1Q24

St. Louis Office Market Overview

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. February's 3.5% unemployment rate was significantly lower than the 4.3% 10-year historical average.
- Year over year, job gains have been most pronounced in the services industry, which is still making up for lost ground during the pandemic. Education & Health led all sectors in job gains during the past 12 months.
- Professional business and technology firms are continuing to adjust labor needs. Locally, employment growth across two of the three office-occupying sectors displayed declines compared to the prior 12 months.

Leasing Market Fundamentals

- Absorption in the first quarter of 2024 totaled negative 190,589 SF. This was a retraction from the fourth quarter of 2023, which realized the largest quarter of net absorption during the previous three years. Net absorption during the past four quarters totaled 379,299 SF.
- The non-owner-occupied construction pipeline has trended downward since the first quarter of 2023 due to recent deliveries and sharply decelerating new starts. There is currently 41,000 SF under construction.
- Vacancy increased 10 basis points to 14.6% during the quarter due to a slight decrease in leasing activity. Vacancy is expected to increase to 15.0% as the market continues to recalibrate. Asking rental rate growth for the overall market year over year has been stagnant, totaling only 0.2%.

Major Transactions

- After opening its first space in the St. Louis market in 2023, the Australian data center firm, Edge Centres, announced in March it will relocate from the Netrality Data Center and expand to 28,000 SF at the Globe Building.
- Airport Terminal Services will occupy 16,170 SF at 930 Westport Plaza. The firm signed a sublease with four years and six months remaining on the term at an asking rental rate of $18.00/SF.
- Law firm Hennessy & Roach PC will move from its current space at 10th Street Lofts to Broadway Tower. The firm signed an 11-year lease for 11,000 SF. The move is expected to occur by June 2024.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Vacancy is expected to increase while the market recalibrates as tenants continue to take less space due to hybrid work strategies. Tenant's will maintain substantial leverage in lease negotiations and benefit from numerous available space options. Conversions of office space to other uses will remove obsolete vacant space from the market, tempering rising vacancy.
- Asking rental rates are expected to decrease during the year as a lack of liquidity forces landlords to lower rents rather than provide elevated concession packages.

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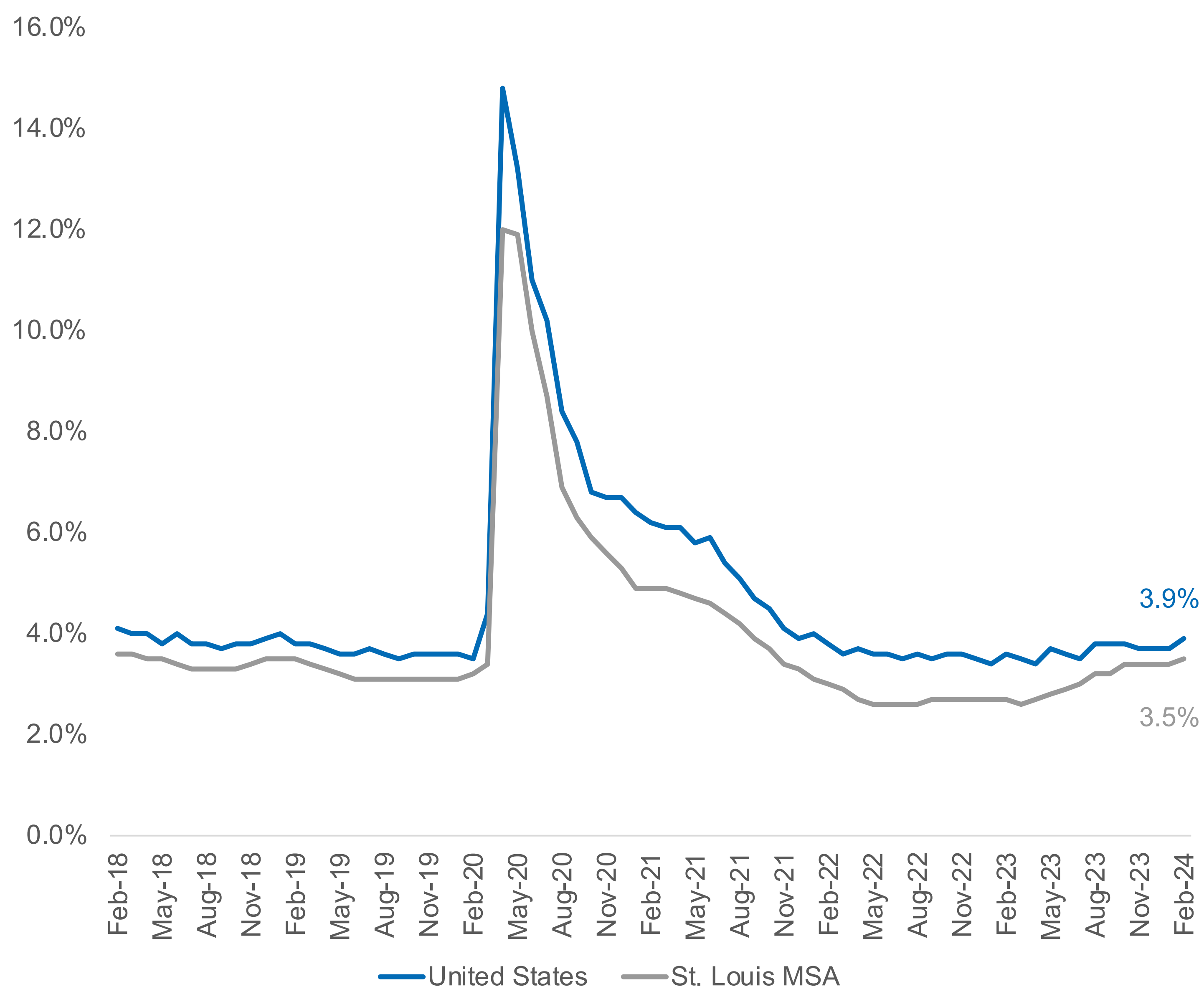
Economy

