YARDI® Matrix

Steady Growth In St. Louis

Multifamily Summer Report 2016

Rent Growth Accelerates

Investment Reaches Post-Bubble High

Will Demand for Apartments Outpace Supply?

Market Analysis
Summer 2016

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Bullish Outlook Lures Investors to St. Louis

Employment and population gains have given a boost to the multifamily market in traditionally slow-growth St. Louis. An influx of professional jobs and the area's relative affordability are attracting residents and lifting demand for apartments.

The region's universities and medical institutions produce a skilled workforce that attracts medical and technology firms. As a result, high-paying science, technology, engineering and math (STEM) jobs are expected to grow over the next five years. The Cortex innovation district, a master-planned community in Midtown, serves as a hub for life sciences and biotech research, creating a strong multiplier effect for the St. Louis economy. Plans for the district call for 4.5 million square feet of mixed-use space, 13,000 jobs and more than $2 billion in capital investment. So far, more than 1 million square feet of office, lab and retail space have already been built at a cost exceeding $500 million.

Submarkets that command the highest rents are those offering young professionals easy access to downtown jobs and amenities. Investment activity is gaining momentum, having reached a new post-recession high of $315 million in 2015. Upcoming deliveries are also significant, currently amounting to more than 9,700 units. Absorption is set to keep up with new product, hindered only by the affordability of single-family housing. Increasing demand and limited inventory are expected to push rents up by 3.2% in 2016.
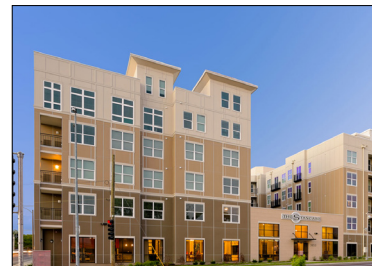
Recent St. Louis Transactions

Sun Valley Lake

City: St. Charles, Mo.
Buyer: Priderock Capital Partners
Purchase Price: $55 MM
Price per Unit: $81,020

The Standard at St. Louis

City: St. Louis
Buyer: Hallmark Campus Communities
Purchase Price: $54 MM
Price per Unit: $116,421

The Retreat at Seven Trails

City: Ballwin, Mo.
Buyer: Monarch Investment Group
Purchase Price: $51 MM
Price per Unit: $109,677

Oxford Hills

City: St. Louis
Buyer: Aragon Holdings
Purchase Price: $47 MM
Price per Unit: $97,111

Rent Trends

- Rents in St. Louis rose 3.5% year-over-year through July, trailing the nation's 5.7% growth rate, and average rents across the metro stood at $835, well below the $1,217 national average. Demand stems from growth in employment and household formation in an improving economy. Occupancies of stable properties have risen 170 basis points to 94.1% since 2012 and should keep rising as demand tops weak supply growth.

- Rent growth was led by the working-class Renter-by-Necessity segment, which rose 3.6% to $777, while higher-end Lifestyle rents increased 3.1% to $1,243. Going forward, demand for luxury rentals is expected to rise, with the anticipated increase of high-paying STEM jobs.

- Submarkets in and around the city's core that saw above average year-over-year rent growth included University City/Maplewood (17.6%); Forest Park (15.3%); South (9%); Manchester/Valley Park (5.6%); Fenton/Eureka (5.5%); Central West End (4.9%) and St. Peters (4.6%). Some of these areas command the highest rates due to the high-density mixed-use projects that attract young professionals. The Loop Trolley, a 2.2-mile public transit rail in the downtown that connects the Loop entertainment district with Forest Park, is expected to spur demand for housing.

