2Q24

St. Louis Office Market Overview

NEWMARK ZIMMER

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. May's 3.5% unemployment rate was 50 basis points lower than the 4.0% 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, followed by 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 all three office-occupying sectors displayed declines compared with the prior 12 months.

Leasing Market Fundamentals

- Absorption in the second quarter of 2024 totaled negative 283,619 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 negative 13,575 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 are currently 41,000 SF under construction.
- Vacancy increased 40 basis points to 14.9% during the quarter. 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 nonexistent, totaling negative 0.9%.

Major Transactions

- Intellivo officially opened its new operations center at 12443 Olive Blvd. in Creve Coeur. The firm expects to bring more than 120 new jobs to the region and will occupy 25,930 SF of space.
- Blink Health will occupy 19,980 SF of the 101,470-SF Woodsmill Commons I. The firm signed a five-year lease starting in October 2024.
- HOK announced it will remain in the Downtown submarket after its 39,000-SF lease expires in August 2025. The firm is exploring various space options.
- The Pierre Laclede Center in Clayton, totaling 581,190 SF across two towers, is on the market for sale by its owner, Lingerfelt. The firm purchased the portfolio in May 2019 for $163/SF.

Outlook

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

1. Economy
2. Leasing Market Fundamentals
3. Submarket Statistics

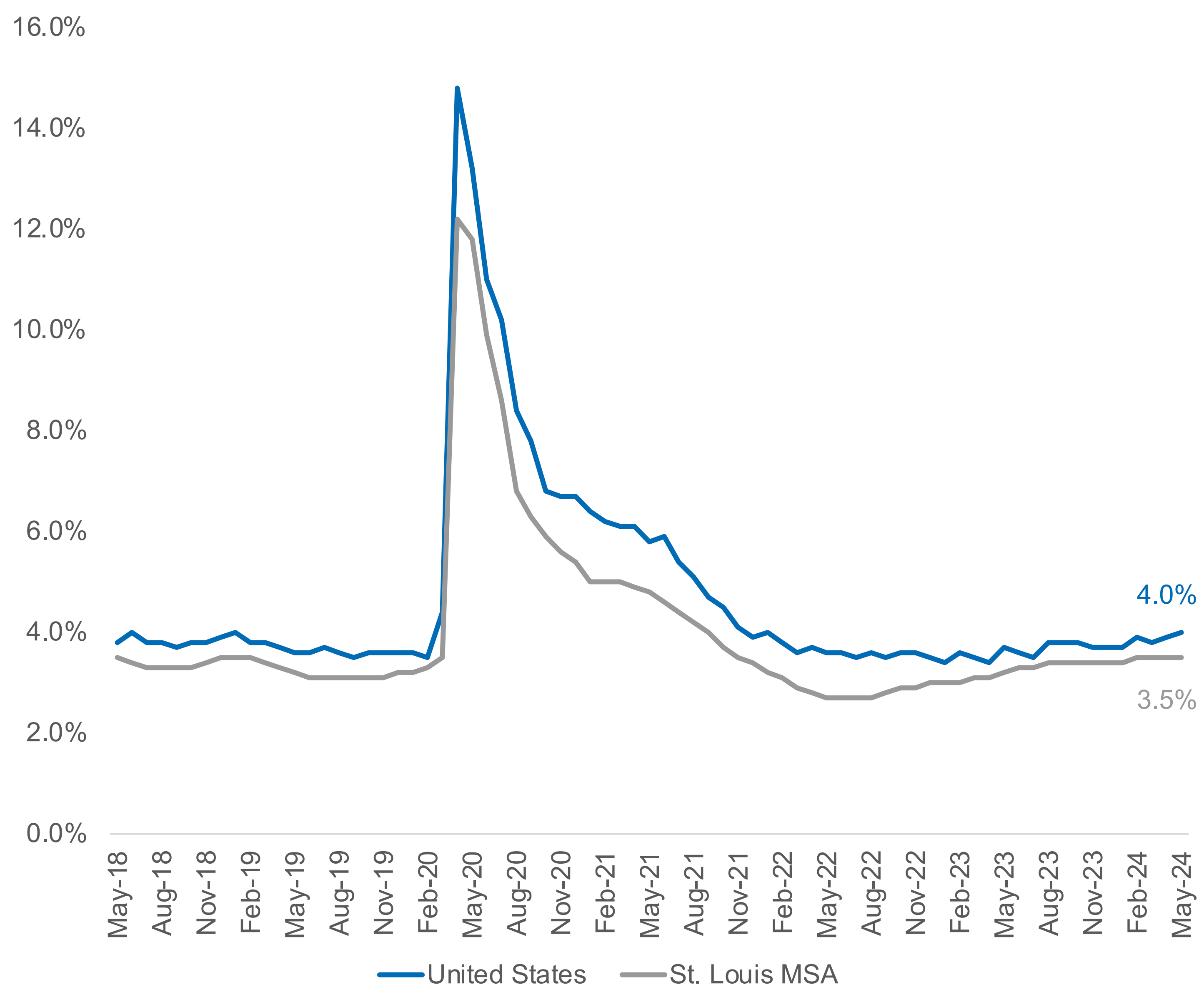
2Q24

Economy

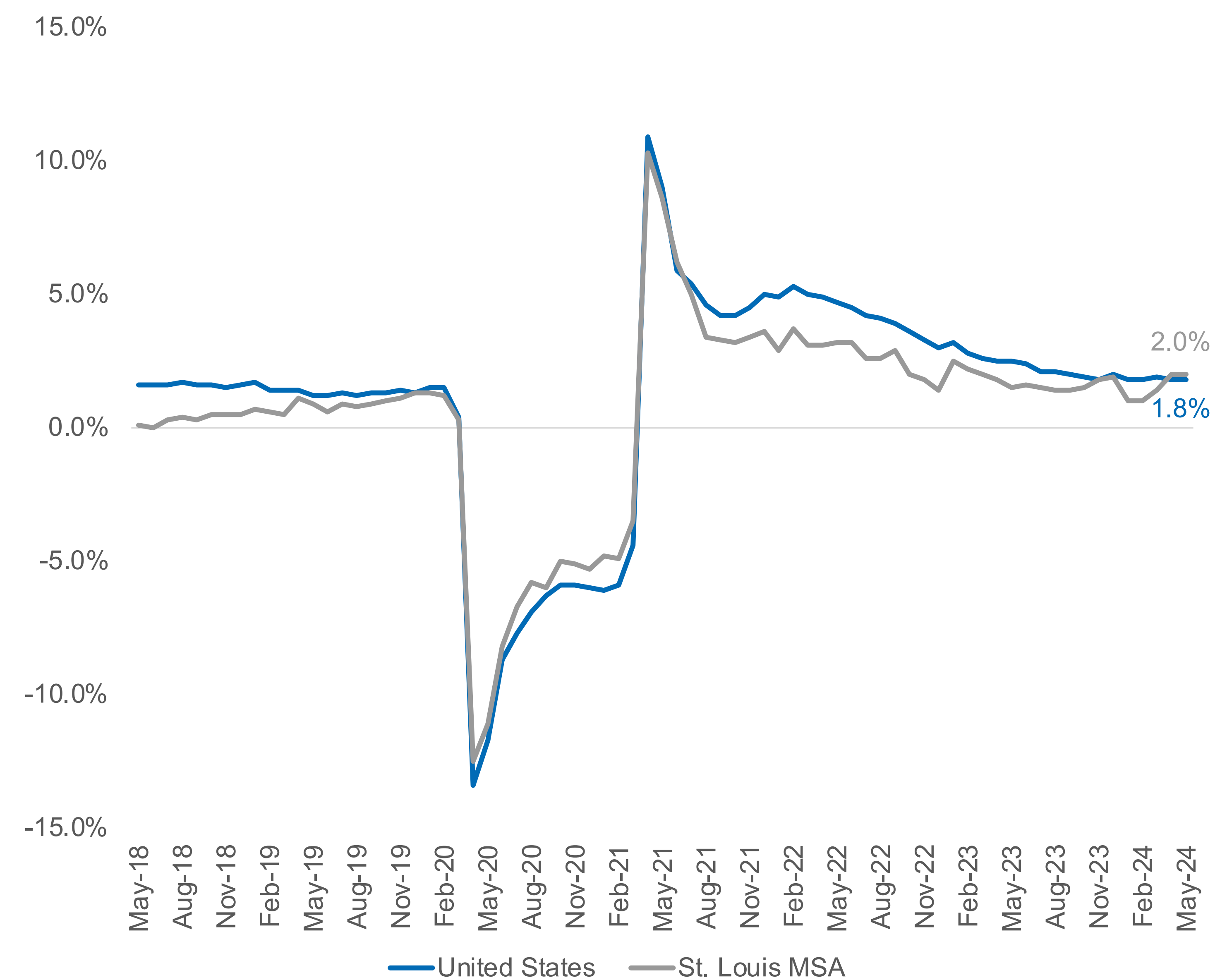
Metro Employment Trends Signal a Stable Economy

The region's labor market remains on relatively solid footing, amid elevated interest rates. Unemployment in the region recovered from the pandemic and remains 50 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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

