

Sales of top-tier properties gaining momentum

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION

3,505

UNITS DELIVERED

2,038

MARKET FUNDAMENTALS



VACANCY RATE

4.4%

YEAR-OVER-YEAR CHANGE

+50bps

ASKING RENTS

\$1,184

YEAR-OVER-YEAR CHANGE

+4.6%

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT* **\$106,200**

* Transactions where pricing is available

HIGHLIGHTS

- Property fundamentals in the St. Louis multifamily market posted a solid performance during the third quarter, as vacancy held steady and asking rents continued to advance. Developers remain active in the region with more than 3,500 units underway.
- Local vacancy leveled off during the third quarter after posting slight upticks in the preceding three quarters. The vacancy rate remained at 4.4 percent, but current conditions have increased 50 basis points one year ago.
- Apartment rents continued to tick higher, ending the third quarter at \$1,184 per month. Year over year, rents rose 4.6 percent.
- Multifamily transaction volume to this point in 2023 is down approximately 50 percent from levels recorded in the same period last year. In transactions where pricing was available, the median price thus far in 2023 is \$106,200 per unit, up 17 percent from last year's figure.

ST. LOUIS MULTIFAMILY MARKET OVERVIEW

The multifamily market in St. Louis was mostly stable during the third quarter, as vacancy conditions held steady and rents inched higher. After rising for three consecutive quarters, the local vacancy rate leveled off in recent months and remained unchanged at 4.4 percent, despite a steady flow of new supply. Renter demand has strengthened, supporting new development. Projects totaling more than 2,000 units have come online in St. Louis so far in 2023, with another 3,500 units currently in the pipeline. Rent growth has slowed to this point in the year, after recording rapid increases in 2022. Operators are on track to push rents around 2 percent in 2023, after spiking more than 11 percent last year.

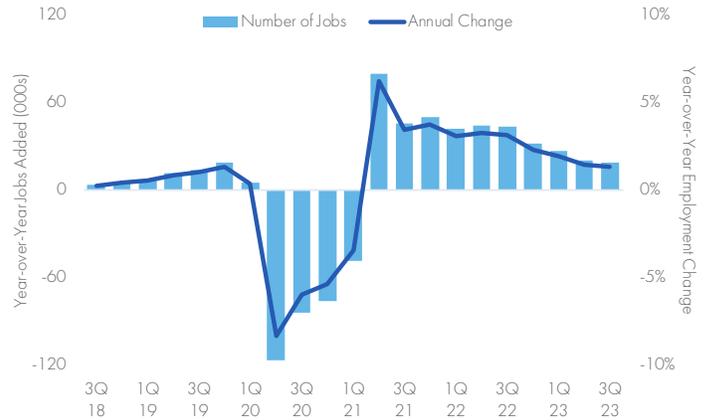
While multifamily properties continued to change hands in recent months, the total number of sales in the St. Louis investment market continues to lag levels recorded in 2022. Transaction volume to this point in the year is down roughly 50 percent from levels recorded last year. Middle-tier and lower-tier properties continue to make up the majority of the transaction mix, closely tracking trends in previous years. However, the sale of Class A projects picked up in recent months, putting upward pressure on pricing. In transactions where pricing was available, the median price thus far in 2023 is \$106,200 per unit, up 17 percent from the median price in 2022. Cap rates averaged between 5.5 percent to 6 percent in the last three months.

EMPLOYMENT

- The local labor market continues to expand, supporting demand for rental housing in the region. Year over year, area employers hired 18,500 workers, increasing total employment by 1.3 percent.
- The manufacturing sector in St. Louis is one of the leading industries for job growth. During the past year, this sector expanded by 4,000 employees, increasing by 3.4 percent.
- Development, design, and construction firm Clayco recently announced plans to relocate and expand its St. Louis offices and operations center. The company will move to Berkeley in north St. Louis County, where it intends to invest \$50 million and create 400 new jobs.
- **FORECAST:** Employment growth is on pace to return closer to historical norms by the end of 2023. The local labor market is expected to add 15,000 positions in 2023, expanding by 1.1 percent for the full year.

Year over year, area employers have hired 18,500 workers.

