3Q24

St. Louis Office Market Overview

NEWMARK ZIMMER

Market Observations

Economy

- The region’s labor market remains historically strong amid shifting macroeconomic conditions. August's unemployment rate of 3.9% was 30 basis points lower than the 10-year historical average of 4.2%.
- Year-over-year, job growth has been most pronounced in the services sector, which is still recovering from the pandemic. The Leisure and Hospitality sector, followed by Education and Health, led all industries in job gains over the past 12 months.
- Professional business and technology firms are adjusting their labor needs. Locally, employment in two of the three office-occupying sectors has declined compared to the previous 12 months.

Leasing Market Fundamentals

- The market softened with negative 134,891 SF of net absorption during the quarter, bringing the total to negative 226,504 SF over the past year. The market has now seen three consecutive quarters of negative absorption, as tenants continue to downsize their space in favor of higher-quality options.
- The non-owner-occupied construction pipeline has been inactive since the third quarter of 2022, with only 41,000 SF currently under construction.
- Vacancy increased by 20 basis points, reaching 14.6% for the quarter, and is projected to rise towards 15.0% as the market continues to adjust. Year-over-year rental rate growth has remained flat, with asking rents declining by 1.2%.

Major Transactions

- Fisher-Rosemount Systems, Inc., a subsidiary of Emerson Electric Co., signed a 10-year lease for the entire 128,110-SF property at 9315 Olive Blvd. in St. Louis. The firm will backfill the former Enterprise Fleet Management space, which was vacated in December 2024.
- Mercy renewed its lease for 53,600 SF on the third floor of the 225,900-SF Chesterfield Corporate Plaza.
- Northwestern Mutual announced plans to occupy 40,040 SF on the 15th and 16th floors of The 101 in Clayton.
- Dentons US LLP agreed to a 38-month sublease for 18,940 SF on the sixth floor of The 101 in Clayton.

Outlook

- Uncertainty persists in the macroeconomic outlook, leading both occupiers and investors to approach deals with increased caution, which will likely impact leasing and investment activity. Vacancy is expected to remain near 15.0%, as tenants lock in favorable conditions.
- However, hybrid work strategies continue to reshape the market. Tenants will maintain significant leverage in lease negotiations, benefiting from an abundance of available space options. Additionally, the conversion of office spaces to alternative uses will remove obsolete inventory, tempering the rise in vacancy.
- Rental rates are expected to ease in the coming quarters as liquidity challenges push landlords to lower rents rather than offer larger concession packages.

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

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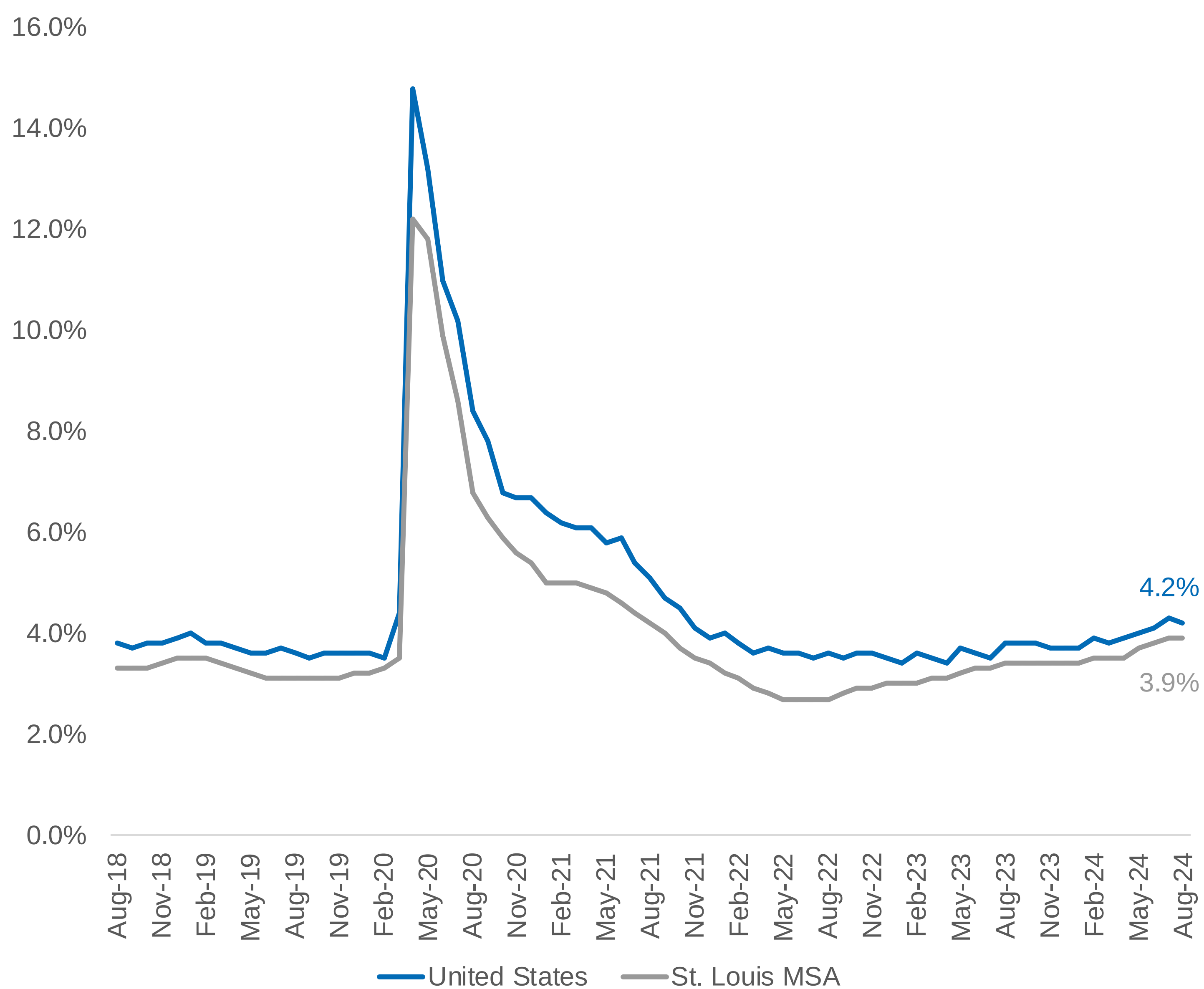
Economy

