

# 2020 METRO MARKET FORECAST



**SIO**<sup>®</sup>

ST. LOUIS  
CHAPTER





# Office Perspective

TRIPP HARDIN, SIOR  
CUSHMAN & WAKEFIELD



# THANK YOU

Dave Randolph, CBRE

Jim Loft, Gershman Commercial

Mike Hanrahan, Cushman & Wakefield

David Hoebbel, Cushman & Wakefield

- Relative Performance
  - Investment Sales
  - Leasing Activity
- Development Activity & Pipeline
  - Hot Topics
  - 2020 Predictions

# Checking STL's Pulse

Q: How's the Office Market?

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A: Pretty Good, Solid, Steady... But are we

- Experiencing Widespread Development?
- Winning Corporate Relocations?
- Attracting Institutional Capital?

# Metrics That Matter

## Characteristics of an Expanding Market

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- Employment & Population Growth (Talent Supply)
- Net Rental Rate Growth
- Vibrant CBD

# 10-Year Comparison

St. Louis Shows Moderate Improvement

Ten Year Changes			
	2009	2019	Change
<b>Metro Population (#)</b>	2,785,127	2,808,301	+0.8%
<b>Unemployment (%)</b>	10.4%	3.1%	-730 bps
<b>Overall Inventory</b>	50,206,021 sf	49,714,094 sf	-491,927 sf
<b>Overall Availability</b>	7,468,709 sf	6,069,601 sf	-1,399,108 sf
<b>Overall Vacancy</b>	14.9%	12.2%	-270 bps
<b>Cumulative Net Absorption (sf)</b>	-	-	+907,181 sf <i>[10-Year Total]</i>

# 10-Year Comparison

## “Net” Rental Rate Growth

	Increase In Asking Rent	Increase In Property Tax	Increase In TIA/SF/YR	“NET” Rental Rate Growth
<b>Class A City</b>	+\$0.62/sf	[-\$1.08/rsf]	[\$1.00]	= \$0.70/sf
<b>Class A Clayton</b>	+\$5.74/sf	[\$1.46/rsf]	[\$1.20]	= \$3.08/sf
<b>Class A West County</b>	+2.33/sf	[\$0.79/rsf]	[\$1.00]	= \$1.44/sf

# Office Ownership

Firmly Entrenched as a Secondary Market

## St. Louis Office

2019 Rank	Owner	Total SF
1	Scott Properties	1,535,107
2	Starwood/Vanderbilt/Trinity	1,303,707
3	Gershman/Burkhill	1,293,170
4	Centene Corporation	1,231,215
5	Gotham Realty Holdings	1,051,000
6	Larson Financial Group	948,127
7	REDICO	766,892
8	Positive Investments	750,000
9	US Bank	749,612
10	Fireside Financial	718,012
11	Raven Development LLC	659,682
12	Franklin Partners	633,876
13	Altus Properties	602,229
14	Lingerfelt CommonWealth Partners	578,903
15	Lodging Hospitality Mgmt.	578,271
16	VREIT	547,521
17	Ventas	546,529
18	Mastercard International	537,735
19	Citigroup Inc.	515,000
20	Maritz	486,534

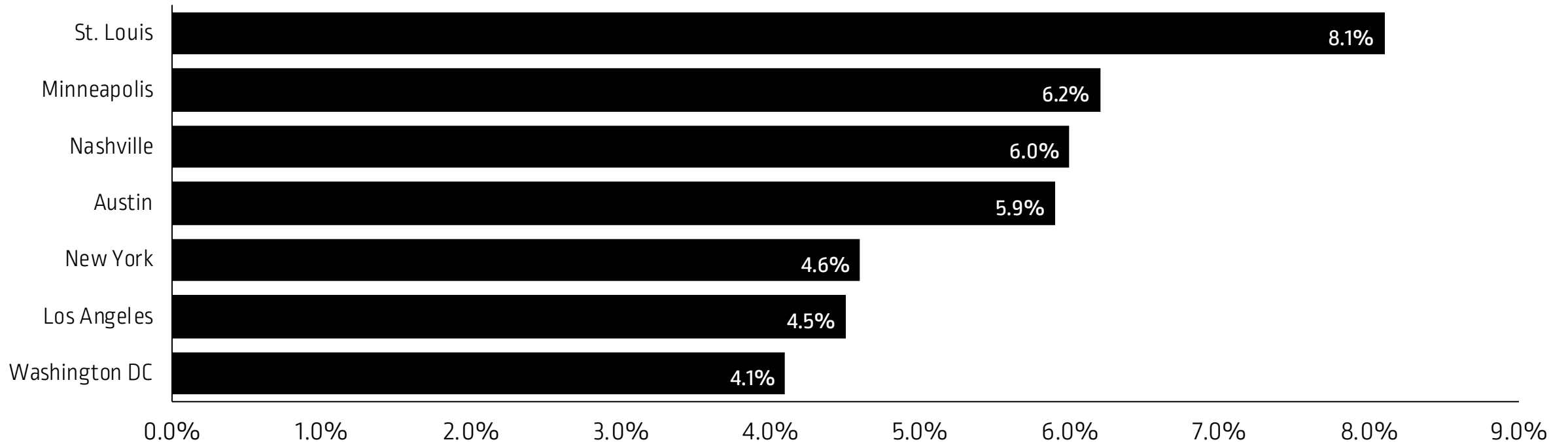
## U.S. Office

2018 Rank	Company	Total SF
1	Blackstone Group	230,000,000
2	Brookfield Properties	153,000,000
3	LaSalle Investment Mgmt.	77,054,526
4	Tishman Speyer	62,100,000
5	Hines	58,377,087
6	Boston Properties	44,100,000
7	CBRE Global Investors	37,556,000
8	KBS	33,351,354
9	TH Real Estate	32,486,309
10	SL Green	28,314,670
11	Highwoods Properties	26,801,000
12	Ivanhoe Cambridge	25,178,858
13	Lincoln Property Co.	24,040,000
14	Vornado Realty Trust	22,000,000
15	AEW Capital Management	21,482,002
16	Shorenstein Properties	21,300,000
17	Clarion Partners	19,402,634
18	PS Business Parks	19,202,000
19	Corporate Offices Prop Trust	17,345,000
20	Mack-Cali Realty	17,100,000

# Cap Rate Survey

Q: How Does STL Compare to other Markets?

