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2Q23

# St. Louis Office Market Overview

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. May’s 2.7% unemployment rate was significantly lower than the 4.6% 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. Leisure/hospitality led all sectors in job gains during the past 12 months.
- 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.

## Major Transactions

- Emerson Electric Co. announced it will lease 102,520 square feet of prime Class A space at Emerson Tower, formerly known as Forsyth Pointe, in the Clayton submarket. The firm will be exiting its 200-acre headquarters in Ferguson, Missouri after announcing the divestiture of the campus in October 2022.
- Professional services firms, including The Simon Law Firm, P.C., Northwestern Mutual / The Gross Financial Group and Anders CPAs + Advisors leased/subleased a combined total of nearly 50,000 square feet across multiple submarkets.
- KNOWiNK, an election management technology firm, signed a new lease to occupy 16,430 square feet in Creve Coeur. The move nearly doubles its previous space.

## Leasing Market Fundamentals

- Absorption in the second quarter of 2023 totaled 14,131 square feet. This was the best quarter total compared to the previous six quarters, as tenant demand has decreased since the third quarter of 2020. Total net absorption during the past four quarters totaled negative 1.2 million square feet.
- The 107,000-square-foot construction pipeline trended downward from the first quarter of 2023 upon recent deliveries and sharply decelerating new starts.
- Vacancy and rent both increased year-over-year. Vacancy increased to 15.2%, as negative net absorption continued across multiple submarkets. Higher-priced space delivering to the market during the past year, combined with solid demand for prime Class A space, drove a slow but positive 12-month rent growth of 2.0%.

## 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 as the market continues to recalibrate. Tenants remain in the power position with considerable leverage in most metro submarkets and will carry on evaluating space needs.
- 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.

1. Economy
2. Leasing Market Fundamentals

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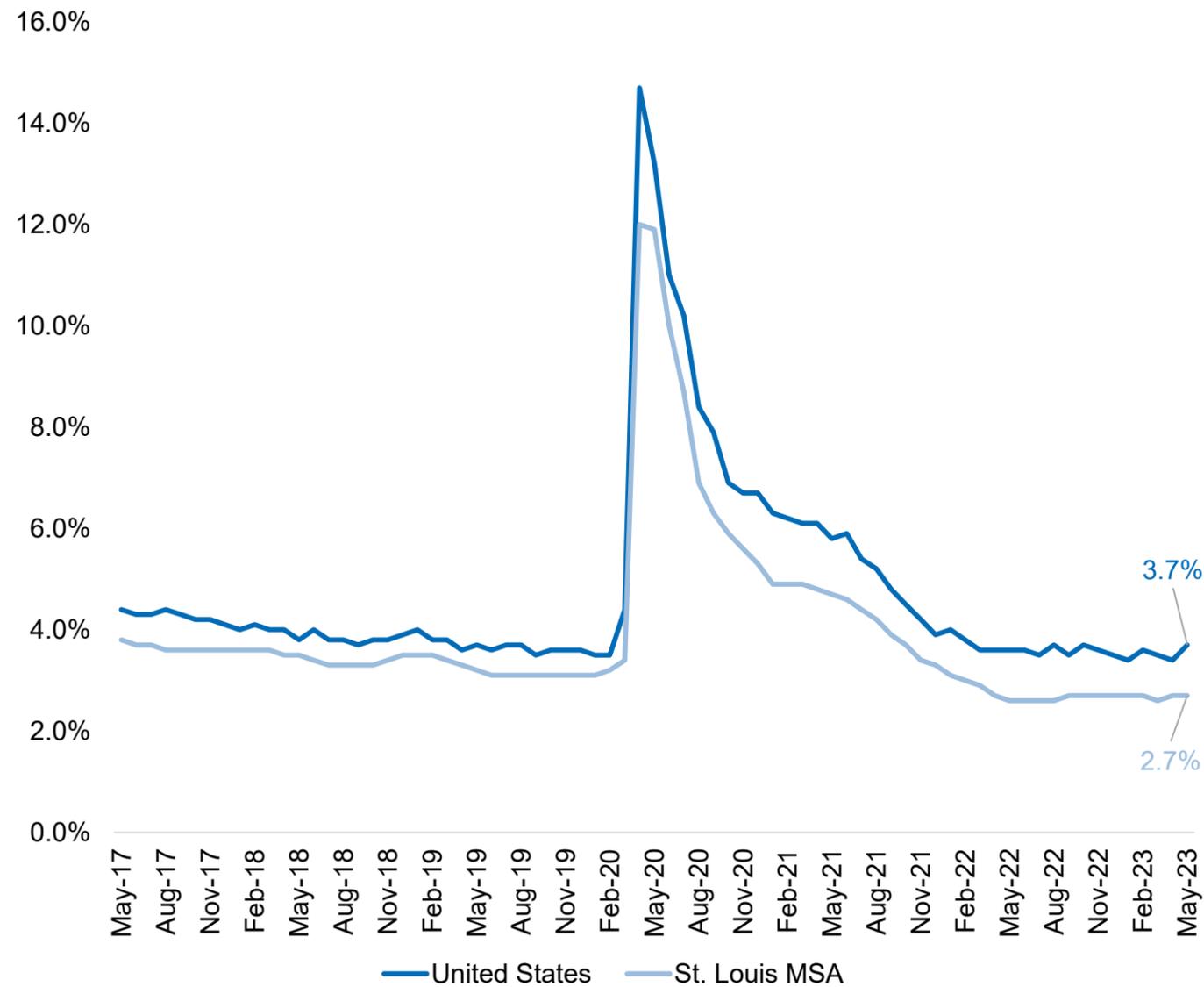
# Economy



