4Q23

St. Louis Office Market Overview

NEWMARK ZIMMER

Market Observations

Economy

- The region's labor market remained historically strong amid shifting macroeconomic conditions. November's 3.4% unemployment rate was significantly lower than the 4.4% 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.

Leasing Market Fundamentals

- Absorption in the fourth quarter of 2023 totaled 462,425 SF. This was the largest quarter of net absorption compared to the previous three years and was primarily due to the transaction at 1245 J.J. Kelley Dr. in Des Peres, which added 216,978 SF of net absorption during the quarter. Total net absorption during the past four quarters totaled 489,462 SF.
- The 41,000-SF non-owner-occupied construction pipeline has trended downward from the first quarter of 2023 upon recent deliveries and sharply decelerating new starts.
- Vacancy decreased 60 basis points to 14.5% during the quarter. Higher-priced space delivering to the market, combined with solid demand for prime Class A space, drove a slow but positive 12-month rent growth of 1.1%.

Major Transactions

- Hoffman Brothers has completed renovations and moved into its new 21,620-SF space at Woodlands Plaza III in Mid County. After recently purchasing the 64,860-SF property, the HVAC company is leasing out the remaining 43,240 SF to other tenants.
- Quarles & Brady LLP will open its 13th office nationwide. The law firm signed a new 16,360-SF at Forsyth Centre in Clayton for a total of 66 months with an expected start date of April 1, 2024. The Class A space was offered at an asking rate of $31.00/SF.
- Law firm Gray Ritter Graham renewed its lease for 16,320 SF on the eighth floor at Peabody Plaza in downtown. Class A space at 701 Market Street is marketed at an asking rate of $17.50/SF. The new lease was renewed until 2027 with an option to extend to 2031.

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.
- Conversions of office space to other uses will act as an opposing force to rising vacancy. 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.

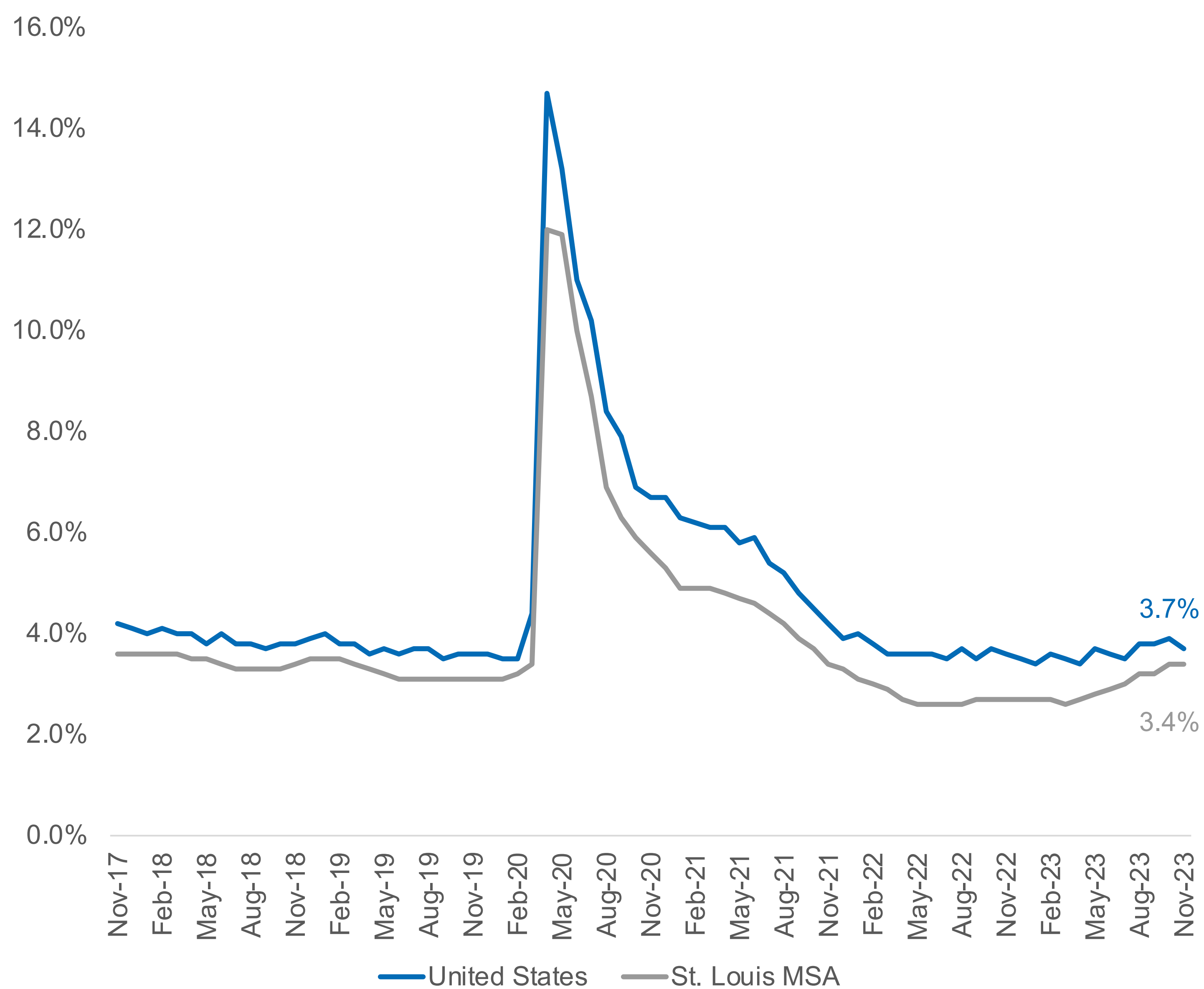
1. Economy
2. Leasing Market Fundamentals
3. Submarket Statistics

Economy

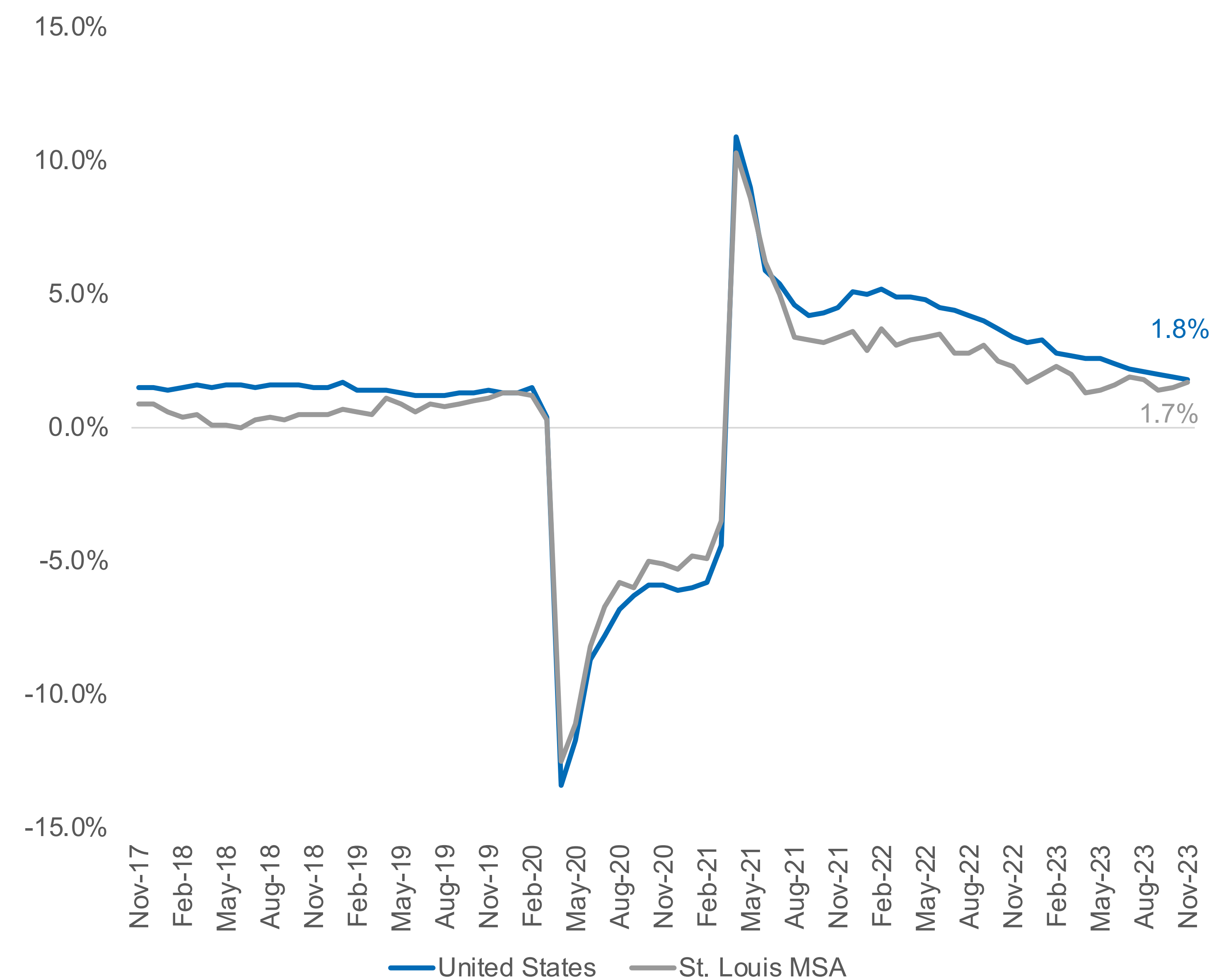
Metro Employment Trends Signal a Slowing Economy

