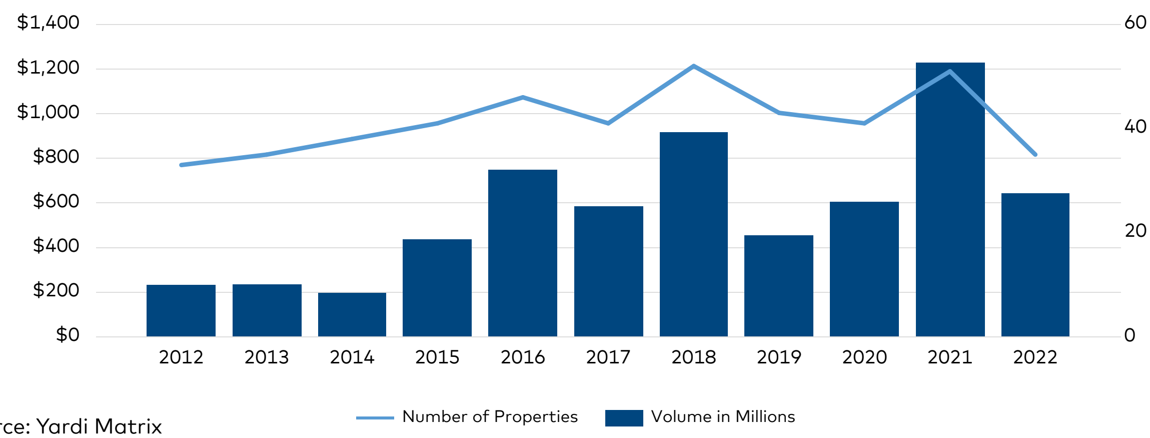
TRANSACTIONS

- Investors showed interest in St. Louis' multifamily market in 2022, with the sales volume at $642 million through the first eight months of the year. However, affected by ongoing economic challenges, transaction activity came to a halt in August and will likely remain moderate for the remainder of the year. So far, the sales volume through August lags the $757 million recorded during the same period in 2022, and this trend will likely continue through year-end.

- Investors focused on value-add plays, with 32 of the 35 assets that traded being Renter-by-Necessity properties. Even so, the price per unit rose 26.7% year-over-year, to a new high of $171,661. Despite improvement, St. Louis is still one of the more affordable markets in the U.S., trailing the $217,196 national average.

- Priderock Capital Partners was the most active buyer in the metro, having acquired 672 units. Next in line was David Stern Management, which added 591 units to its portfolio.

St. Louis Sales Volume and Number of Properties Sold (as of August 2022)



Source: Yardi Matrix

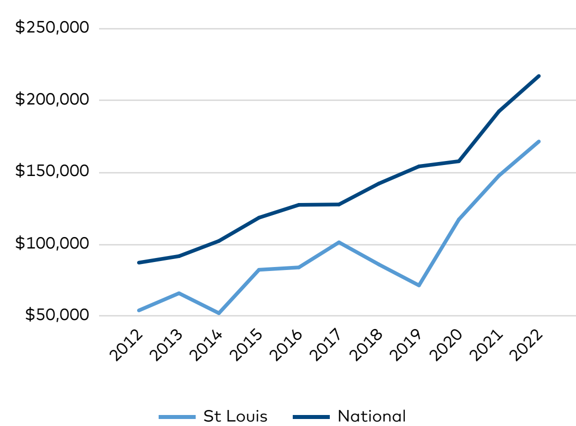
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
University City/Maplewood	164
St. Louis-Forest Park	117
Fenton/Eureka	105
Creve Coeur	100
St. Charles	92
St. Ann/Overland	91
Manchester/Valley Park	65

Source: Yardi Matrix

[1] From September 2021 to August 2022

St. Louis vs. National Sales Price per Unit



Source: Yardi Matrix

The Midwest Is Attracting Record-High Capital. Here's Why

By Beata Lorincz

The U.S. multifamily market has seen record-breaking rent growth so far this year, backed by correspondingly high demand. The current volatile state of the economy will most likely start to take its toll on the sector's high-paced expansion soon. But the Midwest retains some distinct advantages compared to other U.S. regions. Jeff Lamott, managing director at Northmarq, explains what is fueling the Midwest multifamily market's performance.

Which are currently the hottest markets for multifamily development in the region and why?

The Midwest has not been subject to overbuilding the past several years, which has kept vacancy rates stable. While early 2022 got off to a slow start, Kansas City, Mo.; Indianapolis; St. Louis; Cincinnati, Ohio, and Chicago are some of the leading markets for new deliveries.

Many developers still find acquiring land in the Midwest easier than in gateway markets, with the permit process for a building to go vertical done in a timelier manner.

How is the Midwest performing in terms of rent growth?

Rents in the Midwest have trended higher in the past several quarters. Rent growth in the first quarter averaged 2.5 percent, although a handful of markets posted gains ranging from 3 percent to nearly 4.5 percent. Year-over-year, rent growth reached 12.9 percent, on average, throughout the Midwest.

What areas are the most sought-after for multifamily investment?

Multifamily investment activity has been mixed across the Midwest region to this point in 2022. Several markets posted declines from near-peak levels reached at the end of last year. Still, transaction activity at the beginning of 2022 is ahead of the pace recorded in each of the past several years across the region.

Most Midwest markets recorded significant per-unit pricing increases in 2021, averaging $139,000. Indianapolis, Chicago and St. Louis all registered price increases of approximately 10 percent.

