Yardi® Matrix

St. Louis' Cup Runneth Over

Multifamily Report Summer 2019

Rent Growth Trails US Average

Transaction Volume Reaches Cycle Peak

Manufacturing, Eds and Meds Drive Job Gains

Market Analysis
Summer 2019

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Developers Ramp Up Construction

A former industrial hub, St. Louis is no duster, building on its past economic strength while tapping into new industries that can employ a diverse workforce, including tech talent. And while the metro's population growth may be stagnant, household creation continues at a healthy pace, boosting multifamily demand and generating upside potential for additional rent growth.

Manufacturing led employment gains in the 12 months ending in March, with the addition of 4,200 jobs. Education and health services, which gained 2,800 positions, is set to expand further, as new developments become operational, including SSM Health Saint Louis University Hospital, a $550 million academic center scheduled to open in 2020. Meanwhile, the National Geospatial Intelligence Agency is building a $1.8 billion headquarters in North St. Louis.

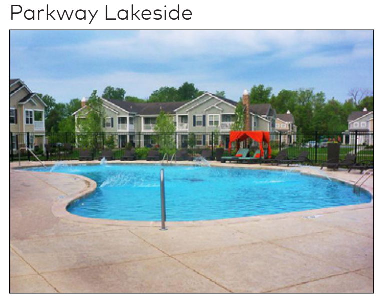
Drawn by the metro's high yields compared to primary markets, investors traded $791 million in assets in 2018, a cycle high. And despite a slow start to 2019, sales are expected to pick up in the second part of the year. Developers completed 1,885 units in 2018 and an additional 3,500 apartments were underway as of May. With absorption bound to keep up, we expect the average St. Louis rent to advance 2.3% this year.

Recent St. Louis Transactions

Metro Lofts

City: St. Louis
Buyer: Altus Properties
Purchase Price: $65 MM
Price per Unit: $305,477

Parkway Lakeside

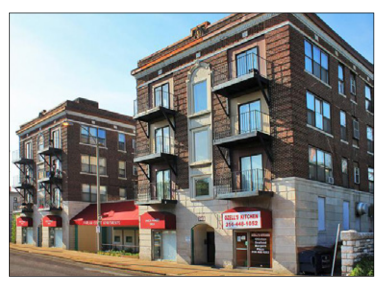


City: O'Fallon, Ill.
Buyer: Timberland Partners
Purchase Price: $10 MM
Price per Unit: $44,496

Windham Chase

City: St. Louis
Buyer: T.E.H. Management
Purchase Price: $7 MM
Price per Unit: $34,067

Forest Park



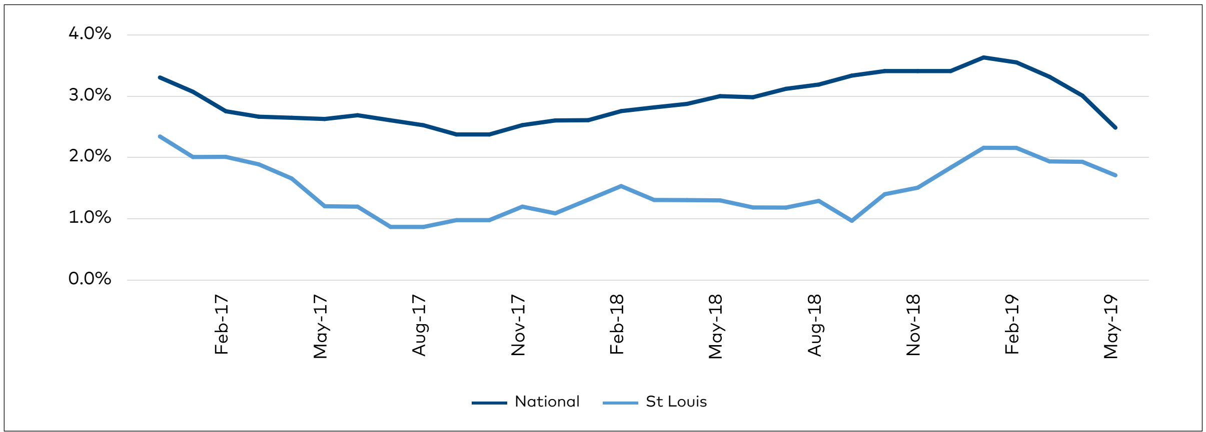
City: St. Louis
Buyer: Odin Properties
Purchase Price: $4 MM
Price per Unit: $27,778