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 30 bps below the national average.

Unemployment Rate, Seasonally Adjusted



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

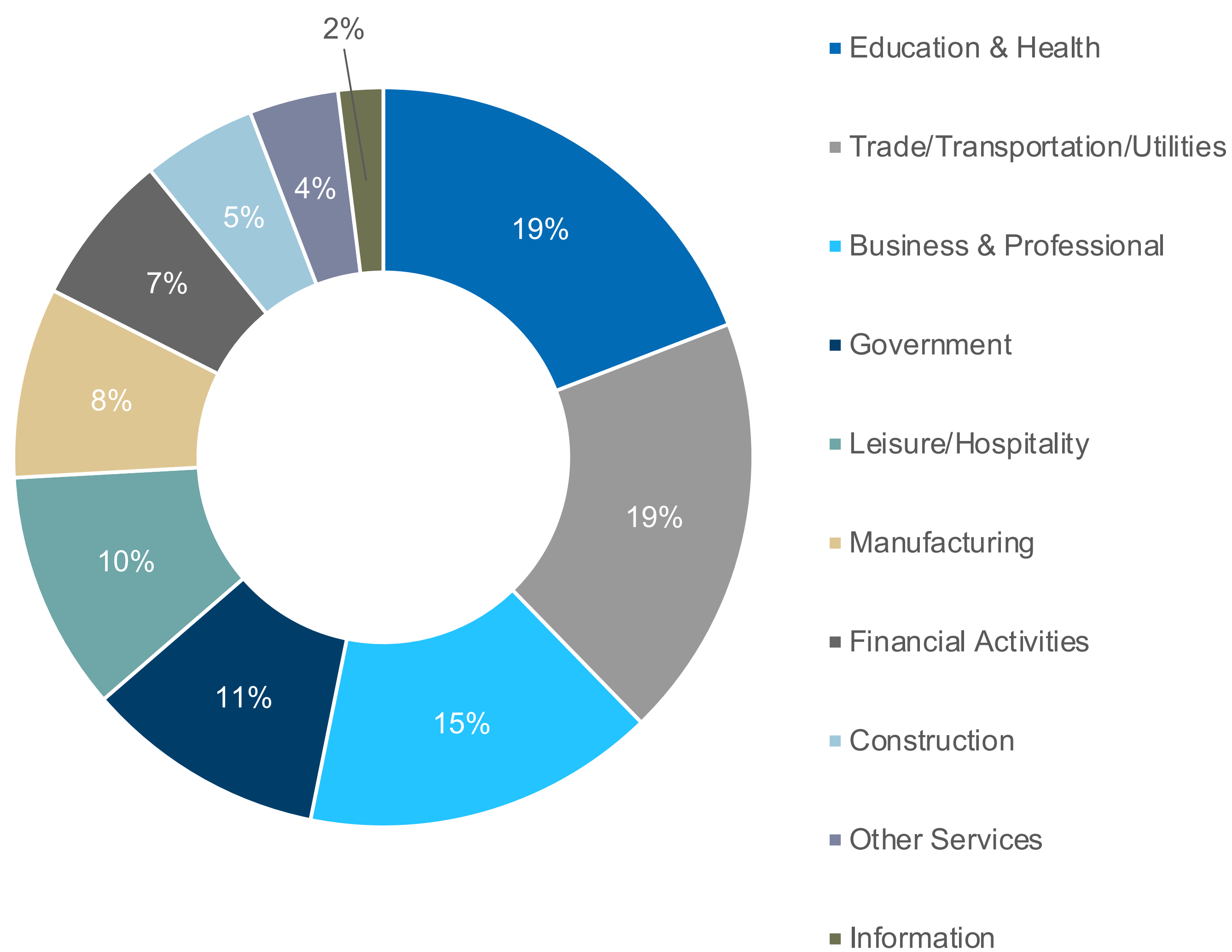


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

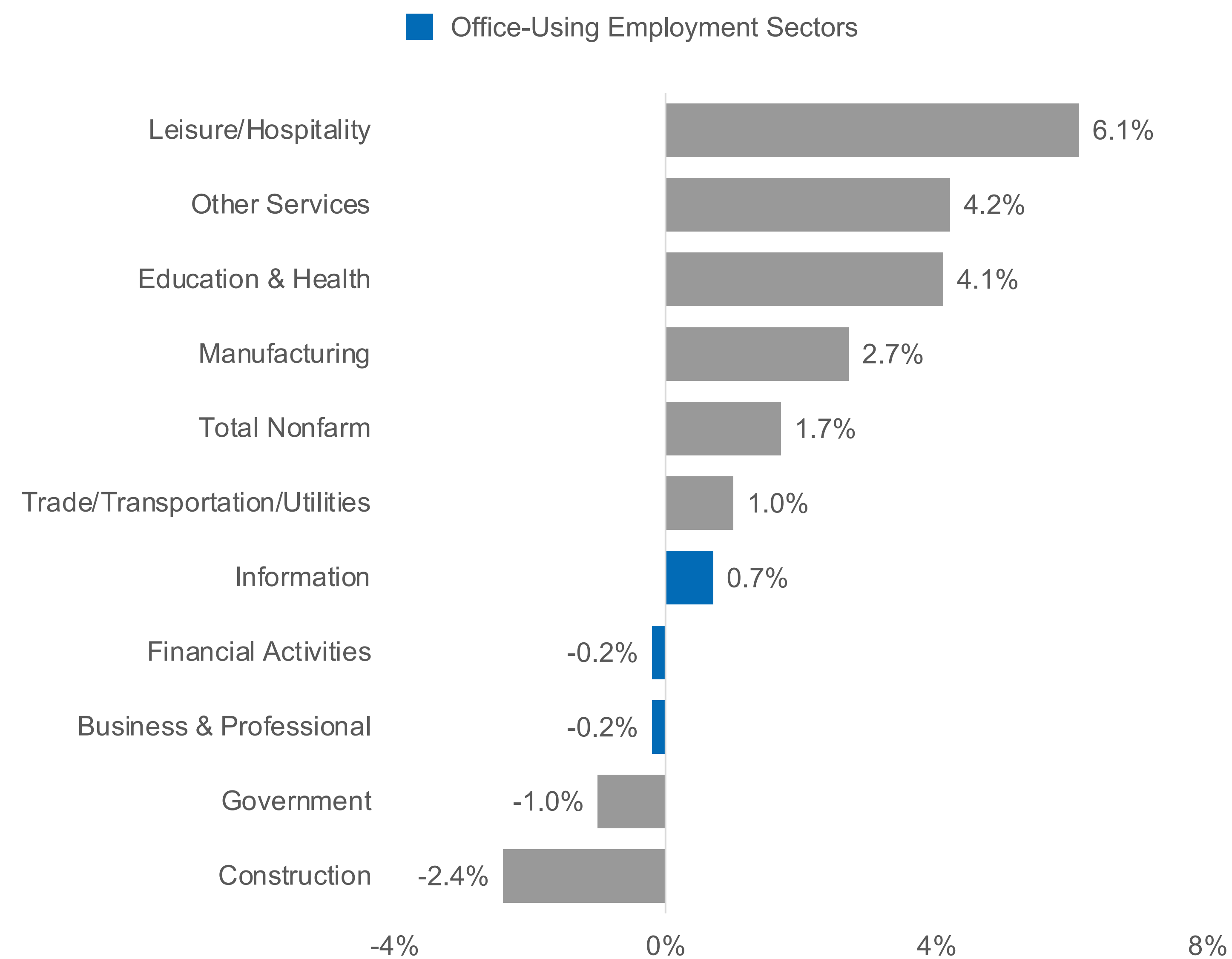
Job Growth Driven Primarily by Services Still Making up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, 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, including financial activities and business and professional, saw annual job losses.

