Yardi® Matrix

St. Louis' Swift Overhaul

Multifamily Report Fall 2017

Solid Job Gains Sustain Demand

City Core Draws New Development

Property Values Hit Post-Recession High

Market Analysis

Fall 2017

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Startup Scene Boosts Arch City Rental Market

Following the path of other Midwestern metros, St. Louis is slowly transforming from an industrial center into a modern city with solid job gains in the health-care, business and technology sectors. This, in turn, has pushed up demand for both suburban office space and highly amenitized urban apartments, benefiting the multifamily market.

St. Louis added 21,100 jobs in the 12 months ending in July, more than 70% of which were in high-paying sectors. Local authorities, investors and the city's creative, skilled workforce built a vibrant startup ecosystem that drew in more than $72 million in venture capital in the third quarter alone, according to data from PitchBook and the National Venture Capital Association. Meanwhile, the hospitality sector is adapting to the metro's growing accommodation needs. Several historic buildings in downtown St. Louis will reopen as hotels, while Loews Hotels & Co. announced plans to develop its first property in the metro as part of the $260 million Ballpark Village expansion. The mixed-use development located in the city's core will also include residential and office components.

With more than 3,300 units under construction, St. Louis follows the national trend of renewing its well-located, urban residential stock. With demand expected to stay healthy, the new wave of supply should keep rent hikes moderate. Yardi Matrix forecasts a 1.8% rent growth for St. Louis in 2017.

Recent St. Louis Transactions

Residences at Streets of St. Charles

City: St. Charles, Mo.
Buyer: Trilogy Real Estate Group
Purchase Price: $60 MM
Price per Unit: $192,557

Vanguard Heights

City: Creve Coeur, Mo.
Buyer: Strategic Properties
Purchase Price: $39 MM
Price per Unit: $222,222

Vicino on the Lake

City: Creve Coeur, Mo.
Buyer: BH Equities
Purchase Price: $38 MM
Price per Unit: $105,153

Woodhollow

City: Maryland Heights, Mo.
Buyer: Monarch Investment
Price: $34 MM
Price per Unit: $83,980

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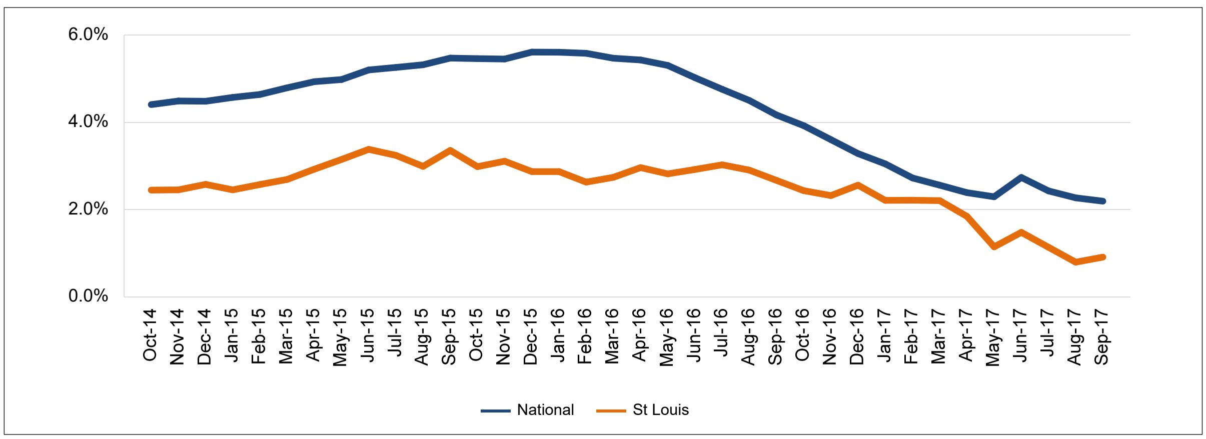
Rent Trends

