4Q24

St. Louis Office Market Overview

Market Observations

Economy

- The region's labor market remains historically strong despite shifting macroeconomic conditions. November's unemployment rate of 3.9% was 30 basis points below the 10-year historical average of 4.2%.
- Year-over-year, job growth has been most significant in the services sector, which continues its recovery from the pandemic. Education and Health led all industries in job gains over the past 12 months, followed by Financial Activities and Leisure and Hospitality.
- Professional business and technology firms are recalibrating their labor needs. Locally, employment in two of the three office-occupying sectors declined compared to the previous year.

Leasing Market Fundamentals

- The market tightened during the quarter with 264,183 SF of net absorption, bringing the year-to-date total to negative 48,150 SF. This marks two consecutive quarters of positive absorption, as tenants capitalize on favorable conditions. The Clayton submarket closed 2024 with 460,864 SF of net absorption and is projected to lead all submarkets in 2025.
- The non-owner-occupied construction pipeline has remained dormant since the third quarter of 2022, with only 41,000 SF currently under construction.
- Vacancy decreased by 40 basis points to 13.5% during the quarter and is expected to remain steady over the next year as the market continues to recalibrate. Year-over-year, asking rental rates remained essentially flat, declining by 0.4%.

Major Transactions

- Moneta Group will relocate to the Plaza at Clayton, located at 190 Carondelet Plaza. The firm will occupy 81,830 SF across the 10th through 12th floors, with a move-in anticipated by May 2025.
- Anthem Blue Cross and Blue Shield in Missouri will relocate to the Deloitte Building at 100 South 4th St. The company will occupy 45,600 SF, with its move-in scheduled for the first quarter of 2025.
- Global design firm HOK will relocate to Peabody Plaza at 701 Market St. HOK will occupy 42,000 SF, with an expected move-in by September 2025.
- FleishmanHillard will relocate to 37,950 SF at 101 South Hanley Rd. in Clayton.

Outlook

- Macroeconomic uncertainty continues to shape market dynamics, prompting both occupiers and investors to approach transactions with increased caution, which will likely affect leasing and investment activity. Vacancy is projected to remain steady near 13.5% as tenants take advantage of favorable conditions.
- Hybrid work strategies are driving ongoing market shifts. Tenants are expected to retain substantial leverage in lease negotiations, supported by a wide range of available space options. Meanwhile, the conversion of office spaces to alternative uses will help reduce obsolete inventory, mitigating further vacancy increases.
- Rental rates are anticipated to soften in the coming quarters, with liquidity constraints pushing landlords to lower rents rather than increase concession packages.

1. Economy
2. Leasing Market Fundamentals
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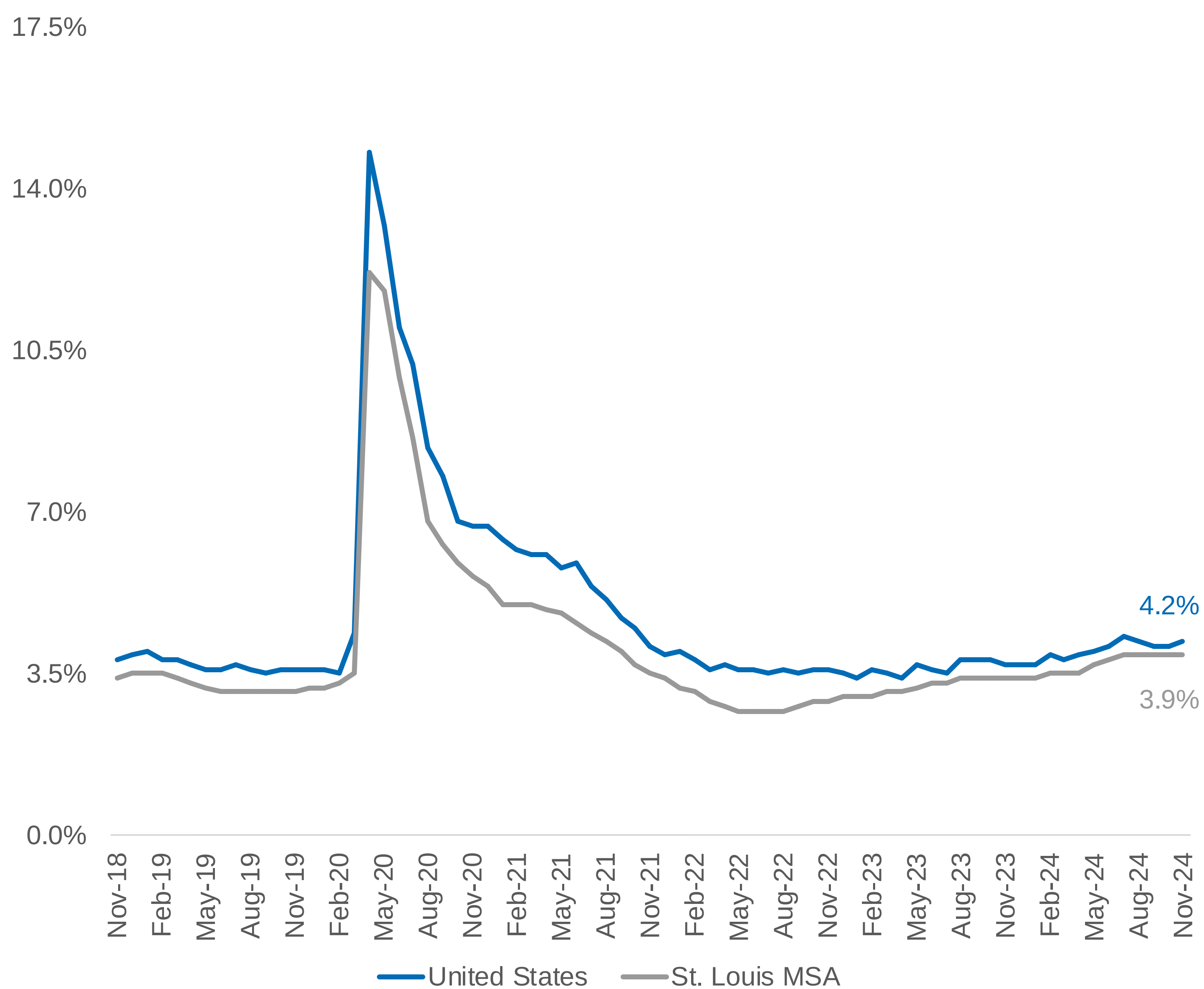
Economy

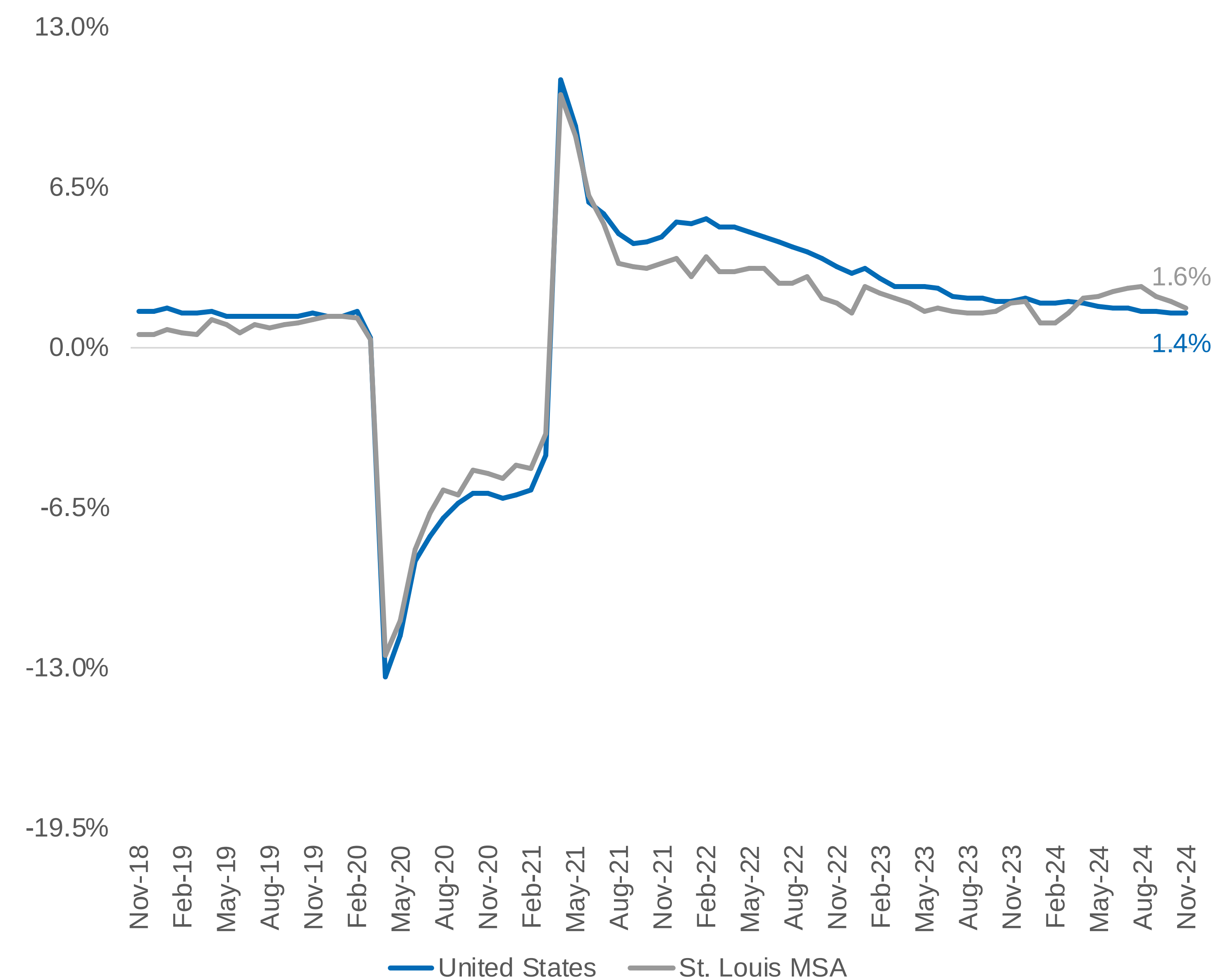
Metro Employment Trends Signal Stable Economy

The region's labor market remains steady following a 25-basis-point cut to the Fed's benchmark interest rate. Unemployment has recovered from the pandemic and sits 30 basis points below the national average, reflecting ongoing economic resilience.

