

MARKET REPORT

Office
St. Louis Metro Area

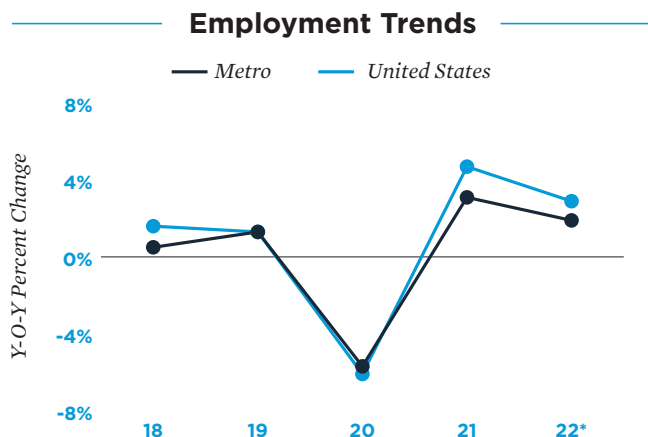
IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

Tenants Take Steps to Lower Costs, Aiding Downtown and Lower-Tier Properties

Companies maintain downtown footprints. Entering the second quarter of 2022, vacancy in the CBD was 40 basis points below the suburbs, an encouraging sign for St. Louis' downtown. Historically, the suburbs have been the more popular location for office tenants. However, cost-conscious tenants are opting to stay downtown, evident by the core's 6.1 percent Class B/C vacancy rate at the onset of April. While lower rents should allow the CBD to retain tenants with upcoming lease expirations, moves like the Bank of America's consolidation of local employees from downtown to Clayton foreshadows a potential renewal in suburban demand. If this trend plays out, vacancy in the suburbs should ease, aiding overall market fundamentals as roughly two-thirds of office inventory is located here.

Firms seek out lower-tier buildings. Tenants absorbed a net of nearly 360,000 square feet of Class B/C space over the past 12 months, lowering availability to 8.8 percent, nearly 300 basis points below the long-term average. Housing more than one-third of the metro's Class B/C stock, St. Louis City is reporting the lowest vacancy in this tier at 6.1 percent, partially attributed to a mean asking rent that trails the subsector average by nearly 10 percent. The Illinois submarket, which has an even lower average rent, registered a 120-basis-point drop in Class B/C vacancy over the last four quarters. These performances and recent compression in other submarkets suggest vacancy in the subsector will remain well below the metro's overall rate for the foreseeable future.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**26,000
JOBS**
will be created

EMPLOYMENT:

The local employment base will increase by 1.9 percent, with the total job count falling just short of the pre-pandemic high. This growth is supplemented by the creation of 4,000 traditionally office-using positions throughout St. Louis.



**900,000
SQ. FT.**
will be completed

CONSTRUCTION:

Delivery volume will surpass the trailing five-year average of roughly 670,000 square feet, and inventory will expand by 0.7 percent — the greatest increase since 2017. Central County will receive the majority of this year's supply additions.



**20
BASIS POINT**
increase in vacancy

VACANCY:

Elevated construction will place upward pressure on vacancy, but stronger absorption will temper the margin of increase. Availability in the Class B/C sector is expected to hold well below the metro's overall year-end vacancy rate of 12.9 percent.

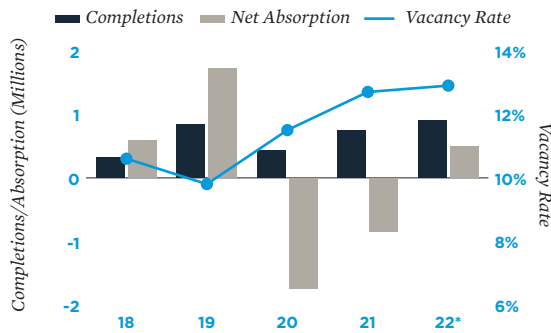


**1.0%
INCREASE**
in asking rent

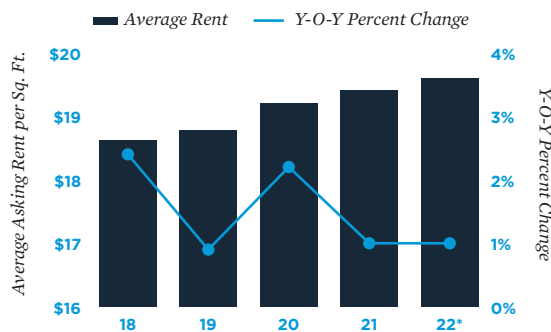
RENT:

The metro's average asking rent reaches \$19.60 per square foot by year-end, supported by suburban gains. Class A properties coming online in Central County and St. Louis City should also support positive momentum in 2022.

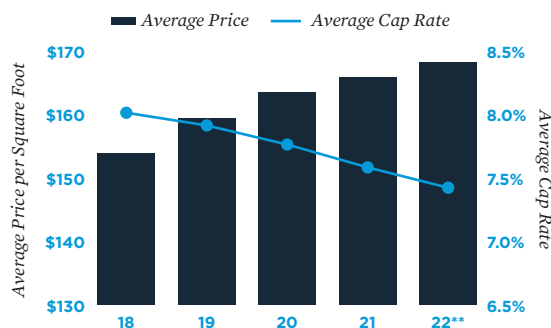
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

St. Louis Office:

David Saverin

Regional Manager

Tel: (314) 889-2500 | david.saverin@marcusmillichap.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

634,000 sq. ft. completed

- Supply additions in the 12 months preceding April increased St. Louis' inventory by 0.5 percent. However, less than 25,000 square feet was finalized in the first three months of 2022.
- Over 2.2 million square feet as of June is under construction in the pipeline, with delivery dates extending into 2024.



VACANCY

20 basis point increase in vacancy Y-O-Y

- At 12.7 percent, vacancy was unchanged during the first quarter of 2022, after rising moderately during the prior nine months.
- Class B/C vacancy held firm over the past yearlong span, entering April at 8.8 percent. Contrastingly, Class A availability rose 80 basis points to 19.9 percent between April 2021 and March this year.



RENT

0.9% increase in the average asking rent Y-O-Y

- The average asking rent inched up to \$19.47 per square foot in March. This advance was led by a 2.3 percent increase year-over-year in Central County to \$24.22 per square foot, the highest rate in St. Louis.
- Suburban rent gains slowed during the first quarter of this year as the CBD hit a record high of \$16.89 per square foot, climbing 1.9 percent annually.

Investment Highlights

- Transaction velocity in the trailing 12-month period ended in March rose nearly 30 percent compared to the previous span. St. Louis registered only a slight increase in its sales price over the last four quarters to land at an average of \$168 per square foot. The mean cap rate moved more significantly, dropping 30 basis points to 7.4 percent.
- Central County and St. Louis City logged the greatest number of sales during the last 12 months, with the latter locale reporting notable price growth since 2019. Here, well-located Class A and B buildings are trading in the low- to mid-\$100 per-square-foot range. In contrast, Central County's average price point has declined amid a collection of Class B/C trades.
- Housing two major medical schools and a sizable 55 and older population, St. Louis is registering solid demand for health services-related space. Entering the second quarter, local medical office vacancy was well below the Midwest average. This performance is fueling record deal flow in the sector. Of late, medical office transactions have been most prevalent in West St. Louis County, Central County and St. Charles County. Average cap rates for these properties range from mid-7 percent to mid-8 percent.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

© Marcus & Millichap 2022 | www.ipausa.com