

Market Insights

Greater St. Louis Multifamily 3Q 2021



Construction Activity



1,361

Units under construction

356

Units delivered (YTD)

Market Fundamentals



4.5%

Vacancy

-30bps

Year over year change

\$1,048

Asking Rent

+4.2%

Year over year change

Transaction Activity



\$115,800

Median sales price per unit (YTD)

5.2%

Cap rates (YTD)

Vacancy Decline Fueled by Absorption Spike

Highlights

- Renter demand for St. Louis multifamily properties surged during the third quarter, driving the vacancy rate lower and pushing rents higher. The market should sustain the momentum that was recorded after midyear, with employers forecast to increase hiring activity in the coming quarters.
- Multifamily vacancy fell 70 basis points during the third quarter with the rate reaching 4.5 percent. The rate has reached its lowest point since 2016; year over year, vacancy has declined 30 basis points.
- Asking rent growth accelerated in the third quarter, spiking 3 percent to \$1,048 per month. Year over year, rents have advanced 4.2 percent.
- The investment market gained momentum during the third quarter. The number of properties that sold accelerated, prices have increased, and cap rates have compressed. The median price to this point in 2021 is \$115,800 per unit, more than doubling the median price from 2020.

St. Louis Multifamily Market Overview

After a bit of a slow start to the year, renter demand for apartments spiked in St. Louis during the third quarter, driving the vacancy rate lower and pushing rents higher. Net absorption for the quarter totaled more than 850 units after fewer than 50 units were absorbed in the first half of the year. This release of pent-up demand drove vacancy down to its lowest point since the end of 2016. The accelerating pace of demand supported rent growth, and additional gains are likely in the coming quarters. Demand should continue to be fueled by an ongoing recovery in the local job market; employers added back workers at a gradual pace in 2021, but the pace of growth should gain momentum in the year ahead.

The local investment market strengthened during the third quarter with more properties changing hands and cap rates compressing. Transaction activity this year has been marked by a broad mix of assets, with several Class A properties accounting for a large share of the activity in the first half of the year, followed by a mix of Class B and Class C complexes trading in the second half. Pricing has spiked with the median price among transactions in 2021 more than doubling the median price from last year. Throughout much of 2021, area cap rates averaged approximately 5.2 percent.

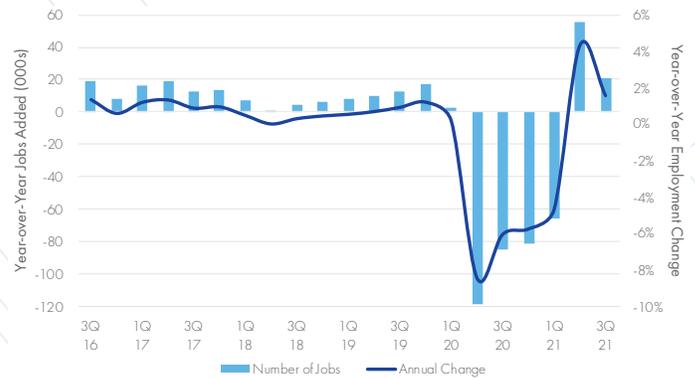
Employment

- The employment market in St. Louis is slowly improving. Employers added more than 4,000 jobs during the third quarter, following the addition of 8,000 jobs in the first half of the year. Although local employment is still below pre-COVID levels, job growth in St. Louis is up nearly 1.5 percent year over year, as more than 20,000 jobs have been added back to the local economy.
- The professional and business services sector has been one of the top-performing industries in recent quarters. Professional employment in St. Louis has expanded by 3.3 percent in the past year, adding 6,700 workers.
- During the third quarter, meat-processing company Deli Star Corp. announced plans to move its headquarters to St. Louis. The company will move into a new 110,000-square-foot facility in early 2022. Deli Star plans to invest nearly \$100 million and bring 500 new jobs to the St. Louis region.
- **Forecast:** Employment in St. Louis expanded in 2021 but will not surpass pre-COVID levels until 2022. The employment market was on pace to add 24,000 jobs in 2021, a gain of 1.8 percent.



