

Greater St. Louis Multifamily

Cap Rates Compress, Sales Activity Picks Up to Close 2020

Highlights

- > Operating conditions in the St. Louis multifamily market were steady throughout nearly all of 2020 before cooling in the fourth quarter. The outlook for 2021 calls for economic recovery, which should support the local apartment market.
- > Apartment vacancy rose 50 basis points in 2020, with the rate ending the year at 5.1 percent. The rate had tightened in the two previous years.
- > Rents inched higher in 2020, despite higher vacancy. Asking rents gained 0.5 percent in 2020, reaching \$997 per month. Prior to 2020, asking rents had been advancing at a pace of approximately 4.6 percent per year.
- > Developers delivered approximately 200 units during the fourth quarter and more than 1,000 units for the year. Deliveries have averaged 1,600 units per year since 2015.
- > Sales of multifamily buildings picked up at the end of 2020. Prices rose and cap rates compressed; the median price reached \$55,100 per unit in 2020, while cap rates averaged 5.6 percent.

Q4 Snapshot

St. Louis Market



Market Fundamentals

Vacancy	5.1%
- Year Over Year Change	+50 bps
Asking Rent	\$997
- Year Over Year Change	+0.5%



Transaction Activity*

Median Sales Price Per Unit (YTD)	\$55,100
Cap Rates (Avg YTD)	5.6%



Construction Activity

Units Under Construction	3,135
Units Delivered YTD	1,014

St. Louis Multifamily Market Overview

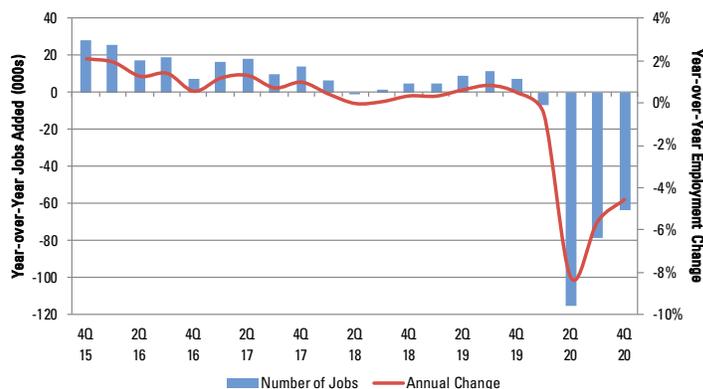
The St. Louis multifamily market posted mostly steady performance throughout much of 2020, before operating conditions softened during the fourth quarter. After creeping lower in both 2018 and 2019, vacancy rose in the second half of the year. Despite the recent uptick, the current rate is consistent with the market average over the past few years. After several years of steady growth, rents ticked higher for most of 2020 as well. Asking rents retreated slightly during the fourth quarter but still posted a modest annual gain in 2020. The pace of rent growth should accelerate in 2021 as the economy more fully reopens and businesses bring back workers.

After a sluggish start to the year, the local multifamily investment market returned to fairly normalized conditions by the fourth quarter. The investment climate by the end of 2020 closely tracked trends from one year earlier, despite a turbulent year in the economy. For the full year, prices rose and cap rates compressed into the mid-5 percent range. While the median price rose, there was a wide range of per-unit pricing. There were a few Class A properties that traded in 2020, and the median price for top-tier properties topped \$270,000 per unit. At the other end of the pricing spectrum, several older Class C buildings sold at less than \$40,000 per unit.

Employment

- > During the fourth quarter, employers in St. Louis brought back approximately 12,500 jobs, following a recovery of nearly 41,000 jobs in the third quarter. Area employers have brought back approximately 60 percent of the jobs that were cut in response to the coronavirus outbreak.
- > In 2020, total employment in the area retreated approximately 4.5 percent with the loss of nearly 64,000 jobs. Nearly half of the losses were concentrated in the leisure and hospitality sector.
- > Healthcare and social assistance is one of the largest industries in St. Louis. Employment in the sector was stable in 2020, dipping just 0.2 percent for the year. In the preceding five years, growth had averaged more than 2 percent per year, with a total of more than 22,000 jobs added during that time.
- > **Forecast:** The local employment market is forecast to spend much of 2021 in recovery mode. Employers are forecast to add approximately 28,000 jobs in the coming year, growth of 2.1 percent.

