

BRIEF | Intelligent Investment

# Flight to Quality: St. Louis

By Joshua Allen

As large corporate users begin to reoccupy their offices, Prime assets have increasingly become a clear winner in post-pandemic office leasing. But, by what margin do these buildings outperform their Non-Prime Class A counterparts?

## Asking Rates

With tenants seeking quality space, rents of Prime Class A space can carry a premium of nearly 50% depending on the market. Non-Prime Class A in Mid County which includes Downtown Clayton average \$33.95 FS whereas Prime averages \$40.92 FS or a 17% premium (17 bps). West County Averages \$26.45 Non-Prime and \$37.75 Prime a 29% premium (29 bps) while Downtown has the largest spread where Average Asking rents are \$19.20 and Prime Assets average out to \$33.67 representing a 42% premium (42 bps) over Non-Prime Class A.

FIGURE 1: Asking Rates by Market



Source: CBRE Research, Q2 2022

Average Prime Class A Asking Rate

**\$38.59 FSG**

Average Prime Class A Vacancy

**7.6%**

Total Existing Non-Prime Class A Space  
(Mid County + Downtown + West County)

**22.3 MSF**

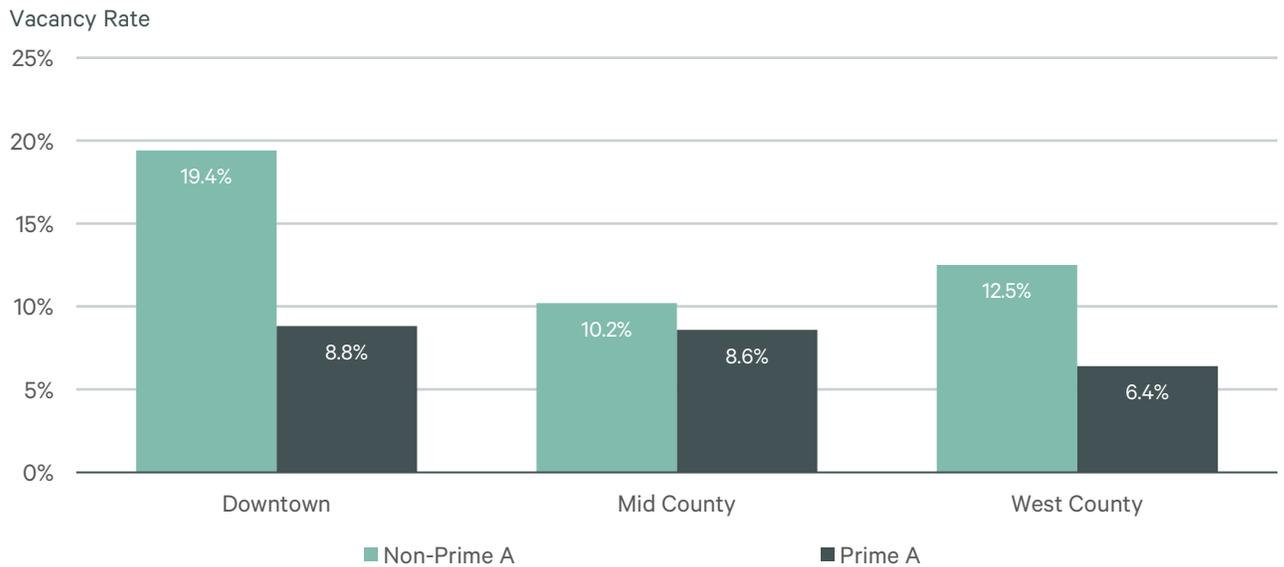
Total Existing Prime Class A Space  
(Mid County + Downtown + West County)

**1.7 MSF**

### Vacancy by Asset Type

Despite asking rates carrying a premium above market average, overall vacancy continues to remain low in these assets. In Mid County Non-Prime Class A vacancy is 9.5% whereas Prime assets are 6.43%. The trend continues in West County with 12.5% Non-Prime and 6.4% Prime. Downtown represents the largest difference with 19.4% in Non-Prime Class A and 8.81% in Prime assets.