St. Louis vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)
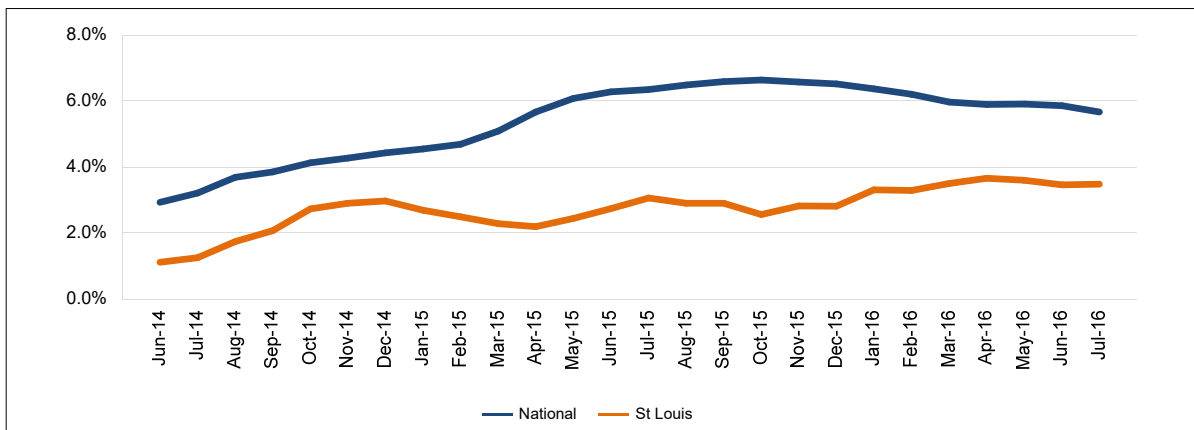
Source: YardiMatrix

**St. Louis Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)**
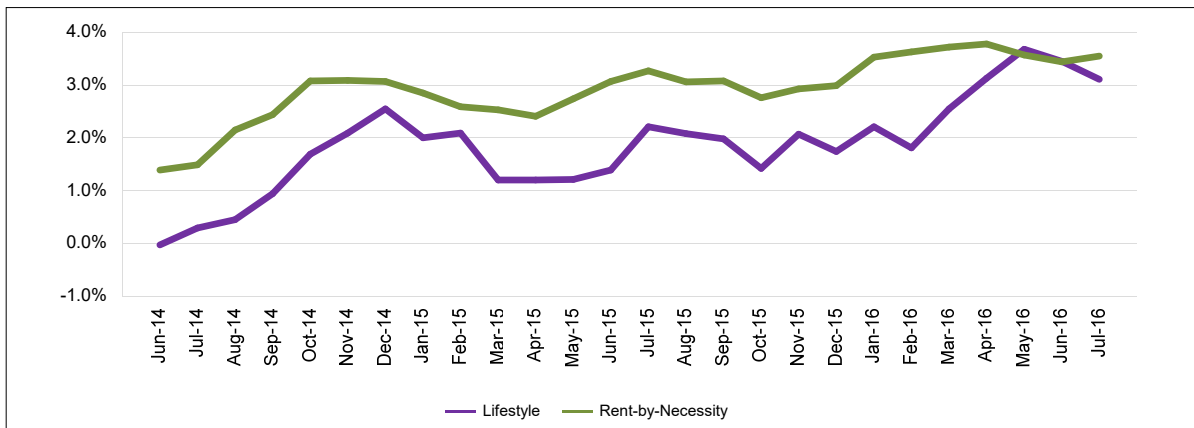
Source: YardiMatrix

Economic Snapshot

- St. Louis added 25,500 jobs in the 12 months through May, a 1.7% year-over-year increase. Although this is below the 2.4% national average, unemployment has reached a record low in recent years, falling to 4.6% in June from 10.4% during the recession in 2009.

- Employment gains were led by the professional and business services sector (9,700), followed by education and health services (7,000). This trend will continue, especially since the number of high-paying STEM jobs in the metro is expected to rise 12.4% by 2022, compared to a forecasted expansion of 9.2% for non-STEM jobs, according to St. Louis Community College's Workforce Solutions Group.

- Cortex, the 200-acre innovation district in Midtown, has attracted more than $500 million in development and lured companies such as Square, Boeing and the Cambridge Innovation Center. BJC HealthCare, the area's largest employer, is expanding with a new facility in south St. Louis, while Monsanto is planning to add 675 jobs and invest more than $400 million in the expansion of its research facility in Chesterfield.

- Hospitality is also growing, supported by downtown projects that will bring130 guestrooms to the Union Trust building, a 140-key hotel at 1501 Washington Ave. and an 80-key facility to the vacant LaSalle Building.