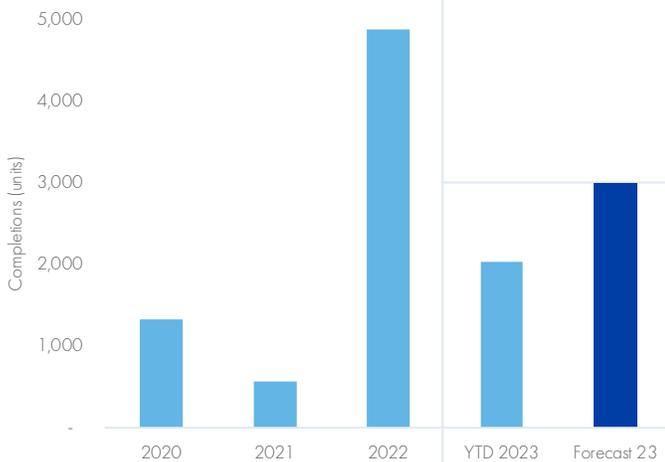
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 820 units came online during the third quarter.

DEVELOPMENT TRENDS



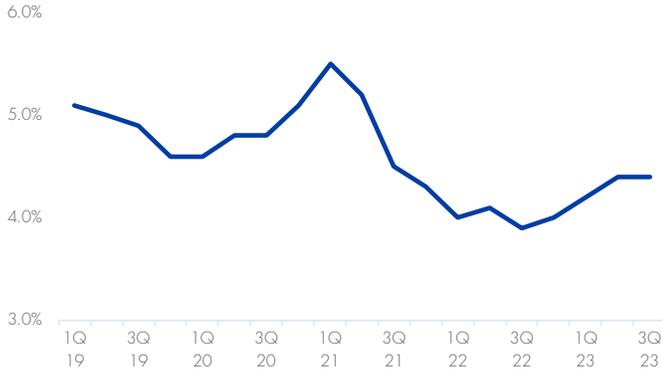
Sources: Northmarq, CoStar, Reis

DEVELOPMENT & PERMITTING

- Projects totaling approximately 820 units came online during the third quarter, bringing the year-to-date figure to more than 2,000 units. At this same time last year, developers had completed more than 4,000 new apartments.
- After peaking at the beginning of 2022, the multifamily construction pipeline has gradually thinned in recent periods. Projects totaling roughly 3,500 units are currently under construction throughout St. Louis, down 17 percent from one year ago.
- While permitting levels have slowed from last year's peak, developers are still pulling an above-trend number of permits. Year to date, permits for nearly 2,200 multifamily units have been issued, already outpacing the full-year totals from 2017 to 2020.
- **FORECAST:** Developers will continue to bring new projects online in the closing months of the year, with annual completions expected to reach 3,000 units in 2023. Last year, nearly 4,900 units were delivered.

The vacancy rate held steady during the third quarter.

VACANCY TRENDS



Sources: Northmarq, Reis

VACANCY

- The vacancy rate held steady during the third quarter, remaining at 4.4 percent. Area vacancy trended higher by 50 basis points during the past 12 months.
- Vacancy trends have been mixed throughout St. Louis, with the Maryland Heights/NW County submarket posting the greatest improvements. Year over year, vacancy in this submarket declined by 20 basis points to 4 percent.
- With deliveries elevated in recent years, Class A vacancy rates have generally trended higher. Average vacancy in the top tier ended the third quarter at 5.8 percent, 100 basis points higher than one year ago. Conditions in the lower tiers have been far more stable; the combined vacancy rate for Class B and Class C units rose just 10 basis points during the past 12 months to 3.7 percent.
- **FORECAST:** The vacancy rate is forecast to inch higher through the end of the year, closing 2023 at 4.6 percent, closely tracking the region’s long-term average. Area vacancy averaged 4.8 percent in the past decade.

RENTS

- Asking rents continued to record modest gains in recent months, advancing 0.4 percent during the third quarter to \$1,184 per month. While rent growth has been light to this point in 2023, annual increases are above historical norms. Apartment rents in St. Louis rose 4.6 percent from one year ago.
- Rents rose throughout the region in recent periods with the largest gains occurring in the St. Louis City North submarket, one of the most expensive areas in the city. Year over year, asking rents in this submarket advanced 7.7 percent to \$1,521 per month.
- Rents in the Class A properties continue to record solid gains as newer, more expensive units are added to area inventories. Class A asking rents rose 5.5 percent in the past year, reaching \$1,567 per month.
- **FORECAST:** Local rents are forecast to reach \$1,200 by the end of 2023, up 2.1 percent for the full year. Annual rent growth peaked in 2022 at more than 11 percent.

