Market Insights

Greater St. Louis Multifamily 1Q 2022

Northmarq

Construction Activity

4,880

Units under construction

731

Units delivered (YTD)

Market Fundamentals

4.0%

Vacancy

-150bps | Year over year change

$1,101

Asking Rent

+8.4% | Year over year change

Transaction Activity

$101,900

Median sales price per unit (YTD)

With Vacancy Tightening, Development Gains Momentum

Highlights

- Operating conditions continued to improve among multifamily properties at the start of the year with vacancies declining and rents rising. After slowing the pace of new construction in 2021, multifamily developers were active to start 2022, with deliveries and permitting accelerating.
- The vacancy rate improved by 30 basis points in the first quarter, reaching 4 percent. Year over year, vacancy dropped by 150 basis points.
- The rate of rent growth jumped in the first quarter, rising 4.1 percent in the first three months of the year to $1,101 per month. The recent spike has accounted for nearly half of the total increase in the past year. Rents have pushed 8.4 percent higher in the 12-month period ending in the first quarter.
- The multifamily investment market gained momentum to start 2022 with more properties changing hands than in recent periods. The median sales price rose to $101,900 per unit, a 9 percent increase from 2021 levels. Recent cap rates averaged approximately 4.5 percent.

St. Louis Multifamily Market Overview

The St. Louis multifamily market started the year on an upswing with the pace of rent growth accelerating and vacancy improving to its lowest figure in more than 20 years. The dip in vacancy was largely fueled by the combination of strong absorption levels in recent periods as well as a temporary lull in new supply growth in 2021. Asking rents climbed at a record clip during the past 12 months with significant gains occurring at the start of this year. Following an active period of apartment completions to start this year and an increase in the construction pipeline, supply growth is expected to more closely track demand in 2022.

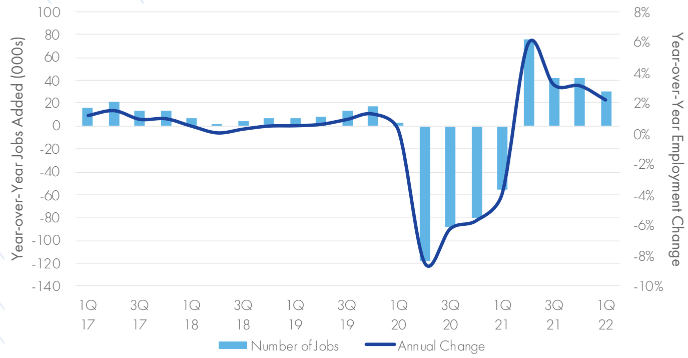
The local investment market strengthened in the first quarter, as sales activity accelerated. Despite activity picking up in the sale of Class C properties, prices still trended higher, reflecting the increasingly competitive investment market and rising rents. Per-unit pricing in 2021 and year to date have essentially doubled levels recorded between 2016 and 2020. Although sales occurred in most areas in St. Louis, roughly half of the deals in the first quarter took place in the Mid County and North County submarkets. Cap rates were fairly stable during the first few months of the year, averaging in the mid-4 percent range.

Employment

- The pace of job growth slowed in the first quarter following healthy gains in the St. Louis employment market in previous periods. The local labor pool added 1,000 workers in the first quarter. Year over year, 29,700 jobs were added back to payrolls, an increase of 2.2 percent.
- The manufacturing sector was the strongest-performing industry in St. Louis in recent months with the addition of 3,100 jobs in the first quarter. Year over year, manufacturing employment grew 3.5 percent with the addition of 4,000 positions.
- Davidson Logistics, a shipping and warehousing company, recently announced plans for a two-phase expansion at its facility in Bridgeton. The two projects will add hundreds of thousands of square feet of state-of-the-art warehouse and office space, ultimately bringing more than 200 jobs to the area. The first phase of the development is currently underway with the second phase scheduled to begin construction in the coming years.
- **Forecast:** Area employers will continue to add back jobs in 2022, but the pace of growth will not repeat last year's heightened levels. Employers in St. Louis are forecast to add 20,000 workers in 2022, expanding payrolls by nearly 1.5 percent.

