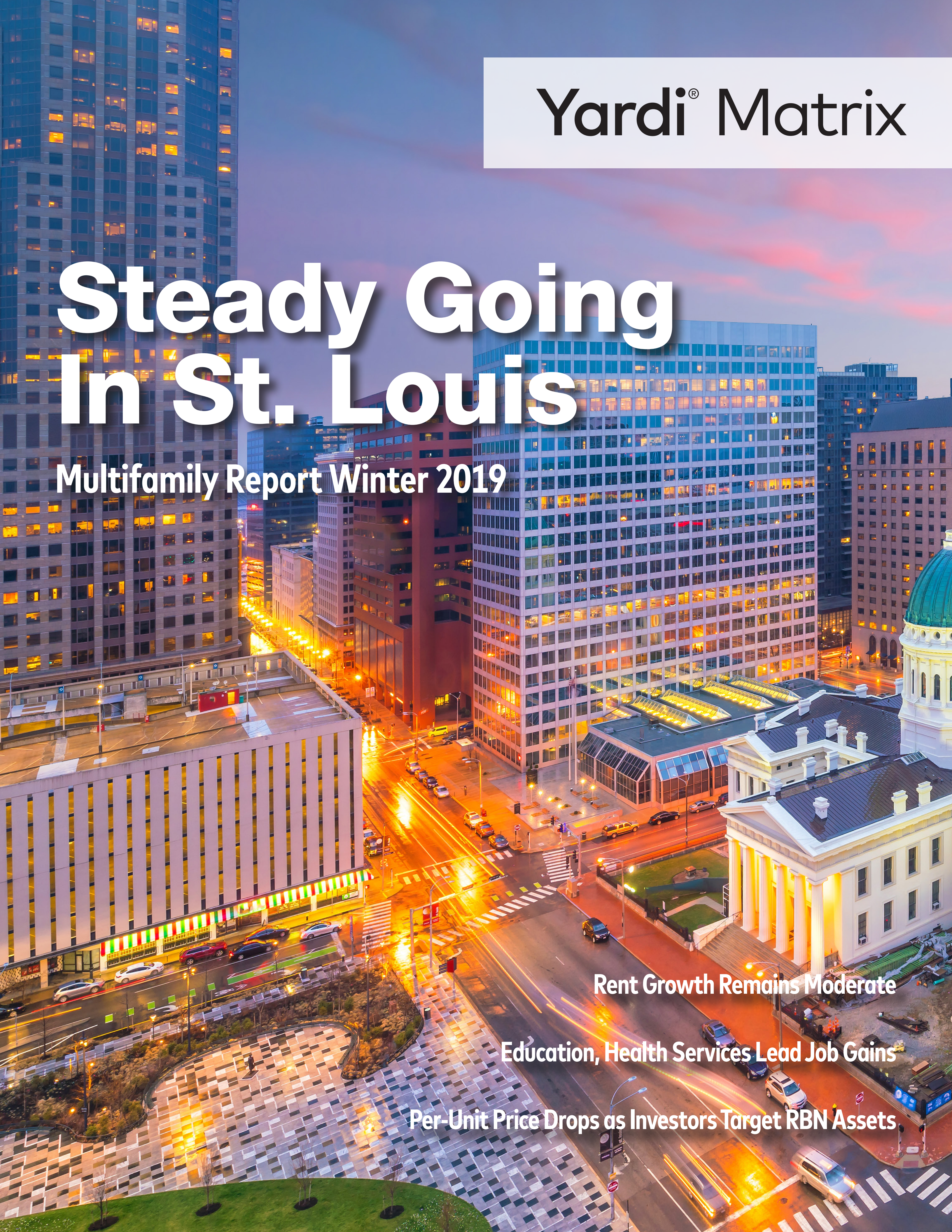
Yardi® Matrix

Steady Going In St. Louis

Multifamily Report Winter 2019



Rent Growth Remains Moderate

Education, Health Services Lead Job Gains

Per-Unit Price Drops as Investors Target RBN Assets

Market Analysis

Winter 2019

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Rent, Job Gains Low But Steady