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

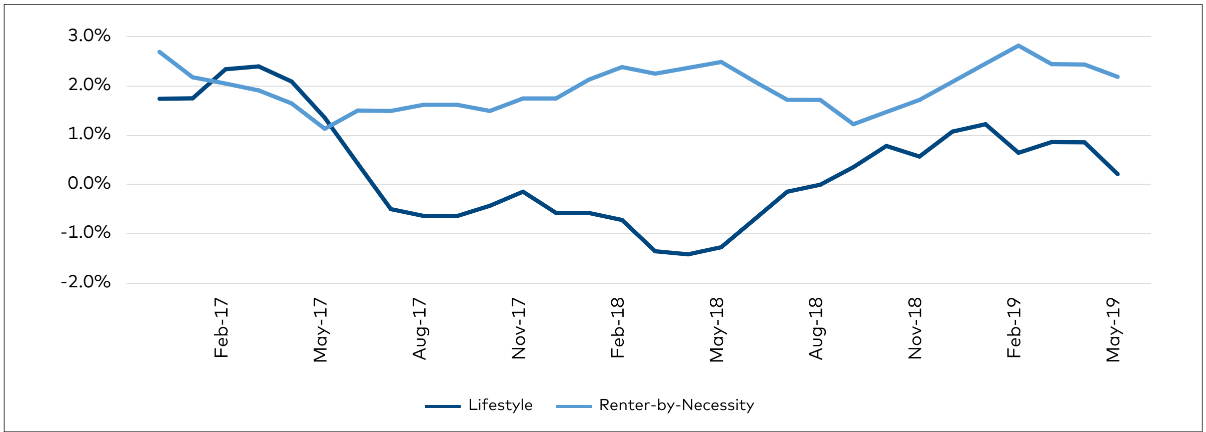
- Rents in St. Louis rose 1.7% year-over-year through May, trailing the 2.5% national rate. The metro's average rent stood at $951, below the $1,442 U.S. figure. Following consistent new supply over the past couple of years, the occupancy rate in stabilized properties dropped 40 basis points in 12 months, standing at 93.6% as of April, below the 94.9% U.S. average.
- Rent growth was led by the working-class Renter-by-Necessity segment, where rates rose 2.2% to $841, while Lifestyle rents were up only 0.2%, to $1,402. Bolstered by employment and income growth, as well as a healthy pace of household formation, demand remained steady across asset classes. While developers are expected to add a cycle peak of nearly 2,500 units to the metro's stock this year, absorption should keep up, pushing the average St. Louis rent up to 2.3% for the year.
- Submarkets recording the highest rent gains included Illinois–Granite City, where rates were up 9.3% to $668, followed by Mehlville–North (6.6% to $743), Kirkwood (5.9% to $1,131), Illinois–Alton (5.4% to $587) and St. Louis–South (4.4% to $689). Rents contracted most in Illinois–Fairview Heights (-5.2% to $1,011), St. Louis–North (-1.8% to $657), Ballwin (-0.6% to $1,010), Arnold (-0.6% to $808) and Ferguson (-0.6% to $614). Rents dropped slightly in University City/Maplewood, which also commands the metro's highest rents (-0.1% to $1,331).

