

INVESTMENT FORECAST

OFFICE
St. Louis Metro Area

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2020

Vacancy Holds Below Long-Term Average Amid Trio of Larger Deliveries; Deal Flow Strongest in Suburbs

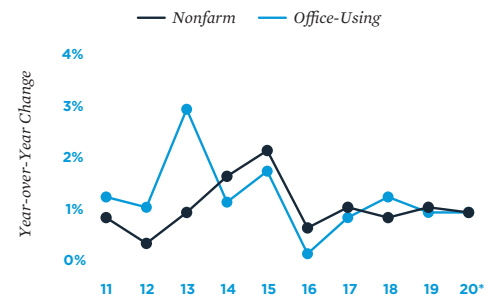
Dual industries propel office demand. Employment growth in St. Louis is expected to remain consistent during 2020, differing the market from other Midwest metros that will experience a moderation in hiring velocity this year. The strength of St. Louis' healthcare and tech sectors will support the steady pace of job creation, equating to a stable uptick in higher-paying jobs. Centene will lead the way, expanding staffs as it occupies most of a 660,000-square-foot development in Clayton. Mobile payment-processing company Square also plays a role, expanding its local workforce by up to 900 workers after relocating operations to the former St. Louis Post-Dispatch building. Medical and tech-related firms seeking newly built space proximate to downtown are likely to pursue floor plans at Armory District and City Foundry, two redevelopments of historical industrial sites. Leasing activity by firms within these sectors allows for a second consecutive year of positive absorption. Still, the metro's vacancy rises moderately in 2020, holding in the 10 percent range, with availability in the Class B/C segment notably below this average.

Higher-quality assets lure buyers to suburban markets. While asset values trail the previous cyclical peak and the metro's average cap rate hovers in the mid-8 percent range, private buyers will continue to pursue acquisitions. Outlying and closer-in western suburbs remain a primary target for investors seeking upper-tier buildings. Home to an AgTech innovation district, Creve Coeur and nearby Chesterfield offer buyers opportunities to acquire Class A and B properties at pricing that exceeds \$150 per square foot. Closer to the core, Clayton represents an additional locale for Class B listings, with Brentwood offering local investors an inventory of Class C assets for less than \$2 million. In the CBD, sub-\$100 per square foot pricing and 8 percent returns are prevalent for smaller Class B and C assets, some of which are loft/creative space or redevelopment plays.

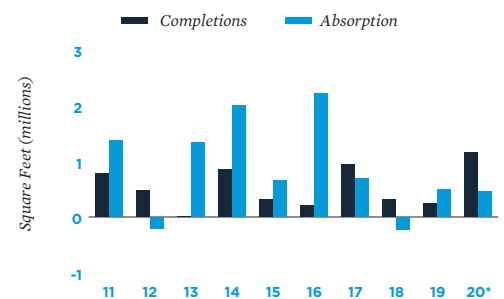
2020 Market Forecast

Employment up 0.9%	➤	Metro employers expand payrolls by 13,000 positions in 2020, a slight moderation in hiring velocity following the addition of 14,300 jobs last year.
Construction 1.2 million sq. ft.	➤	Supply additions exceed the 1 million-square-foot mark for the first time since 2009.
Vacancy up 50 bps	➤	On absorption of 460,000 square feet of space, vacancy climbs to 10.8 percent. In 2019, a drop of 30 basis points was recorded.
Rent up 1.9%	➤	The average asking rent elevates to \$20.29 per square foot, yet the pace of rate growth trails the prior three-year average of 3.1 percent.
Investment	●	A recent span of strong absorption has reduced vacancy in St. Charles County to a historically low level, allowing for above-average rent growth. These market conditions attract investors seeking Class B and C properties with upside potential.

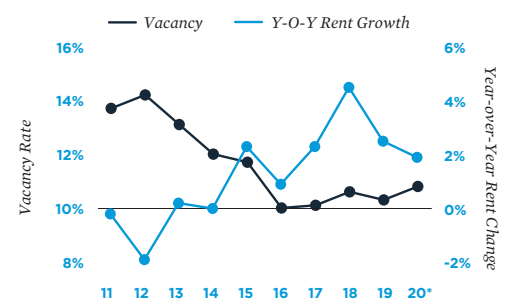
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.