Job growth in St. Louis is up nearly 1.5 percent year over year.

Employment Overview

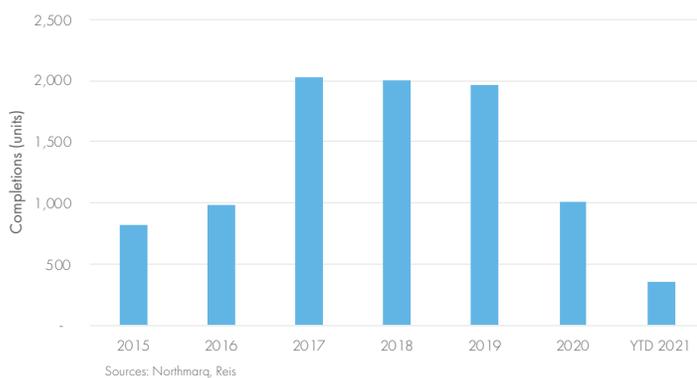


Sources: Northmarq, Bureau of Labor Statistics



Year to date, approximately 350 units have been delivered.

Development Trends



Sources: Northmarq, Reis

Development and Permitting

- There were no new significant projects that came online during the third quarter, and deliveries have been modest to this point in 2021. Year to date, approximately 350 units have been delivered, down from 800 units that were completed during the same period last year.
- At the end of the third quarter, there were 10 projects under construction in St. Louis, totaling approximately 1,400 units. More than one-third of the projects under construction are located in the St. Louis City South submarket.
- Permitting has accelerated in recent quarters. To this point in 2021, developers have pulled permits for more than 1,800 multifamily units, up from 1,300 units during the same period last year.
- **Forecast:** Deliveries are forecast to accelerate before the end of the year, as a handful of projects are slated to come online in the fourth quarter. Approximately 870 units are forecast to be delivered in 2021, down from 1,100 units in 2020.

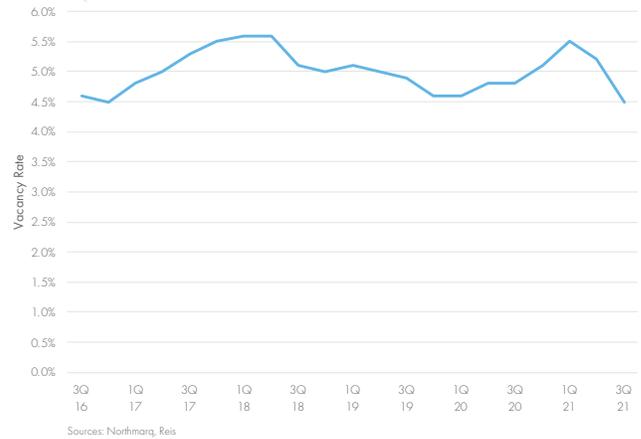
Vacancy

- Vacancy tightened considerably during the third quarter, falling 70 basis points to 4.5 percent. The current rate is the lowest vacancy figure in the market since the end of 2016.
- With the tightening that occurred during the third quarter, the vacancy rate has declined 30 basis points from one year ago. The rate reached a three-year high of 5.5 percent in the first quarter of 2021 but has been trending downward since the end of March.
- The vacancy rate has been trending lower due to a rise in renter demand. More than 850 units were absorbed in the third quarter, following only modest levels of absorption in the first half of the year.
- **Forecast:** Elevated renter demand will continue to push vacancies lower through the end of the year. Vacancy in St. Louis is forecast to drop 60 basis points in 2021, ending the year at 4.3 percent, the lowest vacancy rate since 2015.



