Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION 3,662

UNITS DELIVERED 1,327

MARKET FUNDAMENTALS

VACANCY RATE 4.4%

YEAR-OVER-YEAR CHANGE +30bps

ASKING RENTS $1,179

YEAR-OVER-YEAR CHANGE +5.5%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT* $82,400

* Transactions where pricing is available

St. Louis Multifamily

2Q 2023

MARKET INSIGHTS

Construction active, *but slower than 2022 pace*

HIGHLIGHTS

- Operating conditions in St. Louis were somewhat mixed during the second quarter as vacancy continued to tick higher while asking rents advanced. Developers remain active, although construction has lagged the pace recorded in 2022.
- Area vacancy rose 20 basis points in the second quarter, reaching 4.4 percent. The rate has trended higher in each of the past three quarters and is up 30 basis points year over year.
- Asking rents inched higher in recent months after a sluggish start to the year. Rents in St. Louis rose 0.5 percent during the second quarter to $1,179 per month. During the past 12 months, area rents increased by 5.5 percent.
- Transaction volume in the local multifamily investment market has remained limited to this point in 2023. Transaction totals are down 60 percent from one year ago, while the median price has dropped 9 percent.

ST. LOUIS MULTIFAMILY MARKET OVERVIEW

Multifamily vacancies in St. Louis have trended higher in each of the past three quarters, but increases have been modest, and the current rate is only marginally higher than one year ago. To this point, renter demand has been consistently strong enough to offset the bulk of the competitive impact of new supply. The Class A market is one segment of the market where new inventory is impacting fundamentals, with the vacancy rate in top-tier units approaching 7 percent, after dipping to a five-year low in the middle of 2022. Still, these units will eventually be absorbed, particularly if area employers continue to add workers at a steady pace. Outside of the top tier, conditions remain tight, with an average vacancy in Class B and C units just over 3 percent.

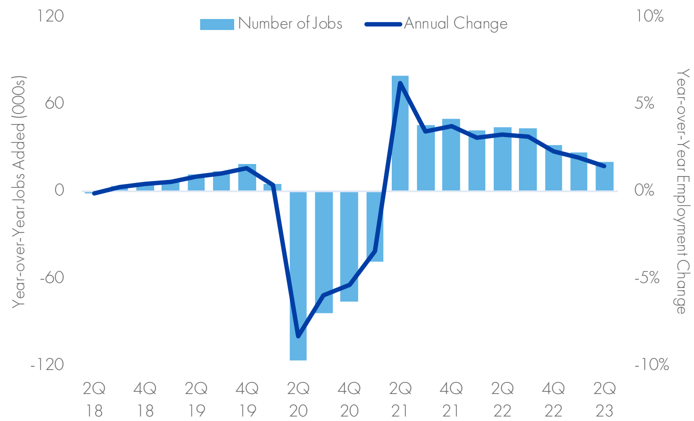
Transaction activity remained limited during the second quarter, due to elevated interest rates and differences in expectations between buyers and sellers. While the pace of sales was similar from the first quarter to the second quarter, the total number of deals in the first half of the year fell 60 percent compared to the same period in 2022. The properties that have sold to this point include mostly Class B and Class C buildings, particularly during the second quarter. In transactions where pricing is available, the median sales price year to date is $82,400 per unit, down 9 percent from the 2022 figure. Cap rates continued to trend higher, generally ranging between 6.5 percent and 7 percent in the second quarter.

EMPLOYMENT

- The local labor market has been growing at a remarkably steady pace in recent periods, a trend that continued in recent months. Area employers expanded payrolls by 5,000 workers during the second quarter. Year over year, total employment in St. Louis rose by 1.4 percent, with the addition of 20,300 jobs.
- The leisure and hospitality sector has been the source of more than half of the net new job creation in St. Louis during the past year. Total employment in this sector spiked nearly 10 percent during the past 12 months, expanding by 14,400 jobs.
- The St. Louis Airport Commission recently approved leasing more than 150 acres to Boeing for a $1.8 billion expansion project that would create 500 jobs. The company will construct multiple manufacturing facilities totaling 1 million square feet.
- **FORECAST:** Employment growth in St. Louis is expected to maintain its current trajectory through the end of this year. The local labor market is forecast to expand by 1.2 percent in 2023, with the creation of 17,000 positions.

Year over year, total employment rose by 1.4 percent.