St. Louis vs. National Employment Growth (Year-Over-Year)
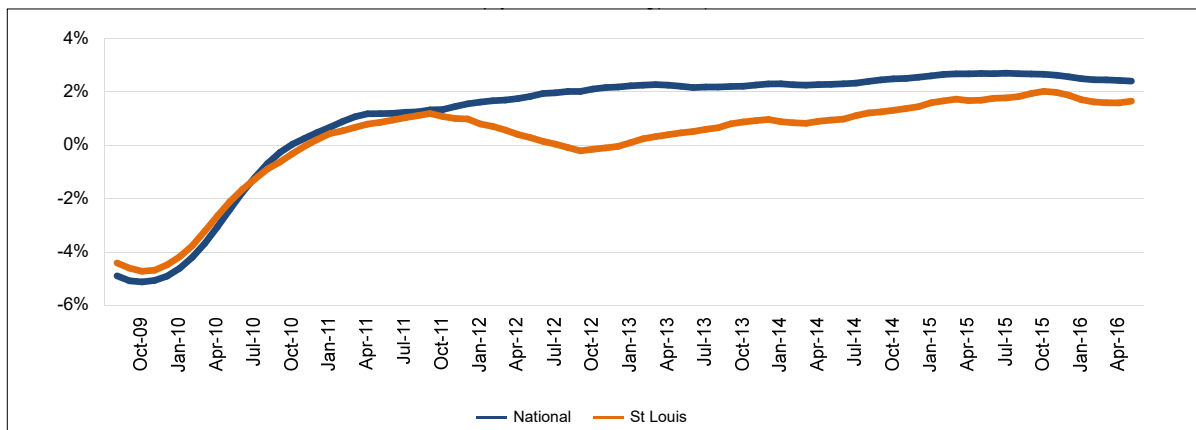
Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

St. Louis Employment Growth by Sector (Year-Over-Year)

| Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	218	15.8%	9,700	4.7%
65	Education and Health Services	247	17.9%	7,000	2.9%
70	Leisure and Hospitality	159	11.5%	6,400	4.2%
55	Financial Activities	89	6.4%	3,000	3.5%
15	Mining, Logging, and Construction	64	4.6%	900	1.4%
80	Other Services	49	3.5%	700	1.5%
90	Government	164	11.9%	700	0.4%
40	Trade, Transportation, and Utilities	253	18.3%	300	0.1%
50	Information	28	2.0%	-1,000	-3.5%
30	Manufacturing	112	8.1%	-2,200	-1.9%

Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

- Housing affordability for both home owners and renters has been steady for several years in St. Louis. Median home values across the metro reached $147,610 in 2015, the highest level in recent years. The average mortgage however accounts for only 11% of the area's median income of approximately $57,583.

- As it is the case for most Midwest markets, in St. Louis, leasing an apartment is less affordable than owning a home. Rents account for 17% of the area's median income. However, with an average rent of only $798 in 2015, the metro ranks among the most affordable cities in the U.S.

St. Louis Rent vs. Own Affordability as a Percentage of Income
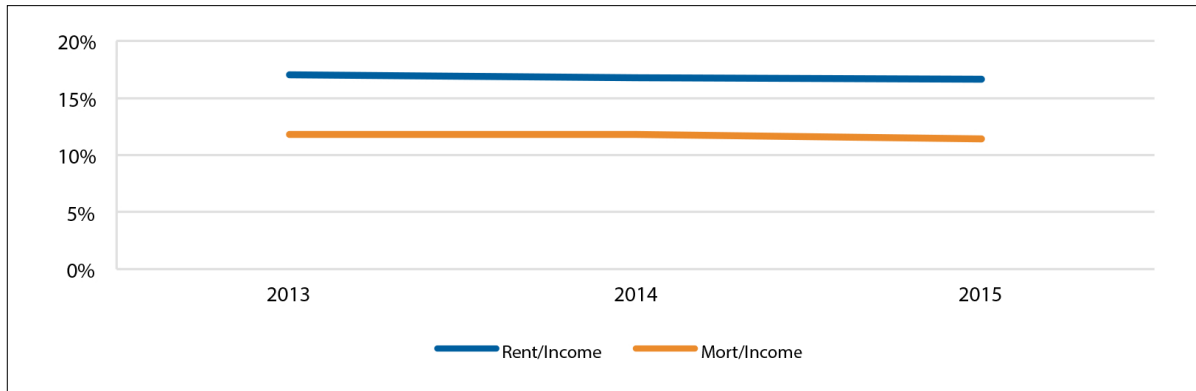
Sources: YardiMatrix, Moody's Analytics

