Yardi® Matrix

Middling Growth In the Midwest

Multifamily Report Summer 2018

Developers Target Core Submarkets

Tech Sector Provides Boost

Home Values Decrease

Market Analysis
Summer 2018

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Solid Supply Impacts Occupancy

St. Louis' rental market stayed stable in 2017: Due to solid employment—led by health-care and tech jobs—the metro has begun adding high-paid professionals. St. Louis continues to be one of the most affordable markets in the U.S., but workforce-grade housing is lacking due to construction in the segment being largely ineffective for developers. Despite a slowdown in supply in the first months of the year, a large swath of deliveries in 2017 has continued to exert pressure on occupancy rates.

Employment was steady in the metro, with 12,900 jobs being added in the 12 months ending in March. The professional and business services sector led gains with 6,800 jobs added, a 3.2% change. Education and health services also improved at a good rate, adding 6,600 jobs, strengthening its position as one of the metro's main economic drivers. The office market continued to attract domestic and foreign investors. As part of the office industry's development, Microsoft is planning a $50 million investment in local jobs, facilities and software grants, further bolstering the tech sector.

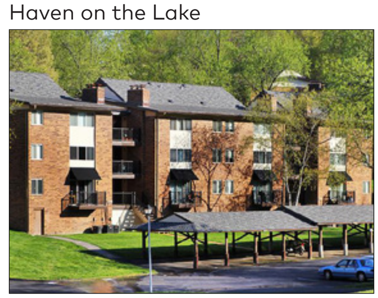
Roughly 4,200 units were under construction as of May, pointing to further inventory expansion. Investment activity was strong in the first months of the year, as more than $228 million in rental assets changed hands. Overall, Yardi Matrix expects a 2.5% rise in St. Louis rents for the whole of 2018.

Recent St. Louis Transactions

The Alinea

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

Haven on the Lake



City: Maryland Heights, Mo.
Buyer: FPA Multifamily
Purchase Price: $48 MM
Price per Unit: $ 90,341

The Villages of General Grant

City: St. Louis
Buyer: Monarch Investment and Management Group
Purchase Price: $46 MM
Price per Unit: $ 83,394

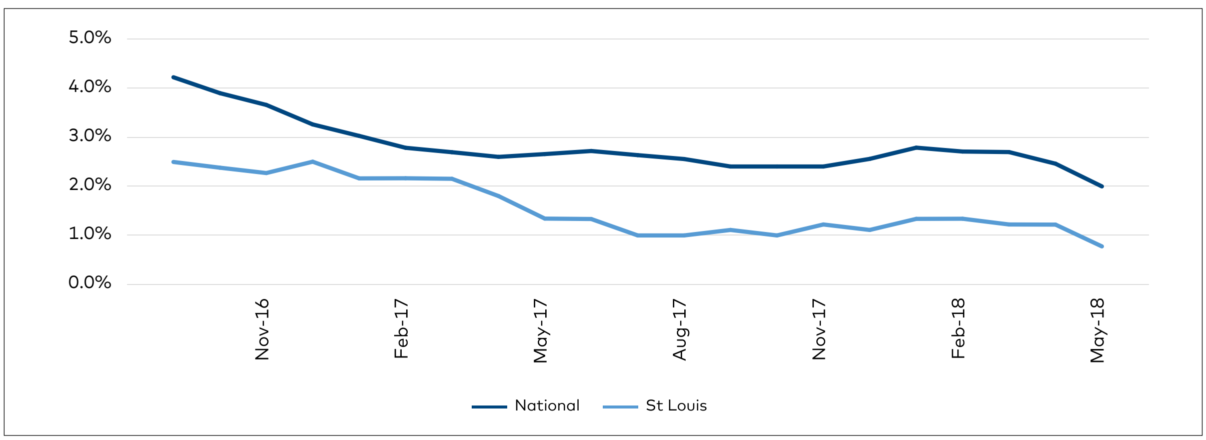
Heritage Estates

City: St. Louis
Buyer: Monarch Investment and Management Group
Purchase Price: $35 MM
Price per Unit: $ 89,622

