

# St. Louis Office Market

## Demand will be Affected by Macroeconomic Headwinds, Interest Rates and Inflation

The St. Louis office market realized an increase in asking rental rates in the third quarter of 2022, as rents climbed by \$0.49/SF to a new record high of \$23.02/SF, up from \$22.53/SF in the second quarter of 2022. Due to interest rate hikes and inflation affecting landlords in the form of higher construction costs, repair costs and CAM charges, rental rates are projected to rise for the near future.

As trailing 12-month inflation continues at 40-year record levels, real asking rental rate growth is stagnant across many metro markets in the US. To offset the higher rental rates, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances, as well as longer lease terms to accommodate the ever-increasing construction costs.

Market vacancy increased 120 basis points to 16.1% from the prior quarter, for an increase of 320 basis points from one year ago. Total net absorption in the quarter measured negative 1.1 million square feet. Two Class A projects, Forsyth Pointe and Commerce Tower, both located in Clayton are currently under construction and total 815,000 square feet. No projects were delivered to the market during the quarter.

Market fundamentals for the next two quarters are expected to remain contractionary as tenants continue to evaluate ever-changing space needs. Macroeconomic uncertainty, financial volatility and the increasing risk of recession will likely impact the near-term outlook for office space as firms may decide to enact the “wait-and-see” approach. New or newly renovated Class A office space in marquee submarkets which combine easy accessibility and a prime amenities package will remain in demand, even as rental rates increase.

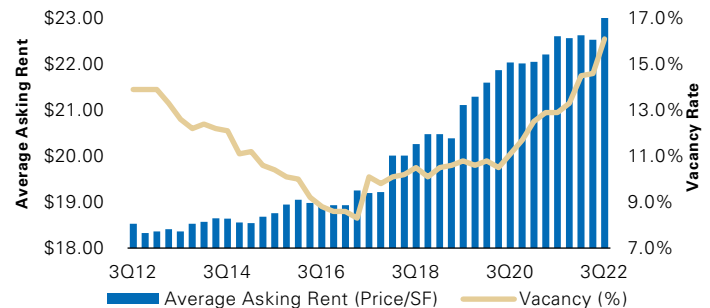
Class B space owners with dated space will face an uphill battle attracting prospects and retaining current tenants during the next four quarters. Tenants will continue to maintain considerable leverage for the remainder of the year and into 2023 in most metro submarkets.

### Current Conditions

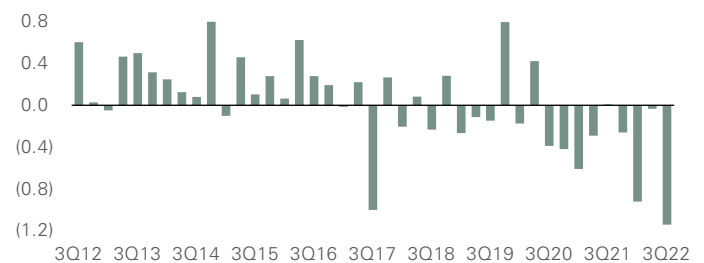
- Macroeconomic headwinds, rising interest rates, inflation and work-from-home-hybrid work policies to affect demand growth.
- Market fundamentals for the next two quarters are expected to remain contractionary.
- Favorable conditions will continue for prospective tenants to upgrade.
- Scale AI to open a new office in the Metro, bringing 215 jobs to Downtown.

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION (SF, Millions)



### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	75 MSF	75 MSF	75 MSF	↔
Vacancy Rate	16.1%	14.9%	12.9%	↑
Qtr. Net Absorp.	-1,141,052	-33,085	8,424	↓
Avg. Asking Rent	\$23.02	\$22.53	\$22.61	↔
Under Con.	815,000	517,000	517,000	↔
Deliveries	0	0	0	↑

### Scale AI Opens New Location, Bringing 215 Jobs to Downtown

Scale AI, Inc., a data platform and infrastructure firm for artificial intelligence, announced in August it signed a sublease for 46,670 square feet on the third and fourth floors at 1227 Washington Ave. The new location will create 215 new jobs, with plans to expand the office and potentially open a space at the nearby Globe Building. The move is welcome news for Downtown, which is struggling with a string of relocations and exits from the submarket, including WeWork's recent exit from its 60,000-square-foot coworking space at Metropolitan Square. However, St. Louis continues to be able to successfully attract various technology-related firms to the region, due in part to both state-level and local incentive packages and the Metro's capable and growing technology workforce. Cybersecurity firm Netskope announced in June it would open a new office in Clayton with the location serving as its primary hub in the central US. Scale AI assists its customers, including Microsoft, Square, General Motors, Toyota and Samsung, as well as federal agencies and research institutions, to incorporate artificial intelligence into its operations. Scale AI is expected to occupy its new space by November 2022.