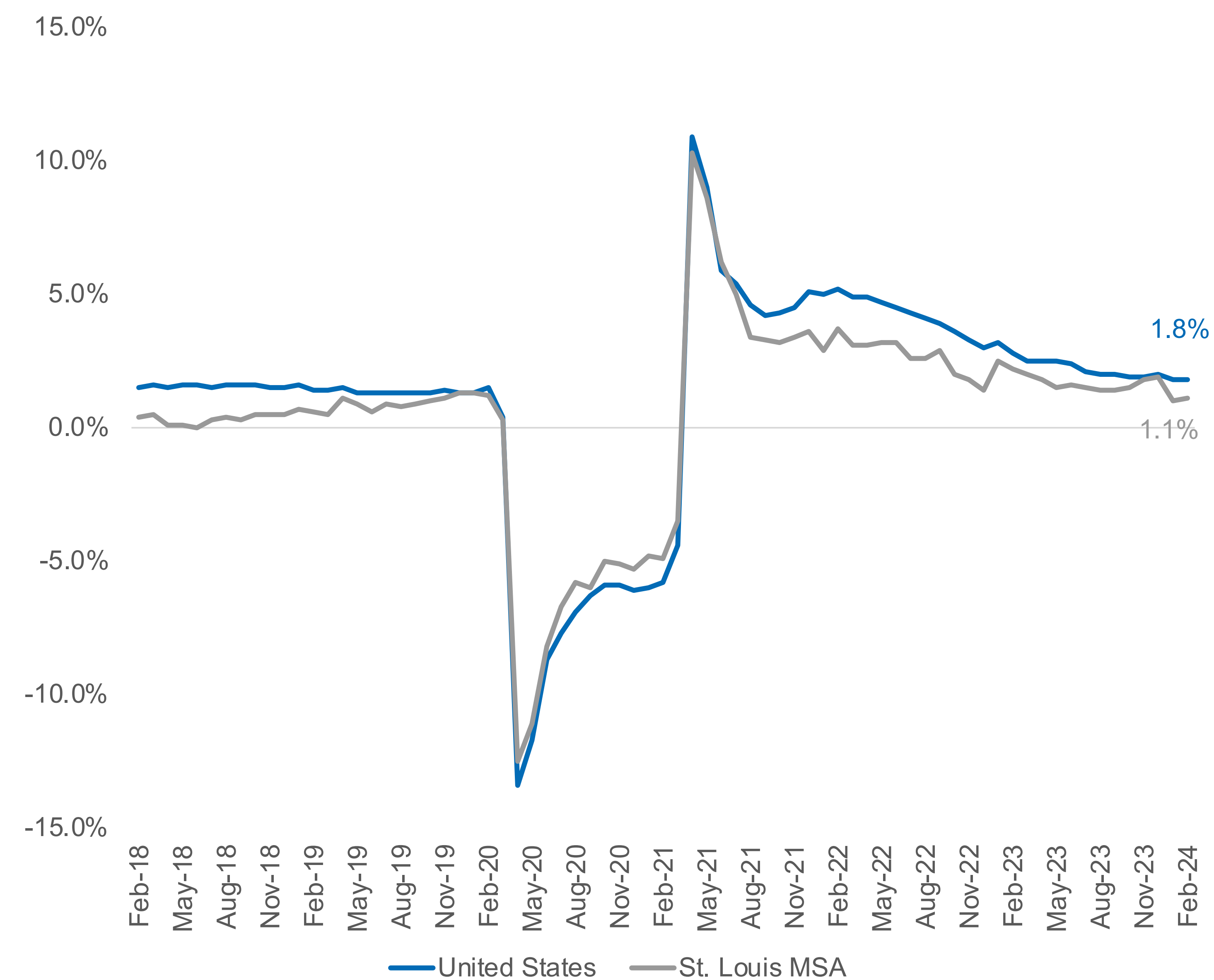
Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and elevated interest rates. Unemployment in the region recovered from the pandemic and remains 40 bps below the national average.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