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)

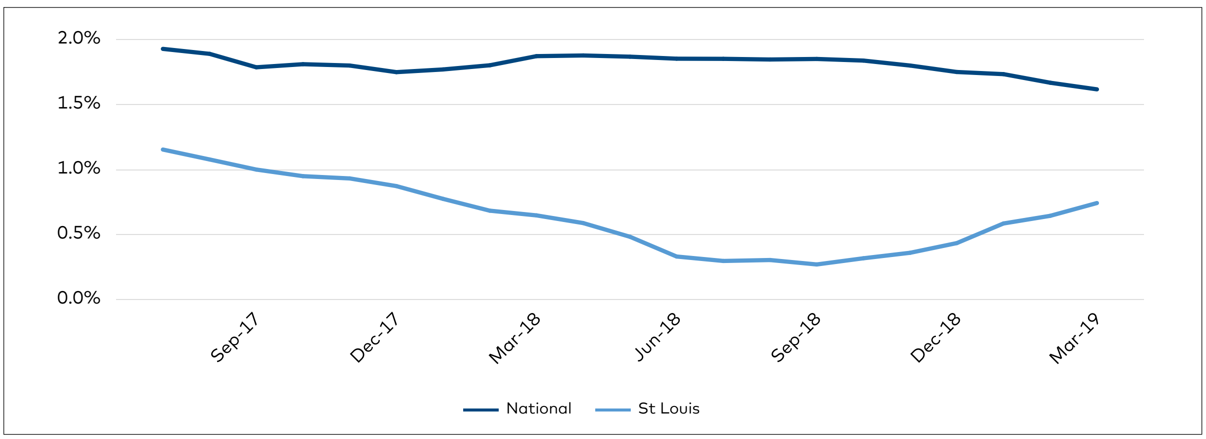


Source: YardiMatrix

Economic Snapshot

- St. Louis gained 12,300 jobs in the 12 months ending in March for a 0.7% expansion, trailing the 1.6% U.S. figure. The metro's unemployment rate stood at 4.0% in March, above the state's 3.3% and the 3.8% U.S. average.
- Manufacturing led growth, with the addition of 4,200 jobs. Advanced manufacturing is expanding in St. Louis, with new projects such as Evolution St. Louis' high-tech knit manufacturing facility in the downtown area, where production is expected to begin this year. Also in 2019, Thermo Fisher Pharma Services expects to complete the $50 million expansion of its biologics facility. The project will add 62,000 square feet and 80 new technical jobs. Education and health services, which gained 2,800 jobs, is poised to grow further, as the largest construction project in the city is on track to open by fall 2020: SSM Health Saint Louis University Hospital, a $550 million academic center, is set to bring a 316-bed, 802,000-square-foot replacement hospital and outpatient care center.
- Geospatial intelligence, an industry with a $4.9 billion local economic impact and 11,000 employees, is gaining ground. The federal National Geospatial Intelligence Agency is planning a $1.8 billion facility in North St. Louis, where 3,100 employees are slated to work starting in 2025.

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	%
30	Manufacturing	120	8.7%	4,200	3.6%
65	Education and Health Services	257	18.5%	2,800	1.1%
55	Financial Activities	91	6.6%	2,500	2.8%
40	Trade, Transportation and Utilities	260	18.8%	2,100	0.8%
15	Mining, Logging and Construction	67	4.8%	2,000	3.1%
90	Government	154	11.1%	200	0.1%
60	Professional and Business Services	212	15.3%	-	0.0%
50	Information	28	2.0%	-300	-1.1%
70	Leisure and Hospitality	148	10.7%	-400	-0.3%
80	Other Services	50	3.6%	-800	-1.6%