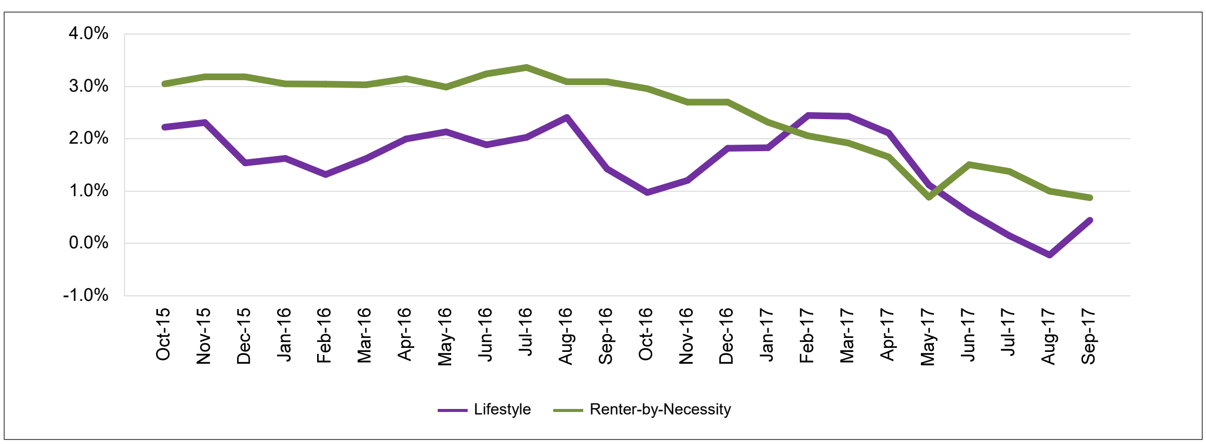
- Decelerating since 2015, rent growth in St. Louis stood at 0.9% year-over-year through September, following nationwide trends but lagging the 2.2% U.S. rate. The average St. Louis rent was $894, way behind the $1,354 U.S. average.
- Rents in the working-class Renter-by-Necessity segment were up 0.9%, to $807. At the same time, the Lifestyle class recovered after a short contraction, with rents increasing 0.4% in the 12 months ending in September, to $1,359. The trend is bound to continue throughout the year, as there is limited availability of affordable units in the metro. Job gains led by high-earning sectors will produce a quick absorption of the new rentals, particularly in urban submarkets such as downtown St. Louis, University City, Central West End and Forest Park.
- St. Louis' thriving startup ecosystem is attracting young professionals to the metro, which has led to an increase in downtown rental demand. This has maintained monthly rates above the $1,100 threshold in core submarkets such as Central West End ($1,302), University City–Maplewood ($1,258), Illinois-Edwardsville ($1,173) and Creve Coeur ($1,126).
- Healthy demand should keep rent growth at 1.8% by the end of the year, according to Yardi Matrix data.

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)