Rent Trends

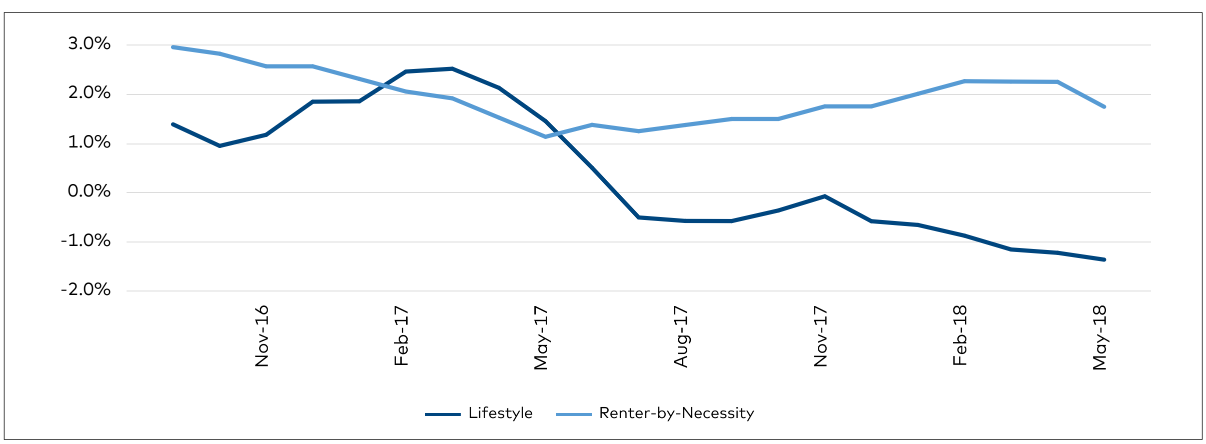
- Rents in St. Louis rose 0.8% year-over-year through May, well below the national rate of 2.0%. Rents in the metro have stood around the $900 mark for the past few months. As of May, rents were $916, $7 more expensive than they were at the same point in 2017.
- The working-class Renter-by-Necessity segment led gains, increasing by 1.7%, while the Lifestyle segment continued to contract: Rents dropped 1.4% to $1,376. There were only 12 submarkets where the average monthly rent was above the $1,000 mark: St. Louis–Central West End ($1,336), University City/Maplewood ($1,333) and Illinois–Edwardsville ($1,181) led rent levels in the metro. The largest year-over-year increases were seen in the Illinois–Collinsville (6.9%), Arnold (5.4%) and Charles County (3.8%) submarkets.
- With St. Louis' strong health industry and growing technology sector, demand for rental units should stay solid.
- A large number of rental deliveries in 2017 resulted in a decline in the average occupancy rate for stabilized properties, at 93.7% as of April, 130 basis points lower than it was last year. Despite the addition of new housing across the metro, we expect rents to appreciate 2.5% in 2018.

