Northmarq

MARKET INSIGHTS

After a brief pause in deliveries, activity to ramp back up

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	4,316
UNITS DELIVERED	156

MARKET FUNDAMENTALS

VACANCY RATE	4.2%
YEAR-OVER-YEAR CHANGE	+20bps
ASKING RENTS	$1,173
YEAR-OVER-YEAR CHANGE	+6.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT*	$108,300

** Transactions where pricing is available*

St. Louis Multifamily

1Q 2023

HIGHLIGHTS

- After more than two years of steady improvement, operating conditions in the St. Louis multifamily market softened modestly during the first quarter. The vacancy rate inched higher and asking rents ticked lower.
- The vacancy rate trended higher to start 2023 but remains below the historical average in the market. Vacancy rose by 20 basis points during the first quarter to 4.2 percent. Year over year, the rate has increased by 20 basis points.
- After two years of rapid rent growth, asking rents inched lower during the first quarter. Area rents dipped 0.2 percent to $1,173 per month. Despite a minimal drop in the first quarter, local rents advanced 6.5 percent during the past 12 months.
- Sales activity in the St. Louis multifamily investment market continued to slow in recent months, although per-unit prices rose in the transactions that closed. In transactions where pricing is available, the median sales price year to date is $108,300 per unit.

ST. LOUIS MULTIFAMILY MARKET OVERVIEW

Property performance metrics in the St. Louis multifamily market cooled during the first quarter, as asking rents retreated for the first time in two years, and the vacancy rate inched higher for the second consecutive quarter. The vacancy rate reached 4.2 percent, still below the long-term trend in the region. In addition, asking rents dipped 0.2 percent in recent months, following rapid gains in the last two years. Much of the recent performance represents a rebalancing as the market finds a new equilibrium. Rents have spiked by nearly $200 per month since mid-2020, while the vacancy rate has remained tight. An influx of new supply—with more on the way—should ultimately stabilize operational performance.

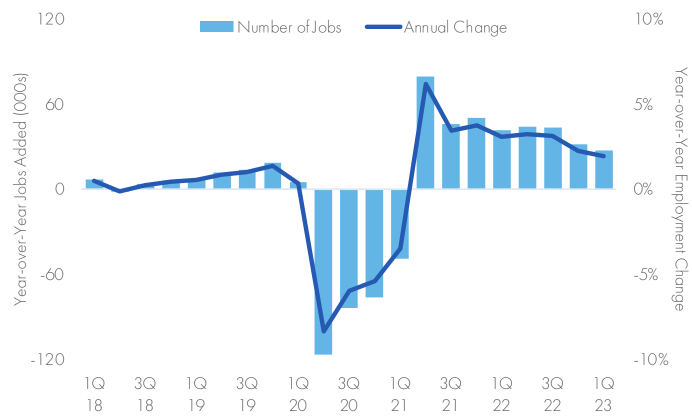
Multifamily sales activity in St. Louis slowed during the first quarter, as elevated financing costs and a gap between buyer and seller pricing expectations remained in place. Deal volume in the last three months declined by roughly 20 percent from the previous period, marking its lowest level of activity since the second quarter of 2020. In the transactions that did occur in recent months, investors were most active around the city center. Despite the recent slowdown in activity, strong property performance is being reflected in rising pricing trends. In transactions where pricing was available, the median sales price year to date is $108,300 per unit, up nearly 20 percent from levels recorded in 2022.

EMPLOYMENT

- Area employers continued to add jobs at the start of 2023, as the local labor market expanded by 4,900 positions during the first quarter. Year over year, total employment grew by 1.9 percent with the addition of 27,000 jobs.
- The education and health services sector continues to record steady gains. During the 12-month period ending in the first quarter, the sector expanded by 5,200 positions, a 2 percent rate of growth. Since 2015, growth in education and health services in St. Louis has outpaced the region's overall pace of growth by nearly 50 percent.
- St. Louis-based drug device producer, Meridian Medical Technologies, is investing more than $100 million to grow operations in Bridgeton. The company recently purchased a new 155,000-square-foot facility, which will be converted to further expand manufacturing capabilities. Upon completion in 2024, the new site will add 30 jobs to the existing 900-person local workforce.
- **FORECAST:** Employment growth is projected to taper off in the remainder of the year, after the local labor market recovered at a rapid pace in 2021 and 2022. Total employment is forecast to expand by 15,000 positions in 2023, an annual increase of approximately 1 percent.