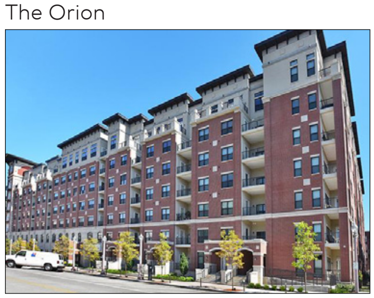
St. Louis' multifamily market continues to improve at a middling rate, as the metro's population and job market grow at below-average rates. Rents have increased moderately over the past year, reaching $928, up 1.3% year-over-year through October, well below the 3.3% national average. The area's relatively low cost of living means that affordability levels are moderate. Meanwhile, an influx of financial services jobs has created additional demand for Lifestyle assets, keeping the segment's rent growth close to the metro's average rate over the past 12 months.

St. Louis gained 11,000 jobs in the year ending in September. With 8,100 jobs added, the education and health services sector led growth. Continued investment in new space at the Cortex innovation district aims to attract tech talent to the city, which would have a beneficial effect on the metro's economy, although impacts there will be slow to materialize.

Multifamily investment is likely to have a strong year, as 2018's total annual sales are likely to come in just below 2016's cycle peak of $707 million. The overall performance of the apartment sector was solid. As of October, roughly 14,500 units were in different stages of development, of which more than 4,800 units were underway. Although below average, employment and rental gains are still positive, pointing to steady performance ahead.

Recent St. Louis Transactions

The Orion



City: St. Louis
Buyer: Brass Enterprises
Purchase Price: $80 MM
Price per Unit: $451,977

275 on the Park

City: St. Louis
Buyer: Emerald Equity Group
Purchase Price: $64 MM
Price per Unit: $160,000

The Villages at General Grant

City: St. Louis
Buyer: Monarch Investment and Management Group
Purchase Price: $46 MM
Price per Unit: $83,393

Schoettler Village

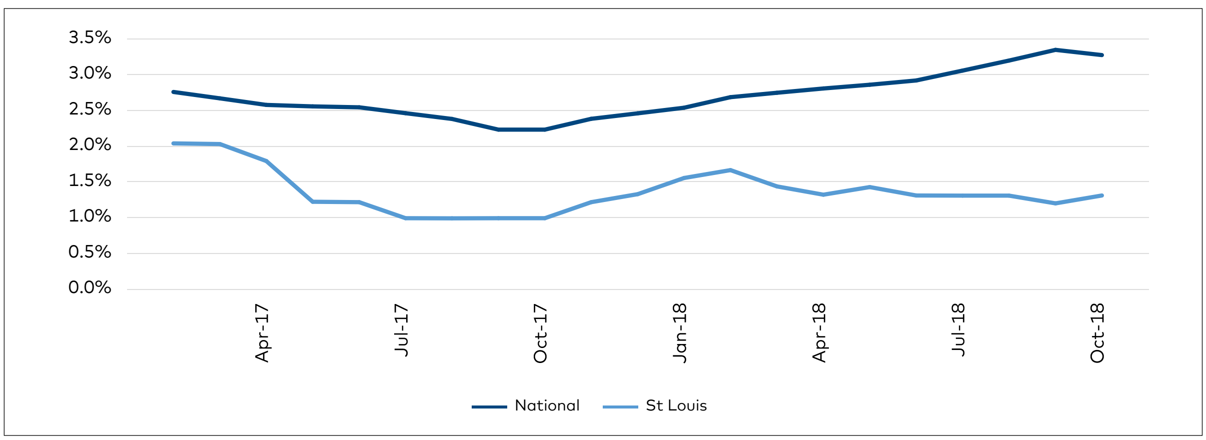
City: Chestefield, Mo.
Buyer: BH Equities
Purchase Price: $36 MM
Price per Unit: $120,666