St. Louis Median Home Price
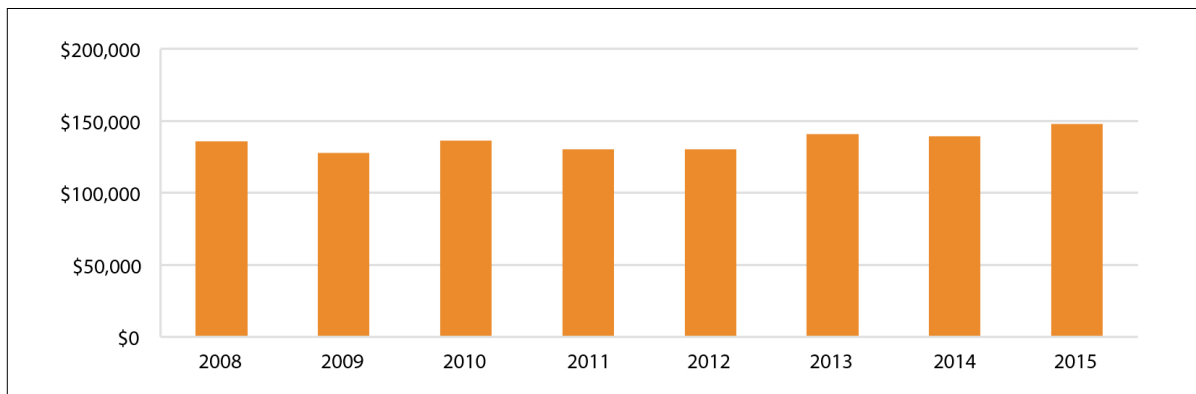
Source: Moody's Analytics

Population

- The metro added 5,400 residents in 2015. The 2.0% growth was faster than the 0.8% national average.

- The metro's population has risen by more than 17,800 residents since 2011.

St. Louis vs. National Population

	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
St. Louis, MO-IL Metropolitan Statistical Area	2,793,783	2,797,113	2,800,914	2,806,191	2,811,588

Sources: U.S. Census, Moody's Analytics

Supply

- After having reached a cyclical high in 2014, construction in St. Louis slowed significantly in 2015, when only 736 units came online. This represents a 0.6% expansion of stock, well below the 2.4% national growth rate and less than half of the approximately 1,500 units that were completed during the previous year.

- By contrast, the pipeline is significant. About 3,000 units are currently under construction and more than 6,700 units are on the drawing board. Demand, however, is expected to outpace supply, supporting moderate rent growth in the near future.

- Adaptive reuse projects that provide easy access to jobs and amenities in the downtown area have been popular, especially those located on the city's west end. The 2.2-mile Loop Trolley that connects the Loop entertainment district to Forest Park is expected to further spur development in the city center.

- Supply growth is highest in University City/Maplewood, where about 800 units are being built, followed by Central West End (382 units), where the Cortex innovation district is located. The largest projects include the 281-unit Evo in University City/Maplewood, The Alinea, which will bring 254 units to Manchester/Valley Park, the 252-unit River Crossing in St. Charles and the 246-unit Encore at Forest Park in Clayton Tamm.