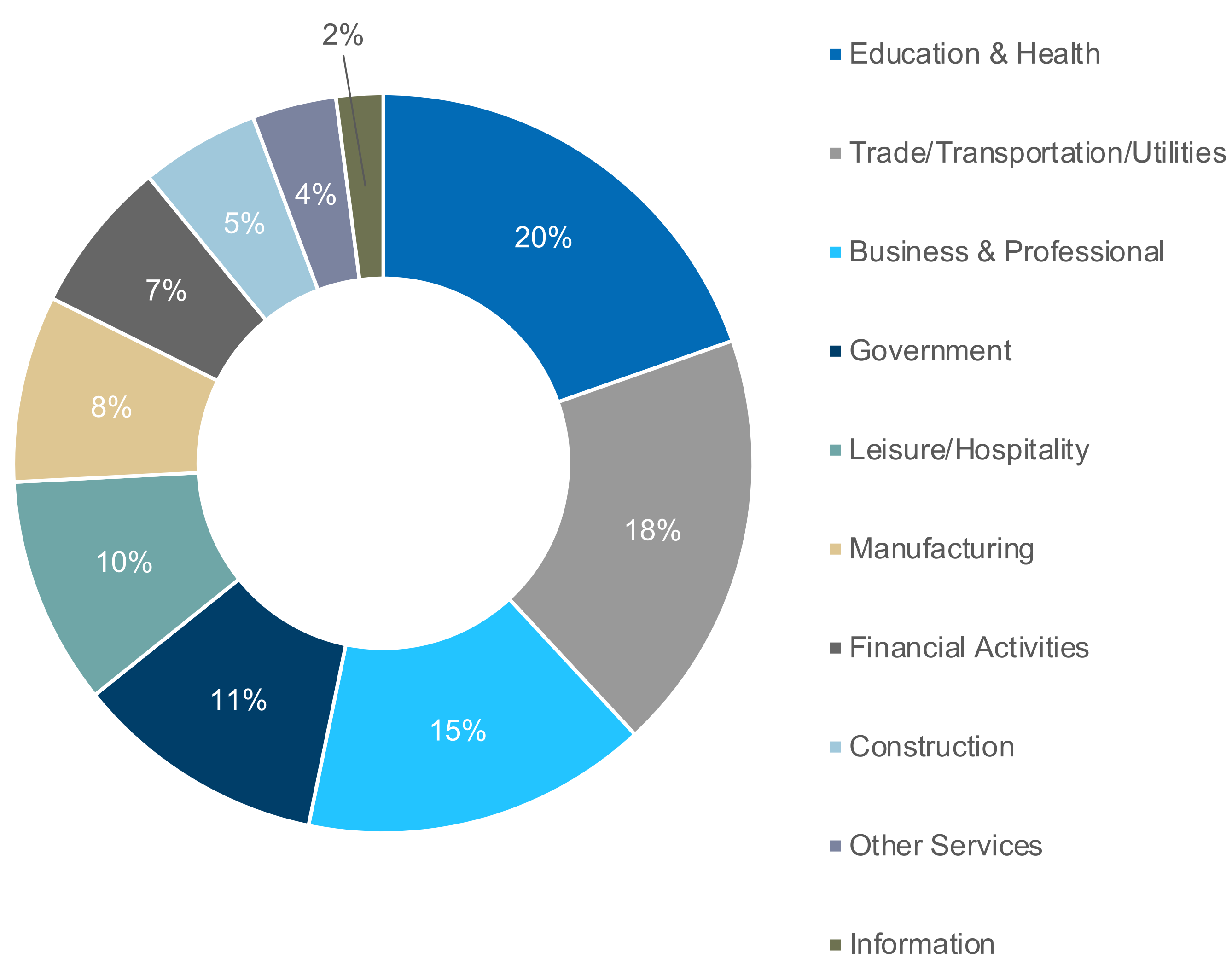


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

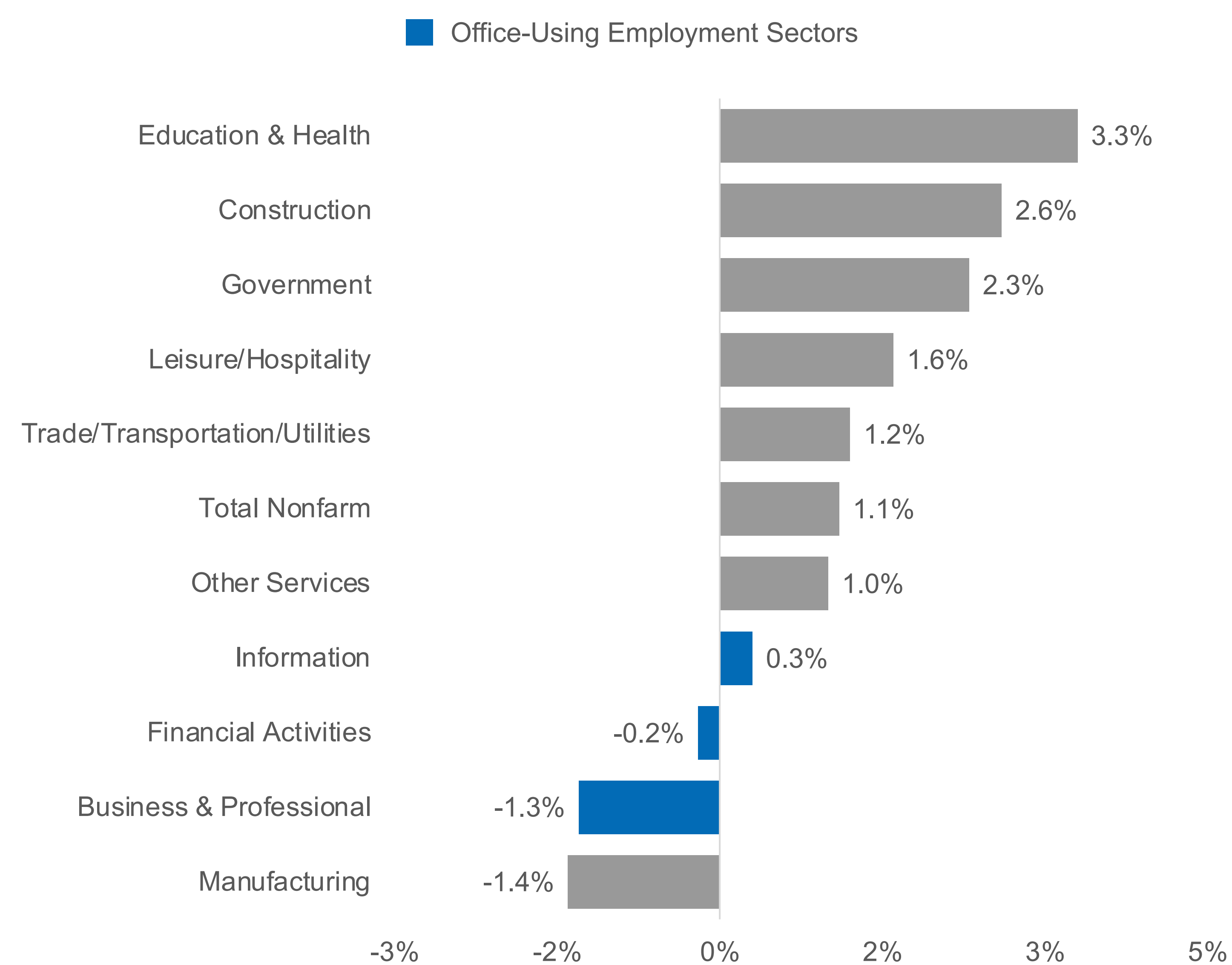
Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

The Education & Health sector led all industries in regional annual job growth. Along with Leisure/Hospitality, these sectors are benefitting from a post-pandemic shift in spending from goods to services, travel and healthcare expenses. Two of the three office-occupying industries, including Financial Activities and Business & Professional, saw annual job losses.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

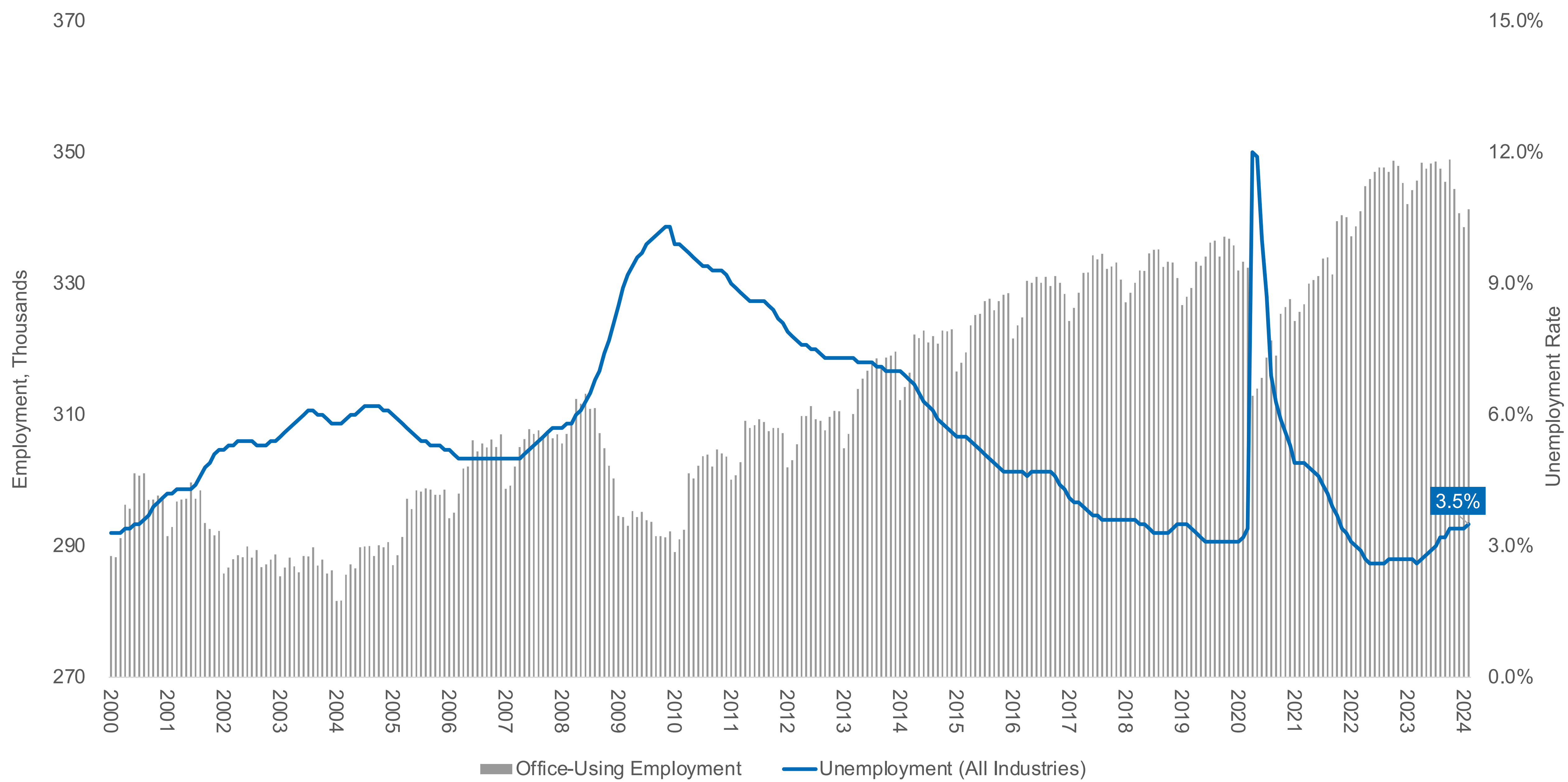


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded to pre-pandemic levels. While there is seasonally a small dip in employment rates at the beginning of each year, the region has already stabilized and rates are expected to increase.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, St. Louis MSA
Note: February 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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Leasing Market Fundamentals