### Net Absorption Has Significantly Deteriorated During the Past Nine Quarters

The St. Louis office market loosened in the third quarter of 2022 as negative 1.1 million square feet was absorbed. With net absorption during the past four quarters totaling negative 2.4 million square feet, average quarterly net absorption has significantly deteriorated during the past nine quarters, measuring negative 451,074 square feet since the third quarter of 2020. Macroeconomic headwinds, rising interest rates and inflation are expected to affect demand growth across multiple sectors. The market will also continue to adjust to work-from-home and in-office hybrid workplace strategies, which are expected to converge to push total net absorption in a downward trend during the remainder of 2022 and into 2023.

Property owners that can provide flexible space options, accommodate work-from-home and in-office hybrid workplace models and offer creative space utilization models for both individual and collaboration space will earn a spot on the short list for prospective tenants.

Favorable conditions will continue for prospective tenants to upgrade from Class B to Class A space, as submarkets in the Metro display vacancy rates for Class A space ranging from 10.9% in Clayton to 31.0% in North County. Overall market vacancy should range from 16.5% to 17.5%, while asking rental rates are expected to range from \$23.00/SF to \$23.75/SF during the next four quarters.

#### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
U.S. Bank	3301 S Rider Trl	North County	Renewal	88,130
Scale AI, Inc.	1227 Washington Ave	Downtown	Sublease	46,670
AssuredPartners	12645 Olive Blvd	Mid County	New	40,760
Pfizer, Inc.	875 Chesterfield Pkwy W	West County	Expansion	30,000
CI Select, Inc.	11840 Westline Industrial Dr	Mid County	Renewal	17,190
Maxim Healthcare Services	1807 Park 270 Dr	Mid County	Renewal	9,270

#### Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Griffin Capital USA Office Portfolio (3)	Mid County & North County	\$40,017,000	\$104	384,730
13736 Riverport Dr	North County	\$36,000,000	\$113	317,890
Owen Ridge Campus Office Portfolio (6)	Clayton	\$12,400,000	\$102	121,700
Meridian Centre I & II Office Portfolio (2)	Metro East	\$8,300,000	\$165	50,320
1850-1862 Borman Ct	Mid County	\$3,300,000	\$79	41,390
1009 Executive Parkway Dr	Mid County	\$7,000,000	\$366	19,130
904 E Highway 50	Metro East	\$1,350,000	\$121	11,180
2113-2119 Olive St	Downtown	\$1,505,000	\$135	11,130