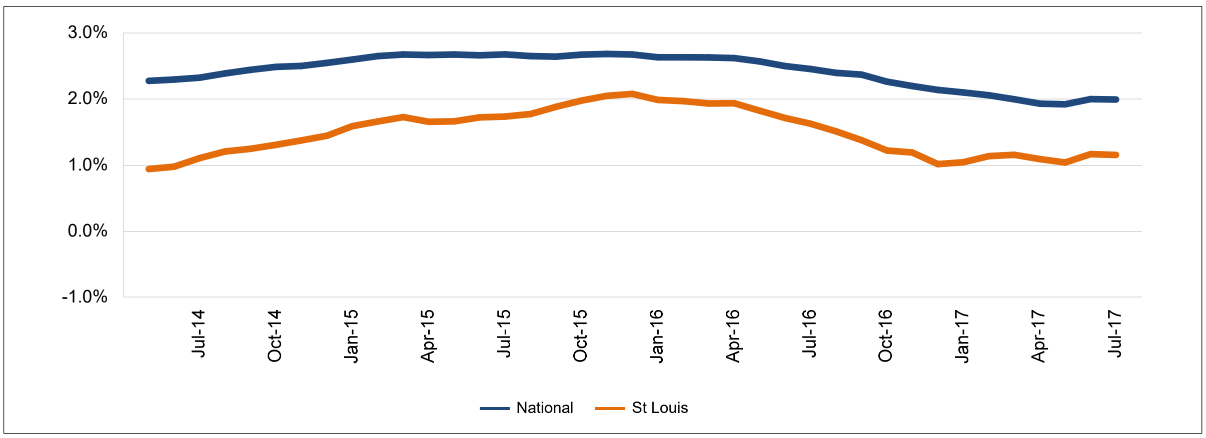


Source: YardiMatrix

Economic Snapshot

- St. Louis added 21,100 jobs in the 12 months ending in July, a 1.6% increase year-over-year, below the national rate of 2.0%. Employment has been rising steadily in the metro over the past five years, albeit slowing down since 2015, when the growth rate was close to 2.1%.
- Education and health services (7,500 jobs) and professional and business services (5,500) led employment gains, followed by leisure and hospitality (3,300). Investments in hospitality and education are bound to further drive growth in these sectors. The St. Louis Community College campus at Forest Park is getting a $40 million makeover that will also include a new Center for Nursing and Health Sciences building. The former Clayton Police Department headquarters will be transformed into a 200-key hotel by HomeBase, while the Union Trust building in downtown St. Louis is undergoing a $55 million renovation by Restoration St. Louis. The structure will reopen as the 140-key Hotel Saint Louis under the Marriott Autograph flag. In addition, the $104 million renovation of the historical Jefferson Arms will bring a new 220-key AC Marriott-branded hotel.
- Clayton and West County are the submarkets driving office growth. The sale of The Plaza in Clayton for $85.5 million marked the largest office deal in the metro over the past decade. According to JLL, West County was responsible for roughly two thirds of the leasing activity in the third quarter.

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	%
65	Education and Health Services	252	18.4%	7,500	3.1%
60	Professional and Business Services	217	15.9%	5,500	2.6%
70	Leisure and Hospitality	159	11.6%	3,300	2.1%
55	Financial Activities	90	6.6%	3,100	3.6%
30	Manufacturing	117	8.5%	1,600	1.4%
15	Mining, Logging and Construction	68	5.0%	100	0.1%
90	Government	137	10.0%	-100	-0.1%
50	Information	29	2.1%	-700	-2.4%
80	Other Services	47	3.4%	-1,600	-3.3%
40	Trade, Transportation and Utilities	254	18.6%	-2,200	-0.9%