On the cover: Photo by f11photo/iStockphoto.com

Rent Trends

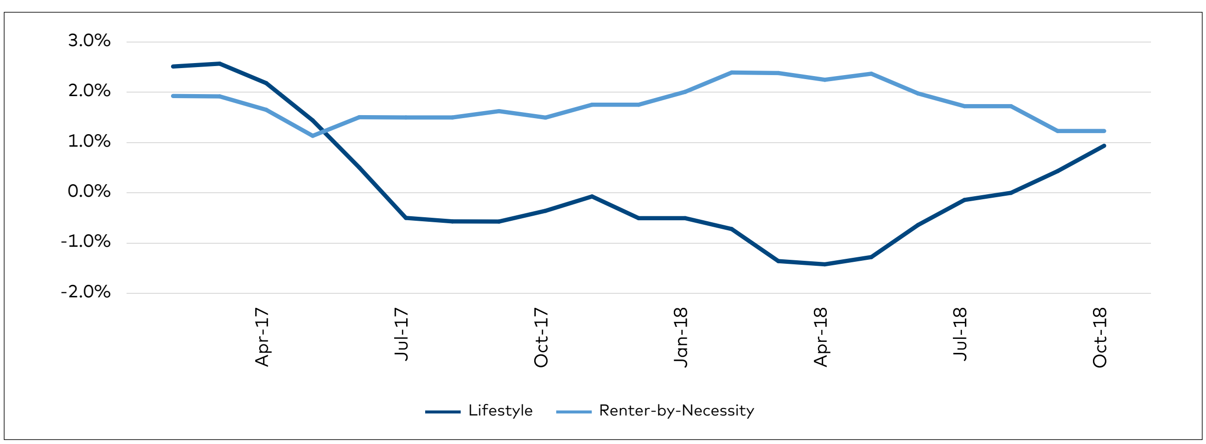
- St. Louis rents rose 1.3% year-over-year as of October, 200 basis points below the 3.3% national rate. The metro's average rent was $928, well under the U.S. figure of $1,420.
- Rent growth was led by the Renter-by-Necessity segment, up 1.2% year-over-year to an average of $823. The Lifestyle segment rose at a slower pace, up 0.9% to $1,401, but the spread between the two is fairly low. With the metro's employment market led by education and health services, while financial services also rose at a good rate, demand should remain solid across the quality spectrum.
- Rent gains were led by submarkets located west of downtown, including Ballwin (5.5%), Franklin County (4.8%) and Florissant (4.0%), while construction activity remained focused on downtown and around the Cortex innovation district. The steepest year-over-year rent drops were in Charles County (-5.2%), St. Louis–Lafayette Square (-4.7%) and St. Louis–Northwest (-3.5%).
- Continued housing inventory expansion in the metro has resulted in a decline of the occupancy rate in stabilized properties, which dropped to 94.2% as of September.

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)