Employment by Industry, November 2023



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

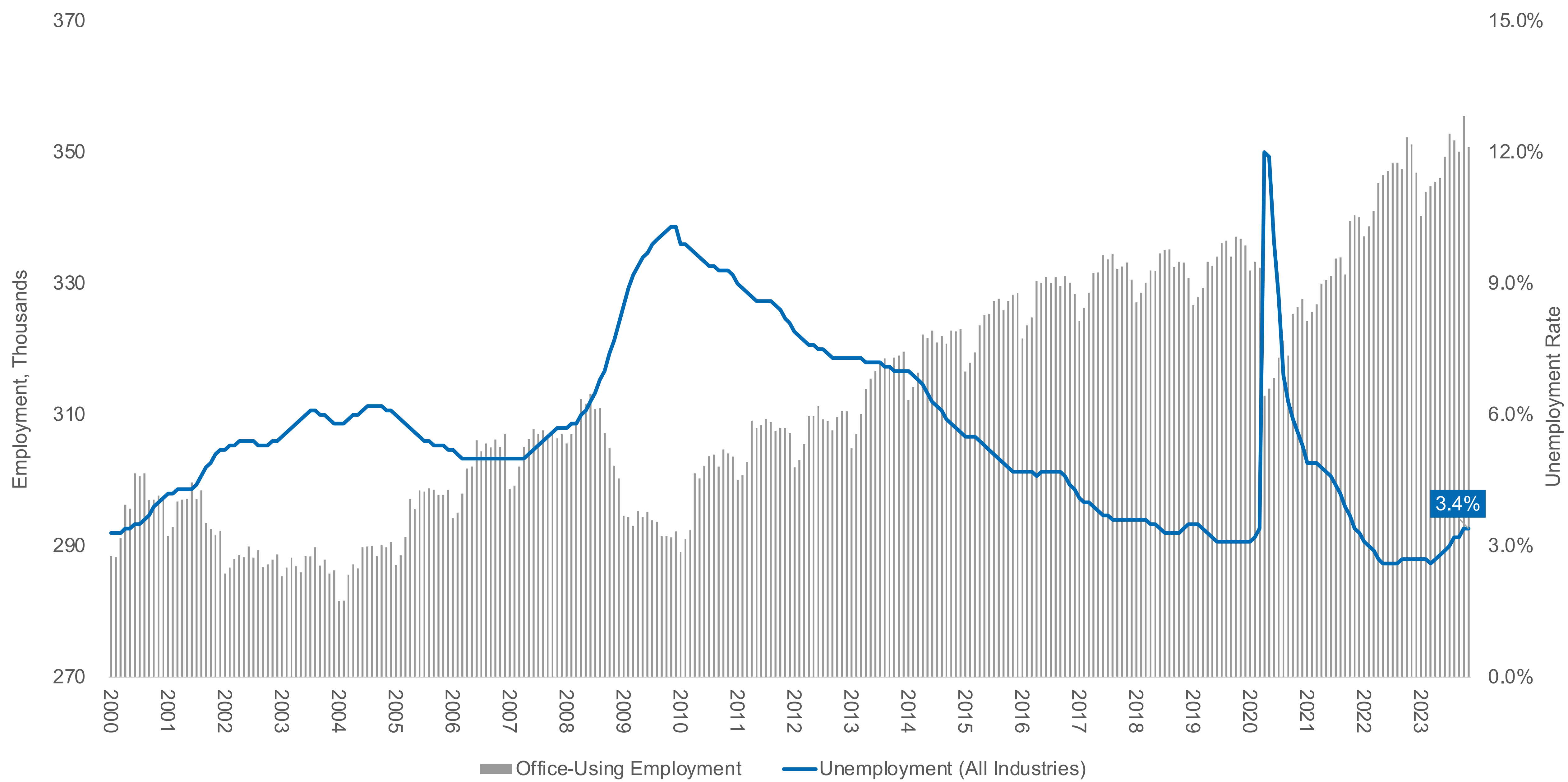


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

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: November 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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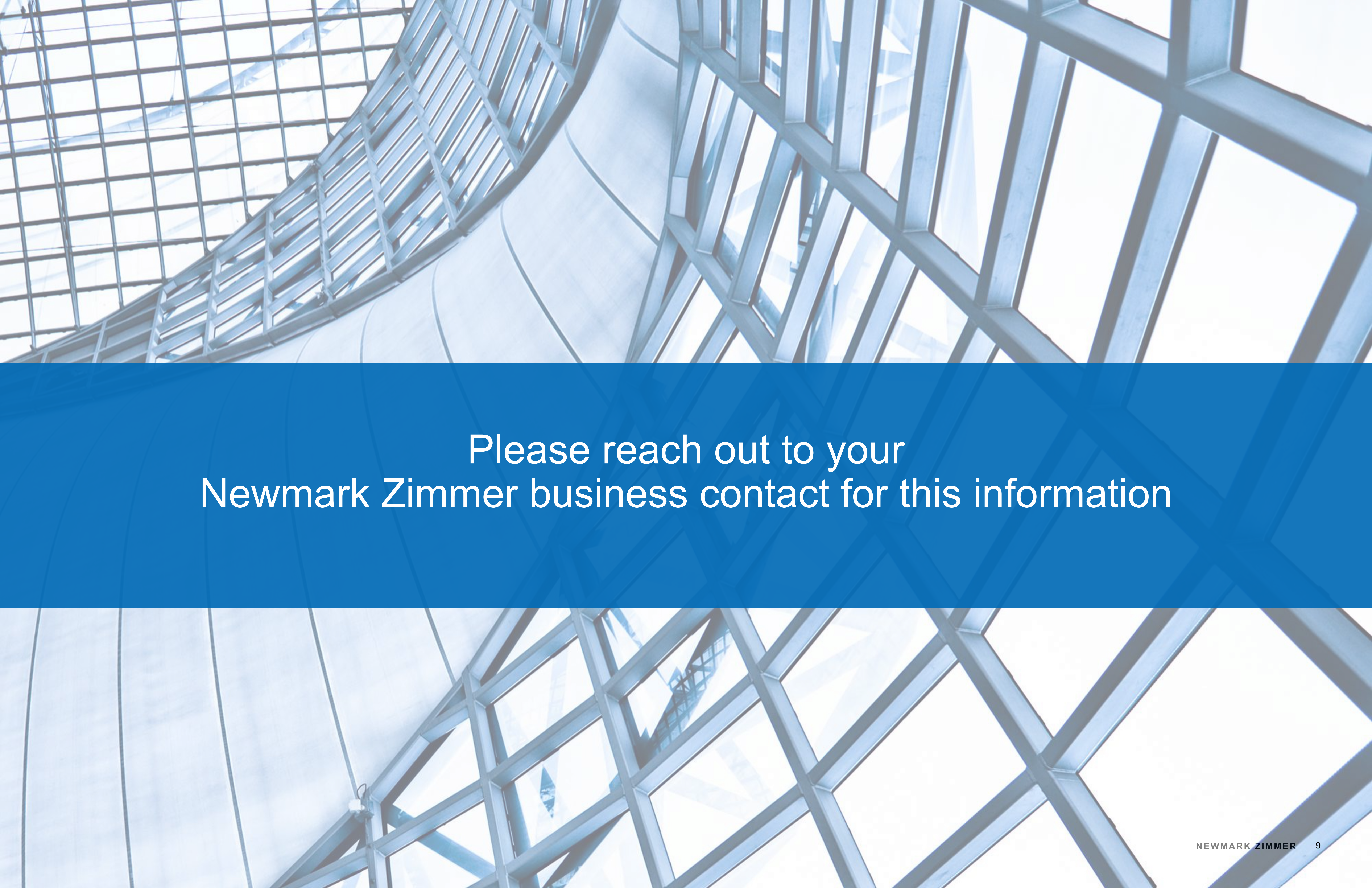
Leasing Market Fundamentals



