

After two active years, new construction to slow

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION

2,878

UNITS DELIVERED

3,506

MARKET FUNDAMENTALS



VACANCY RATE

4.8%

YEAR-OVER-YEAR CHANGE

+80bps

ASKING RENTS

\$1,160

YEAR-OVER-YEAR CHANGE

-1.3%

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT*

\$141,000

* Transactions where pricing is available

HIGHLIGHTS

- The St. Louis multifamily market posted fairly healthy performance throughout much of the past year, although weaker conditions were recorded in the fourth quarter. The pace of construction is slowing, which should relieve some supply-side pressures going forward.
- Area vacancy rose by 40 basis points during the fourth quarter after holding steady in the prior three months. The vacancy rate finished 2023 at 4.8 percent, up 80 basis points for the full year.
- Asking rents trended lower in recent months after apartment operators increased rents at a steady pace in the previous two quarters. Local rents dipped by 2 percent in the last three months to \$1,160 per month. Apartment rents declined by 1.3 percent for the full year.
- Fewer multifamily properties traded in 2023 than in the prior two years and the mix of assets that investors are targeting is evolving. Cap rates generally ranged from 5.5 percent to 6.5 percent, while the median price rose to \$141,000 per unit.

ST. LOUIS MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the St. Louis multifamily market held steady for most of 2023 before recording some softening during the fourth quarter. Vacancy rose and asking rents inched lower. While continued employment growth is supporting demand, 2023 marked the second consecutive year of above-trend deliveries. Nearly 8,500 units have been delivered during the past two years, creating some supply-side pressures. The development pipeline has thinned as new units have come online, suggesting the market should return to equilibrium in 2024. Local vacancy had been relatively steady throughout much of 2022 and in the first few quarters of 2023 before pushing higher by 40 basis points during the fourth quarter.

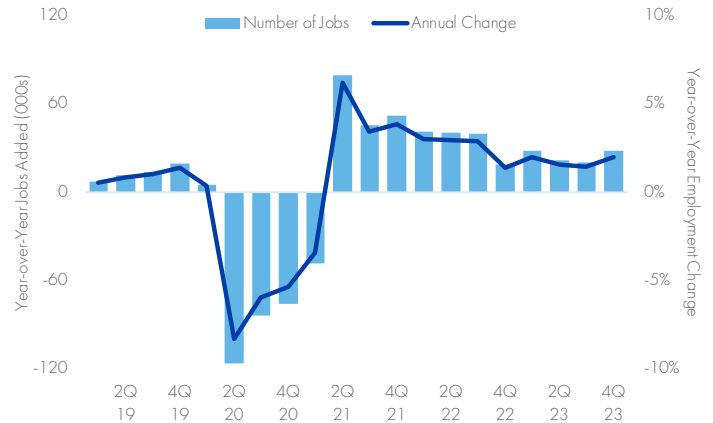
Transaction activity in 2023 lagged levels from the prior year by more than 30 percent, but the market proved to be stable throughout much of the year. Transaction counts were fairly consistent from quarter to quarter, and the lack of a peak or a valley in activity allowed for greater certainty in the investment market. For the full year, per-unit prices rose, as Class A and Class B properties accounted for about 50 percent of total transactions in 2023, up from 35 to 40 percent in recent years. The result was a median price that reached \$141,000 per unit in 2023, up more than 50 percent from pricing levels in the prior two years.

EMPLOYMENT

- The St. Louis labor market continued to expand through the end of 2023. Area employers added 28,100 workers to payrolls, expanding total employment by 2 percent. This was a more rapid pace of growth than was recorded in 2022.
- Continued economic growth supported employment gains in the region’s important trade, transportation, and utilities industry. More than 7,000 jobs were added in the sector, a 2.6 percent increase.
- At the end of 2023, Advantage Solutions announced that the company is moving its corporate headquarters from Southern California to the St. Louis area. The move is expected to take place during the first quarter of 2024. The company employs more than 400 total workers in the region and is expected to hire a additional leadership positions at the new headquarters in Clayton.
- **FORECAST:** Area employment is expected to continue rising, but at a slower pace than previous years. The local labor market is forecast to expand by 1.1 percent in 2024, with the addition of approximately 16,000 net new jobs.

Area employers added 28,100 workers to payrolls.