Sources: YardiMatrix, Bureau of Labor Statistics

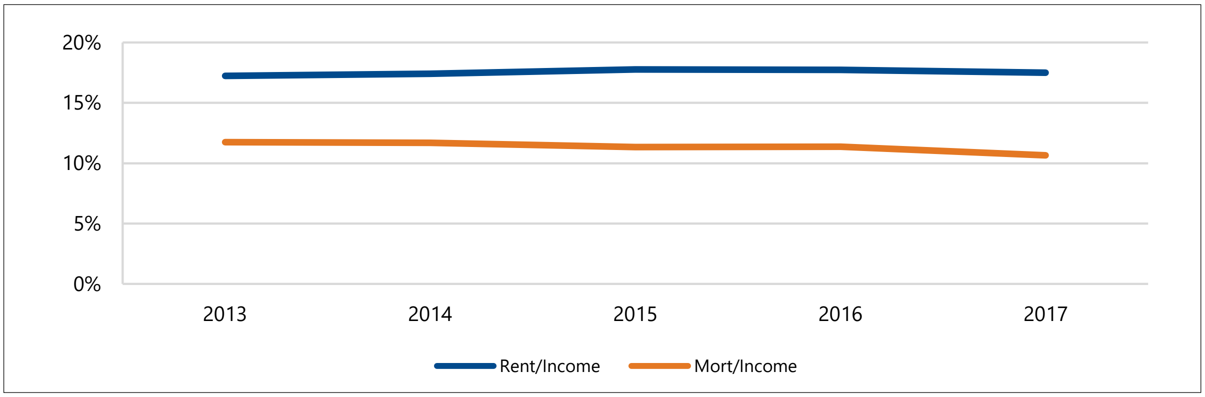
Demographics

Affordability

- The median home price took a slight dive in the first half of 2017, reaching $140,651, down 7% from the 2016 cycle peak. Significantly below the U.S. average, the value is still 10% higher than in 2009, when the market bottomed out. And as wage increases have matched rising costs, affordability stood flat for the past five years.

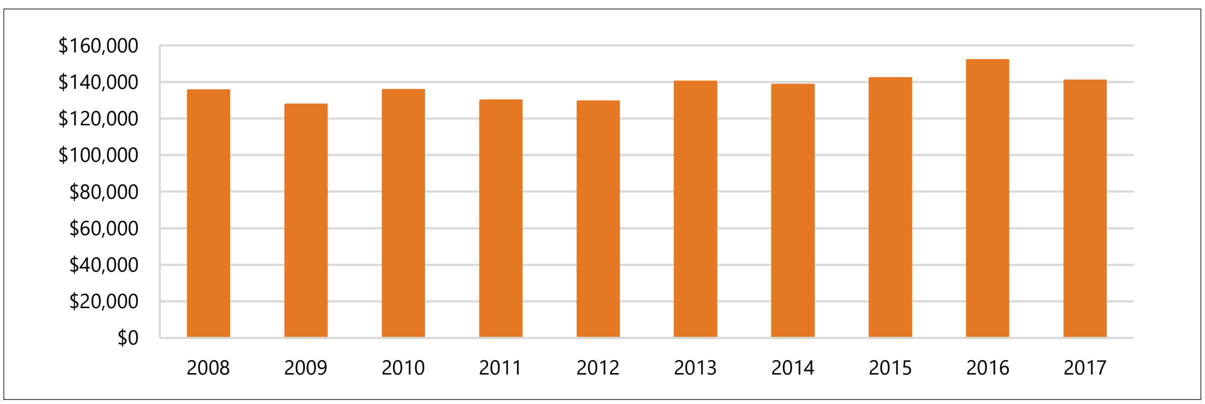
- Owning remains the more affordable option, as the average mortgage payment accounted for 11% of the median income, while renting comprised as much as 17%. While the city remains relatively affordable, Millennials are playing an increasing role: According to the St. Louis Association of Realtors, roughly 50% of home buyers in West County and downtown are Millennials.

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

- Last year, St. Louis lost some 1,300 residents, accounting for a contraction of less than 10 basis points.

- The metro's population increased by roughly 0.5% since 2012, a much slower pace than the 3.7% U.S. rate.

