MARKET REPORT | 1Q/2021

Greater St. Louis Multifamily

NorthMarq

Class A Property Sales Dominate to Start 2021

Highlights

- Multifamily property conditions in St. Louis softened a bit at the start of 2021, and the local labor market will likely require a few more quarters to return to full employment. Even as vacancy has inched higher, rents are posting modest gains.
- Vacancy reached 5.5 percent during the first quarter, 90 basis points higher than one year ago. The pace of new construction has been consistent in recent years, but absorption is lagging earlier periods.
- Area asking rents have increased 1.9 percent year over year, finishing the first quarter at $1,015 per month. Rents posted their strongest gains in the past four quarters at the start of 2021, setting the stage for additional increases.
- The pace of sales to start 2021 closely tracked levels from one year earlier. There was a change in the mix of properties that sold, however, with activity concentrated in Class A projects. The median price reached $225,100 per unit, while properties traded with cap rates between 5 percent and 5.5 percent.

Q1 Snapshot	St. Louis Market
Market Fundamentals	
Vacancy	**5.5%**
- *Year Over Year Change*	**+90 bps**
Asking Rent	**$1,015**
- *Year Over Year Change*	**+1.9%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$225,100**
Cap Rates (Avg YTD)	**5.3%**
Construction Activity	
Units Under Construction	**3,509**
Units Delivered YTD	**356**

St. Louis Multifamily Market Overview

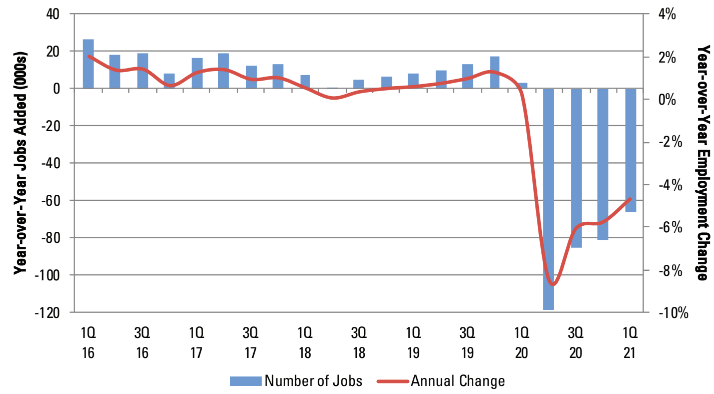
The St. Louis multifamily market recorded somewhat softer conditions during the first quarter, with new supply growth outpacing net absorption, resulting in a modest rise in the vacancy rate. Apartment construction has averaged approximately 2,000 units per year since 2017, and net tenant move-ins have generally approached this level in recent years. The pace of absorption slowed in 2020, and that trend continued at the start of this year. Renter demand for apartments should increase as the local labor market gains momentum in the second half of the year, and rents may trend higher as demand strengthens.

Only a handful of multifamily properties sold during the first quarter, but the assets that did change hands were at the high end of the quality spectrum and traded at prices that were significantly higher than historical ranges. Nearly all of the properties that have transacted to this point in 2021 have been built within the past 10 years; in comparison, the average age of properties that sold in 2020 was approximately 45 years. With newer, Class A properties dominating the investment landscape, the median price spiked to above $225,000 per unit in the first quarter, while cap rates remained between 5 percent and 5.5 percent.

Employment

- Year over year, total employment in St. Louis is down 4.7 percent with a net loss of nearly 66,000 jobs. Although local employment is still below where it was one year ago, businesses in St. Louis added 6,100 jobs in the first quarter.
- The trade, transportation, and utilities industry in St. Louis, one of the largest industries in the area, was the most stable sector during the past 12 months. Employment in this sector is down less than 0.5 percent year over year.
- While the local employment market remains in recovery mode, there are still companies expanding in the area. Accenture Federal Services is opening an advanced technology center in the West St. Louis County area. The company will add 1,400 new technology jobs at the facility in the next five years.
- **Forecast:** The local labor market in St. Louis is forecast to slowly recover throughout the remainder of 2021. Employers in the area are expected to add approximately 24,000 jobs this year, a growth rate of 1.8 percent.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Employers in the area are expected to add approximately 24,000 jobs this year

Vacancy

- Multifamily vacancy in St. Louis rose 40 basis points from the year-end 2020 figure. Vacancy finished the first quarter at 5.5 percent.
- The first-quarter vacancy rate was 90 basis points higher than levels from one year ago. The current vacancy rate is the highest figure since the beginning of 2018.
- Nearly all of the vacancy increase is occurring in Class A properties. The Class A vacancy rate reached 7.6 percent in the first quarter, up 160 basis points from one year ago. The rise is attributable to an increase in new apartment construction that began in 2017 and has persisted in recent years.
- **Forecast:** Due to the acceleration of new construction in the coming quarters, apartment vacancy will likely rise. Vacancy in St. Louis is forecast to increase to 5.9 percent by the end of 2021.