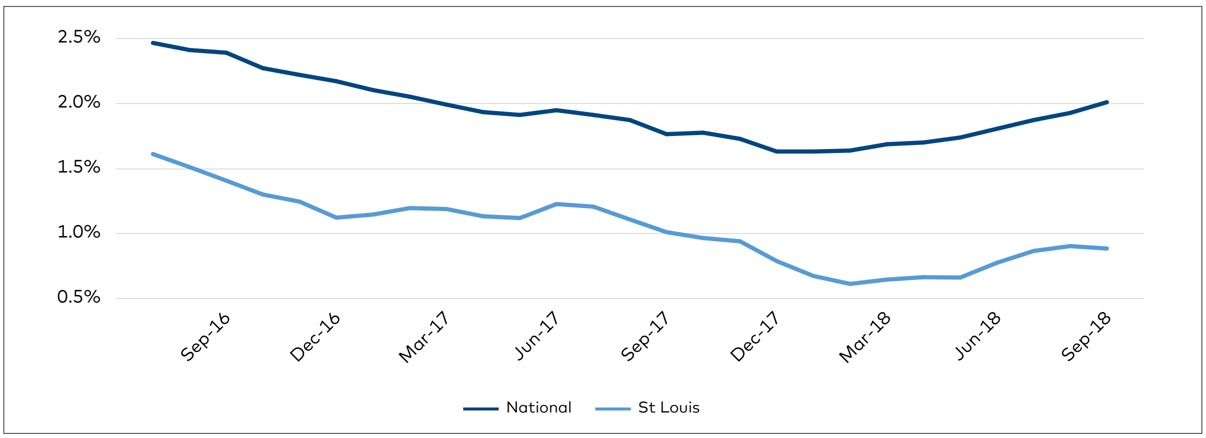


Source: YardiMatrix

Economic Snapshot

- St. Louis added 11,100 jobs in the 12 months ending in September, up 0.9% year-over-year. That's about half the national growth rate of 2.0% through that same interval.
- Boosted by new developments, education and health gained 8,100 jobs, becoming the second-fastest-rising employment sector in St. Louis. Washington University is in the midst of a $44 million rehab project at the old Crescent Parts and Equipment Co. building at 4350 Duncan Ave. The refurbishment is expected to add more space to the Cortex innovation district, St. Louis' big play to attract startups to the area, as technology talent is becoming more and more coveted. Coincidentally, the city's information sector contracted by 300 jobs through the interval, further pushing the need for investment in tech infrastructure and development.
- St. Louis' leisure and hospitality sector also took a slide, with the loss of 300 jobs through the 12 months ending in September. Meanwhile, the tech district's first hotel is nearing completion, as the 129-key Aloft Hotel is slated for a fall 2019 opening.

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	260	18.7%	8,100	3.2%
30	Manufacturing	117	8.4%	2,700	2.4%
55	Financial Activities	90	6.5%	2,100	2.4%
80	Other Services	53	3.8%	1,700	3.3%
60	Professional and Business Services	215	15.4%	500	0.2%
40	Trade, Transportation and Utilities	259	18.6%	300	0.1%
50	Information	28	2.0%	-300	-1.1%
70	Leisure and Hospitality	151	10.8%	-300	-0.2%
15	Mining, Logging and Construction	66	4.7%	-1,700	-2.5%
90	Government	154	11.0%	-2,000	-1.3%

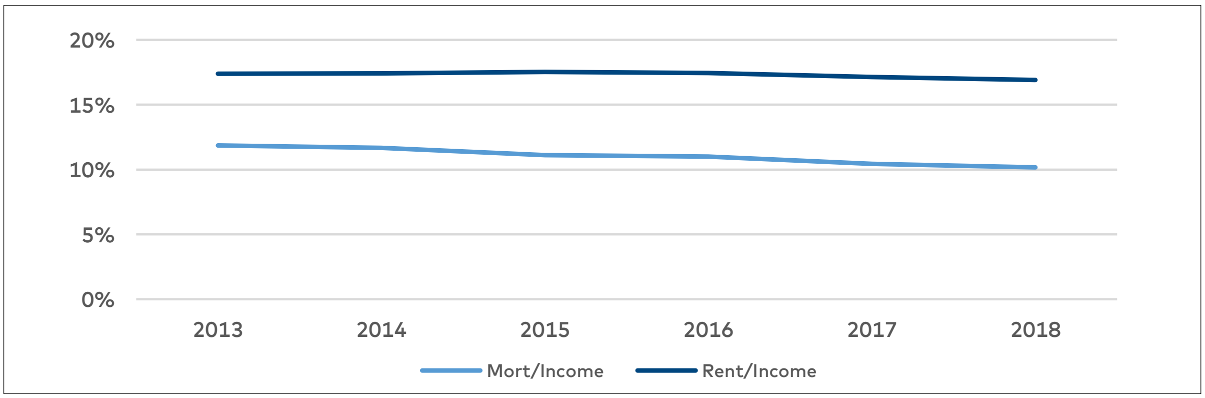
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

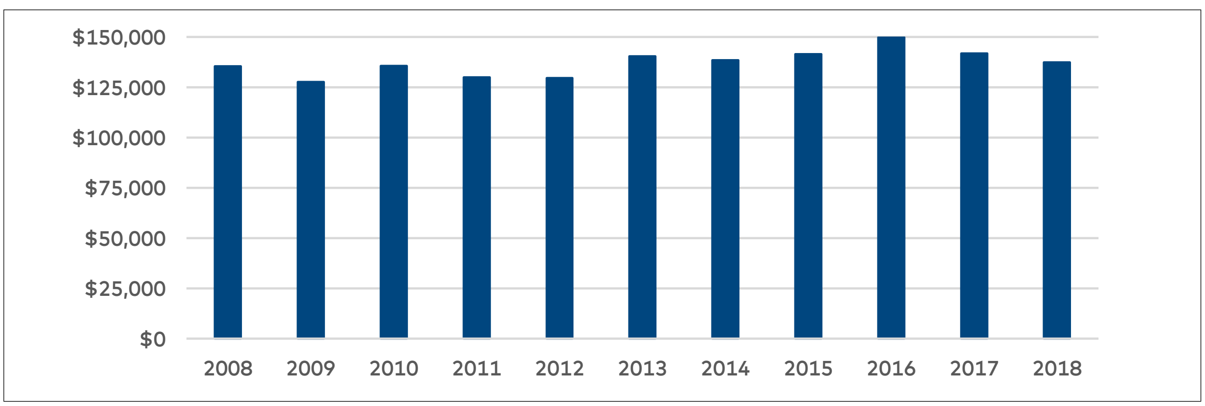
- The metro's median home price slid again in 2018, to $137,456. That's 9.0% lower than the cycle peak of $149,838 that the market hit in 2016.
- Affordability rates remain at moderate levels. Homeownership is still more affordable than renting, a trend that continued for the better part of the cycle. At $928 as of October, the metro's average rent accounted for 17% of the area's median income, while the average mortgage payment comprised 10%. Little to no population growth and below-average job gains have maintained these trends.