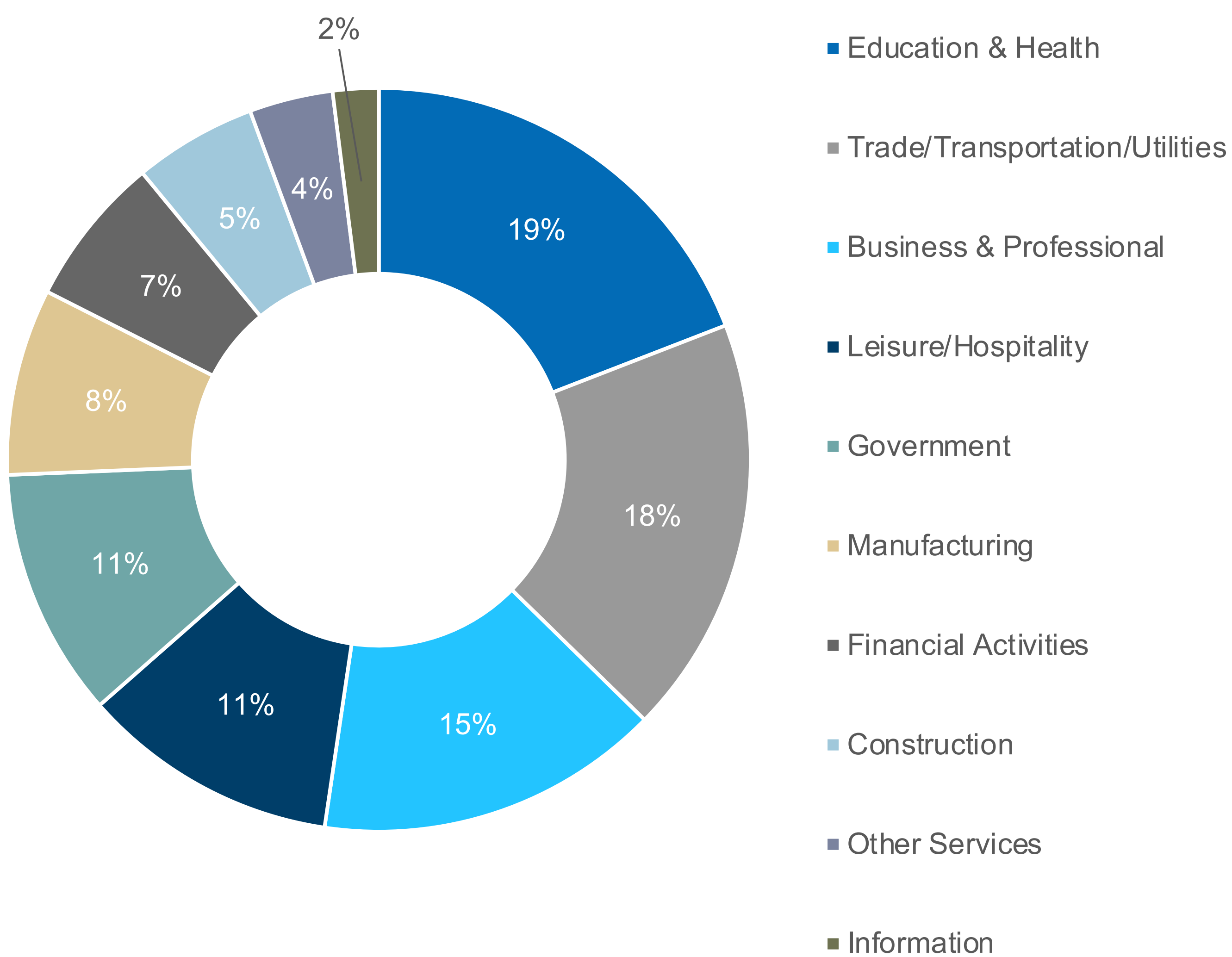


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

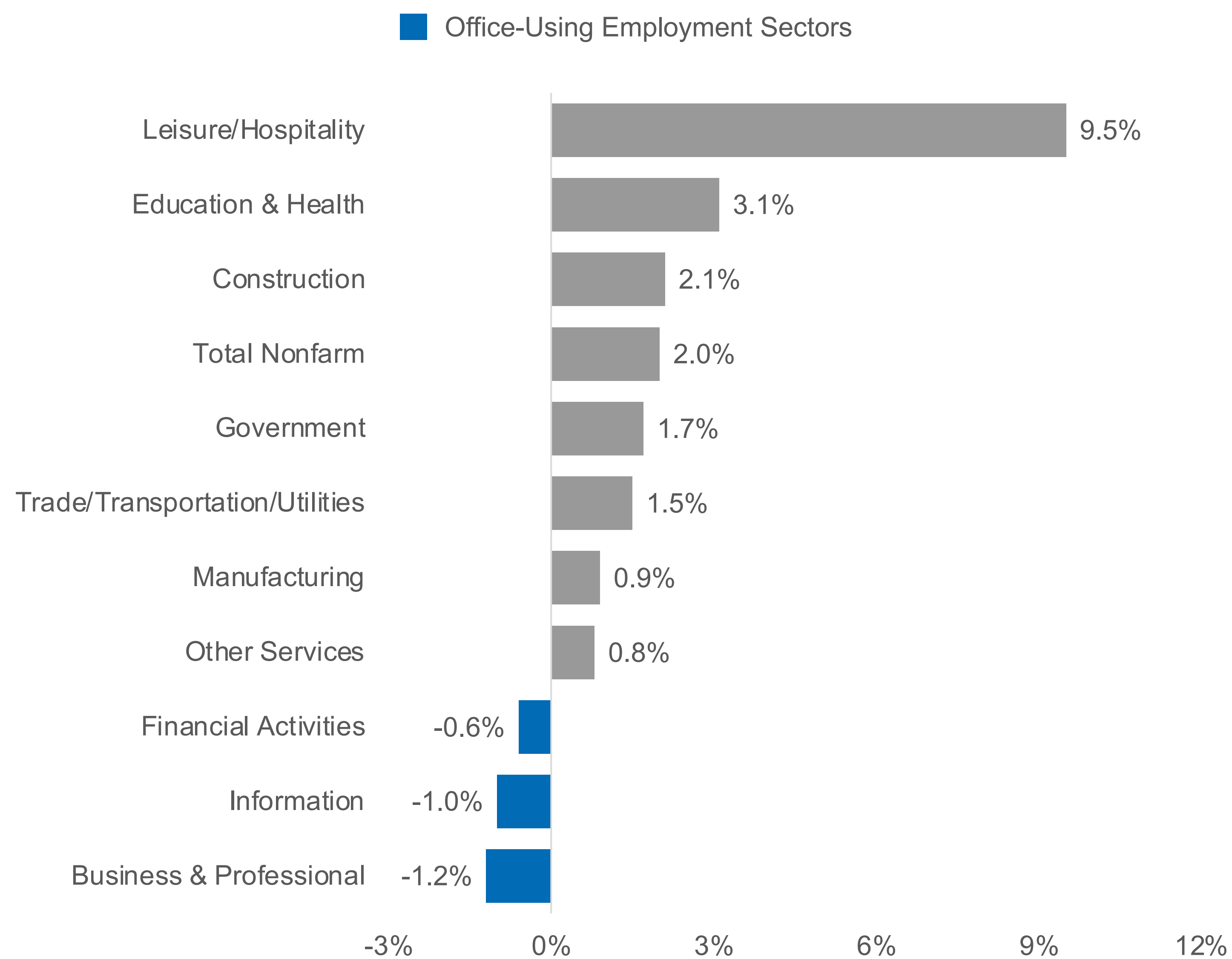
Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

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