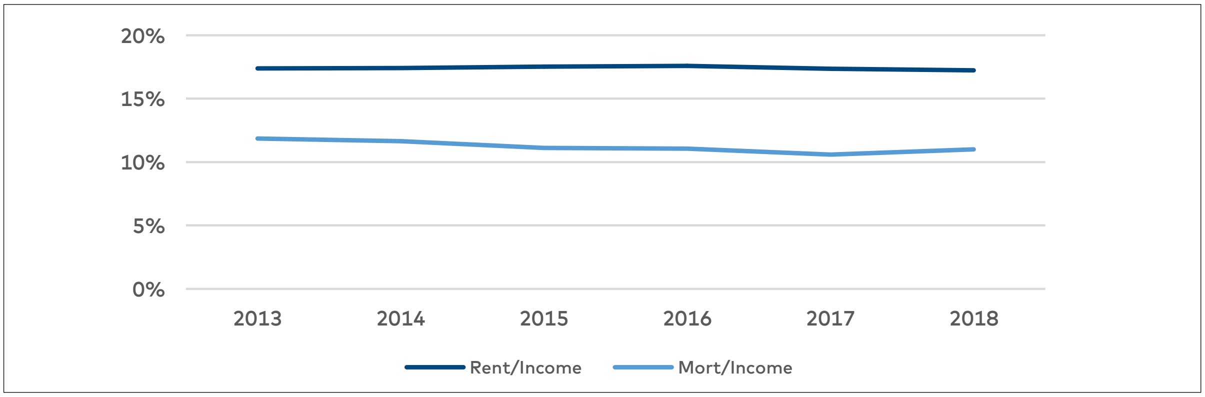
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

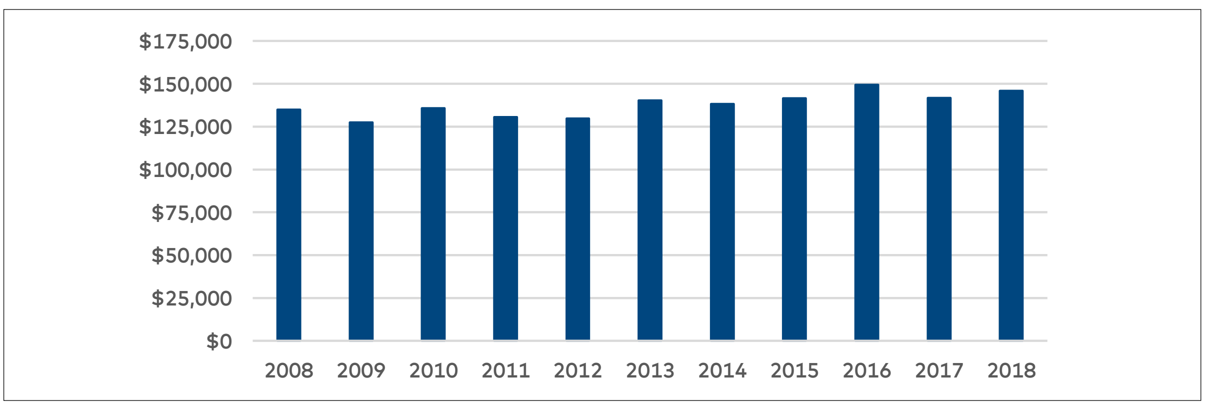
- The median home price in St. Louis stood at $145,976 in 2018, up 2.9% since 2017 and 14% since 2009, when the market bottomed out. The average mortgage payment accounted for 11% of the area median income, while the average rent equated to 17%.
- St. Louis' population growth has remained virtually flat in recent years, mainly due to out-migration, which has been offset, at least in part, by an influx of international immigrants. Nonetheless, the metro remains one of the most affordable across the U.S.

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

- Metro St. Louis only saw a 0.02% population increase in 2017, well below the 0.7% national growth rate.
- The metro gained 7,694 residents between 2013 and 2017, a 0.3% uptick, trailing the 3.0% national rate.