Employment Overview



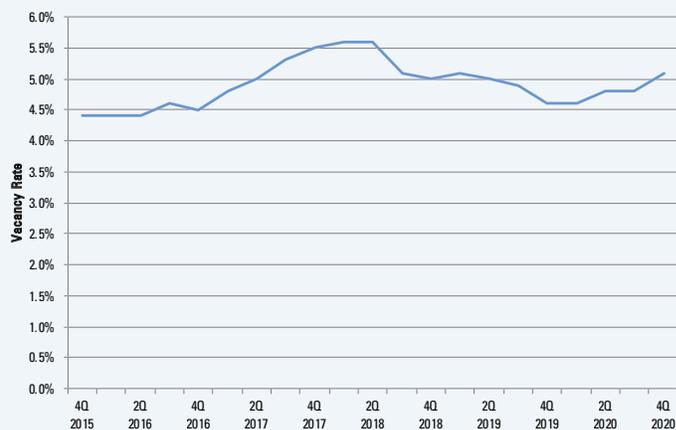
Sources: NorthMarq, Bureau of Labor Statistics

Employers are forecast to add approximately 28,000 jobs in the coming year

Vacancy

- > After holding steady for much of the year, apartment vacancy rose during the fourth quarter. The vacancy rate ticked up 30 basis points in the final three months, reaching 5.1 percent.
- > Vacancy rose 50 basis points in 2020, following annual declines in both 2018 and 2019. The current figure of 5.1 percent matches the average quarterly vacancy rate since the beginning of 2017.
- > The vacancy rate in Class A properties rose during the second half of the year as new projects came online. Class A vacancy rose 100 basis points in the second half, reaching 7.4 percent. During the first half of 2020, vacancy in Class A properties inched up just 10 basis points.
- > **Forecast:** With apartment construction expected to accelerate in 2021, the local vacancy rate will likely trend higher. Vacancy is forecast to rise 50 basis points, ending the year at 5.6 percent.

Vacancy Trends



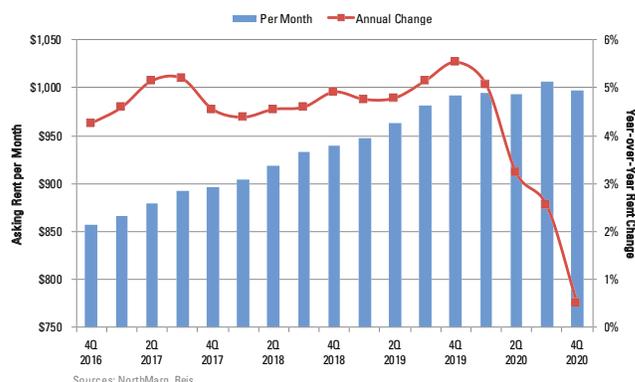
Sources: NorthMarq, Reis

The current rate of 5.1 percent matches the average quarterly vacancy since the beginning of 2017

Rents

- > Local asking rents briefly topped \$1,000 per month in the third quarter before retreating a few dollars at the end of the year. Asking rents ended the fourth quarter at \$997 per month.
- > Rents ticked up just 0.5 percent in St. Louis in 2020, following several years of steady gains. Prior to 2020, asking rents had posted average annual increases of 4.6 percent since 2015.
- > Rents in Class A units have been on an upward trajectory in recent years as newer properties have been coming to the market and have successfully leased up. After annual growth of 5 percent or more in each of the past four years, Class A asking rents inched up 0.2 percent in 2020, ending the year at \$1,320 per month.
- > **Forecast:** After slowing in 2020, the pace of rent growth should gain momentum in the year ahead. Asking rents are forecast to rise nearly 3 percent in 2021, reaching approximately \$1,025 per month.