Employment by Industry, May 2024



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

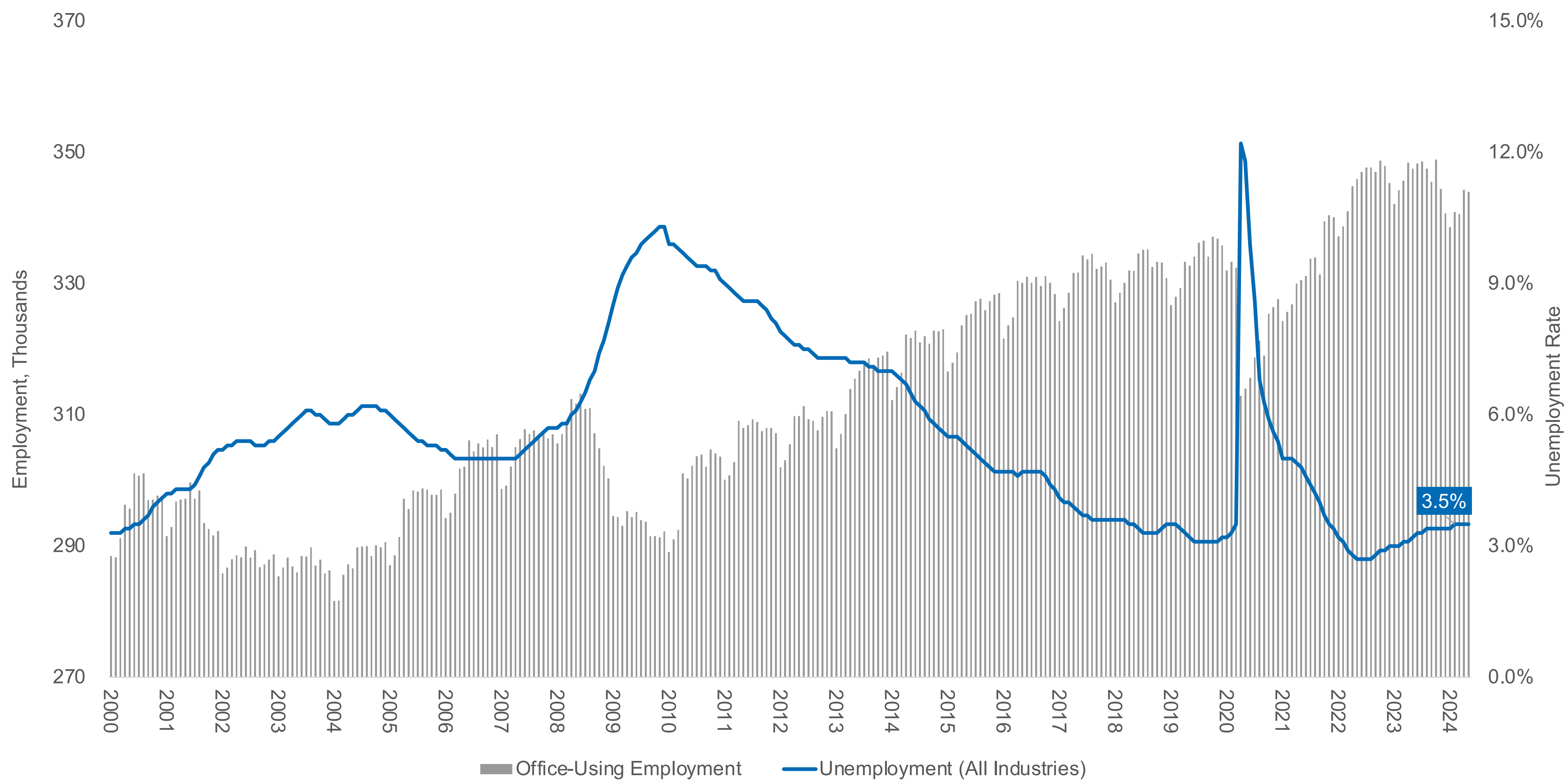


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

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.