St. Louis vs. National Population

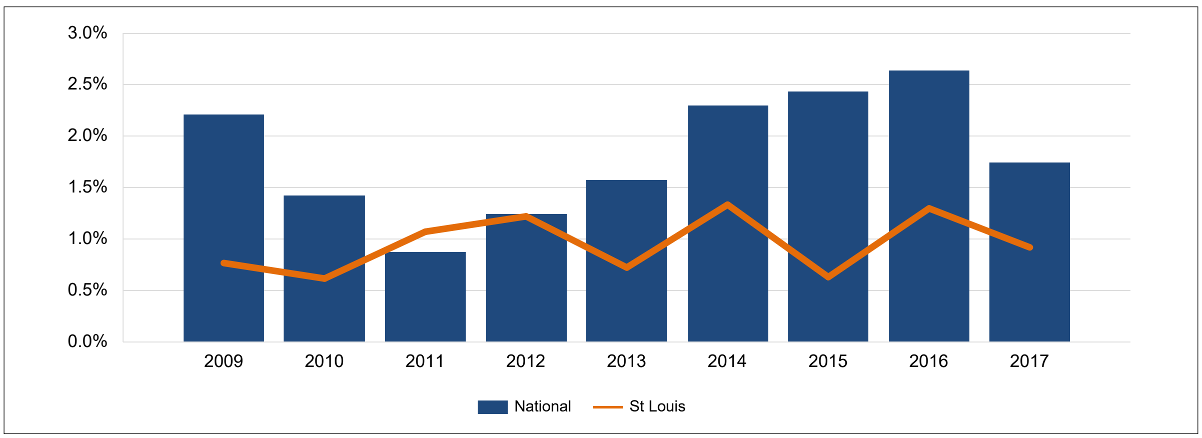
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
St. Louis Metro	2,796,903	2,800,154	2,804,862	2,808,330	2,807,002

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

Supply

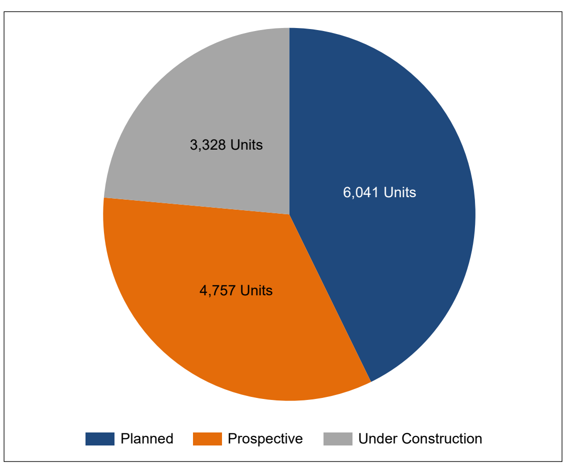
- The metro's steady job gains during the past couple of years have pushed up demand, which in turn has led to sustained development. Some 1,100 units came online in the first three quarters of 2017, closing in on last year's 1,538 units. Almost 8,700 units have been delivered in St. Louis since the beginning of 2011, more than 2,000 of which are within fully affordable and workforce communities.
- St. Louis had more than 3,300 units under construction as of September. An increase in supply is anticipated, as the total pipeline, including planned and prospective projects, added up to roughly 14,000 units.
- New development is concentrated in the metro's urban core. The neighboring submarkets of University City, Clayton and Forest Park, as well as St. Charles, accounted for more than half of the metro's apartments under construction. Clayton is a point of interest for companies looking to relocate or expand their office footprint, which is also boosting residential construction in the area.
- ZM Management's garden-style Villages at Lake Silvercote is the largest community underway. Scheduled for completion in 2018, the property is set to bring a total of 381 units to Charles County at full buildout.

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



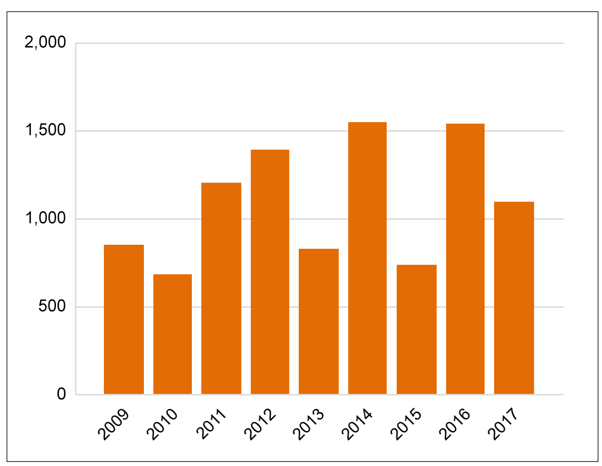
Source: YardiMatrix

Development Pipeline (as of September 2017)



