Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,347
UNITS DELIVERED	4,878

MARKET FUNDAMENTALS

VACANCY RATE	4.0%
YEAR-OVER-YEAR CHANGE	-30bps
ASKING RENTS	$1,175
YEAR-OVER-YEAR CHANGE	+11.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$91,000

St. Louis Multifamily
4Q 2022

MARKET INSIGHTS

Tight conditions spur rent growth, support new development

HIGHLIGHTS

- Property fundamentals remain strong in the St. Louis multifamily market, with vacancy finishing 2022 near all-time lows and rent growth surging during the past 12 months. Multifamily deliveries are elevated, and developers are expected to remain active in the coming year.
- Vacancy dipped 30 basis points in 2022, ending the year at 4 percent. The rate inched up 10 basis points during the fourth quarter; vacancy remained in a tight range throughout the past year.
- Asking rents continue to record gains with rent growth accelerating during the fourth quarter. Area rents increased by 3.8 percent in the last three months of 2022, reaching $1,175 per month. Rents spiked 11.2 percent during the past year.
- The multifamily investment market slowed a bit in recent months, as sales velocity slowed by 10 percent from the third quarter to the fourth quarter. The median sales price in 2022 was $91,000 per unit.

ST. LOUIS MULTIFAMILY MARKET OVERVIEW

Operating conditions in the St. Louis multifamily market remained healthy during the fourth quarter, as asking rents continued to advance and vacancy remained low. Vacancy operated in a fairly tight range during the past 12 months, and current levels are nearly 100 basis points lower than the region's long-term trend. These tight vacancy conditions, coupled with rapid rent increases, are sparking new construction. Multifamily developers delivered almost 4,900 units in 2022 and have more than 4,300 units currently under construction. Most of the recent deliveries were located in Downtown, but there are also a handful of new projects underway in St. Charles County.

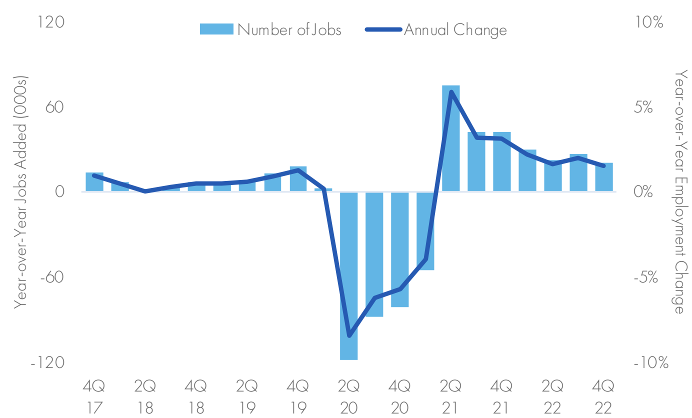
The past year was one where investment activity was elevated in the first half before slowing in the third and fourth quarters. The result was a similar number of properties trading in 2022 as sold in 2021, although investment activity tapered off as the year progressed and financing became more costly. Still, deals did get done, with a handful of newer properties entering the transaction mix, along with the Class C assets that have historically comprised the bulk of the local investment market. Cap rates pushed higher in response to rising interest rates, ending the year at about 6.25 percent in sales of older assets. The recent increases should support deal flow going forward.

EMPLOYMENT

- Employers in St. Louis added jobs at a steady pace throughout much of 2022. For the full year, total employment expanded by 1.5 percent with a gain of more than 20,000 new jobs.
- Manufacturing was a leading source of job growth in St. Louis in 2022, and the sector grew at a faster pace than the economy as a whole. In 2022, 4,700 manufacturing jobs were created, a 4.1 percent rate of expansion.
- Automotive assembly supplier, Piston Automotive, opened a new manufacturing facility in Wentzville during the fourth quarter of 2022. The new site will serve as a sub-assembly plant for General Motors, assembling parts for GM's Colorado and Canyon Trucks. The new facility will create more than 200 manufacturing jobs in the coming quarters.
- **FORECAST:** The pace of employment growth is expected to cool in the coming periods, following two years of recovery in the local labor market. Area employers are forecast to hire 10,000 net new workers in 2023, increasing total employment by 0.7 percent.

Total employment in 2022 expanded by 1.5 percent.