St. Louis vs. National Population

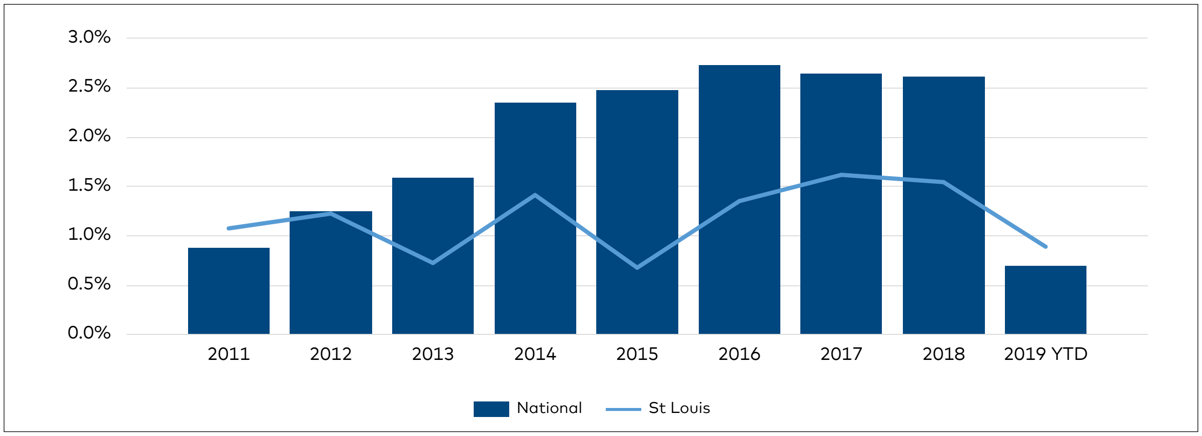
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
St. Louis Metro	2,799,644	2,803,901	2,807,321	2,806,782	2,807,338

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

Supply

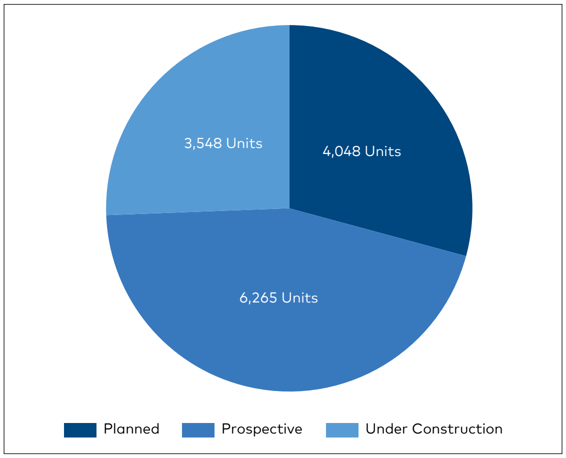
- Some 3,500 units were under construction across the metro as of May, most of them in Lifestyle projects. A total of 1,096 units came online in the first five months of 2019. This comes after last year's 1,885 completed units, or 1.5% of the metro's total stock, below the 2.6% U.S. rate.
- The metro's multifamily pipeline also included 10,300 units in the planning and permitting stages as of May. Following years of low supply, developers began ramping up construction in 2016, and absorption generally managed to keep up. This trend is expected to continue due to steady demand, especially for apartments situated in pedestrian-friendly neighborhoods near employment centers.
- The submarkets with the highest number of units underway as of May were Illinois–Edwardsville (499 units), St. Peters (445 units), Charles County (408 units) and St. Louis–Downtown (408 units). In some areas of the city, available land is scarce, contributing to higher construction costs. One notable project is Watermark at Chesterfield Village in Chesterfield, a west St. Louis County suburb that went three decades without any apartment developments, although office projects kept sprouting up. Watermark Residential plans to open the 345-unit property this summer.