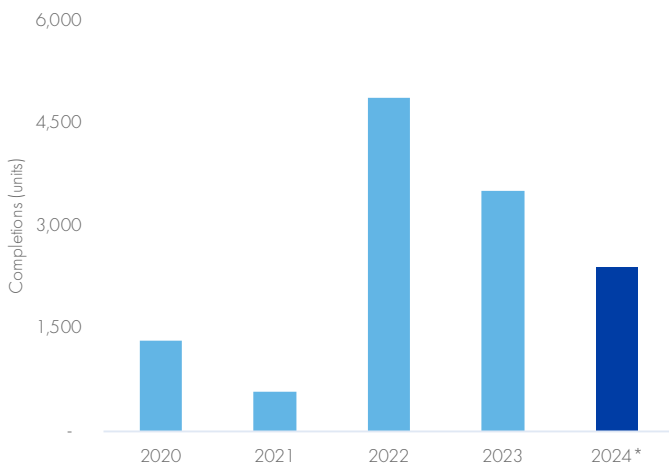
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

The construction pipeline has thinned as new projects have come online.

DEVELOPMENT TRENDS



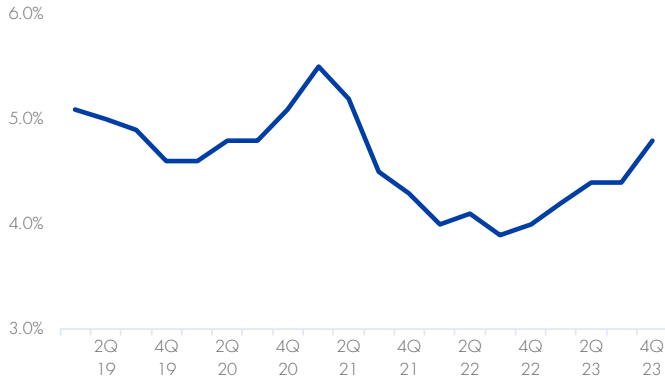
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Projects totaling more than 3,500 units came online in 2023, down nearly 30 percent from peak levels recorded in 2022. Recent delivery totals have been above the region’s longer-term trend; since 2015, developers have delivered an average of 2,100 rental units per year.
- The construction pipeline in St. Louis has thinned as new projects have come online and starts have slowed. Projects totaling approximately 2,900 multifamily units were under construction at the end of 2023, down 34 percent from one year ago.
- Permits for roughly 2,600 multifamily permits were pulled in St. Louis during 2023, 35 percent lower than peak levels in 2022. During the fourth quarter, permits for approximately 400 units were issued, the slowest quarter for activity in nearly three years.
- **FORECAST:** Developers are expected to continue to slow the pace of multifamily deliveries after completions were elevated in 2022 and 2023. Projects totaling 2,400 units are forecast to come online in the next 12 months.

Vacancy increased by 80 basis points in 2023.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

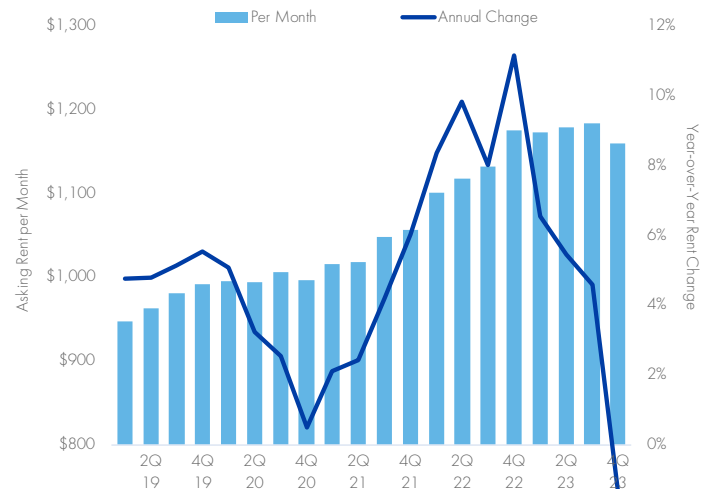
- Vacancy rose in recent months after holding steady in the previous quarter. The vacancy rate increased by 40 basis points during the fourth quarter to 4.8 percent.
- Vacancy rose 80 basis points in 2023. Area vacancy increased in nearly every St. Louis submarket with the exception being St. Louis City North, although the overall rate in the submarket remains elevated. Vacancy in St. Louis North declined by 60 basis points in 2023, finishing the year at 8.6 percent.
- The heightened pace of new construction has pushed vacancies higher in the Class A segment. The Class A vacancy rate rose 30 basis points in 2023, ending the year at 5.9 percent. The combined vacancy for Class B and Class C properties closed the year at 4.2 percent.
- **FORECAST:** The vacancy rate in St. Louis is expected to push higher once again in 2024. Vacancy is forecast to reach 5.2 percent by the end of the year, a rise of 40 basis points. The rate will be similar to average vacancy levels recorded from 2017-2020.

