Market Insights

Greater St. Louis Multifamily 2Q 2022

Northmarq

Construction Activity

4,248
Units under construction

1,779
Units delivered (YTD)

Market Fundamentals

4.1%
Vacancy

-110bps | Year over year change

$1,118
Asking Rent

+9.8% | Year over year change

+8.3% | Year end forecast

Transaction Activity

$136,900
Median sales price per unit (YTD)

Operating Conditions Remain Strong at Midyear

Highlights

- After an extended stretch of improving market fundamentals, apartment conditions were somewhat mixed in St. Louis during the second quarter. Vacancies ticked higher after reaching a record low, but rents continued to push higher.
- With the pace of deliveries of new units accelerating, local vacancy inched up just 10 basis points in the second quarter to 4.1 percent. Prior to the second quarter, the rate had tightened in each of the preceding four quarters. Year over year, vacancy has declined by 110 basis points.
- Asking rents rose again, following a spike at the start of the year. Average rents advanced 1.6 percent in the second quarter to $1,118 per month. The extended trend is for higher rents. Year over year, apartment rents are up 9.8 percent.
- Multifamily sales activity was steady thus far in 2022. The median sales price to this point in the year is $136,900 per unit. Cap rates averaged roughly 4.8 percent during the second quarter.

St. Louis Multifamily Market Overview

Property fundamentals in the St. Louis multifamily market continued along a similar trajectory as in recent periods during the second quarter. Rents continued to trend higher despite a minimal uptick in the local vacancy rate. The modest rise in vacancy comes after the rate reached its lowest point in more than 20 years during the first quarter. One factor pushing the vacancy rate marginally higher in recent months was a heightened level of construction activity. Developers delivered more than 1,000 units during the second quarter, and completions in just the first six months of this year nearly matched the total inventory growth recorded in 2020 and 2021 combined.

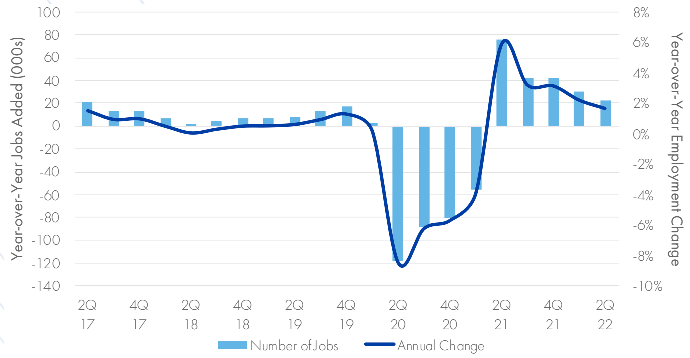
The St. Louis multifamily investment market cooled slightly during the second quarter after starting the year on an upswing. Older, Class C assets accounted for the bulk of the transactions in the last three months, with most of the recent sales occurring outside of the city in the market's suburban areas. Prices continue to push higher with the median reaching $136,900 per unit to this point in 2022. While prices are on the rise, cap rates inched higher during the second quarter with most properties now trading in the high-4 percent range.

Employment

- The pace of job growth accelerated in the second quarter following a slow start to the year. Area employers added nearly 4,000 positions in the last three-month period. Year over year, the local labor market expanded by 22,400 jobs, a growth rate of 1.7 percent.
- The professional and business services sector outperformed all other industries in recent quarters and is accounting for approximately half of the total jobs being added throughout the region. Year over year, professional employment expanded by 5.6 percent with the addition of more than 11,500 positions.
- Scale AI, a Silicon Valley artificial intelligence company, is expanding its presence in St. Louis. The tech company, which currently employs more than 200 people in the area, has plans to more than double its local workforce with the transition to a new downtown office on Washington Avenue.
- **Forecast:** The local labor market is expected to continue to expand in the coming quarters, with the pace of growth returning closer to the region's long-term average. Employers in St. Louis are forecast to add about 14,000 workers this year, increasing area payrolls by 1 percent.