Unemployment Rate, Non-Seasonally Adjusted



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

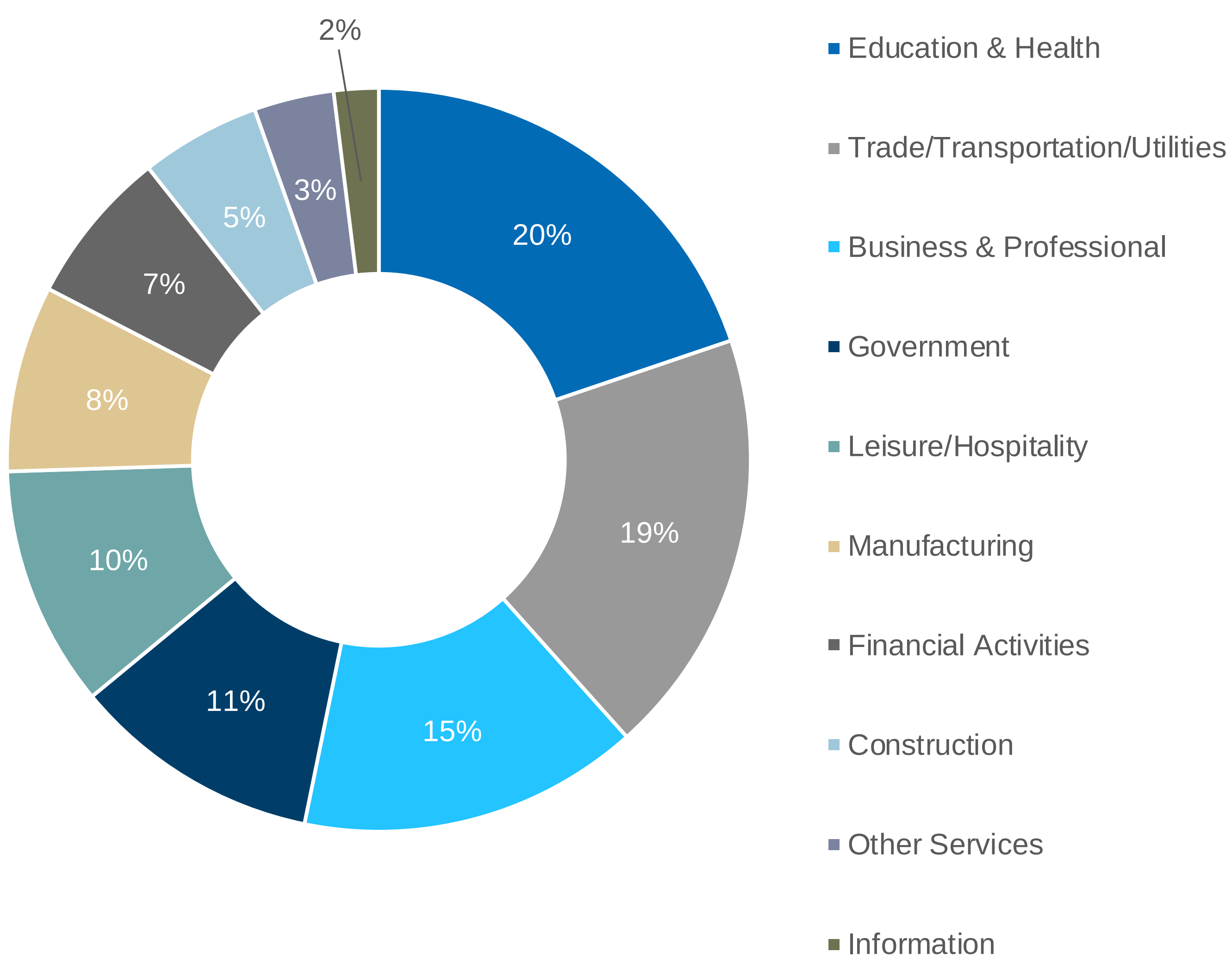


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

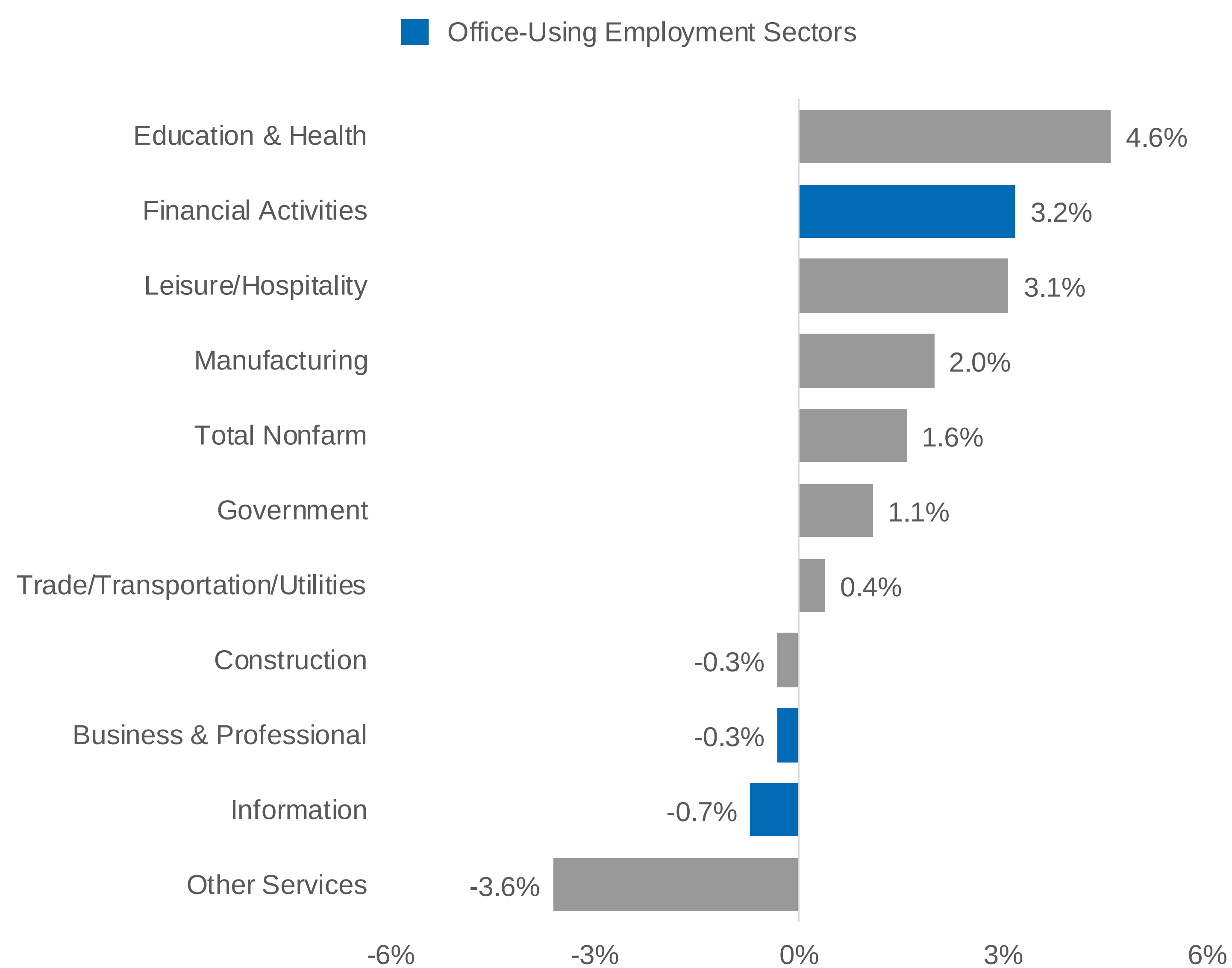
Service Sector Leads Job Growth

The Education & Health sector led regional annual job growth, followed by Financial Activities. Both Education & Health and Leisure/Hospitality are benefiting from a post-pandemic shift in consumer spending toward services, travel, and healthcare. However, two of the three office-occupying industries—Information and Business & Professional Services—reported annual job losses.

