Yardi® Matrix

St. Louis' Stable Year

Multifamily Report Winter 2018

Deliveries Reach Cycle High

Unemployment Falls to Record Low

Investors Eye Outsize Yields

Market Analysis

Winter 2018

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Record Supply Moderates Rent Growth

St. Louis' job gains are somewhat middling, but a below-trend unemployment rate means that housing continues to be in high demand. The metro added 1,800 units in 2017, marking a new cycle peak. As a result of strong supply growth, occupancy for stabilized properties dropped to 94.5% as of December. Although rents are still rising, the average rate was still below the $900 mark and about $500 behind the U.S. average.

The metro added 11,300 jobs in the past year, spurred by growth in education and health services. On the other hand, the pullback of the public sector persisted, due to policies that maintain a focus on controlling the amount of statewide government spending in Missouri. Centene and Pfizer led the health services market by expanding their footprints in the Clayton and Chesterfield submarkets, while the presence of companies like Boeing, Square and Microsoft continues to underpin the city's nascent technology sector.

Although transaction volume dropped by 35% in 2017, as compared to the 2016 cycle high, per-unit prices have risen, reaching $109,635. Development activity should remain strong in the metro, as reflected by the 3,300 units under construction. Following 2017's peak, we expect the addition of 1,700 units by year-end. With new supply continuing to dilute housing stock, rent growth will likely stay moderate, at about 2.5% in 2018.

Recent St. Louis Transactions

The Alinea

City: St. Louis
Buyer: Strategic Properties of North America
Purchase Price: $60 MM
Price per Unit: $238,000

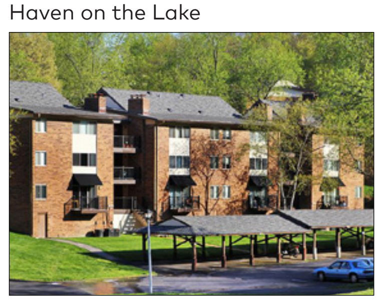
Residences at Streets of St. Charles

City: St. Charles, Mo.
Buyer: Trilogy Real Estate Group
Purchase Price: $60 MM
Price per Unit: $192,556

Allegro at the Boulevard

City: St. Louis
Buyer: Edwards Realty Co.
Purchase Price: $58 MM
Price per Unit: $783,783

Haven on the Lake



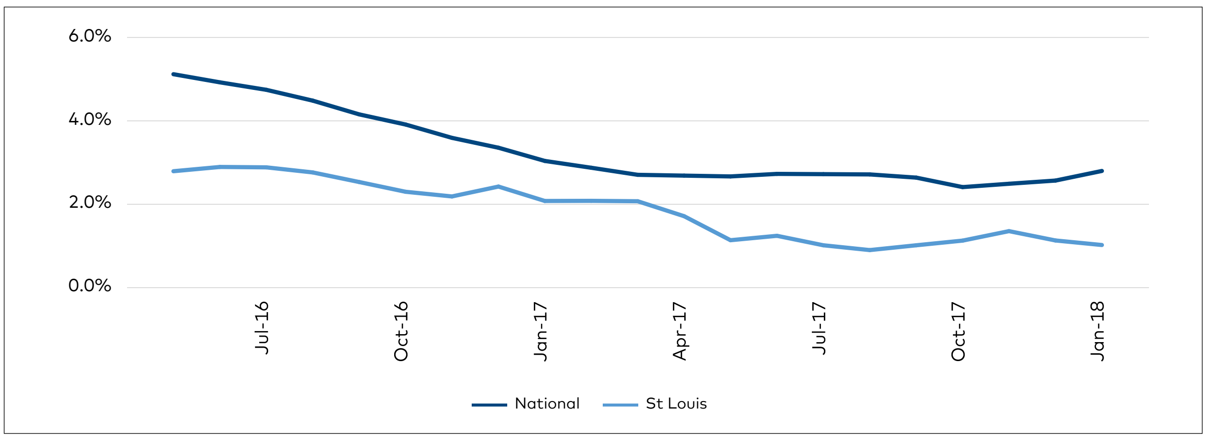
City: Maryland Heights, Mo.
Buyer: FPA Multifamily
Purchase Price: $48 MM
Price per Unit: $90,340