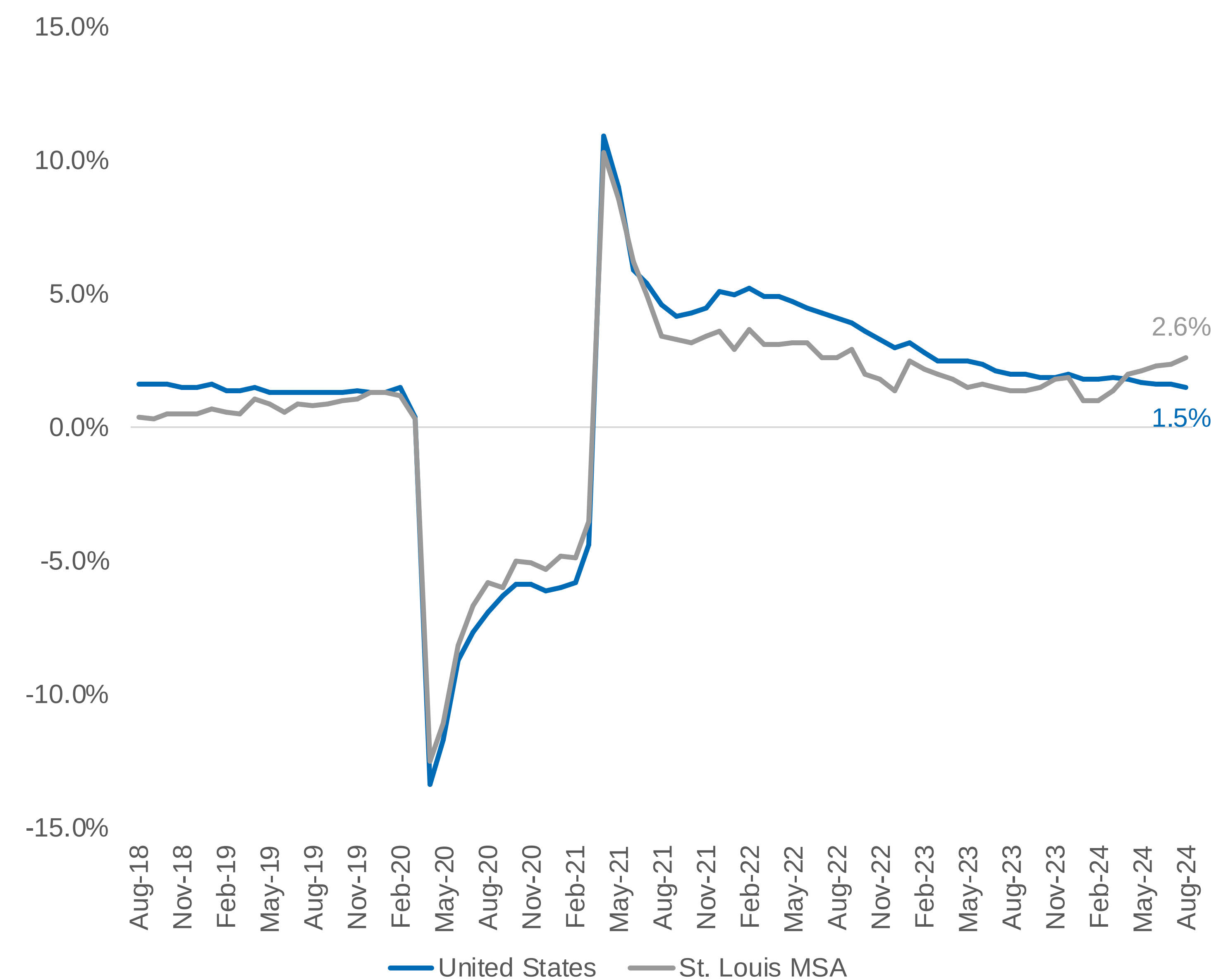
Metro Employment Trends Signal A Stable Economy

The region's labor market remains stable despite elevated interest rates. Unemployment in the area has recovered from pandemic levels and is currently 30 basis points below the national average, signaling continued economic resilience.