Submarket Statistics								
Submarket	Class	Total Number of Buildings	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
<b>Downtown</b>	<b>ALL</b>	<b>234</b>	<b>27,536,320</b>	<b>0</b>	<b>15.70%</b>	<b>-137,599</b>	<b>-255,122</b>	<b>\$20.40</b>
	Class A	34	11,116,346	0	29.00%	-10,426	-170,034	\$22.30
	Class B	123	11,395,448	0	7.60%	-148,680	-52,499	\$16.20
	Class C	77	5,024,526	0	4.80%	21,507	-32,589	\$12.93
<b>Clayton</b>	<b>ALL</b>	<b>97</b>	<b>9,421,982</b>	<b>815,000</b>	<b>11.40%</b>	<b>-129,919</b>	<b>-108,917</b>	<b>\$31.55</b>
	Class A	33	6,122,835	815,000	10.90%	-24,112	-23,659	\$34.61
	Class B	46	2,552,063	0	13.90%	-101,882	-90,493	\$21.41
	Class C	18	747,084	0	7.80%	-3,925	5,235	\$20.28
<b>Mid County</b>	<b>ALL</b>	<b>175</b>	<b>12,021,223</b>	<b>0</b>	<b>15.00%</b>	<b>-113,328</b>	<b>-258,798</b>	<b>\$23.74</b>
	Class A	33	5,157,842	0	14.90%	-6,324	-127,283	\$27.48
	Class B	121	6,198,578	0	16.60%	-107,004	-134,308	\$21.13
	Class C	21	664,803	0	0.60%	0	2,793	\$19.30
<b>North County</b>	<b>ALL</b>	<b>88</b>	<b>7,830,257</b>	<b>0</b>	<b>25.60%</b>	<b>-82,560</b>	<b>-801,909</b>	<b>\$18.32</b>
	Class A	19	2,952,913	0	31.00%	16,966	-293,166	\$19.54
	Class B	41	3,384,481	0	22.60%	-94,406	-506,201	\$18.22
	Class C	28	1,492,863	0	21.40%	-5,120	-2,542	\$14.66
<b>South County</b>	<b>ALL</b>	<b>77</b>	<b>4,840,300</b>	<b>0</b>	<b>12.80%</b>	<b>-78,185</b>	<b>-105,547</b>	<b>\$20.20</b>
	Class A	14	1,388,760	0	17.60%	34,252	39,533	\$21.62
	Class B	53	3,108,181	0	11.60%	-114,473	-159,988	\$18.89
	Class C	10	343,359	0	3.80%	2,036	14,908	\$16.15
<b>St. Charles County</b>	<b>ALL</b>	<b>70</b>	<b>3,794,144</b>	<b>0</b>	<b>12.70%</b>	<b>-90,063</b>	<b>71,863</b>	<b>\$21.76</b>
	Class A	20	1,616,312	0	13.80%	26,444	49,074	\$22.58
	Class B	39	1,601,887	0	15.70%	-123,615	-93,394	\$21.28
	Class C	11	575,945	0	1.10%	7,108	116,183	\$18.85
<b>West County</b>	<b>ALL</b>	<b>140</b>	<b>9,814,402</b>	<b>0</b>	<b>18.40%</b>	<b>-509,398</b>	<b>-636,907</b>	<b>\$25.03</b>
	Class A	60	6,113,091	0	19.80%	-499,285	-518,776	\$26.49
	Class B	71	3,364,356	0	17.30%	-18,290	-127,557	\$21.25
	Class C	9	336,955	0	3.00%	8,177	9,426	\$18.67
<b>St. Louis Market</b>	<b>ALL</b>	<b>881</b>	<b>75,258,628</b>	<b>815,000</b>	<b>16.10%</b>	<b>-1,141,052</b>	<b>-2,095,337</b>	<b>\$23.02</b>
	<b>Class A</b>	<b>213</b>	<b>34,468,099</b>	<b>815,000</b>	<b>21.10%</b>	<b>-462,485</b>	<b>-1,044,311</b>	<b>\$25.66</b>
	<b>Class B</b>	<b>494</b>	<b>31,604,994</b>	<b>0</b>	<b>13.30%</b>	<b>-708,350</b>	<b>-1,164,440</b>	<b>\$19.06</b>
	<b>Class C</b>	<b>174</b>	<b>9,185,535</b>	<b>0</b>	<b>7.20%</b>	<b>29,783</b>	<b>113,414</b>	<b>\$15.53</b>

## Submarket Statistics – Class A

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	11,116,346	0	29.00%	-10,426	-170,034	\$22.55	\$15.22	\$22.30
Clayton	6,122,835	815,000	10.90%	-24,112	-23,659	\$35.28	\$24.96	\$34.61
Mid County	5,157,842	0	14.90%	-6,324	-127,283	\$27.96	\$21.14	\$27.48
North County	2,952,913	0	31.00%	16,966	-293,166	\$20.31	\$17.68	\$19.54
South County	1,388,760	0	17.60%	34,252	39,533	\$24.19	\$16.00	\$21.62
St. Charles County	1,616,312	0	13.80%	26,444	49,074	\$22.83	\$20.73	\$22.58
West County	6,113,091	0	19.80%	-499,285	-518,776	\$27.10	\$25.76	\$26.49
<b>St. Louis Market</b>	<b>34,468,099</b>	<b>815,000</b>	<b>21.10%</b>	<b>-462,485</b>	<b>-1,044,311</b>	<b>\$26.38</b>	<b>\$22.14</b>	<b>\$25.66</b>

