

# St. Louis Office Market

## 2022 to be a Dynamic Year for Tenants to Upgrade Spaces

The St. Louis office market realized a decrease in asking rental rates in the first quarter of 2022, as rents fell by \$0.07/SF to \$21.97/SF from \$22.04/SF in the fourth quarter of 2021. While asking rental rates continue to rise since the second quarter of 2019, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances to offset the increase, as well as longer lease terms to accommodate the ever-increasing construction costs. As trailing 12-month inflation continues at levels twice the normal average, real asking rental rate growth is stagnant across many metro markets in the U.S. Market vacancy increased 110 basis points to 14.5% from the prior quarter an increase of 190 basis points from one year ago. Total net absorption in the quarter measured -850,360 square feet. Two properties in North County accounted for half of the negative absorption: Magellan Health, purchased by Centene for \$2.2 billion, exited 223,500 square feet at 14100 Magellan Plaza in Maryland Heights; and the 227,740-square-foot space exited by Express Scripts at 8640 Evans Ave. in St. Louis County officially posted as negative absorption. One construction project underway during the quarter totaled 224,585 square feet. The Class A, Forsyth Pointe project in Clayton is currently 44.9% pre-leased. No projects were delivered to the market during the quarter.

Market fundamentals in 2022 will remain contractionary as tenants continue to evaluate ever-changing space needs. Property owners that can provide flexible space options, accommodate work-from-home and in-office hybrid work models and offer creative space for both individual and collaboration space needs will earn a space on the short list for prospective tenants.

### Wugen Will Relocate to 4260 Forest Park Ave. Within the Cortex Innovation Community

Wugen, a locally based biotechnology research and development firm specializing in cancer treatments, announced in March it signed an 18,000-square-foot lease at 4260 Forest Park Ave. within the Cortex Innovation Community.

### Current Conditions

- While the overall trend in asking rental rates continues to rise, in part due to inflation, tenants are often seeing more concessions to offset the increase.
- Market fundamentals will remain contractionary in 2022. Prospective tenants will upgrade space at buildings offering flexible and creative space.
- Biotechnology startup Wugen to relocate headquarters within the Cortex district to an 18,000-SF space at 4260 Forest Park Ave.
- The Marcus Organization purchases 136,550-SF portfolio in Mid County for \$20.0 million.

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, Millions)



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	75 MSF	75 MSF	75 MSF	↔
Vacancy Rate	14.5%	13.4%	12.6%	↑
Qtr. Net Absorp.	-850,360	-307,668	-618,629	↓
Avg. Asking Rent	\$21.97	\$22.04	\$21.34	↔
Under Con.	224,585	224,585	224,585	↔
Deliveries	0	0	108,750	↑

## RESEARCH Q1 2022

The firm will relocate its headquarters from its current space in the BioSTL Building located at 4340 Duncan Ave. Wugen will backfill the former space occupied by Block with approximately 50 local employees and could potentially create up to 40 new jobs in the future. For its expansion, Wugen used the Missouri Works program, a tool which assists firms to expand and retain workers by providing access to capital. The firm has raised more than \$200 million to advance its pipeline of off-the-shelf cell therapies to develop cancer-fighting drugs.

### The Marcus Organization Purchases 136,550-Square-Foot Portfolio in Mid County

New York-based The Marcus Organization, announced in March it purchased a portfolio of two properties, including Ballas Place and the 10777 Building, totaling 136,550 square feet. Located at 425 North New Ballas Rd. in Creve Coeur, the two-story Ballas Place building is a Class B property totaling 78,250 square feet which delivered to the market in 1980 and underwent renovations in 2020. The second property, located at 10777 Sunset Office Dr. in Sunset Hills, is a three-story, Class B property totaling 58,290 square feet which delivered to the market in 1978 and underwent renovations in 2020. Bamboo Equity Partners divested the portfolio for \$20.0 million, or \$147/SF.

### Landlords Committed to Providing Adaptable and Creative Space Will Attract and Sign Prospects

The St. Louis office market loosened in the first quarter of 2022 as -850,360 square feet was absorbed. With net absorption during the past four quarters totaling -1.4 million square feet, average quarterly net absorption has significantly decreased during the pandemic, measuring -423,131 square feet since the third quarter of 2020. Favorable conditions will continue for prospective tenants to upgrade from Class B to Class A space, as submarkets in the Metro display vacancy rates for Class A space ranging from 11.5% to 29.9%. Overall market vacancy should range from 15.0% to 16.2%, while asking rental rates are expected to range from \$22.05/SF to \$22.65/SF during the next four quarters.