Unemployment Rate, Non-Seasonally Adjusted



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

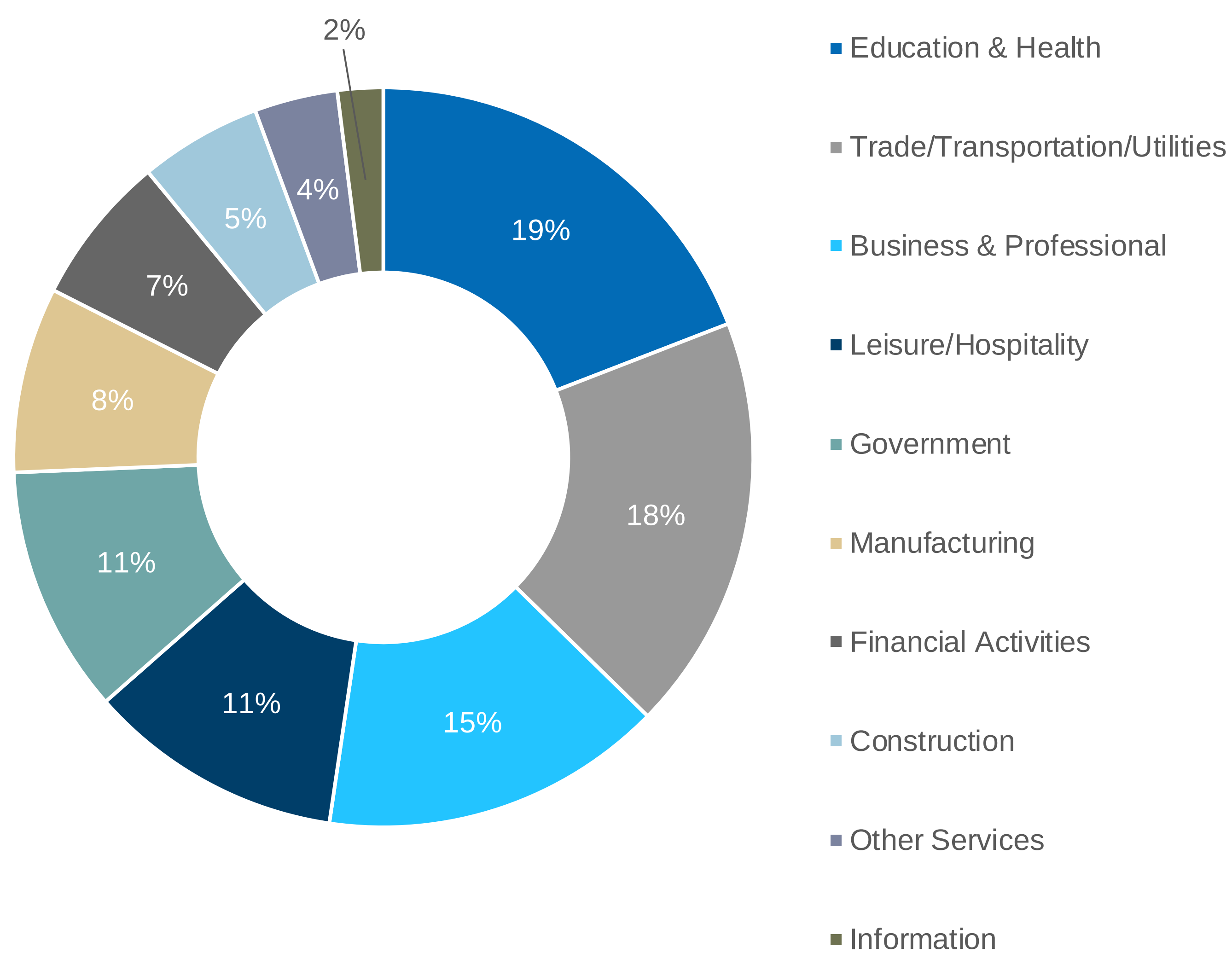


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

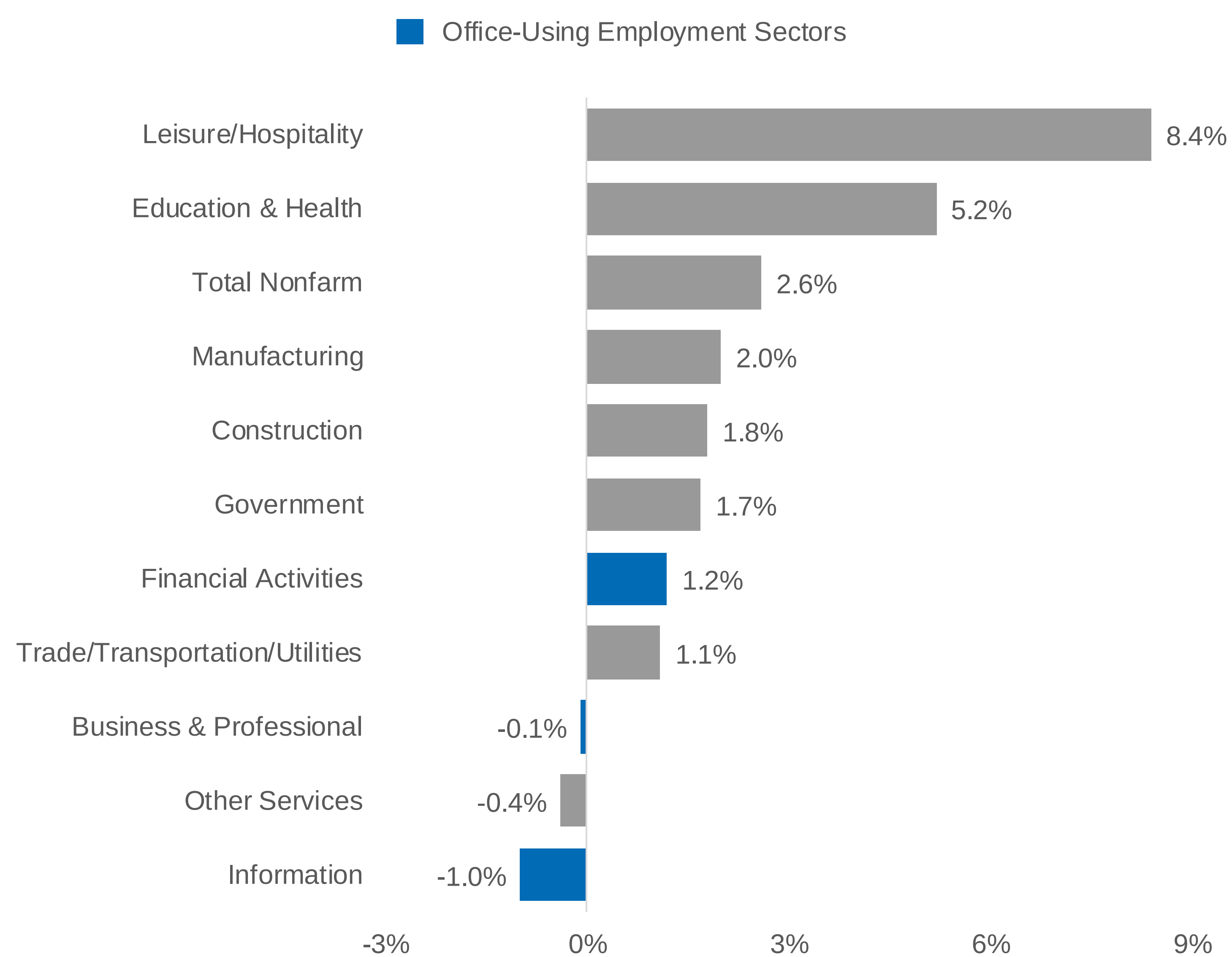
Service Sector Leads Job Growth as Pandemic Recovery Continues

The Leisure & Hospitality sector led regional annual job growth, followed closely by Education and Health. These sectors are benefitting from a post-pandemic shift in consumer spending toward services, travel, and healthcare. In contrast, two of the three office-occupying industries—Information and Business & Professional Services—experienced annual job losses.