Vacancy Trends

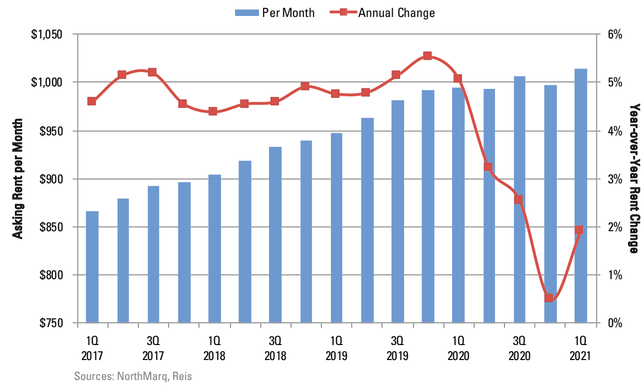
Sources: NorthMarq, Reis

Vacancy finished the first quarter at 5.5 percent

Rents

- Apartment rents in St. Louis inched higher during the first quarter, reaching $1,015 per month. Asking rents are up just under 1 percent from the previous quarter.
- Rental rates have been rising over the past year as asking rents are up 1.9 percent year over year.
- Market rents in Class A properties are up 0.7 percent from one year ago. Class A asking rents are $1,331 per month at the end of the first quarter of 2021.
- **Forecast:** After minimal gains during the last few quarters, rent growth is forecast to return to its typical long-term trend and rise 3.5 percent by the end of 2021. Asking rents are expected to reach approximately $1,030 per month.

Rent Trends

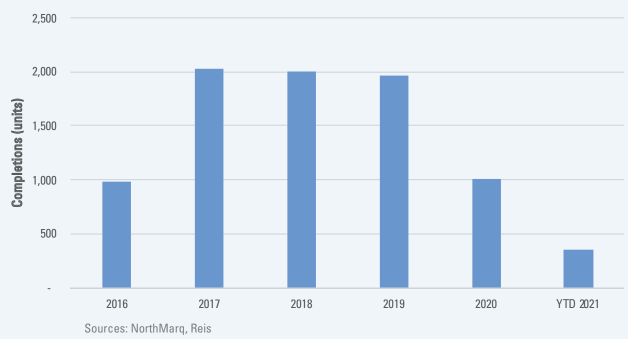


Asking rents are up 1.9 percent year over year

Development and Permitting

- Apartment deliveries in St. Louis are off to a more active start to this year than in 2020. Approximately 3,500 units were under construction at the end of the first quarter of 2021, up from 3,100 units at the end of last year.
- Ongoing construction projects in the St. Louis area continued to rise during the first quarter of 2021. Approximately 3,500 units are under construction in the first quarter of 2021, up from 3,100 units at the end of last year.
- Multifamily permitting eased during the first quarter of 2021, as developers pulled permits for approximately 300 units to start the year. Last year at this time, permits for nearly 1,000 units had been pulled.
- **Forecast:** Multifamily construction activity in St. Louis is forecast to accelerate slightly in 2021, with the bulk of the units scheduled to come online by the end of the third quarter. Developers are expected to deliver approximately 2,000 new units by the end of the year.

Development Trends



Developers pulled permits for approximately 300 multifamily units to start the year

Multifamily Sales

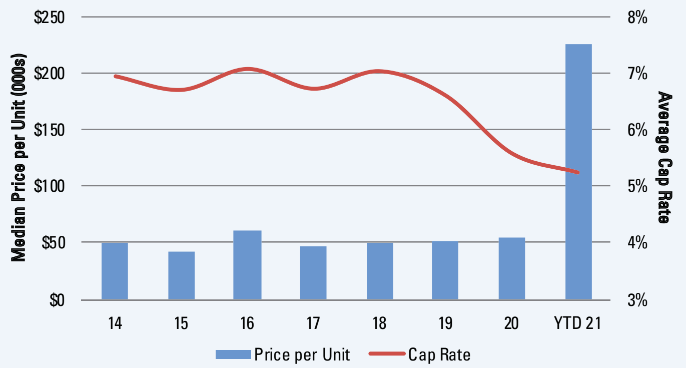
> Although only a handful of transactions occurred in the first quarter, multifamily sales activity started 2021 at a similar pace to that in the beginning of 2020.

> In the transactions that have closed year to date, activity has been concentrated in newer, Class A properties. In prior years, a more diverse mix of properties had changed hands, but investors have targeted high-end properties to this point in 2021.

> The median sales price spiked in the first quarter, fueled by the sale of Class A properties. The median price at the start of this year reached approximately $225,100 per unit.