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

- In 2017, the metro's population remained flat, having netted only 600 residents over 2016.
- However, population gains have been consistent over the cycle, as job growth attracts residents to the area.

St. Louis vs. National Population

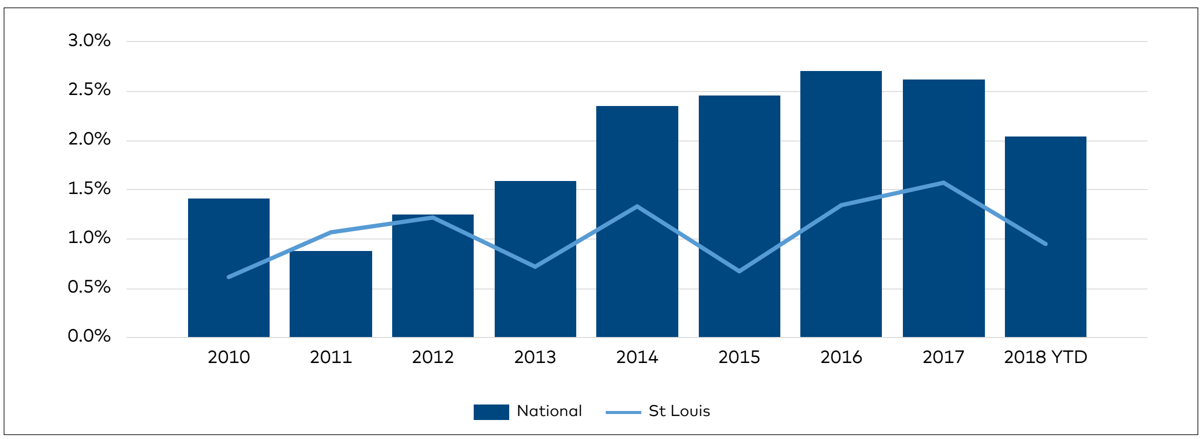
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
St. Louis Metro	2,799,644	2,803,901	2,807,321	2,806,782	2,807,338

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

Supply

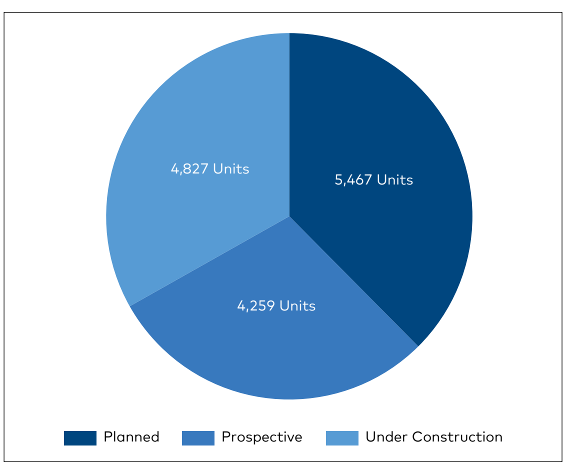
- Some 1,158 units were completed in St. Louis in 2018 through October, 1.0% of total stock. The rate of deliveries slowed compared to 2017, when a cycle peak of 1,900 units came online.
- About 4,800 units were under construction as of October. Another 10,000 units were in the planning and permitting stages, hinting at a consistent run of deliveries for the market going forward.
- Housing demand has been consistent, especially downtown, where 496 units were underway as of October. St. Louis–Lafayette Square (781 units) and Charles County (425 units) also had large development pipelines. The metro's average occupancy rate in stabilized properties dipped by 30 basis points year-over-year to 94.2% as of September, following solid deliveries over the past two years.
- Watermark at Chesterfield Village, developed by Watermark Residential at 16300 Lydia Hill Drive, ranked as the largest rental project underway in St. Louis. Upon completion, the development will be the first community with 50+ units to open in Chesterfield since its incorporation in 1988.