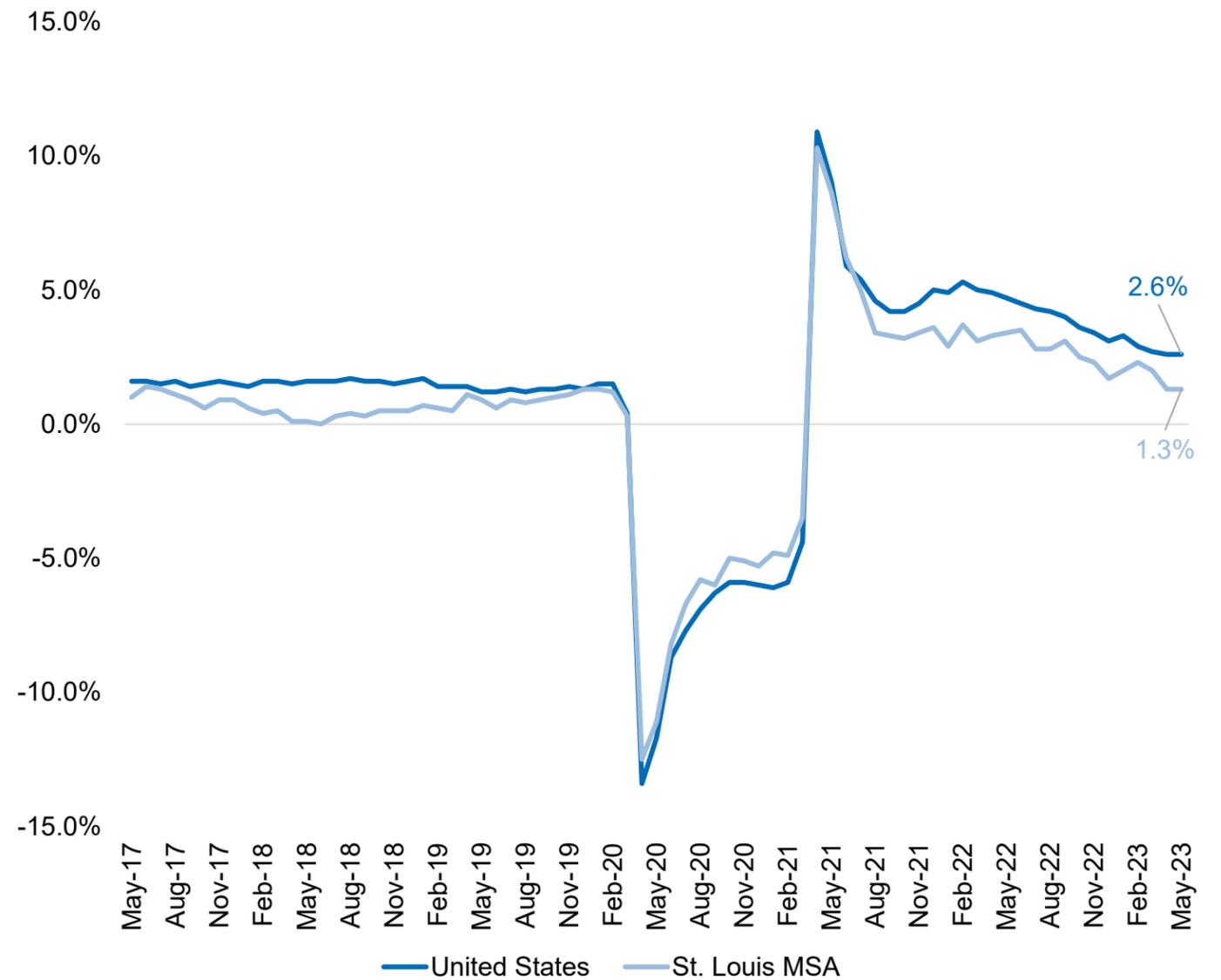
# Metro Employment Trends Signal a Slowing Economy

While the region's labor market remains on relatively solid footing, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment in the region recovered from the pandemic