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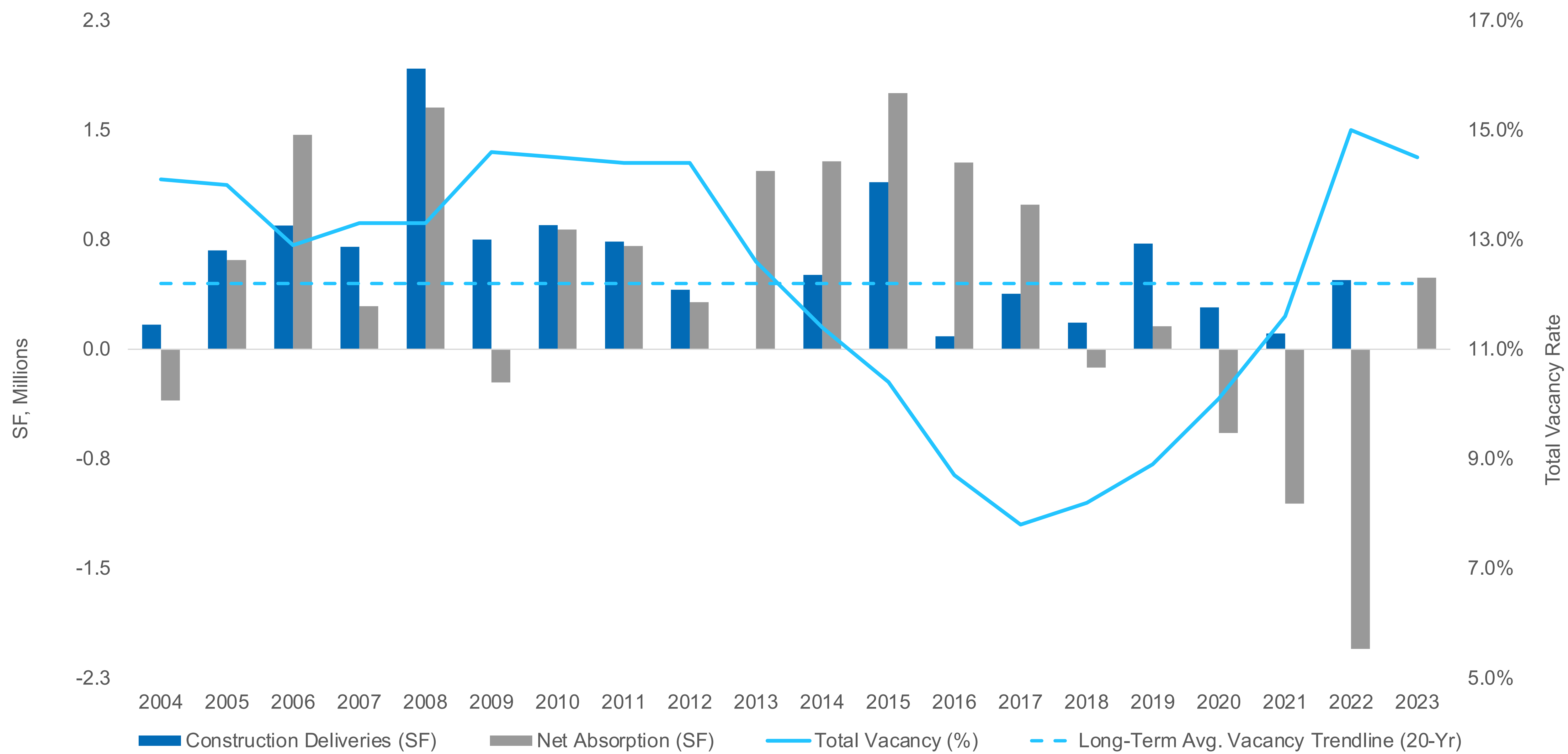
Vacancy Beginning to Stabilize as Market Recalibrates

Vacancy decreased 0.5% (50 bps) to 14.5% year over year as tenants continue to evaluate ever-changing space needs and the market recalibrates. Office space conversions to multifamily, hospitality and retail uses will continue to press vacancy rates downwards. Tenants will maintain considerable leverage in most metro submarkets and push landlords to complete aggressive deals. Deliveries are limited to build-to-suit and owner-occupied uses.