> Year over year, the local labor market expanded by 22,400 jobs.

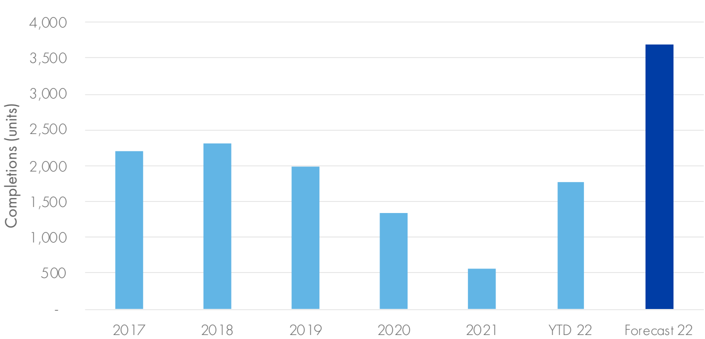
Employment Overview



Sources: Northmarq, Bureau of Labor Statistics

> Developers pulled permits for around 2,400 units thus far in 2022.

Development Trends



Sources: Northmarq, Reis, CoStar

Development and Permitting

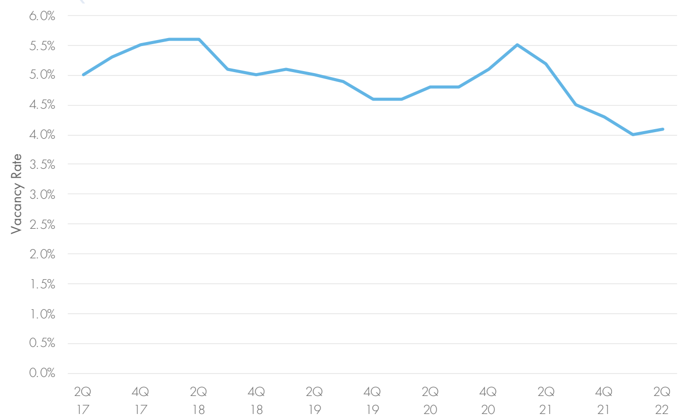
- Apartment construction activity accelerated in recent months as roughly 1,050 multifamily units were delivered during the second quarter. Through the first half, nearly 1,800 units came online. Deliveries year to date have nearly exceeded the combined total number of units completed in 2020 and 2021.
- Projects totaling approximately 4,250 units are currently under construction in St. Louis, a 16 percent increase from one year ago. More than half of the units in the construction pipeline are scheduled to be delivered by the end of this year.
- Permitting surged in the first half. Developers have pulled permits for around 2,400 multifamily units thus far in 2022, nearly triple the number of permits issued in the same period in 2021.
- **Forecast:** Multifamily construction is expected to gain momentum in the second half of the year. Projects totaling roughly 3,700 units are slated to come online in 2022, doubling the market's five-year average.

Vacancy

- After trending lower in each of the preceding four quarters, the local vacancy rate inched higher in recent months, rising 10 basis points during the second quarter to 4.1 percent.
- Year over year, local vacancy improved by 110 basis points. While nearly every region in the market is recording improvement, the Manchester/West County submarket posted the largest decline in vacancy in the past 12 months. The vacancy rate in the submarket has dropped 340 basis points to 1.9 percent.
- Year over year, the vacancy rate in Class A units dropped 110 basis points to 5.4 percent. Vacancy among upper-tier assets will likely rise in the remainder of the year as an increasing number of new projects are completed.
- **Forecast:** Supply growth is expected to outpace absorption levels in the coming quarters, resulting in a modest uptick in the vacancy rate during the second half. Local vacancy is projected to finish the year at 4.3 percent, matching the figure at the end of 2021.

> Year over year, local vacancy improved by 110 basis points.

