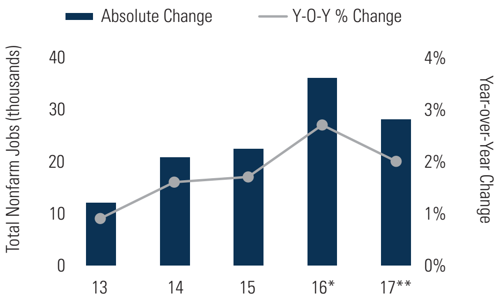
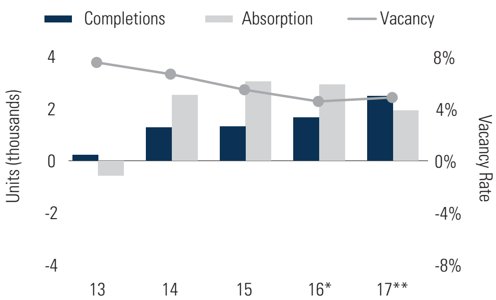
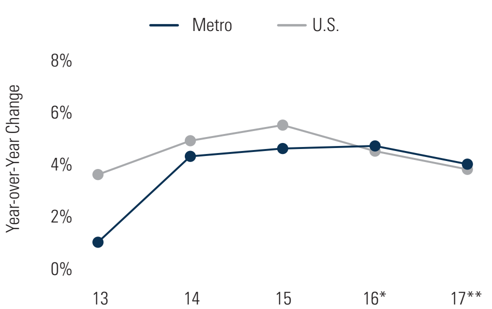
Employment Trends



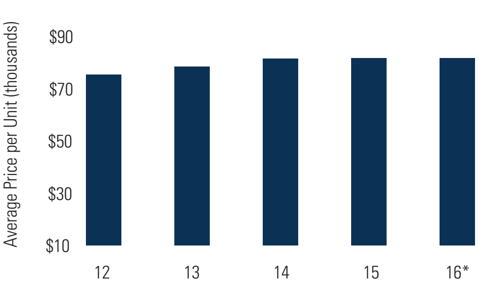
Supply and Demand



Effective Rent Trends



Sales Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Consistent Rent Growth in the Cards for St. Louis Amid Construction Boom

Record deliveries minimally impact vacancy as rents steadily climb. A second straight year of robust job growth led by the retail trade sector will support the absorption of new rentals, holding vacancy below 5 percent. The volume of units brought online in 2017 will be concentrated in four areas: the Central West End and Forest Park neighborhoods, downtown St. Louis and the bordering city of Clayton. Vacancy will slightly increase amid this wave of construction after declining for three straight years. The wide gap between Class A rents and Class B and C rates, coupled with minimal availability in the latter rental sector, indicates steady rent growth will occur at affordable properties. A pushback in Class A rents that occurred last year may continue in 2017, with affordability of single-family home prices offering comparable pricing. Class B and C rents will record a fourth consecutive year of growth.

Neighborhood revitalization and stable cap rates entice buyers. The opportunity to acquire a variety of assets offering higher yields will draw investors to the market. In evolving neighborhoods, upside-seeking investors will have their choice of repositionable Class B and C assets with caps starting in the mid-7 percent range. Buyers eyeing long-term holds could target the market's crop of recently constructed properties, with yields beginning in the mid-5 percent vicinity. The Central West End and Forest Park neighborhoods will be the most sought after by both investor types, as the areas are home to the highest rents, sub-5 percent vacancy and a number of upcoming deliveries. The opening of the 2.2-mile Loop Trolley route this spring will connect the neighborhoods of University City and Forest Park, further encouraging redevelopment and luring more investors to the city center. Outside the core, the communities of St. Charles and Creve Coeur could become growingly attractive options. Both absorbed recent deliveries with vacancy remaining below market average.

2017 Market Forecast

NMI Rank 44, up 2 places — Job creation sparks household formation and drives a slight rise in the NMI for St. Louis.

Employment up 2.0% — St. Louis employers will add 28,000 workers during 2017, increasing headcounts by 2.0 percent. Last year, total employment rose 2.7 percent.

Construction 2,500 units — Completions peak this year, as 2,500 apartments are scheduled to come online, up from the 1,600 rentals delivered in 2016.

Vacancy up 30 bps — Vacancy rises 30 basis points, reaching 4.9 percent in 2017. Last year, the metrowide vacancy rate established a 15-year low of 4.6 percent.

Rent up 4.0% — The average effective rent is on track to advance 4.0 percent to $920 per month this year, representing a slowdown from the 4.7 percent hike 2016.

Investment — Historically high levels of completions will create numerous opportunities for investors seeking new low- and mid-rise properties in sections of the metro where stock has not been substantially upgraded in several years.