## Submarket Statistics – Class B

Submarket	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (Price/SF)	Sublet Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Downtown	11,395,448	0	7.60%	-148,680	-52,499	\$16.64	\$14.08	\$16.20
Clayton	2,552,063	0	13.90%	-101,882	-90,493	\$21.57	\$15.00	\$21.41
Mid County	6,198,578	0	16.60%	-107,004	-134,308	\$21.97	\$15.64	\$21.13
North County	3,384,481	0	22.60%	-94,406	-506,201	\$18.68	\$14.00	\$18.22
South County	3,108,181	0	11.60%	-114,473	-159,988	\$18.89	-	\$18.89
St. Charles County	1,601,887	0	15.70%	-123,615	-93,394	\$21.53	\$16.00	\$21.28
West County	3,364,356	0	17.30%	-18,290	-127,557	\$21.32	\$16.43	\$21.25
<b>St. Louis Market</b>	<b>31,604,994</b>	<b>0</b>	<b>13.30%</b>	<b>-708,350</b>	<b>-1,164,440</b>	<b>\$19.53</b>	<b>\$14.82</b>	<b>\$19.06</b>

### Economic Conditions

The local economy continued to improve in August, with total employment growth of 1.8% and growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

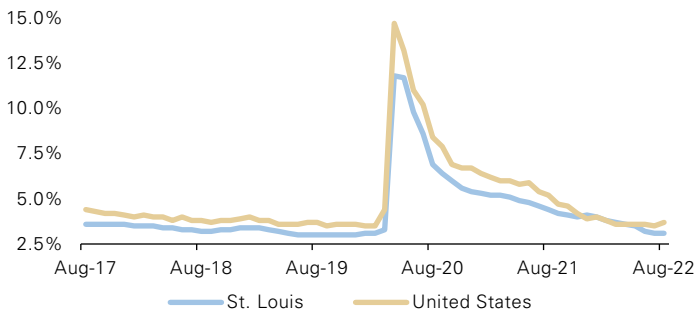
Payroll employment in St. Louis decreased to 1.8% in August 2022, compared with 3.2% in August 2021. The national average also decreased, down from 4.4% in August 2021 to 4.0% in August 2022.

The Consumer Price Index for the U.S. increased 300 basis points compared to the prior year, registering 8.3% in August 2022, while the Midwest Urban CPI increased 240 basis points to 8.1%, both near record highs during the past four decades.

Unemployment in the U.S. increased 10 basis points to 3.7%, while unemployment in St. Louis decreased 40 basis points with 3.1% compared to the past quarter. Unemployment in St. Louis decreased 130 basis points from a year prior.

### Unemployment Rate

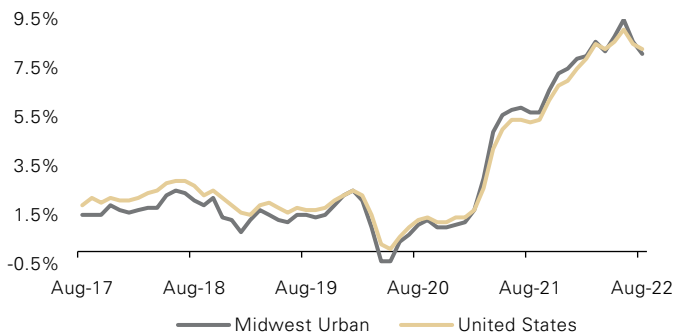
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

### Consumer Price Index (CPI)

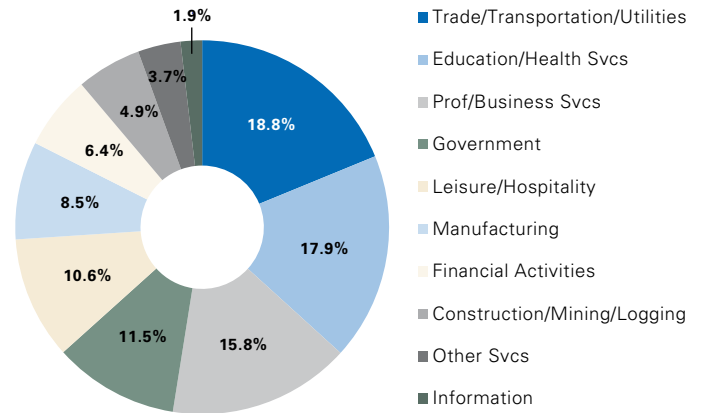
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

