MARKET REPORT | 2Q/2021

Greater St. Louis Multifamily

Multifamily Sales Activity Surges as Competition Intensifies

Highlights

- After a slower start to the year, the St. Louis multifamily market gained momentum during the second quarter. The local vacancy rate improved, and rents crept higher. New apartment deliveries have been modest to this point but are forecast to accelerate by year end.
- Vacancy tightened during the second quarter, with the rate dropping 30 basis points to 5.2 percent. Despite the recent improvement, vacancy is 40 basis points higher than the figure one year ago.
- Asking rents have advanced 2.4 percent year over year, ending the second quarter at $1,018 per month. Rents posted a healthy gain at the beginning of the year before the pace of growth cooled a bit in the second quarter.
- The pace of sales activity gained momentum during the second quarter. The number of transactions that closed in the second quarter was more than double the levels recorded at the beginning of the year. As competition has intensified, prices have risen; the median price is $159,500 per unit, while cap rates have averaged 5.4 percent in 2021.

Q2 Snapshot	St. Louis Market
Market Fundamentals	
Vacancy	**5.2%**
- Year Over Year Change	**+40 bps**
Asking Rent	**$1,018**
- Year Over Year Change	**+2.4%**
Transaction Activity	
Median Sales Price Per Unit (YTD)	**$159,500**
Cap Rates (Avg YTD)	**5.4%**
Construction Activity	
Units Under Construction	**3,648**
Units Delivered YTD	**356**

St. Louis Multifamily Market Overview

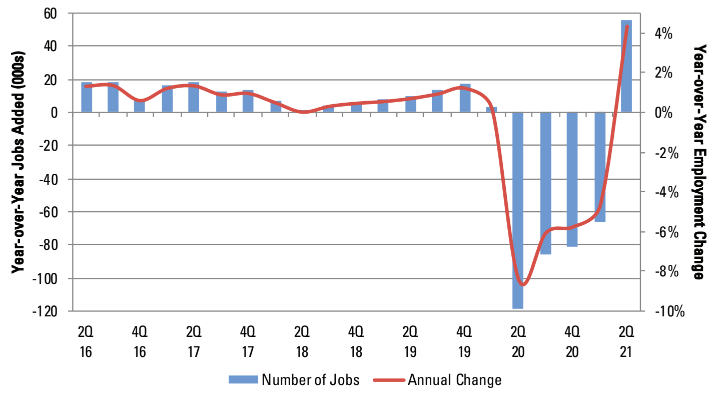
The St. Louis multifamily market continued to recover in the second quarter, as many of the key measurements of property performance improved. Renter demand has ticked higher, allowing for ongoing rent increases. The rising demand in the multifamily market is supported by a strengthening local labor force. Construction employment is one industry leading the recovery. The sector is expected to continue to gain momentum as a few large projects move through the development pipeline. The largest of these is the NGA western headquarters, which is forecast to support more than 1,000 construction jobs for the next few years.

Multifamily investment activity in the St. Louis area gained momentum in recent months. Investor demand for apartment properties is rising, leading to greater transaction volumes and a rise in prices. During the second quarter, transaction activity more than doubled levels from the first three months of the year. With interest rates low, and the investment landscape increasingly competitive, cap rates have tightened. Rates compressed during the second quarter, bringing the average through the first half of 2021 to 5.4 percent.

Employment

- Year over year, total employment in St. Louis is up 4.4 percent with a net gain of nearly 56,000 jobs. Although employment levels have not fully recovered from cuts recorded during the pandemic, jobs are being added back at an active pace.
- The construction sector in St. Louis has been a catalyst in the local labor market. During the past 12 months, construction employment has expanded by nearly 7 percent with the addition of 4,500 jobs.
- NGA, The National Geospatial-Intelligence Agency, is currently building its $2 billion western headquarters in North St. Louis. The 97-acre site will include a 700,000-square-foot office building. The project is expected to result in 1,100 construction jobs, before 3,000 permanent workers move into the facility in 2025.
- **Forecast:** Total employment in St. Louis is forecast to expand this year, but the pace will likely be fairly modest before more rapid gains materialize in 2022. Employers are forecast to add approximately 20,000 jobs this year, a 1.5 percent gain.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

Year over year, total employment in St. Louis is up 4.4 percent

Vacancy

- After ticking higher at the start of the year, the multifamily vacancy rate tightened during the second quarter as absorption picked up and deliveries slowed. Vacancy dropped 30 basis points, ending the second quarter at 5.2 percent.
- While vacancy conditions improved during the second quarter, the current rate is still 40 basis points higher than levels from one year ago. Vacancy topped 5 percent at the end of 2020 after remaining below that figure for all of 2020 and most of 2019.
- The tightest conditions are being recorded in Class B and Class C properties, which make up the majority of inventory in the region. The combined vacancy rate in these classes dipped 10 basis points during the second quarter, reaching 4 percent.
- **Forecast:** The recovering economy will continue to positively impact the multifamily market. Vacancy in St. Louis is forecast to drop 20 basis points in 2021, ending the year at 4.9 percent.