On the cover: Photo by Vanessa Suzann photography/iStockphoto.com

Rent Trends

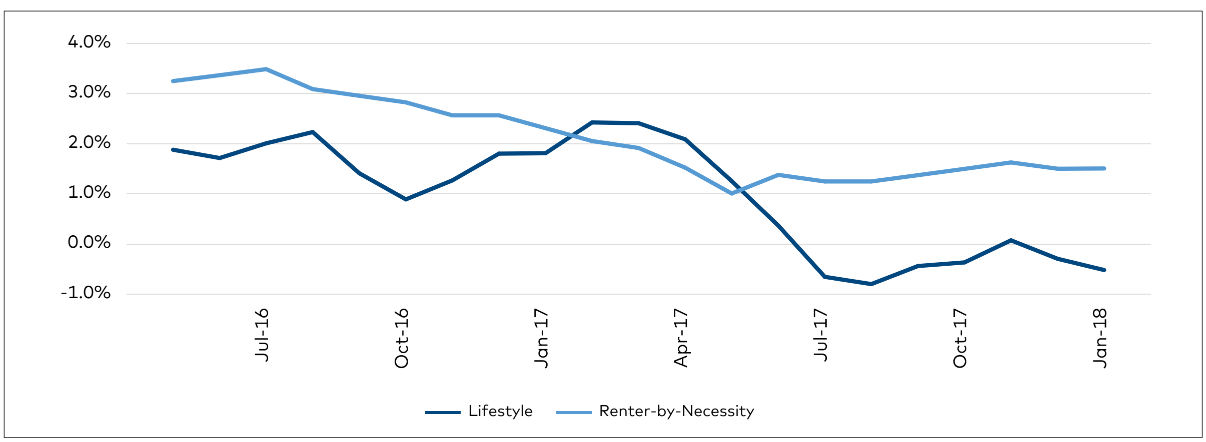
- Rents in the metro rose 1.0% year over year through January, 180 basis points below the national average. As of January, the average rent was $896, nearly $500 below the national average. Continued housing inventory expansion in the metro has resulted in a decline in the average occupancy rate in stabilized properties, to 94.5% as of December.
- Gains were highest in the working-class Renter-by-Necessity segment, which saw a 1.5% year-over-year increase through January to $809, while rents in the higher-end Lifestyle segment have started to contract. As of January, rents dropped 0.5% to $1,342. Demand for rental housing is expected to remain strong, especially for affordable units, while the bulk of deliveries are in the Lifestyle segment.
- Employment hubs such as Clayton and Chesterfield are leading rent gains. Submarkets such as Arnold (4.8%), St. Louis–South (4.3%), St. Charles (4.1%) and Illinois–Belleville (3.7%) saw the largest increases in rent growth. Downtown saw the most significant drop, falling 1.5% to an average of $897.
- Persistent rental demand is expected to continue driving rent growth in 2018. As a result, we expect a 2.5% improvement by year-end.

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)