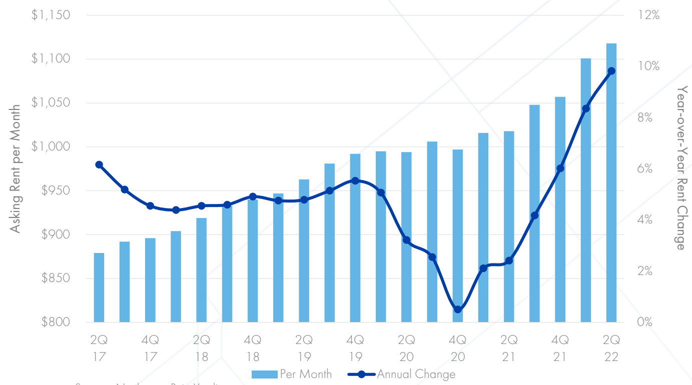
Vacancy Trends



Sources: Northmarq, Reis

> Year over year, asking rents are up 9.8 percent.

Rent Trends



Sources: Northmarq, Reis, Yardi

Rents

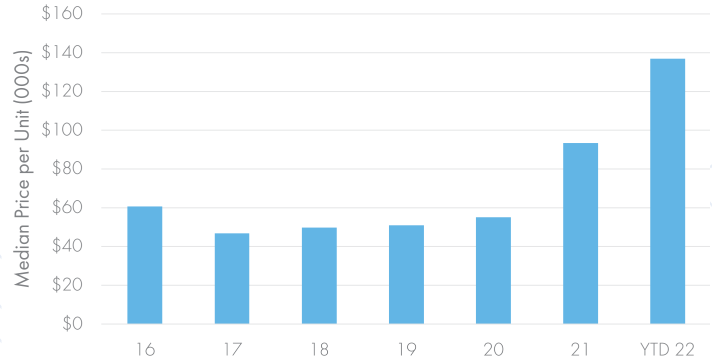
- Average rents in St. Louis pushed higher in the second quarter, gaining 1.6 percent to $1,118 per month. This followed a 4.1 percent spike at the beginning of the year. The increase during the first quarter was the largest three-month rise in rents in St. Louis in more than two decades.
- Year over year, asking rents are up 9.8 percent. Annual rent growth has averaged 4.2 percent during the past five years, with the most rapid increases occurring in recent periods.
- The average combined rent for Class B and Class C properties ended the second quarter at $891 per month, up 9.2 percent from one year ago. With the cost of all forms of housing becoming increasingly expensive, demand for lower-tier rental units has been on the rise.
- **Forecast:** After some mixed performance in the first two quarters, rents in St. Louis are expected to post small increases in the second half. For the full year, asking rents are forecast to rise 8.3 percent to approximately $1,145 per month.

Multifamily Sales

- Multifamily sales activity has been steady to this point in the year as transaction volume in the past three months closely tracked levels from the first quarter. Year to date, the number of properties that changed hands is up 9 percent from the same period last year.
- The median sales price for all sales year to date was nearly $136,900 per unit, up 47 percent from the 2021 figure.
- As interest rates have increased, cap rates have inched higher. During the second quarter, cap rates averaged roughly 4.8 percent, 30 basis points higher than at the start of the year.

The median sales price year to date was nearly $136,900 per unit.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

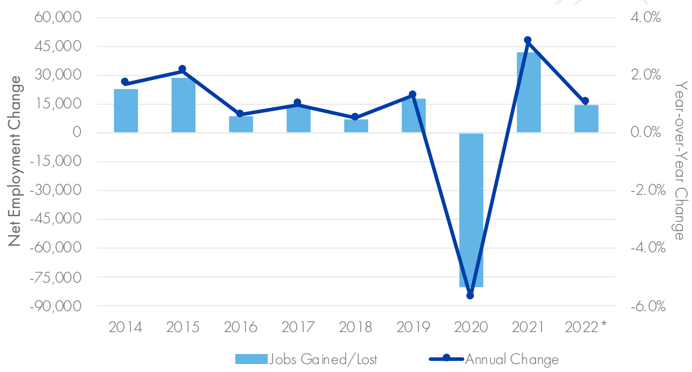
Property Name	Street Address	Units	Sales Price	Price/Unit
Forest View Apartments	9420 Mary Glen Dr., St. Louis	151	$46,000,000	$104,657
Delmar Portfolio	Multiple	174	$20,000,000	$114,943
The Delmonte	5622 Delmar Blvd., St Louis	78	$14,500,000	$185,897