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

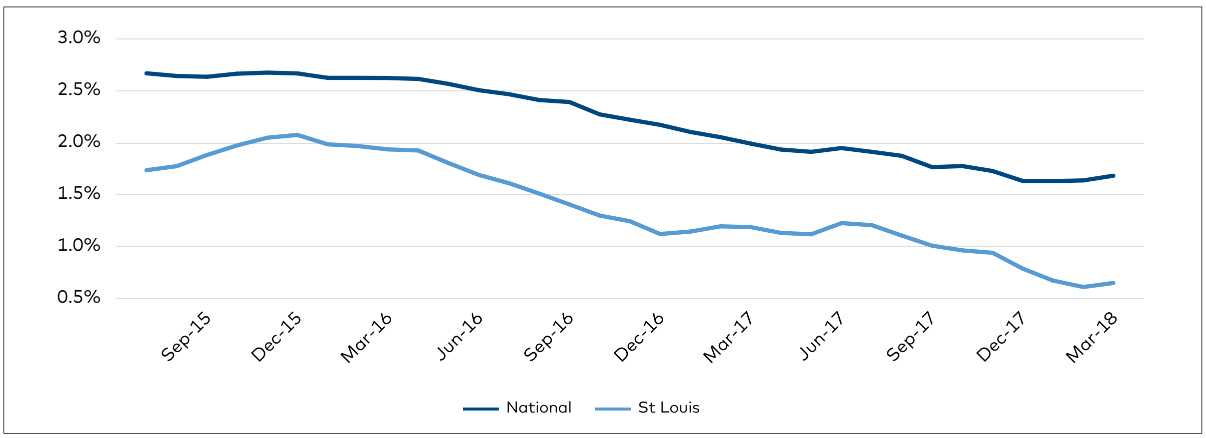
Economic Snapshot

- The metro added 12,900 jobs in the 12 months ending in March, an employment growth rate of 0.6% year-over-year. That's 100 basis points below the national rate of improvement. This trend has pushed the unemployment rate to 3.7% as of March, down 130 basis points since the same month last year.

- St. Louis' favorable business environment and highly educated labor force make it a promising market for growth, especially in the technology sector. The professional and business services sector added 6,800 jobs, the largest year-over-year change, 3.2% as of March. With a large swath of good schools and a growing number of healthcare companies looking to move or expand in the area, the metro's education and health services sector grew by 2.7%, having added 6,600 jobs.

- As more and more companies expand their footprints in St. Louis, demand for office space will continue to rise. In order to meet demand, developers are providing new supply at an elevated rate. According to Cushman & Wakefield, roughly 1.5 million square feet of space was under construction in the first few months, mostly located in the St. Louis City and Clayton submarkets. As part of keeping the metro's office market solid, Microsoft is planning a $50 million investment in local jobs, facilities and software grants, while Amazon will open its first fulfilment center in Missouri in 2019.

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	%
60	Professional and Business Services	217	15.8%	6,800	3.2%
65	Education and Health Services	255	18.5%	6,600	2.7%
40	Trade, Transportation and Utilities	258	18.7%	3,400	1.3%
55	Financial Activities	89	6.5%	2,000	2.3%
30	Manufacturing	116	8.4%	2,000	1.8%
70	Leisure and Hospitality	146	10.6%	300	0.2%
80	Other Services	51	3.7%	-300	-0.6%
50	Information	28	2.0%	-300	-1.1%
15	Mining, Logging and Construction	64	4.6%	-500	-0.8%
90	Government	153	11.1%	-7,100	-4.4%

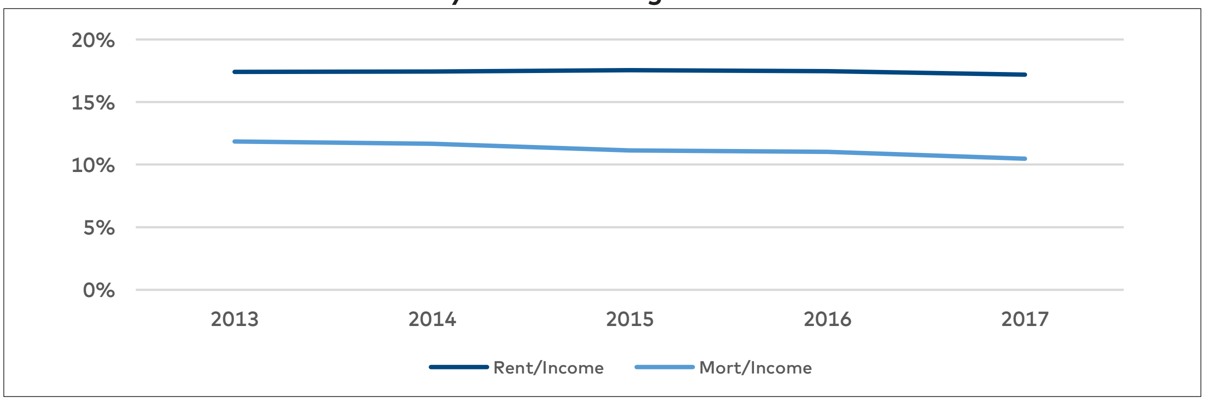
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