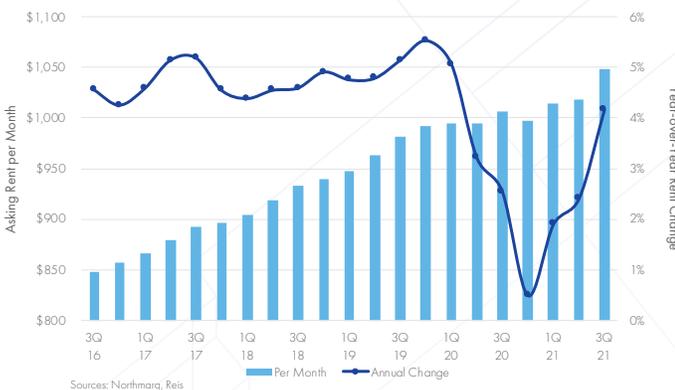
The vacancy rate has declined 30 basis points from one year ago.

Vacancy Trends



Current asking rents are up 4.2 percent year over year.

Rent Trends



Rents

- With demand on the rise, the pace of rent growth has accelerated in recent months. During the third quarter, rents grew by nearly 3 percent, reaching \$1,048 per month.
- Rents in St. Louis have been growing at a healthy pace over the past several quarters. Current asking rents are up 4.2 percent year over year.
- The St. Louis City North submarket has the largest inventory of units in the region. Asking rents in this submarket reached nearly \$1,280 per month.
- **Forecast:** With the current demand and pace of rent growth, rents are expected to rise through the end of 2021. St. Louis asking rents are forecast to grow by 6.8 percent year over year, reaching \$1,065 per month by the end of December.

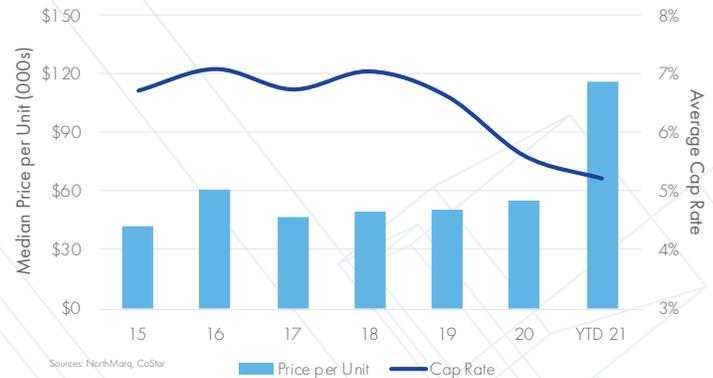
Multifamily Sales

- Sales activity during the third quarter outpaced levels from the previous period by nearly 30 percent. The rise in activity in the third quarter drove sales velocity up more than 25 percent when compared to the same period in 2020.
- The median price in transactions that closed to this point in 2021 was approximately \$115,800 per unit, doubling the median price recorded in 2020. The rise in prices is due to improving property fundamentals and the mix of assets that have sold. Class A properties have accounted for approximately 30 percent of the sales transactions in 2021.
- Cap rates in St. Louis have generally ranged between 5 percent and 5.5 percent for much of 2021, with the lowest cap rates recorded in the second half of the year. Cap rates have averaged approximately 5.2 percent in 2021.



Cap rates have averaged approximately 5.2 percent in 2021.