2Q24

Leasing Market Fundamentals

Market Overview

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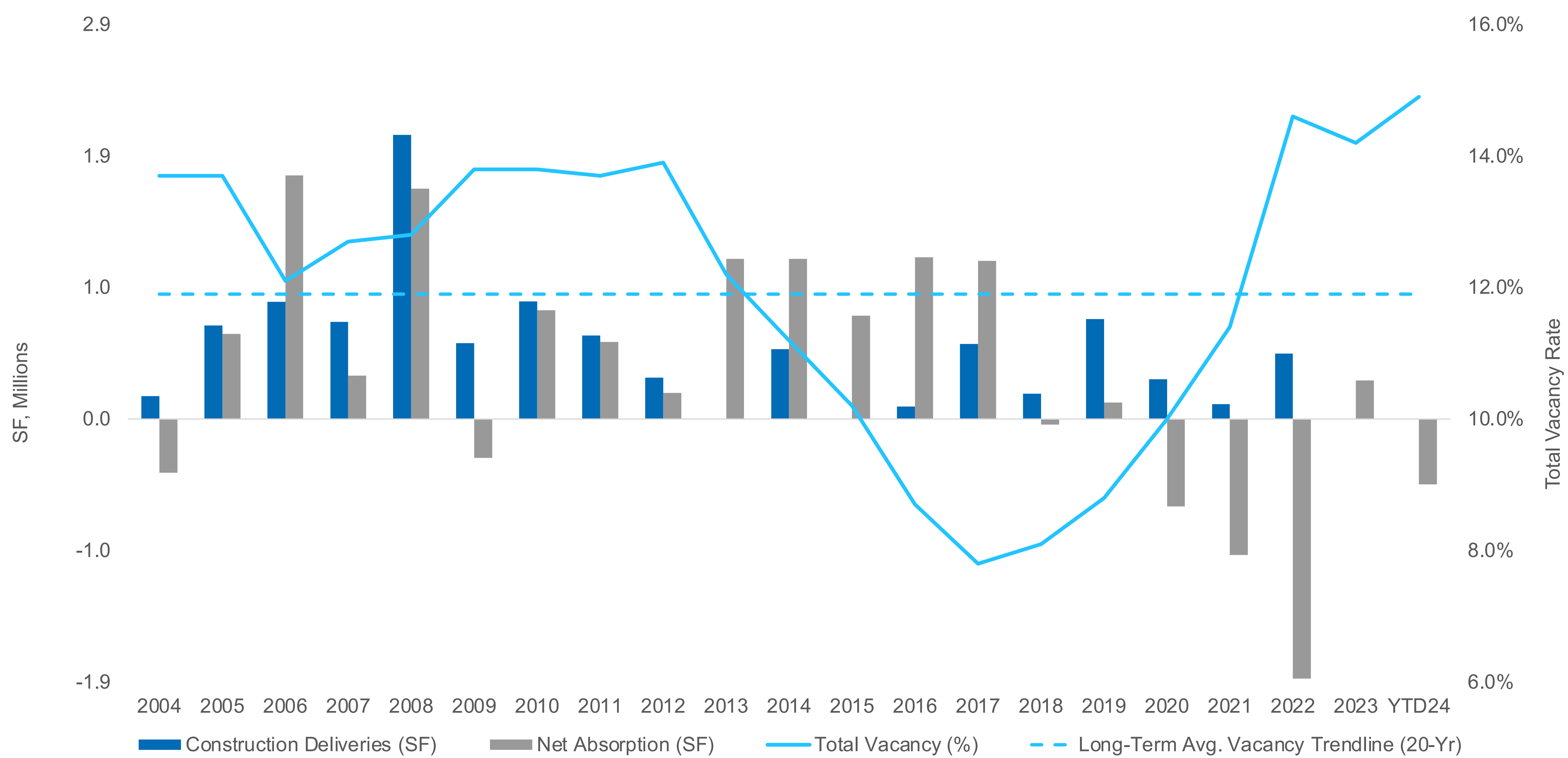
Vacancy Stabilizing as Market Recalibrates

Vacancy increased 0.1% (10 bps) to 14.9% 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