Class A Office Cap Rate by Metro

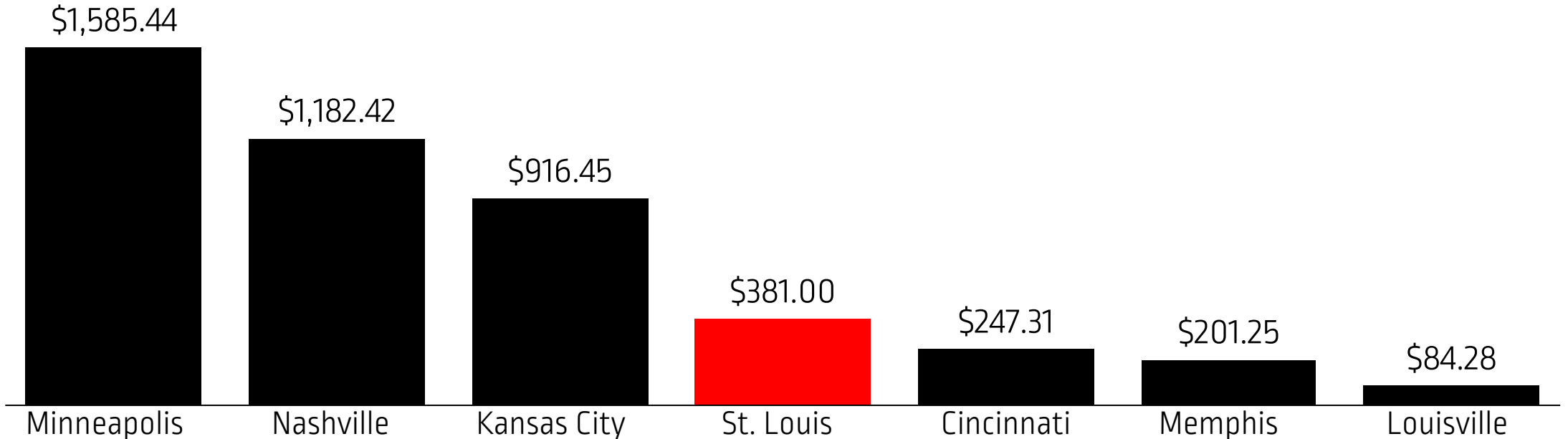


*A: Relative Yield Premium in St. Louis is Very Attractive!*

# Regional Investment

Compared to Peer Markets, St. Louis Middle of Pack

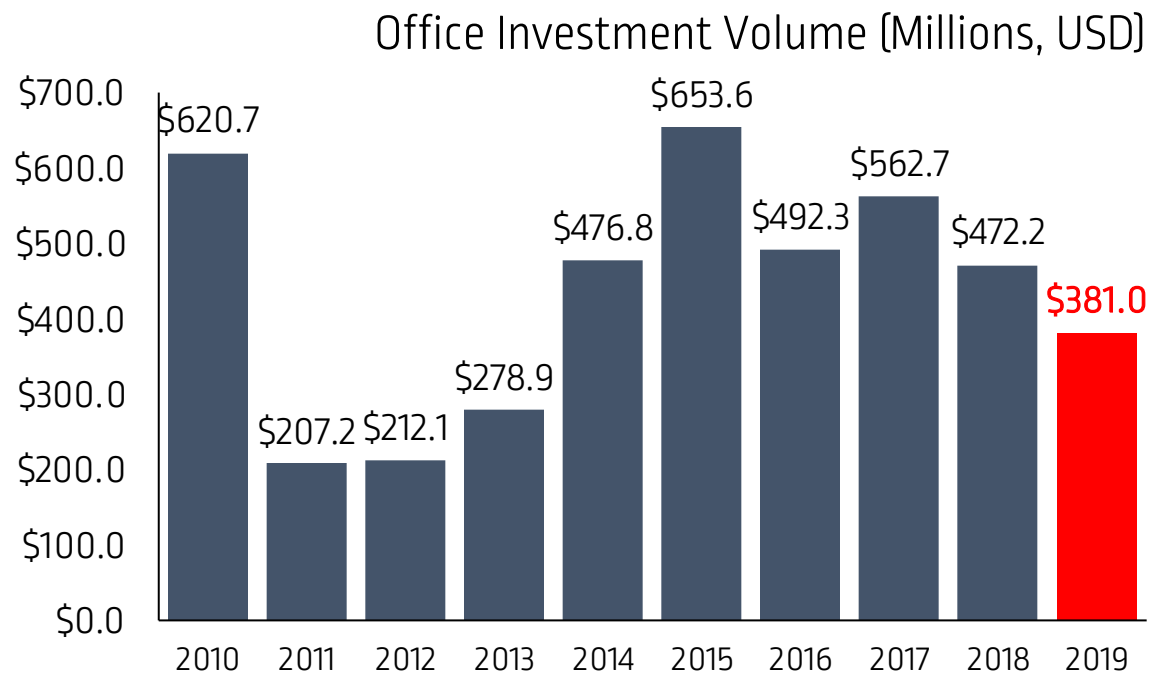
2019 Regional Office Investment Volumes\*



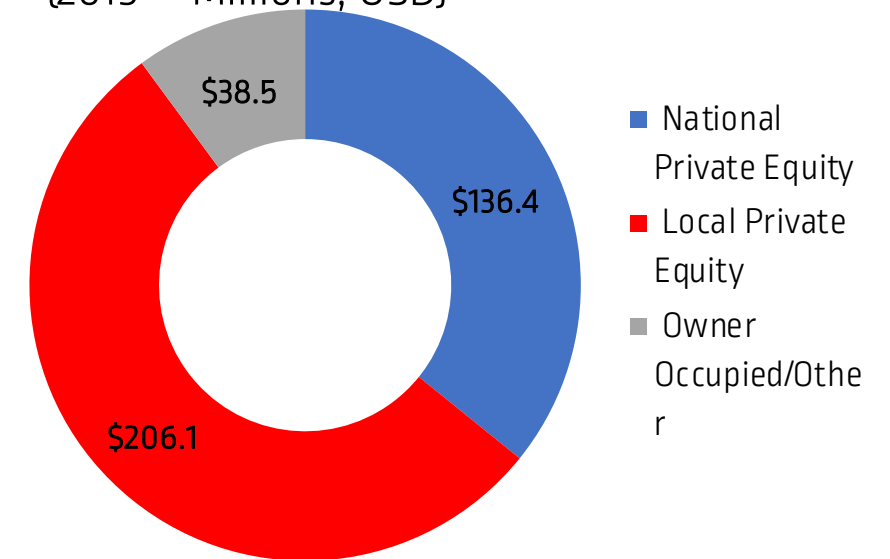
\*Source: Real Capital Analytics, Transactions Greater Than \$5mm

# St. Louis Investment

## Office Investment Dominated by Local Players



Investment by Buyer Type  
(2019 – Millions, USD)



*REITS & Institutional Advisors Notably Absent*

# St. Louis Investment

## Office Investment Sales Results in 2019

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Total Sales Volume*	# of Buildings	Average Price PSF	What % of Market Inventory Traded
\$381,001,320 <small>*Transactions Greater Than \$5m</small>	28	\$142.57	\$5.6% (~2.8msf)