and remains 100 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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



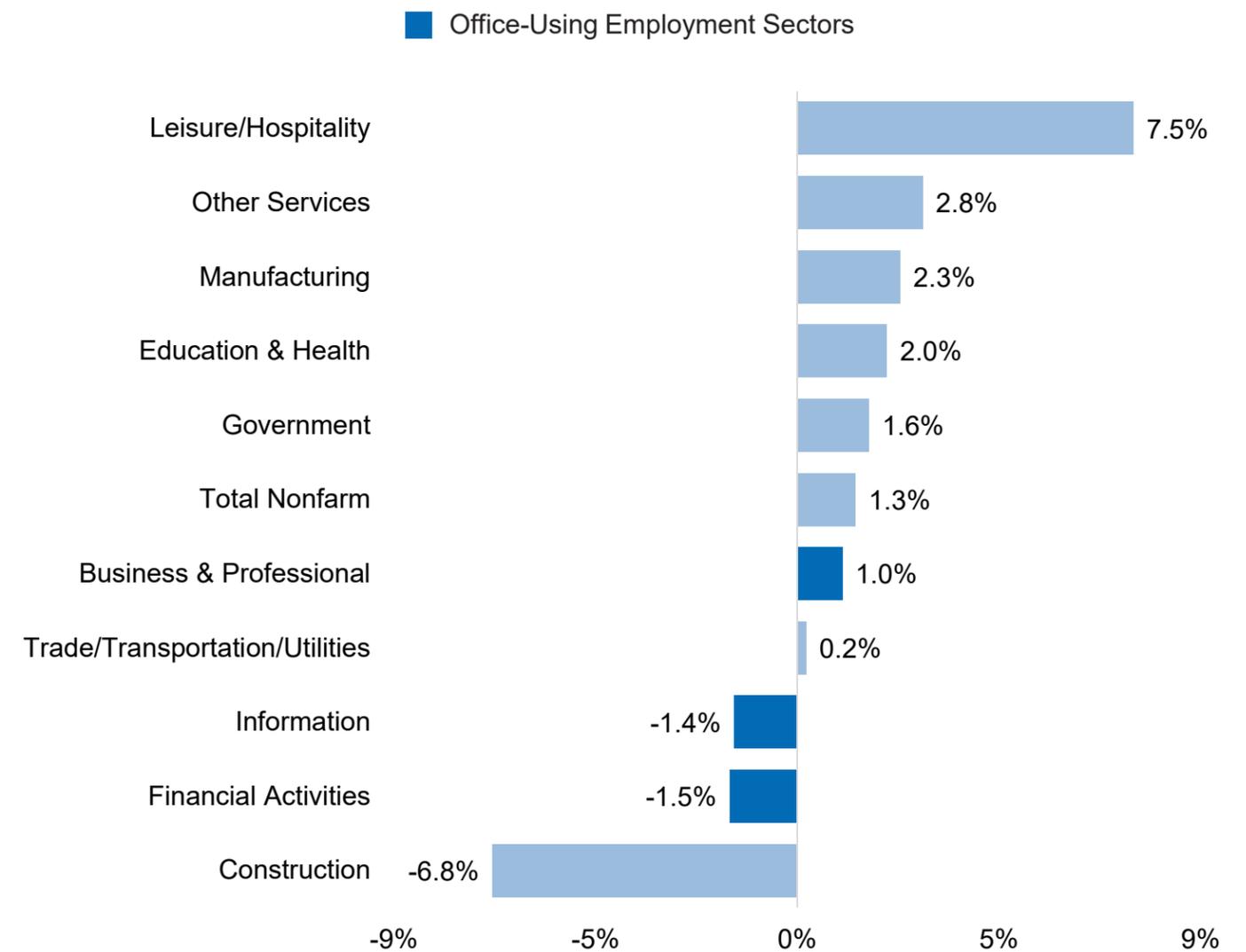
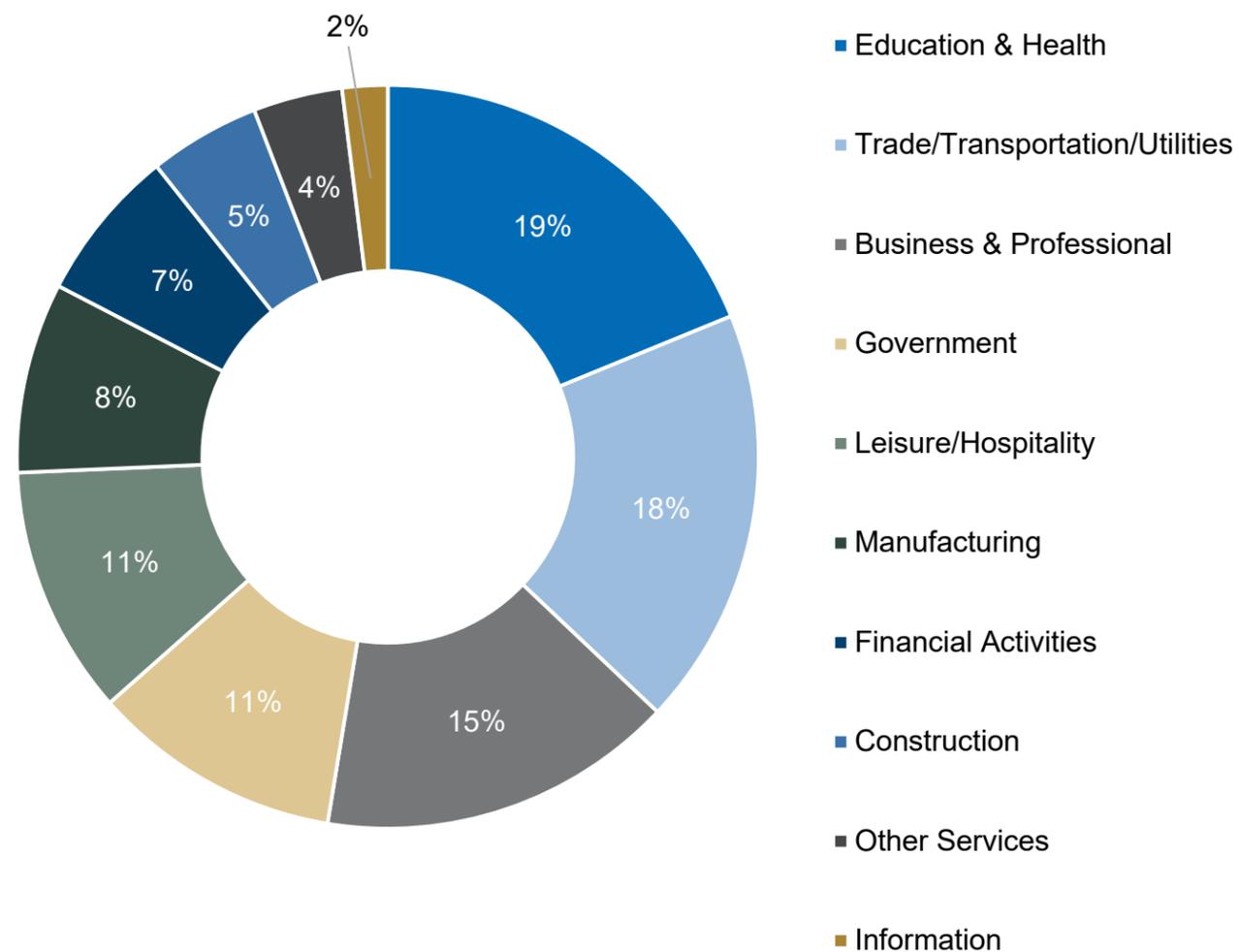
Source: U.S. Bureau of Labor Statistics, St. Louis MSA