Source: YardiMatrix

St. Louis Completions (as of September 2017)

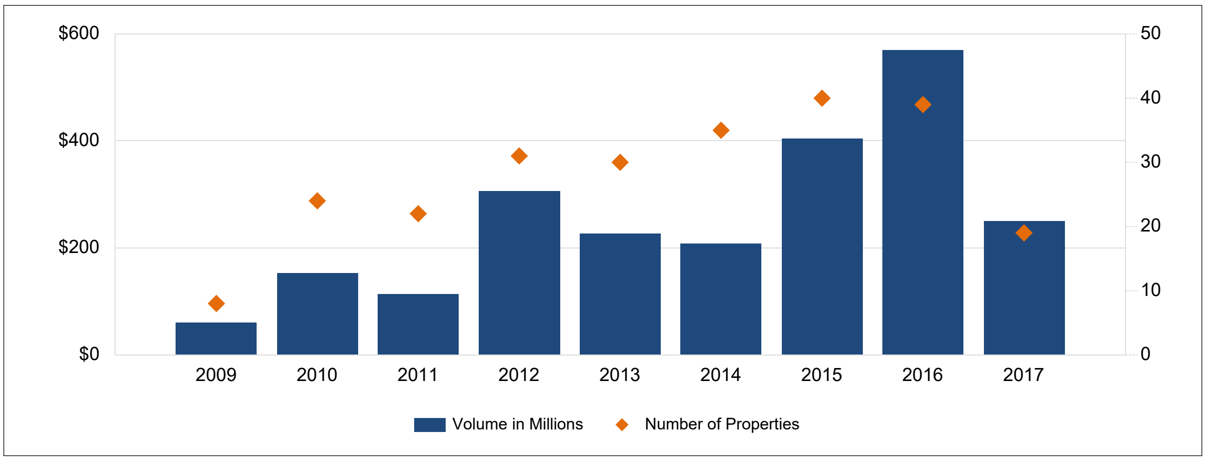


Source: YardiMatrix

Transactions

- St. Louis multifamily investment slowed down in 2017, with nearly $250 million in assets changing hands through August. The investment volume dropped compared to 2016, when multifamily transactions totaled more than $500 million, marking a cycle high.
- The number of deals also decreased as the average price per unit swelled to $92,000 in the first eight months of 2017, roughly doubling since 2011. However, St. Louis per-unit prices continue to trail the national average of $134,000.
- The sale of Residences at Streets of St. Charles to Trilogy Real Estate Group was the largest transaction of the last two quarters. The building, which was completed in 2014 and sold by Cullinan Properties, traded for roughly $60 million, or $193,000 per unit.

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



Source: YardiMatrix

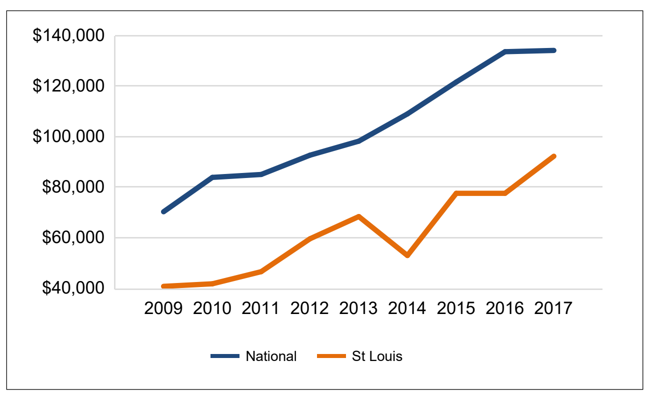
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Charles	72
Creve Coeur	53
Maryland Heights	50
St. Louis-Downtown	40
Chesterfield	38
Florissant	34
St. Peters	27
Illinois-Edwardsville	23