Market Overview

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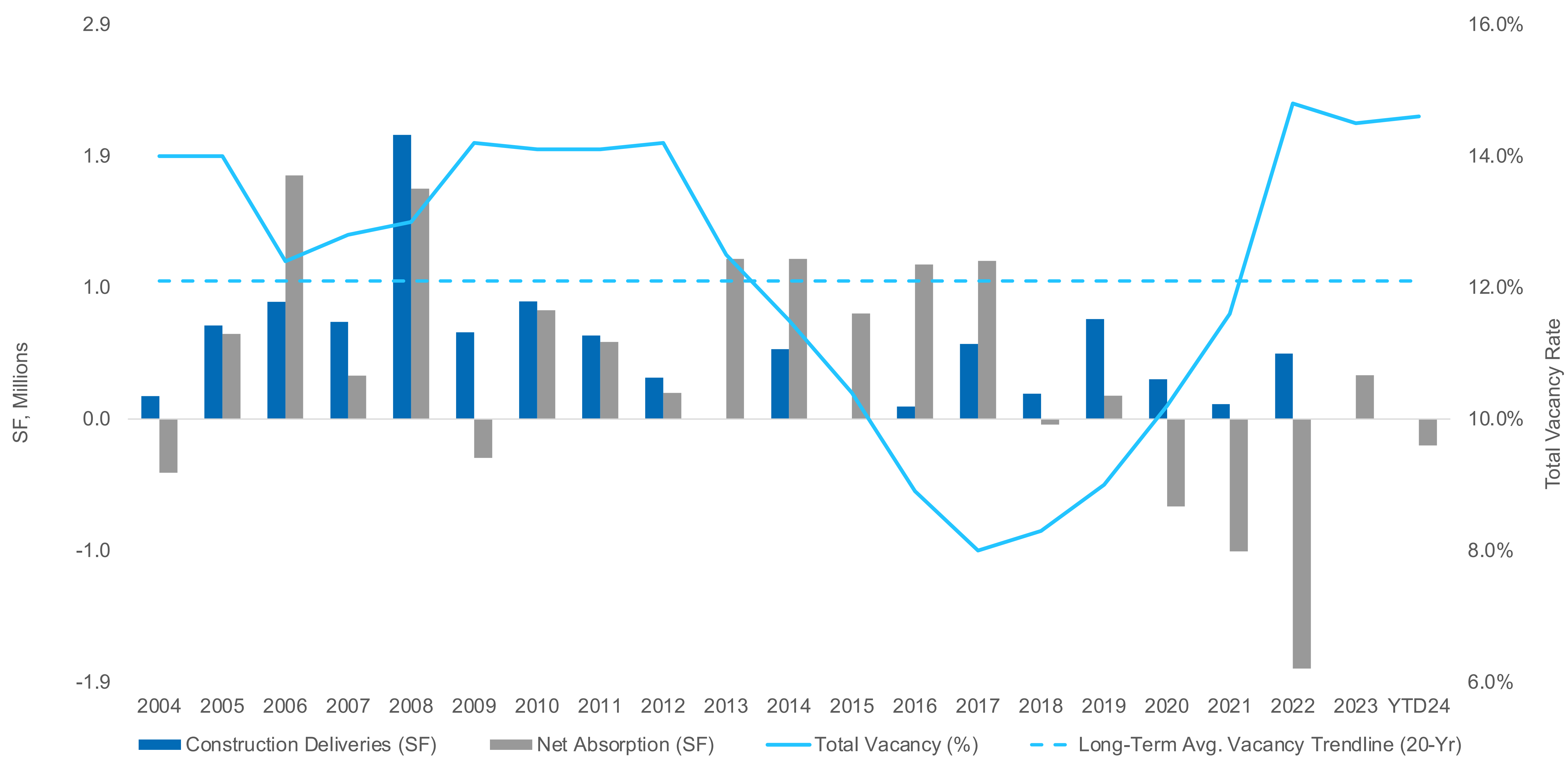
Vacancy Stabilizing as Market Recalibrates

Vacancy decreased 0.5% (50 bps) to 14.6% year over year as tenants continue to embrace hybrid work strategies and evaluate ever-changing space needs. Office space conversions to multifamily, hospitality and retail uses, along with limited deliveries, will continue to press vacancy rates downward. Tenants will maintain considerable leverage in most metro submarkets and push landlords to complete aggressive deals. New office developments are limited to build-to-suit and owner-occupied uses.