St. Louis vs. National Completions as a Percentage of Total Stock (as of May 2019)



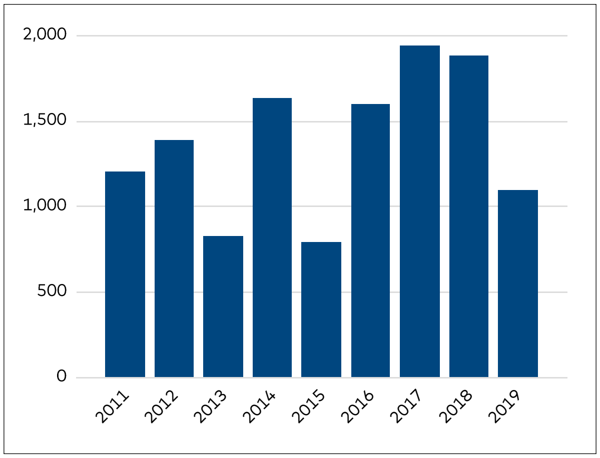
Source: YardiMatrix

Development Pipeline (as of May 2019)



Source: YardiMatrix

St. Louis Completions (as of May 2019)

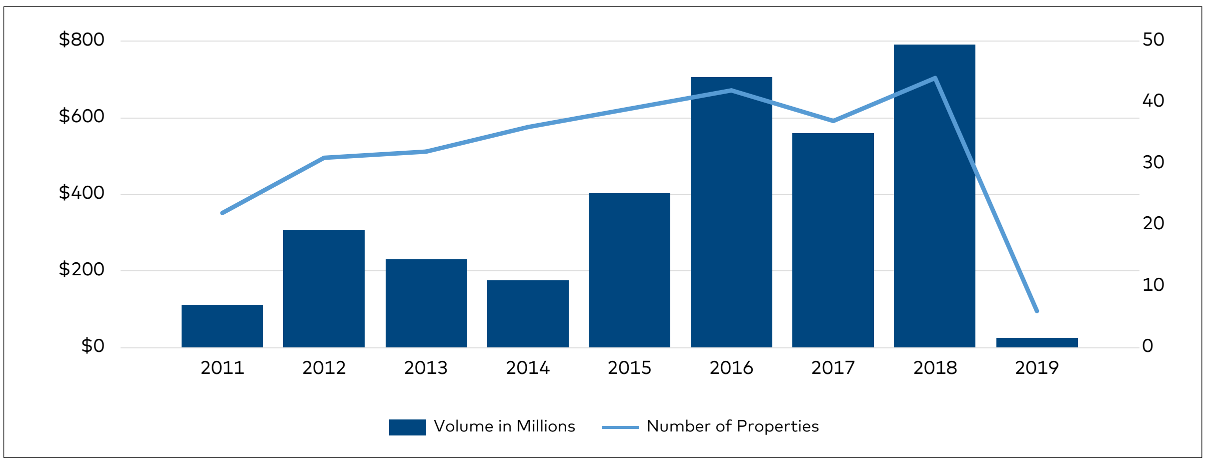


Source: YardiMatrix

Transactions

- Multifamily transactions in St. Louis started the year off slowly, with investors continuing to predominantly focus on workforce properties with a value-add component. In 2018, the total sales volume surpassed $791 million, a cycle peak, while the average per-unit price stood at $87,992.
- The metro offers higher yields compared to primary markets, as well as prospects for improving rents. Acquisition yields for stabilized Class A properties can reach 6.0% and can go as high as 8.5% for Class C assets.
- Investors continued to target both urban and suburban assets. Of the 5,105 units that traded in the metro during the 12 months ending in May, only about one-third were located within St. Louis' city limits, with most of the rest spread across surrounding suburbs.