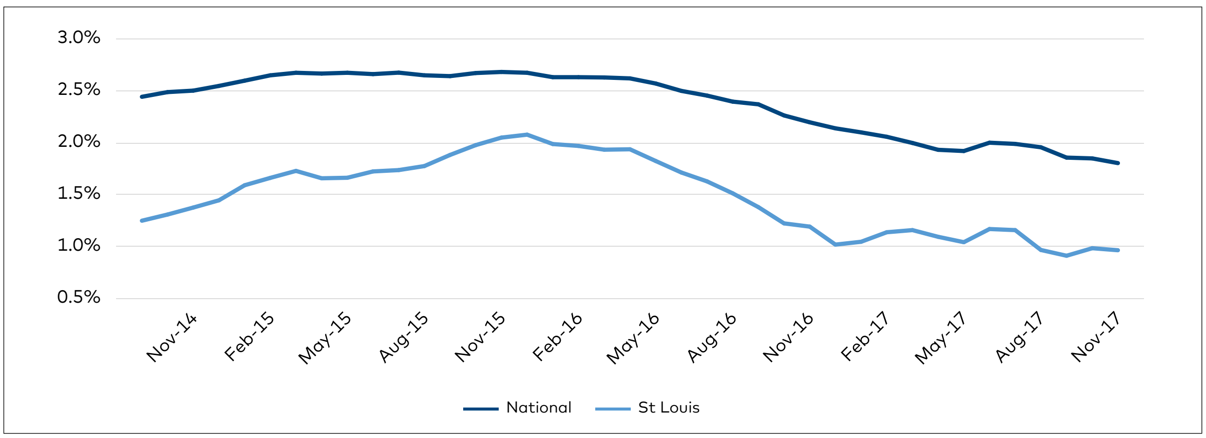


Source: YardiMatrix

Economic Snapshot

- In the 12 months ending in November, St. Louis added 11,300 jobs, representing a 1.0% year-over-year employment growth rate 80 basis points below the national figure. The city's unemployment rate fell to a historical low of 2.7% in October.
- Leading job growth is the education and health services sector, which added 6,600 jobs, marking a 2.6% uptick, followed closely by the professional and business services sector, which added 6,200 jobs. Chesterfield and Clayton remain two of St. Louis' most attractive submarkets for health services companies. Centene plans to add roughly 1,000 workers to its Clayton headquarters, while Pfizer expects to add more than 600 jobs at its new facility.
- With more than 620,000 square feet of office space currently under construction, according to JLL, St. Louis continues to be one of the fastest-growing cities for startups. Home to more than 350 IT, bioscience and consumer product development companies such as Boeing, Square and Microsoft, the Cortex district is paramount to the technology sector's improvement and development.
- State policies focused on spending cuts have furthered the ongoing contraction of the public sector, resulting in the smallest state government Missouri has had in nearly two decades.

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	259	18.6%	6,600	2.6%
60	Professional and Business Services	219	15.7%	6,200	2.9%
30	Manufacturing	117	8.4%	2,600	2.3%
55	Financial Activities	89	6.4%	2,100	2.4%
70	Leisure and Hospitality	150	10.8%	2,000	1.4%
80	Other Services	49	3.5%	800	1.7%
50	Information	29	2.1%	-300	-1.0%
15	Mining, Logging and Construction	68	4.9%	-1,000	-1.4%
90	Government	159	11.4%	-3,800	-2.3%
40	Trade, Transportation and Utilities	257	18.4%	-3,900	-1.5%