Vacancy Trends

Sources: NorthMarq, Reis

Vacancy dropped 30 basis points, ending the second quarter at 5.2 percent

Rents

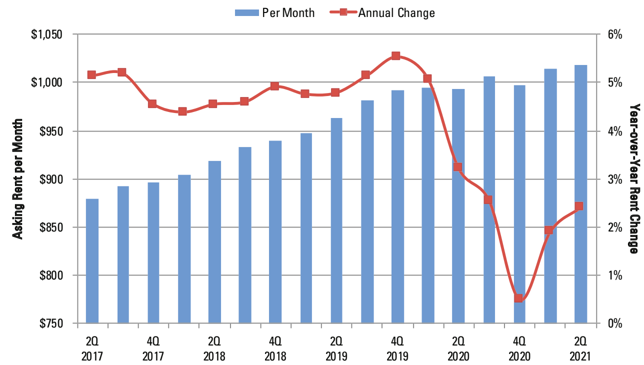
> Apartment rents in St. Louis posted a modest uptick during the second quarter, although the pace slowed after a 1.7 percent rise at the start of the year. Asking rents reached $1,018 per month at midyear.

> Asking rents in St. Louis have been rising at a gradual pace during the past year. Current rents are up 2.4 percent year over year.

> Asking rents for Class A properties ended the second quarter at $1,341 per month, up 2 percent from one year ago. After posting gains of nearly 5 percent in recent years, Class A rent growth began to level off in the second half of last year.

> **Forecast:** Rent growth is forecast to return to its typical long-term trend and rise 4.1 percent by the end of 2021. Asking rents are expected to reach $1,038 per month.

Rent Trends



Sources: NorthMarq, Reis

Asking rents reached $1,018 per month at midyear

Development and Permitting

> Apartment deliveries in St. Louis slowed in the second quarter following some activity at the start of the year. Year to date, approximately 350 units have come online. In the past five years, deliveries have averaged 1,600 units annually.

> Approximately 3,600 units are currently under construction in St. Louis, similar to the total at the beginning of the year. More than one-third of projects under construction are located in the St. Charles County submarket cluster.

> Multifamily permitting eased during the first half of 2021 as developers pulled permits for approximately 800 units through June. Last year at this time, permits for more than 1,100 units had been pulled.

> **Forecast:** Multifamily construction activity in St. Louis is forecast to accelerate slightly in 2021. Developers are expected to deliver approximately 1,100 new units by the end of the year, following about 1,000 units that came online in 2020.

Development Trends

Sources: NorthMarq, Reis

Approximately 3,600 units are currently under construction, similar to the total at the beginning of the year

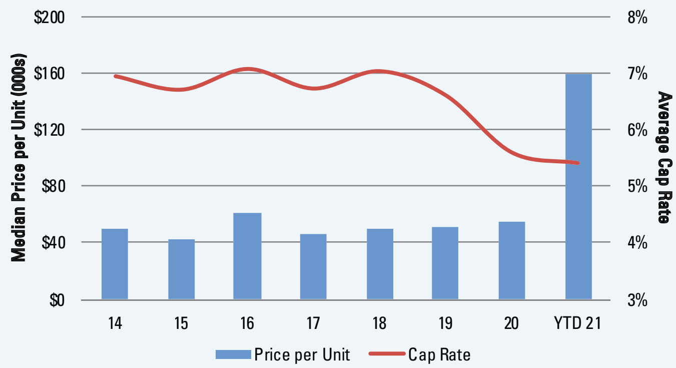
Multifamily Sales

> After a slow start to the year, transaction activity picked up during the second quarter. Sales velocity more than doubled from the first quarter to the second quarter, and the total activity in the first half of 2021 was nearly identical to the number of transactions in the first half of last year.

> Sales prices in deals that have closed thus far in 2021 are considerably higher than the market's long-term trend. The median price in deals that have closed year to date is about $159,500 per unit.

> Cap rates in St. Louis through the first half of 2021 compressed from the end of last year. Area cap rates are averaging 5.4 percent, a decrease of 20 basis points from the end of 2021.

Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

Area cap rates are averaging 5.4 percent

Recent Transactions in the Market

MULTIFAMILY SALES ACTIVITY

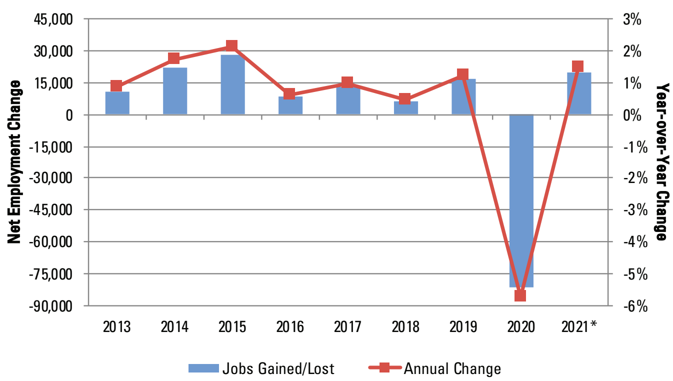
Property Name	Street Address	Units	Sales Price	Price/Unit
The PARQ at Chesterfield	16300 Lydia Hill Dr., Chesterfield	345	$98,000,000	$284,058
Haven on the Lake	2050 Lakerun Ct., Maryland Heights	526	$67,300,000	$127,947
Grand Central at the Junction	6101 Grand Central Ave., Wentzville	180	$34,000,000	$188,889
Le Coeur Du Monde	2035 Clermont Crossing Dr., St. Louis	192	$25,000,000	$130,208

Looking Ahead

The St. Louis multifamily market is forecast to become increasingly active for the remainder of 2021. Renter demand should receive a boost from a local labor market that is expected to gain momentum in the coming months, while deliveries are on track to accelerate as new projects work through the development pipeline. The anticipated results of both new supply and organic demand growth should be a modest decline in vacancy during the second half of the year and a continued rise in rents.

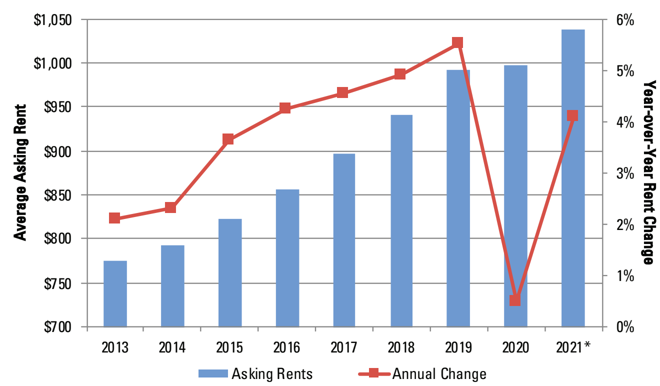
Investors are expected to continue to seek opportunities in apartment properties in the St. Louis region. Sales in the first half of 2021 included a number of properties built in the past five years, and these properties are changing hands at prices that begin around $200,000 per unit and have topped $275,000 per unit in a few cases. As market fundamentals improve, more properties are likely to change hands, and cap rates could compress further as more buyers look to implement acquisition strategies.

Employment Forecast



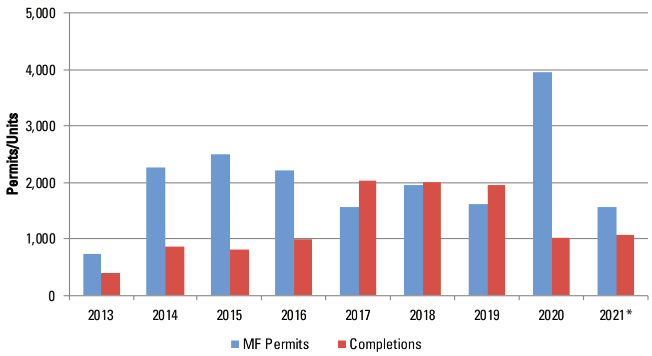
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



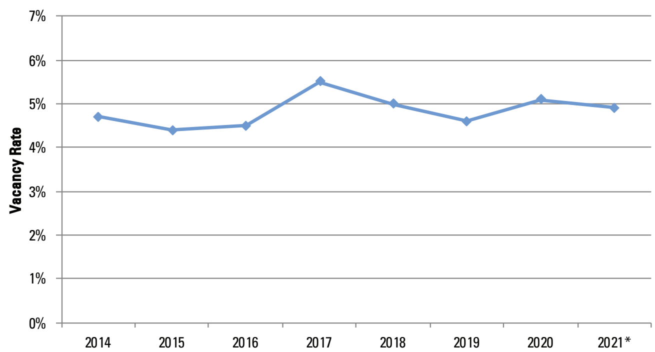
* Year End Forecast
Sources: NorthMarq, Reis

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.

For more information, contact:

Parker Stewart
MANAGING DIRECTOR – INVESTMENT SALES
312.651.5423
pstewart@northmarq.com

Dominic Martinez
ASSOCIATE VICE PRESIDENT—INVESTMENT SALES
314.301.1828
dmartinez@northmarq.com

Jeffrey Chaney
SVP, MANAGING DIRECTOR – DEBT & EQUITY
314.301.1803
jchaney@northmarq.com

David Garfinkel
SVP, MANAGING DIRECTOR – DEBT & EQUITY
314.301.1808
dgarfinkel@northmarq.com

Trevor Koskovich
PRESIDENT – INVESTMENT SALES
602.952.4040
tkoskovich@northmarq.com

Pete O'Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

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