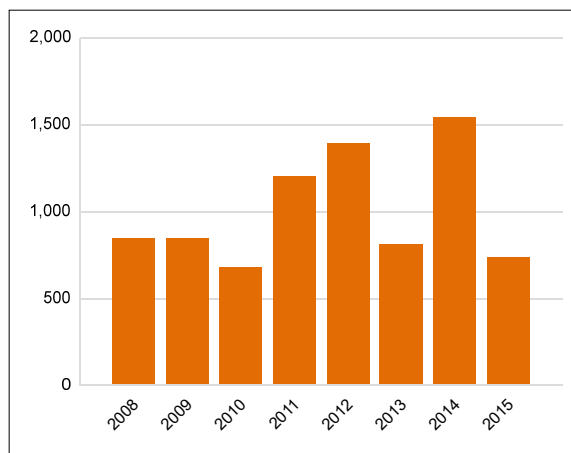**St. Louis vs. National Completions as a Percentage of Total Stock (as of July 2016)**
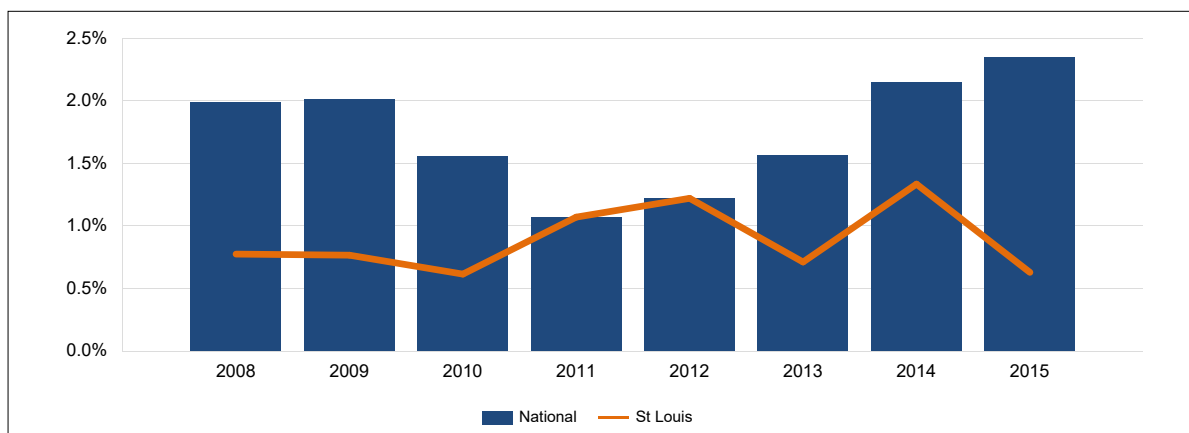
Source: YardiMatrix

Development Pipeline (as of July 2016)
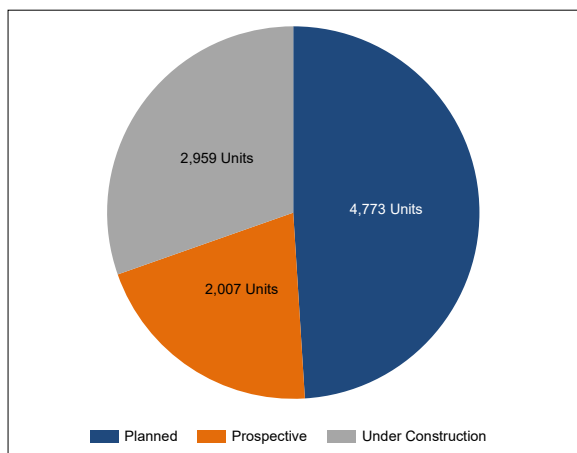
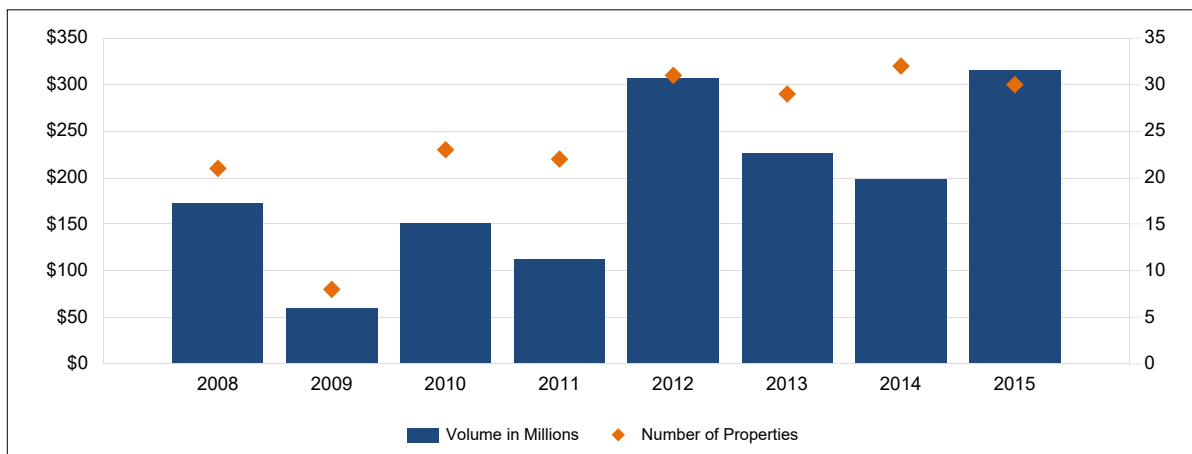Source: YardiMatrix