St. Louis Sales Volume and Number of Properties Sold (as of May 2019)



Source: YardiMatrix

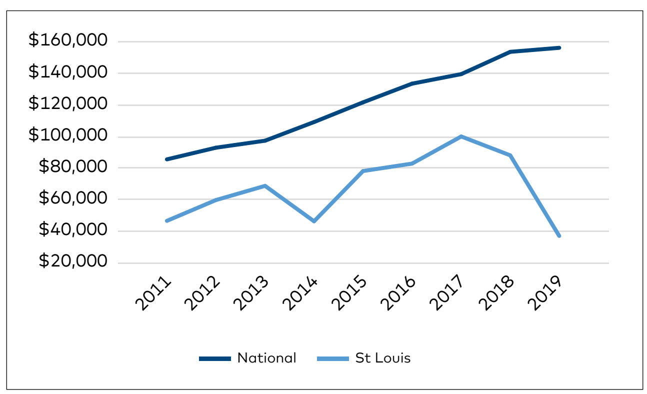
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Louis–Central West End	65
Charles County	61
Maryland Heights	33
Manchester/Valley Park	26
O'Fallon	25
Florissant	25
Illinois–Belleville	23
Hazelwood/Bridgeton	20

Source: YardiMatrix

[1] From June 2018 to May 2019

St. Louis vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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St. Louis Community Changes Hands

The 104-unit Tuscany Village, built in 1972, last traded in 2014 for nearly $3 million, six months after a foreclosure action.

St. Louis-Area Community Opens Doors

ZM Management broke ground on the 381-unit development in 2013. The owner financed construction with two loans totaling $21 million.

Timberland Partners Expands Multifamily Portfolio

The transactions mark the company's fifth property in the St. Louis metro and first in the state of Arkansas.

St. Louis-Area Assisted Living Communities Change Hands

Cedarhurst Living partnered with Triloma Seniors Housing on the acquisition of two properties totaling 135 units in Madison County.

Top St. Louis Completions in 2019

By Timea-Erika Papp

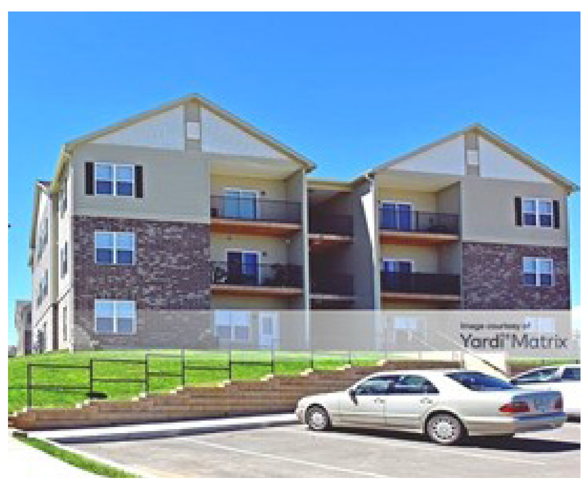
Consistent demand for housing in St. Louis is matched by a healthy development pipeline—developers had some 3,550 units underway in the metro as of May, according to Yardi Matrix data, and more than 10,300 units were in the planning and permitting stages. Almost 1,100 units came online year-to-date through May, accounting for 0.9 percent of total stock, outpacing the national rate of 0.7 percent. Yardi Matrix compiled a list of the top completed projects in the first months of 2019.

Property Name	Owner	Submarket	Units	Completion Date
Villages at Lake Silvercote	ZM Management	Wentzville	381	03/01/2019
The Villages at Twin Oaks	Propper Construction Services	Twin Oaks	219	03/01/2019
The Vue at Creve Coeur	Altus Properties	Creve Coeur	182	03/04/2019
Woodward Lofts	Pier Property Group	St. Louis	164	04/10/2019
Level on Locust	TWG Development	St. Louis	88	04/01/2019