Employment by Industry, November 2024



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

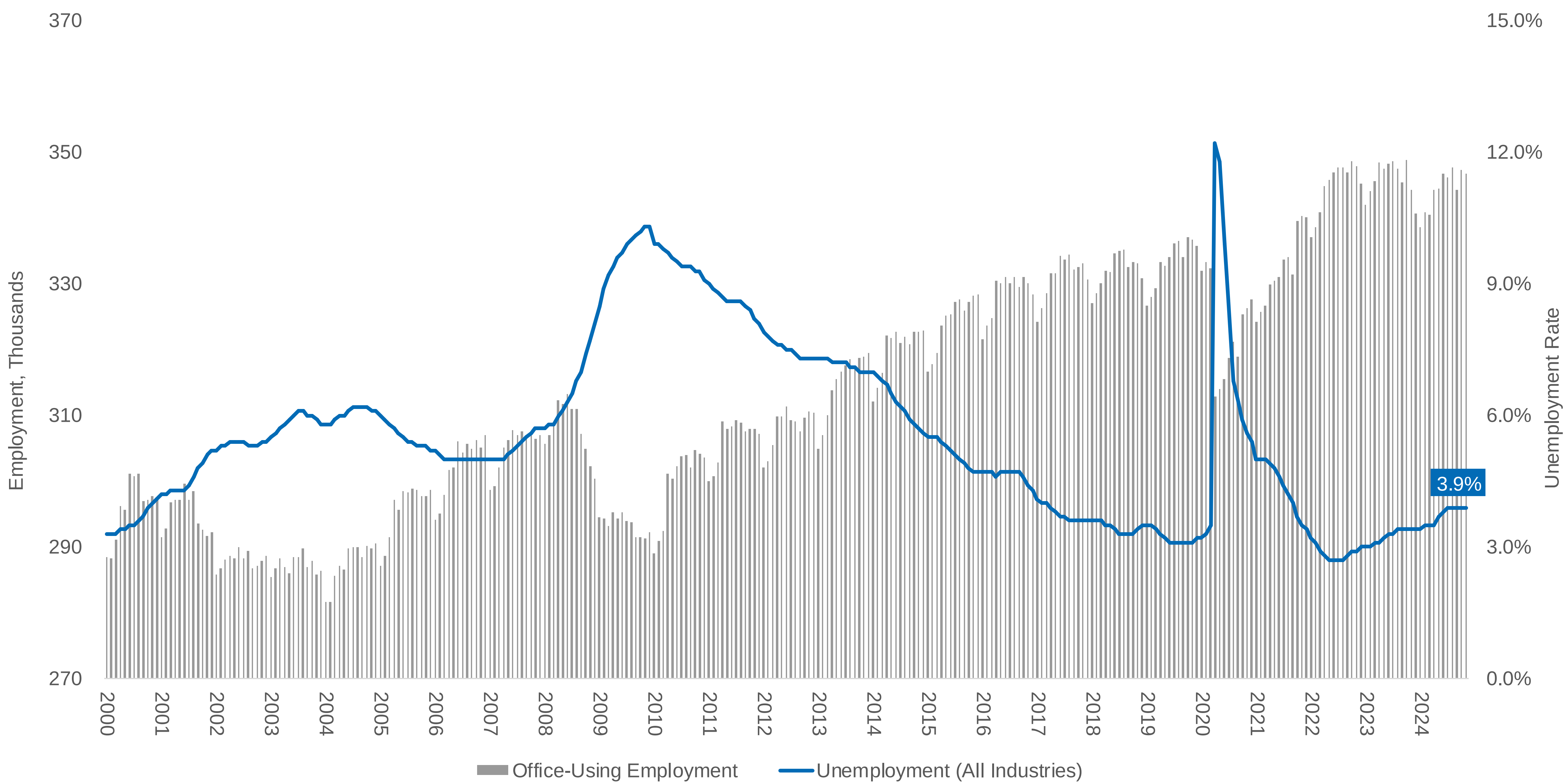


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

Overall Office Employment Rebounds

Office employment has recovered and now exceeds pre-pandemic levels. While a slight seasonal dip typically occurs at the start of each year, the region has stabilized, with employment growth anticipated in 2025.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, St. Louis MSA
Note: November 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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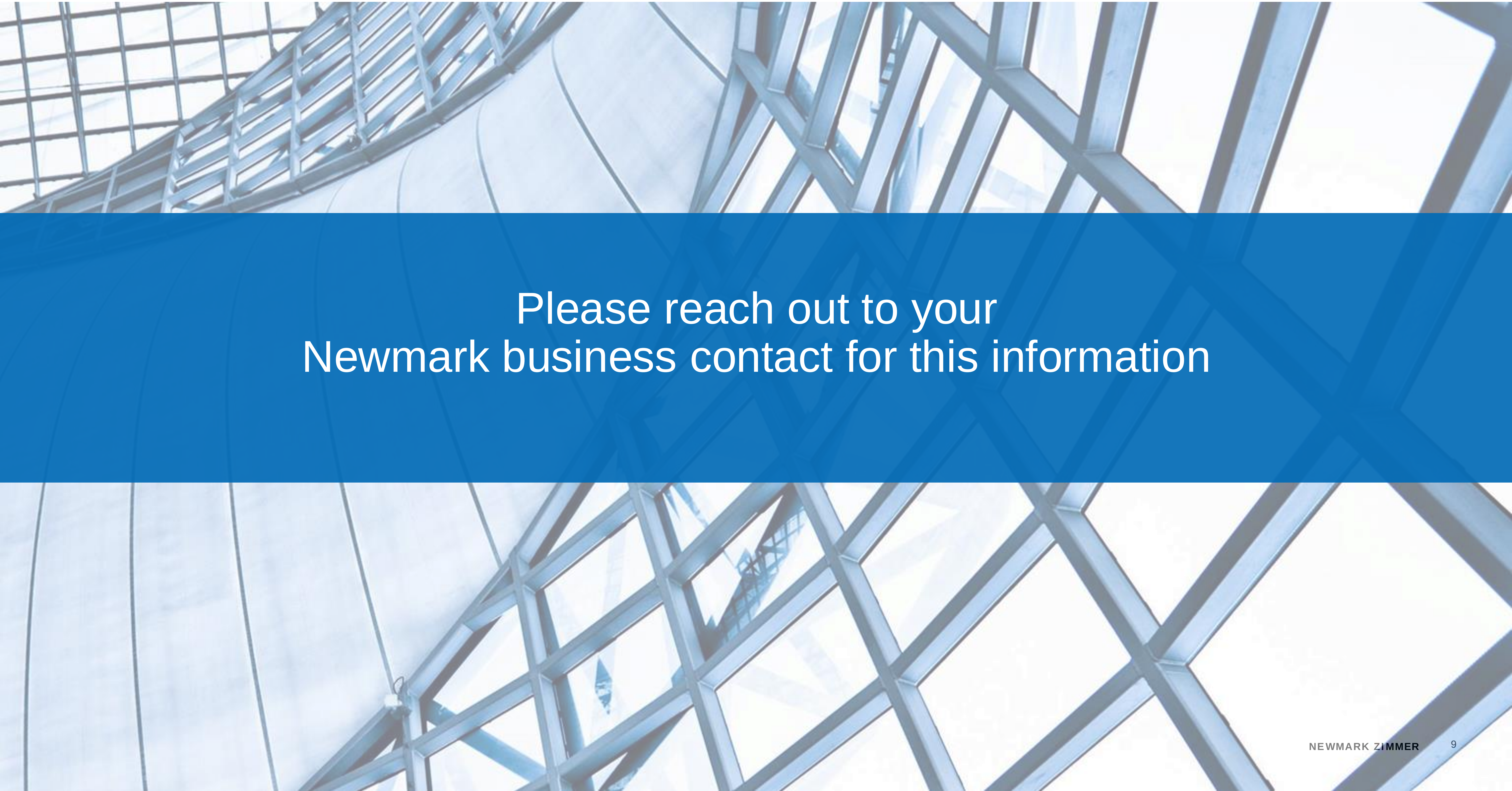
Leasing Market Fundamentals

Market Overview



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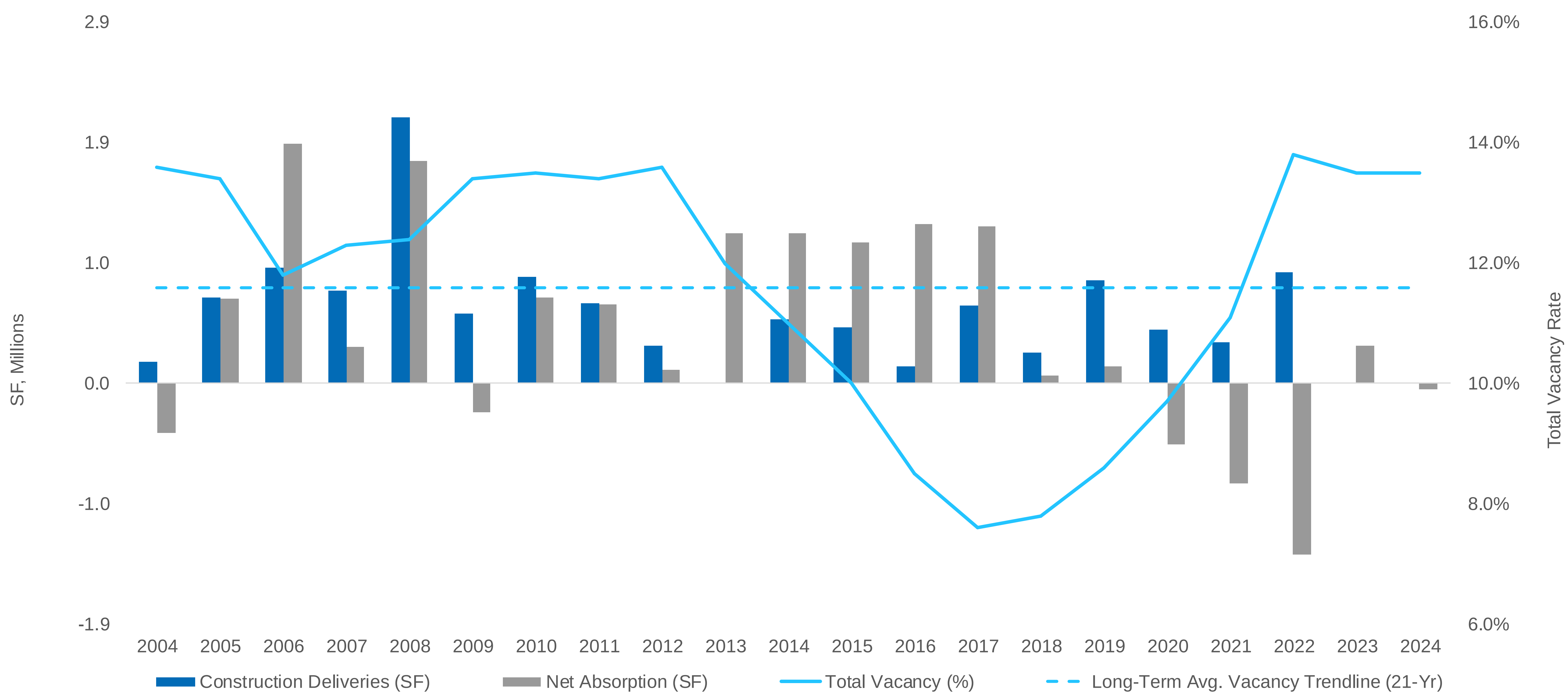
Vacancy Stabilizing As Market Recalibrates

Vacancy remained steady at 13.5% year over year as tenants adopted hybrid work models and reassessed space needs. Ongoing office conversions to multifamily, hospitality, and retail uses, along with limited new deliveries, are expected to reduce vacancy rates. Tenants will retain leverage across most Metro submarkets, pushing landlords to offer competitive deal terms. New office developments are largely restricted to build-to-suit and owner-occupied projects.