Historical Construction Deliveries, Net Absorption, and Vacancy

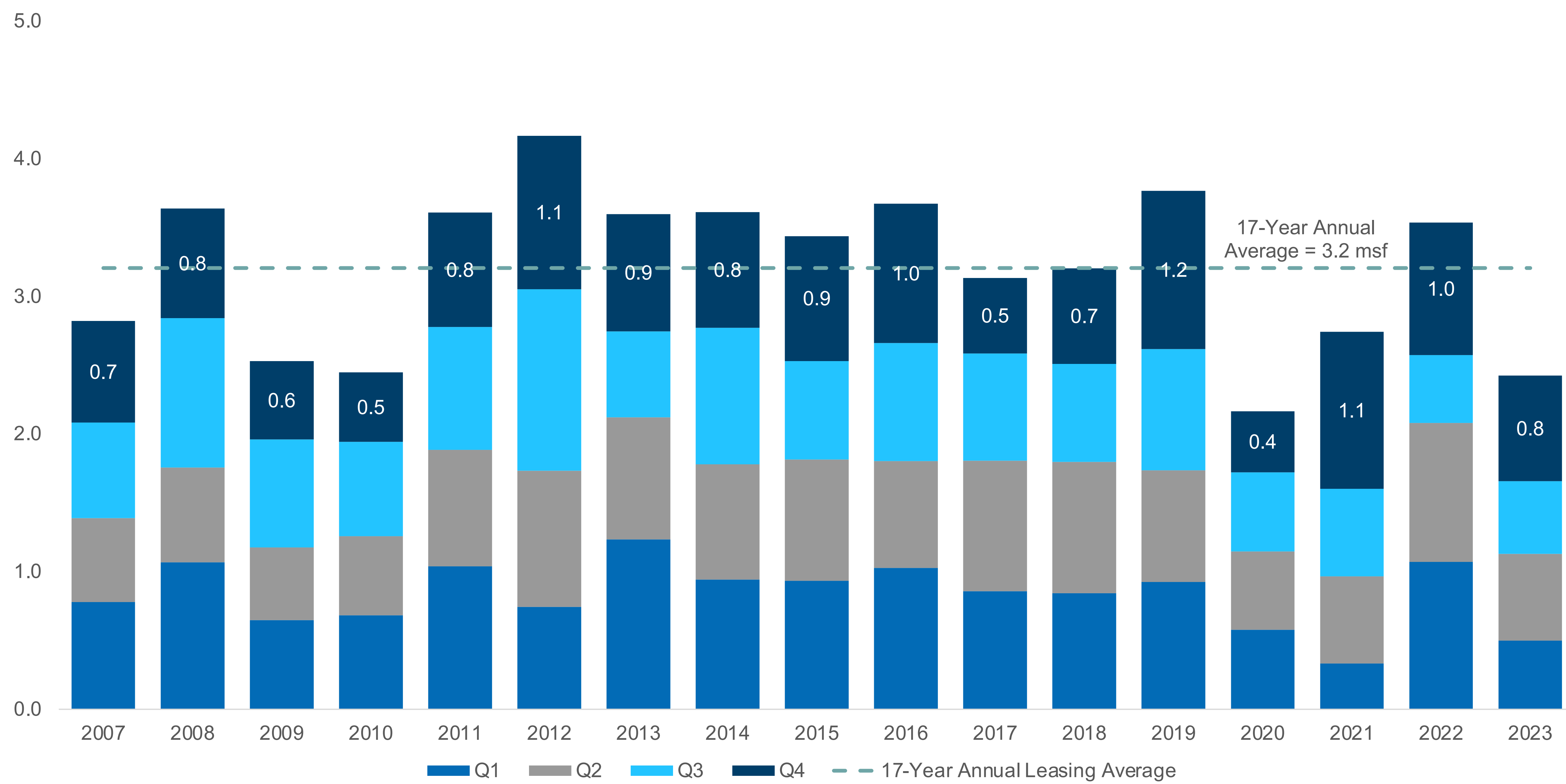


Source: Newmark Research

Leasing Activity Still Below Historic Average but Pace Increases During the Quarter

Macroeconomic uncertainty, financial volatility, limited debt financing and additional scrutiny of commercial real estate loans at regional and national banks will likely impact the near-term outlook for office space as firms decide to enact the wait-and-see approach. Total leasing activity in 2023 is down 24.4% compared with the 17-year historical average, but activity during the most recent quarter is only 5.9% below the historical average for the fourth quarter of the year.

Total Leasing Activity (msf)



Source: Newmark Research, CoStar

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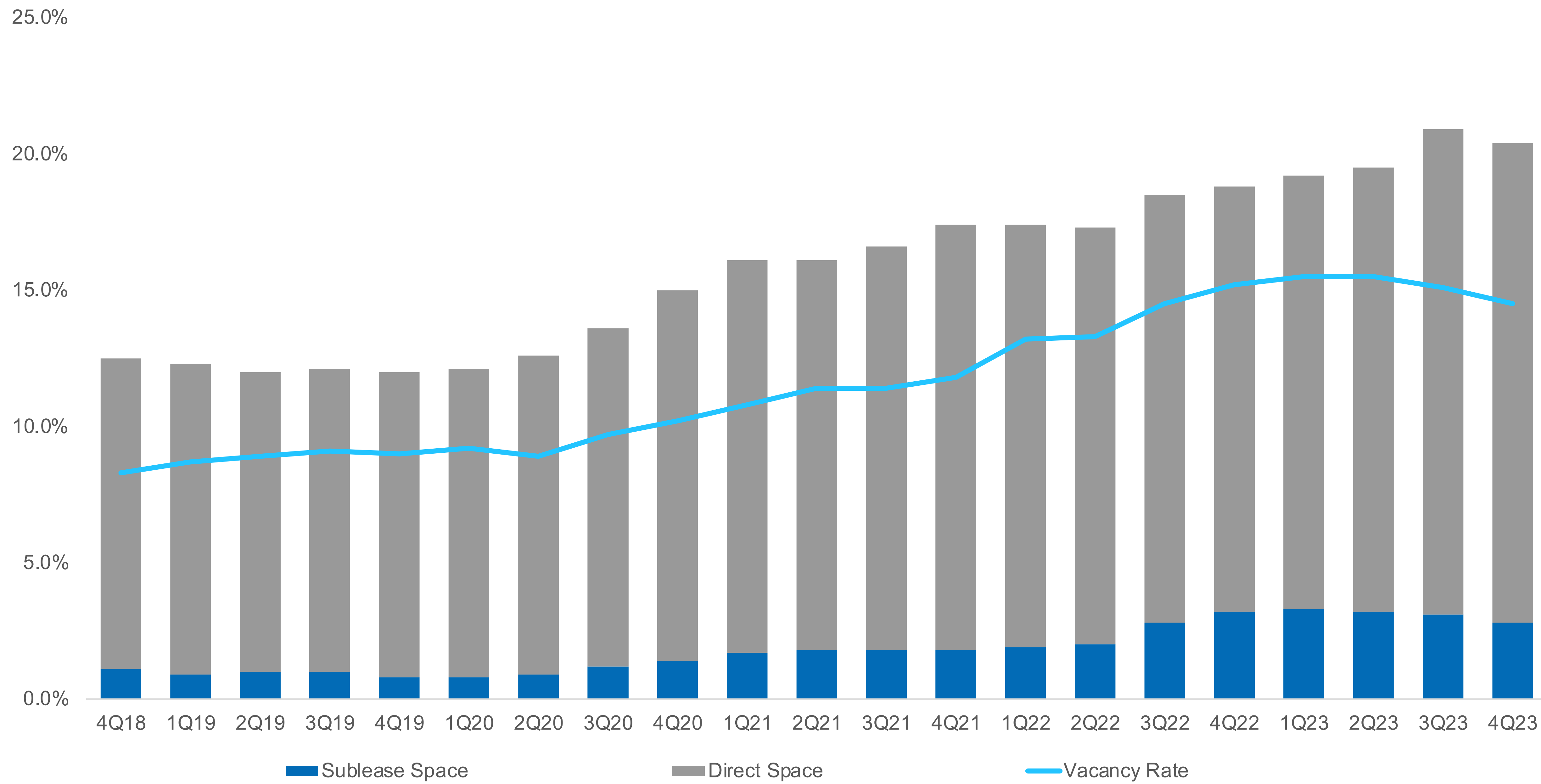
Availability Continues to Increase as Overall Tenant Demand Drops

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 availability is anticipated to remain elevated for 2024.

Available Space as Percent of Overall Market



Source: Newmark Research

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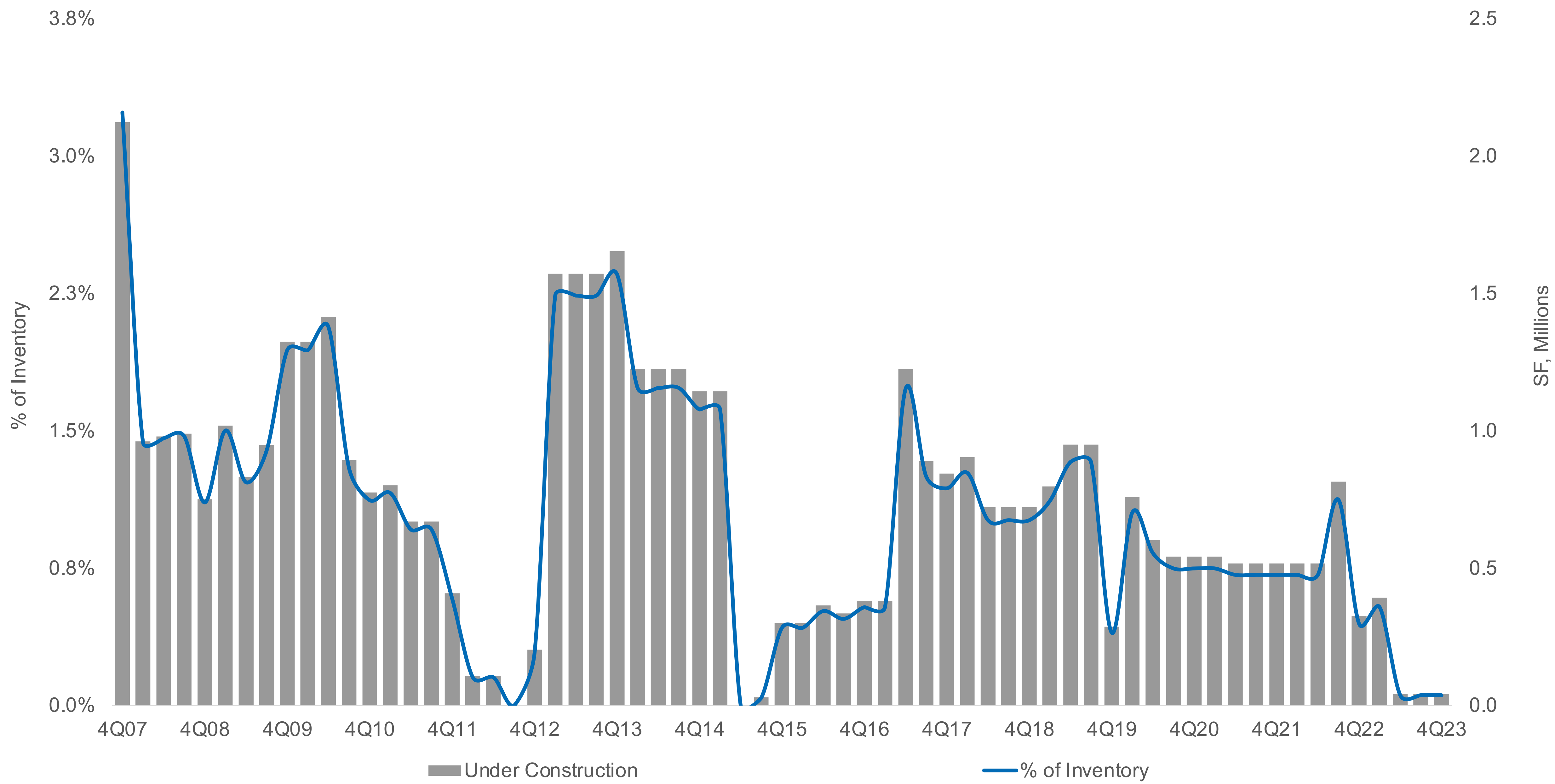
New Construction Activity Slows as Vacancy Remains Elevated at 14.5%