RENTS

- Rents in St. Louis declined by 2 percent during the fourth quarter, ending the year at a loss for the first time in more than a decade. Area asking rents finished 2023 at \$1,160 per month, down 1.3 percent for the full year.
- While most submarkets posted rent decreases during the past year, the St. Charles County submarket posted solid rent growth. Rents in this submarket increased by 2.8 percent in 2023, reaching \$1,322 per month.
- Class A properties were the only asset class to record positive rent growth in 2023. Rents for top tier units rose 1 percent during the past 12 months to \$1,541 per month. Class A rents peaked in the third quarter, before recording a 1.5 percent decline in the final three months of the year.
- **FORECAST:** Rents in St. Louis could post some modest softening in the first half of 2024, but there should be an uptick by year end. Asking rents are forecast to rise 1.7 percent in 2024, reaching \$1,180 per month.

Area asking rents finished 2023 at \$1,160 per month.

RENT TRENDS



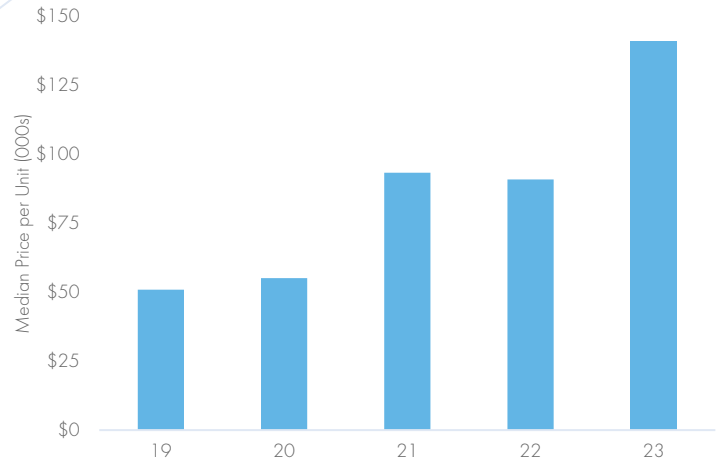
Sources: Northmarq, Reis

MULTIFAMILY SALES

- While transaction volume in 2023 was limited compared to the prior year, quarterly transaction numbers were fairly consistent. Transaction counts in the fourth quarter were slightly lower than during the third quarter. Compared to 2022 levels, transaction volume was down 32 percent in St. Louis.
- Prices rose in 2023, particularly during the fourth quarter when a handful of Class A and newer Class B properties sold. The median price in transactions where pricing was available was \$141,000 per unit, up more than 50 percent from 2022 levels.
- Cap rates ranged between 5.5 percent and 6.5 percent for most of the past year. The higher-tier properties that traded late in 2023 were generally near the lower end of the market’s cap rate range.

The median price in 2023 was \$141,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

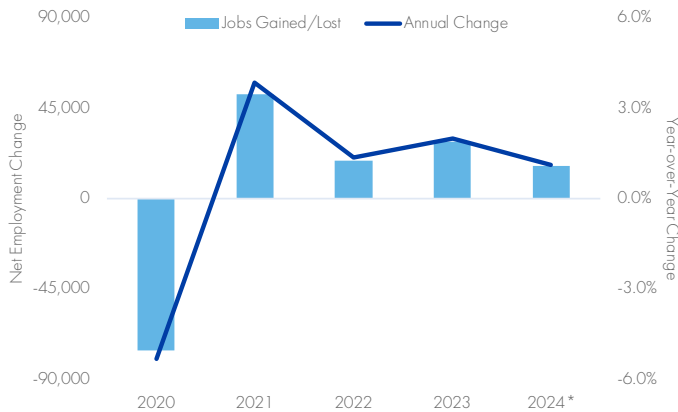
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Enclave at Winghaven	1000 Applerock Dr., O'Fallon	400	\$74,750,000	\$186,875
Sun River Village	100 Broadridge Ln., Saint Peters	388	\$56,600,000	\$145,876
The Solstice	4000 Brady Way, Lake Saint Louis	156	\$30,880,000	\$197,949
Lynn Town Townhomes	9675 Muriel Ave., Saint Louis	144	\$7,540,000	\$52,361