Historical Construction Deliveries, Net Absorption, and Vacancy

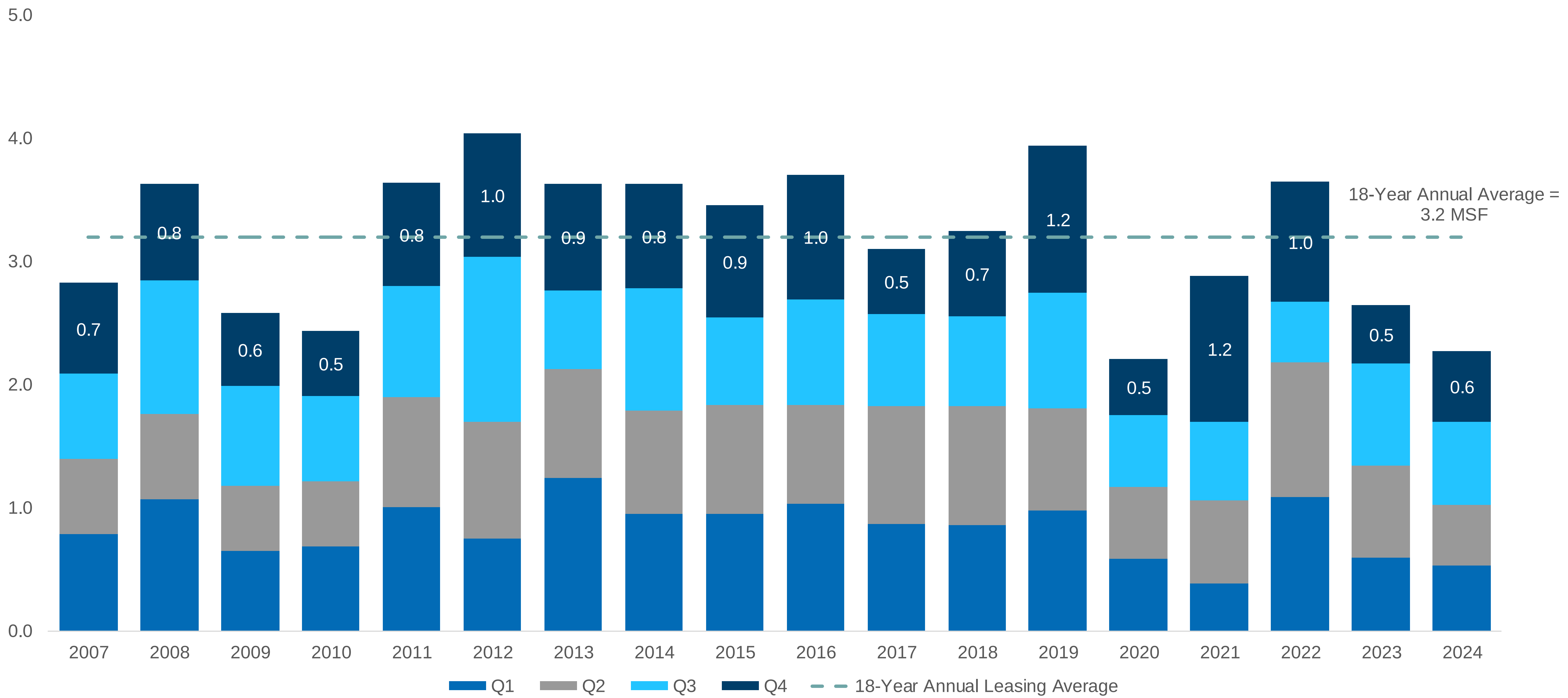


Source: Newmark Research

Leasing Activity Remains Muted Across The Metro

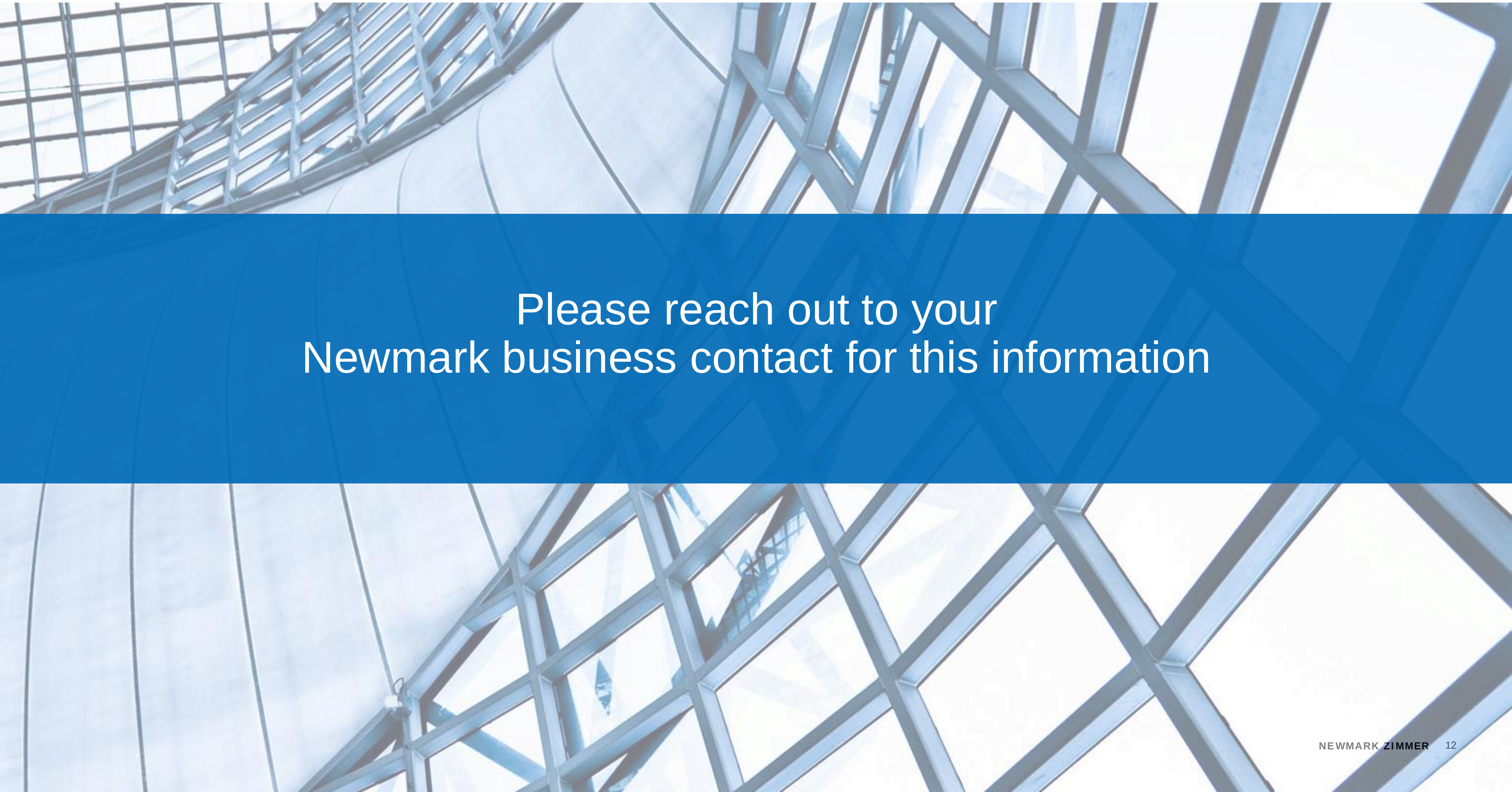
Leasing activity in the fourth quarter of 2024 totaled 575,513 SF, a 25.6% decline compared to the fourth-quarter average from 2020 to 2023. Over the past year, leasing activity fell 28.8% below the 18-year average. Reduced office demand due to corporate consolidation and downsizing, combined with macroeconomic uncertainty and tighter debt financing, is expected to shape the near and midterm outlook.

Total Leasing Activity (MSF)