Expect 2022 to be a dynamic year with multiple opportunities for tenants to upgrade spaces, renegotiate leases and discover leasing options which best fit their evolving corporate needs. Landlords committed to providing adaptable space, multi-functional and versatile floorplans and a comprehensive amenities package will have a competitive advantage to attract and sign potential prospects.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Express Scripts	1 Express Way	North County	Renewal	319,000
Charter Communications	13736 Riverport Dr	North County	Renewal	224,600
Charter Communications	14000 Riverport Dr	North County	Renewal	119,000
Wugen	4260 Forest Park Ave	Downtown	New	18,000
SwipeSum	212 S Central Ave	Clayton	Sublease	6,000
Oasis Counseling	254-260 Clarkson Rd	West County	New	4,860

### Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Bamboo Equity Partners Portfolio (2)	Mid County	\$20,000,000	\$147	136,550
700 Market St	Downtown	\$30,500,000	\$239	127,470
717 Office Pkwy	Mid County	\$8,900,000	\$110	81,000
1900 Innerbelt Business Center Dr	North County	\$14,920,000	\$195	76,640
1699 S Hanley Rd	Clayton	\$3,550,000	\$61	57,830
1480 Woodstone Dr	St. Charles County	\$1,240,000	\$66	18,820
103 Church St	St. Charles County	\$1,075,000	\$89	12,150
840 Admiral Weinel Blvd	Metro East	\$1,050,000	\$152	6,910

Submarket Statistics								
Submarket	Class	Total Number of Buildings	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
<b>Downtown</b>	<b>ALL</b>	<b>236</b>	<b>27,647,307</b>	<b>0</b>	<b>15.00%</b>	<b>-57,353</b>	<b>-57,353</b>	<b>\$18.36</b>
	Class A	35	11,248,853	0	27.90%	-85,094	-85,094	\$19.55
	Class B	125	11,470,075	0	7.20%	-1,568	-1,568	\$16.19
	Class C	76	4,928,379	0	3.70%	29,309	29,309	\$14.47
<b>Clayton</b>	<b>ALL</b>	<b>99</b>	<b>9,094,875</b>	<b>224,585</b>	<b>10.80%</b>	<b>-19,896</b>	<b>-19,896</b>	<b>\$29.84</b>
	Class A	32	5,662,113	224,585	11.50%	-29,346	-29,346	\$33.19
	Class B	48	2,703,674	0	10.50%	4,281	4,281	\$22.05
	Class C	19	729,088	0	6.50%	5,169	5,169	\$18.83
<b>Mid County</b>	<b>ALL</b>	<b>175</b>	<b>11,981,075</b>	<b>0</b>	<b>12.80%</b>	<b>32,463</b>	<b>32,463</b>	<b>\$22.40</b>
	Class A	33	5,153,385	0	12.40%	24,074	24,074	\$25.61
	Class B	120	6,102,969	0	14.40%	10,032	10,032	\$21.51
	Class C	22	724,721	0	2.20%	-1,643	-1,643	\$19.55
<b>North County</b>	<b>ALL</b>	<b>90</b>	<b>8,089,890</b>	<b>0</b>	<b>22.10%</b>	<b>-586,736</b>	<b>-586,736</b>	<b>\$18.63</b>
	Class A	21	3,254,527	0	29.90%	-337,306	-337,306	\$19.73
	Class B	42	3,669,447	0	16.90%	-249,430	-249,430	\$17.80
	Class C	27	1,165,916	0	16.40%	0	0	\$15.59
<b>South County</b>	<b>ALL</b>	<b>77</b>	<b>4,638,212</b>	<b>0</b>	<b>13.70%</b>	<b>-90,533</b>	<b>-90,533</b>	<b>\$22.69</b>
	Class A	17	1,647,015	0	22.40%	-82,024	-82,024	\$23.69
	Class B	50	2,647,838	0	9.10%	-11,293	-11,293	\$21.14
	Class C	10	343,359	0	7.40%	2,784	2,784	\$20.38
<b>St. Charles County</b>	<b>ALL</b>	<b>68</b>	<b>3,620,956</b>	<b>0</b>	<b>13.40%</b>	<b>-9,000</b>	<b>-9,000</b>	<b>\$19.87</b>
	Class A	22	1,748,368	0	13.70%	3,894	3,894	\$22.09
	Class B	35	1,301,336	0	10.20%	-21,154	-21,154	\$20.99
	Class C	11	571,252	0	20.00%	8,260	8,260	\$16.49
<b>West County</b>	<b>ALL</b>	<b>141</b>	<b>9,861,608</b>	<b>0</b>	<b>13.10%</b>	<b>-119,305</b>	<b>-119,305</b>	<b>\$24.66</b>
	Class A	60	6,091,698	0	12.80%	-88,416	-88,416	\$26.45
	Class B	72	3,432,955	0	14.30%	-31,390	-31,390	\$21.29
	Class C	9	336,955	0	5.60%	501	501	\$18.00
<b>St. Louis Market</b>	<b>ALL</b>	<b>886</b>	<b>74,933,923</b>	<b>224,585</b>	<b>14.50%</b>	<b>-850,360</b>	<b>-850,360</b>	<b>\$21.97</b>
	<b>Class A</b>	<b>220</b>	<b>34,805,959</b>	<b>224,585</b>	<b>19.50%</b>	<b>-594,218</b>	<b>-594,218</b>	<b>\$24.12</b>
	<b>Class B</b>	<b>492</b>	<b>31,328,294</b>	<b>0</b>	<b>11.00%</b>	<b>-300,522</b>	<b>-300,522</b>	<b>\$19.09</b>
	<b>Class C</b>	<b>174</b>	<b>8,799,670</b>	<b>0</b>	<b>7.00%</b>	<b>44,380</b>	<b>44,380</b>	<b>\$15.88</b>