Is now the right time for investors to buy into the region?

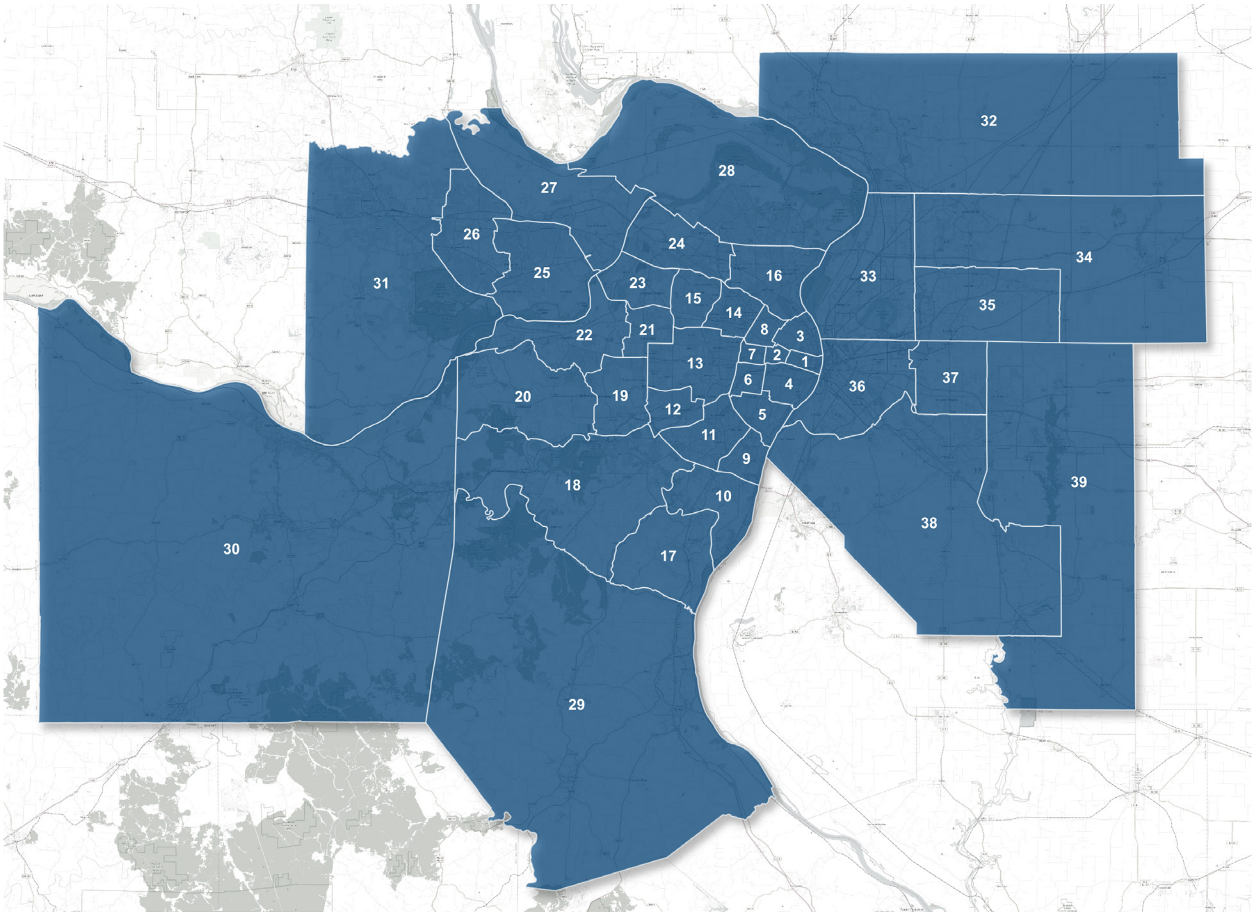
With the Federal Reserve signaling the continued increase in rates, it is still an excellent time to secure long-term financing at a favorable Midwest basis. While we might not see the continued record-high year-over-year accelerated appreciation driven by unsustainable double-digit rent growth, Midwest markets offer investors consistent appreciation, a favorable cost of living for renters and steady job growth.

What are your predictions for the remainder of the year?

The Midwest multifamily market continues to outperform the economy and a return to more normalized property performance is likely through the remainder of 2022. While there are many moving parts influencing multifamily markets across the country, the broad takeaway is that conditions are very strong and should remain healthy.

(Read the full interview at www.multi-housingnews.com)

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 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 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, 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.

Yardi Matrix

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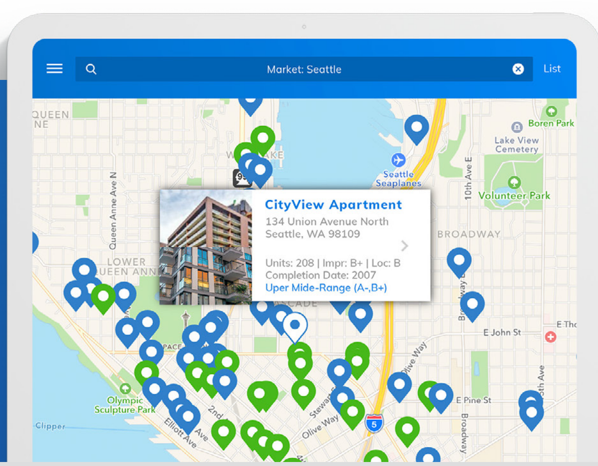
MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily provides accurate data on **19.7+ million units**, covering over **92% of the U.S. population.**

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