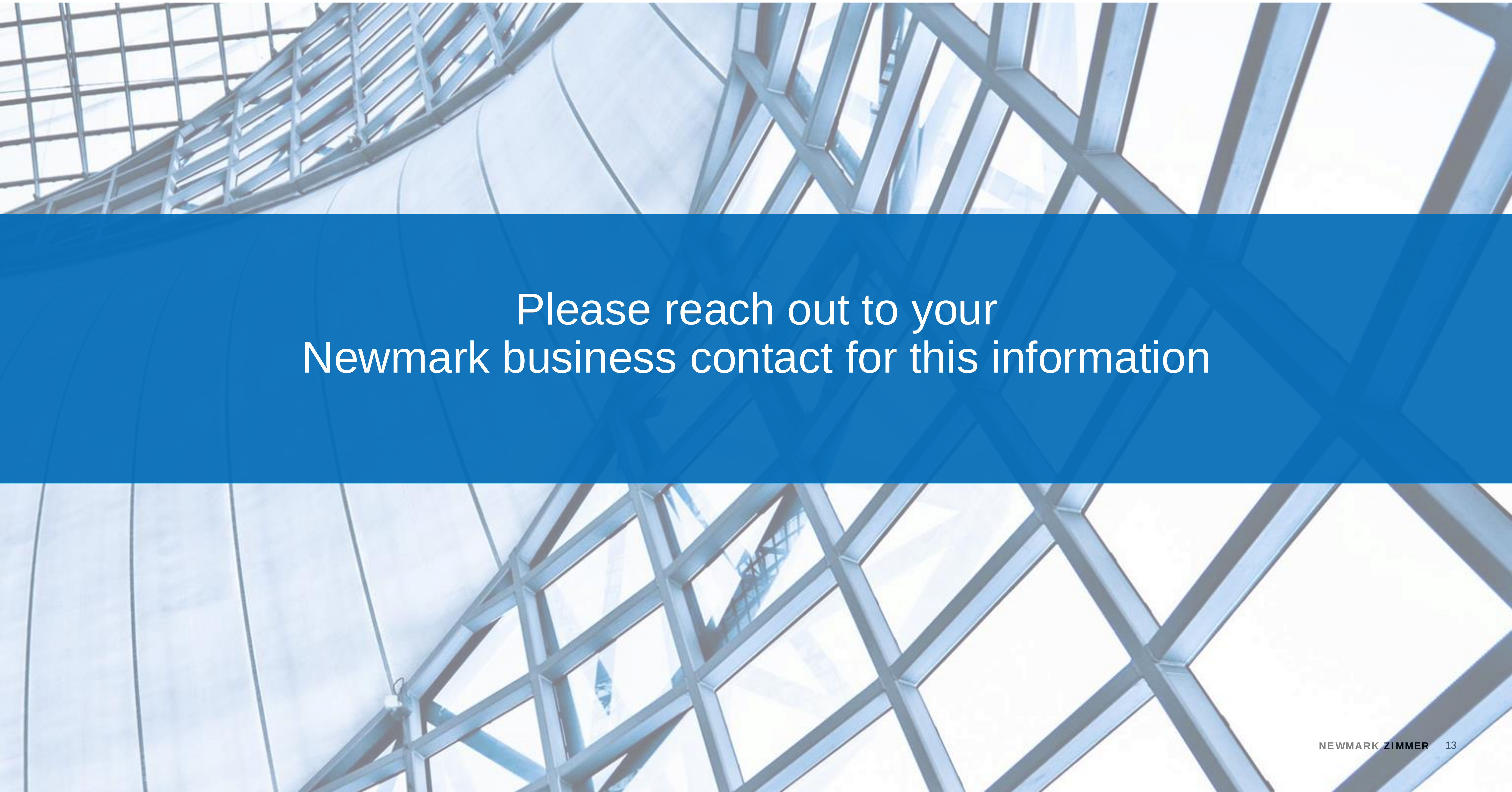


Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Mean Fewer Leases Signed



Lower Leasing Activity In Most Submarkets Compared To Pre-Pandemic



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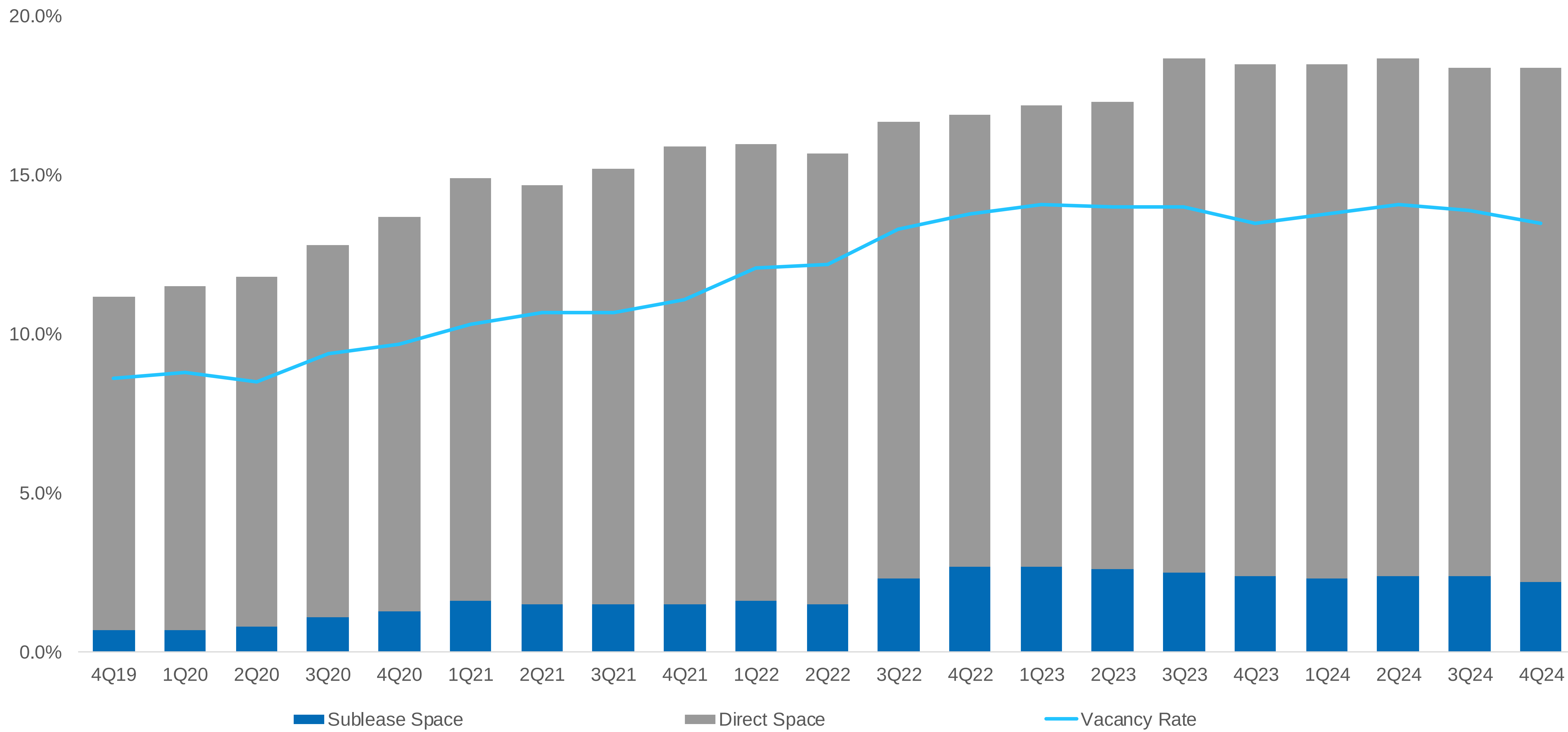
Direct Availability Stabilizes; Sublease Availability Declines To 2.2%

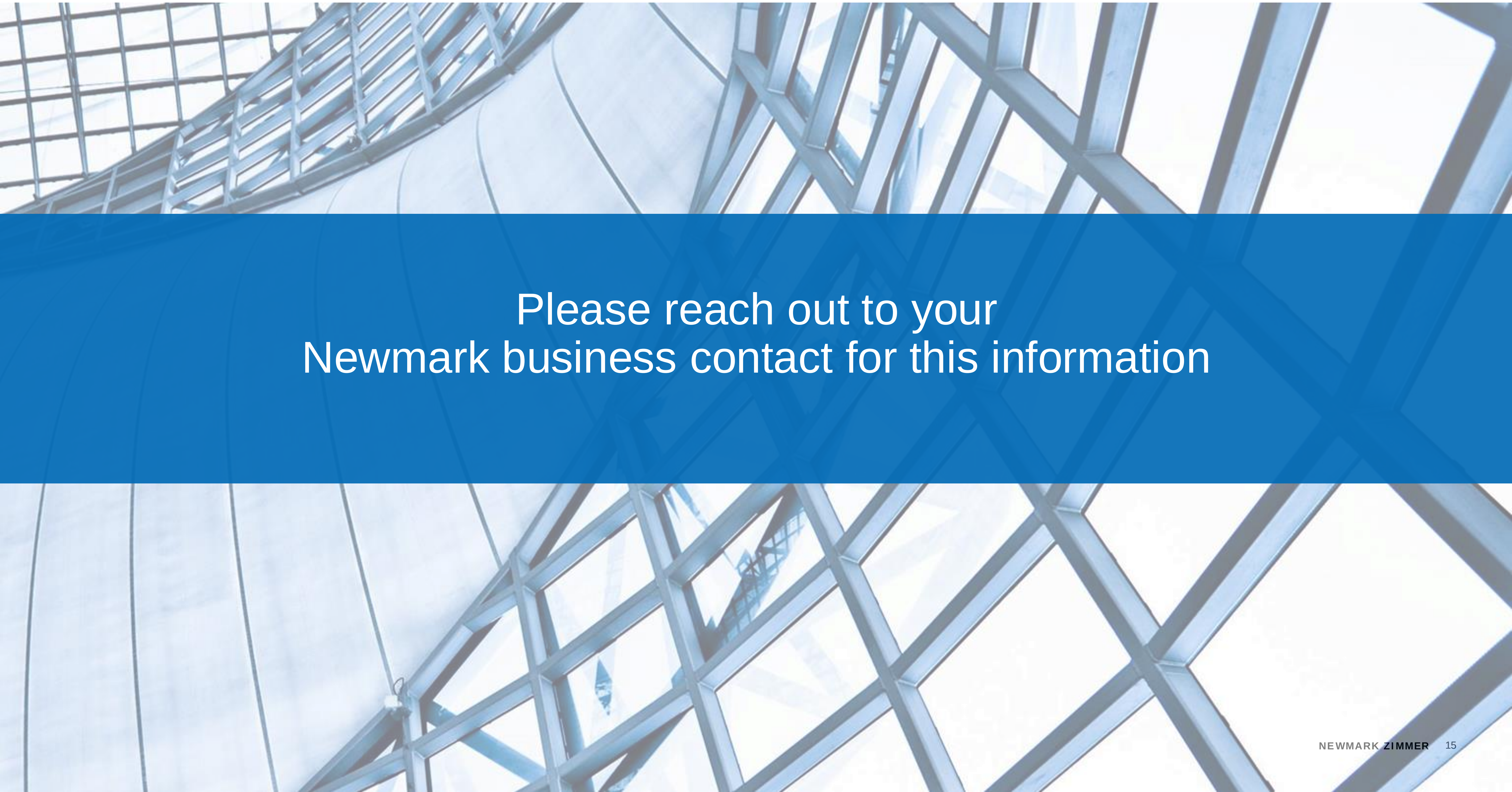
Before the pandemic, many tech companies leased space in anticipation of future employment growth, aiming to hedge against declining supply and rising rents. Following recent job cuts in the sector, a significant portion of available sublease space remains tied to tech firms. Direct space availability is projected to start declining in 2025. Sublease availability has already decreased from 2.7% in the fourth quarter of 2022 to 2.2% in the fourth quarter of 2024.

