

MARKET REPORT

OFFICE

St. Louis Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

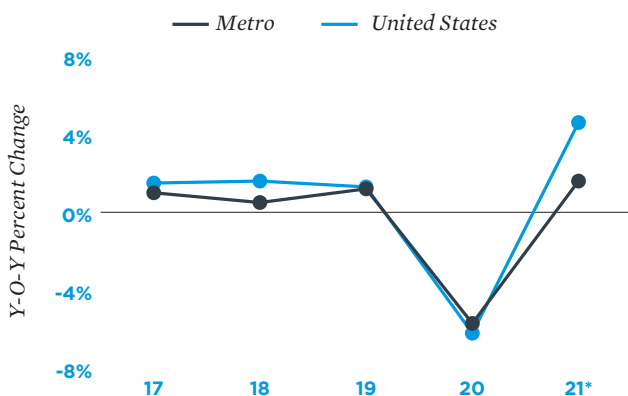
4Q/21

Resilient Showing During the Pandemic Sets Stage For a Comparatively Faster Rebound in St. Louis

Recovery commences in the second quarter. From April through June of this year, St. Louis registered net absorption greater than 500,000 square feet. This snapped a nine-month streak of negative recordings totaling 2.4 million square feet relinquished. Improved demand in the second quarter of 2021 indicates that the recovery is making headway. Leasing activity ramped up the fastest in North St. Louis County and St. Charles County, two submarkets where local asking rents trail the market average. Top-tier offices in these areas have been generating demand, with each submarket noting Class A absorption of 120,000-plus square feet in the second quarter.

Tight conditions, limited supply served as a buffer. Office vacancy in St. Louis rested under 10 percent at the end of 2019, a rate nearly 300 basis points below the national average. The low vacancy environment cushioned the market during the disruption, with availability briefly exceeding 12 percent in the first quarter of 2021 before falling in the subsequent period. By comparison, the U.S. rate held above 16 percent through June. Muted construction in St. Louis helped maintain tight conditions. Metro inventory grew by just 0.5 percent over the past 18 months ended in the second quarter. The pace of deliveries will accelerate in the coming quarters, though. Nearly 2.4 million square feet underway in July has a timeline to finalize before the end of 2022, growing stock by 1.9 percent upon completion.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



22,000

JOBS

will be created

EMPLOYMENT:

St. Louis is facing a multiyear employment recovery after the loss of 81,300 positions in 2020, but some ground will be made up this year as the headcount grows by 1.6 percent. The unemployment rate was also below the national level in August.



700,000

SQ. FT.

will be completed

CONSTRUCTION:

Completions in 2021 expand market inventory by a modest 0.6 percent. Still, the annual volume exceeds the trailing-five-year average by 150,000 square feet. Projects slated to finalize over the coming years are primarily within the city limits of St. Louis.



60

BASIS POINT

increase in vacancy

VACANCY:

Metro vacancy is expected to rise for the second consecutive year. Nonetheless, the anticipated rate climb to 12.0 percent is moderate relative to the 150-basis-point jump expected for the nation as a whole.



0.5%

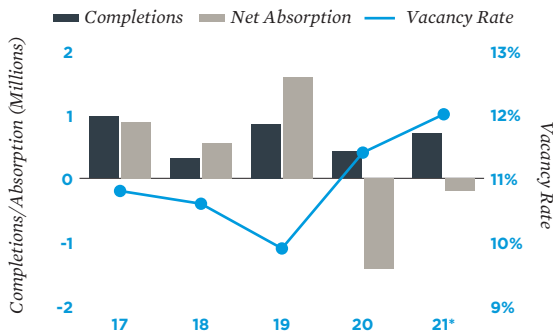
INCREASE

in asking rent

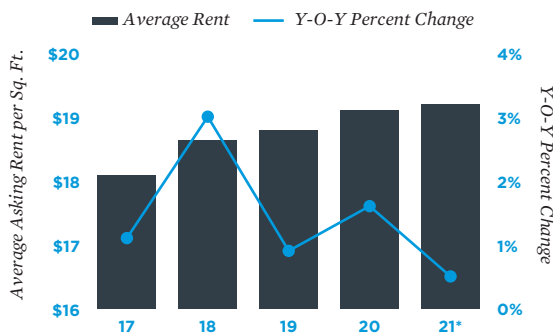
RENT:

The average asking rent will remain on an upward trajectory, sustaining an annual growth trend that spans back to 2014. The marginal increase to \$19.20 per square foot in 2021 will be the smallest improvement in seven years, though.

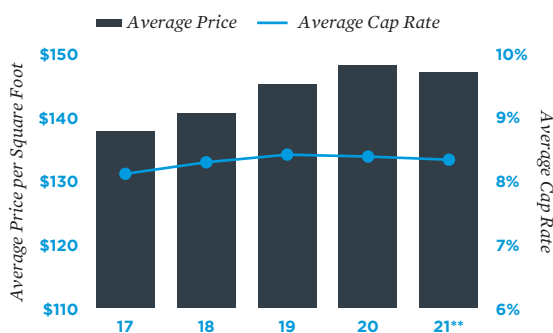
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q21 – 12-Month Period

CONSTRUCTION
376,000 sq. ft. completed

- Development was scarce over the past 12 months ended in June. The delivery volume was 700,000 square feet short of the previous yearlong total, with metro supply growing by just 0.3 percent.
- Roughly 160,000 square feet finalized in the central business district and an additional 1.8 million square feet was underway here in July.

VACANCY
180 basis point increase in vacancy Y-O-Y

- Vacant stock grew by 2.3 million square feet during the past four quarters ended in June, which pushed availability to 12.0 percent. The 420-basis-point rise in North St. Louis was the most drastic change.
- The Illinois submarket was the only area with an inventory larger than 1 million square feet to record a decline in availability.

RENT
0.7% increase in the average asking rent Y-O-Y

- Marketable asking rent climbed to an average of \$19.13 per square foot in the second quarter. Growth correlated with negative absorption, however, indicating the return of high-quality space boosted the mean.
- Class B/C rates held relatively firm at \$16.74 per square foot. The average rent for Class A space rose 1.3 percent to \$23.41 per square foot.

Investment Highlights

- Transaction velocity dropped by just over 10 percent on an annual basis during the 12-month period ended in June. Deal flow began to pick up in the latter stages of last year but retreated in the first half of 2021 as uncertainty surrounding return-to-office timelines kept some investors on the sidelines. Assets that traded had an average sale price in line with the previous period at \$147 per square foot.
- The average cap rate in St. Louis dropped by 10 basis points to 8.3 percent but remained above other regional metros like Kansas City, Indianapolis and Nashville, attracting buyers seeking higher first-year returns. Within St. Louis, investors have obtained office properties with initial returns in the upper-9 percent range in St. Charles County.
- Urban core offices traded at roughly the same velocity during the past year as in the previous 12-month period. Here, buyers have concentrated on lower-tier assets built more than 50 years ago.
- Medical office deal flow held firm on an annual basis, with activity the highest in West St. Louis and the city core. The average sale price is about \$150 per square foot and cap rates are typically near 8 percent.