Market Insights

Greater St. Louis Multifamily 3Q 2022

Northmarq

Construction Activity

4,237

Units under construction

4,148

Units delivered (YTD)

Market Fundamentals

3.9%

Vacancy

-70bps | Year over year change

$1,132

Asking Rent

+8.0% | Year over year change

Transaction Activity

$91,500

Median sales price per unit (YTD)

Vacancy Remains Tight, Even as Supply Growth Continues

Highlights

- Property fundamentals for St. Louis apartments improved in the last three months as local vacancies fell to a cyclical low, and rents continued to trend higher. Apartment construction remains active, and deliveries will be elevated through next year.
- Continued renter demand has helped push vacancy lower. The vacancy rate fell by 20 basis points during the third quarter to 3.9 percent. Year over year, the rate has improved by 70 basis points.
- Local rents continued to increase in the last three months. Asking rents advanced 1.3 percent during the third quarter, reaching $1,132 per month. During the past 12 months, rents have jumped 8 percent.
- Sales velocity slowed during the third quarter, and fewer properties have changed hands year to date than traded in 2021. The median sales price to this point in the year is approximately $91,500 per unit.

St. Louis Multifamily Market Overview

The St. Louis multifamily market recorded a healthy third quarter as the vacancy rate fell, and asking rents continued to rise, even as the pace of completions of new units accelerated. Local vacancy has generally been trending lower since the start of 2021 and reached a cyclical low in the last three months. Asking rents continued to trend higher, but growth has been moderate, following spikes recorded in late 2021 and earlier this year. Rents have now increased for seven consecutive quarters, while the pace of growth has returned closer to the region's long-term average. Developers have already brought an elevated number of units online through the first three quarters of the year.

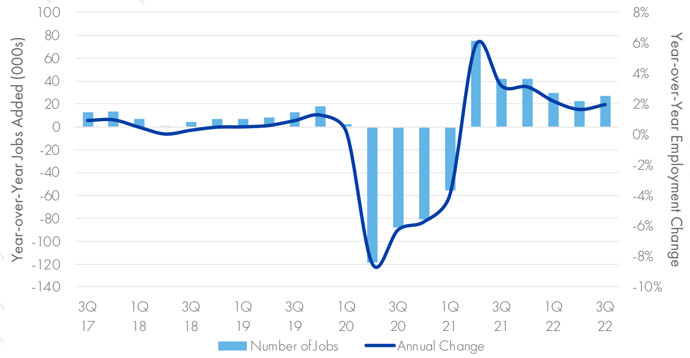
The St. Louis multifamily investment market slowed during the third quarter, following a strong start to the year. Sales velocity cooled from the preceding three-month period, and total transactions to this point in the year are lagging year-earlier levels. Class B properties made up the majority of transactions in the last three months, with nearly all of the deals occurring in the western half of the city, on the Missouri side. Pricing has remained similar to 2021 levels, following a steep increase in recent years. While prices have demonstrated stability, cap rates have pushed higher in response to rising interest rates. Cap rates averaged approximately 5.5 percent in the third quarter.

Employment

- Growth in the local economy in St. Louis gained momentum to start the second half of the year, as area employers added 8,700 workers during the third quarter. Year over year, the local labor market expanded by 26,800 jobs, increasing by 2 percent annually.
- The professional and business services sector remains one of the top-performing industries in the region. During the past 12 months, this sector added 11,400 new jobs, expanding by 5.4 percent. The sector has accounted for more than 40 percent of all net jobs added in the past year.
- Procter & Gamble recently announced plans to invest $180 million into the company's 17-acre factory on the north St. Louis riverfront. Once the expansion is complete, Procter & Gamble is set to grow its existing local workforce with 100 new jobs.
- **Forecast:** The local economy in St. Louis is forecast to continue to post payroll gains in the coming months. Area employers are expected to add 19,500 workers in 2022, an expansion of 1.4 percent.

> Area employers are expected to add 19,500 workers in 2022.

Employment Overview



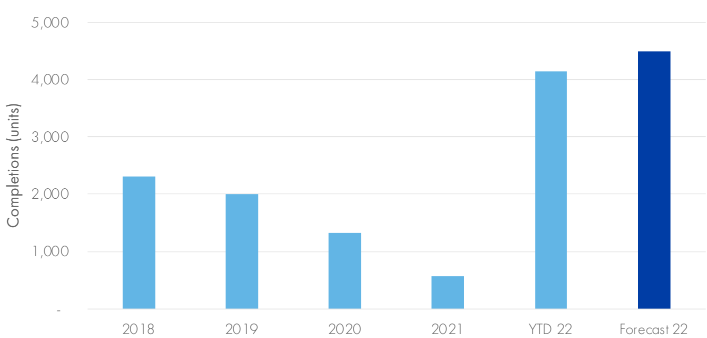
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- Apartment completions continued to accelerate during the third quarter as more than 2,350 units were delivered. Approximately 4,150 units have come online to this point in the year, after deliveries essentially stalled in 2020 and 2021.
- Multifamily developers continue to add projects to the construction pipeline. Projects totaling roughly 4,250 units are currently under construction throughout St. Louis, doubling the total from one year ago.
- Permitting cooled in the third quarter, after surging during the first half of the year. Developers pulled permits for more than 800 multifamily units in the last three months, slowing 35 percent from last quarter. Despite recent slowing, permits for 3,200 multifamily units have been pulled thus far in 2022, up more than 75 percent from the same period last year.
- **Forecast:** Projects totaling roughly 4,500 units are forecast to come online in 2022, but nearly all of those units have already been delivered. The recent surge in permitting and units under construction will result in elevated completions in each of the next two years.