Historical Construction Deliveries, Net Absorption, and Vacancy

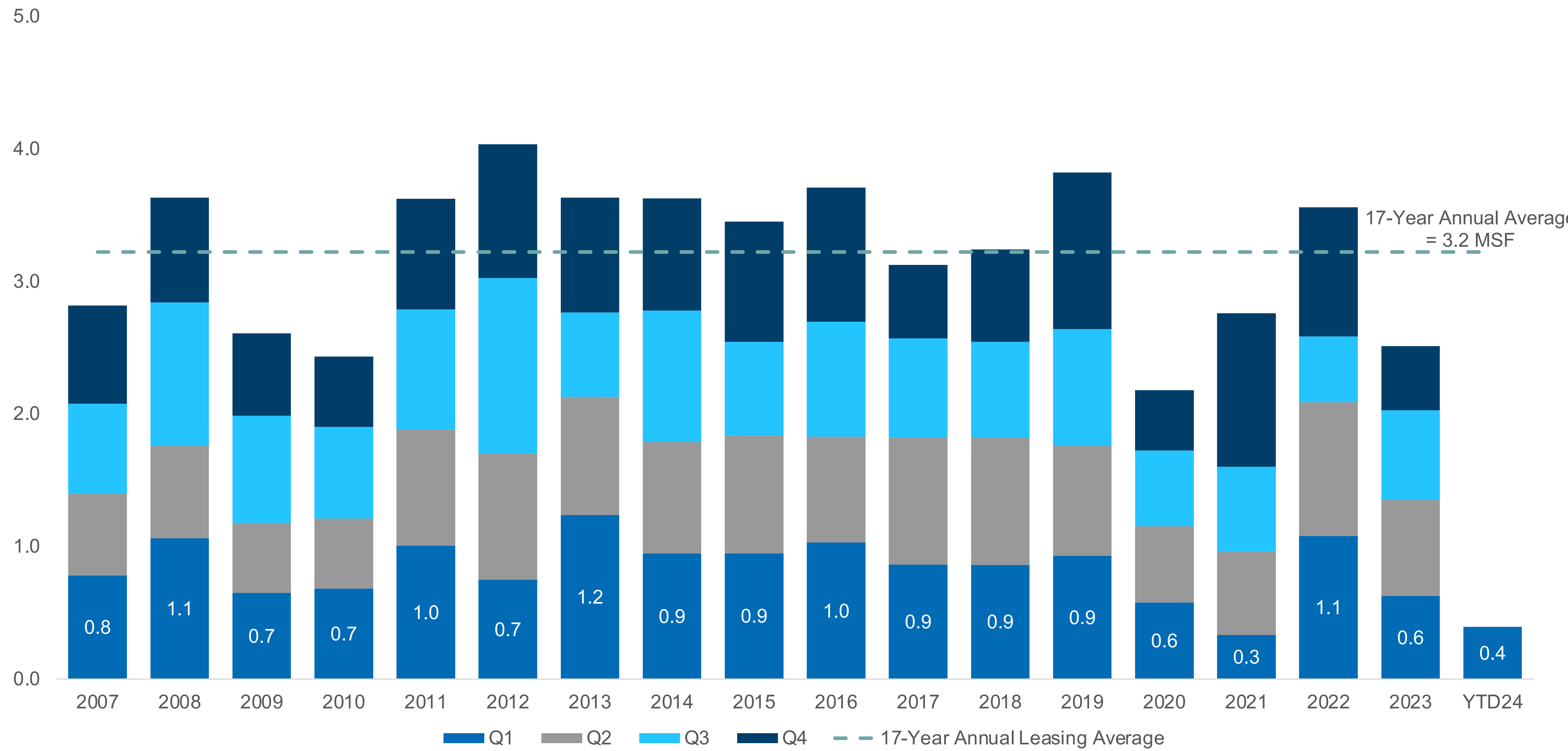


Source: Newmark Research

Leasing Activity Below Historic Average as Pace Decreases During the Quarter

Total leasing activity during the past four quarters is down 29.2% compared with the 17-year average. In addition to reduced demand for office space as firms consolidate and downsize, macroeconomic uncertainty and limited debt financing due to increased scrutiny by regional and national banks will impact the near and mid-term outlook.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Lead to Fewer Leases Being Signed

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Reduced Leasing Activity in Most Submarkets Compared with Pre-Pandemic Average

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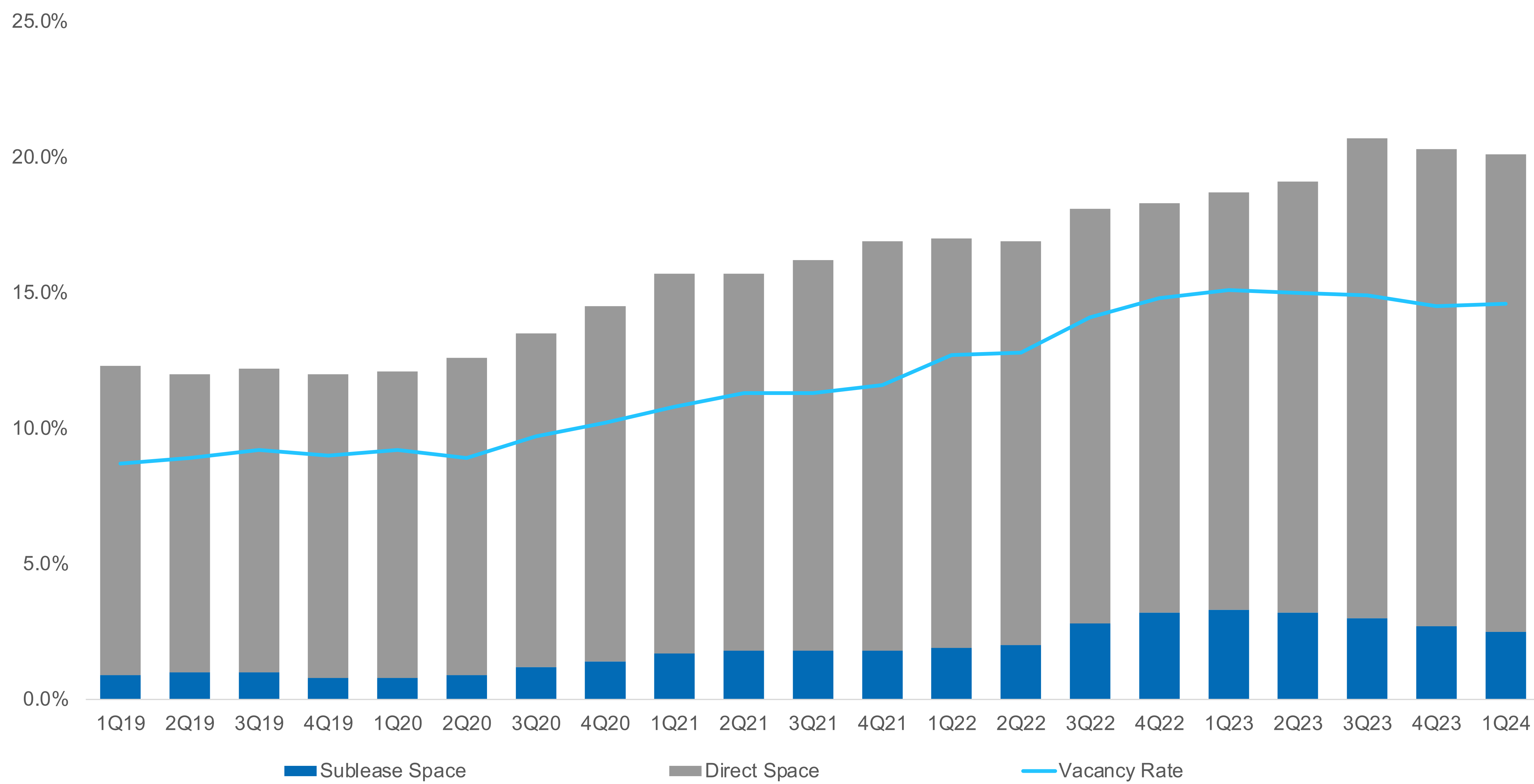
Direct Availability Continues to Climb, While Sublease Availability Stabilizes at 2.5%

In the years leading to the pandemic, many tech companies, including Centene, leased space based on future employment growth as a hedge against diminishing supply and increasing rents. Combined with job cuts in the sector, a significant amount of available sublease space is attributed to technology companies. Direct space availability is anticipated to remain elevated for the remainder of 2024, while sublease availability stabilizes between 2.0% and 3.0%.