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

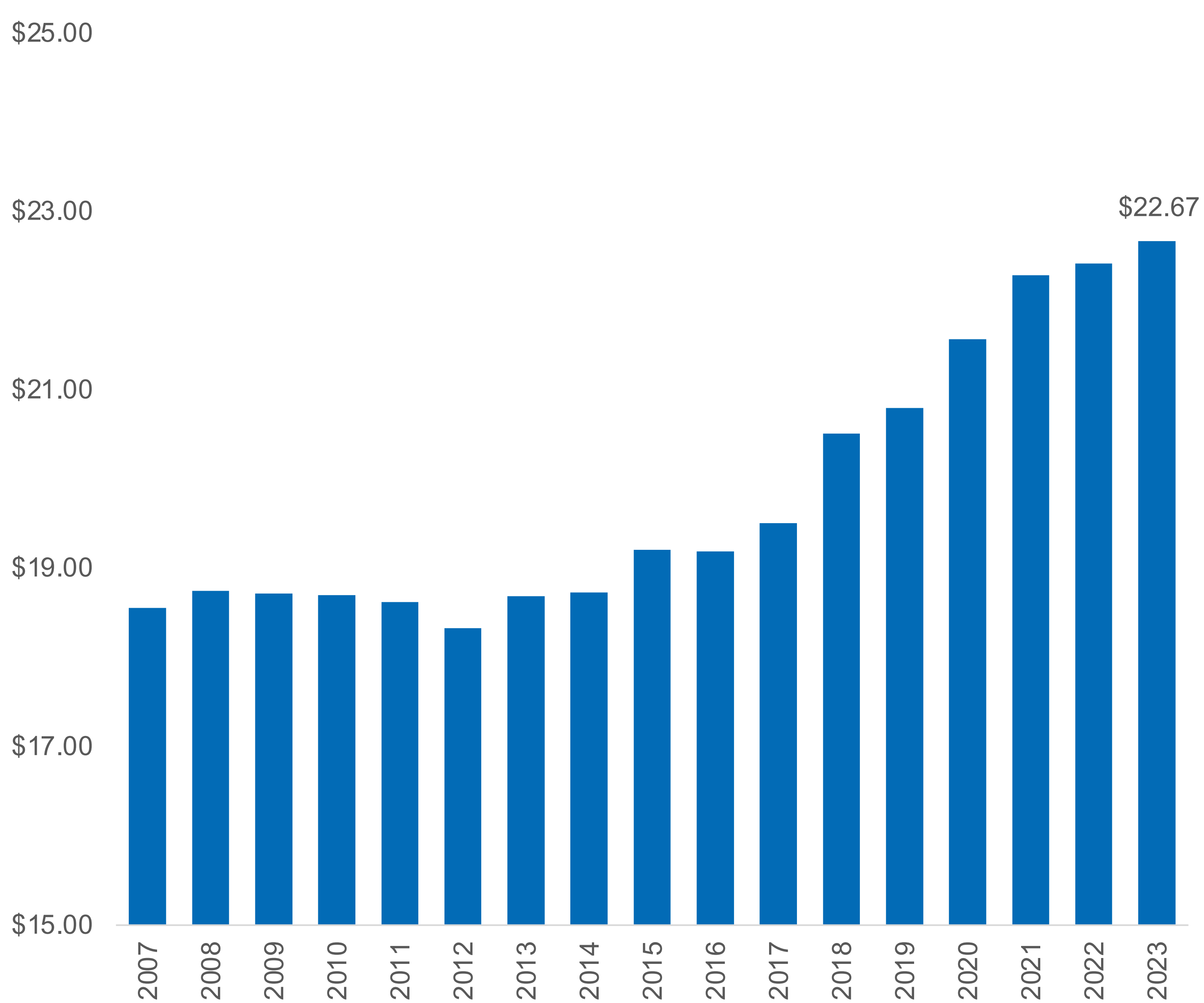


Source: Newmark Research, CoStar, St. Louis Market

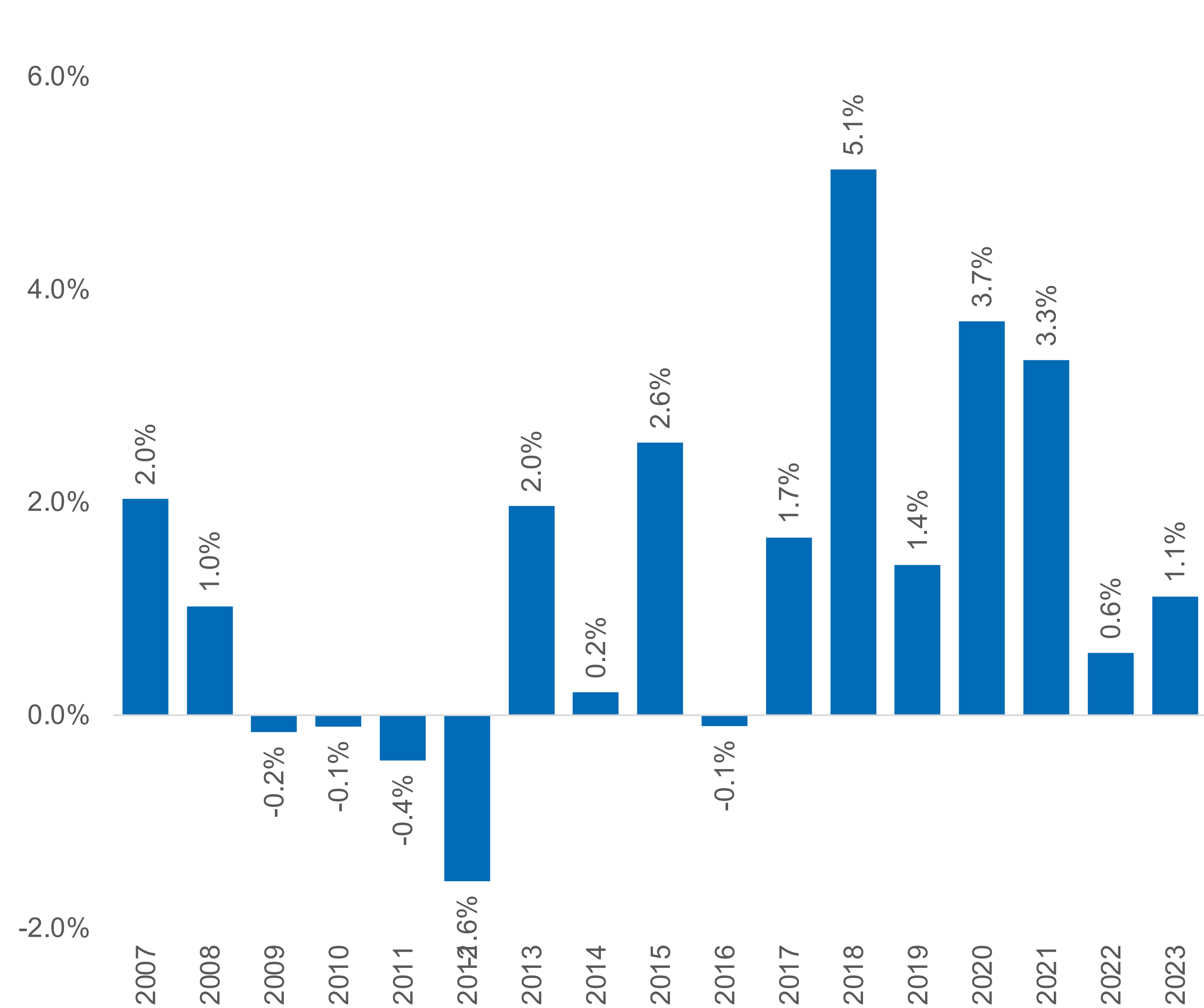
Rents Continue to Climb

Overall asking rates increased year-over-year, increasing to $22.67/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