Year over year, employment grew by 1.9 percent.

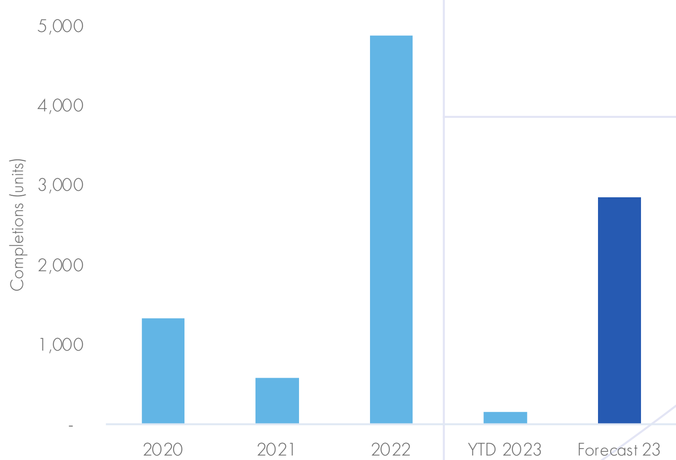
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling more than 4,300 units are under construction.

DEVELOPMENT TRENDS



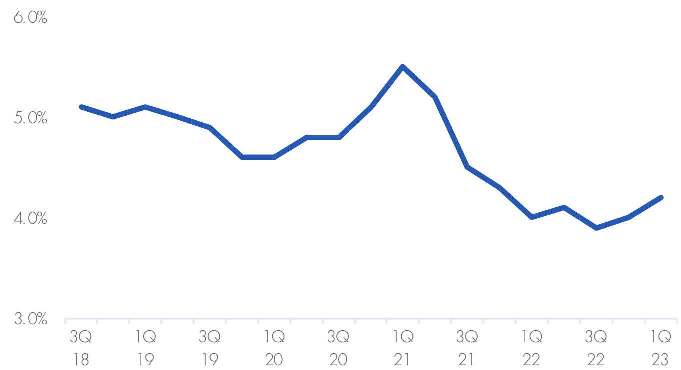
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Following a surge in apartment completions last year, multifamily deliveries were limited at the beginning of 2023. Projects totaling roughly 160 units came online in the first quarter, after more than 4,800 units were delivered in 2022.
- Projects totaling more than 4,300 units are currently under construction throughout the region, down 12 percent from one year ago. The most active areas for new development include Downtown St. Louis and St. Charles County.
- Developers pulled permits for 815 multifamily units during the first quarter, closely tracking levels recorded in the previous period. Multifamily permitting peaked in the second half of 2021 and the first half of last year, when developers were pulling permits for nearly 1,100 units per quarter.
- **FORECAST:** While multifamily deliveries will gain momentum in the coming periods, the annual completion total in 2023 will lag levels recorded during last year's peak. Projects totaling 2,850 units are projected to come online in 2023, about 35 percent higher than the market's long-term average.

Vacancy rose 20 basis points during the first quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

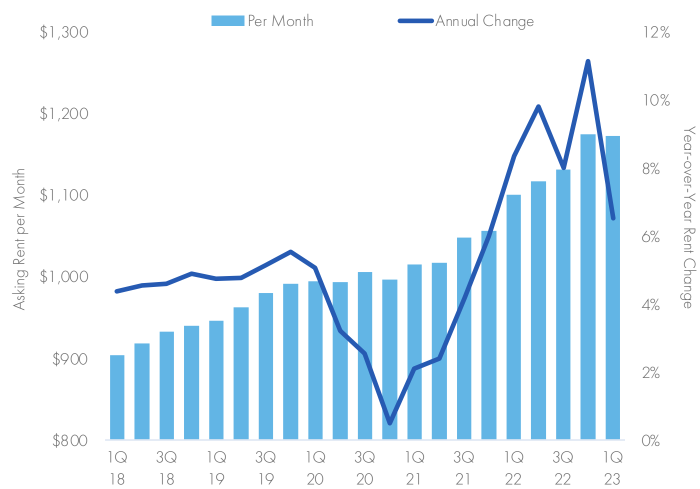
- The vacancy rate continued to inch higher in recent months, after reaching a cyclical low in the second half of 2022. Vacancy rose 20 basis points during the first quarter to 4.2 percent.
- Year over year, vacancy in St. Louis trended higher by 20 basis points. Despite the recent upticks and the surge in new development last year, the market is still operating below the region's long-term vacancy trend. Vacancy averaged 4.6 percent in the trailing five years.
- Renter demand for Class B and Class C properties remained strong in recent quarters. The combined vacancy rate for mid- and lower-tier properties fell 10 basis points from one year ago to 3.1 percent. Average Class A vacancy is close to 6 percent.
- **FORECAST:** The vacancy rate will likely continue to tick higher in the remainder of the year, as renter demand is expected to soften alongside employment growth. Vacancy is projected to finish 2023 at 4.5 percent, 50 basis points higher than at the end of 2022.