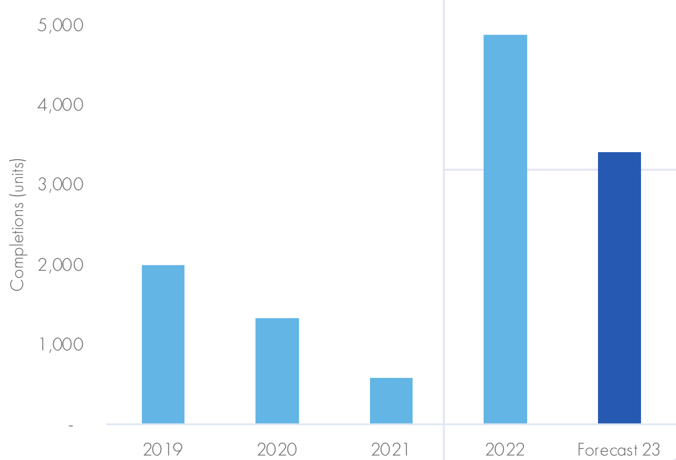
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Completions totaled more than 4,850 units in 2022.

DEVELOPMENT TRENDS



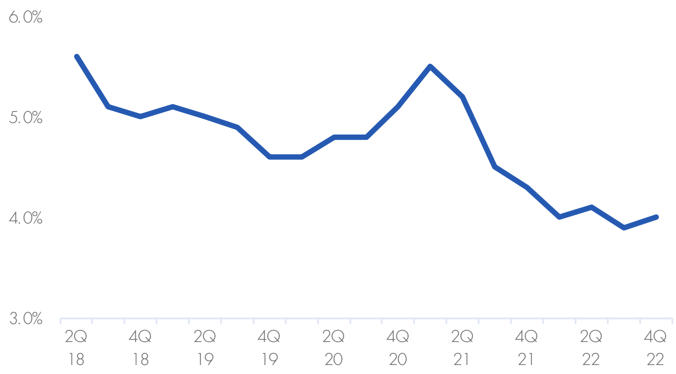
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Developers have remained active, completing projects totaling more than 730 units in the final three months of 2022. The past year marked a cyclical high for new inventory growth; completions totaled more than 4,850 units in 2022, nearly tripling the market's five-year annual average deliveries.
- The rapid pace of completed projects has allowed the development pipeline to thin out somewhat in recent quarters. Projects totaling approximately 4,350 units were under construction at the end of the fourth quarter, down 11 percent from the start of the year.
- Developers pulled permits for 810 multifamily units during the fourth quarter, closely tracking levels recorded in the previous period. Permits for more than 4,000 units were issued in 2022, after averaging 1,950 permits during the last five years.
- **FORECAST:** After peaking in 2022, the pace of apartment deliveries is forecast to slow in the year ahead. Developers are scheduled to complete roughly 3,400 multifamily units in 2023, and deliveries will likely return closer to historical levels beginning in 2024.

Vacancy tightened by 30 basis points in 2022.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

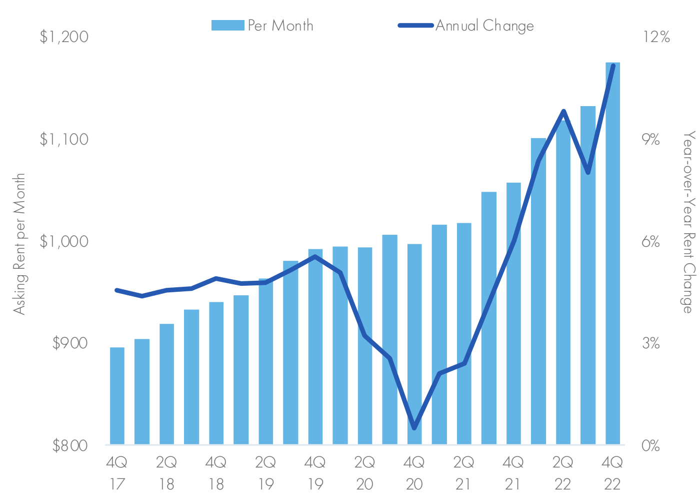
- Vacancy inched higher in recent months after reaching a cyclical low in the previous period. The rate rose 10 basis points to 4 percent during the fourth quarter. Even after ticking up at the end of the year, vacancy tightened by 30 basis points in 2022.
- The vacancy rate remained within a tight range throughout much of the region but recorded a sharp decline in the Clayton/Mid-County area. Vacancy in the Clayton/Mid-County submarket dropped 100 basis points in 2022 to 4.7 percent.
- The combined vacancy rate in Class B and Class C properties tightened in 2022, falling 80 basis points to 2.9 percent. The surge in new development pushed Class A vacancy rates higher; Class A vacancy ended the year at 5.9 percent despite positive net absorption.
- **FORECAST:** A slowing pace of economic growth will likely result in vacancy trending higher in 2023. The rate is forecast to rise 50 basis points to 4.5 percent; during the past decade, vacancy has averaged 4.7 percent.