# Job Growth Driven in Large Part by Services Still Making up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Two of the three office-occupying industries saw annual job losses.

Employment by Industry, May 2023

Employment Growth by Industry, 12-Month % Change, May 2023

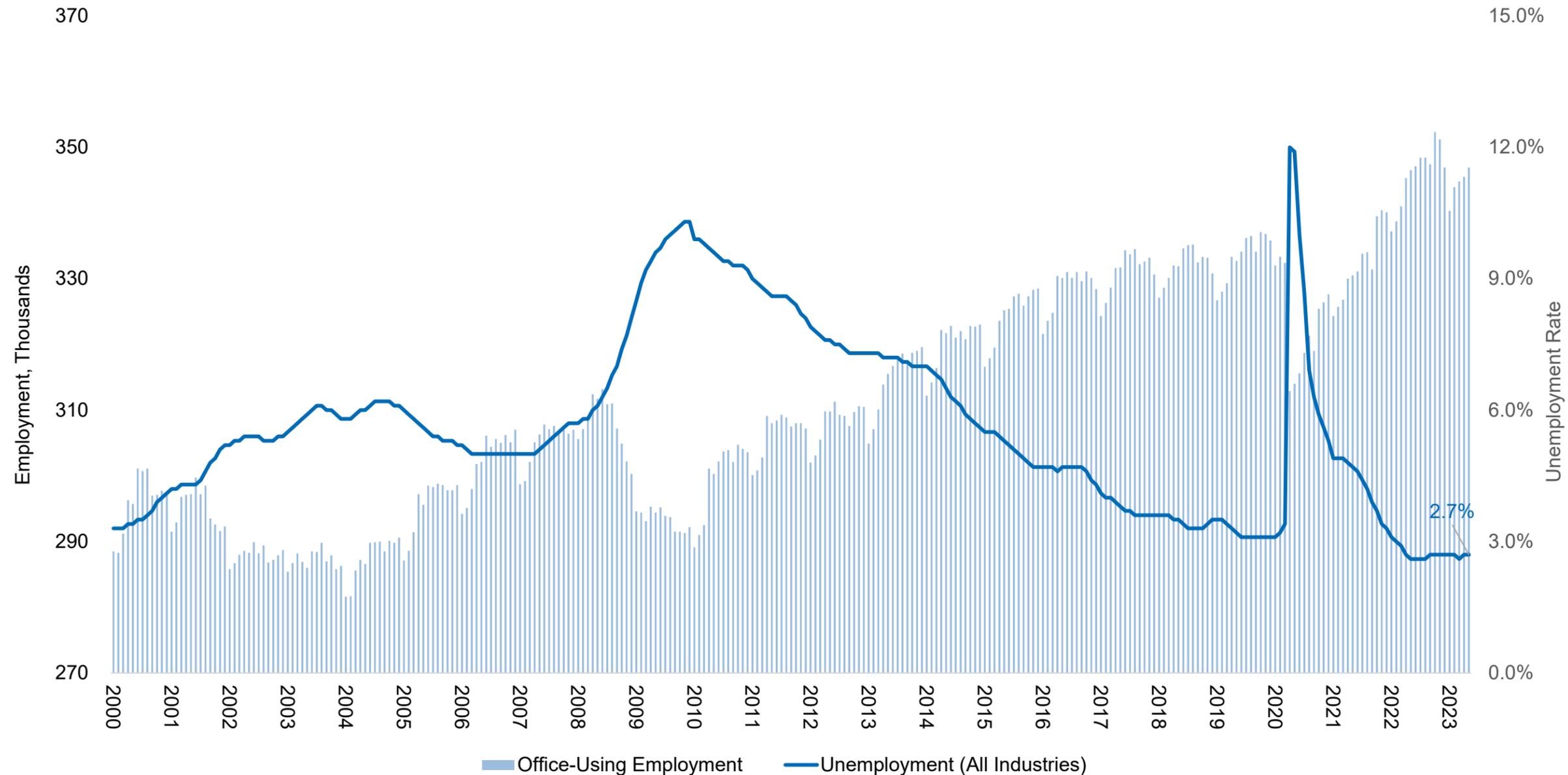


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

# 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: May 2023 data is preliminary.

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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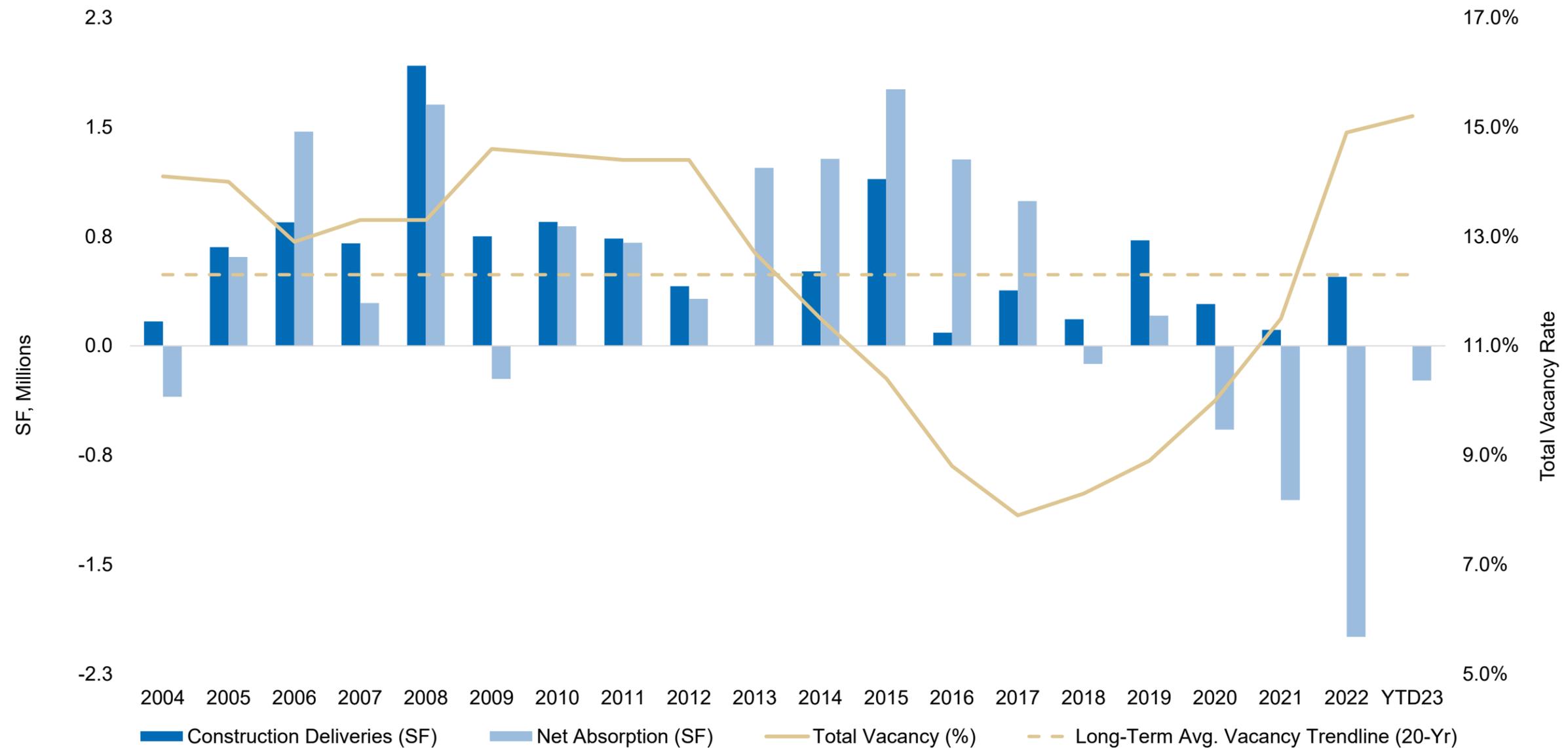
# Leasing Market Fundamentals



# Vacancy Rises as Net Absorption Remains Negative

Vacancy increased 2.2% (220 bps) to 15.2% year-over-year as tenants continue to evaluate ever changing space needs and the market recalibrates. Tenants will maintain considerable leverage in most metro submarkets and push landlords to complete aggressive deals.