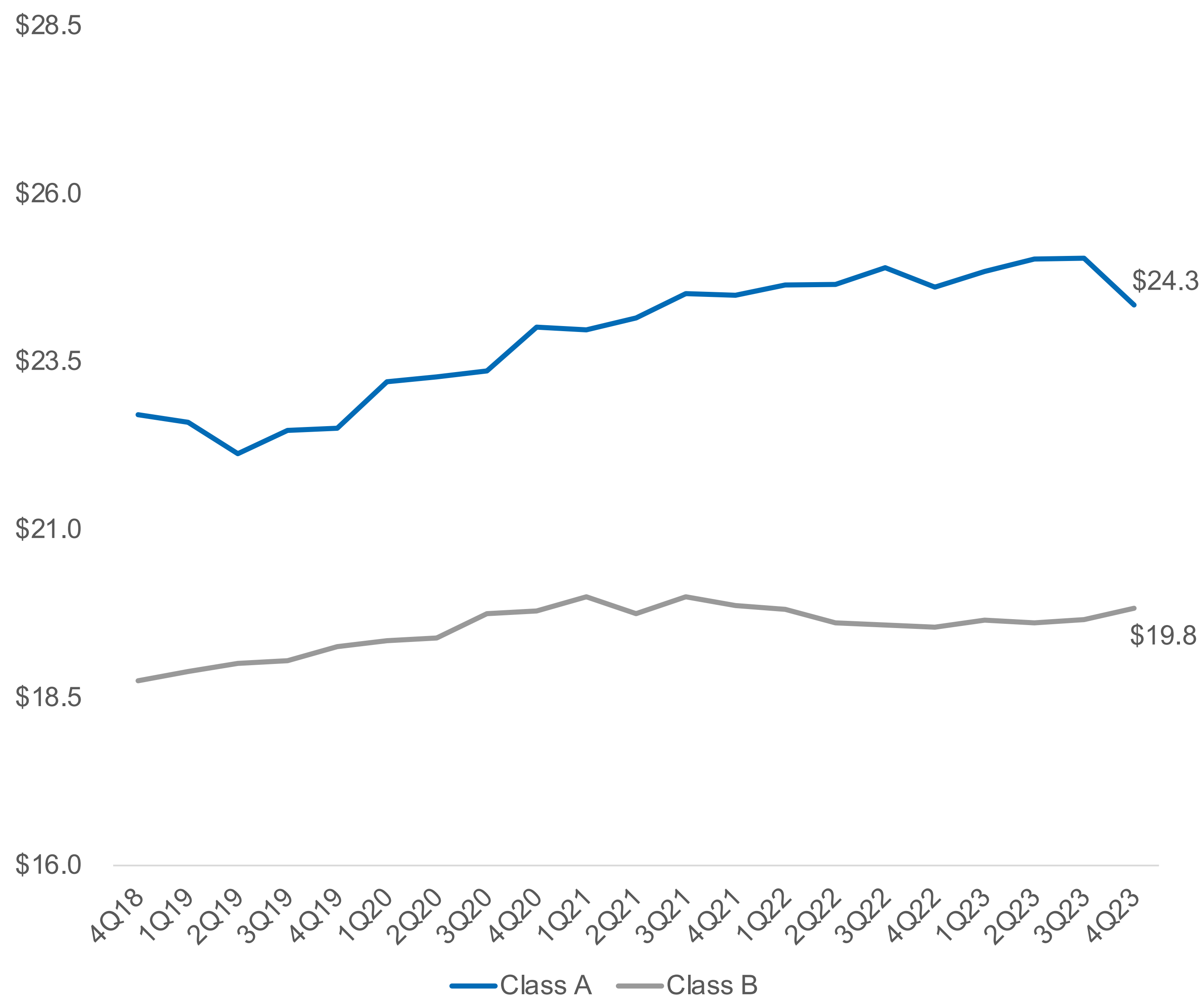


Source: Newmark Research, CoStar

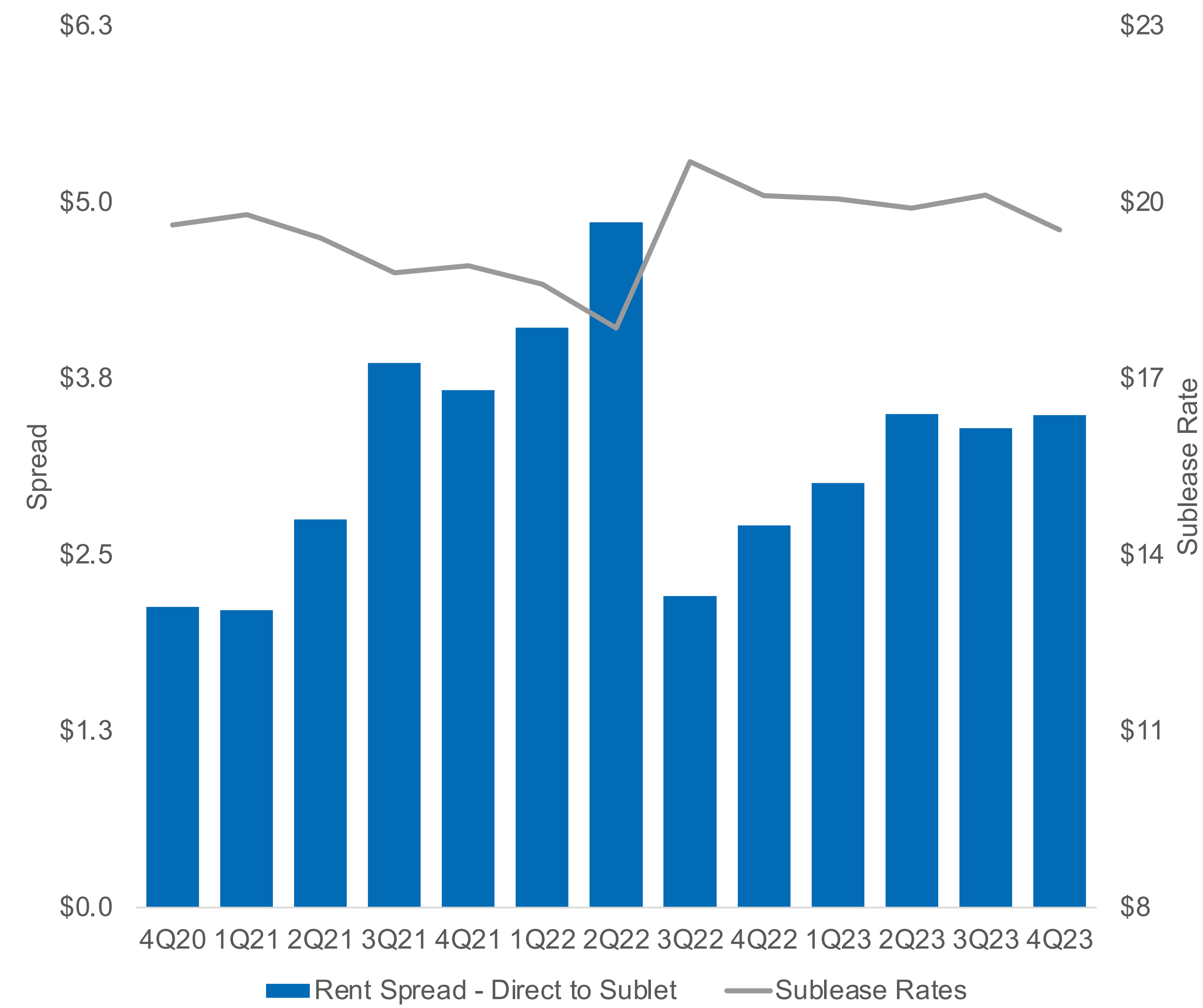
Class A Rents Decline in 4Q23

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 $19.50/SF during the fourth quarter of 2023, with the rent spread stabilizing at $3.50/SF.

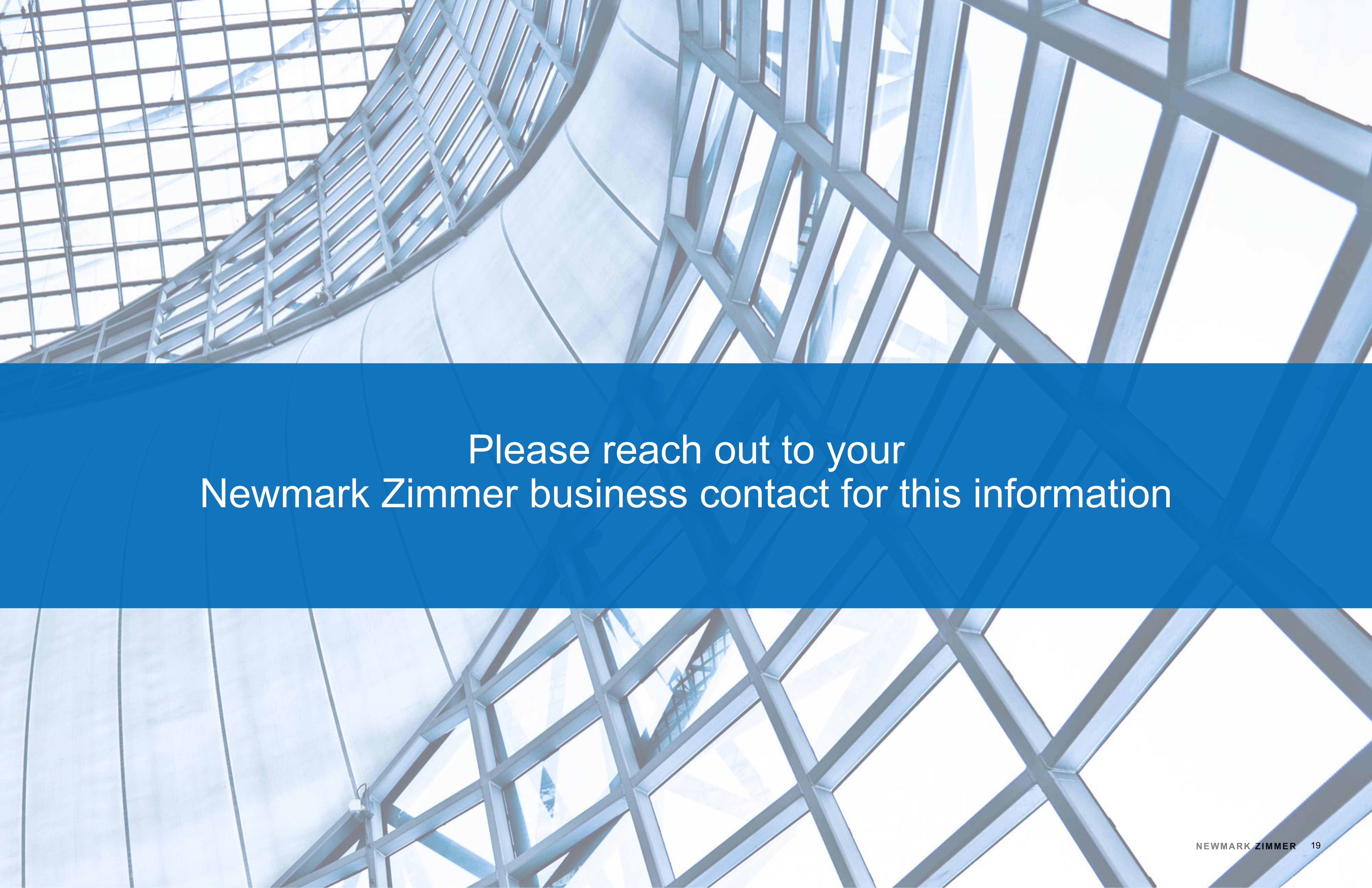
Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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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 overall market has begun to stabilize with a 70-basis-point decrease in vacancy since the fourth quarter of 2022.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
The Crane Agency	400 Chesterfield Center	West County	Direct Lease	25,000
The insurance brokerage firm announced in October it will leave downtown after 138 years, consolidating its employees to 400 Chesterfield Center in Chesterfield. The move is expected to occur in February 2024 with the lease modified to expire in 2027.				
Hoffman Brothers	2043 Woodlands Parkway	Mid County	Direct Lease	21,620
HVAC firm Hoffman Brothers has completed renovations and moved into its new 21,620-SF space at Woodlands Plaza III. After recently purchasing the 64,860-SF property, Hoffman Brothers will lease out the remaining 43,240 SF to other tenants. The firm has approximately 375 employees in the St. Louis metro.				
Quarles & Brady LLP	8235 Forsyth Boulevard	Clayton	Direct Lease	16,360
Quarles & Brady LLP announced in November it will open its 13th office nationwide. The firm signed a lease for a total of 66 months with an expected start date of April 1, 2024. The Class A space at Forsyth Centre was offered at an asking rate of $31.00/SF.				