Sources: YardiMatrix, Bureau of Labor Statistics

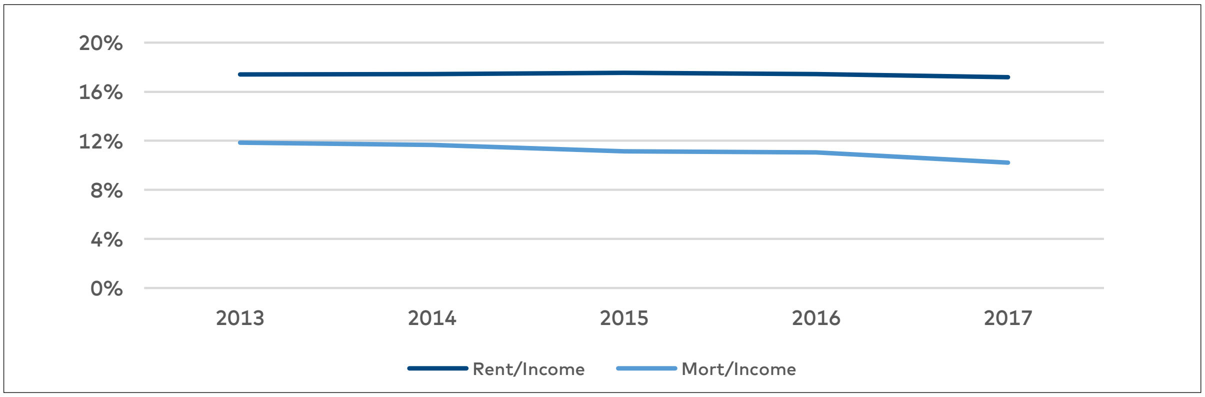
Demographics

Affordability

- In 2017, the median home value decreased, reaching $138,073, $12,000 less than it was in 2016, the post-downturn peak. With an average monthly rent of $896 as of January, the metro's rent takes up 17% of the average renter's income. Owning continues to be a more affordable option, as it has been throughout the cycle, accounting for 10% of the median income.

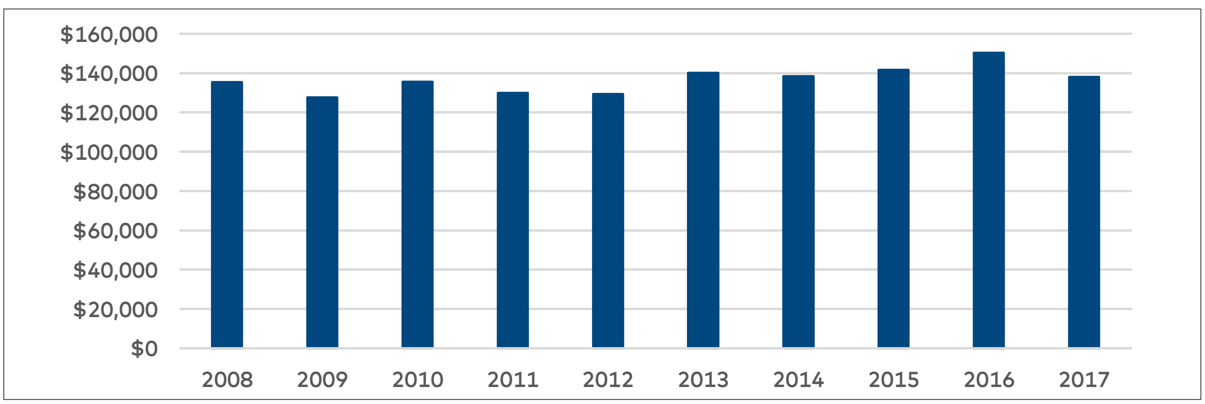
- St. Louis ranks among the U.S.'s most affordable cities. According to Business Insider and The Penny Hoarder, the metro ranked second for affordability in 2017. While the city's core might be slowly pricing out middle-income residents, the suburban areas of the metro have remained accessible.

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

- Since 2012, St. Louis' population grew by 0.4%, 30 basis points below the national rate.

- In 2016, the metro contracted by roughly 1,300 residents.