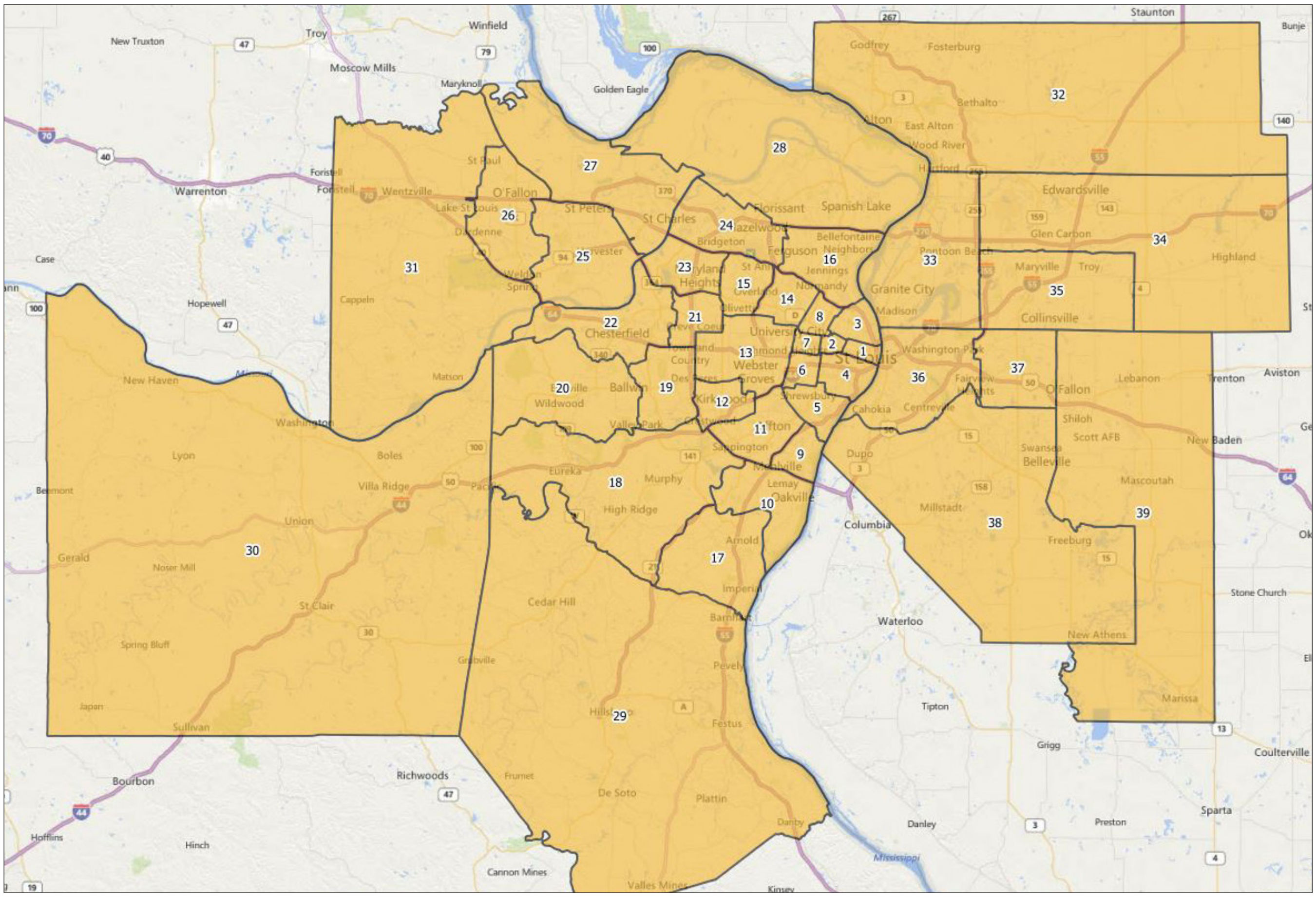
VILLAGES AT LAKE SILVERCOTE

The largest delivery in the St. Louis metro area year-to-date through May is the 381-unit garden-style community situated at 100 Dry Brook Road in Wentzville, Mo. ZM Management broke ground on the 32-building development in early 2013 and completed it in phases.

The developer financed the project with a $10 million construction loan from Great Southern Bank and an $11 million Fannie Mae mortgage originated by Hunt Real Estate Capital. The community is located alongside U.S. Highway 61, some 40 miles northwest of downtown St. Louis.



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.