*Average Sale Price at only +/- 60% of Replacement Cost*

# \$1.4b of Office Investment Since 2017

## Market-by-Market Office Investment Segmentation (Last 3-Years)

Market	Office Inventory (sf)	Aggregate Sale Volume (\$)	Share of Office Inventory (%)	Share of Investment (%)
Clayton	7,350,997	\$217,695,869	14.8%	15.7%
Mid-County	2,147,678	\$80,569,920	4.3%	5.8%
North County	5,803,009	\$193,926,230	11.7%	14.0%
South County	2,682,052	\$51,196,000	5.4%	3.7%
St. Charles County	3,726,651	\$63,959,000	7.5%	4.6%
St. Louis City	10,936,459	\$191,936,731	22.0%	13.8%
West County	17,147,248	\$588,508,314	34.4%	42.4%
Total	49,794,094	\$1,387,792,064	-	-

*West County Outperforms while Downtown Lags*

# Major Sales in 2019

Number	Building	SF	Buyer
1	1 Progress Point Way	123,540 sf	Bamboo Equity Partners
2	14567 N. Hwy 40 Outer Rd.	107,874 sf	Larson Capital Management



- Bldg: Pierre Laclede I & II
- Submarket: Clayton
- SF: 578,903
- Price: \$92.7m
- Price PSF: \$160.13
- Buyer: Lingerfelt Commonwealth Partners
- Seller: KBS Realty Advisors

1.



2.



- Bldg: 18 Properties (13 Office)
- Submarket: Chesterfield
- SF: 779,510 sf
- Price: \$78,000,000 (est.)
- Price PSF: \$100psf (est.)
- Buyer: Gershman CRE / BurkHill RE
- Seller: Sachs Properties



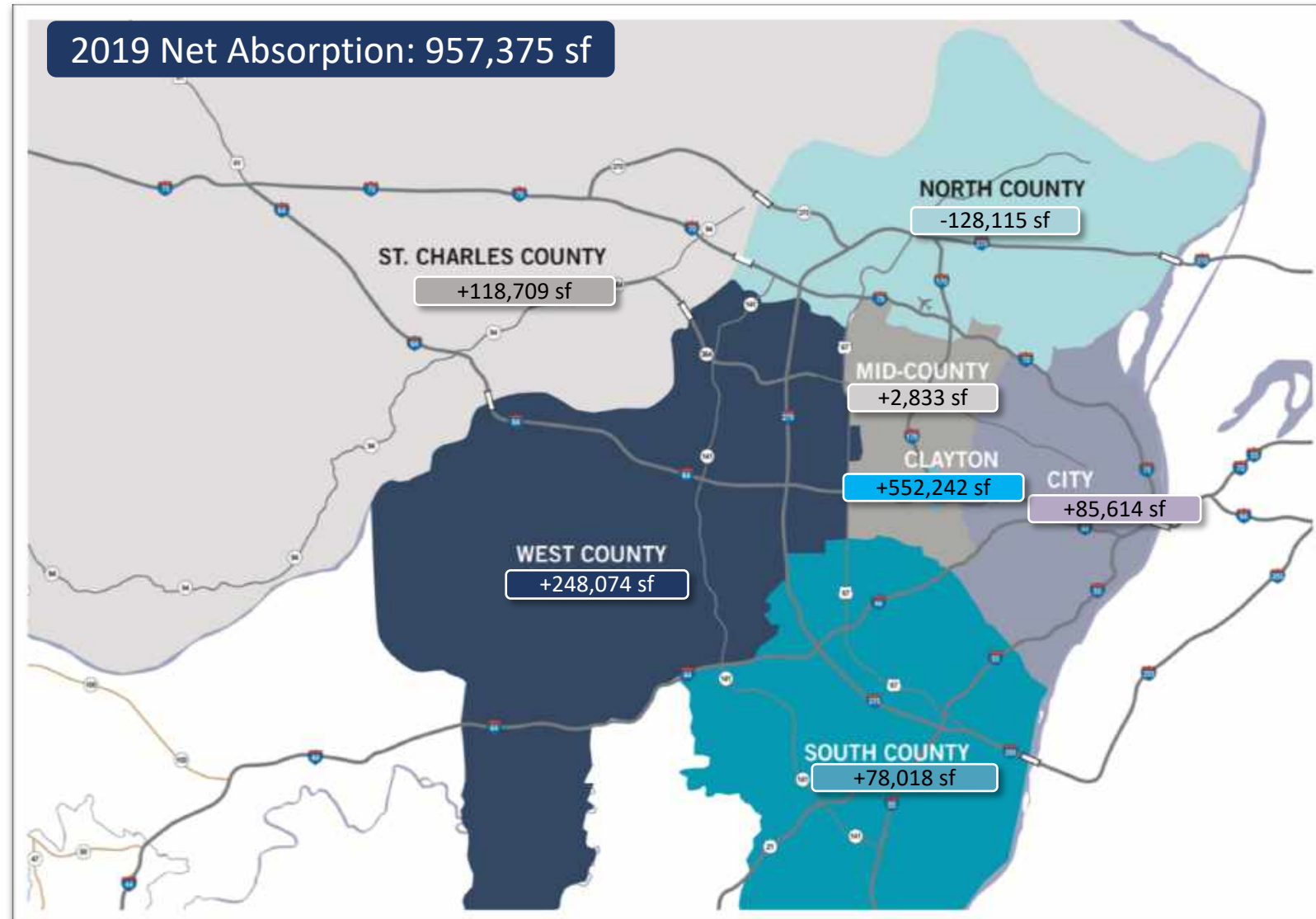
- Bldg: 12851 Manchester Rd
- Submarket: Des Peres
- SF: 144,771 sf
- Price: \$15,400,000
- Price PSF: \$106
- Buyer: Franklin Partners
- Seller: Southwestern Bell Corp

# Office Leasing

## St. Louis Continues Positive Trend

- Seven Submarkets
- 49msf in Inventory
- Overall Vacancy at 12.2%
- Class A Vacancy at 10.5%
- Class A asking rates at \$25.82
- Deliveries have totaled 1.1msf in 2019
- 2019 net absorption totals roughly 960ksf\*

*\*Centene Plaza delivery & absorption of 604,508 sf taken in Q3 of 2019. Negative absorption to hit market in 2020*



# Office Leasing

New Deliveries Spur Activity Across Market



2019 Deal Summary  
(Leases > 10ksf)

## NEW DEALS & RELOCATIONS

62  
1,922,327 sf  
61%

## RENEWALS

39  
932,856 sf  
39%



# 2019 Major Leases



- **Bldg:** Danforth BTS
- **Submarket:** Creve Coeur
- **SF Leased:** 80,000 sf
- **Tenant:** Benson Hill Biosystems
- **Deal Type:** Expansion & Relocation

⑥

⑦

②

⑤

⑧

④

①

③



- **Bldg:** 900 N. Tucker
- **Submarket:** Downtown
- **SF Leased:** 225,000 sf
- **Tenant:** Square
- **Deal Type:** Expansion & Relocation