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



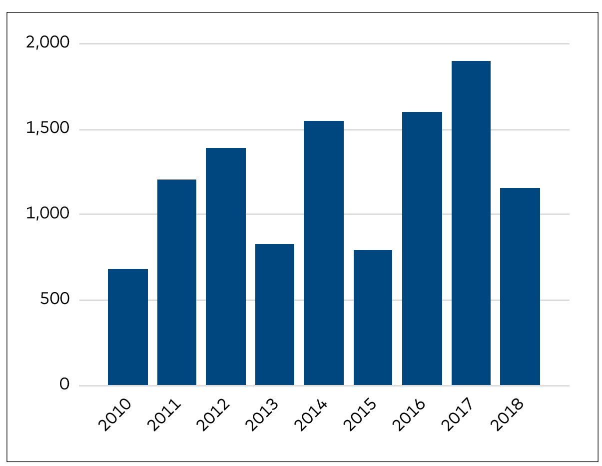
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

St. Louis Completions (as of October 2018)

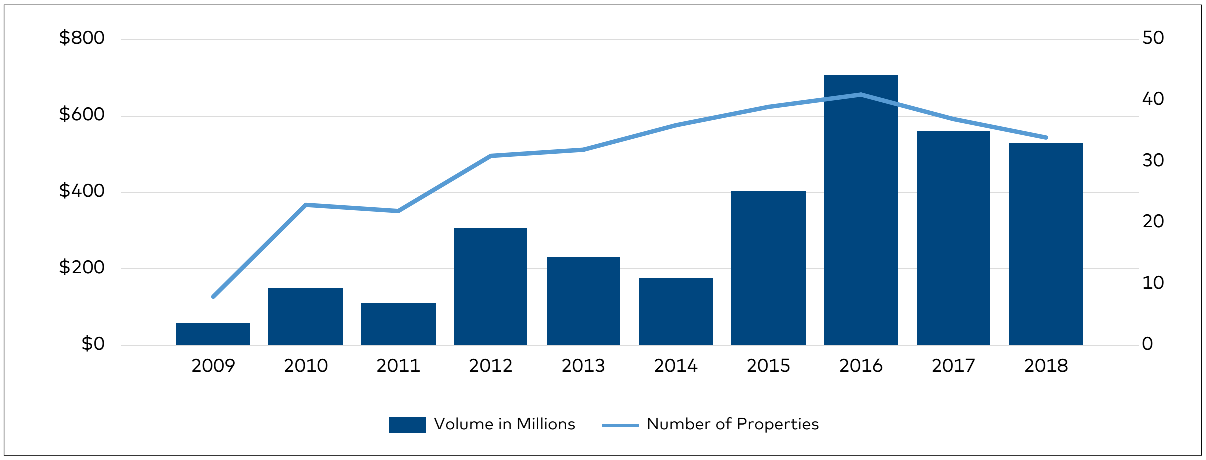


Source: YardiMatrix

Transactions

- Investment activity totaled $520 million year-to-date through October. Although annual sales are unlikely to exceed 2016's $707 million cycle peak, appetite has remained strong, positioning 2018 as the second-highest year for sales volume in the market during the current expansion. The average per-unit price stood at $78,963 year-to-date through October, well below the national average of $152,579. As the number of Renter-by-Necessity assets being traded has risen, the average per-unit price has declined.
- The most targeted submarket in the metro in the 12 months ending in October was Affton, with deals totaling $104 million. Brass Enterprises' $80 million acquisition of The Orion in St. Louis–Central West End was the largest transaction, accounting for the submarket's entire sales volume. Mills Properties sold the asset for $451,977 per unit. Florissant ($75 million), St. Louis–Forest Park ($64 million) and Melville–South ($53 million) rounded out the top five sales hot spots.