> Cap rates in St. Louis through the first quarter maintained a similar range from last year, averaging between 5 percent and 5.5 percent.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Cap rates maintained a similar range from last year, averaging between 5 percent and 5.5 percent

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

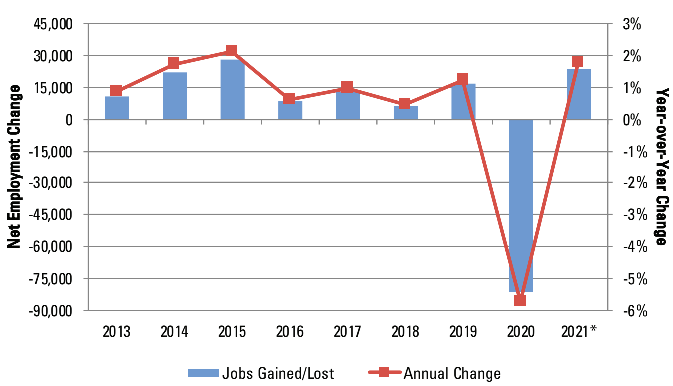
Property Name	Street Address	Units	Sales Price	Price/Unit
The PARQ at Chesterfield	16300 Lydia Hill Dr., Chesterfield	345	$98,000,000	$284,058
Encore at Forest Park	5700 Highlands Plz., St. Louis	246	$75,225,000	$305,793
Cortona at Forest Park	5800 Highlands Plz., St. Louis	278	$71,100,000	$255,755
Bramblett Hills	1000 Bramblett Rd., O'Fallon	204	$30,700,000	$150,490
Turtle Creek Apartments	201 Turtle Dr., Fenton	128	$24,900,000	$194,531

Looking Ahead

This year is expected to be an active one for new apartment construction, which is forecast to continue to put some modest upward pressure on vacancy, particularly in the Class A segment of the market. While the average vacancy rate in Class B and Class C properties is around 4 percent, the vacancy rate in Class A units is forecast to nearly double that figure. Developers are bringing units online to meet renter demand; in 2018 and 2019, absorption averaged nearly 2,600 units per year. The pace of absorption slowed last year and could be choppy in the coming quarters before the local economy returns closer to full employment.

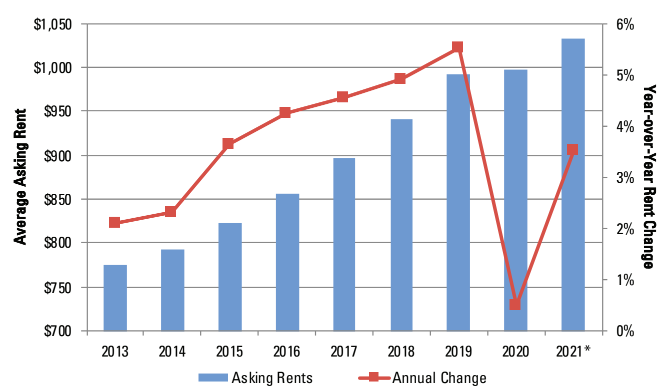
Area investors focused on top-tier assets in their acquisitions during the first quarter, pushing prices higher as Class A properties made up the bulk of the transaction volume at the start of the year. While demand is expected to remain elevated for newer properties, particularly with several projects having been delivered and leased up in recent years, a broader mix of buildings is expected to sell in the coming quarters. Cap rates remained in a fairly tight range, even as transaction activity was dominated by Class A deals, and cap rates are not expected to move significantly outside of current averages.

Employment Forecast



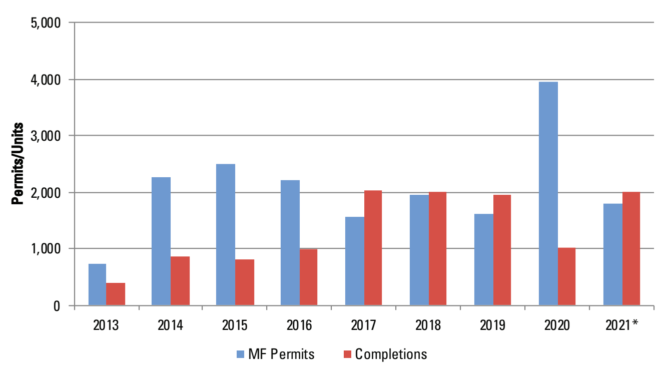
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



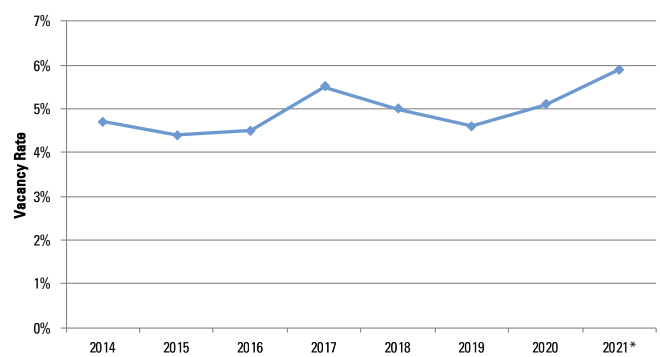
* Year End Forecast
Sources: NorthMarq, Reis

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 $16 billion, loan servicing portfolio of more than $65 billion and the multi-year tenure of our nearly 600 people.

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