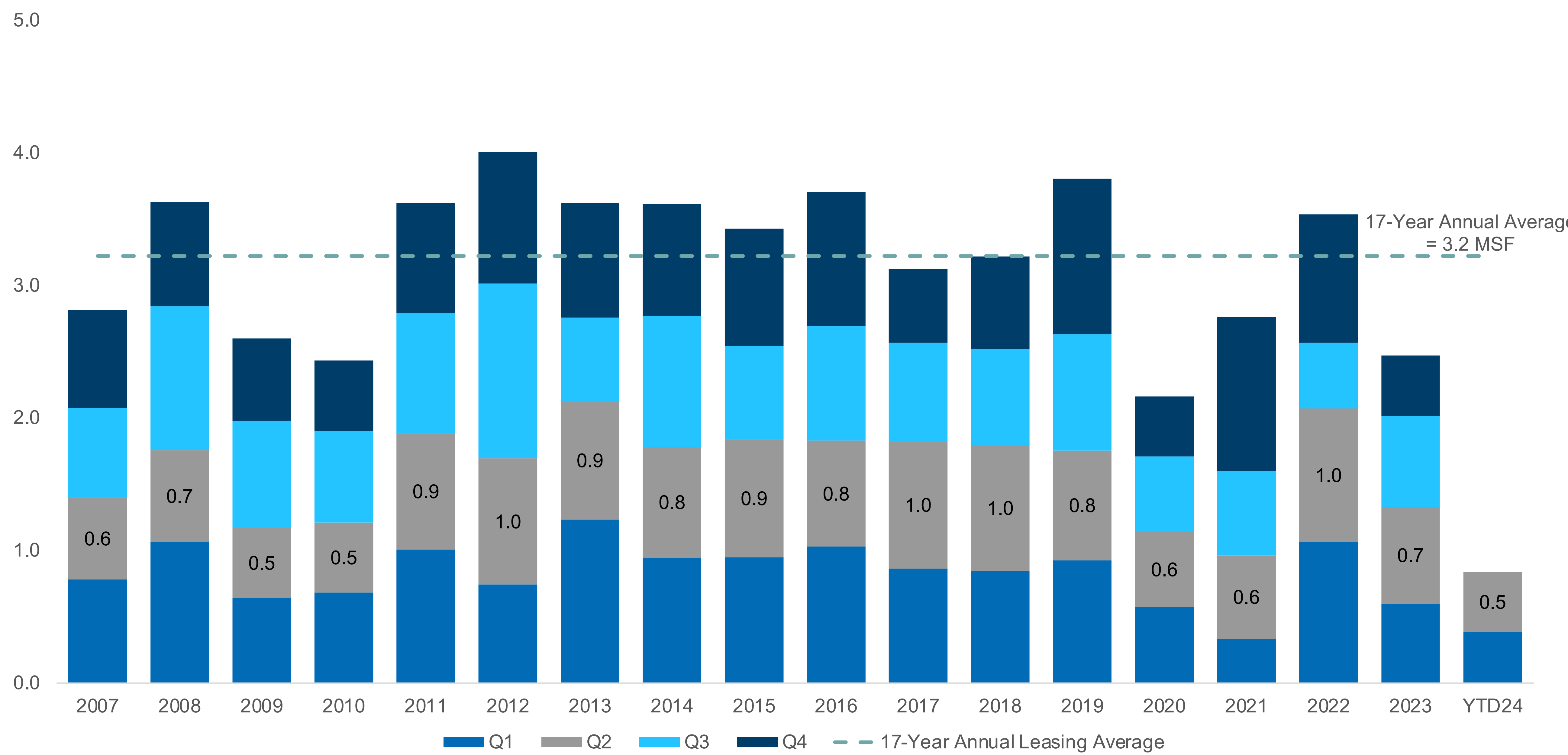


Source: Newmark Research

Pace of Leasing Activity Decreases During Past Three Quarters

Total leasing activity during the past four quarters is down 38.3% 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 midterm outlook. Mid- to large-sized tenants should begin to lock in favorable, long-term leasing strategies in the second half of the year, pushing leasing activity towards 2.5 million SF to 2.8 million SF for 2024.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Lead to Fewer Leases Being Signed

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

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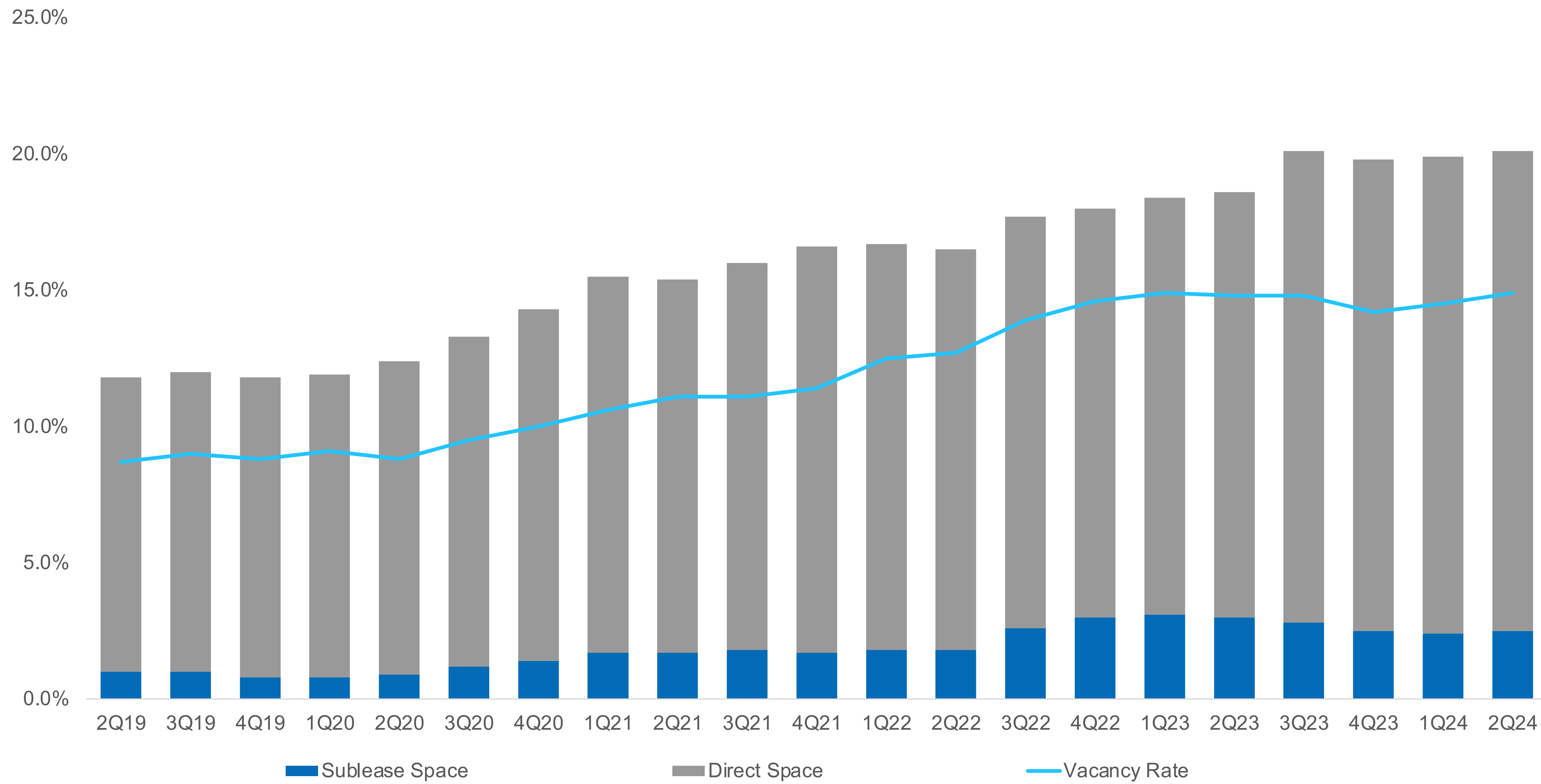
Direct Availability Continues to Climb, While Sublease Availability Stabilizes at 2.5%

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 Experiences Highest Availability Rate Increase Year Over Year