Available Space as Percent of Overall Market



Source: Newmark Research

North County Experiences Highest Availability Rate Increase



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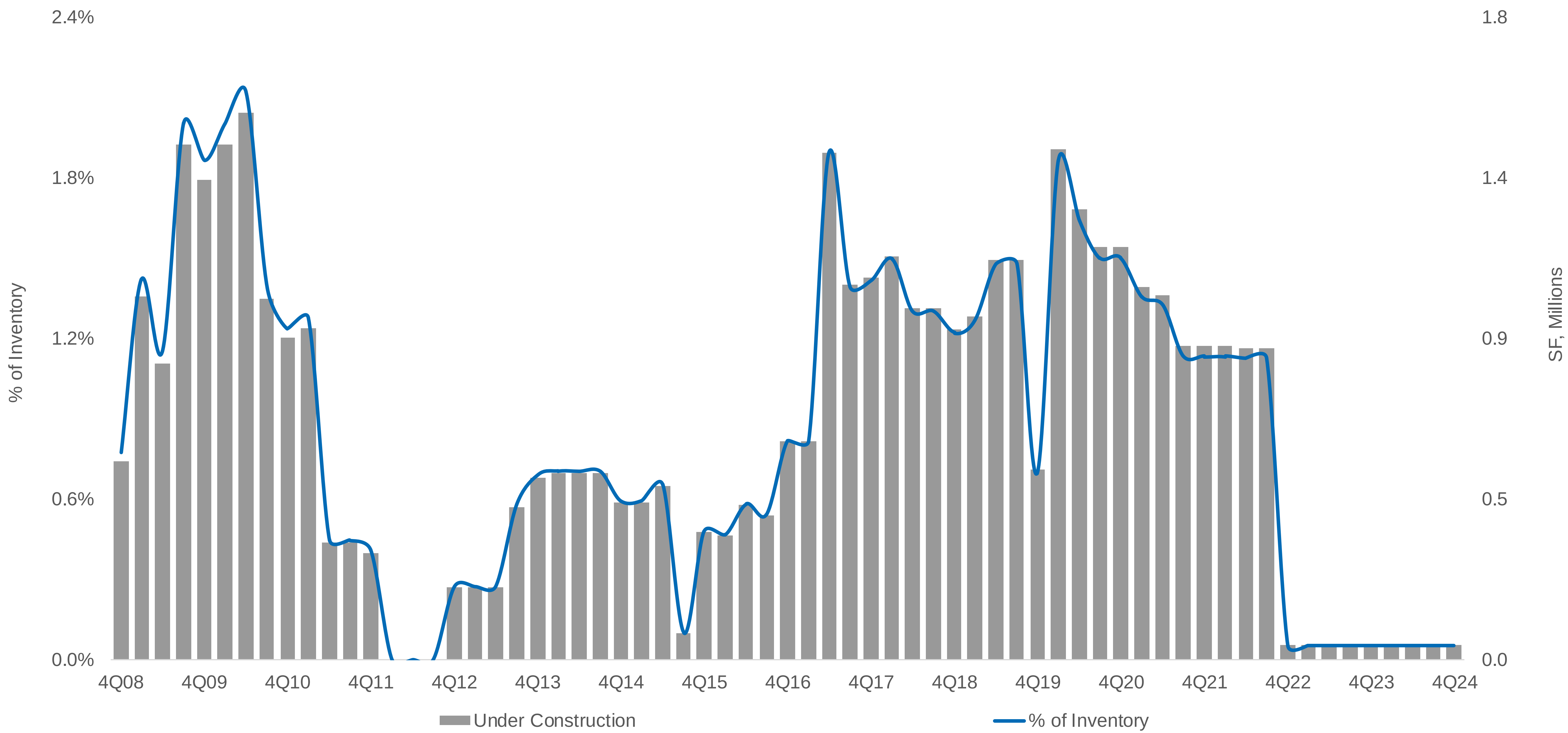
New Construction Activity Pauses As Vacancy Remains Elevated At 13.5%

Since the 2022 deliveries of Commerce Bank Tower and Forsyth Pointe in the Clayton submarket, new construction has declined sharply. Current development is limited to build-to-suit and owner-occupied projects, with elevated vacancy rates of 13.5% curbing speculative construction.

Office Under Construction and % of Inventory

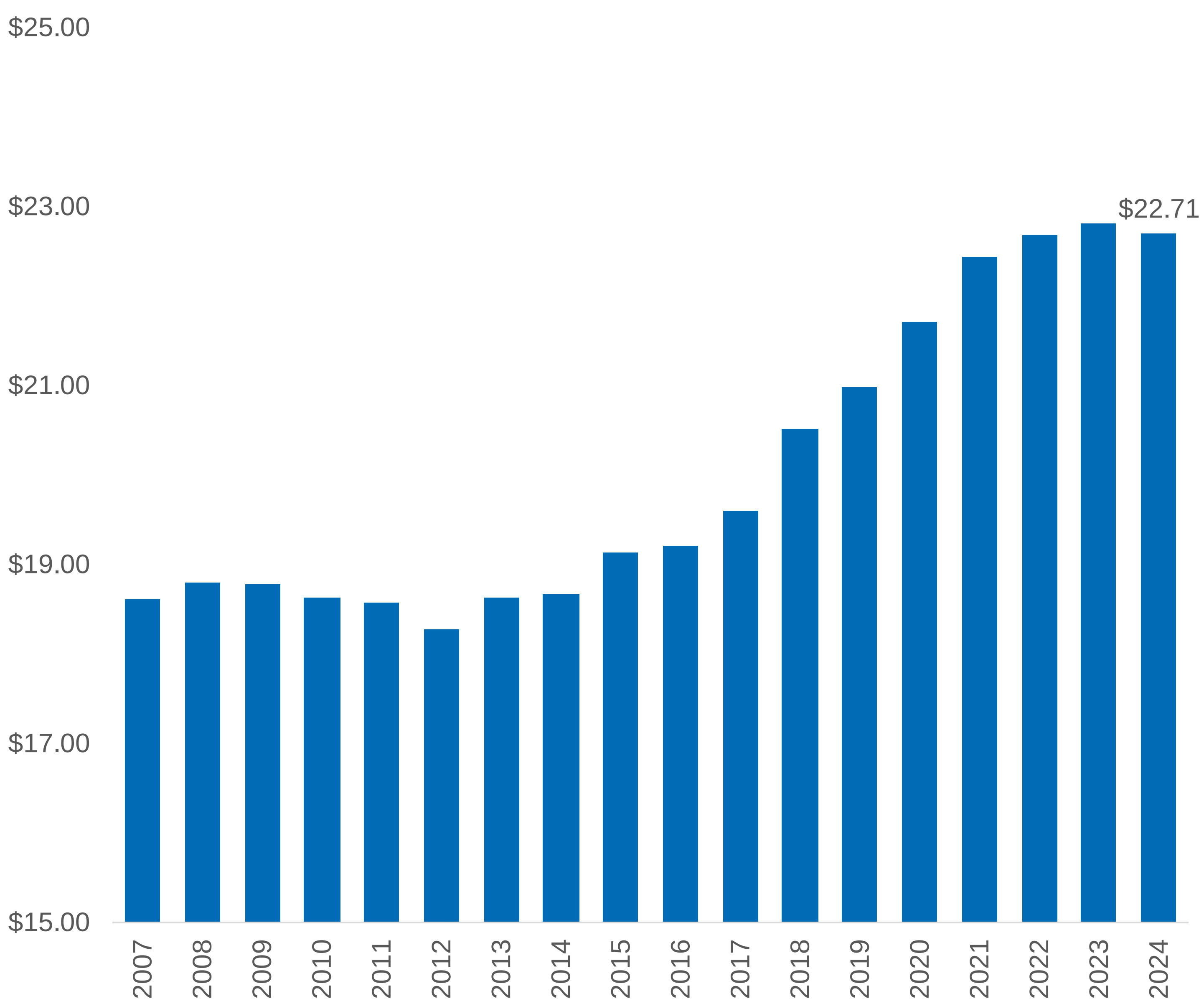


Source: Newmark Research, CoStar, St. Louis Market

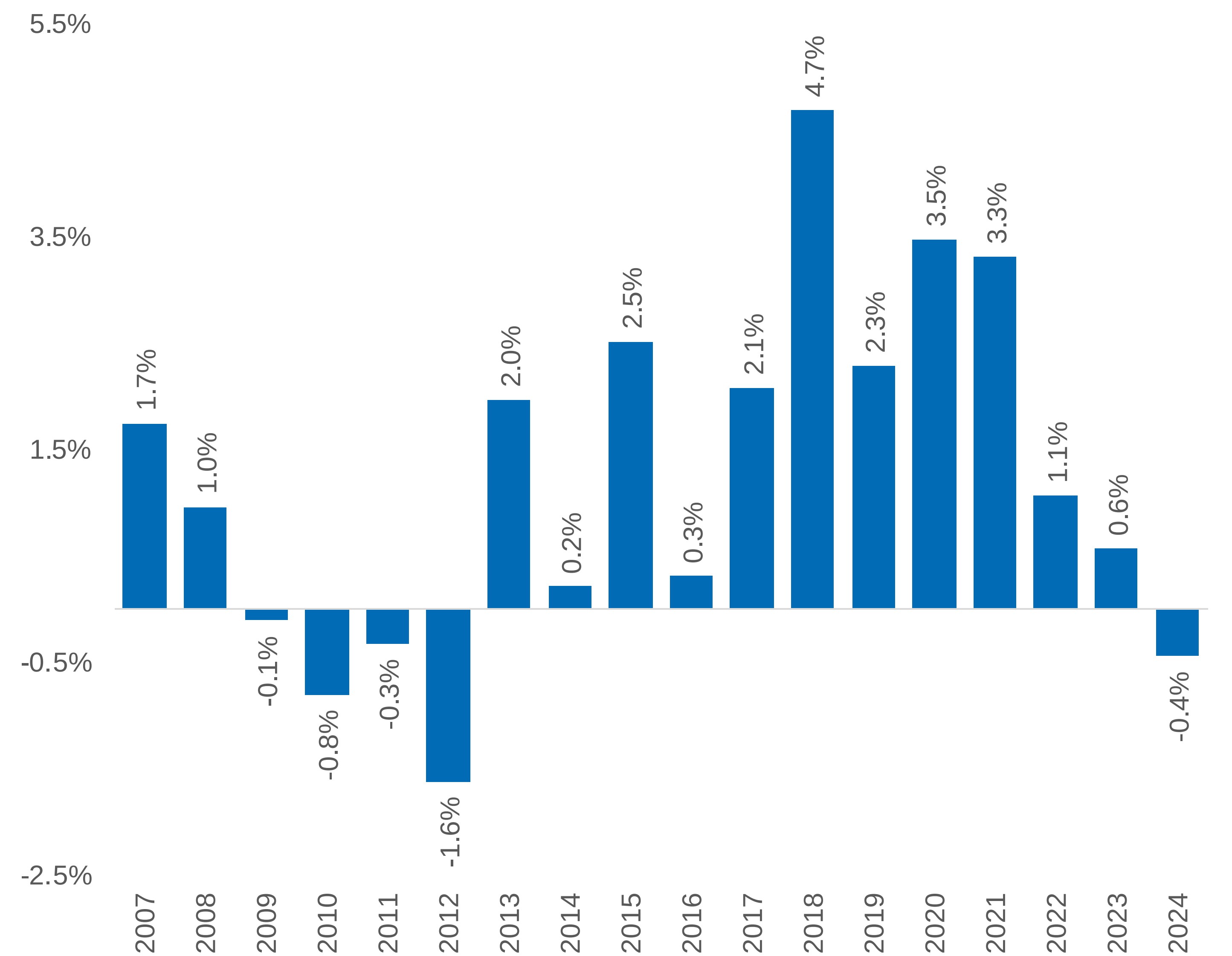
Rents Decrease As Landlords Face Limited Liquidity