LOOKING AHEAD

Despite some modest softening recorded at the end of 2023, the St. Louis multifamily market has generally performed well, a trend that is forecast to remain in place throughout 2024. The region continues to add workers, fueling a healthy pace of absorption. While operators are benefiting from persistent renter demand, the biggest change coming to the market in 2024 and 2025 will be a slowing pace of new construction. Multifamily permitting and deliveries peaked in 2022, and construction was still elevated throughout much of the past year. Going forward, deliveries are expected to decline by more than 30 percent in the coming year and starts will likely cool as the year progresses. This will lessen the competitive impact of new supply throughout the market. Areas such as St. Charles County, Mid County, and Downtown should benefit the most from the cooling inventory growth. These submarkets have recorded vacancy increases in recent years as new projects have come online.

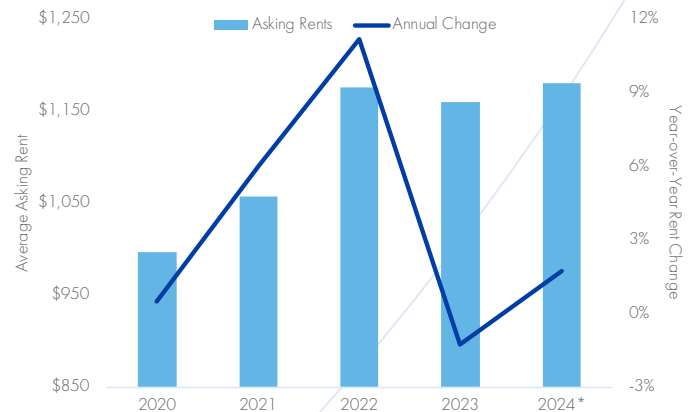
Healthy property fundamentals should support investment conditions in the St. Louis multifamily market in 2024. Cap rates may inch higher to offset elevated borrowing costs and to meet investor expectations, but the market is expected to continue to attract capital. In recent years, Class A and Class B properties have accounted for a larger share of the total transaction mix, approaching 50 percent of the total in 2023. This reflects the changing mix of investors that are actively pursuing acquisitions in the market and the area's greater institutional profile as property fundamentals have begun to outperform locally and regionally. In the coming years, this trend could continue, particularly with an influx of new construction hitting the market in recent years.

EMPLOYMENT FORECAST



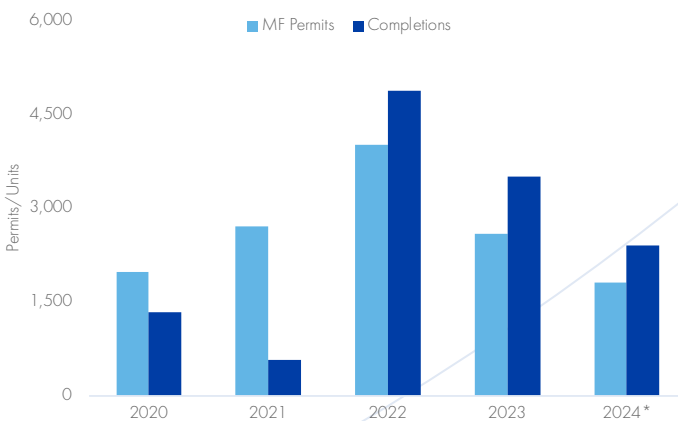
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



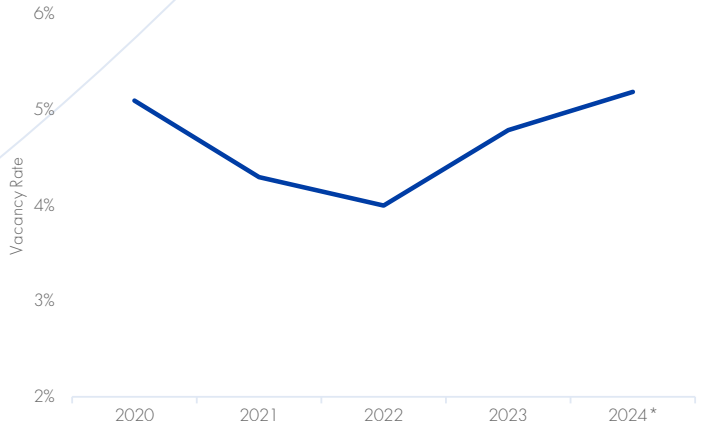
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar, Reis

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Reis



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