### Employment By Industry

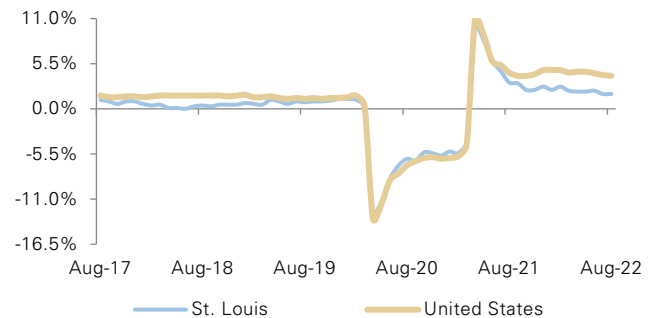
St. Louis, August 2022



Source: U.S. Bureau of Labor Statistics, September 2022

### Payroll Employment

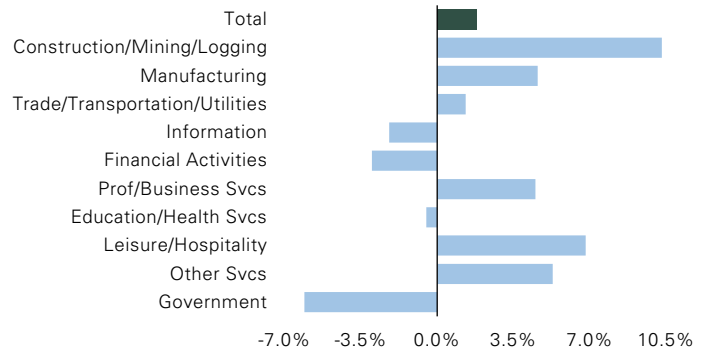
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics, September 2022

### Employment Growth By Industry

STL, Aug. 2022, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, September 2022

*For more information:*

**ST. LOUIS**

8235 Forsyth Boulevard, Suite 200  
Clayton, MO 63105  
314-254-4600

**KANSAS CITY**

1220 Washington Street, Suite 300  
Kansas City, MO 64105  
816-474-2000

**LEE'S SUMMIT**

1485 SW Market Street  
Lee's Summit, MO 64081  
816-474-2000

**Mike Carlson, SIOR, CCIM**

*Executive Managing Director, Principal*  
314-628-0438  
mcarlson@nzimmer.com

**Ben Albers**

*Senior Managing Director, Office Brokerage*  
314-628-0439  
balbers@nzimmer.com

**Jay Travis**

*Director*  
314-628-0442  
jtravis@nzimmer.com

**Andrew Garten**

*Director, Research*  
816-474-2000  
agarten@nzimmer.com

[nrmkzimmer.com](http://nrmkzimmer.com)

**ALABAMA**

Birmingham

**ARIZONA**

Phoenix

**ARKANSAS**

Bentonville  
Fayetteville  
Little Rock

**CALIFORNIA**

El Segundo  
Fresno  
Irvine  
Los Angeles  
Newport Beach  
Pasadena  
Sacramento  
San Francisco  
San Jose  
San Mateo  
Santa Rosa  
Visalia

**COLORADO**

Denver

**CONNECTICUT**

Stamford

**DELAWARE**

Wilmington

**DISTRICT OF COLUMBIA**

**FLORIDA**

Boca Raton  
Jacksonville  
Jupiter  
Miami  
Palm Beach  
Tampa

**GEORGIA**

Atlanta

**ILLINOIS**

Chicago

**INDIANA**

Indianapolis

**KENTUCKY**

Louisville

**LOUISIANA**

New Orleans

**MARYLAND**

Baltimore  
Salisbury

**MASSACHUSETTS**

Boston

**MICHIGAN**

Detroit

**MINNESOTA**

Minneapolis

**MISSOURI**

Kansas City  
Lee's Summit  
St. Louis

**NEVADA**

Las Vegas  
Reno

**NEW JERSEY**

Rutherford  
East Brunswick  
Morristown

**NEW YORK**

Buffalo/Amherst  
New York

**NORTH CAROLINA**

Charlotte

**OHIO**

Cincinnati  
Cleveland  
Columbus

**OKLAHOMA**

Oklahoma City  
Tulsa

**OREGON**

Portland/Lake  
Oswego

**PENNSYLVANIA**

Allentown  
Philadelphia  
Pittsburgh

**TEXAS**

Austin  
Dallas  
Houston

**UTAH**

Salt Lake City

**VIRGINIA**

Tysons Corner

**WASHINGTON**

Seattle

**WISCONSIN**

Milwaukee

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 [nrmk.com/insights](http://nrmk.com/insights).

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.