Overall asking rents declined year over year to $22.71/SF and are expected to remain flat over the next four quarters. Limited liquidity is prompting some landlords to reduce rents instead of increasing concession packages. With inflation remaining elevated over the past three years, real growth in office sector asking rents has largely stagnated.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

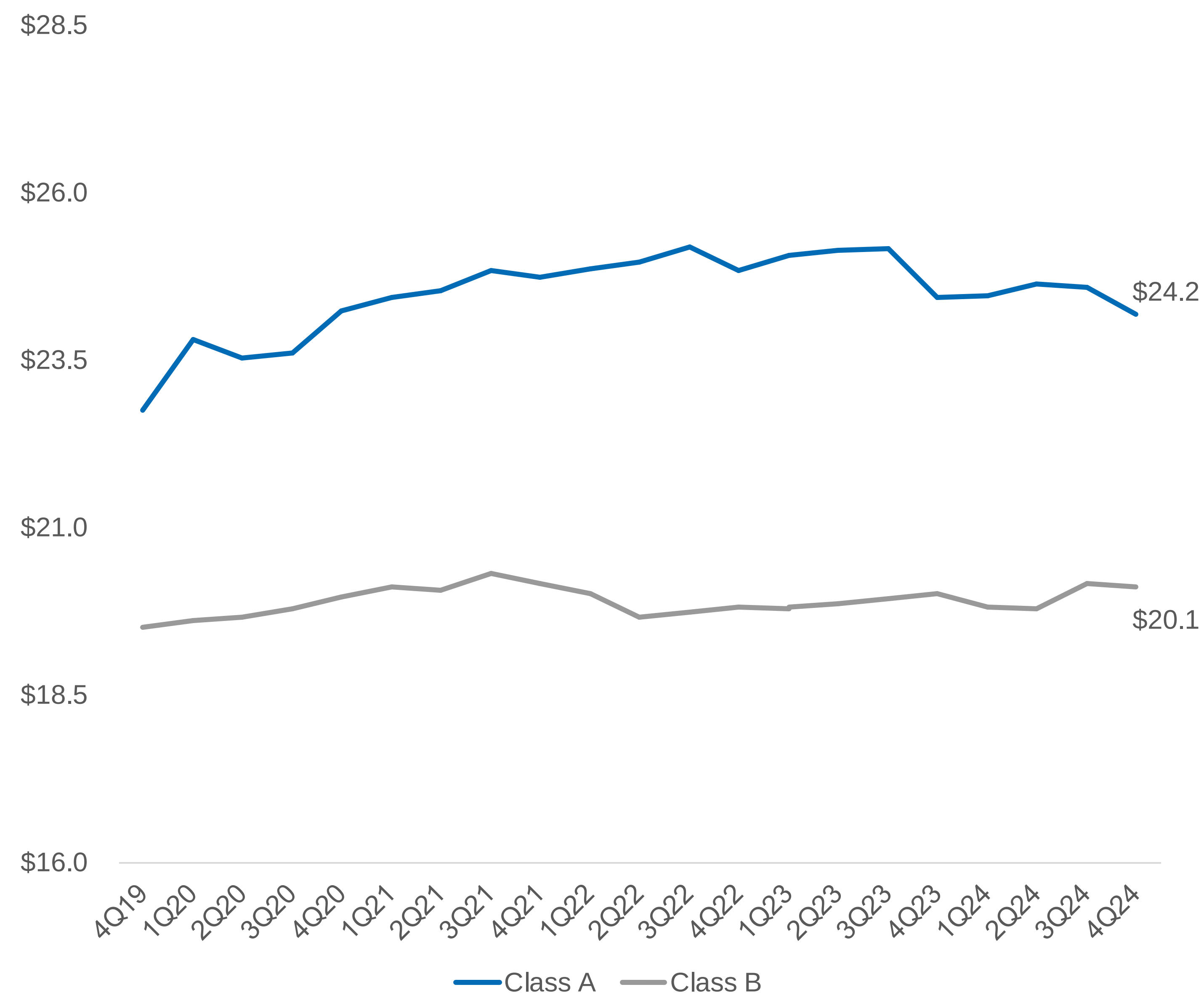


Source: Newmark Research, CoStar

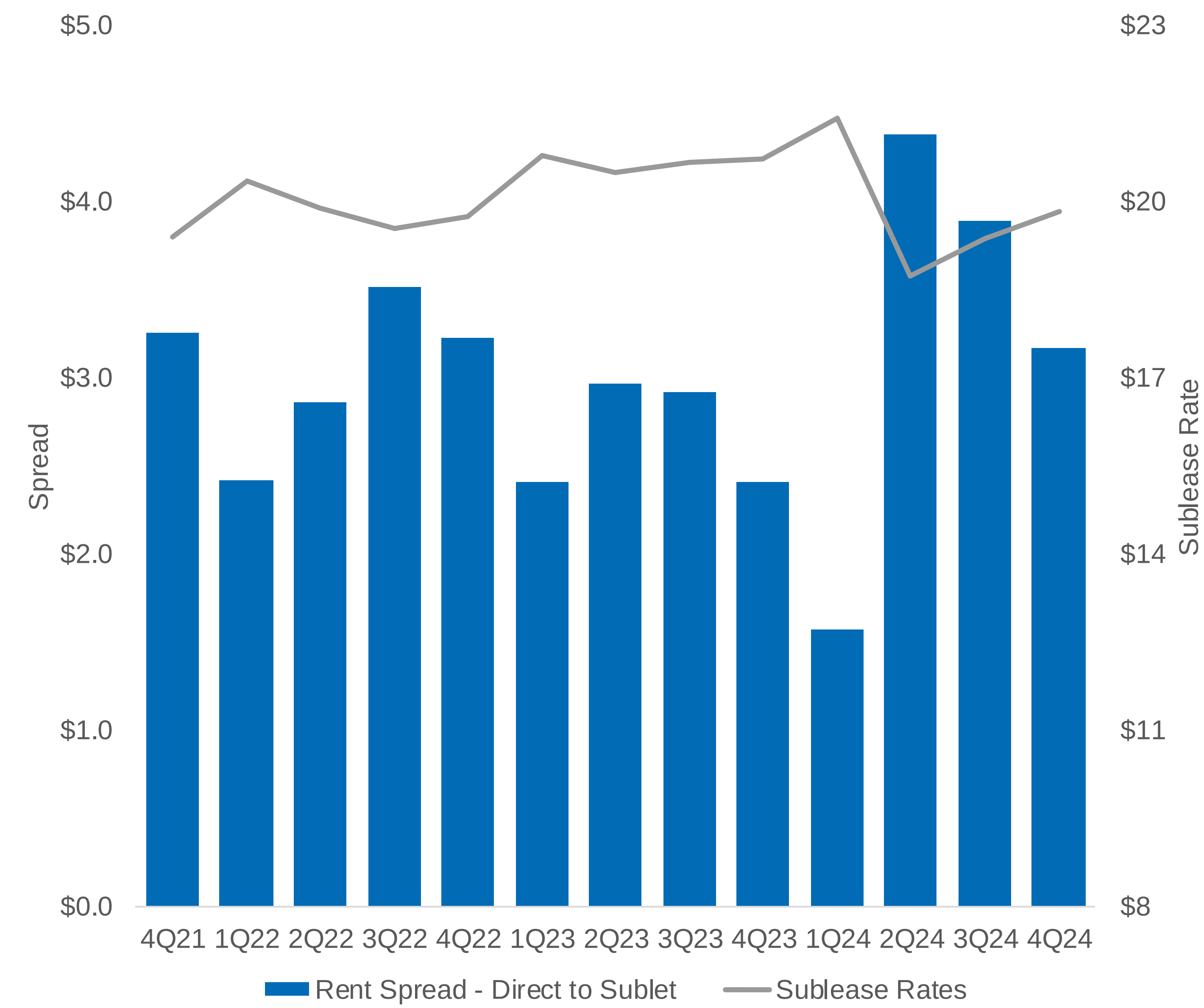
Class A Rents Compress

Although asking rental rates have remained relatively stable since the pandemic began, historical trends indicate that rents eventually adjust downward to align with reduced demand. The rent compression affecting major markets in 2023 and 2024 has now started to impact select secondary and tertiary markets, including St. Louis. Sublease rents increased to $19.83/SF in the fourth quarter of 2024, narrowing the rent spread to $3.17/SF.