Employment by Industry, August 2024



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

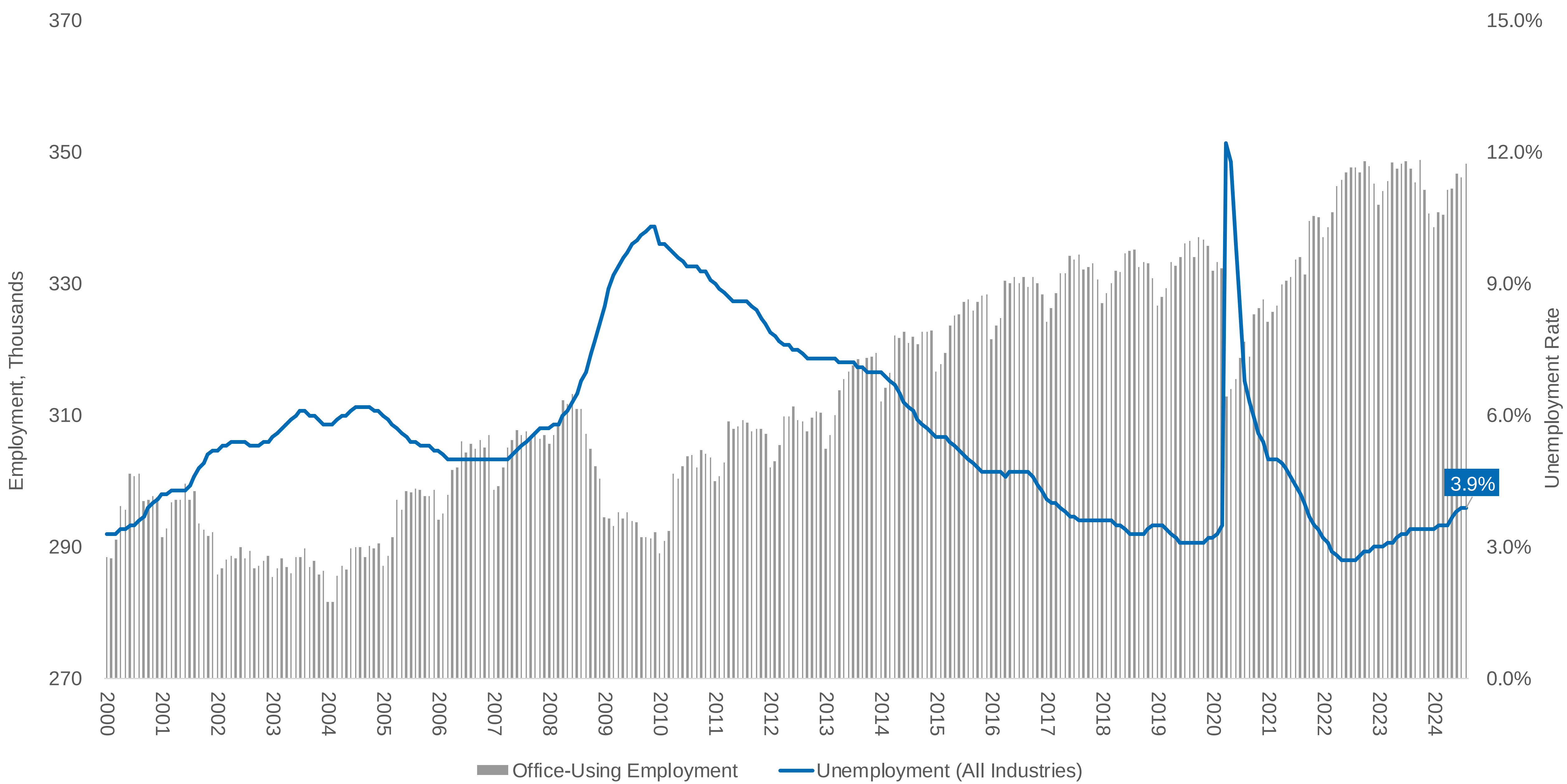


Source: U.S. Bureau of Labor Statistics, St. Louis MSA

Overall Office-Using Employment Rebounds

The number of office jobs has recovered to pre-pandemic levels. Although there is typically a slight seasonal dip in employment rates at the start of each year, the region has stabilized, and employment rates are expected to grow moving forward.