#	Building	SF	Tenant
3	800 Market St.	98,672	Ameren
4	7676 Forsyth Blvd	77,511	BofA Merrill Lynch
5	11330 Olive Blvd.	88,920	Metlife

#	Building	SF	Tenant
6	5555 Winghaven Blvd.	73,840	Mastercard International
7	3251 Riverport Dr.	80,681	Essence Healthcare
8	12800 Corporate Hill Dr.	181,631	Centene

# Positive Development

## New Product Leasing Up

	2018	2019
Completions (#)	2 Buildings	7 Buildings
Completions (sf)	183,000 SF	1,292,784
Vacancy (%)	6.3%	7.6%



# What Occupiers Want

## Study of 500 Relocations

### Themes Underlying Relocation:

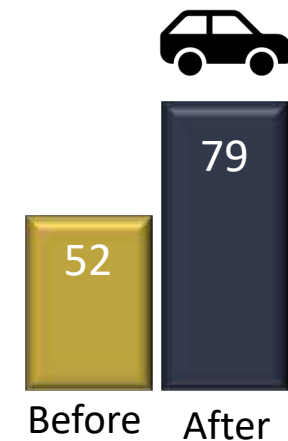
- To attract and retain talented workers
- To build brand identity and company culture
- To support creative collaboration
- To be closer to customers and business partners
- To centralize operations
- Efficiency gains