## Historical Construction Deliveries, Net Absorption, and Vacancy

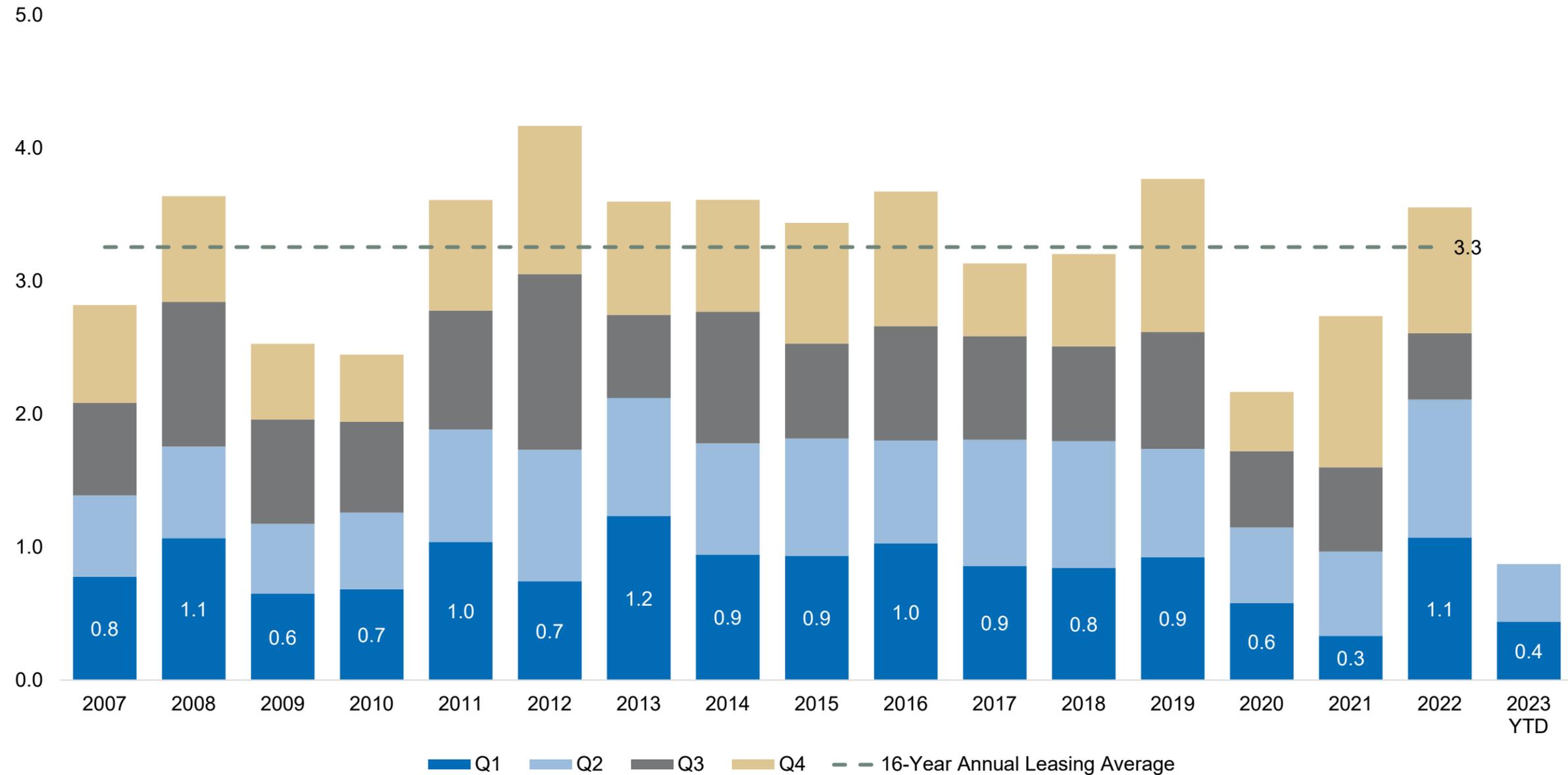


Source: Newmark Research

# Leasing Activity Pace Has Slowed

Macroeconomic uncertainty, financial volatility, limited debt financing and additional scrutiny of commercial real estate loans at regional banks will likely impact the near-term outlook for office space as firms decide to enact the wait-and-see approach. Leasing activity during the second quarter of 2023 registered a historic low compared with the past 16 years. Volume during the first half of the year in 2023 is also down 46.8% compared with the historical average.

## Total Leasing Activity (msf)

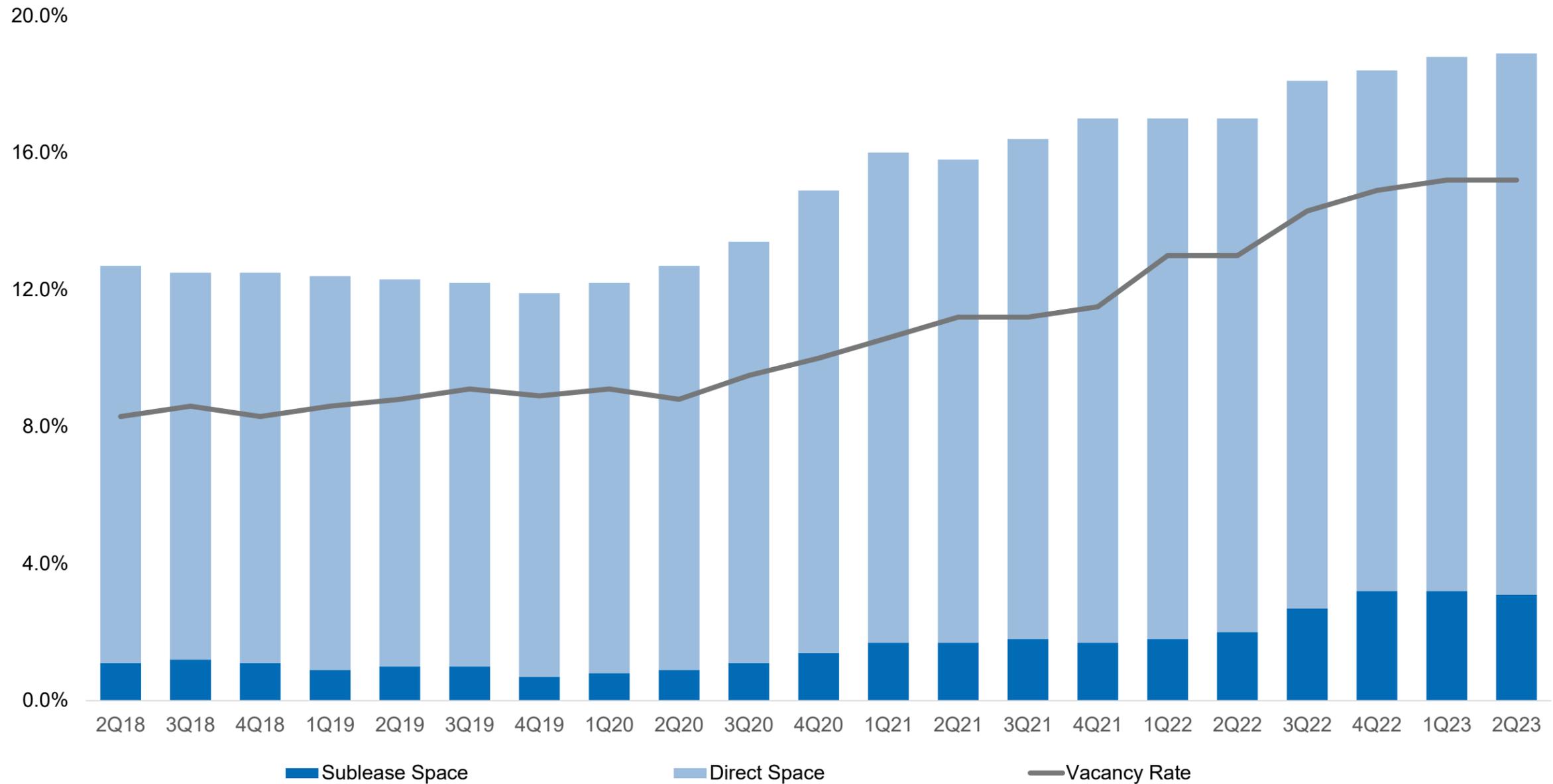


Source: Newmark Research, CoStar

# Availability Continues to Increase While Tenant Demand Drops

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. Sublease space is anticipated to remain elevated in 2023 and 2024.