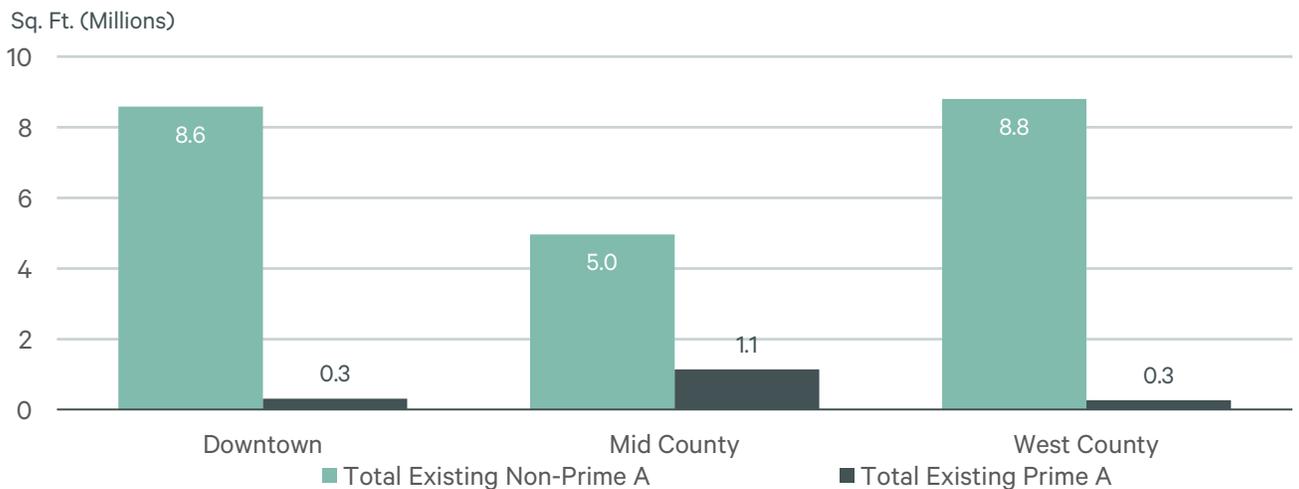
**FIGURE 2: Vacancy by Market**



Source: CBRE Research, Q2 2022

There is clearly an appetite for modern amenity rich space. St. Louis has an abundance of Class A space between Downtown, Mid County and West County (22,357,047 SF) but only 7.64% of that space (1,710,090 SF) is considered Prime quality space. As users return to the office the assets with the most amenities stand to lease up quicker than their counterparts.

**FIGURE 3: Existing Space by Quality**



Source: CBRE Research, Q2 2022

**Increased Investment**

As large users migrate towards quality Class A space, there is a strong investor appetite for acquiring prime assets as well. With supply constrained for amenity rich space owners can reasonably expect low vacancy and top of market rates for the foreseeable future.

<b>Edge @ West</b>	\$27,100,000 \$217 per sq. ft.	Among the most desirable multi-tenant properties at the Olive/270 interchange Edge@West offers a wide slate of amenities not found at other properties. The property was over 95% leased at the time of transaction
<b>Edge @ Brdg</b>	\$92,000,000 \$576 per sq. ft.	This 160,000 SF property serves as the global headquarters of AgTech company Benson Hill. Constructed in 2020 for \$52 Million, this property has now traded for nearly double with a sale price of \$92 Million.

**Flight to Quality: Migration to New Assets**

As users institute their return to office, they are seeking to offer a wide range of amenities and lifestyle centered spaces for their employees to gather. Among the most sought-after amenities are Green Space, Fitness Centers and Food and Beverage Service. While many tenants signed short term renewals to get through the pandemic, many are now making the move to higher quality space upon lease expiration.



Edge@West

Source: CBRE Research, Q2 2022

– Flight to Quality: Migration to New Assets, cont.



Centene Plaza



Forsyth Point &  
Commerce Bank Tower

Source: CBRE Research, Q2 2022

## Flight to Quality: Migration to Improved Assets

A unique trend in St. Louis is that transaction volume has also increased in users migrating to older assets that have been improved considerably. During the pandemic, these owners took advantage of the trends in the market to upgrade Non-Prime Class A stock with amenity space to attract and retain tenants who may otherwise migrate to newer Prime assets. Owners who invested have benefitted from the positive migration trends.

## Looking Forward

The office landscape is quickly changing in a post-pandemic environment. Owners who invest in existing Class A space to bring it up to the level of differentiated assets stand to be the biggest winners in leasing volume. New assets constructed offering the wide range of amenities that users are seeking also stand to win deal volume as employers vie for talent in a constrained labor market. Owners of traditional office properties will need to differentiate in order to remain competitive in a market with over 28,000,000 SF of Class A office Space.

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