RENTS

- Asking rents surged in 2022, including healthy gains recorded during the fourth quarter. Year over year, asking rents spiked 11.2 percent, ending the year at $1,175 per month.
- While rents advanced throughout the market, some of the strongest gains were recorded within the city core. In the St. Louis City North submarket, asking rents spiked 15.4 percent in 2022, reaching $1,478 per month. In the St. Louis City South submarket, annual rent growth totaled 12.5 percent.
- Average rents jumped across the quality spectrum in recent quarters with the largest increases occurring in mid-tier and lower-tier units. Combined asking rents for Class B and Class C properties advanced 14.7 percent in 2022 to $983 per month.
- **FORECAST:** After spiking in 2022, the pace of rent gains is forecast to moderate in the next 12 months. Asking rents are expected to advance 3.5 percent in 2023, reaching $1,216 per month.

Asking rents ended the year at $1,175 per month.

RENT TRENDS



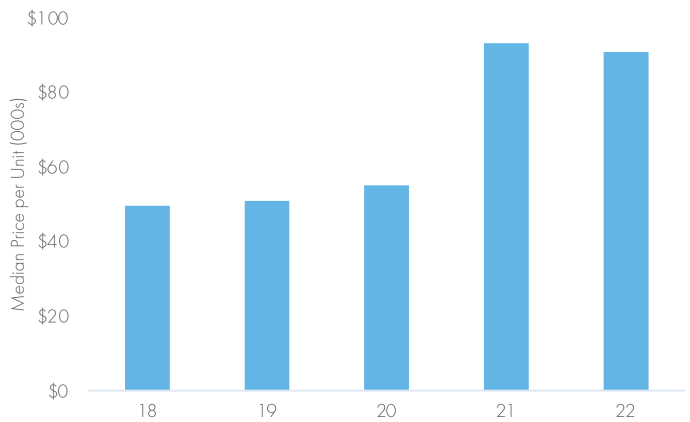
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Sales velocity during the last three months of the year was lower than activity levels during the previous quarter. For the full year, the number of transaction that closed in 2022 was nearly identical to the 2021 level.
- The median price in 2022 was $91,000 per unit, similar to the median price in 2021. Class C properties made up roughly two-thirds of the transaction mix in 2022, similar to historical levels. At the end of the year, most Class C properties were changing hands at prices between $50,000 per unit and $60,000 per unit.
- Cap rates trended higher late in 2022, averaging approximately 6.25 percent during the fourth quarter. At the beginning of the year, properties were trading with cap rates as low as 4.5 percent.

The median price in 2022 was $91,000 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

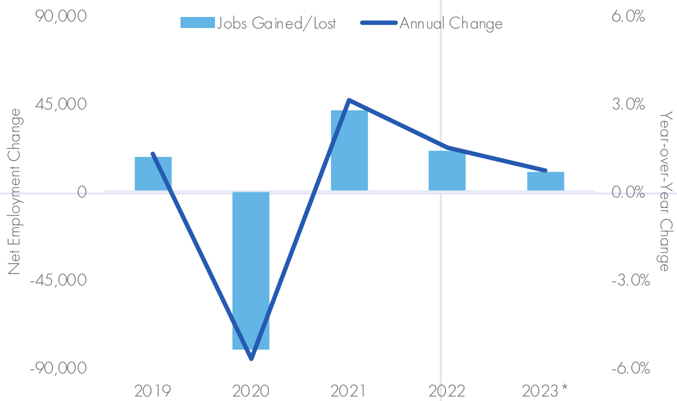
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Gateway at City Park	110 N 17th St., Saint Louis	769	$73,500,000	$95,579
Bold on the Boulevard	1100 Saint Peters Centre Blvd., Saint Peters	272	$70,000,000	$257,353
Southfield Apartments	5549 Southfield Dr., Saint Louis	429	$40,000,000	$93,240
Longacre Ponds	21 Northbrook Cir., Fairview Heights	249	$19,500,000	$78,313