RENTS

- Asking rents inched lower in the last three months, marking the first quarterly decline in two years. Local rents fell by 0.2 percent during the first quarter to $1,173 per month. Despite dipping at the start of 2023, area rents rose by 6.5 percent during the past 12 months.
- While asking rents trended higher across the St. Louis region in the past year, rent growth was fastest in the South County submarket. Year over year, asking rents in this submarket advanced by 8.4 percent to $894 per month. With rents that are considerably lower than the market average, and a tight vacancy rate, there could be room for additional rent growth in the submarket going forward.
- Class A properties recorded the steepest rent increases in recent periods. Average rents for upper-tier units increased 6.6 percent in the past year to $1,541 per month.
- **FORECAST:** Following elevated rent growth in each of the past two years, future rent gains should return closer to the market's long-term trend. Asking rents are forecast to advance 3 percent in 2023, finishing the year at $1,210 per month.

Rents rose by 6.5 percent during the past 12 months.

RENT TRENDS



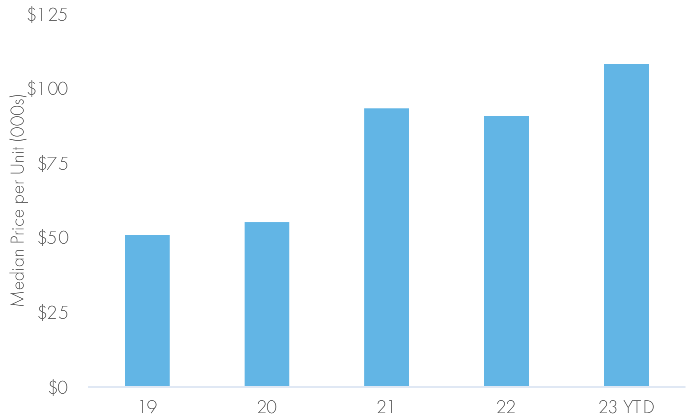
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Multifamily transaction activity in St. Louis slowed at the start of the year, similar to the trend that prevailed at the national level. Sales velocity in the first quarter declined 25 percent from the previous period.
- While sales volume trended lower, pricing strengthened in recent months. In transactions where pricing is available, the median sales price to this point in the year is $108,300 per unit, up 19 percent from 2022.
- Cap rates held steady at the start of the year, averaging about 6.25 percent during the first quarter. The limited trading volume at the beginning of the year has slowed price discovery. In some transactions, cap rates are closer to 6.75 percent.

The median sales price to this point in the year is $108,300 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

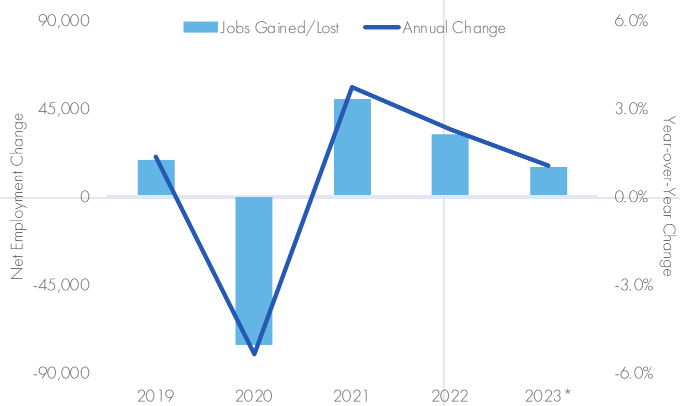
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The View at Forest Park	4400 Lindell Blvd., St. Louis	301	$61,000,000	$202,658
Courtland Manor	7594 Watson Rd., St. Louis	96	$8,778,000	$91,438
Oakwood Apartments	1-50 Provincial Ct., Kirkwood	50	$7,050,000	$141,000
Heritage Townhomes	601-635 Scotti Ct., Wentzville	40	$5,000,000	$125,000