St. Louis vs. National Population

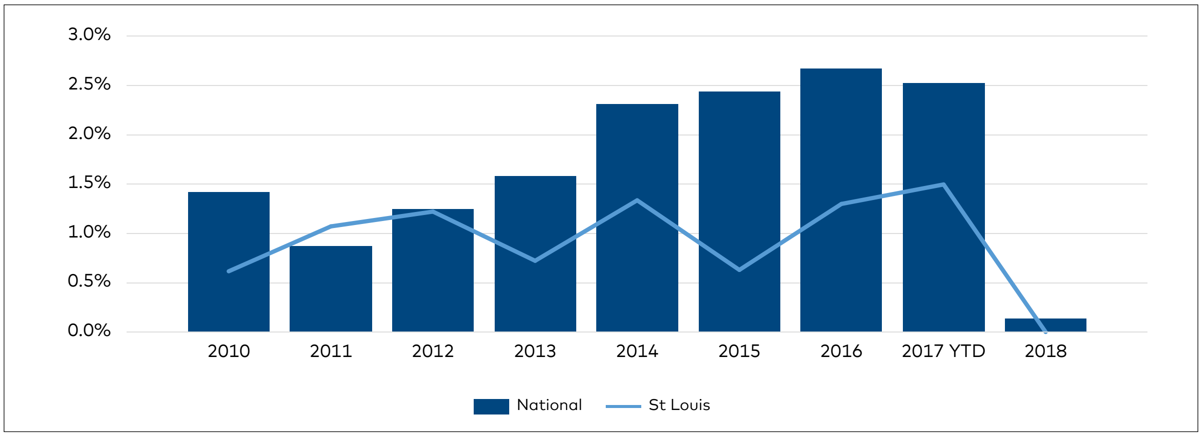
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
St. Louis Metro	2,796,903	2,800,154	2,804,862	2,808,330	2,807,002

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

Supply

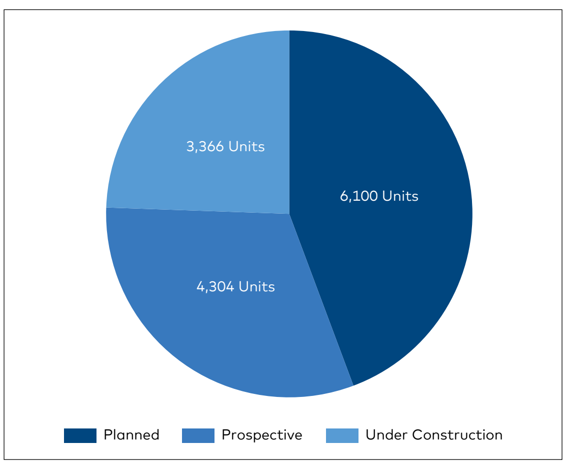
- St. Louis added 1,800 units, or 1.5% of total stock, in 2017, marking a new cycle high. Although the metro is adding new deliveries at a higher rate than in the past five years, it is still lagging behind the national rate of 2.5%. We expect that roughly 1,700 units will come to the market by the end of the year, as the nation braces for record inventory expansion.
- Elevated construction activity is poised to continue, with roughly 3,300 units under construction as of January. The overall pipeline consists of more than 13,700 units in all stages of development. After a number of months when occupancy rates slid as a result of inventory growth, occupancy for stabilized properties was at 94.5% as of December.
- St. Louis–Lafayette Square and Clayton Tamm led construction activity in the metro, with a combined 1,000 units underway. Employment hub Chesterfield saw an increase in residential development as well, while commercial construction activity is driven by work at Pfizer's $236 million facility. The submarket houses the metro's largest multifamily community under construction—the 345-unit Watermark at Chesterfield Village. Watermark Residential's new community will open this spring.

St. Louis vs. National Completions as a Percentage of Total Stock (as of January 2018)



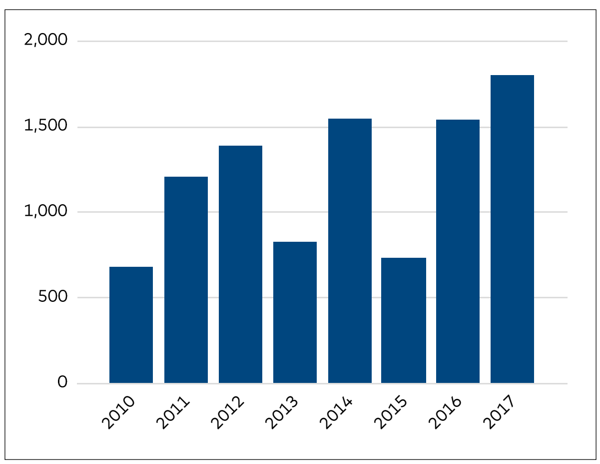
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

St. Louis Completions (as of January 2018)