Apartment rents in St. Louis are up 4.6 percent in the past year.

RENT TRENDS



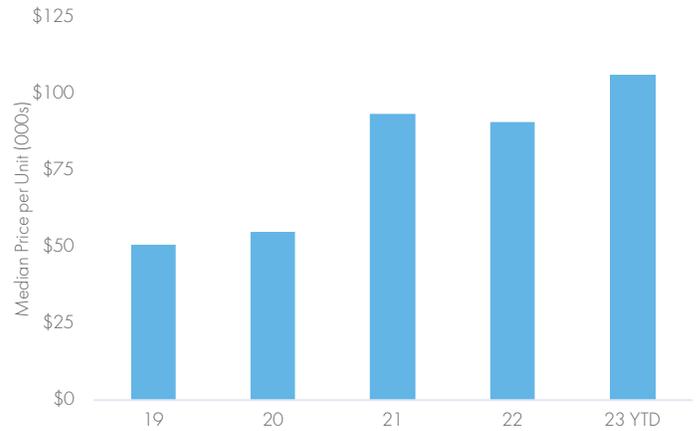
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Transaction volume remains limited in the St. Louis multifamily investment market. The total number of sales in the last nine months fell approximately 50 percent from the same period last year.
- Activity picked up slightly in the sale of upper-tier assets in recent months after Class B and Class C properties dominated the transaction mix during the past several quarters. Although lower-tier assets continue to make up the largest share of the transaction mix, the sale of newer properties has caused prices to push higher.
- In transactions where pricing was available, the median price to this point in 2023 is \$106,200 per unit, up 17 percent from the median price last year.
- Cap rates in St. Louis have varied based on property quality, with investors accepting lower initial cap rates for newer units with greater potential for rent growth. In buildings that were built since 2000, cap rates have been between 5 percent and 5.5 percent.
- The transaction mix in St. Louis typically involves a significant share of Class C units that were built between 1960 and 1980. Cap rates in these properties have generally been 6 percent or higher to this point in 2023.

The median price to this point in 2023 is \$106,200 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

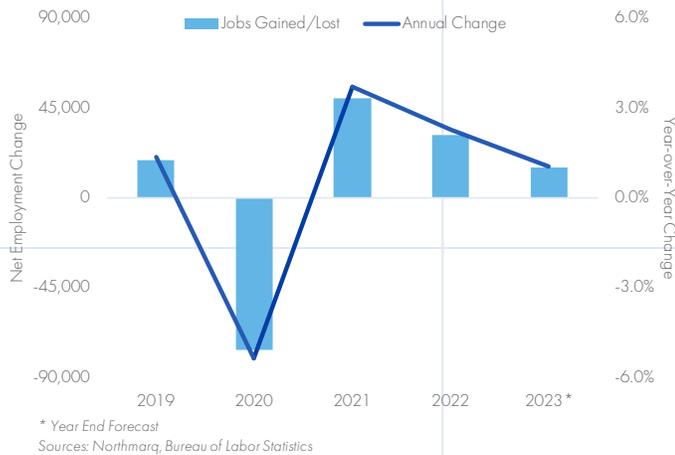
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Enclave at Winghaven	1000 Applerock Dr., O'Fallon	400	\$74,750,000	\$186,875
Lofts at Forest Park	1031 W Highlands Plaza Dr., St. Louis	200	\$52,000,000	\$260,000
Lynn Town Townhomes	9675 Muriel Ave., St. Louis	144	\$7,540,000	\$52,361