Looking Ahead

The St. Louis multifamily market is expected to record mixed performance through the remainder of 2022. With more than half of the units in the construction pipeline slated to be delivered by the end of the year, the area vacancy rate is forecast to trend higher in the coming quarters. Despite potential vacancy hikes, the rate will remain relatively tight and below its historical average, allowing operators to increase rents in the coming quarters. Demand should be supported by a local labor market that is forecast to continue to expand in the coming quarters, although total job growth in 2022 will trail last year's recovery.

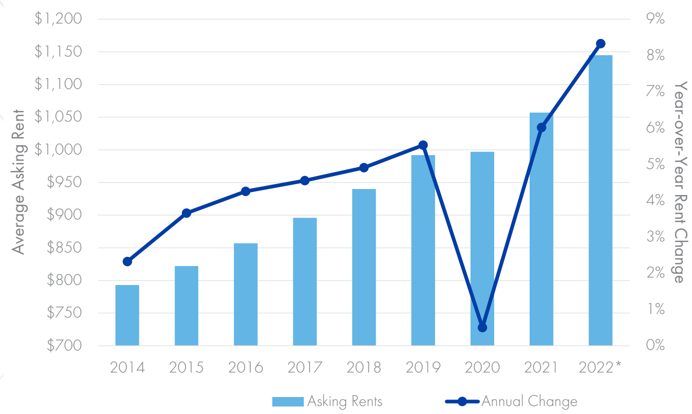
The multifamily investment market started 2022 in a fairly strong position. Going forward, the local investment market is most likely to sustain its current conditions as buyers and sellers adjust to an economy that is growing at a more modest pace and a rising interest rate environment. Older, Class C assets should continue to account for the largest share of the transaction mix. Cap rates are projected to rise in the coming quarters and will likely average in the low- to mid-5 percent range by the end of the year.

Employment Forecast



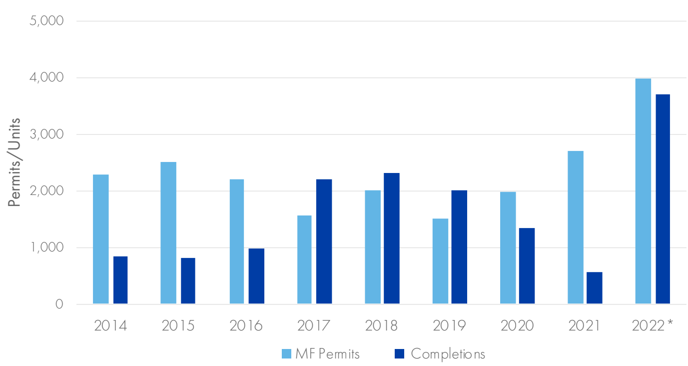
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



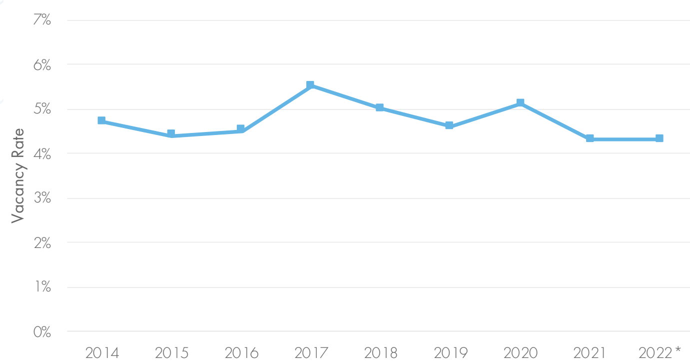
* Year End Forecast
Sources: Northmarq, Reis, Yardi

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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