LOOKING AHEAD

While the pace of multifamily deliveries started the year slowly, supply growth will ramp up in the coming periods. Projects totaling approximately 2,850 units are slated to come online in St. Louis in 2023, above the long-term trend in the region. The increase in new supply is expected to take the vacancy rate up to about 4.5 percent by the end of the year, similar to levels recorded throughout the region for much of the past decade. The past few years have been particularly active in St. Louis, but the market is likely to return closer to its long-term trend through the remainder of 2023. With the market returning to historical levels, rents should post a modest 3 percent increase, building on rapid gains recorded since 2021.

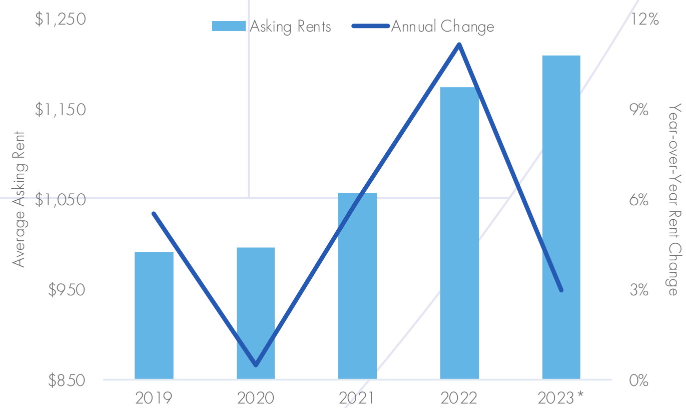
While the St. Louis multifamily investment market experienced a slowdown in recent months, there are conditions that could generate some momentum in the second half of 2023 or by the beginning of next year. One is an anticipated stabilization in interest rates, which have essentially doubled in the past 12 months. The elevated borrowing costs have restricted transaction activity, and the bulk of the recent sales have involved Class C properties. Going forward, activity should pick up in the sale of Class A assets, as a greater number of recently completed projects are stabilized and sold. Cap rates have topped 6 percent for the past few quarters, and that may be a level that is high enough to move some buyers off of the sidelines.

EMPLOYMENT FORECAST



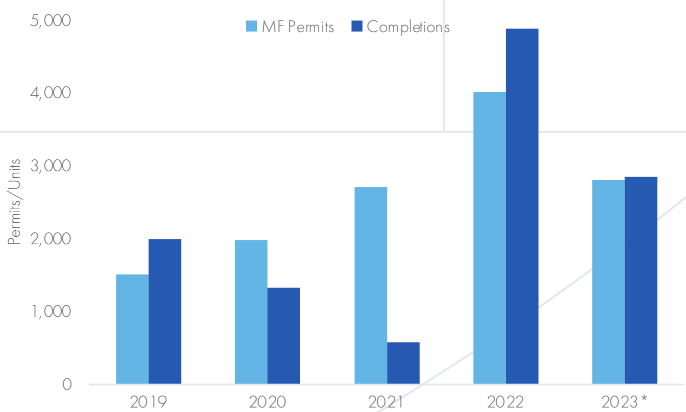
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



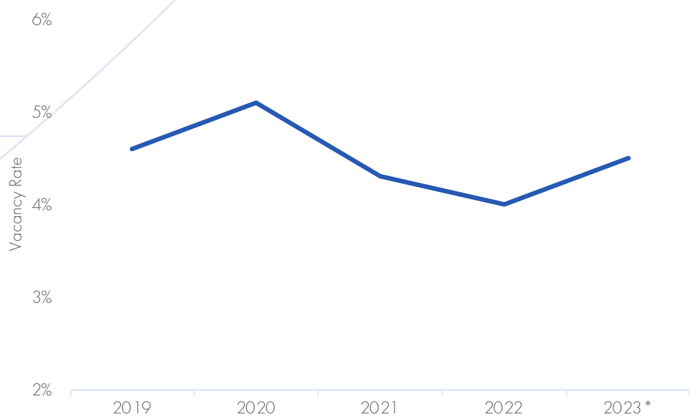
* *Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, Reis

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