Source: YardiMatrix

[1] From September 2016 to August 2017

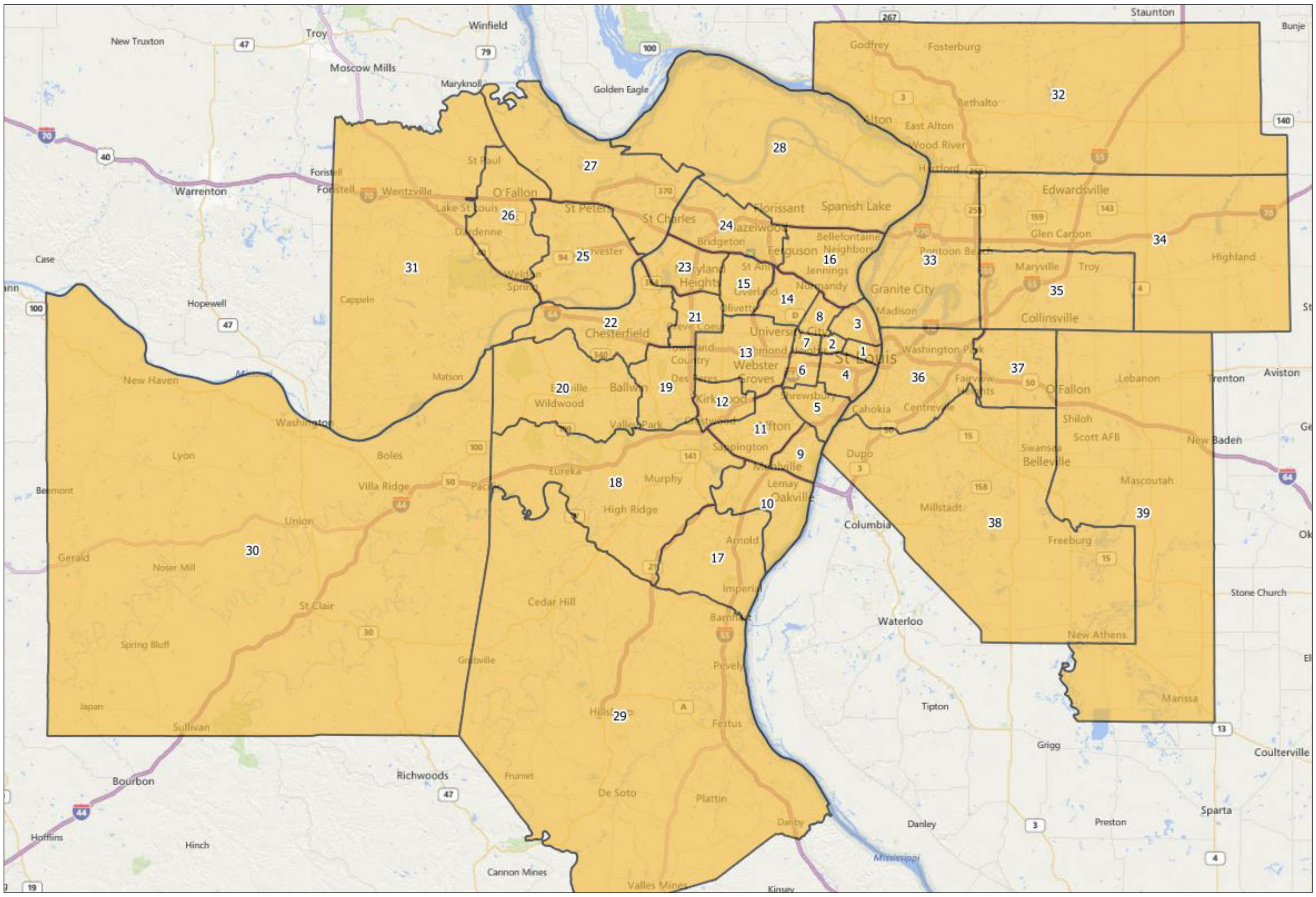
St. Louis vs. National Sales Price per Unit



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.

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