> Year over year, 29,700 jobs were added back to payrolls.

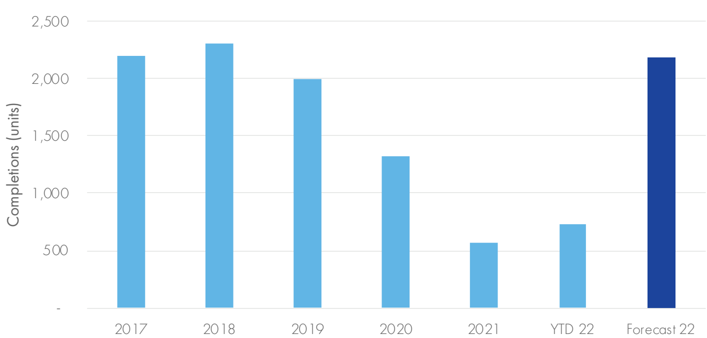
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> Multifamily permitting surged in the first quarter.

Development Trends



Sources: Northmarq, Reis, CoStar

Development and Permitting

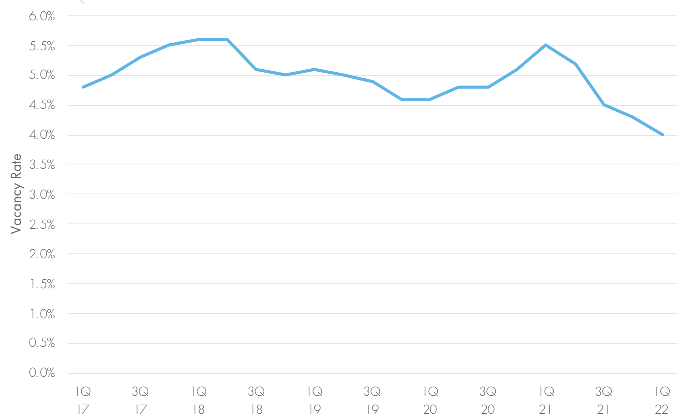
- Several large apartment projects were recently completed with 731 units delivered in the first quarter, outpacing the total number of deliveries in 2021.
- The multifamily construction pipeline swelled in recent months with projects totaling 4,880 units currently under construction, up 39 percent from one year ago. Approximately half of the projects currently being built are located in the St. Charles County and South St. Louis City submarket clusters.
- Multifamily permitting surged in the first quarter with nearly 1,000 permits pulled to start the year. One year ago, permits for fewer than 350 multifamily units were issued.
- **Forecast:** With the recent spike in the multifamily construction pipeline, it is anticipated that developers will remain active over the next several quarters. Projects totaling roughly 2,200 units are scheduled to come online in 2022.

Vacancy

- The vacancy rate continued to tighten in the first few months of the year, dropping 30 basis points in the first quarter. The rate had retreated to 4 percent by the end of March.
- Year over year, vacancy in St. Louis declined by 150 basis points. The current rate is below the market's long-term trend; during the past decade, vacancy in the region has averaged 5 percent.
- The majority of multifamily inventory in St. Louis consists of Class B and Class C properties, where the vacancy rate is low and has been improving. Year over year, the combined vacancy rate in Class B and Class C units has tightened 110 basis points to 3 percent.
- **Forecast:** For the full year, supply growth and new demand should be closely aligned. The area vacancy rate is forecast to end 2022 at 4.2 percent, 10 basis points lower than the rate at year-end 2021.

> Year over year, vacancy in St. Louis declined by 150 basis points.