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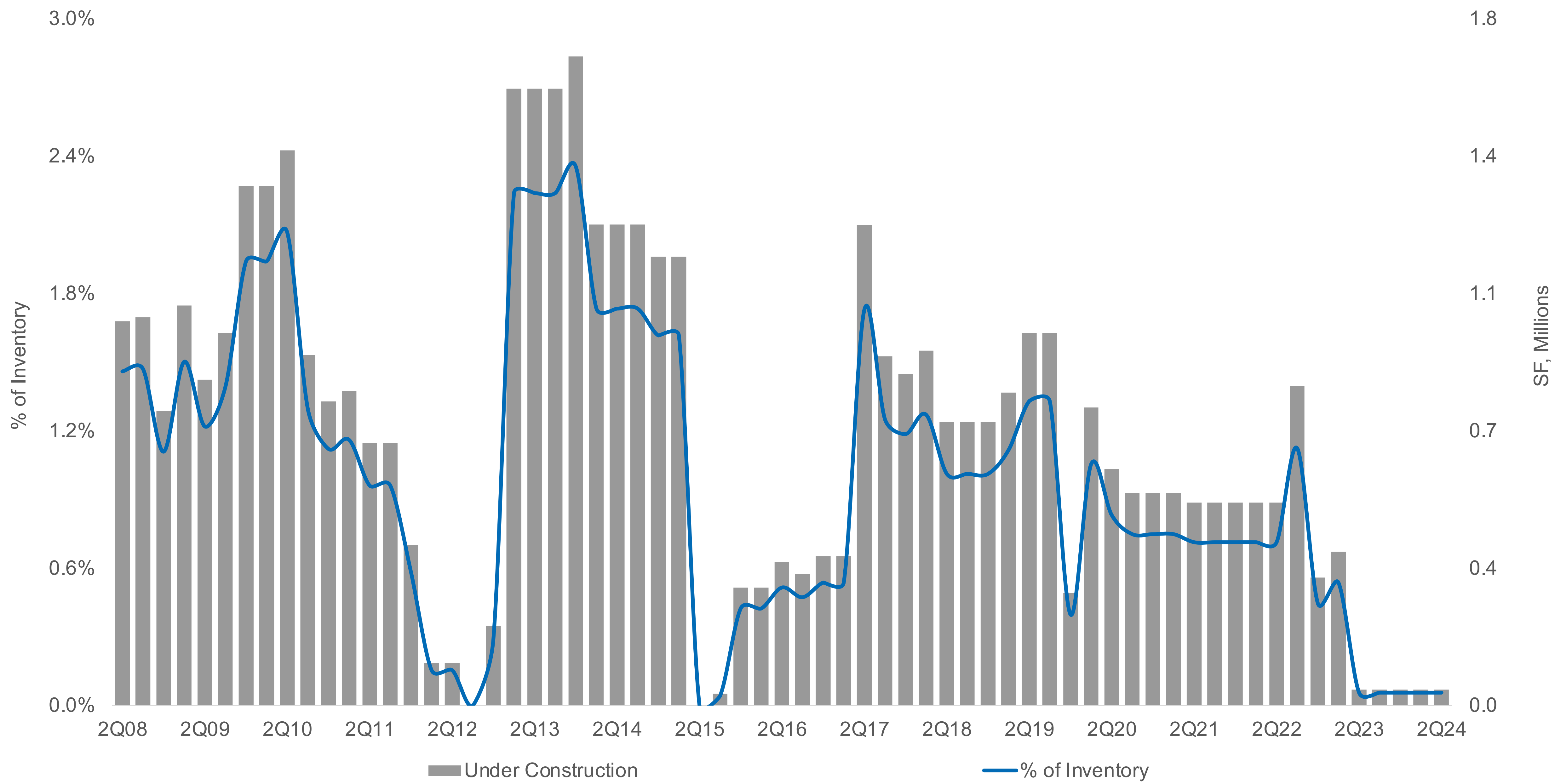
New Construction Activity Pauses as Vacancy Remains Elevated at 14.9%