St. Louis Completions (as of July 2016)

Source: YardiMatrix

Transactions

- More than $315 million worth of properties changed hands in St. Louis in 2015, marking the highest transaction volume in the current cycle. The average price-per-unit reached $72,365 throughout the year, marking another record high, but trailing the national average of more than $117,000.

- Buyers are competing for class B/C assets that offer value-add opportunities and typically trade at initial yields in the mid-7% area. Cap rates for well-located Class A properties start in the mid-5% range.

- The largest transactions included Priderock Capital Partners' approximately $55 million purchase of the Sun Valley Lake in St. Charles, Hallmark Campus Communities' $54 million purchase of The Standard at St. Louis in Central West End, Monarch Investment & Management Group's $51 million purchase of The Retreat at Seven Trails in Ballwin, as well as Aragon Holdings' $46 million purchase of Oxford Hills in Creve Coeur.

St. Louis Sales Volume and Number of Properties Sold (as of July 2016)
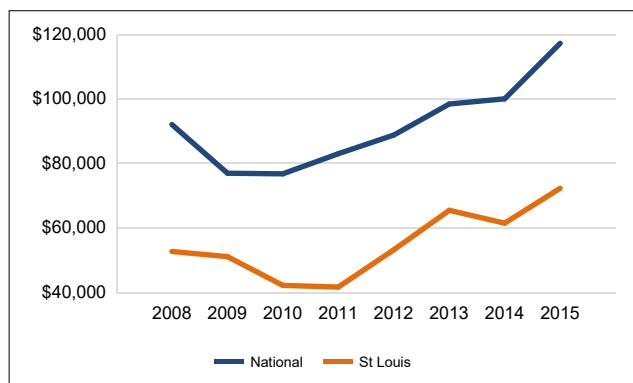

Source: YardiMatrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
St. Charles	55
St. Louis - Central West End	54
Ballwin	51
Florissant	49
Creve Coeur	47
Chesterfield	16
O'Fallon	11
Mehlville - South	9

Source: YardiMatrix
[1] From August 2015 to July 2016

St. Louis vs. National Sales Price per Unit

Source: YardiMatrix

Read All About It!

