

MARKET REPORT

OFFICE

St. Louis Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

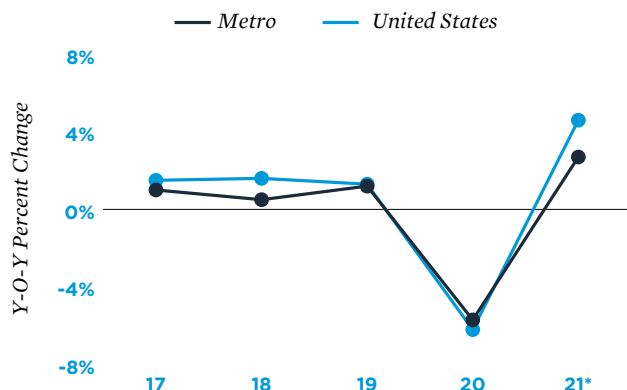
2Q/21

Some Submarkets Outperform Amid Very Active Development Pipeline

Office performance varies throughout metro. Among St. Louis' submarkets with more than 7 million square feet of inventory, fundamentals vary widely. More affordable rent and lower density drew tenants to the Illinois portion of the region. A lack of inventory additions here helped to cut vacancy 10 basis points year over year to 8.9 percent in March, the tightest level among the larger submarkets. In contrast, firms vacating space in higher-cost and denser buildings pushed vacancy up 410 basis points in North St. Louis to 15.1 percent, the highest rate in the market. This and other metro submarkets could face further challenges in 2021 as new speculative inventory and added sublease space is marketed.

Completions rise to decade high. More than 1.5 million square feet of office inventory is due for delivery in 2021. The Neuroscience Research Building at Washington University accounts for roughly 40 percent of the total. At 609,000 square feet, the facility is located in the Cortex Innovation District, a growing technology hub. Also underway in the District is a 316,000-square-foot building with office and lab space. Progress on the project has been delayed due to the health crisis pushing completion into 2022. Another notable development is the Western Headquarters of the National Geospatial-Intelligence Agency. Encompassing roughly 712,000 square feet, the building will bring additional high-paying jobs to St. Louis upon finalization in 2024 and is expected to be a catalyst for redevelopment of the surrounding neighborhood.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**36,400
JOBS**

will be created

EMPLOYMENT:

The employment base is expected to expand by 2.7 percent this year, including a 2.8 percent climb in traditionally office-using segments. Still, it will take beyond 2021 to recover all of the 81,300 jobs lost last year.



**1,520,000
SQ. FT.**

will be completed

CONSTRUCTION:

Deliveries will more than triple from last year's completions as inventory rises 1.2 percent in 2021. As of May, roughly 60 percent of the space had been pre-leased, which will ease the overall impact on vacancy.



**110
BASIS POINT**

increase in vacancy

VACANCY:

Inventory additions will outpace leasing activity this year. As a result, the vacancy rate will bump up to 12.5 percent, the highest rate since 2014. Last year, a 140-basis-point rise was recorded.



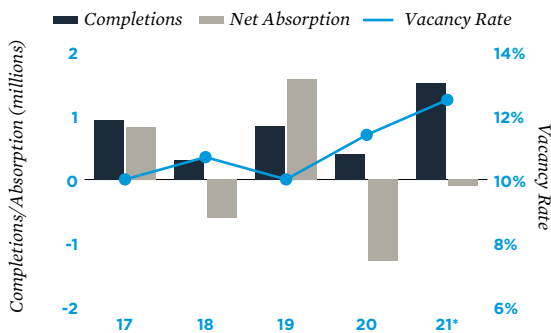
**0.3%
INCREASE**

in asking rent

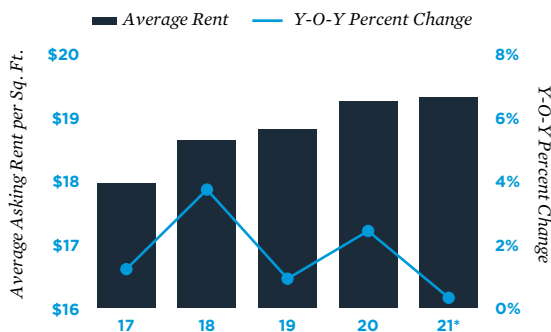
RENT:

Despite the rise in vacancy, new space coming online and additional Class A inventory being marketed will contribute to a slight increase in the average asking rent to \$19.30 per square foot. During 2020, a 2.4 percent hike was registered.

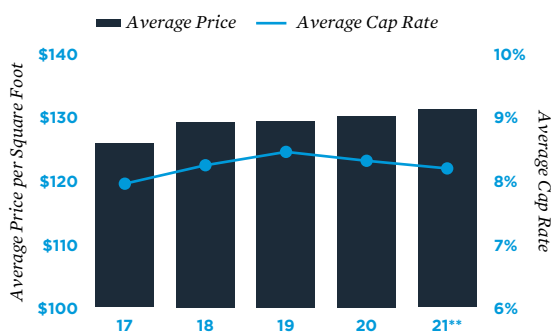
Supply and Demand



Rent Trends



Sales Trends



* Forecast; ** Through 1Q

Sources: CoStar Group, Inc., Real Capital Analytics

IPA Office

Alan L. Pontius

Senior Vice President, National Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, National Director | Research Services

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

Jay Lybik

Vice President, IPA Research Services

Tel: (602) 687-6700 | jlybik@ipausa.com

1Q21—12-Month Period



CONSTRUCTION

507,000 square feet completed

- Inventory grew 0.4 percent over the past four quarters, down from a 0.7 percent gain one year earlier when 857,000 square feet was finalized. Another 3.8 million square feet is underway with completions into 2024.
- The city of St. Louis and the central portion of St. Louis County received the bulk of deliveries over the past 12 months that ended in March.



VACANCY

190 basis point increase in vacancy Y-O-Y

- Vacancy jumped to 12.3 percent in the first quarter, the highest rate since 2014. One year prior, a 60-basis-point reduction was registered.
- Availability surged 430 basis points annually to 18.9 percent in Class A buildings, the highest rate in at least 14 years. The Class B/C rate rose 70 basis points to 8.6 percent.



RENT

1.6% increase in the average asking rent Y-O-Y

- A 3.1 percent hike in Class B/C rent during the past four quarters resulted in the average asking rent rising to \$19.28 per square foot, following a 2.2 percent climb one year prior.
- Class A rent declined 0.4 percent to \$23.16 per square foot year over year in March as operators cut rent to fill empty floor plates.

Investment Highlights

- The initial months of the health crisis weighed on transactions over the past 12 months ending in March. Although trading picked up in the final two quarters of 2020, it eased again in the opening three months of 2021, resulting in deal flow falling 39 percent year over year.
- Since April 2020, buyers focusing on properties in more expensive submarkets contributed to the average price for office assets rising 1 percent to \$131 per square foot. During this period, the mean cap rate dipped 20 basis points to 8.2 percent. Initial yields have remained in the low-8 to mid-8 percent range since 2018.
- Mainly private local buyers have been active in the market during the health crisis, targeting multi-tenant buildings in Clayton, the city of St. Louis and St. Charles County. Investors seeking higher returns have found opportunities in the city of St. Charles.
- Medical office assets are typically changing hands for more than the metro average, some garnering more than \$200 per square foot. Properties in O'Fallon and the city of St. Louis were most often sought.

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. Note: 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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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