MARKET REPORT

Retail

St. Louis Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

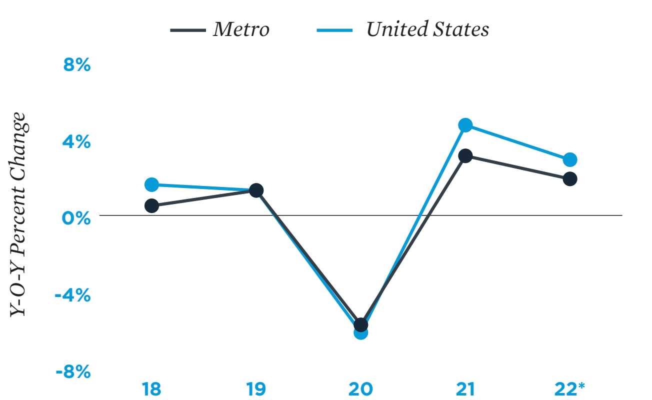
2Q/22

Younger Residents' Return to University Neighborhoods Fuels Vendor Demand

Strong household and income growth elevate retail sales. St. Louis added 8,700 households last year, the strongest gain since 2002. A similar rate of formation is expected during 2022, supported by white-collar job creation and the market's relatively lower cost of living. An increasing technology presence in the metro will also lift the market's median household income at an above-average pace. A growing employment base of higher-paid individuals and a second year of notable household growth is poised to heighten consumer spending at necessity shops, restaurants and experiential retailers during the remainder of this year. This boost will motivate vendor expansions, translating to the absorption of around 585,000 square feet during 2022 — the highest total in five years.

Returning students support sector recovery. Central St. Louis County, home to Washington and Webster universities, reported a vacancy rate of 2.7 percent at the end of March as the schools continued to reestablish in-person learning. Leases involving discount retailers, such as ALDI, and restaurants have been prevalent in this student-centric submarket as the younger demographic returns to campuses. St. Louis City experienced a similar trend, with Saint Louis University students and office workers returning to the core. The area recorded a first quarter vacancy rate of 5.0 percent, down 20 basis points from the same period last year. Together, these submarkets account for nearly one-fourth of the metro's total inventory, and increased foot traffic bodes well for the market as a whole.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

26,000 JOBS
will be created

EMPLOYMENT:

Supported by hiring velocity in the construction and trade, transportation and utilities sectors, St. Louis' employment base is on track to expand by 1.9 percent in 2022. By year-end, the job tally will be just 13,000 roles shy of the pre-pandemic peak.

360,000 SQ. FT.
will be completed

CONSTRUCTION:

Totaling just below the trailing five-year average of around 400,000 square feet, this year's supply additions will expand inventory by 0.2 percent. Most completions are slated for Central St. Louis and have lease commitments in place.

20 BASIS POINT
decrease in vacancy

VACANCY:

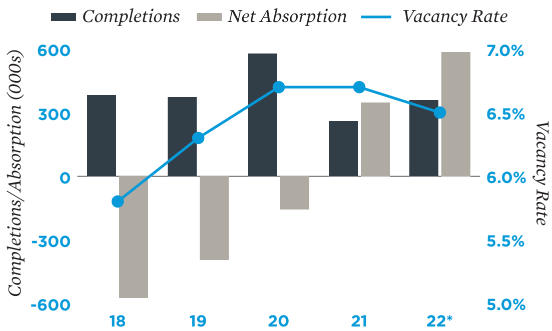
Availability will compress this year to 6.5 percent as vendors absorb the largest volume of space since 2017. This year's vacancy drop begins to offset the rise recorded over the previous four years and extends a recent stretch of positive net absorption.

3.0% INCREASE
in asking rent

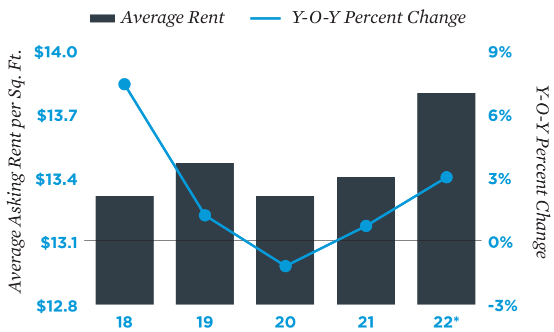
RENT:

The average asking rent is expected to reach $13.80 per square foot, rising above the 2019 mean of $13.47 per square foot. Marketed rates surpassing the metro average are seen in Central St. Louis County, West St. Louis County and St. Louis City.

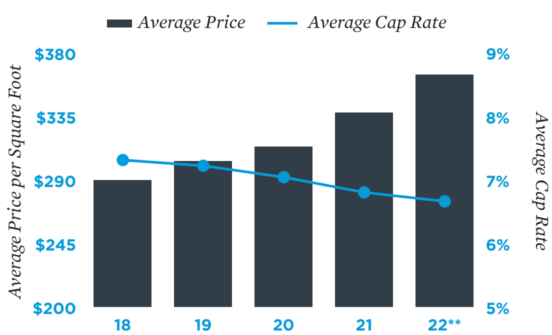
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q 2022 - 12-Month Period

CONSTRUCTION

211,000 sq. ft. completed

- Developers expanded St. Louis' inventory by a mere 0.1 percent in the trailing 12-month period ended in March, with just 11,500 square feet delivered in the first quarter of 2022.
- Central St. Louis County had around 132,000 square feet under construction and slated for 2022 completion as of early May.

VACANCY

20 basis point decrease in vacancy Y-O-Y

- Metro vacancy continued to compress during the past year, as vendors absorbed 470,000 square feet of space over that span. This leasing velocity lowered availability to 6.7 percent in March.
- Single-tenant availability fell 50 basis points year-over-year in the first quarter as the segment's vacant stock shrunk by 490,000 square feet.

RENT

4.0% increase in the average asking rent Y-O-Y

- Supported by an 8.1 percent increase in the average multi-tenant asking rent during the past year, the metro's overall marketed rate advanced to $13.70 per square foot in the first quarter.
- Single-tenant asking rent increased by 1.8 percent year-over-year, after the sector accounted for three-fourths of past year supply additions.

Investment Highlights

- Deal flow over the trailing 12-month period ended in March was fairly consistent with the previous yearlong period, despite the fourth quarter of 2021 recording a sizable number of transactions across both retail sectors. While overall transaction velocity has yet to return to pre-pandemic levels, the multi-tenant segment noted an uptick in trading over the past year, lifting the average sale price for this property type by 12 percent. The sector's mean first-year rate of return remained in the high-7 percent band.
- The metro's average sale price elevated by 14 percent year-over-year, reaching $365 per square foot, the largest gain since at least 2001. This escalation reduced the average cap rate 30 basis points to 6.7 percent. The single-tenant segment noted the more pronounced average price increase at 16 percent as fast-food locations traded at elevated prices along major transit ways east of the city, aiding in the cap rate lowering to 5.4 percent.
- Deals involving urban properties increased drastically in 2021. Most sales involved older properties, primarily storefronts and strip centers, in central and northern St. Louis County and St. Louis City. The average cap rate recorded for these properties ranged from 5 percent to 7 percent, dependent on locale, tenant mix and in-place lease terms.

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