LOOKING AHEAD

Following a period of rapid supply growth and rent spikes, apartment fundamentals in St. Louis are expected to return closer to long-term averages in the year ahead. Developers will continue to add inventory to the market with projects totaling an additional 3,400 units slated to come online in 2023. The continued delivery of newer, more expensive units will support modest rent gains across the market, while also likely putting upward pressure on vacancy rates in a handful of submarkets. Vacancies are expected to end the year in the mid-4 percent range, higher than current levels, but consistent with historical market norms.

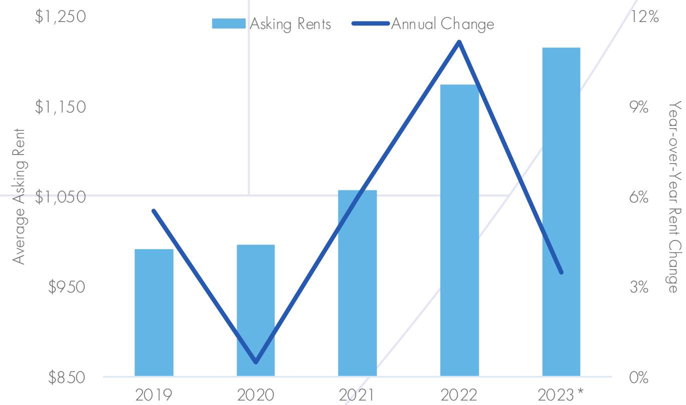
The influx of construction projects moving through the development pipeline in St. Louis could present a new set of investment opportunities in the market. While the transaction mix has historically been dominated by older, Class C properties, a greater number of recently completed properties will likely change hands in the next 12 to 24 months. In many cases, developments will be made available for acquisition after successful lease-up. With construction timelines extended and costs elevated, some developers may be motivated to complete sales ahead of full stabilization. These trends will influence overall per-unit pricing and cap rates, however, investment trends in the region's Class C properties should closely track recent pricing trends.

EMPLOYMENT FORECAST



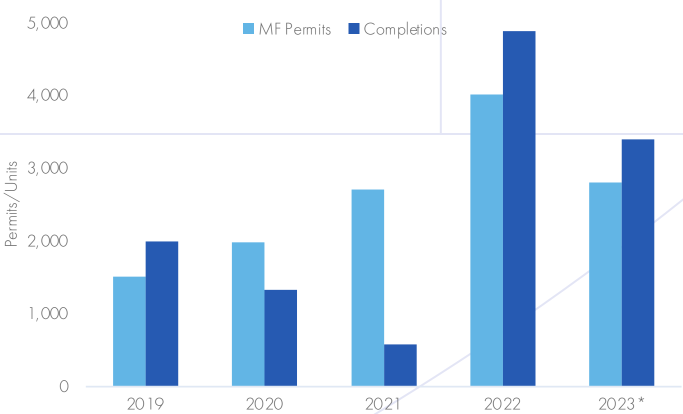
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



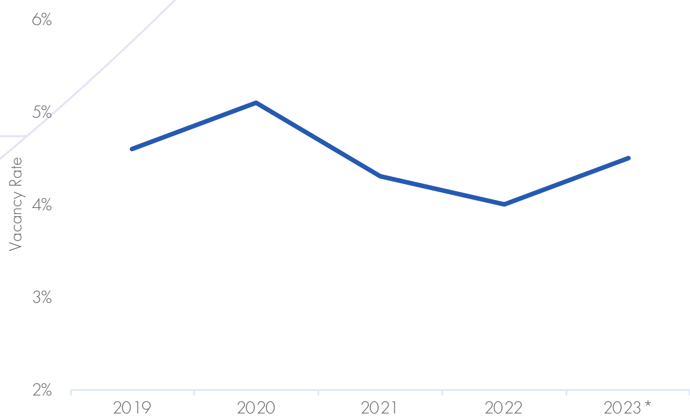
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Reis

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