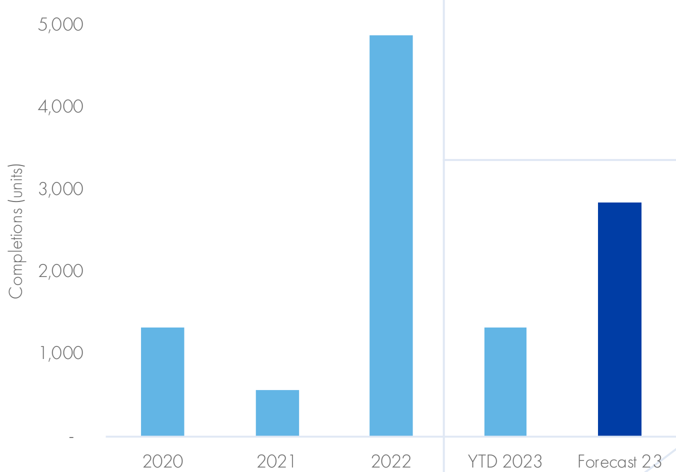
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Multifamily permitting continues to slow in St. Louis.

DEVELOPMENT TRENDS



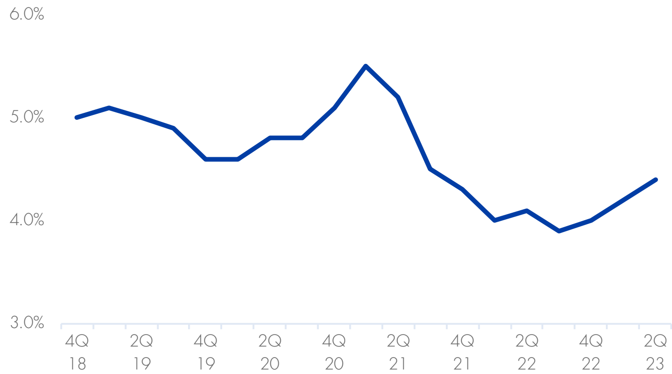
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- The pace of multifamily deliveries accelerated in recent months after completions were light at the start of 2023. Projects totaling nearly 1,200 units came online during the second quarter, after fewer than 200 units were delivered at the start of the year.
- Projects totaling nearly 3,700 units are currently under construction in St. Louis, down 14 percent from one year ago. Roughly one-third of the units in the development pipeline are located in the Mid County submarket.
- Permitting continues to slow in St. Louis. Developers pulled permits for roughly 620 multifamily units in the second quarter, a 23 percent drop from the first quarter. Additionally, permits for approximately 1,400 units were issued in the first half of 2023, down 40 percent from the same period last year.
- **FORECAST:** Developers are expected to remain active in the second half of the year. Projects totaling 2,850 units are slated to come online in 2023, after nearly 5,000 units were delivered last year.

Area vacancy rose to 4.4 percent.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

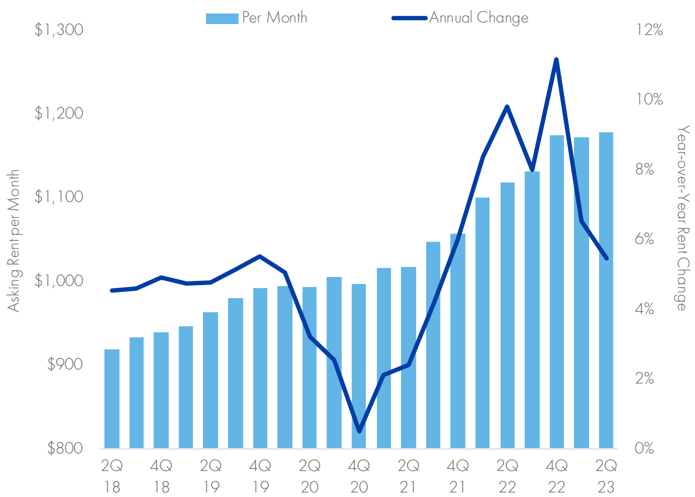
- The vacancy rate in St. Louis trended higher for the third consecutive quarter, rising 20 basis points to 4.4 percent. Despite the recent increases, the rate is up just 30 basis points year over year.
- Vacancy trends were mixed across submarkets during the last year, with the Manchester/West County area posting the largest improvement. Vacancy in this submarket dropped 40 basis points in the past 12 months to 1.7 percent.
- Vacancy in Class A units ended the second quarter at 6.9 percent, 120 basis points higher than one year ago. While the rate trended higher in the top tier, vacancy tightened across Class B and Class C properties. The combined Class B and Class C vacancy rate dipped 20 basis points during the past 12 months to 3.1 percent.
- **FORECAST:** Local vacancy is expected to inch higher through the end of the year. The vacancy rate is forecast to finish 2023 at around 4.6 percent, closely tracking the region's long-term averages.