Gray Ritter Graham	701 Market Street	Downtown	Renewal	16,320
Law firm Gray Ritter Graham renewed its lease for 16,320 SF on the eighth floor at Peabody Plaza in downtown. Class A space at 701 Market Street is marketed at an asking rate of $17.50/SF. The new lease was renewed until 2027 with an option to extend to 2031.				
Lathrop GPM LLC	190 Carondelet Plaza	Clayton	Direct Lease	16,020
Lathrop GPM LLC announced in October it will relocate from 26,000 SF at Pierre Laclede Center into 16,020 SF at The Plaza in Clayton. The move is expected to occur by June 2024 and reduce the firm's total footprint by approximately 10,000 SF.				

Source: Newmark Research

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Submarket Statistics

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Newmark Zimmer business contact for this information

For more information:

Mike Carlson, SIOR, CCIM
Executive Managing Director, Principal
mcarlson@nzimmer.com

Ben Albers, SIOR
Senior Managing Director
Office Brokerage
balbers@nzimmer.com

Jay Travis
Director
Office Brokerage
jtravis@nzimmer.com

Andrew Garten
Director
St. Louis Research
agarten@nzimmer.com

St. Louis
1001 Highlands Plaza Drive W,
Suite 250
St. Louis, MO 63110
t 314-254-4600

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

Lee's Summit
1485 SW Market Street
Lee's Summit, MO 64081
t 816-474-2000

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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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