Class A and Class B Asking Rents

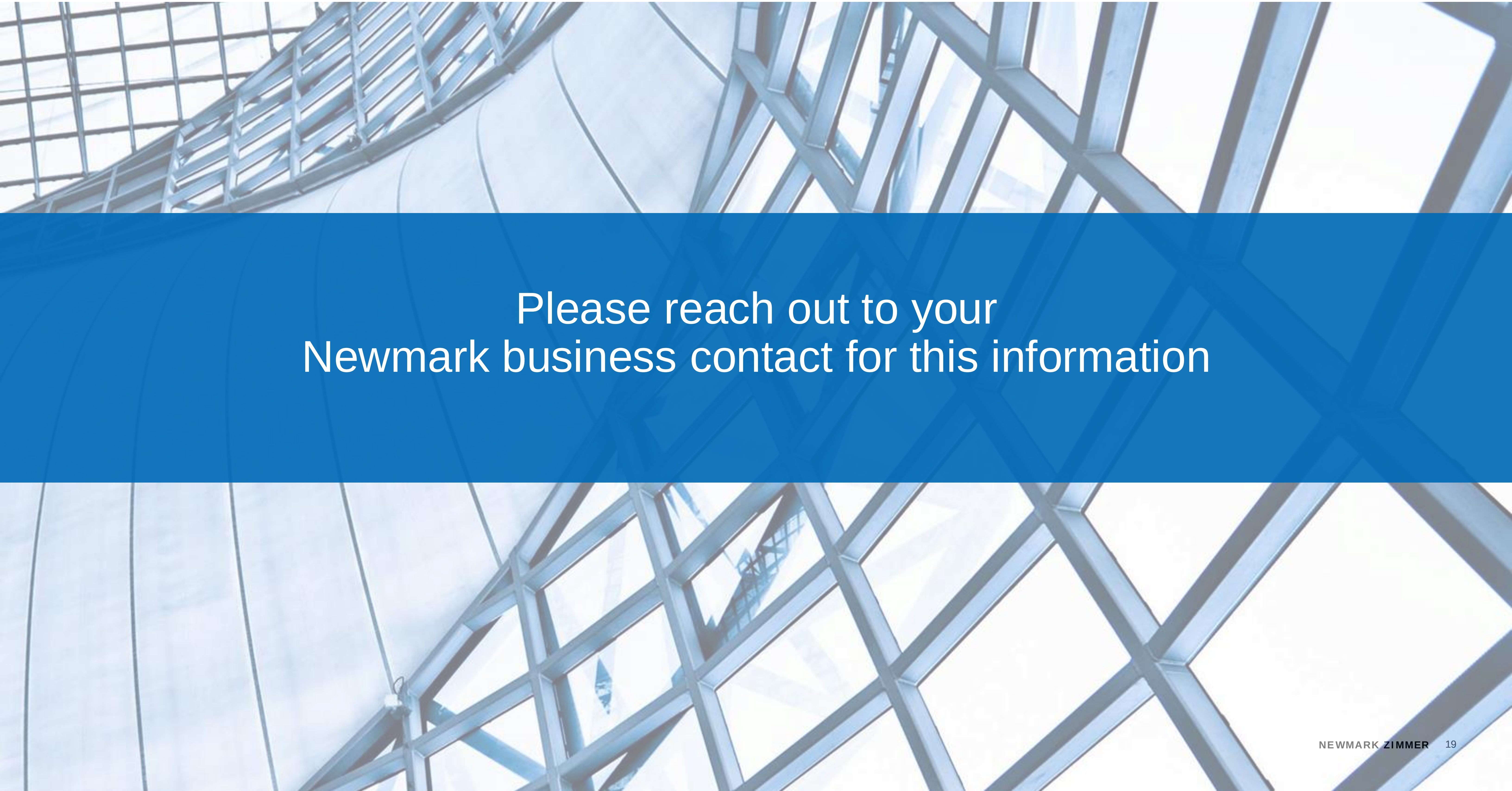


Sublease Rates



Source: Newmark Research, CoStar

Marquee Submarkets See Largest Rental Rate Growth Since 2019



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4Q24 Notable Leasing Activity

Demand for new or newly renovated Class A office space in marquee submarkets, particularly those offering prime amenities, is expected to stay strong over the next four quarters. Significant tenant departures from outdated spaces and property conversions to multifamily and hospitality have contributed to market stabilization, with vacancy declining by 60 basis points since the second quarter of 2024.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Moneta Group	190 Carondelet Plaza	Clayton	Direct Lease	81,830
Financial services planner, Moneta Group, announced it will relocate from its current location at 100 South Brentwood to the Plaza at Clayton at 190 Carondelet Plaza. The firm will occupy 81,830 SF across the 10th through 12th floors, with a move-in anticipated by May 2025.				
Anthem Blue Cross and Blue Shield MO	100 S 4th Street	Downtown	Direct Lease	45,600
The health insurance provider announced it will relocate from its current location at 1831 Chestnut St. to the Deloitte Building at 100 South 4th St. The company will occupy 45,600 SF across the 10th and 11th floors, with its move-in scheduled for the first quarter of 2025.				
HOK	701 Market Street	Downtown	Direct Lease	42,000
The global design firm announced it will relocate from its current location at 10 South Broadway to Peabody Plaza at 701 Market St. HOK will occupy 42,000 SF across the fourth and fifth floors, with an expected move-in by September 2025.				
FleishmanHIllard	101 S Hanley Road	Clayton	Direct Lease	37,950
The global public relations agency will relocate from its current location at 200 North Broadway in Downtown to 101 South Hanley Rd. in Clayton. FleishmanHillard will occupy 37,950 SF across the eighth and 17th floors, with an anticipated move-in by May 2025.				
NewLeaf Symbiotics	1001 N Warson Road	Mid County	Sublease	28,875
Agricultural firm, NewLeaf Symbiotics will sublease 28,875 SF of space from Benson Hill at the EDGE@BRDG in Creve Coeur.				

Source: Newmark Research

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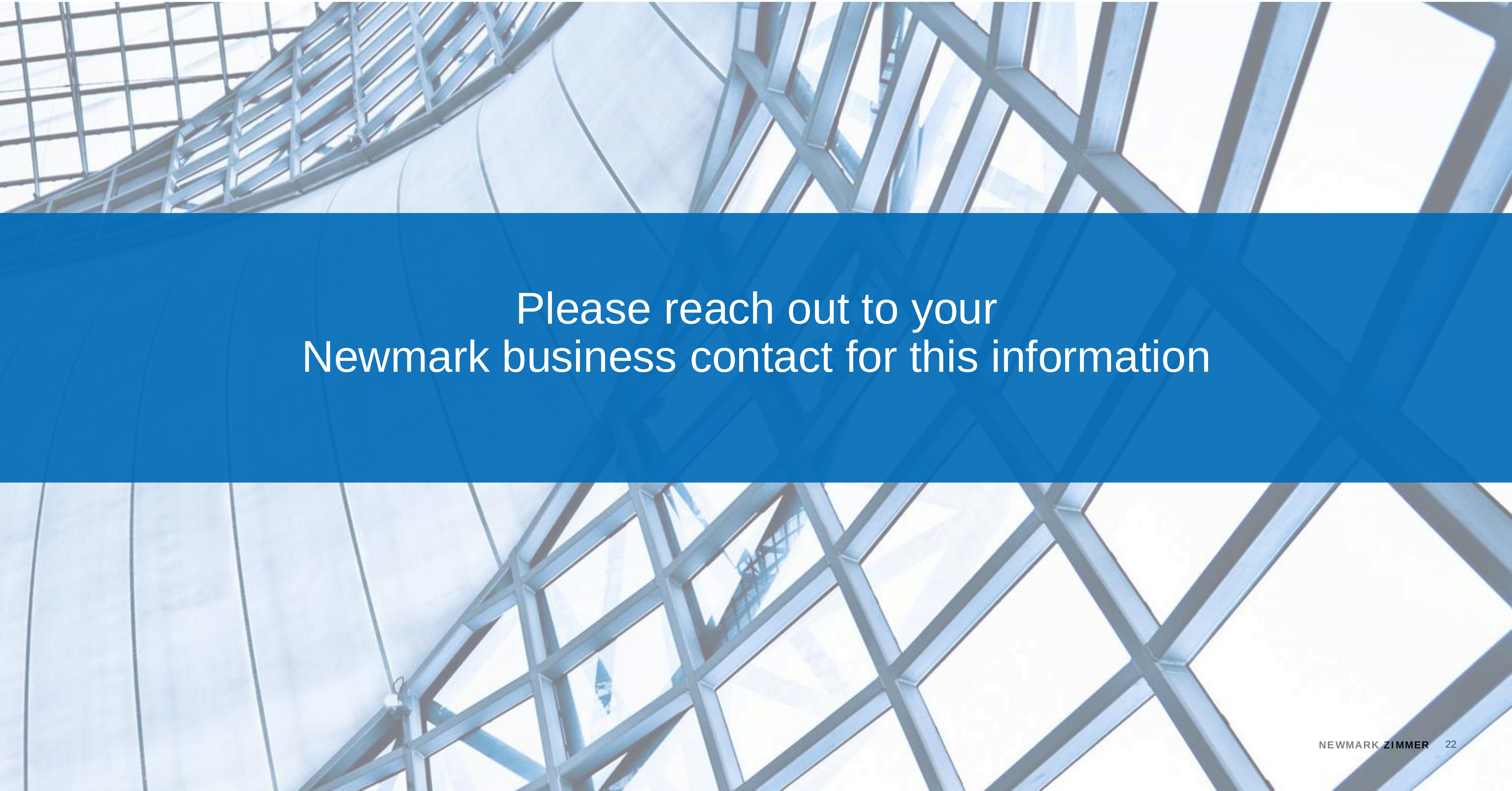
Submarket Statistics

Submarket Statistics: All Classes, Class A, Class B



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