## Submarket Statistics – Class A

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	11,248,853	0	27.90%	-85,094	-85,094	\$19.73	\$15.08	\$19.55
Clayton	5,662,113	224,585	11.50%	-29,346	-29,346	\$33.92	\$24.64	\$33.19
Mid County	5,153,385	0	12.40%	24,074	24,074	\$26.01	\$21.75	\$25.61
North County	3,254,527	0	29.90%	-337,306	-337,306	\$20.58	\$17.46	\$19.73
South County	1,647,015	0	22.40%	-82,024	-82,024	\$24.01	\$18.59	\$23.69
St. Charles County	1,748,368	0	13.70%	3,894	3,894	\$22.47	\$16.00	\$22.09
West County	6,091,698	0	12.80%	-88,416	-88,416	\$27.02	\$22.80	\$26.45
<b>St. Louis Market</b>	<b>34,805,959</b>	<b>224,585</b>	<b>19.50%</b>	<b>-594,218</b>	<b>-594,218</b>	<b>\$24.66</b>	<b>\$19.67</b>	<b>\$24.12</b>

## Submarket Statistics – Class B

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	11,470,075	0	7.20%	-1,568	-1,568	\$16.47	\$14.50	\$16.19
Clayton	2,703,674	0	10.50%	4,281	4,281	\$22.72	\$13.26	\$22.05
Mid County	6,102,969	0	14.40%	10,032	10,032	\$21.59	\$16.85	\$21.51
North County	3,669,447	0	16.90%	-249,430	-249,430	\$17.80	-	\$17.80
South County	2,647,838	0	9.10%	-11,293	-11,293	\$21.14	-	\$21.14
St. Charles County	1,301,336	0	10.20%	-21,154	-21,154	\$20.99	-	\$20.99
West County	3,432,955	0	14.30%	-31,390	-31,390	\$21.29	-	\$21.29
<b>St. Louis Market</b>	<b>31,328,294</b>	<b>0</b>	<b>11.00%</b>	<b>-300,522</b>	<b>-300,522</b>	<b>\$19.34</b>	<b>\$15.47</b>	<b>\$19.09</b>

### Economic Conditions

The local economy continued to improve in February, with total employment growth of 3.1% and growth occurring in seven out of 10 industries, calculated on a 12-month percent change basis.

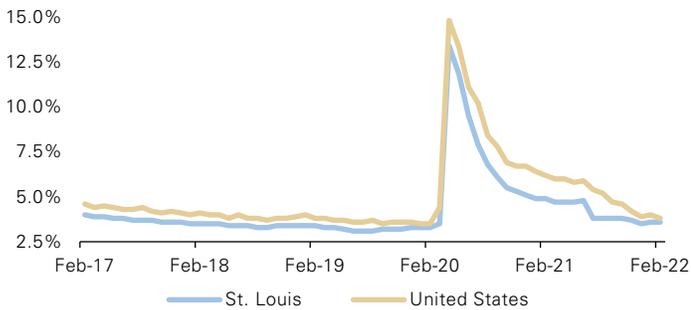
Payroll employment in St. Louis increased significantly in February 2022 compared to the prior year, increasing to 3.1%. The national average also increased substantially, up from -5.9% in February 2021 to 4.8% in February 2022.