### Average Transportation Scores Before & After Relocation

#### WALK SCORE



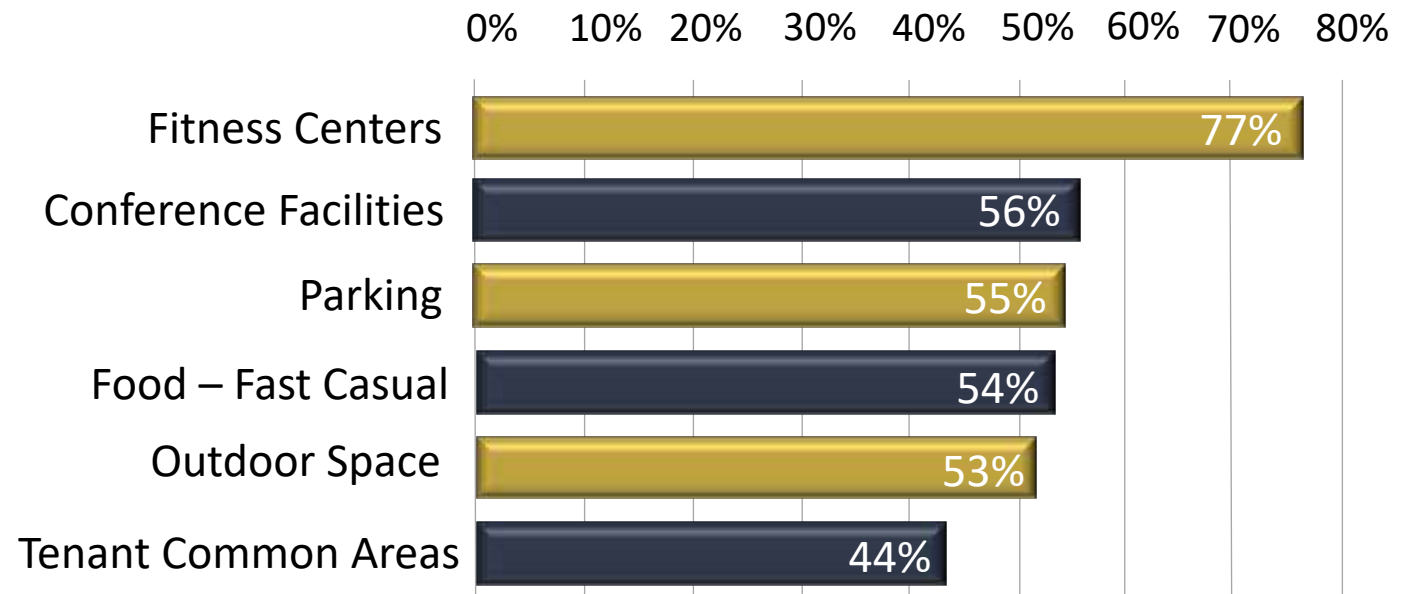
#### TRANSIT SCORE



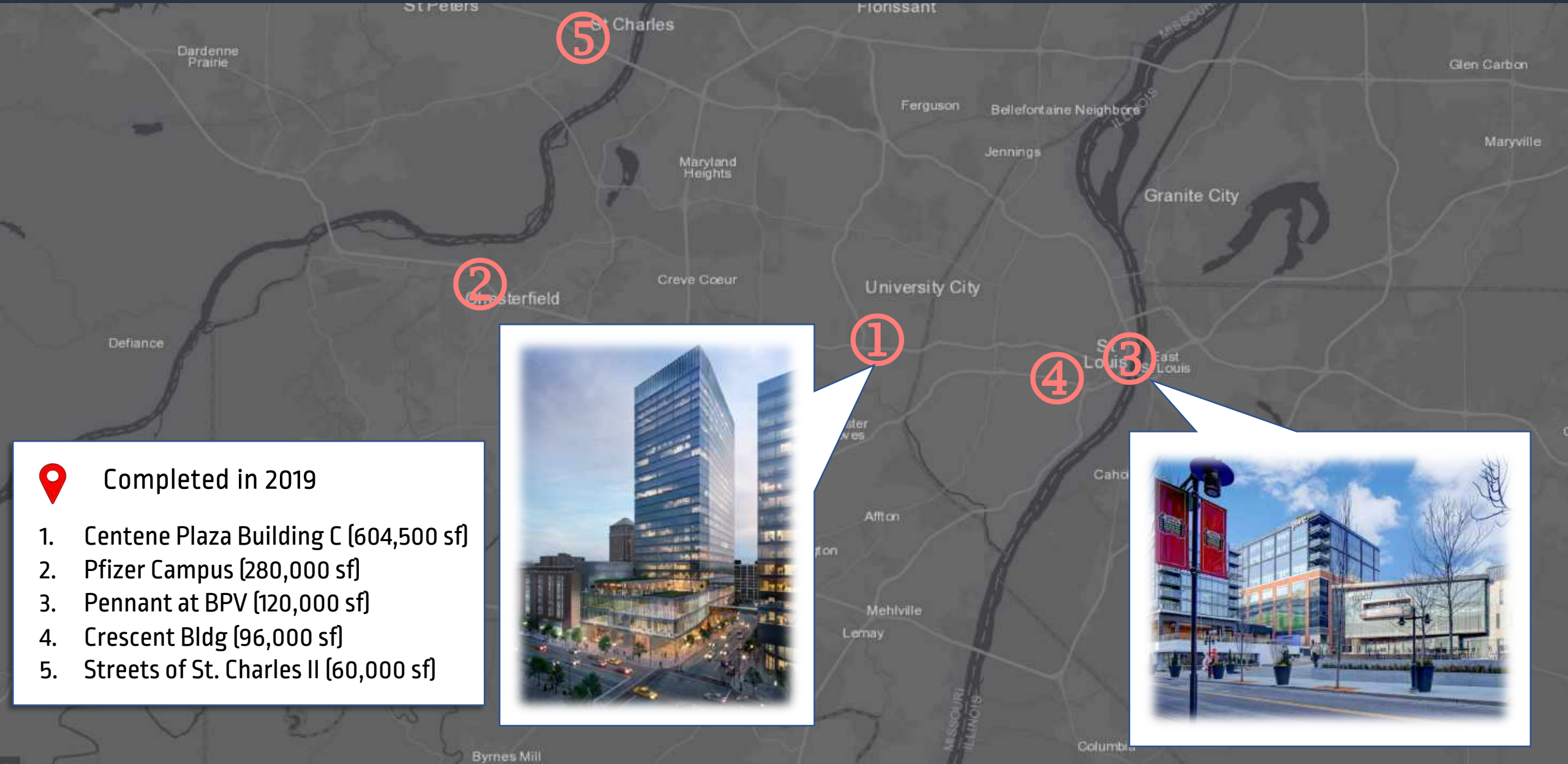
# What Occupiers Want

## Inside the Building

What Occupiers Demand Most from their Real Estate



# 2019 Deliveries



## Completed in 2019

- 1. Centene Plaza Building C (604,500 sf)
- 2. Pfizer Campus (280,000 sf)
- 3. Pennant at BPV (120,000 sf)
- 4. Crescent Bldg (96,000 sf)
- 5. Streets of St. Charles II (60,000 sf)

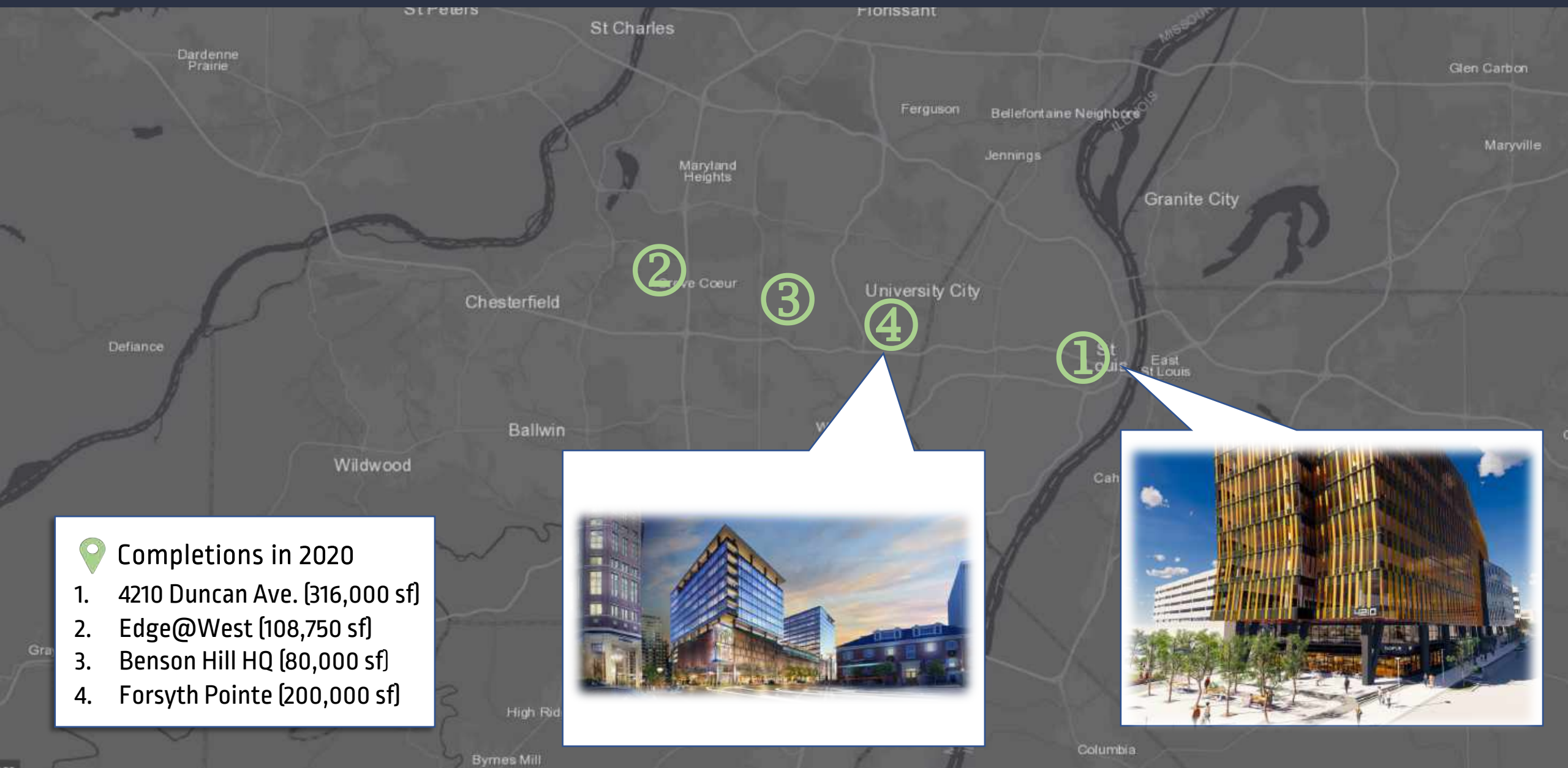


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# Under Construction in 2020



## 📍 Completions in 2020

1. 4210 Duncan Ave. (316,000 sf)
2. Edge@West (108,750 sf)
3. Benson Hill HQ (80,000 sf)
4. Forsyth Pointe (200,000 sf)



# Office Development

## Cost and Target Rates

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Market / Region	Cost PSF	Minimum Rent (NNN)	Minimum Rent (FSG)
Clayton (Mid-Rise)	\$410	\$32/sf	\$44/sf
Suburban (Low-Rise)	\$300	\$24/sf	\$35/sf