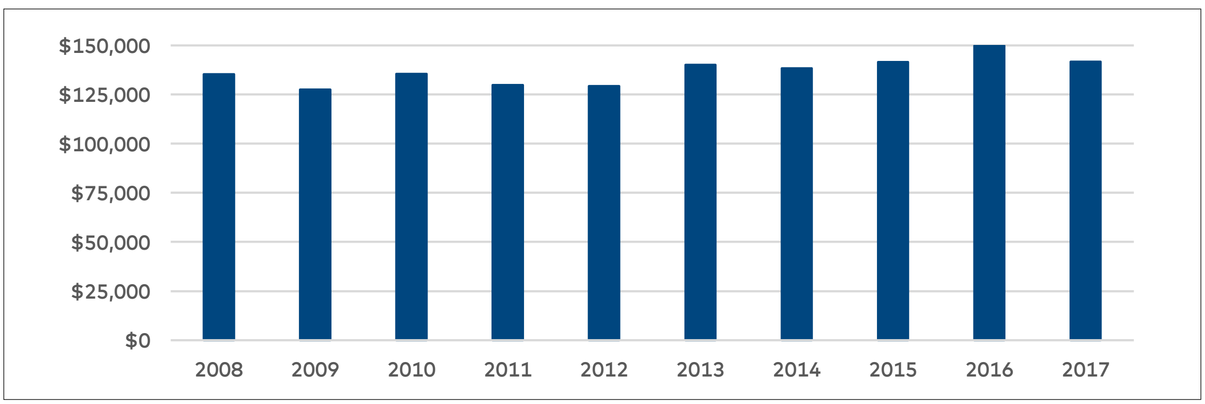
- Last year, St. Louis' median home price decreased $8,104 compared to 2016's peak of $149,935. Rents rose to $916 as of May, accounting for 17% of the area's median income, while owning continues to be the most affordable option, comprising 10% of the median income.
- Although the metro ranks among the most affordable cities in the U.S., a recent study shows that developers are less likely to build properties for low-income renters without incentives, as the cost of development could outweigh profits. According to Cushman & Wakefield, the metro was one of two cities in the top 10 that claimed a lower-than-average cost of living.

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

- After losing 1,300 residents in 2016, the metro started to get back on a positive track, adding 600 residents in 2017.
- St. Louis grew by 0.02% in the past year, 68 basis points slower than the national rate of growth.

St. Louis vs. National Population

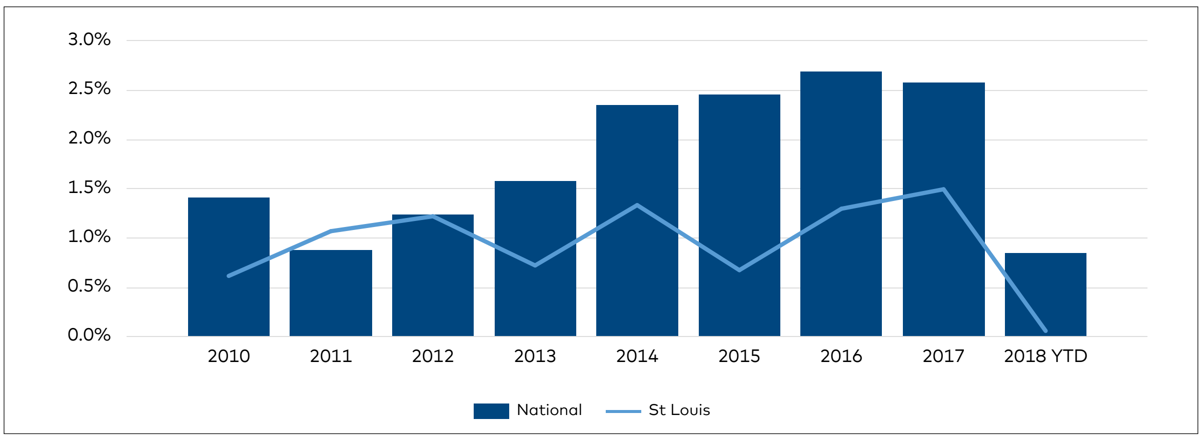
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
St. Louis Metro	2,799,644	2,803,901	2,807,321	2,806,782	2,807,338