Available Space as Percent of Overall Market



Source: Newmark Research

North County & West County Experience Highest Availability Rate Increases Year Over Year

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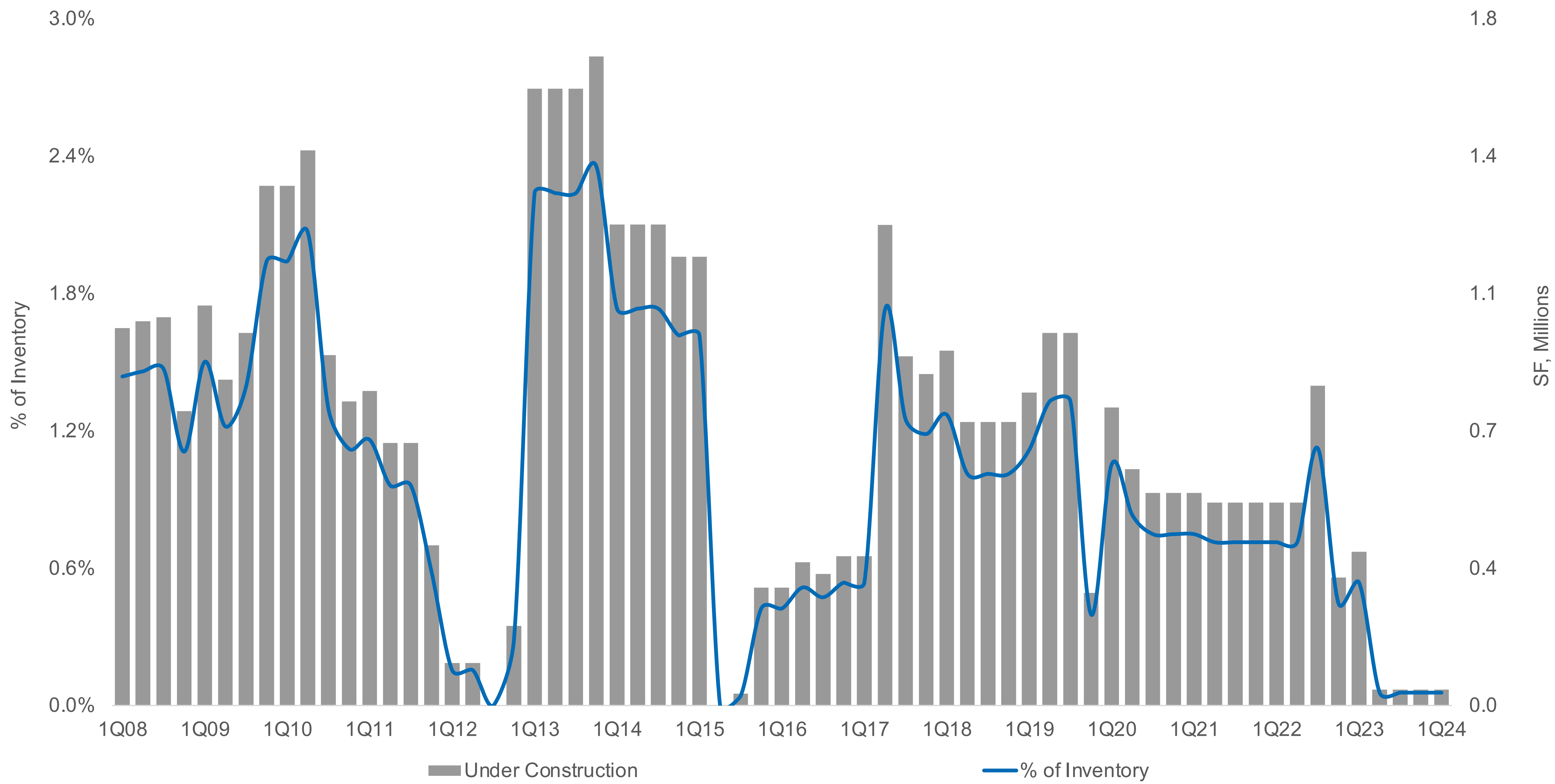
New Construction Activity Slows as Vacancy Remains Elevated at 14.6%

With the deliveries of Commerce Bank Tower and Forsyth Pointe in the Clayton submarket in 2022, the total volume under construction has dropped significantly. Deliveries are currently limited to build-to-suit and owner-occupied uses.