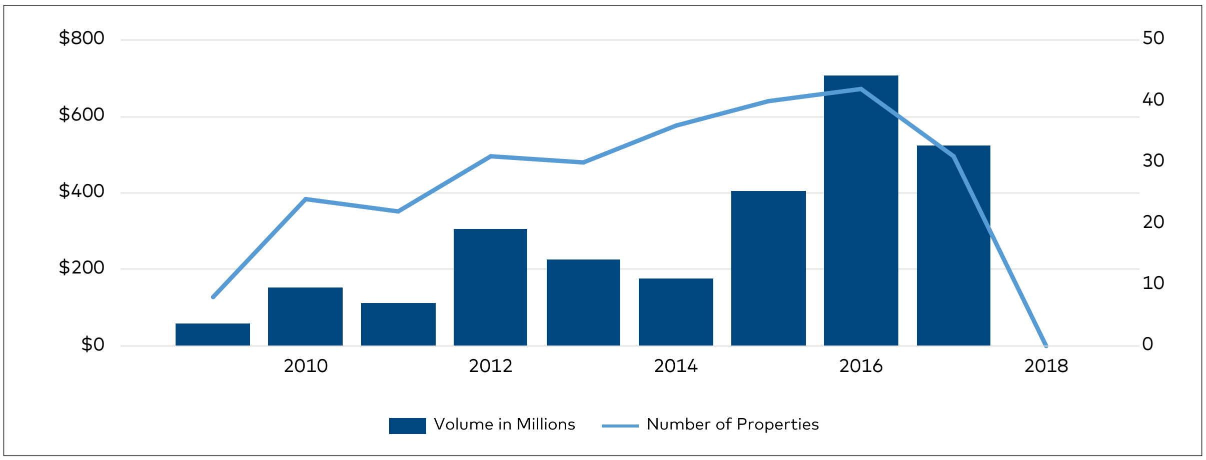


Source: YardiMatrix

Transactions

- More than $520 million in multifamily properties traded hands in 2017, a significant decrease from 2016's cycle peak of $707 million. Although investment sales volume has moderated, per-unit prices grew to $109,635, roughly $28,000 below the national average.
- Investors are drawn to the metro by higher acquisition yields. For Class A properties, yields were in the 6% range, while for the Class B and Class C assets, yields are in the 6-7% range. The most targeted submarkets were located on the west side of the metro: Maryland Heights ($97 million), St. Charles ($72 million) and University City/Maplewood ($65 million).
- Strategic Properties of North America's $60 million acquisition of The Alinea was the largest transaction in the metro in the past 12 months. TriStar sold the asset for $238,000 per unit. At the time of the sale, the community was 69.3% percent occupied.

St. Louis Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

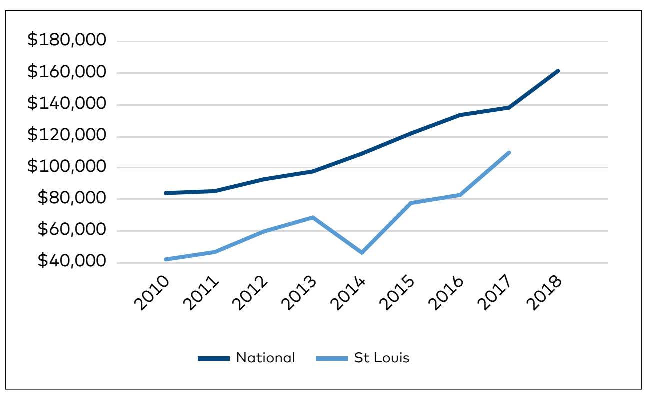
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Maryland Heights	97
St. Charles	72
University City/Maplewood	65
St. Louis–Downtown	63
Manchester/Valley Park	60
Creve Coeur	56
Illinois–Fairview Heights	35
Florissant	18