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

Supply

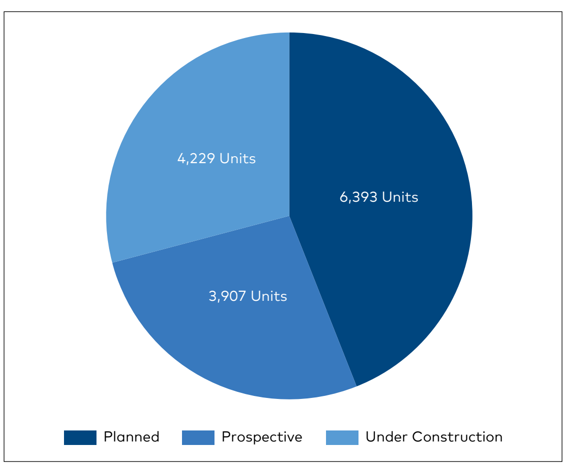
- Deliveries were weak for the first five months of the year, with only 71 units coming online, less than 0.1% of total stock. However, the metro's stability and decelerating rate of construction will fall in line with demand levels in the long run. As a result of a large number of units delivered in 2017—1,800—occupancy in stabilized properties slid to 93.7% as of April, 100 basis points lower year-over-year.
- Demand for housing is expected to remain solid and developers are concentrating on providing more units. More than 4,200 units were underway as of May, while a further 10,300 were in the planning and permitting stages.
- The need for student housing units is strong in St. Louis, as the metro is home to nearly 40 universities, colleges and technical schools. Richland Residential is set to open The Reserve, a $20 million off-campus project, which will add 486 beds to the Edwardsville submarket upon its 2019 completion. Developer activity is focused on the market's core: Downtown, St. Louis–Lafayette Square and Clayton Tamm have a combined 1,700 units underway. Watermark at Chesterfield Village, a 345-unit community spread across roughly 13 acres, was the largest project under construction as of May.

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



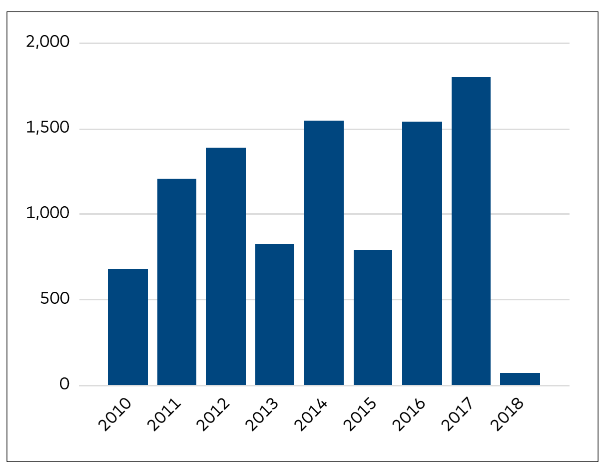
Source: YardiMatrix

Development Pipeline (as of May 2018)



Source: YardiMatrix

St. Louis Completions (as of May 2018)