## Available Space as Percent of Overall Market

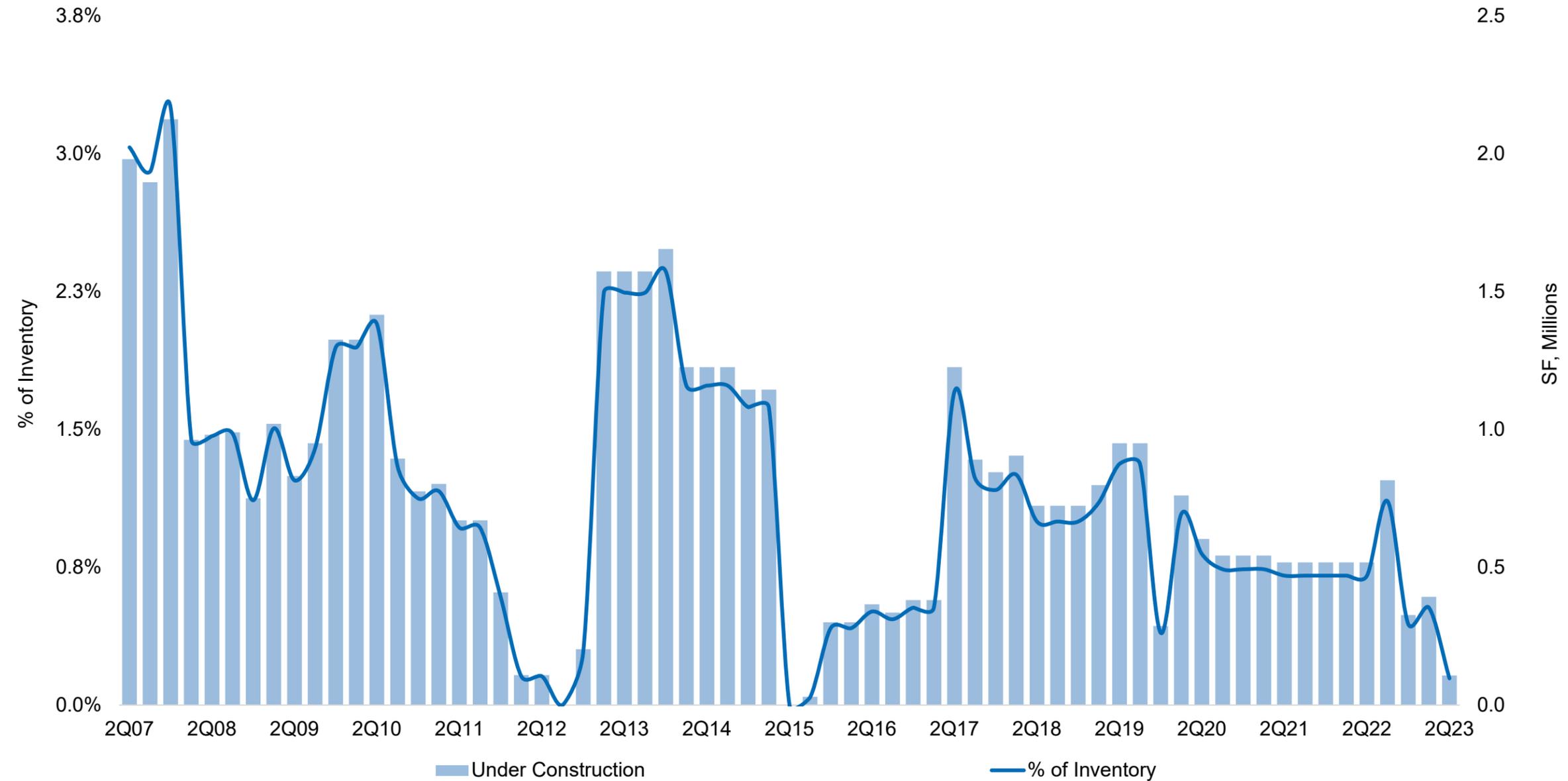


Source: Newmark Research

# New Construction Slows as Vacancy Remains Elevated

With the deliveries of Commerce Bank Tower and Forsyth Point in the Clayton submarket in 2022, the total volume under construction has dropped significantly.