Vacancy Trends



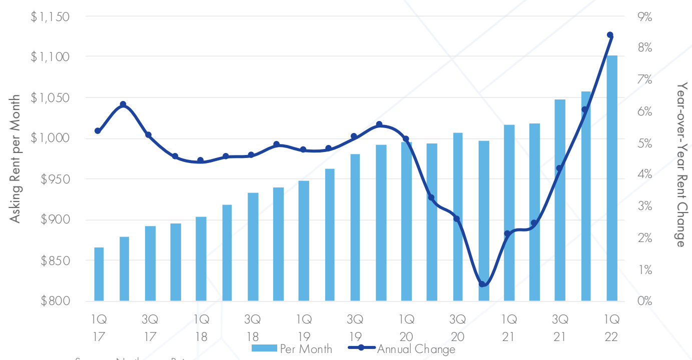
Sources: Northmarq, Reis

Rents

- Apartment rents jumped in the first quarter, rising 4.1 percent from January through March, finishing the period at $1,101 per month.
- Year over year, local rents increased by 8.4 percent, the largest annual growth on record. Fueled by healthy absorption, the submarket with the steepest rent gains during the past year was St. Charles County, where rents spiked 10.7 percent to $1,259 per month.
- Although asking rents climbed across all asset classes during the last 12 months, the largest gains were recorded in Class B and Class C properties. Year over year, the average combined rent in Class B and Class C properties increased by 9.1 percent to nearly $900 per month.
- **Forecast:** Asking rents are forecast to record healthy gains in 2022. Average rents in St. Louis are expected to rise nearly 8 percent this year to approximately $1,140 per month.

> Year over year, local rents increased by 8.4 percent.

Rent Trends



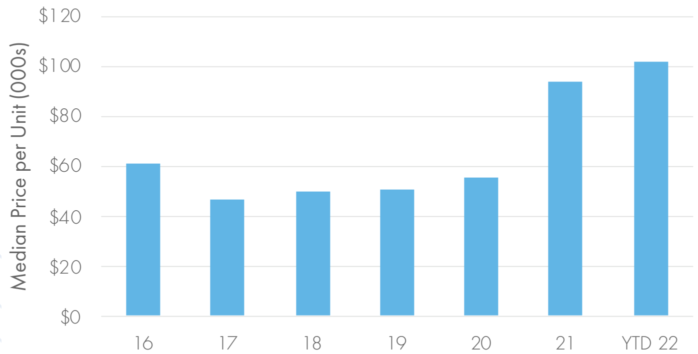
Sources: Northmarq, Reis

Multifamily Sales

- Sales velocity accelerated in recent months, as the number of properties that traded in the first quarter was up 41 percent from the previous period. As transaction activity has increased in recent quarters, per-unit prices have pushed higher.
- The median sales price in the first quarter reached $101,900 per unit, up 9 percent from the median price in 2021. The recent uptick in prices is largely due to the improving property fundamentals in the St. Louis market and a heightened demand for existing properties.
- Cap rates held fairly steady in recent months, averaging around 4.5 percent during the first quarter.

The median sales price in the first quarter reached $101,900 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

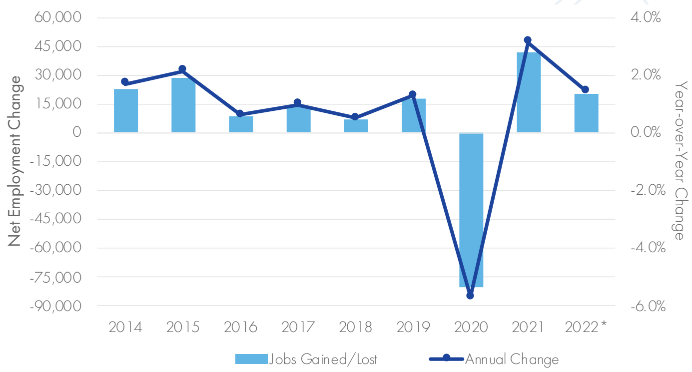
Property Name	Street Address	Units	Sales Price	Price/Unit
Glen at Bogey Hills	2200 Lake Ct., Saint Charles	486	$94,900,000	$195,267
The Arlington Apartment Homes	11907 Charter House Ln., Creve Coeur	284	$64,000,000	$225,352
Marian Heights	20 Marian Heights Dr., Alton	129	$13,150,000	$101,938
Hathaway Village	11470 Latonka Trl., Florissant	128	$9,728,000	$76,000