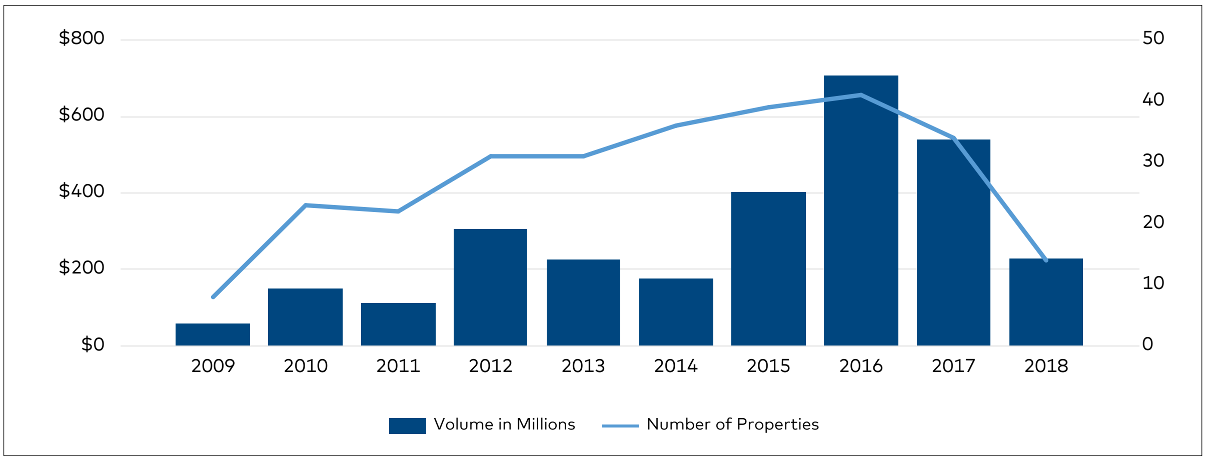


Source: YardiMatrix

Transactions

- Investors are incentivized by St. Louis' healthy economy and strong multifamily industry. Roughly $228 million in multifamily assets changed hands through April. Investor interest was disproportionately targeted at value-add opportunities in the metro, which effectively led to a significant drop in per-unit prices through the year's first third—$76,474, well below the $145,823 national average.
- The metro's most targeted areas were located in the South and Southeast, with Affton leading the way with more than $104 million in assets trading in the 12 months ending in April. For Class A properties, yields were in the low-6% range, while Class B and C assets claim yields in the high-6% to low-7% range. Monarch Investment and Management Group was the most active buyer over the past 12 months. The company acquired more than 2,800 units, with The Villages at General Grant being its largest transaction. GEM Property Management sold the asset for $46 million, or $83,393 per unit.

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



Source: YardiMatrix

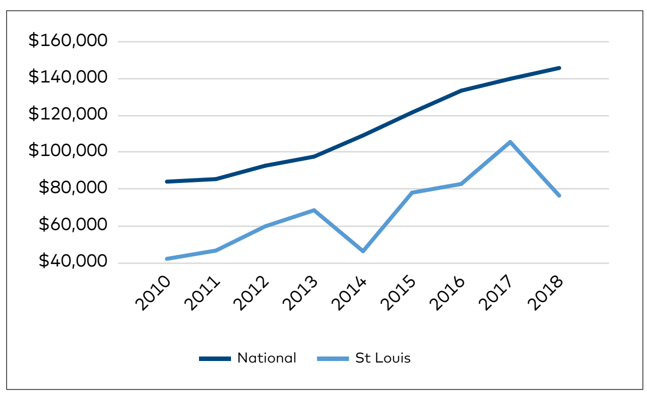
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Affton	104
Manchester/Valley Park	89
Mehlville–South	53
Maryland Heights	48
Illinois–Fairview Heights	35
Florissant	31
St. Louis–Downtown	30
St. Ann/Overland	16

Source: YardiMatrix

[1] From May 2017 to April 2018

St. Louis vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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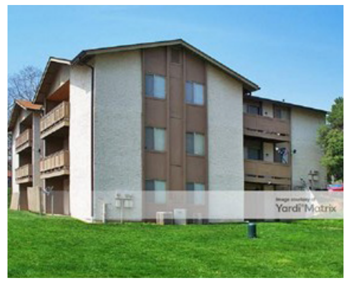
MHN MULTI-HOUSING NEWS

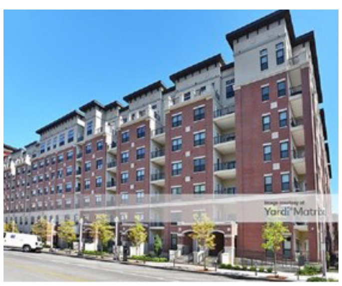
Cushman & Wakefield Brokers Sale of MO Asset

Mike Hanrahan and Bobby Mills of the company's St. Louis office and Mike Kemether of the Atlanta office represented the seller, Priderock Capital Partners, in the transaction.



Terra Properties Nabs St. Louis-Area Community

The firm financed the acquisition of the 128-unit market-rate asset with a $510,000 Fannie Mae loan originated by Dougherty Mortgage.



Mills Properties Trades St. Louis Community

Brass Enterprises picked up the 178-unit Class A luxury property, which opened in 2016 and includes a Whole Foods Market on the ground floor.