Office-Using Employment* and Unemployment Across All Industries



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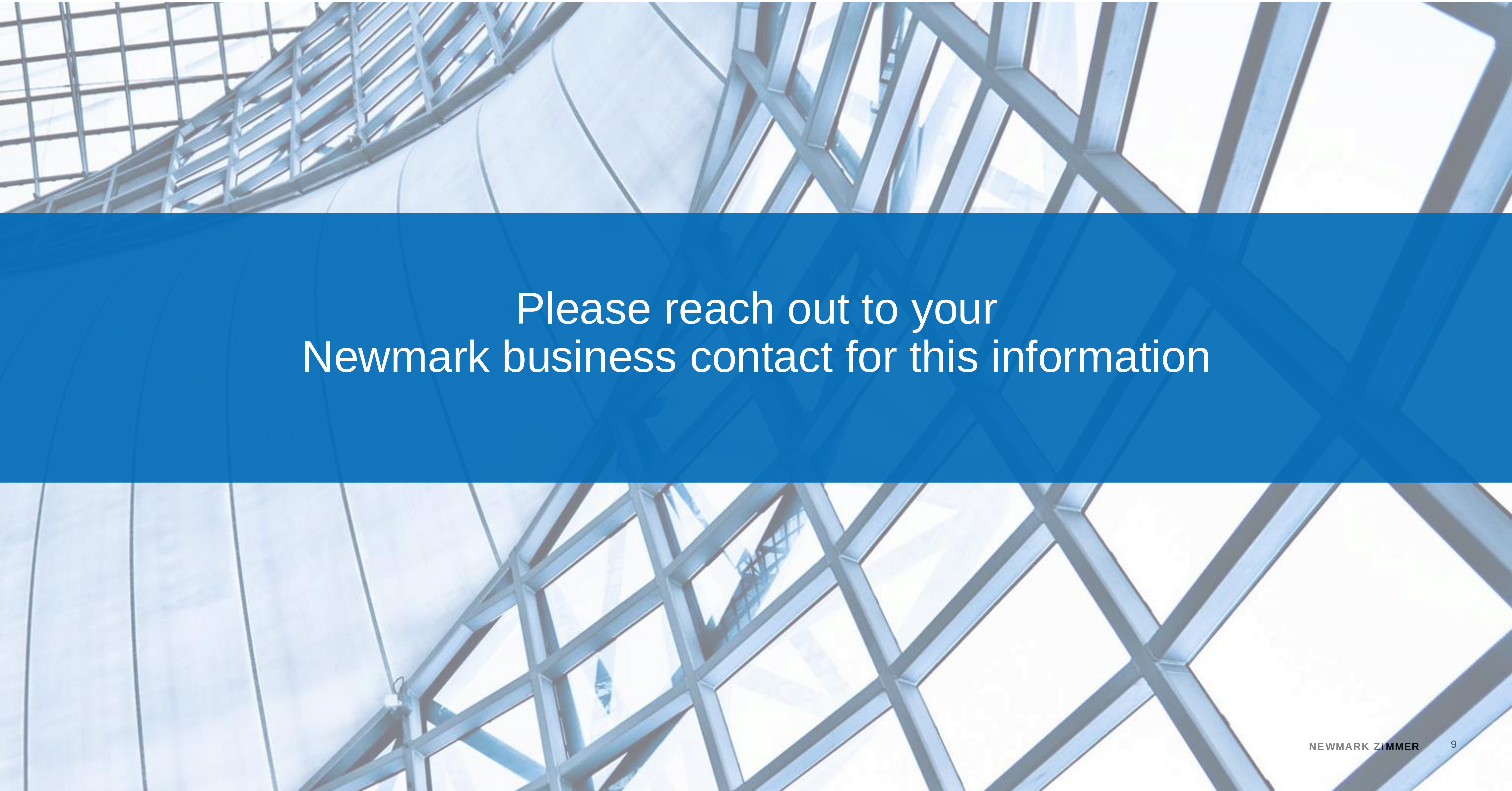
Leasing Market Fundamentals

Market Overview



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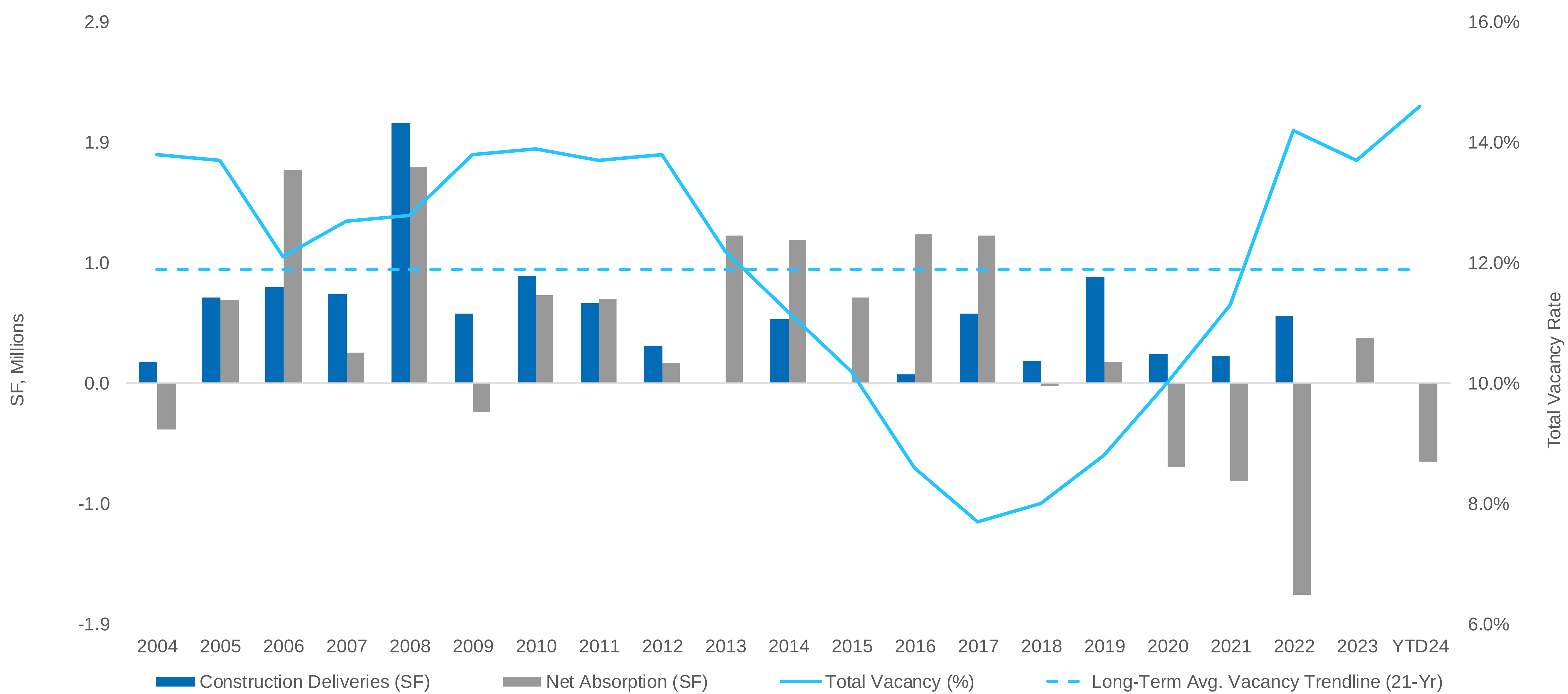
Vacancy Stabilizing As Market Recalibrates