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

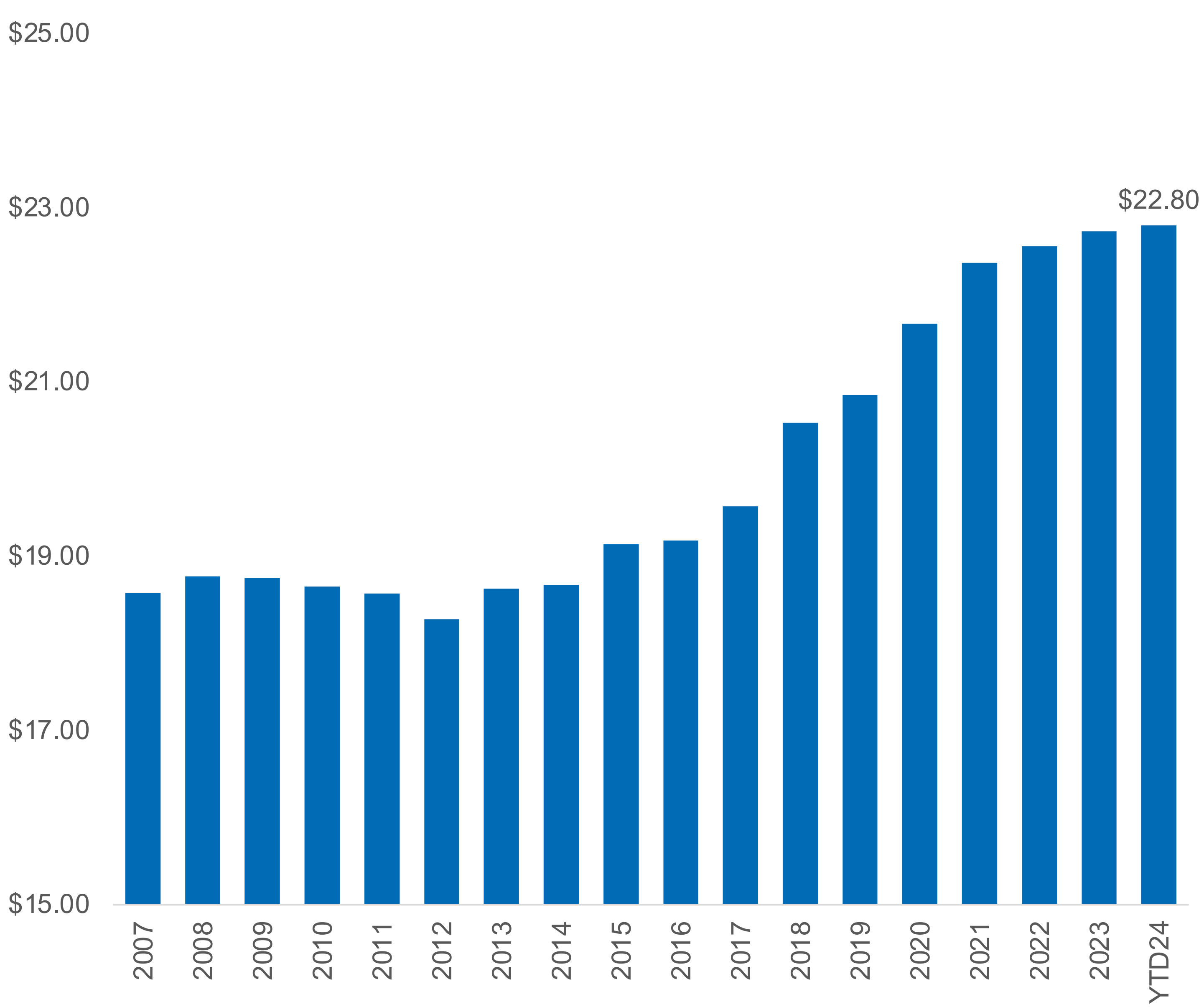


Source: Newmark Research, CoStar, St. Louis Market

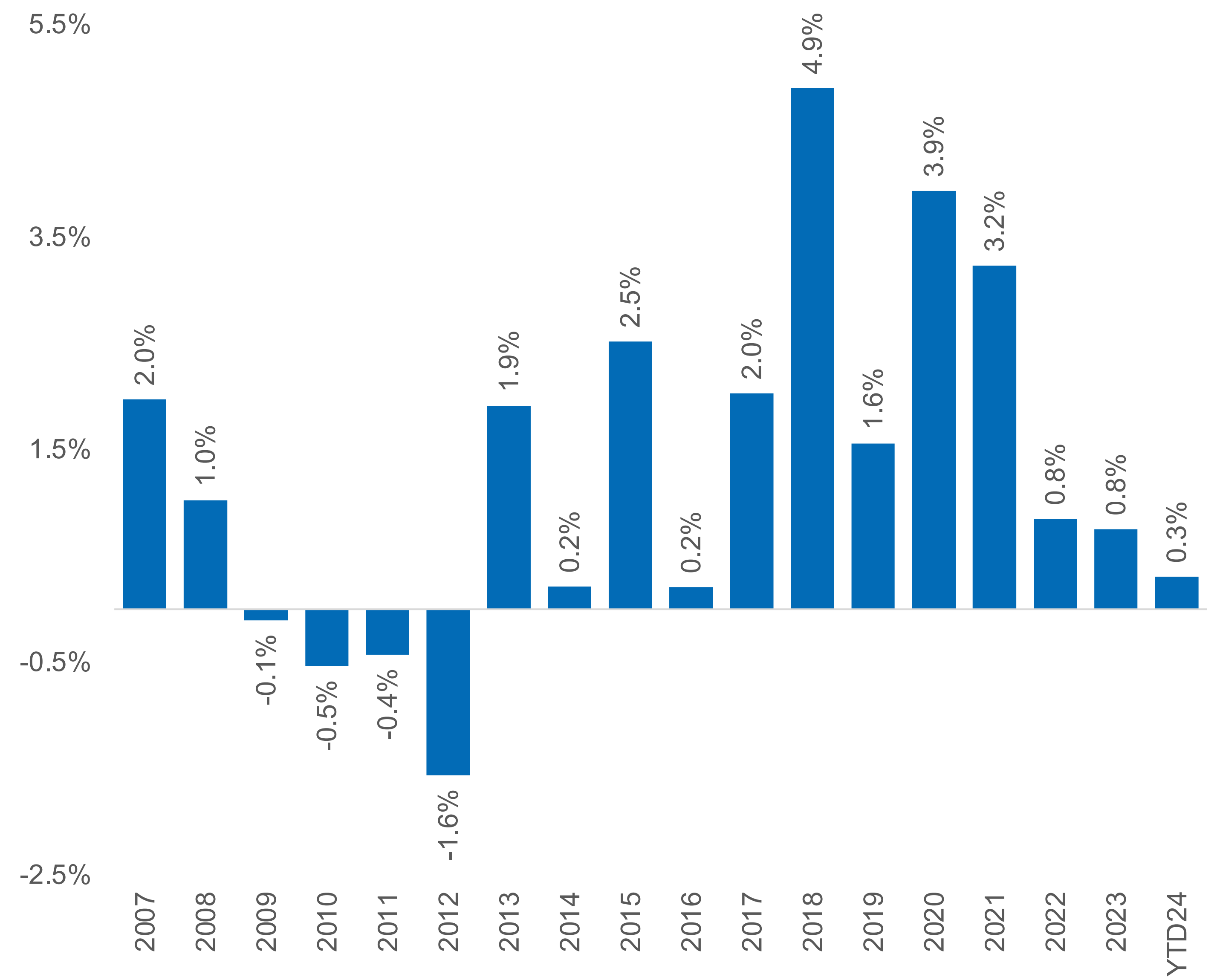
Rents Continue to Rise but at a Slower Pace

Overall asking rates increased year over year to $22.80/SF. Rental rates are expected to remain level during 2024 as a lack of liquidity forces select landlords to lower rents rather than provide elevated concession packages. 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