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



Source: YardiMatrix

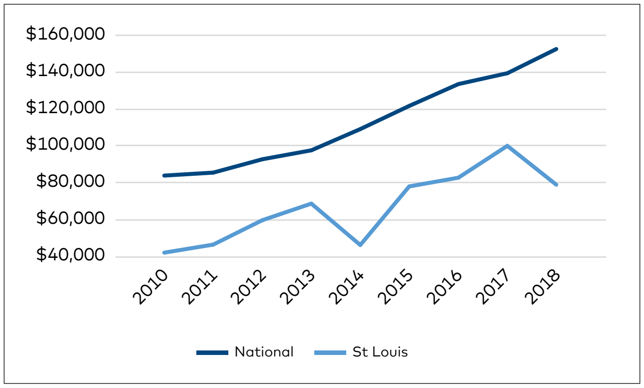
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Affton	104
St. Louis–Central West End	80
Florissant	75
St. Louis–Forest Park	64
Mehlville–South	53
Chesterfield	36
Manchester/Valley Park	29
Creve Coeur	19

Source: YardiMatrix

[1] From November 2017 to October 2018

St. Louis vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Lexington Corp. Sells St. Louis-Area Community

The buyer, Siesta Coast Capital, paid $4.3 million for the 120-unit multifamily asset. The property last changed hands in mid-2008 for $4.5 million.

Sundance Bay JV Buys St. Louis-Area Community

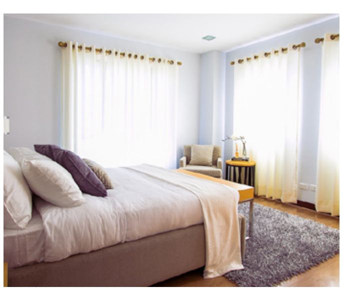
Shore to Shore Properties was the seller of the 318-unit Class C multifamily asset. The buyer financed the purchase with a $13 million loan from Grandbridge Real Estate Capital.

Gateway Acquires St. Louis-Area Mixed-Use Community

The 8.3-acre property, which will be rebranded as The Westview, marks the company's seventh acquisition in the St. Louis area within the last five years.

St. Louis-Area Community Breaks Ground

Located roughly 2 miles from Southern Illinois University Edwardsville's campus, the 153-unit development is now underway, with an expected completion date in early 2020.



Griffin-American Healthcare Expands MO Portfolio

The REIT added eight skilled nursing facilities in the St. Louis area to the five assets it acquired last year. The cost of the acquisition was $88.2 million.

Chase Properties Buys St. Louis-Area Asset

The company partnered with Gold Block Ventures to acquire New Town Apartments in St. Charles, a 157-unit community completed in 2004.

St. Louis Communities With Lowest Occupancy Rates

By Timea Papp

MULTI-HOUSING NEWS
data by Yardi® Matrix

As one of the most affordable metros in the U.S., St. Louis has showed signs of continued growth in 2018, according to Yardi Matrix. With almost 1,150 newly delivered units, 4,827 under construction and more than 9,700 units in the planning and permitting stages as of October, the metro's multifamily stock is on track for further expansion.