> Approximately 4,150 units have come online to this point in the year.

Development Trends



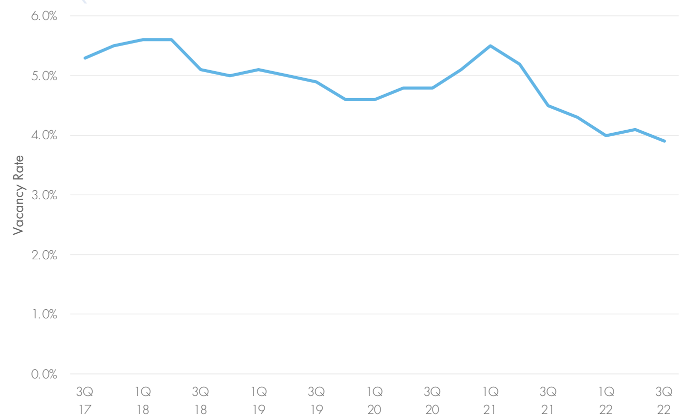
Sources: Northmarq, Reis, CoStar

Vacancy

- Even with deliveries elevated, area vacancy has remained low. The rate dipped 20 basis points in the last three months, ending the third quarter at 3.9 percent. Vacancy has tightened in five of the past six quarters.
- Year over year, local vacancy dropped by 70 basis points. While vacancies have tightened across most submarkets in recent quarters, the vacancy rate in St. Louis South has improved the most in the past year. Vacancy in St. Louis South has dropped by 140 basis points during the past 12 months, reaching 4 percent.
- Vacancy trended lower across all asset classes in the past year, with Class A properties recording the largest improvement. During the last 12 months, the vacancy rate for apartments in the top tier dropped 50 basis points, reaching 4.6 percent, a five-year low in the region.
- **Forecast:** After trending lower for much of the year, vacancy is expected to inch higher to close 2022. Local vacancy is forecast to end the year at 4.1 percent.

> Year over year, local vacancy dropped by 70 basis points.

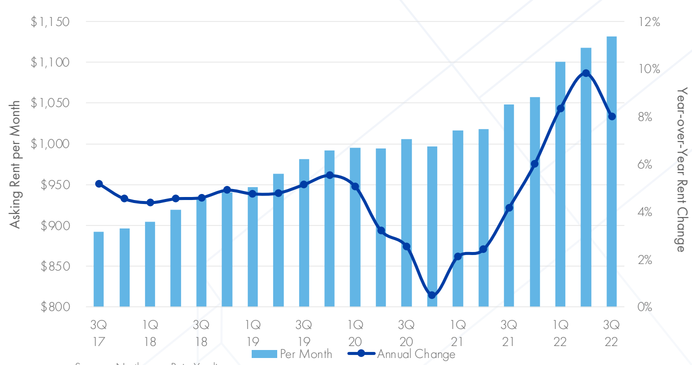
Vacancy Trends



Sources: Northmarq, Reis

> Year over year, asking rents are up 8 percent.

Rent Trends



Sources: Northmarq, Reis, Yardi

Rents

- After spiking at the start of the year, rent growth cooled in recent months. Asking rents advanced 1.3 percent during the third quarter to $1,132 per month.
- Year over year, asking rents are up 8 percent. Rents in Airport/I-40, the least expensive submarket in St. Louis, recorded the steepest growth during the past 12 months, rising 10.5 percent up to $716 per month.
- The combined average asking rent for Class B and Class C properties finished the third quarter at $923 per month, a year-over-year increase of 8.3 percent.
- **Forecast:** Local rents are forecast to reach $1,140 per month by the end of 2022, an annual rise of 7.9 percent.

Multifamily Sales

- After a strong first half of the year, sales velocity slowed in the last three months, as transaction volume fell approximately 50 percent from the previous quarter. Year-to-date transaction activity through the first three quarters of the year was down 25 percent from 2021 levels.
- The median price year to date through the third quarter was approximately $91,500 per unit, essentially unchanged from one year ago. While a handful of Class A and newer, Class B properties have sold thus far in 2022, the bulk of the activity has involved Class C properties that often trade around $50,000 per unit or lower.
- Cap rates rose during the third quarter, averaging about 5.5 percent. If borrowing costs continue to trend higher, cap rates could top 6 percent in some transactions.

> The median price year to date was approximately $91,500 per unit.