Looking Ahead

The strengthening performance in the St. Louis multifamily market thus far in 2022 is expected to continue throughout the remainder of the year. The ongoing recovery in the local labor market is supporting renter demand and resulting in tightening vacancy rates and rising rents. Multifamily developers will try to capitalize on this demand by bringing an elevated number of apartment projects online through the remainder of this year and into the future. With an influx of new units, the vacancy rate may inch higher from current lows but will remain below the market's long-term average.

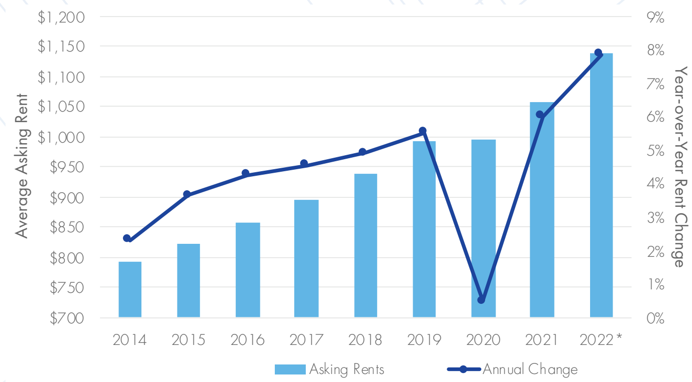
The multifamily investment market gained momentum at the start of the year, brightening the outlook for the coming quarters. Sales prices are expected to continue to trend higher, especially as the transaction mix expands to include newer, Class A development and Class B properties. Additionally, with asking rents on the rise and operating conditions improving, the investment market will likely remain fairly competitive. In recent years, cap rates have compressed from nearly 6 percent to now in the mid-4 percent range. With interest rates on the rise, cap rates may level off or inch higher during the remainder of the year.

Employment Forecast



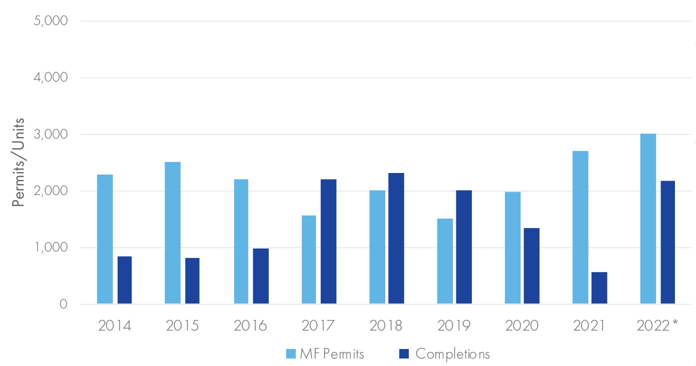
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



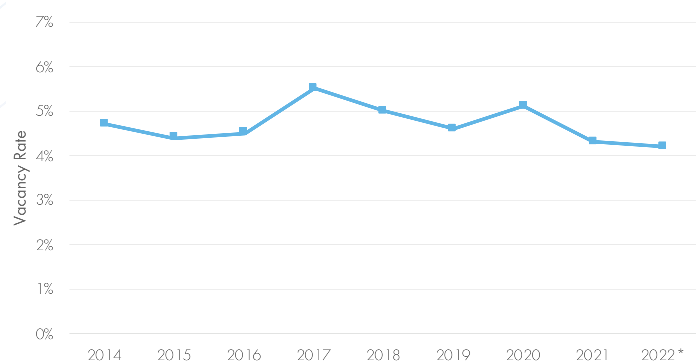
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

For more information, please 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

About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching $70 billion, and $30+ billion in transaction volume.

BUILT TO THRIVE®
northmarq.com