LOOKING AHEAD

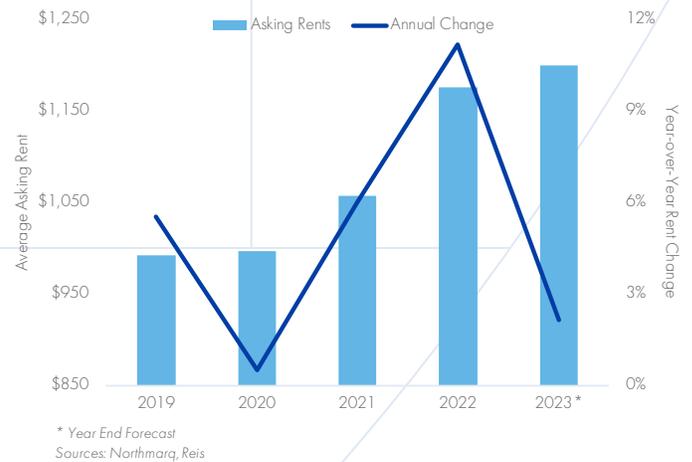
While apartment developers in St. Louis will continue to bring new projects online at a steady pace in the coming months, annual supply growth in 2023 will lag peaks recorded last year. Annual deliveries are forecast to reach 3,000 units for the full year after nearly 4,900 units came online in 2022. Some of the most active submarkets for new construction include Downtown St. Louis and St. Charles County. Projects totaling nearly 800 units are under construction Downtown, after more than 400 units have been delivered year to date. The bulk of the projects scheduled to come online in St. Charles County have already been delivered, although an additional 230 units are slated to come online in the next 12 months.

An early look into the final quarter of 2023 suggests that properties will continue to change hands throughout St. Louis but at a slower pace than last year. The sale of newer upper-tier properties should gain some momentum, as new projects get leased-up and enter the investment market. If interest rates begin to trend lower in the year ahead, investment activity is poised to trend higher, as investors seek newer assets in markets where vacancy rates are likely to remain in a tight band and present the opportunity for upside in rental income. Cap rates in the region are bifurcated, with newer properties unlikely to trade above 6 percent, while older assets where upside is limited may trade at cap rates closer to 7 percent.

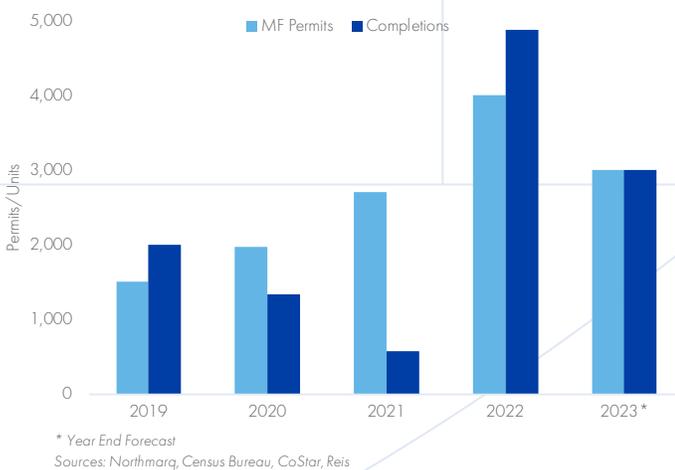
EMPLOYMENT FORECAST



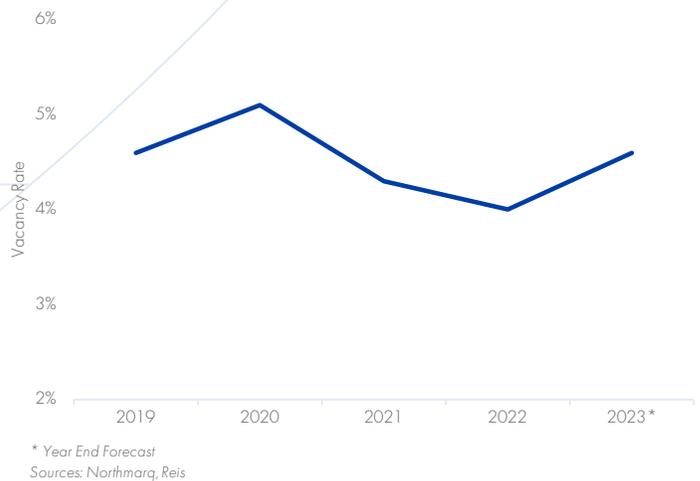
RENT FORECAST



CONSTRUCTION & PERMITTING FORECAST



VACANCY FORECAST





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