The Consumer Price Index for the U.S. increased 620 basis points compared to the prior year, registering 7.9% in February 2022, while the Midwest Urban CPI increased 630 basis points to 8.0%, both at record highs during the past decade.

Unemployment in the U.S. decreased 40 basis points to 3.8%, while unemployment in St. Louis decreased 10 basis points to 3.6% compared to the past quarter. Unemployment in St. Louis decreased 130 basis points from a year prior.

### Unemployment Rate

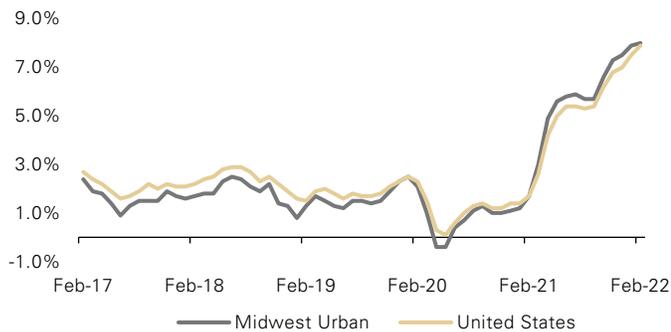
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2022

### Consumer Price Index (CPI)

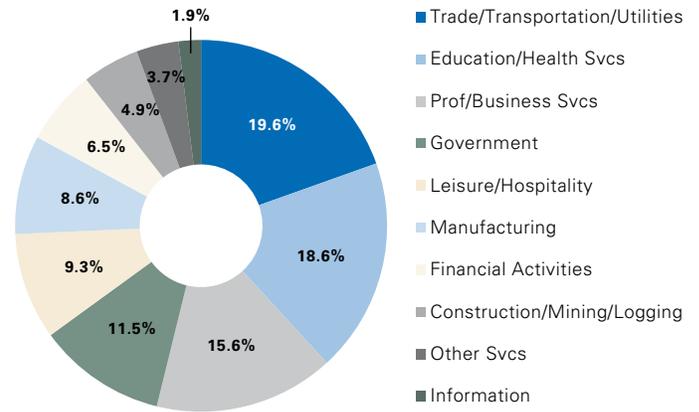
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2022

### Employment By Industry

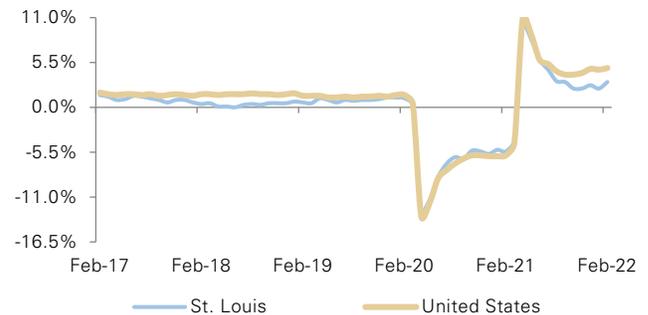
St. Louis, February 2022



Source: U.S. Bureau of Labor Statistics, March 2022

### Payroll Employment

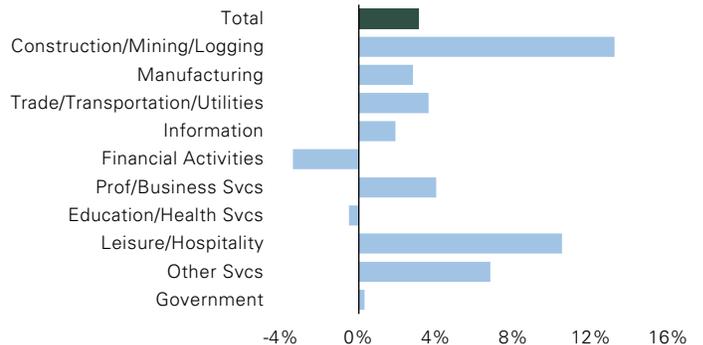
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, March 2022

### Employment Growth By Industry

STL, Feb. 2022, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, March 2022

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