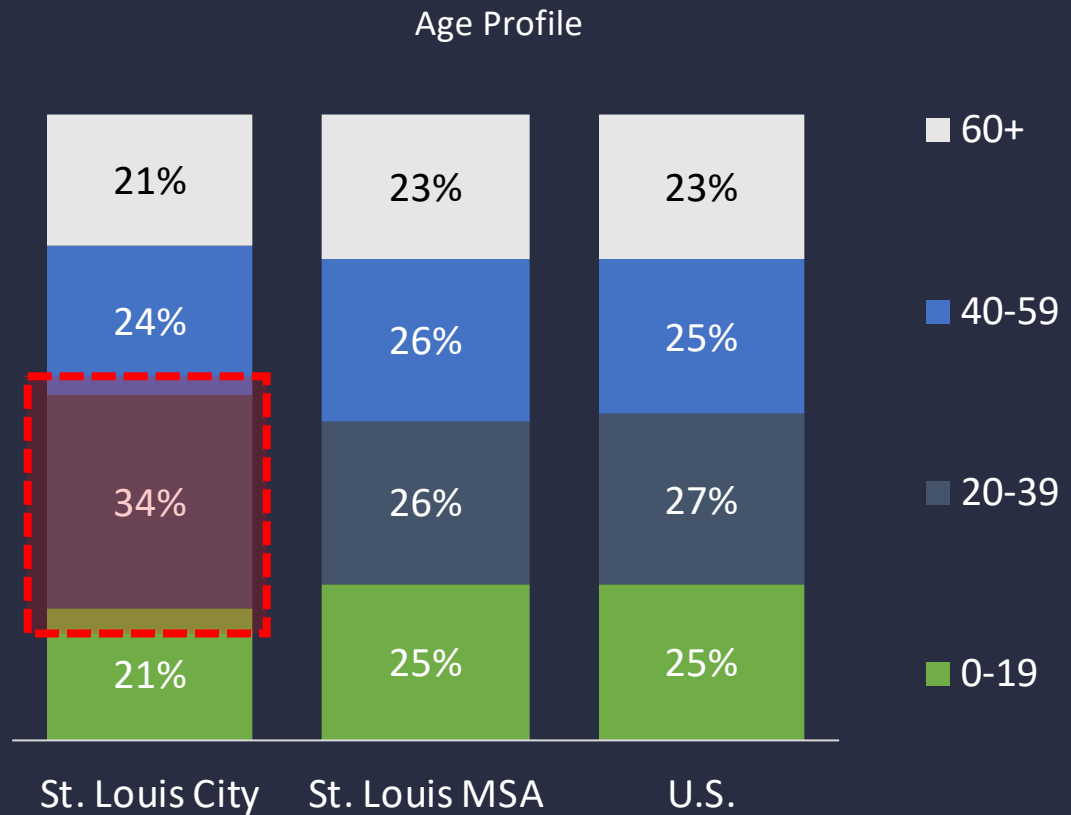
*Big Rental Rate Gap between Existing Supply and Pro-Forma Development*

# HOT TOPICS & PREDICTIONS

# Closer Look:

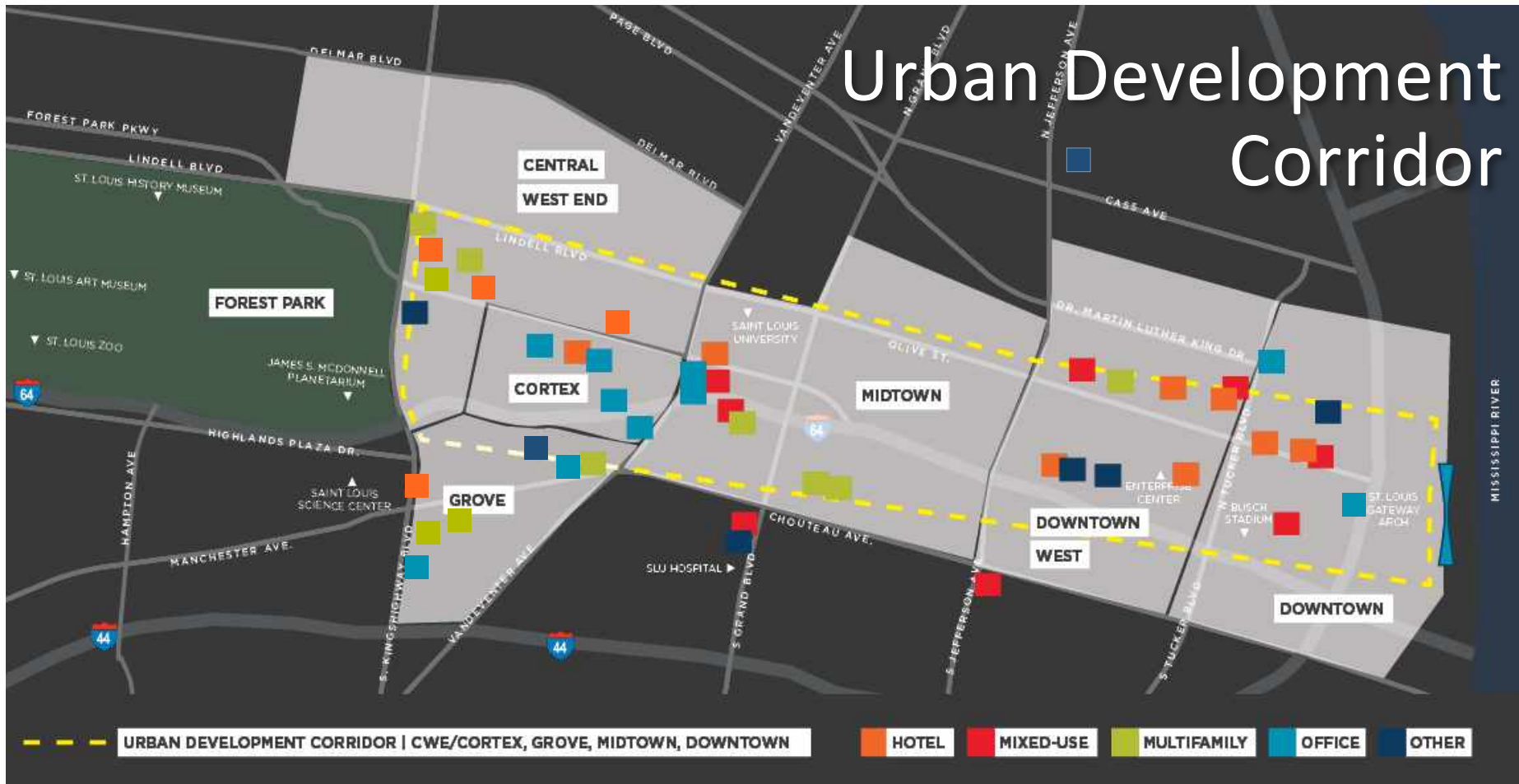
## Population Growth & Age Profile in STL MSA

+0.8%  
population  
growth in  
last 10 years



# Urban Remigration

Development & Occupiers Finding Way Back to City



- Upwards of \$9b of development within City
- Representing 40% or more of overall metro construction
- Microsoft & Aon most recently relocated from County to Cortex
- All product types attracting capital