## Office Under Construction and % of Inventory

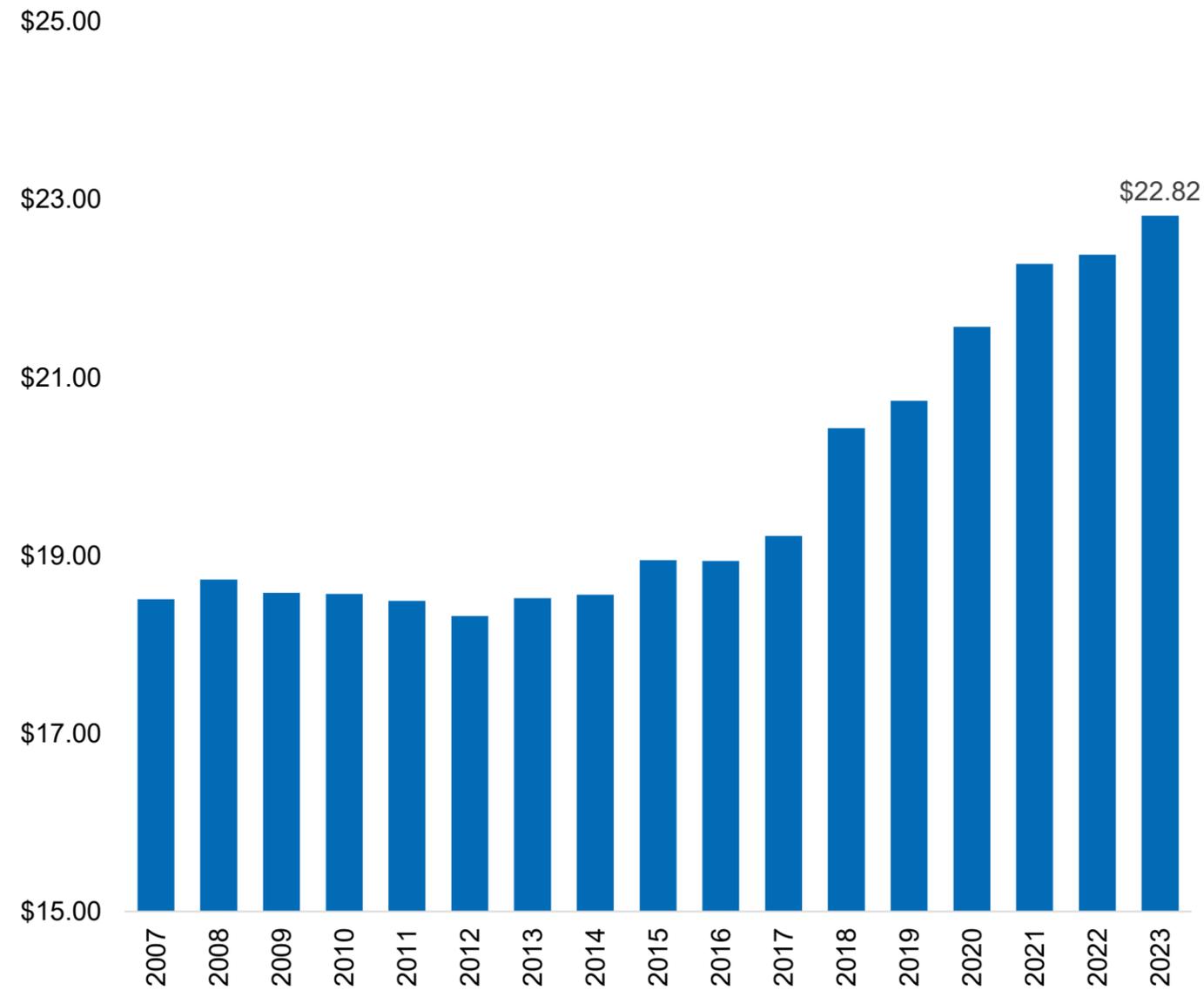


Source: Newmark Research, CoStar, St. Louis Market

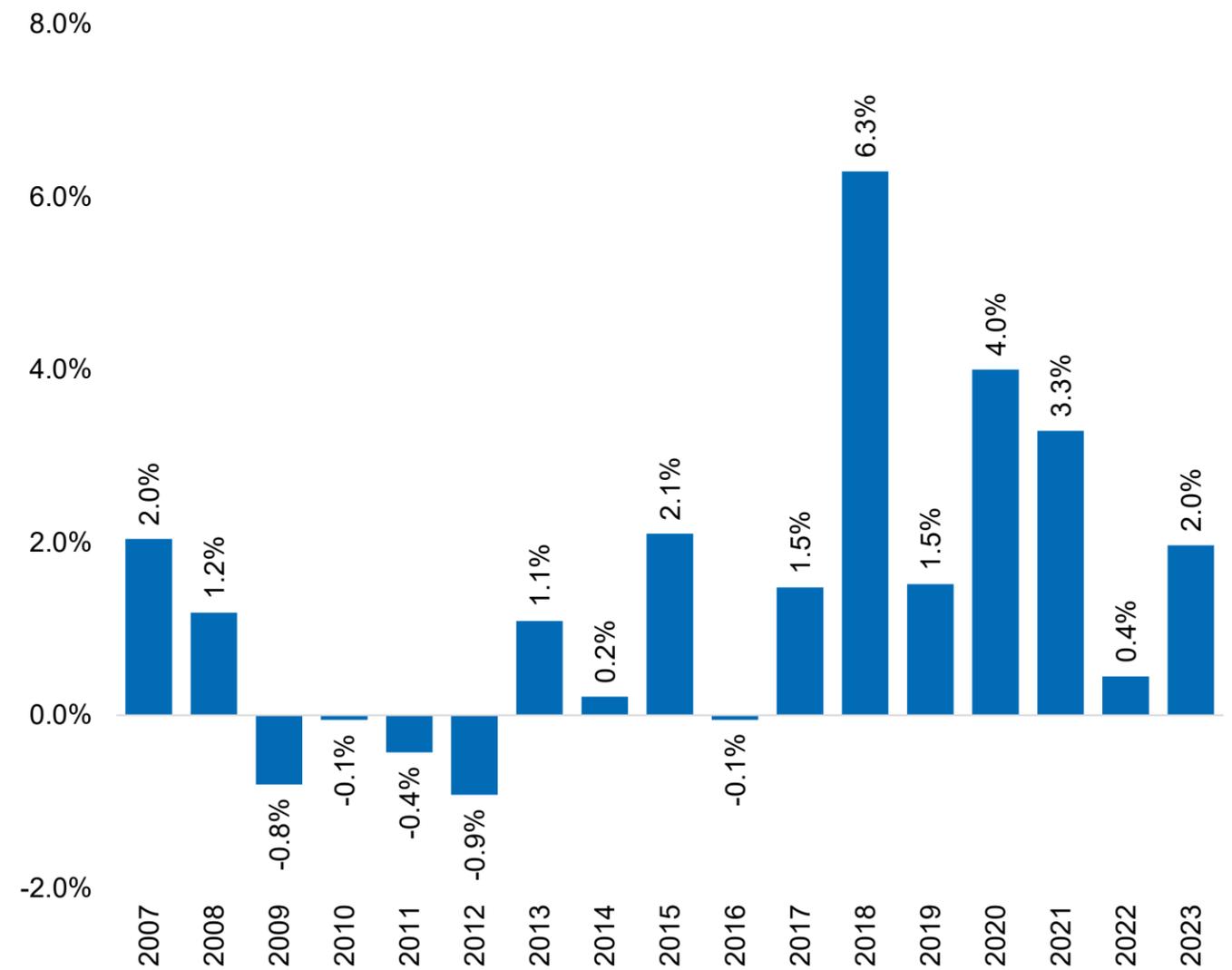
# Rents Continue to Climb

Both overall asking rates and Class A asking rates increased this quarter, rising to \$22.82/SF and \$24.87/SF, respectively. 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 somewhat stagnant.