AFL-CIO BIT JV Back to Work in St. Louis

$45M Aquarium Replaces Union Station Mall
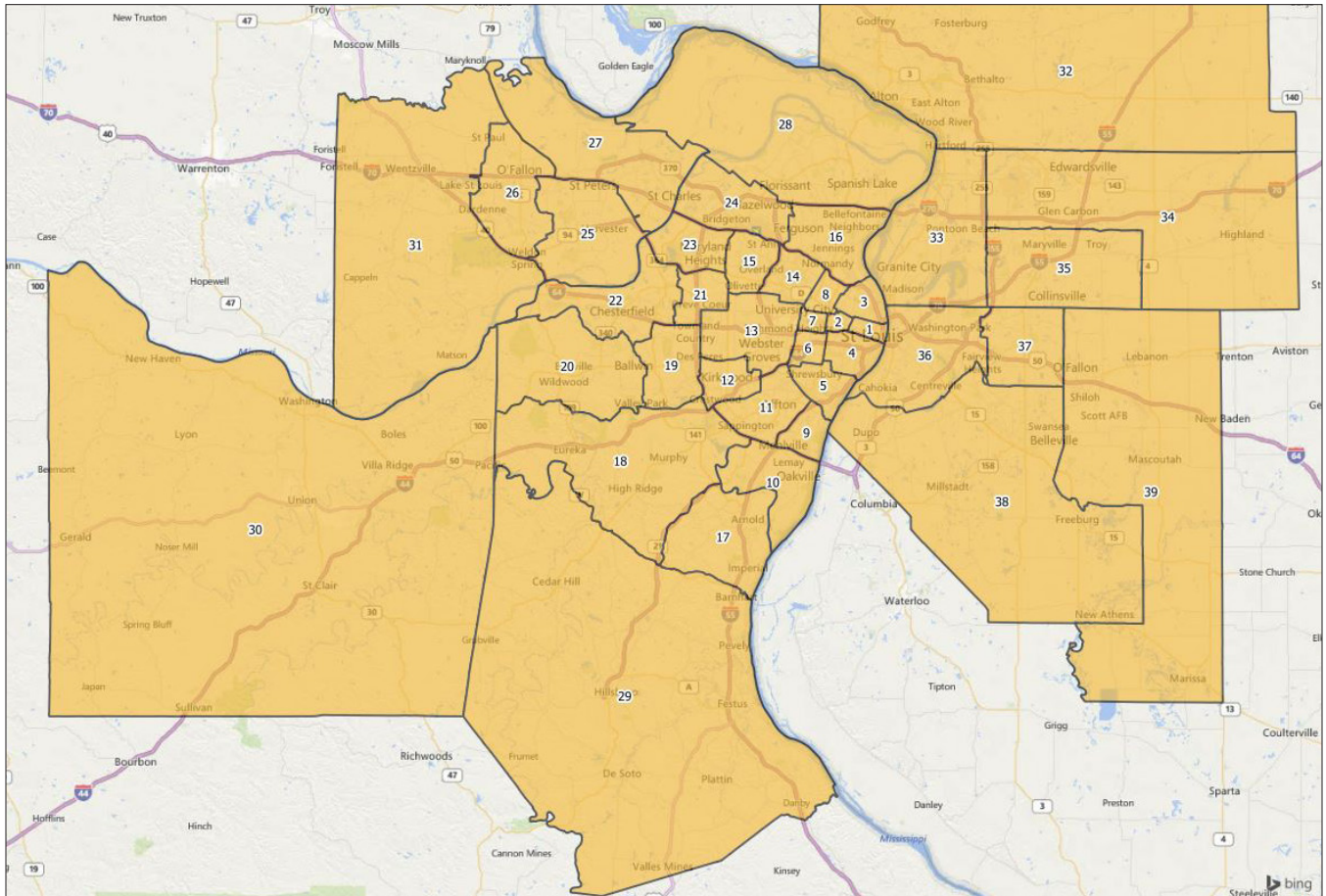
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St. Louis photo by espiegle/iStockphoto.com

St. Louis Submarkets

Area #	Submarket		Area #	Submarket
1	St. Louis - Downtown		21	Creve Coeur
2	St. Louis - Central West End		22	Chesterfield
3	St. Louis - North		23	Maryland Heights
4	St. Louis - Lafayette Square		24	Hazelwood/Bridgeton
5	St. Louis - South		25	St. Peters
6	St. Louis - Clayton Tamm		26	O'Fallon
7	St. Louis - Forest Park		27	St. Charles
8	St. Louis - Northwest		28	Florissant
9	Mehlville - North		29	Festus
10	Mehlville - South		30	Franklin County
11	Affton		31	Charles County
12	Kirkwood		32	Illinois - Alton
13	University City/Maplewood		33	Illinois - Granite City
14	Bel-Ridge		34	Illinois - Edwardsville
15	St. Ann/Overland		35	Illinois - Collinsville
16	Ferguson		36	Illinois - East St. Louis
17	Arnold		37	Illinois - Fairview Heights
18	Fenton/Eureka		38	Illinois - Belleville
19	Manchester/Valley Park		39	Illinois - O'Fallon
20	Ballwin			

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;

- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;

- *Lower-middle-income ("gray collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;

- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;

- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;

- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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