# QOZ Opportunities in the City



Current QOZ Projects & Opportunities

**1** 100 N Broadway



**2** Post-Dispatch



**3** City Foundry



**4** Ballpark Village

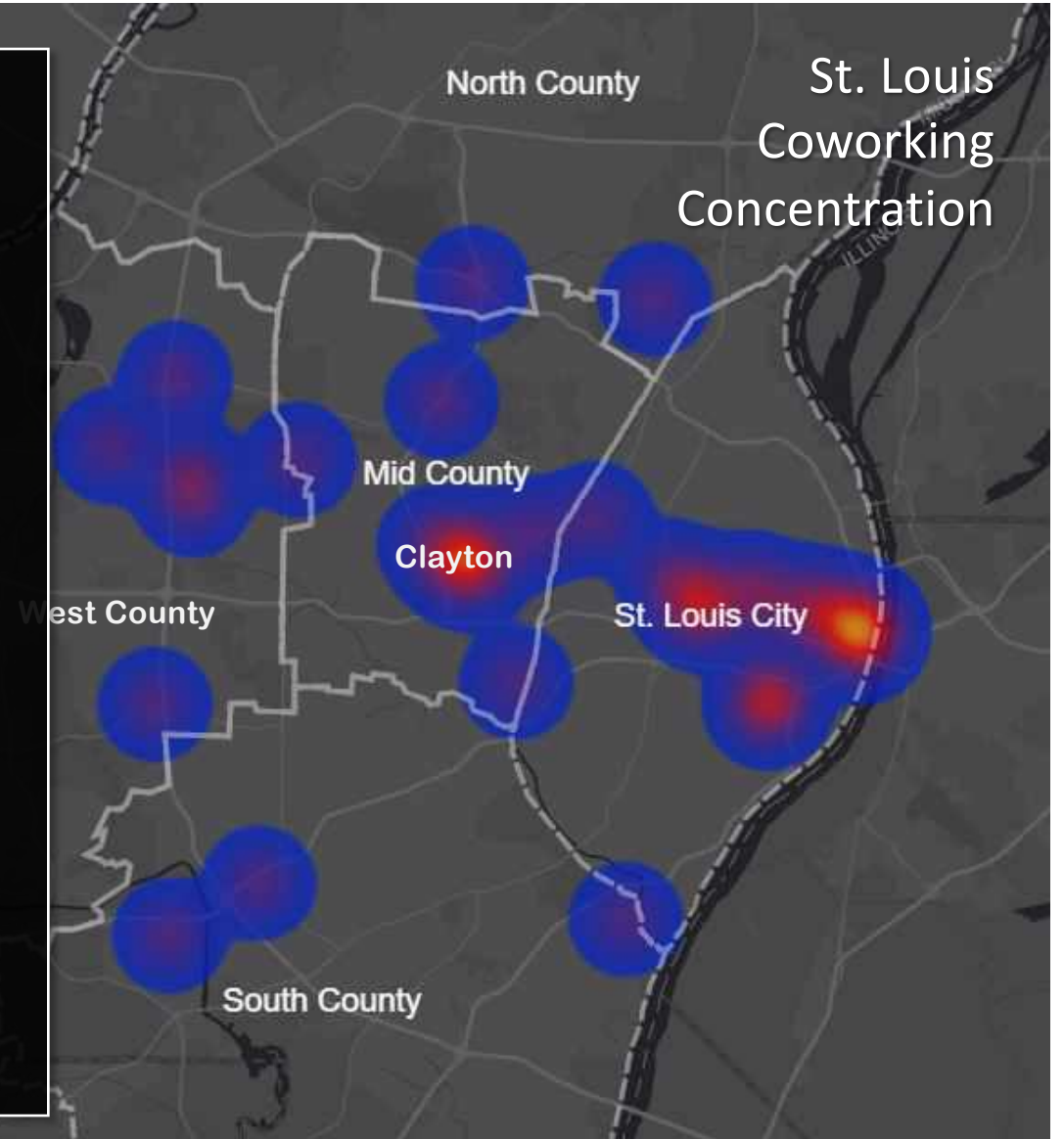
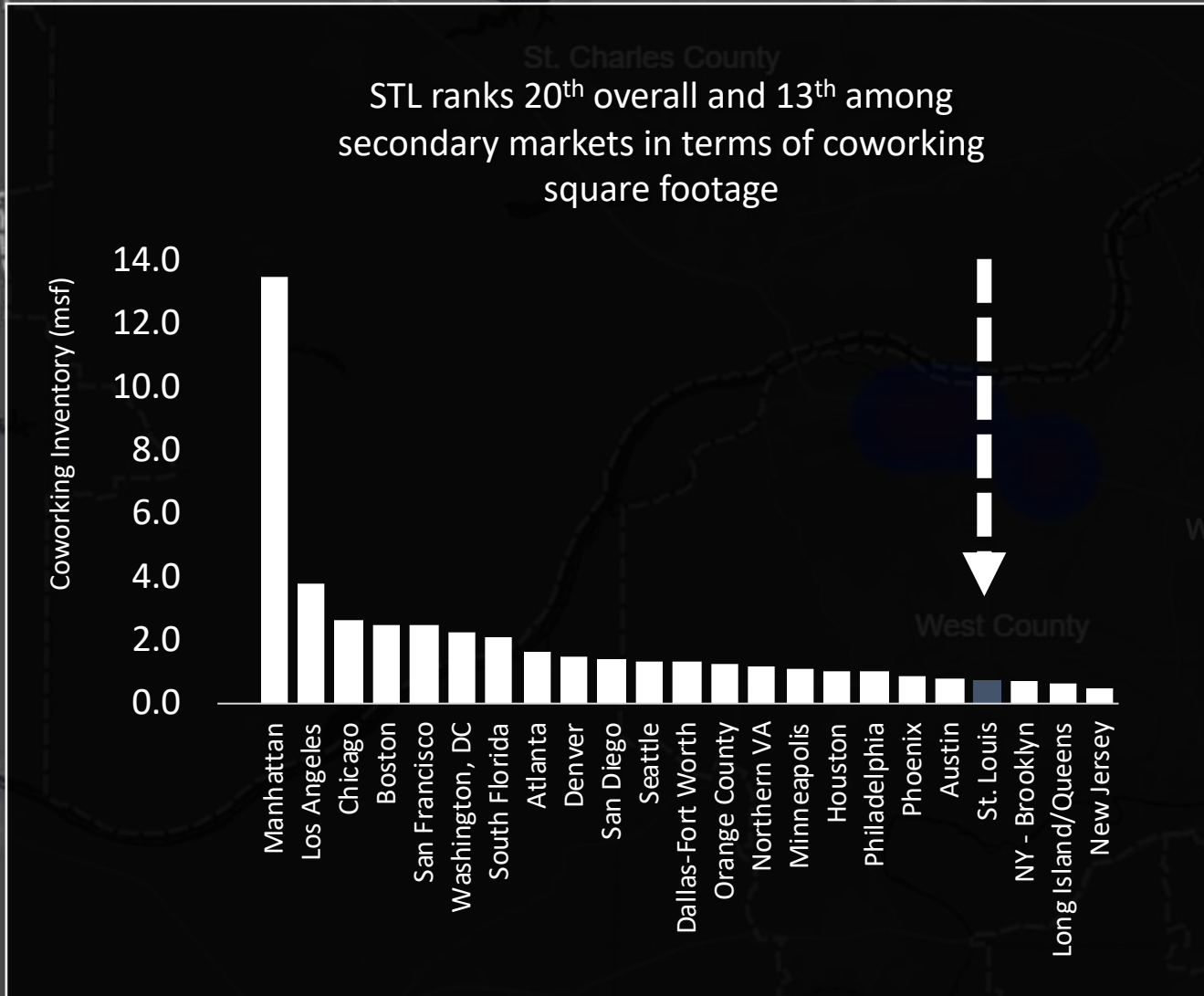