Investment Trends

Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

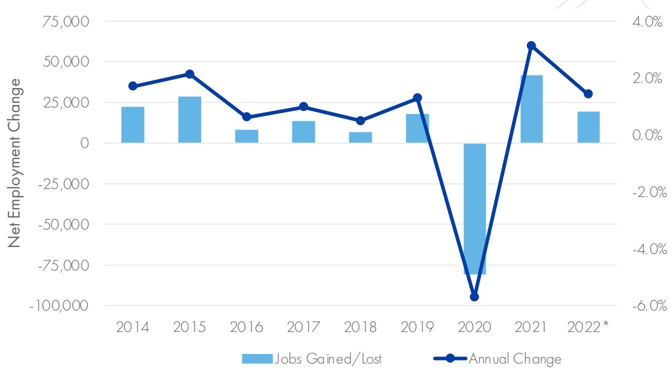
Property Name	Street Address	Units	Sales Price	Price/Unit
The Legends on the Park	400 Legends Terrace Dr., Eureka	224	$43,950,000	$196,205
CHAI House Apartments	6 Millstone Campus Dr., St. Louis	150	$12,129,600	$80,864
Heege Place Apartments	7028 Heege Rd., St. Louis	84	$6,500,000	$77,381
Villa St. Cyr Apartments	1045 Villa Saint Cyr Pl., St. Louis	60	$2,872,800	$47,880

Looking Ahead

Property fundamentals in the St. Louis multifamily market are likely to record a steady performance through the end of the year. Vacancy is expected to trend higher during the next few months, but the rate should remain below the region's long-term average of about 5 percent. Tight vacancy conditions should allow operators to implement modest rent increases. Future rent growth will more closely track the city's long-term average; annual rent growth averaged about 4.5 percent from 2015 to 2019. After the pace of deliveries accelerated in 2022, multifamily developers are forecast to remain active, with projects totaling more than 4,200 units under construction and likely to deliver in the next 18 to 24 months.

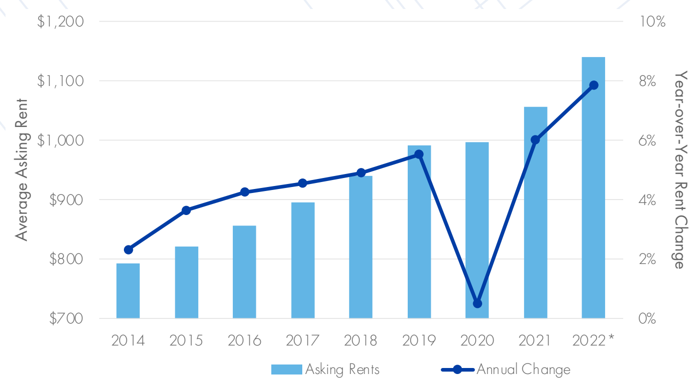
After performing well to this point in the year, the multifamily investment market will likely post a fairly steady pace of transactions during the fourth quarter. Sales velocity in the last two quarters suggests that older, smaller properties will continue to transact through the end of the year, with a handful of larger projects mixed in. Healthy property fundamentals should be enough to keep investor demand steady in the coming months, despite the expected increase in cap rates and growing economic uncertainty. Cap rates could average 6 percent or higher in the coming quarters, although some newer, stabilized projects could command lower cap rates.

Employment Forecast



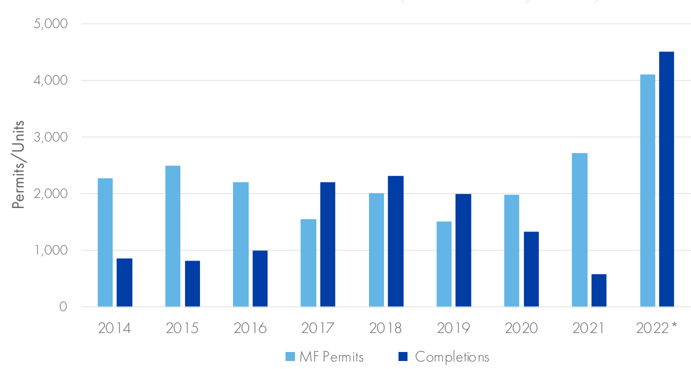
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



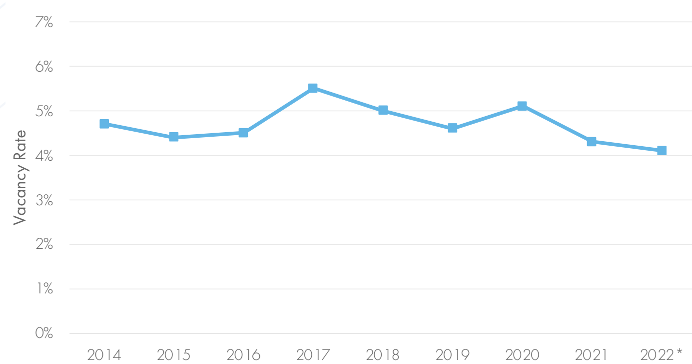
* Year End Forecast
Sources: Northmarq, Reis, Yardi

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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