RENTS

- Rents inched higher in recent months after decreasing slightly at the start of 2023. Area rents rose 0.5 percent during the second quarter to $1,179 per month. Cumulative gains through the past 12 months have been rapid; current rents are 5.5 percent higher than one year ago.
- Average rents rose across all of the submarkets in St. Louis during the past year, with the most expensive submarket, St. Louis North, posting the strongest growth. Year over year, asking rents in this submarket increased approximately 11 percent to $1,481 per month.
- Deliveries of new rental communities have pushed rents higher across the Class A segment. Asking rents in the top tier have increased by 8.3 percent year over year, reaching $1,554 per month.
- **FORECAST:** Apartment rents in St. Louis are forecast to rise 2.6 percent in 2023, reaching $1,205 per month by the end of the year. These gains will build upon growth of more than 11 percent recorded last year.

Current rents are 5.5 percent higher than one year ago.

RENT TRENDS



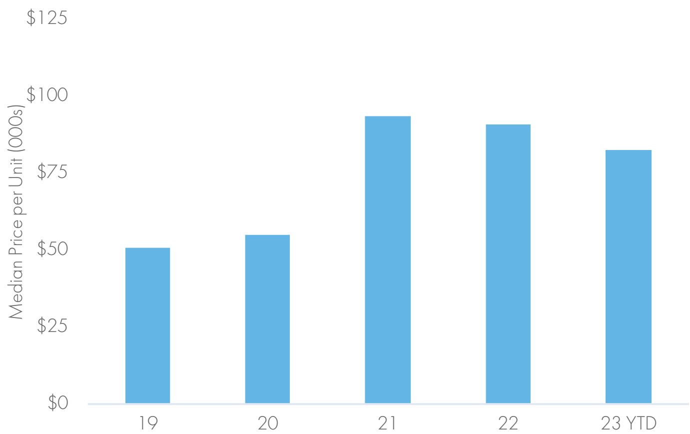
Sources: Northmarq, Reis

MULTIFAMILY SALES

- While multifamily transaction volume held fairly steady from the first quarter to the second quarter, the pace of sales is down sharply from recent years. Year to date, transaction activity has fallen 60 percent from the number of deals that closed during the same period in 2022.
- Sales prices have inched lower in St. Louis in recent months. In transactions where pricing is available, the median sales price thus far in 2023 is $82,400 per unit, down 9 percent from the median price last year.
- During the first quarter, the median price remained above $100,000 per unit, with a few larger transactions closing. In the second quarter, the average deal size was smaller, and nearly all of the properties that traded were Class C assets.
- Cap rates averaged between 6.5 percent and 7 percent during the second quarter, up 50 basis points from the first three months of 2023.

Cap rates averaged between 6.5 percent and 7 percent.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

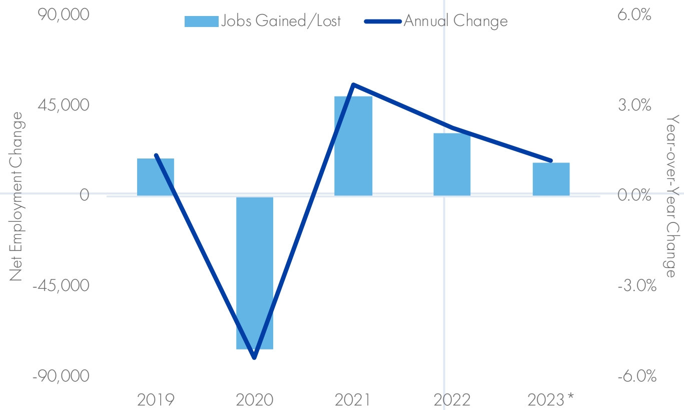
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Cupples Station Lofts	1015 Spruce St., St. Louis	131	$10,792,000	$82,382
Sarah Anna Apartments	7221 Anna Ave., St. Louis	48	$5,880,000	$122,500
Parkside Manor Apartments	2701 Center St., Granite City	32	$1,450,000	$45,313

LOOKING AHEAD

Multifamily developers in St. Louis will continue to bring new projects online through the end of 2023, although new deliveries will fall well short of the ramped-up activity levels recorded last year. Projects totaling roughly 2,850 units are forecast to be delivered this year after nearly 5,000 units were completed during last year's spike. The two consecutive years of above-trend supply growth will have a minimal impact on local vacancy levels, however, with the rate forecast to end 2023 near the region's five- and ten-year averages. These conditions should allow for continued rent growth, although gains will fall short of the rapid increases recorded in each of the prior two years.