**5** 4210 Duncan



# Coworking

Cushman & Wakefield  
Coworking Model Far From  
Oversaturation in STL



# AT&T Tower

Still Vacant but a Non-factor



## COMMERCIAL REAL ESTATE

### No deal: Sale of former AT&T tower nixed



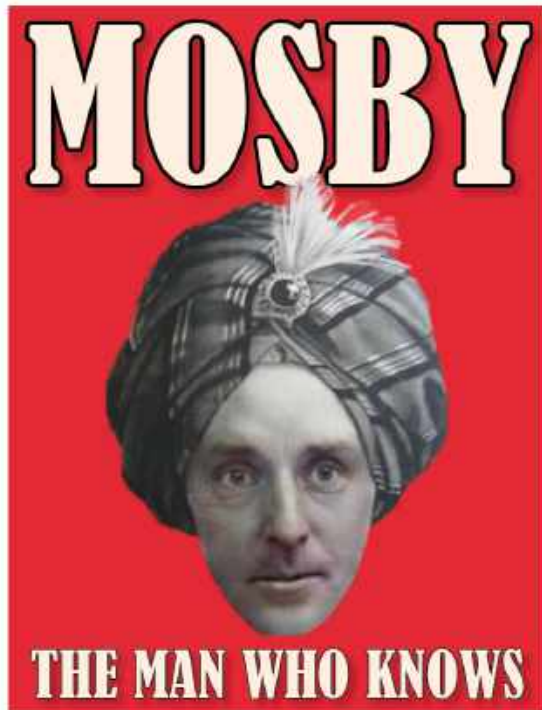
Failure to reach a deal leaves the future of downtown St. Louis' largest office building once again in limbo

#### Key Takeaways

- 1.4msf of vacant space
- Significant parking challenges
- Requires highly sophisticated investor or major corporate relocation
- Sold for \$204.9M in 2002 as a sale-leaseback.
- Did not sell at auction for under \$20.0M in 2019.

# 2019 in Review

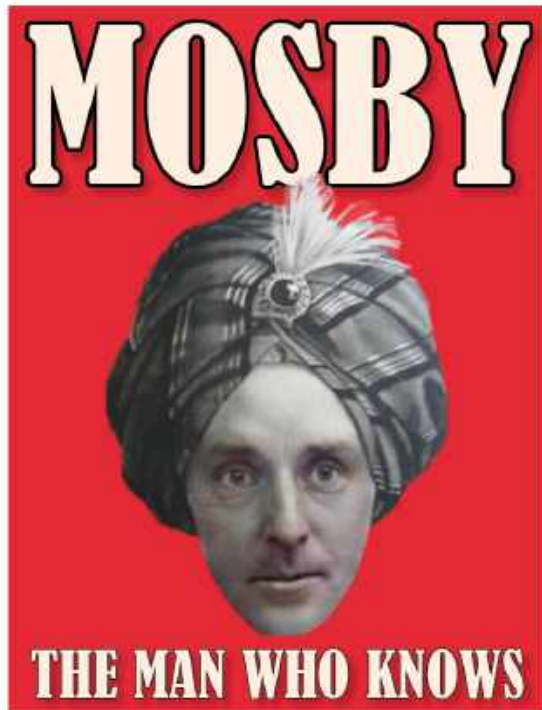
## Jim's 2019 Scorecard



#	Prediction	Result
1	Increased Coworking Activity and WeWork Coming to St. Louis	?
2	New Projects in West County, Clayton and Cortex	?
3	Continued Rental Rate Growth	?
4	Modest Net Absorption	?
5	Slightly Lower Overall Vacancy Rate	?

# 2019 in Review

## Jim's 2019 Scorecard



#	Prediction	Result
1	Increased Coworking Activity and WeWork Coming to St. Louis	Accurate ✓
2	New Projects in West County, Clayton and Cortex	Accurate ✓
3	Continued Rental Rate Growth	Accurate ✓
4	Modest Net Absorption	Conservative
5	Slightly Lower Overall Vacancy Rate	Accurate ✓

# Investment Market

2020 and Beyond

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Transaction Volume



Property Values



Replacement Costs



Cap Rates



- Primary Interest in Clayton & West County
- Heightened Interest in Downtown & Midtown
- Limited Demand for Older Class “B” and North County

# Leasing Environment

2020 and Beyond

## LEASING ACTIVITY PREDICTIONS

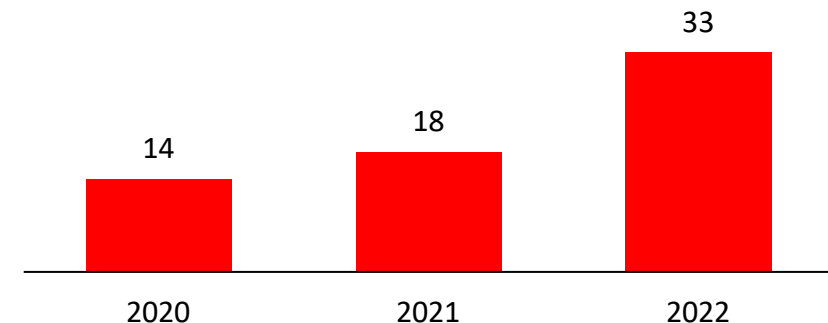
Absorption →

Class A Rents ↗

Class B Rents →

## LIMITED OPPORTUNITY SET

Tenant Expirations (>30ksf)



# Looking Ahead

2020 and Beyond

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## Going from Good to Great

“We are an undervalued office market”

- Overcome Residual Challenges
  - Talent Attraction & Retention
  - Vibrant CBD
  - Unigov (somehow / someway)
- Building Positive Momentum
  - Sports, Healthcare & Education
  - New Urban Projects + Investment
  - Affordability & Quality of Life
  - Corporate Success



**SIOR**

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THANK YOU

TRIPP HARDIN, SIOR  
EXECUTIVE MANAGING DIRECTOR  
CUSHMAN & WAKEFIELD