Vacancy rose 0.3% year-over-year to 14.6%, as tenants increasingly adopt hybrid work models and reassess their evolving space needs. The trend of office space conversions to multifamily, hospitality, and retail uses, combined with limited new deliveries, is expected to put downward pressure on vacancy rates. Tenants will continue to hold significant leverage in most Metro submarkets, driving landlords to offer more aggressive deal terms. New office developments remain largely restricted to build-to-suit and owner-occupied projects.

Historical Construction Deliveries, Net Absorption, and Vacancy

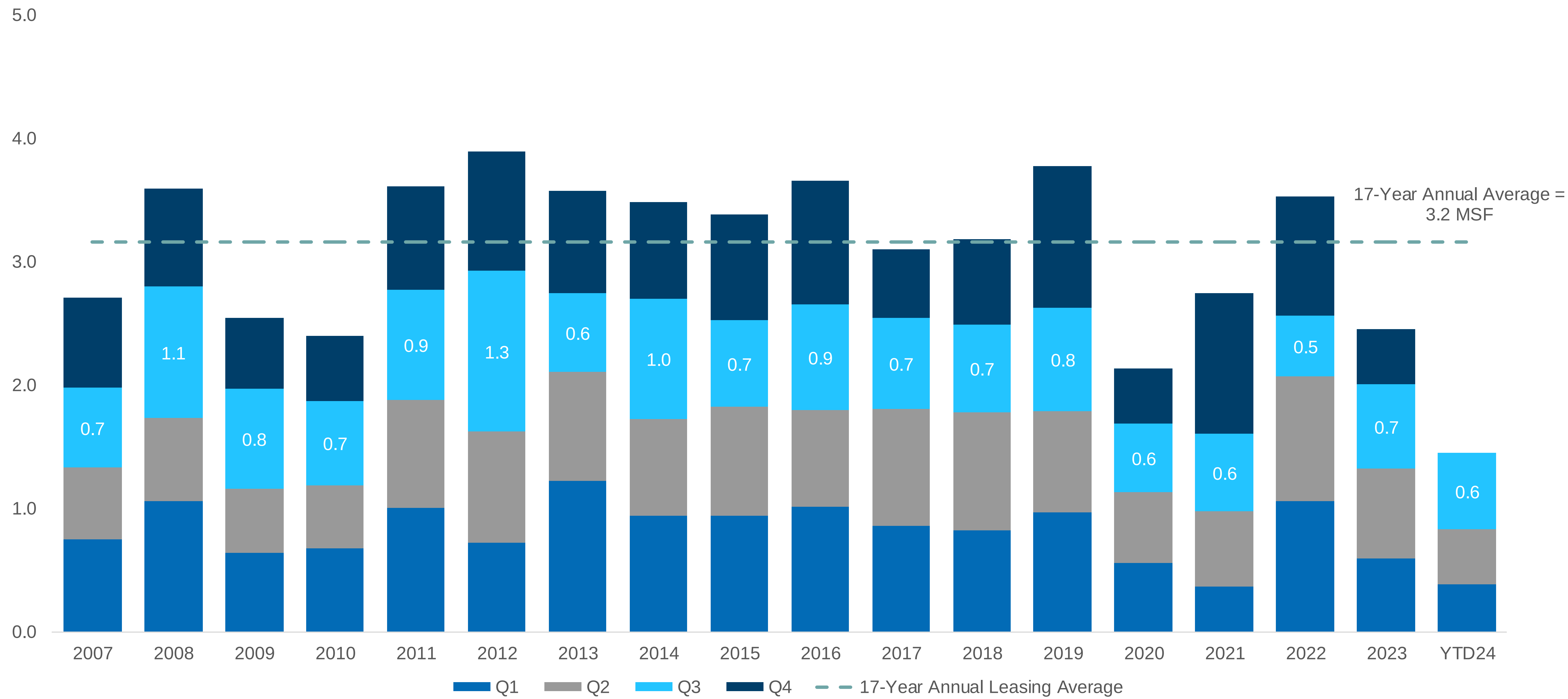


Source: Newmark Research

3Q Leasing Activity Rebounds to Match Four-Year Average