Rent Trends

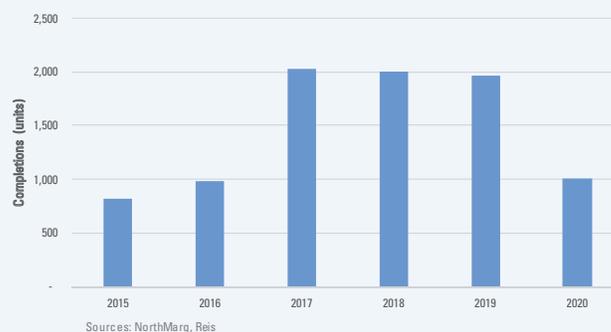


Class A asking rents ended 2020 at \$1,320 per month

Development and Permitting

- > Apartment deliveries were concentrated in the second half of 2020. During the second half, projects totaling approximately 1,000 units came online, including completions of more than 200 units in the fourth quarter. Construction activity in the second half of 2020 was up 6 percent from levels in the second half of 2019.
- > Projects totaling approximately 3,100 units were under construction at the end of 2020. More than 1,400 units are under construction within the St. Louis city limits, with an additional 550 units under construction in O’Fallon in St. Charles County.
- > Permitting activity accelerated during the fourth quarter, with developers pulling permits for more than 700 multifamily units during the final three months of the year. In 2020, permits for approximately 2,000 multifamily units were issued, up 34 percent from one year earlier.
- > **Forecast:** Following a decline in 2020, apartment construction is forecast to accelerate in 2021, with developers forecast to deliver approximately 2,000 new units.

Development Trends

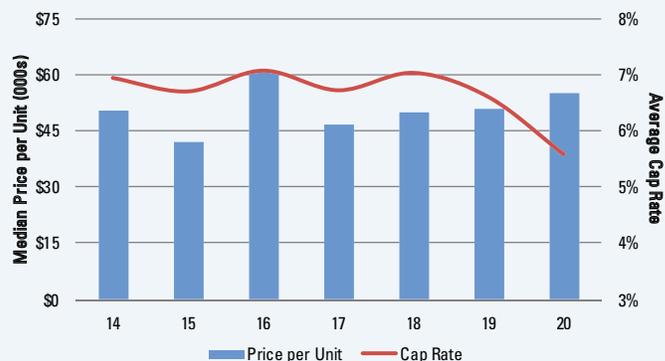


Projects totaling approximately 3,100 units were under construction at the end of 2020

Multifamily Sales

- > Multifamily sales velocity in the fourth quarter was nearly identical to levels recorded during the third quarter. Investment activity was concentrated in the second half of the year; nearly 75 percent of the transactions in 2020 occurred in the final six months of the year.
- > The median sales price in 2020 was approximately \$55,100 per unit, up approximately 10 percent from the median price in 2019. There was a wide disparity in pricing across property classes.
- > The median price in the few Class A building sales that closed in 2020 was more than \$270,000 per unit. The bulk of the sales activity in the past year involved older Class C properties, which traded at a median price of approximately \$30,000 per unit.
- > Cap rates compressed in 2020, retreating nearly 100 basis points from 2019 levels to an average of 5.6 percent.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Nearly 75 percent of the transactions in 2020 occurred in the final six months of the year

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

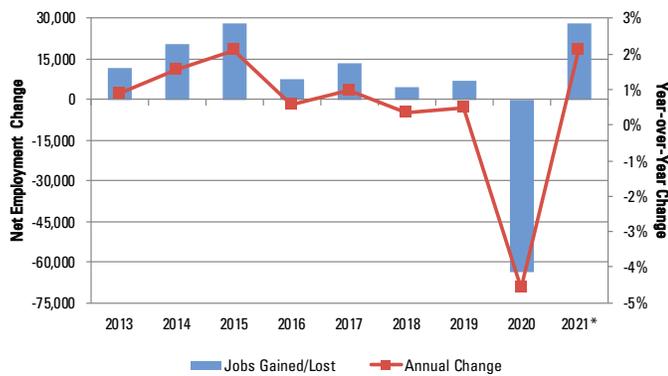
Property Name	Street Address	Units	Sales Price	Price/Unit
RenEw Centennial	8650 Kingsbridge Dr., St. Louis	412	\$36,500,000	\$88,592
Bramblett Hills	1000 Bramblett Rd., O'Fallon	204	\$30,700,000	\$150,490
Windham Chase	12401 Horizon Village Dr., St. Louis	218	\$5,650,000	\$25,917
The Woodlands	10032 Neville Walk St., St. Louis	230	\$5,100,000	\$22,174