Office Average Asking Rent, \$/SF, FS



Year-Over-Year Asking Rent Growth Rate

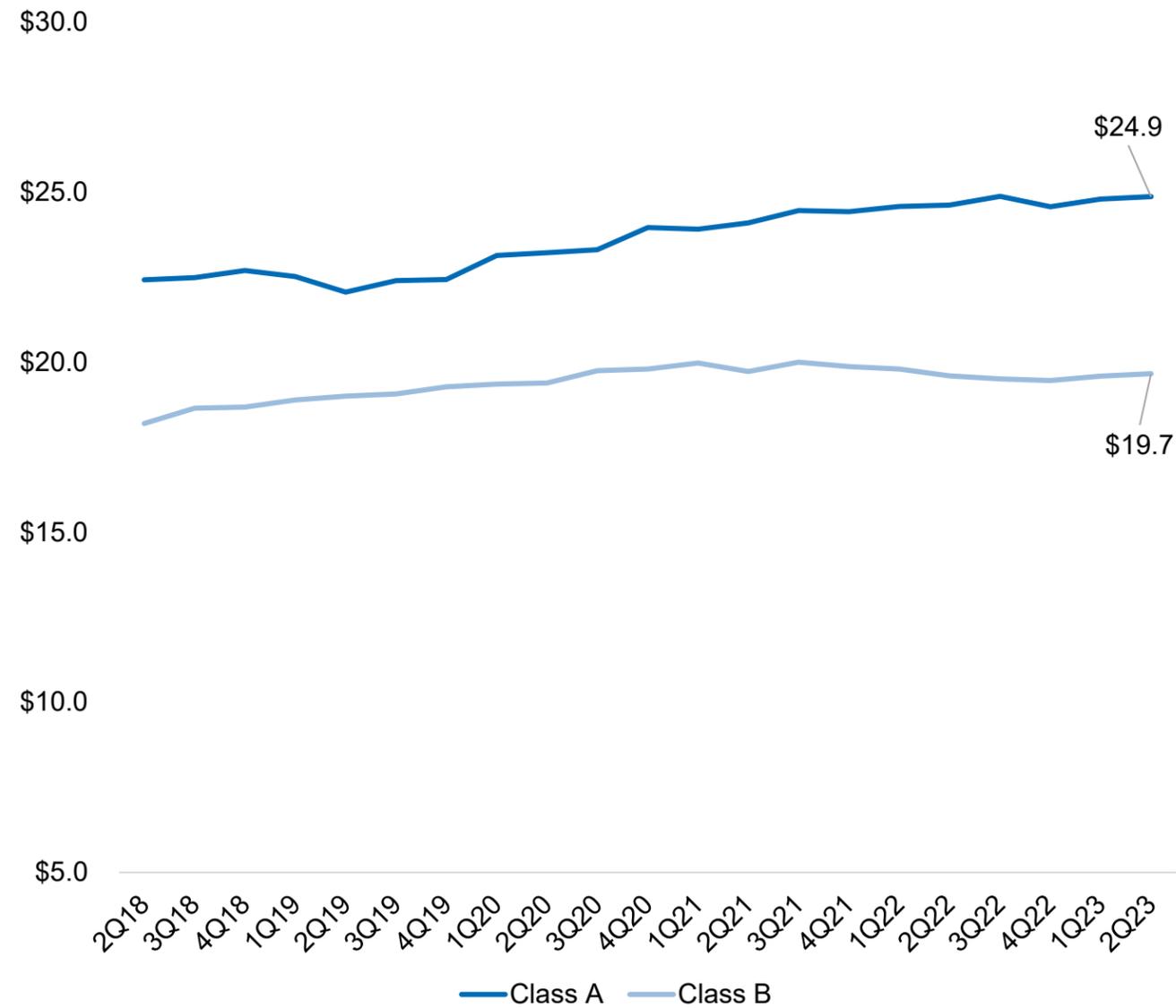


Source: Newmark Research, CoStar

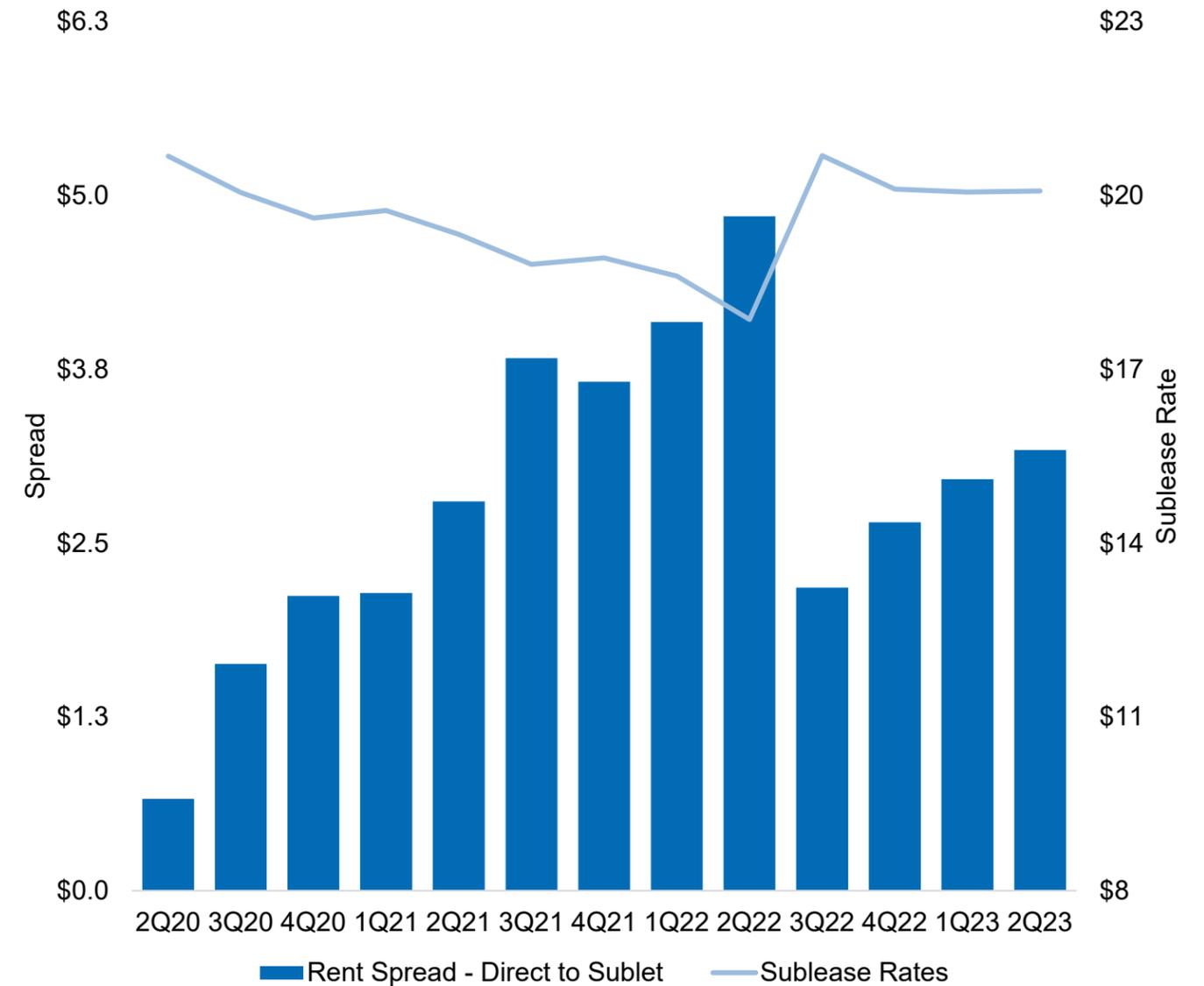
# Asking Rents March On

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among major markets, but secondary and tertiary markets like St. Louis continue to appreciate. Sublease rents increased to \$20.08/SF during the second quarter of 2023, continuing an upward trend since the second quarter of 2022.

## Class A and Class B Asking Rents



## Sublease Rates



Source: Newmark Research, CoStar

# Significant Leasing Activity Across Various Submarkets

New or newly renovated Class A office space in marquee submarkets with a prime amenities package will remain in demand, even as rental rates increase. After significant tenant exits from functionally obsolete space, downsizing and property conversions from office to multifamily and hospitality use, the Downtown office submarket has begun to stabilize with decent leasing volume from smaller-sized tenants.

## Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Emerson Electric Co.	8027 Forsyth Boulevard	Clayton	Direct Lease	102,520
<i>Emerson Electric will move its headquarters to Emerson Tower (formerly known as "Forsyth Pointe") in mid-late 2024. They will be leaving their 200-acre headquarters in Ferguson, Missouri after announcing the divestiture of the campus in October 2022.</i>				
The Simon Law Firm, P.C.	1001 Highlands Plaza Drive	Downtown	Direct Lease	20,640
<i>The law firm signed a 10-year lease which will commence in the third quarter of 2023.</i>				
Northwestern Mutual / The Gross Financial Group	424 S Woods Mill Road	West County	Direct Lease	17,040
<i>The financial services firm signed a five-year lease at Woodsmill Commons I which will commence in the third quarter of 2023.</i>				
KNOWiNK	460 N Lindbergh Boulevard	Mid County	Direct Lease	16,430
<i>The election management technology firm signed a new lease for the entire building. The move nearly doubles their headquarters space.</i>				
Anders CPAs + Advisors	16090 Swingley Ridge Road	West County	Sublease	10,000
<i>Anders CPAs + Advisors subleased space marketed for \$22.50/SF at Chesterfield Village I. Space included furniture with a brand-new build out.</i>				

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