Office Under Construction and % of Inventory

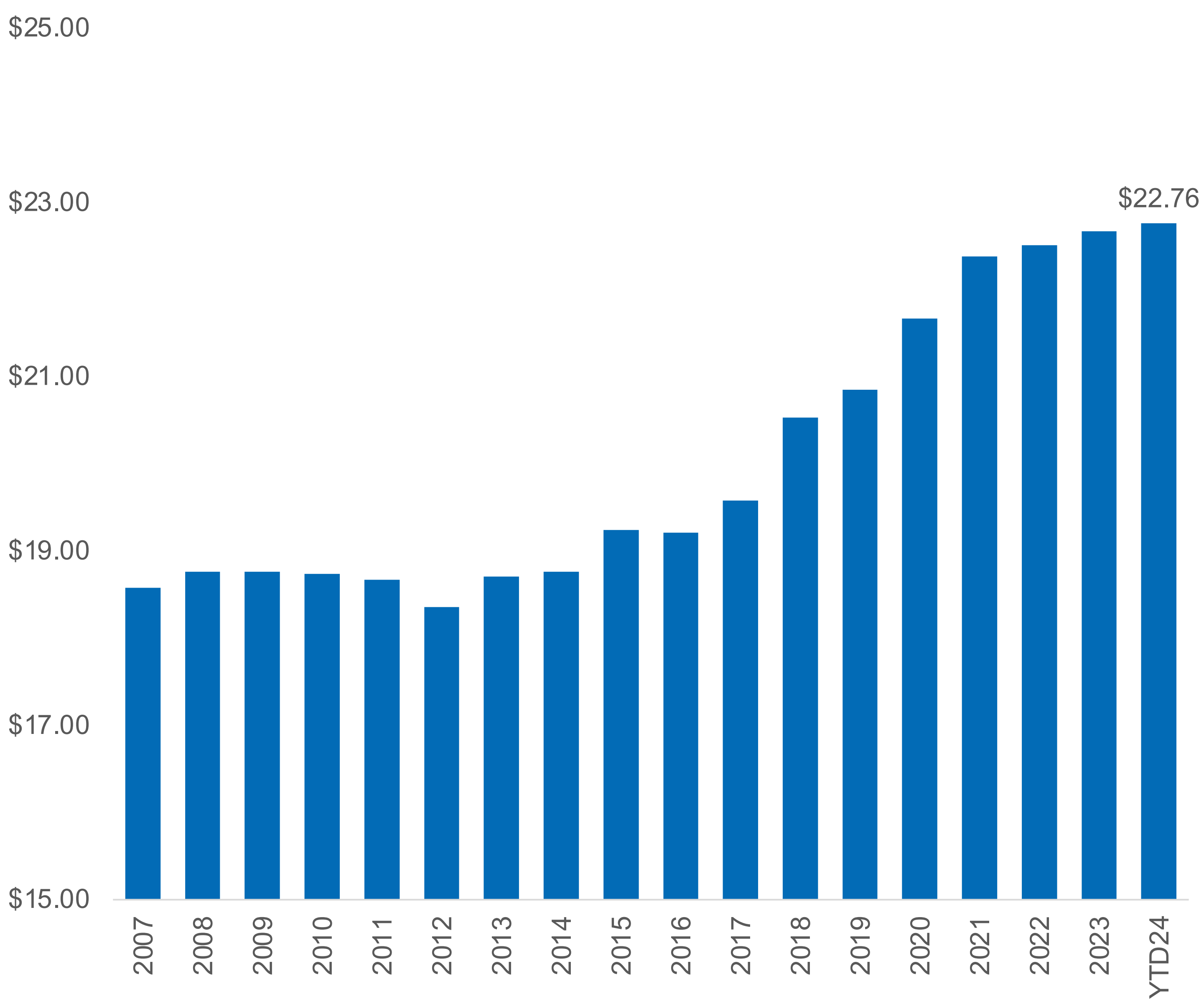


Source: Newmark Research, CoStar, St. Louis Market

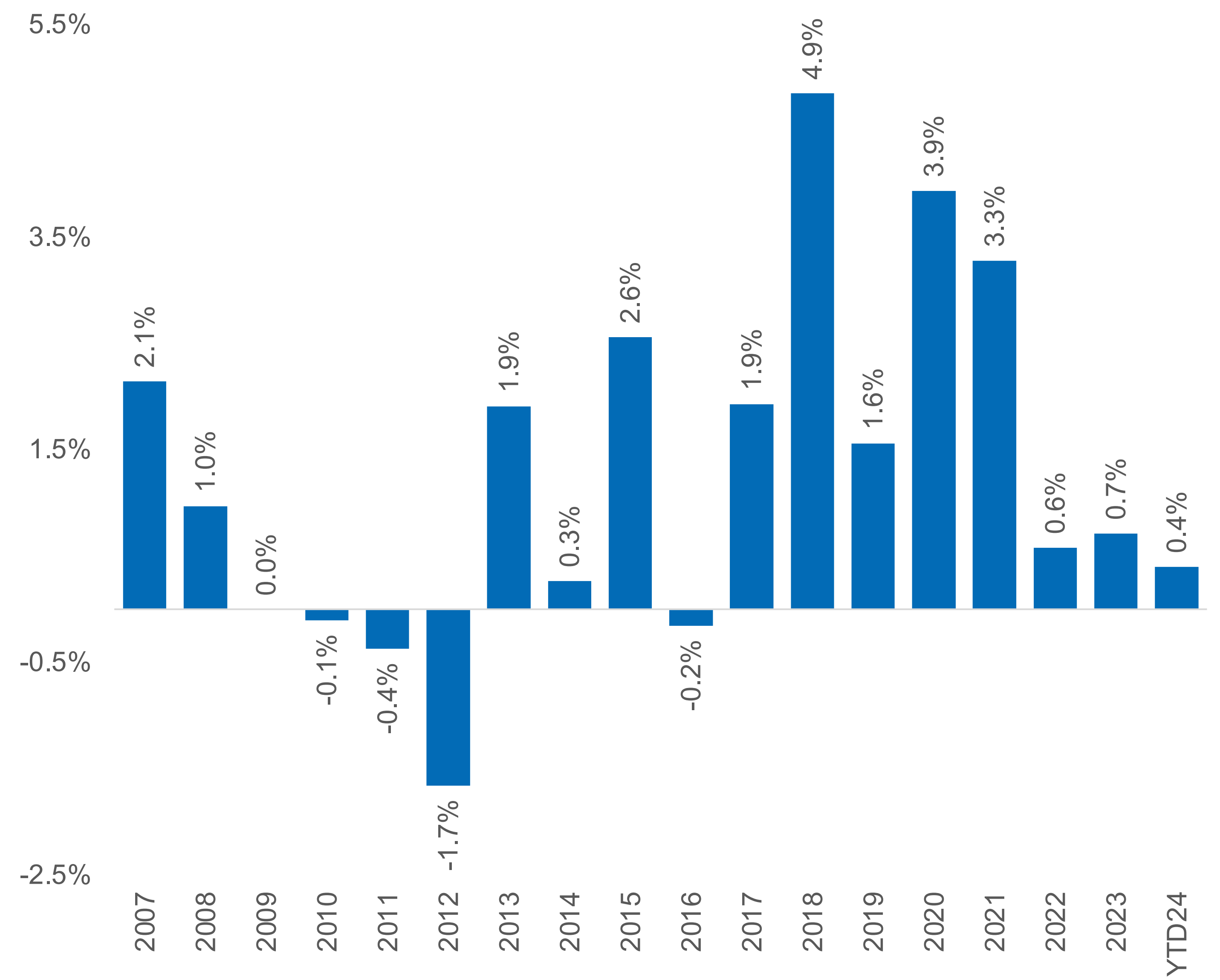
Rents Continue to Increase at a Slower Pace

Overall asking rates increased year over year to $22.76/SF. It is expected that asking rates should reset in the coming quarters as landlords are forced by liquidity constraints to trade elevated concession packages for lower rents. As trailing 12-month inflation continues at above-average levels, real asking rental rate growth remains stagnant in the office sector.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