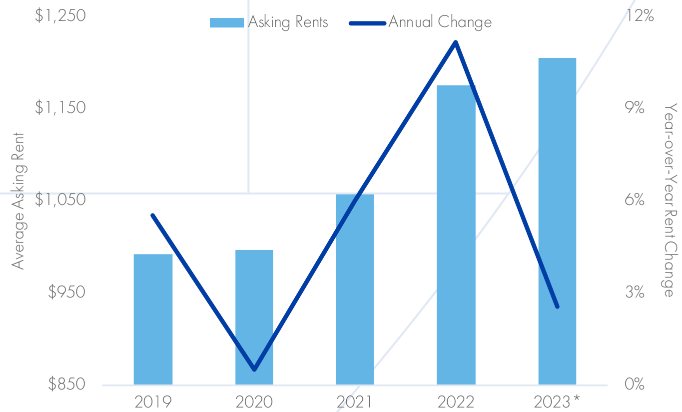
The combined forces of higher borrowing costs, a more restrictive lending market, and some operational uncertainty resulted in cooling investment activity in St. Louis during the first half of 2023. Some of these factors should ease in the coming quarters, ultimately leading to a more normalized pace of investment sales. Current forecasts call for fairly steady vacancy conditions, and interest rates are expected to stabilize as the Federal Reserve winds down its tightening campaign. Cap rates in St. Louis have already pushed up about 200-250 basis points from recent lows, and current levels may be sufficient to move some investors off of the sidelines. The introduction of new inventory into the market will likely lead to some additional transaction volume as projects are successfully leased-up at market-leading rental rates.

EMPLOYMENT FORECAST



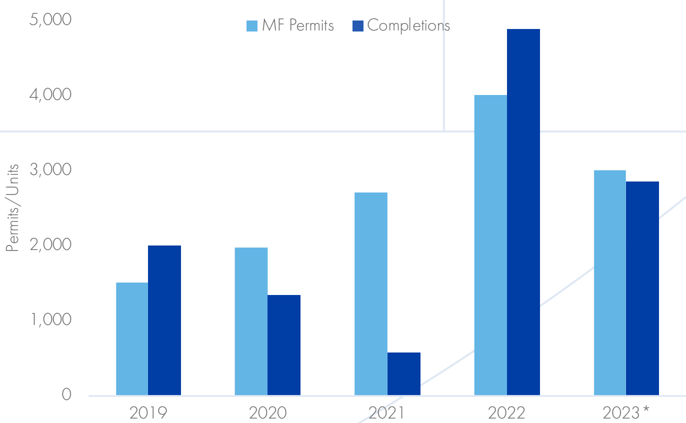
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



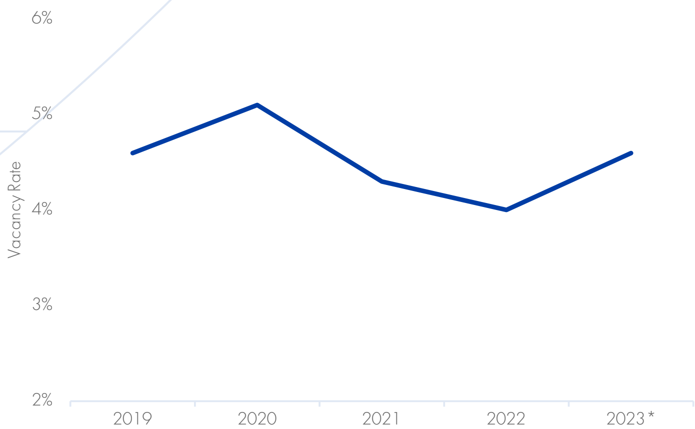
* *Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* *Year End Forecast*
Sources: Northmarq, Reis

FOR MORE INFORMATION,
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