Investment Trends

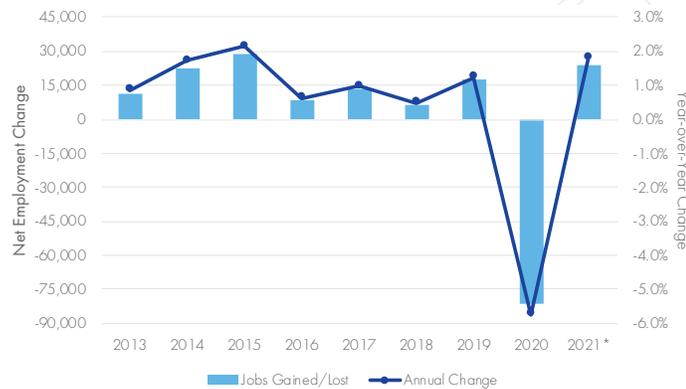


Looking Ahead

The St. Louis multifamily market is expected to continue to record improving property performance through the remainder of this year and into 2022. Current employment totals remain about 4 percent below the 2020 peak, giving the local labor market additional room for recovery in the coming quarters. Multifamily properties have continued to post healthy performance despite a labor market that has not yet fully rebounded. As renter demand regains momentum, the vacancy rate should remain low and rents will trend higher.

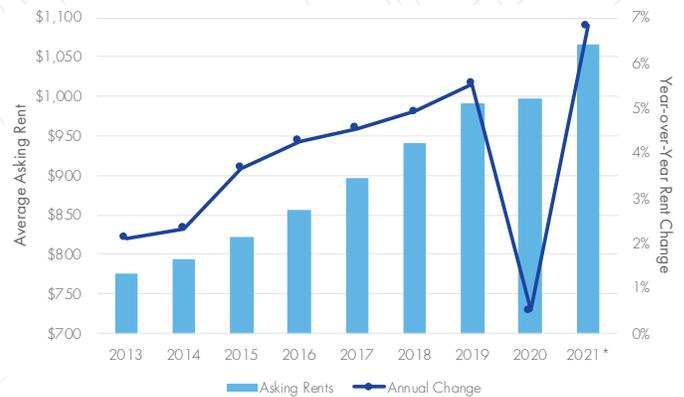
The investment outlook in St. Louis has brightened throughout 2021, as uncertainty in the market has lifted and property fundamentals have strengthened. After a slow start to the year, the pace of sales velocity has accelerated in each of the past two quarters. With investors stepping up activity levels, prices have risen while cap rates have compressed. The sharp rise in prices in 2021 may result in some uneven transaction levels in the near term as buyers and sellers adjust pricing expectations.

Employment Forecast



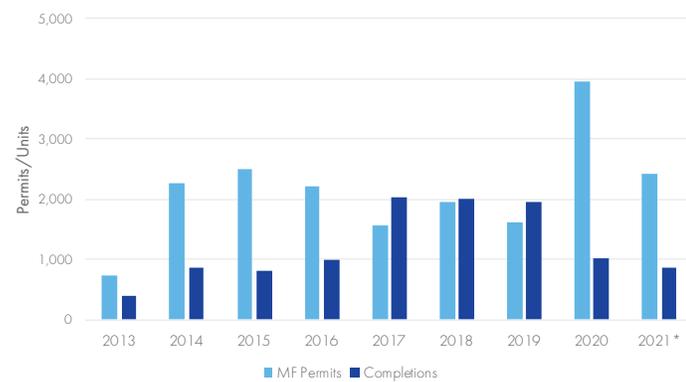
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



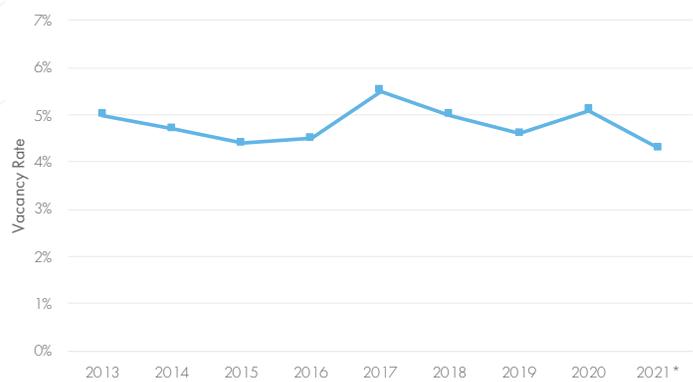
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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