GEM Property Management Exits St. Louis In $180M Sale

The nearly 2,000-unit portfolio sale is the largest multifamily transaction in the city's history, encompassing six communities in southern St. Louis County.

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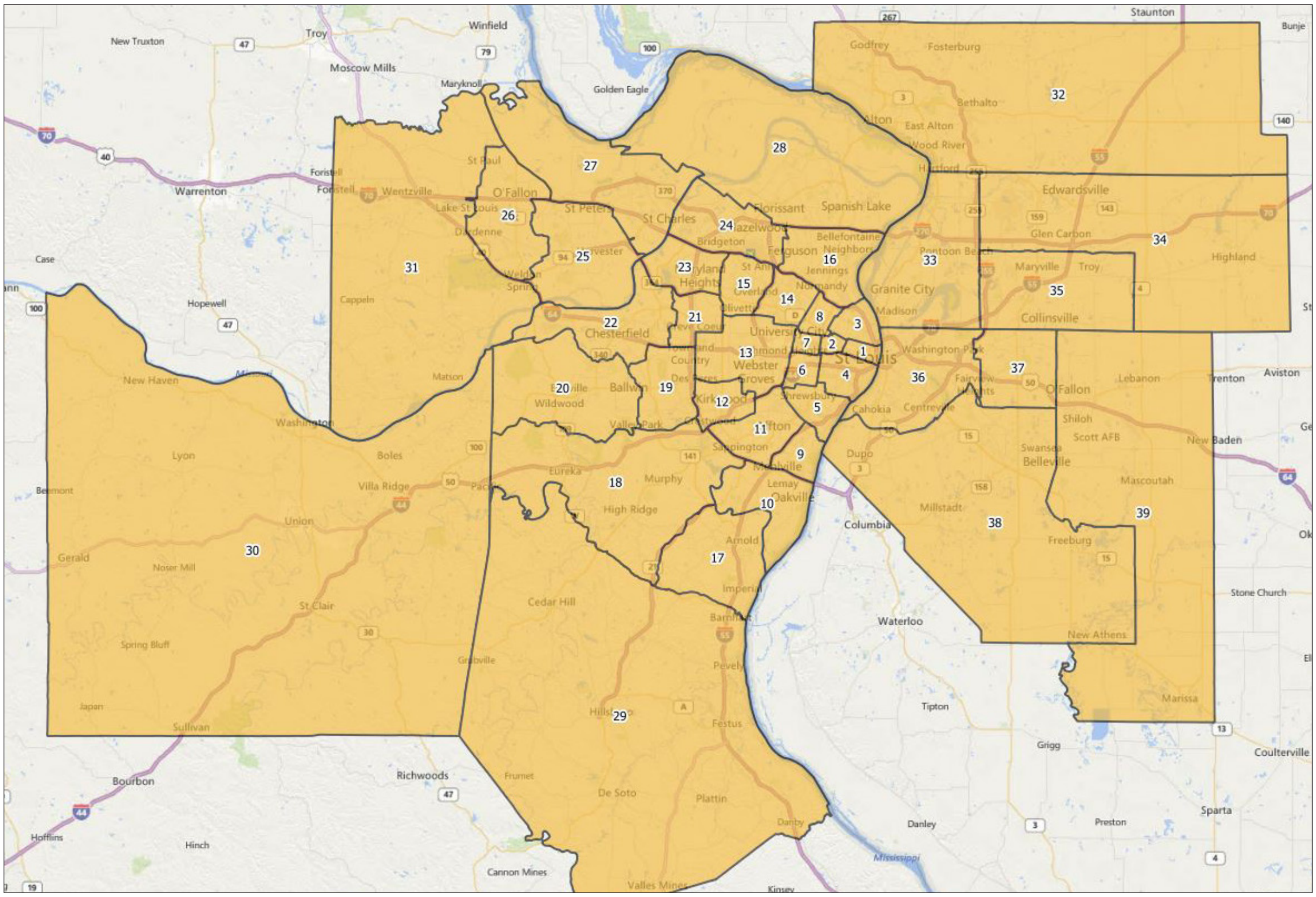
St. Louis Submarkets



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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.