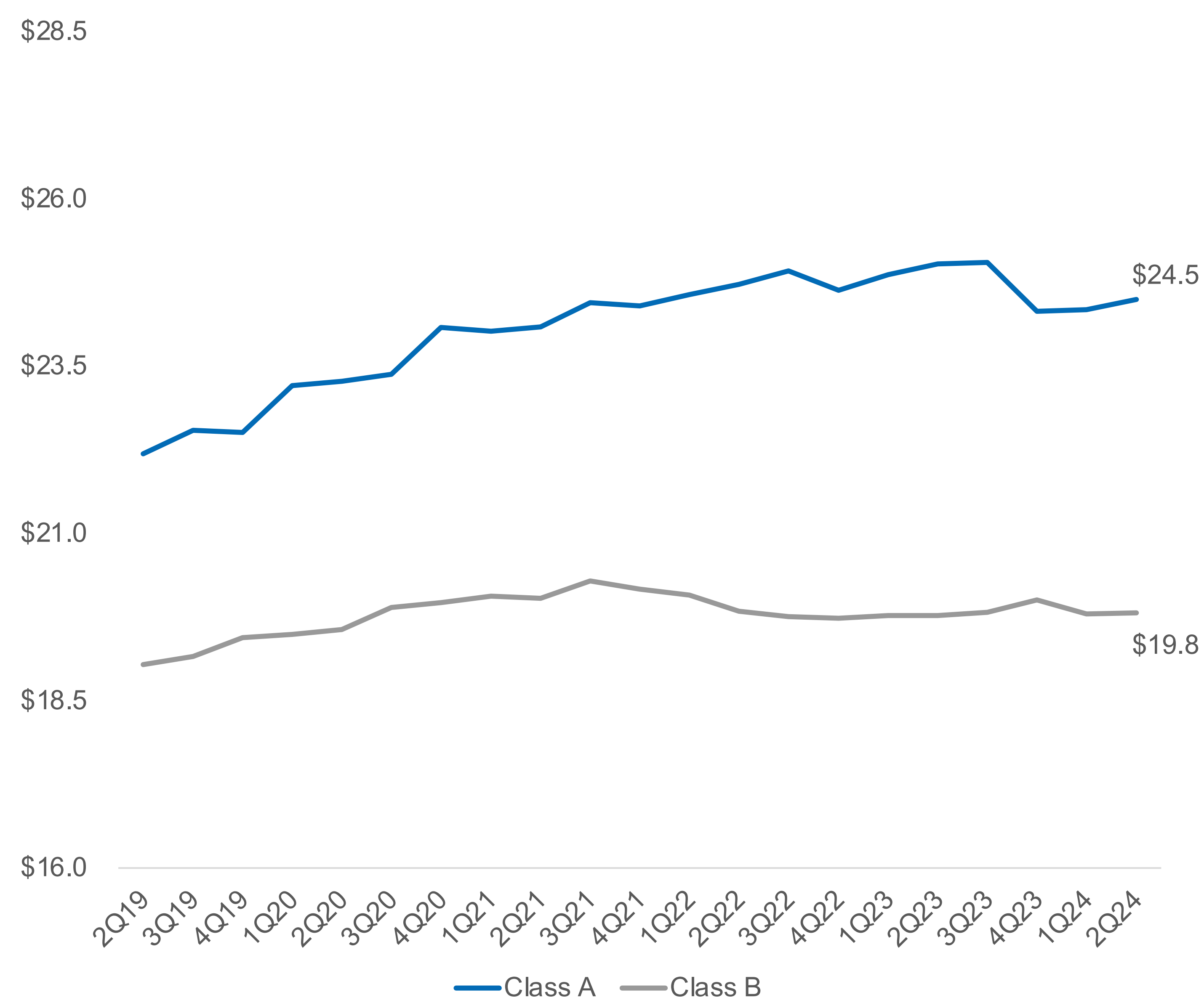


Source: Newmark Research, CoStar

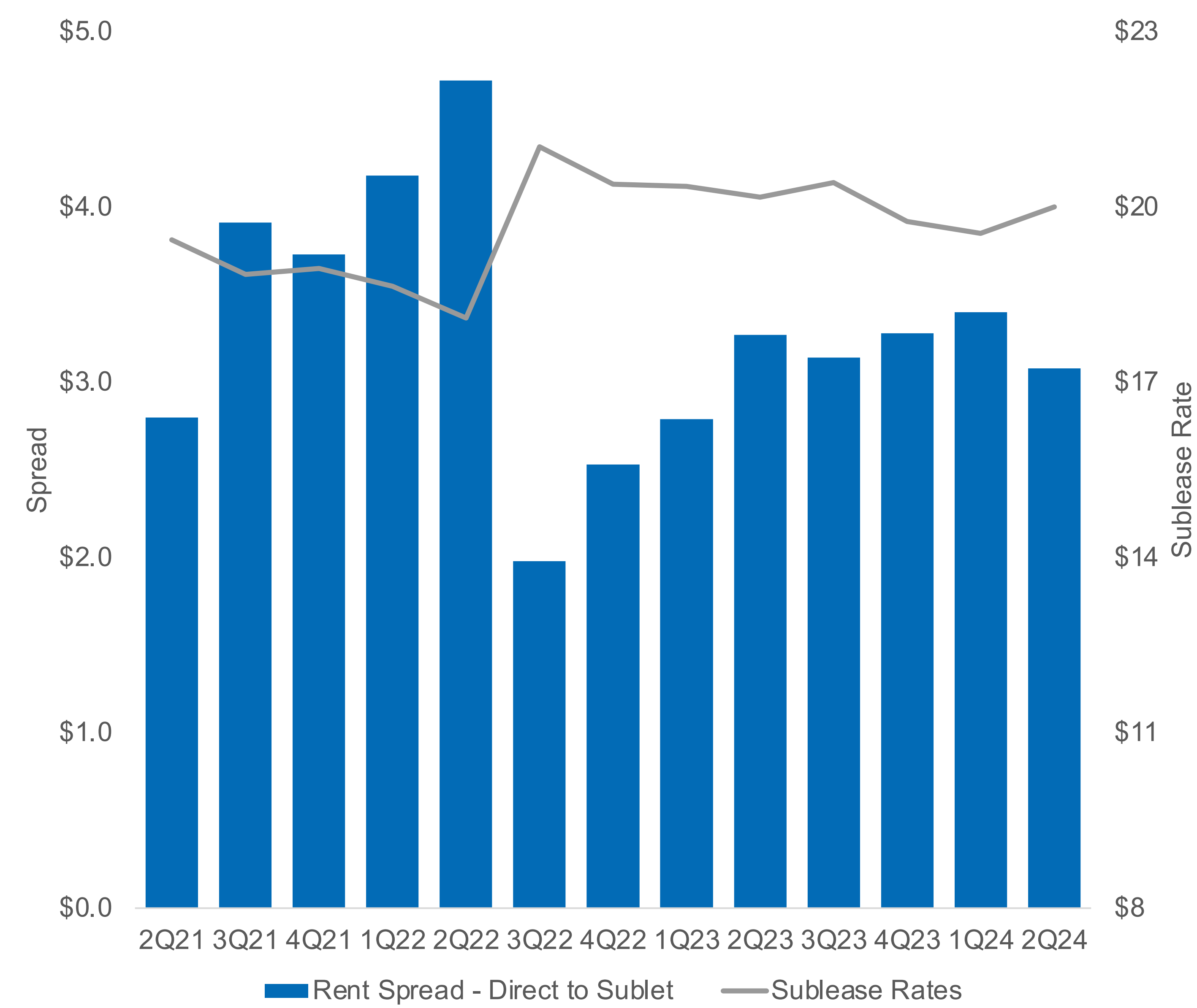
Class A Rents Compress Year Over Year

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 increased to $20.00/SF during the second quarter of 2024, with the rent spread decreasing to $3.08/SF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Marquee Submarkets Experienced Largest Rental Rate Growth Since 2019

2Q24 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 10-basis-point increase in vacancy since the second quarter of 2023.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Intellivo	12443 Olive Boulevard	Mid County	Direct Lease	25,930
A leading healthcare third-party liability identification and payment accuracy technology platform, Intellivo, announced the official opening of its new operations center in Creve Coeur. Intellivo expects to bring more than 120 new jobs to the region.				
Blink Health	400 S Woods Mill Road	West County	Direct Lease	19,980
Blink Health will occupy 19,980 SF on the first floor of the 101,470-SF Woodsmill Commons I. The firm signed a five-year lease starting in October 2024 at an asking rental rate of $21.95/SF.				
SWMW Law	701 Market Street	Downtown	Renewal	18,900
The nationwide mesothelioma and asbestos lung cancer injury attorneys, SWMW Law, renewed its lease at Peabody Plaza for 18,900 SF of space on the 10th floor.				
Merrill Lynch	400 Chesterfield Center	West County	Direct Lease	14,640
The financial wealth management firm Merrill Lynch leased 14,640 SF on the second floor of the 78,580-SF building.				
NUSO	7777 Bonhomme Avenue	Clayton	Direct Lease	12,260
An omnichannel provider of cloud communications and collaboration solutions, NUSO leased 12,260 SF on the 11th floor of the 200,780-SF The Sevens Building at an asking rental rate of $30.00/SF.				

Source: Newmark Research

2Q24

Submarket Statistics

Submarket Statistics: All Classes, Class A, Class B

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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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