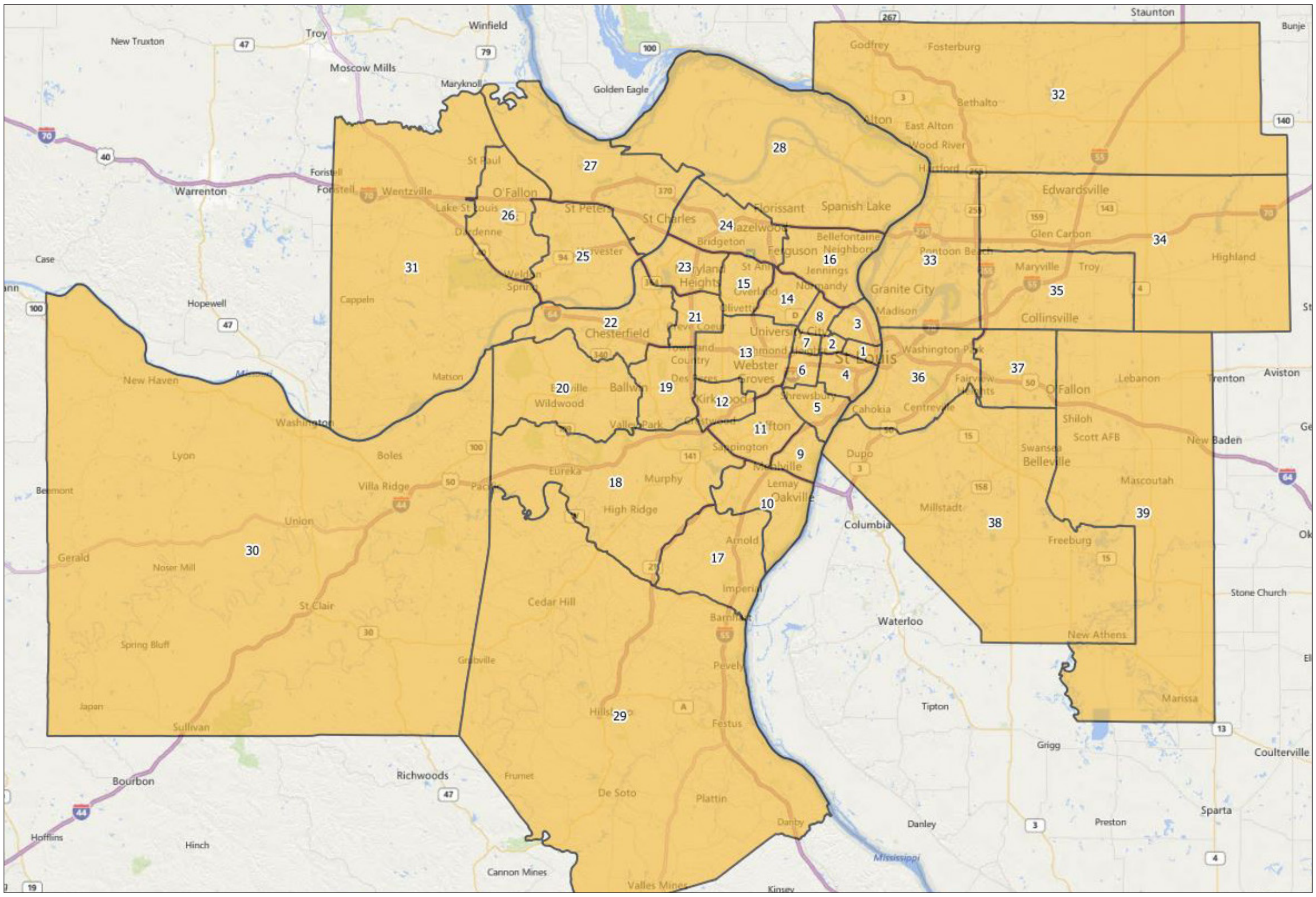
On the other hand, robust supply by the market's recent standards is putting a strain on occupancy levels and driving up rental rates.

Property Name	No Units	Location Quality	Property Quality	Owner Name
Windham Chase	218	C+	B-	Kohner Properties
Chateau Townhomes	350	C	C	James Green Management
Idlewood Estates	206	C+	C+	James Green Management
Ridgeview	87	C	C-	Loansum
The Ville Townhomes	109	C-	C+	Parkside Property Management
Cross Creek	72	C+	B	Donald R. Ham
Victorian Village	210	C+	B	AndMark
Northbrook	61	C+	C	Frontier Property Management
Parc Frontenac	202	B+	B-	Antheus Capital
Bridgeport Crossing	300	B-	C+	T.E.H. Management

Windham Chase

Kohner Properties' community, situated in the Florissant submarket of St. Louis, was 55% occupied as of October. The 208-unit, Class B property comprises 11 buildings sprawled out across more than 12 acres. Occupancy rates at Windham Chase have been inching down since 2014. Compared to October 2017, occupancy has dropped by 830 basis points year-over-year, while rental rates have seen a steady increase, reaching $625 in October 2018. Windham Chase features a mix of one- to three-bedroom units. Amenities include a tennis court, a swimming pool and 22 laundry facilities.

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.

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