Looking Ahead

The St. Louis multifamily market is expected to remain in a bit of a supply-demand imbalance in 2021. Employers are forecast to continue to rebuild payrolls, which should stabilize demand for apartment units. Absorption is forecast to be positive in 2021, and renters will likely move into a greater number of units than they did in 2020, when the rate slowed considerably from the two prior years. While demand will pick up, developers are on pace to bring approximately 2,000 new units to the market, a number that is expected to exceed new renter move-ins.

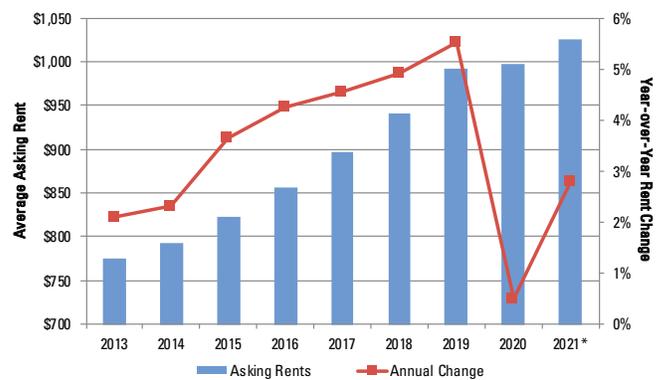
By the end of 2020, the local investment market in St. Louis had stabilized and transaction activity was similar to earlier periods. This sets the stage for what is forecast to be additional strengthening in 2021, when renter demand is likely to receive a boost from a labor market that is forecast to add jobs at a fairly healthy pace. On average, area cap rates compressed in 2020, and it may take a few quarters in 2021 to determine where buyers' and sellers' expectations will align, particularly if interest rates trend higher.

Employment Forecast



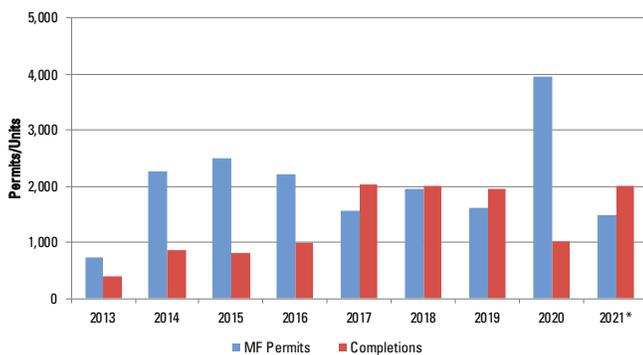
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



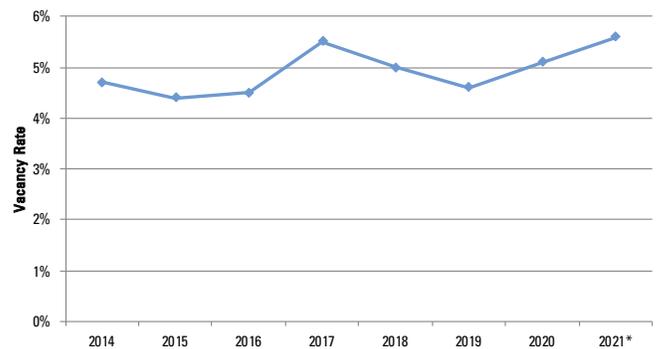
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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