MARKET REPORT

Multifamily

St. Louis Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

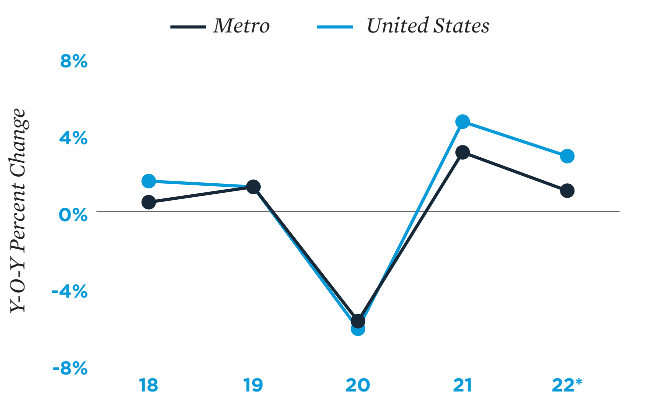
3Q/22

Tenant Preferences Shift Back to the CBD in Time to Absorb Urban Construction Wave

Vacancy lift is more subdued in the CBD. After the suburban vacancy rate in St. Louis compressed rapidly during the pandemic to a record low in the first quarter, an 80-basis-point increase was noted during the subsequent three-month period. Meanwhile, vacancy in the CBD also increased in the second quarter, but by a smaller margin of only 30 basis points. This indicates that household consolidation has been more prevalent among those contending with high suburban rent gains, compared to downtown's more moderate growth. Suburban rent climbed within $90 of the reported June CBD average effective monthly rent, the closest it has been since 2011. This could shift renter behavior as residents consider moving away from suburban areas with similar or higher costs of living to urban areas, where lifestyle factors may be more attractive.

Renter demand set to meet downtown construction. Of the units currently under construction in the metro, over half are slated for the urban core. Positive net absorption in the CBD during the second quarter indicates that construction set to be delivered in the next three years should be favorably received by renters. Additionally, the St. Louis City submarket was one of two areas in the metro that recorded quarterly vacancy compression among Class A properties from April through June. That drop was also the larger one, at 110 basis points. These promising trends, paired with a comparatively low vacancy rate by historical standards, encourage developers to continue building downtown apartments.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

15,000 JOBS
will be created

EMPLOYMENT:

This year, total employment will expand by 1.1 percent. This is a slight slowdown from job creation in 2021, as unemployment continued to fall for the sixth consecutive month in June to reach 3.1 percent.

2,300 UNITS
will be completed

CONSTRUCTION:

St. Louis is expected to receive its highest number of completions on record this year, increasing inventory by 1.4 percent. Most of 2022's deliveries are slated for Central West End and St. Louis City.

80 BASIS POINT
increase in vacancy

VACANCY:

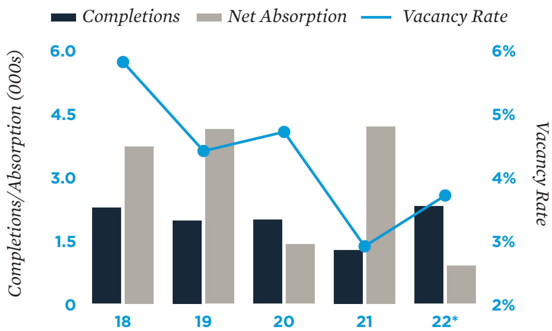
Net absorption will fall short of deliveries by around 900 units in 2022. This will facilitate an annual increase in the metro's availability to 3.7 percent by December, still the second-lowest year-end rate in two decades.

5.2% INCREASE
in effective rent

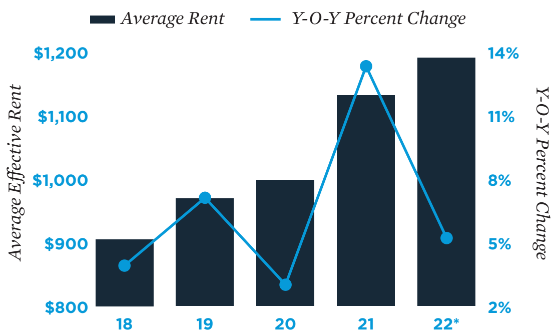
RENT:

The aggressive pace of rent growth will begin to taper off by the fourth quarter, following double-digit year-over-year increases during the opening two quarters of 2022. The average effective rent will end December at $1,190 per month.

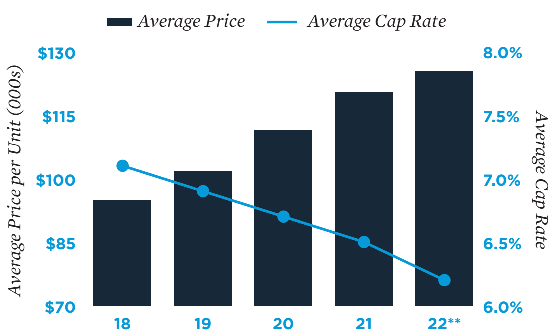
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

1,579 units completed

- Inventory expanded by 0.7 percent during the trailing 12-month period ended in June, with urban deliveries outpacing suburban completions.
- The St. Louis City submarket noted the greatest number of completions during the yearlong period, yet vacancy held well below pre-pandemic metrics, demonstrating a shift in demand back toward urban areas.

VACANCY

80 basis point decrease in vacancy Y-O-Y

- High deliveries from April through June of 2022 nudged the vacancy rate up on a quarter-over-quarter basis to 3.6 percent.
- St. Louis reported the highest Class C vacancy rate among major U.S. markets at 5.5 percent. This starkly contrasted with the respective Class A and Class B rates of 3.0 percent and 2.9 percent.

RENT

11.6% increase in the average effective rent Y-O-Y

- The average effective asking rent in St. Louis reached $1,176 per month in June. Gains were driven by advancements in St. Charles County, where the mean effective rent rose by 18.1 percent.
- Following robust rent growth in Mid St. Louis County, the submarket is now the most expensive in the metro at $1,554 per month.

Investment Highlights

- Transaction velocity increased by 40 percent during the trailing 12-month period ended in June. Deal flow remained historically high in the first quarter after a very active stretch at the end of 2021. However, trading subsided in the second quarter, similar to other major Midwest markets. The slowdown was mainly seen in the $15 million-plus price tranche, as rising interest rates complicated financing for institutional buyers.
- St. Louis' average sale price rose at a slower rate compared to other major markets in the region. Still, the 8 percent gain during the yearlong period ended in the second quarter pushed the price to approximately $125,200 per unit. Cap rates compressed to 6.2 percent on average, which is 40 basis points below the prior period. The metro still maintains one of the highest average returns in the Midwest, attracting yield-driven investors.
- The Central West End-Forest Park, Mid St. Louis County and St. Louis City submarkets registered the highest number of trades in the first half of 2022, as investors targeted downtown and adjacent submarkets. Among these three submarkets, Class A vacancy is the tightest in Central West End-Forest Park at 3.0 percent, yet the pace of luxury-tier rent growth here trailed the other two areas. Expiring leases should allow operators to lift rents.