Source: YardiMatrix

[1] From October 2015 to September 2016

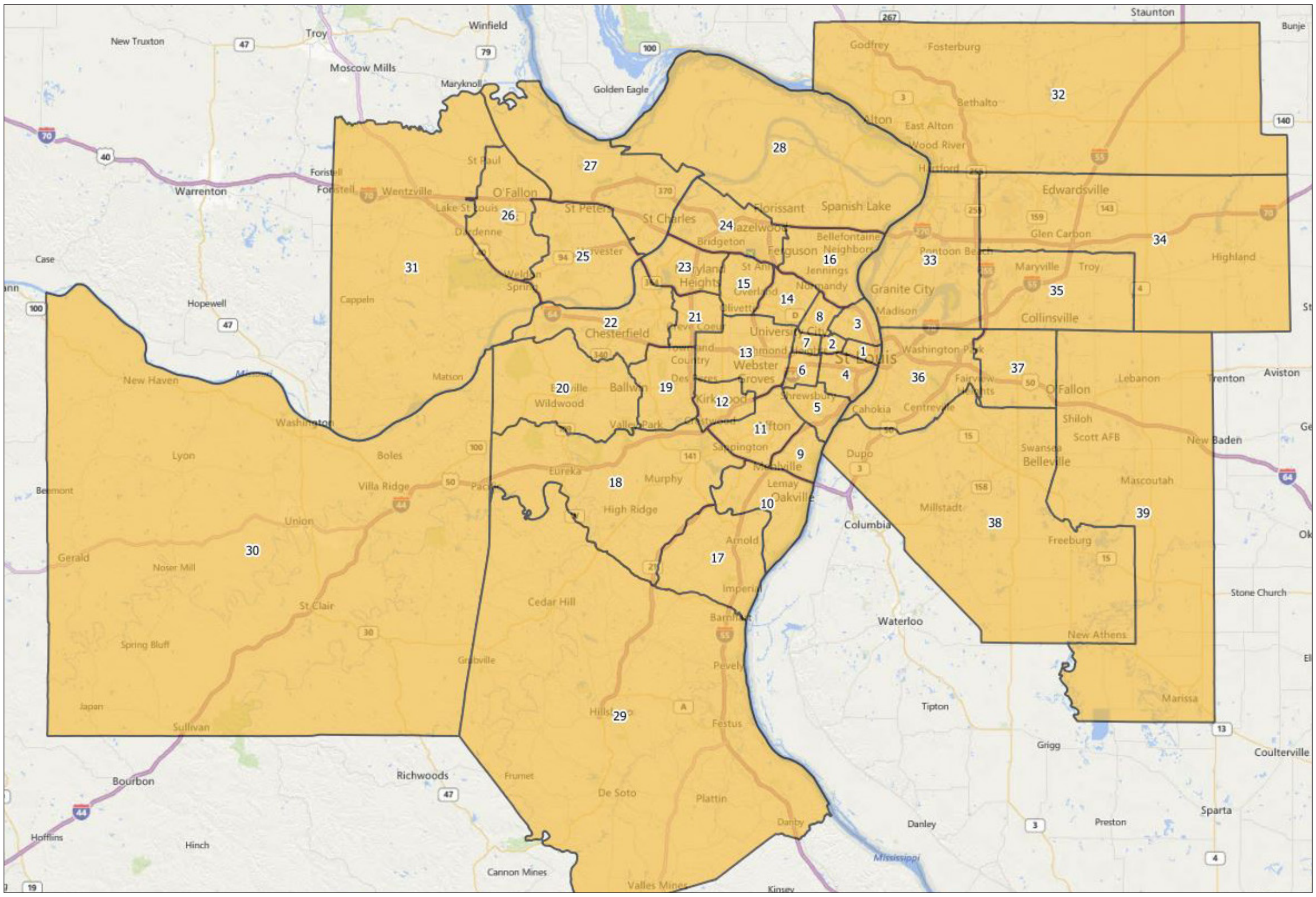
St. Louis vs. National Sales Price per Unit



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.