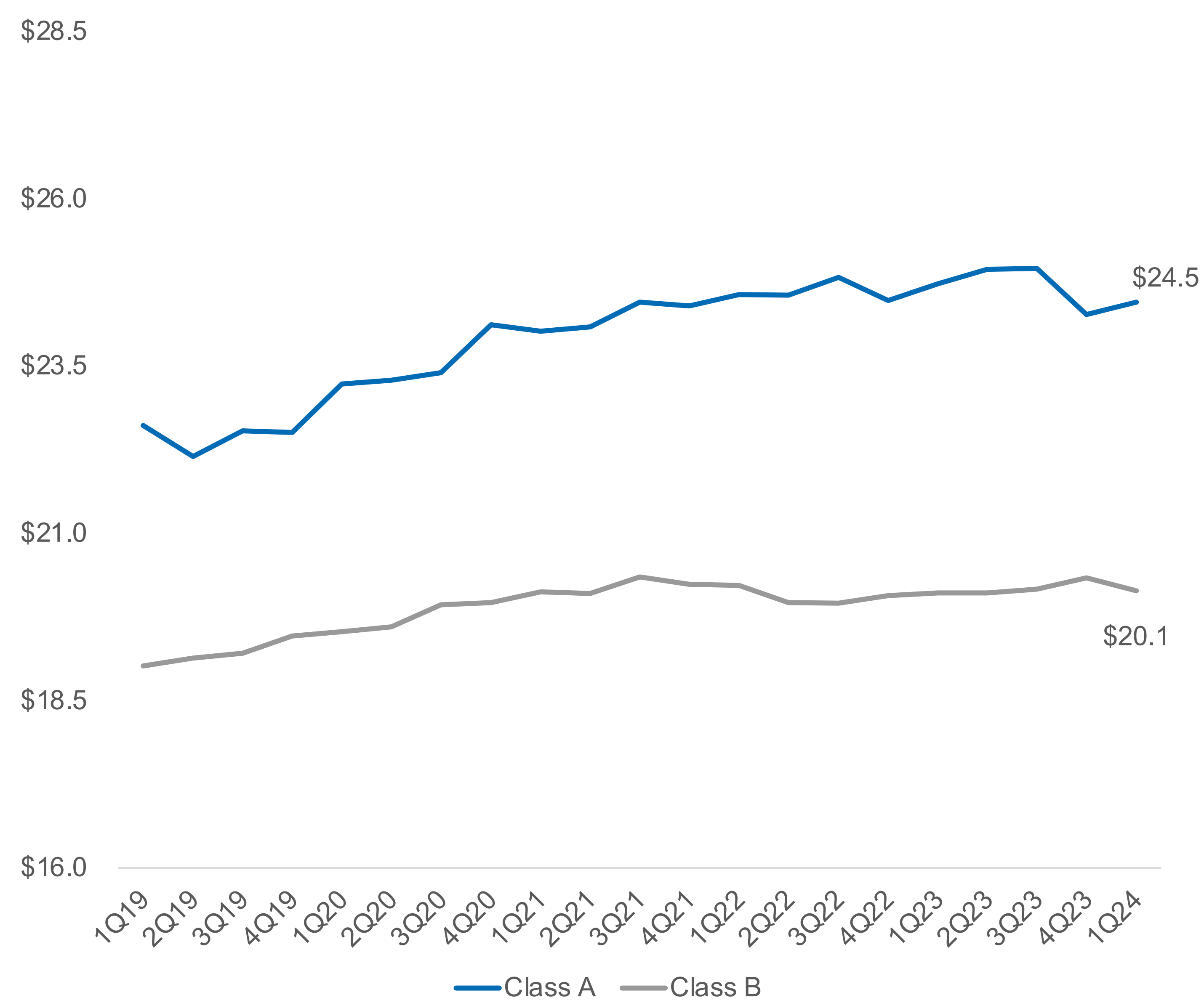


Source: Newmark Research, CoStar

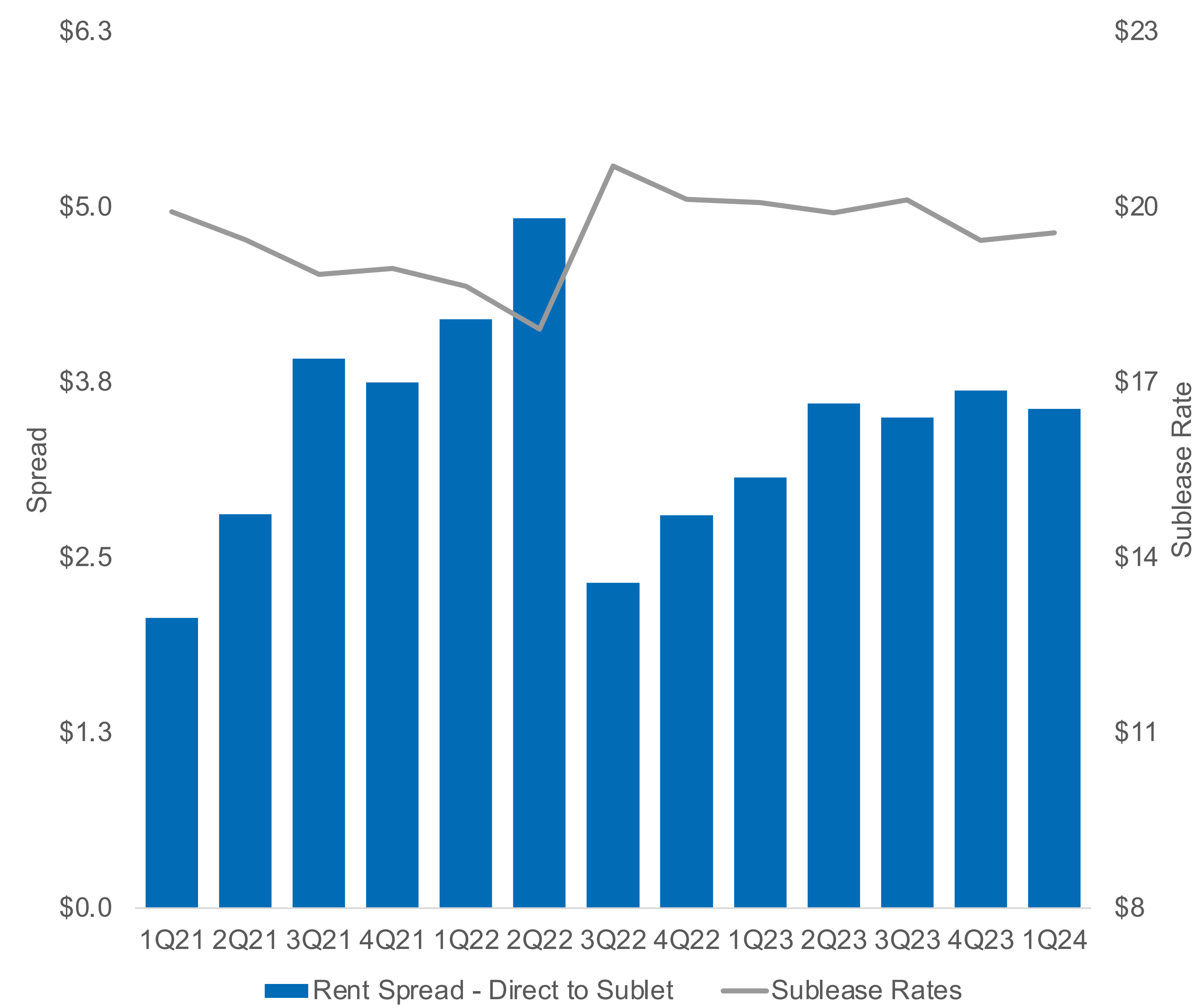
Class A Rents Remain Flat Year Over Year

Asking rental rates have largely held value since the onset of the pandemic; however, in past cycles, rents eventually recalibrated downward to account for depressed demand in the market. Rent compression experienced in various major markets during 2023 appears to have finally spread towards select secondary and tertiary markets like St. Louis. Sublease rents decreased to $19.56/SF during the first quarter of 2024, with the rent spread stabilizing at $3.56/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Select Submarkets Push the Overall Market Rental Rate Upwards

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1Q24 Notable Leasing Activity

New or newly renovated Class A office space in marquee submarkets with a prime amenities package will remain in demand during the next four quarters. After significant tenant exits from functionally obsolete space and property conversions from office to multifamily and hospitality use, the overall market has begun to stabilize with a 50-basis-point decrease in vacancy since the first quarter of 2023.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Edge Centres	710 N Tucker Boulevard	Downtown	Direct Lease	28,000
After opening its first space in the St. Louis market in 2023, the Australian data center firm Edge Centres announced it would relocate and expand from 22,000 SF at Netrality Data Center at 210 North Tucker Blvd. to the Globe Building at 710 North Tucker Blvd.				
Airport Terminal Services	940 Westport Plaza Drive	Mid County	Sublease	16,170
Airport Terminal Services will occupy 16,170 SF on the first floor of the 105,370-SF property. The firm signed a sublease with four years and six months remaining on the term at an asking rental rate of $18.00/SF.				
Hennessy & Roach PC	100 N Broadway	Downtown	Direct Lease	11,000
The defense law firm Hennessy & Roach PC announced it would move from its current space at 10th Street Lofts to Broadway Tower. The firm signed an 11-year lease for space on the 14th floor. The move is expected to occur by June 2024 and expand the firm's St. Louis footprint by 1,000 SF.				
Trivers	1717 Olive Street	Downtown	Direct Lease	7,890
Architecture firm Trivers will move from Broadway Tower and occupy 7,890 SF on the ground floor of the adaptive reuse project, The Victor. The move will expand the firm's footprint by approximately 800 SF.				
Goldblatt & Singer PC	8182 Maryland Avenue	Clayton	Direct Lease	5,060
The personal injury law firm Goldblatt & Singer PC will lease 5,060 SF on the eighth floor at the 337,080-SF Regions Centre.				

Source: Newmark Research

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Submarket Statistics

Submarket Statistics: All Classes, Class A, Class B (Pages 1-4)

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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