INVESTMENT FORECAST

Office

St. Louis

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Leasing Activity Escalates in Western Submarkets; Corporate Relocations Spark Investor Interest

Suburban submarkets benefiting from return to offices. St. Louis' economy has become more diverse in the last decade, and has seen office-using employment climb as a result. Leasing slowed significantly when remote work was in effect; however, a small portion of activity has finally returned. Accounting firm Armanino and software company Scale AI signed to fill more than a combined 100,000 square feet in western suburbs since last spring. The western and southern submarkets have seen the fastest demand recoveries, but these sizable office markets also recorded the largest vacancy increases during the pandemic. Heading into this year, vacancy rates are around 100 basis points higher in suburban St. Louis than they are in the CBD. An improving demand outlook for locations outside the core will support metrowide vacancy contraction that allows for rent gains, even as 1.1 million square feet of new supply enters the market. This is the largest annual delivery since 2009, with the majority of new space set to open in the cities of St. Louis and Clayton. Some built-to-suit space is slated for completion in St. Charles County.

Investors react to high demand in western neighborhoods. Transaction velocity dipped dramatically in 2020 due to uncertainty surrounding the return to in-person work; however, 2021 saw investors begin to return to the St. Louis office market. In the CBD, properties smaller than 50,000 square feet drive deal flow as the sale of larger assets in the core has been trending downward for three straight years, with very few such trades occurring in 2021. Transactions involving buildings larger than those exchanged in the core are most common in Clayton and suburban areas west of the CBD within St. Louis County, usually involving newer, well-leased Class A assets. These western neighborhoods have become hot spots for financial firm relocations in recent years due to their proximity to affluent communities. As a result, entry costs are climbing here.

2022 Market Forecast

Employment up 1.9% — The addition of 26,000 jobs this year includes 4,000 traditional office-using roles.

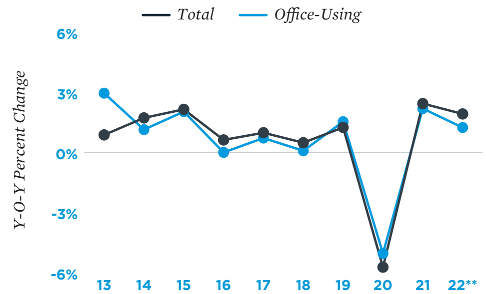
Construction 1,100,000 sq. ft. — Deliveries will surpass the 1 million-square-foot mark this year for the first time in over a decade. New projects are mostly in the core and to the west toward and in St. Charles County.

Vacancy down 20 bps — Net absorption of more than 1.2 million square feet will contract the vacancy rate to 12.0 percent. This is the first year with positive net absorption since 2019.

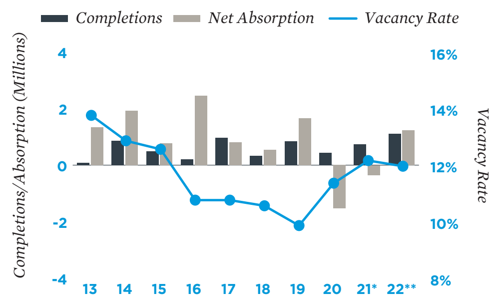
Rent up 2.3% — The average marketed rent will reach $19.65 per square foot in 2022. This represents the 10th consecutive year that rents have risen annually in St. Louis.

Investment — Investors seeking discounted pricing target St. Charles County, where all asset tiers trade below the market's average price point. Here, cap rates fall between 8 percent and 10 percent.

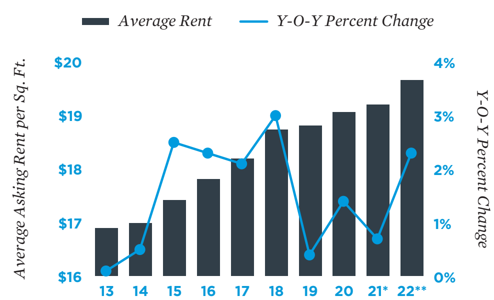
Employment Trends



Supply and Demand



Rent Trends



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

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at $1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.