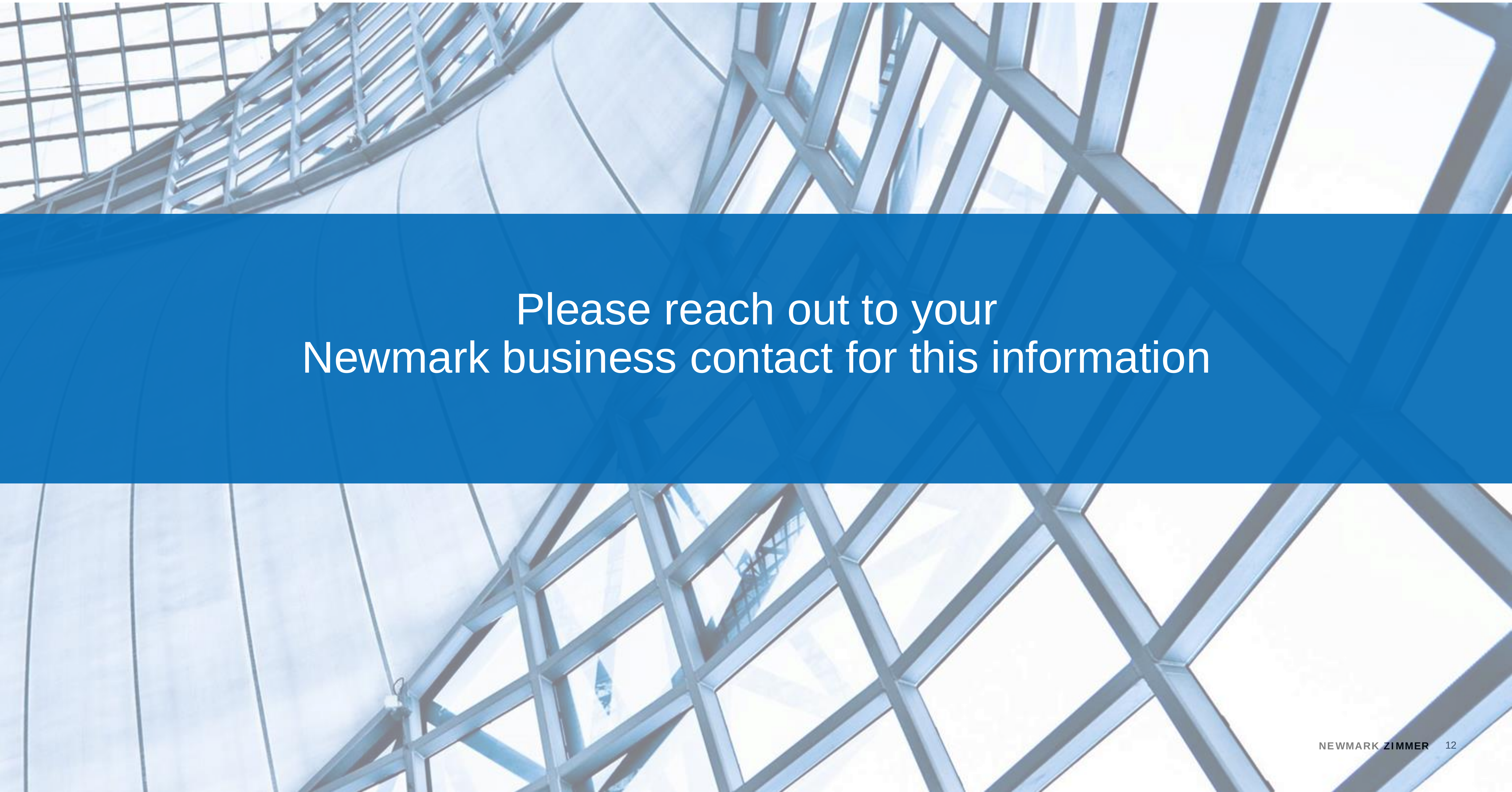
Leasing activity in the third quarter of 2024 reached 617,160 SF, a 4.8% increase compared to the average for the third quarters of 2020 through 2023. However, over the past four quarters, leasing activity has dropped significantly, down 40% compared to the 17-year average. Along with the reduced demand for office space as companies consolidate and downsize, macroeconomic uncertainty and tighter debt financing will shape the near- and midterm outlook.

Total Leasing Activity (MSF)



Source: Newmark Research, CoStar

Pandemic Consequences, Financing Issues Lead to Fewer Leases Signed



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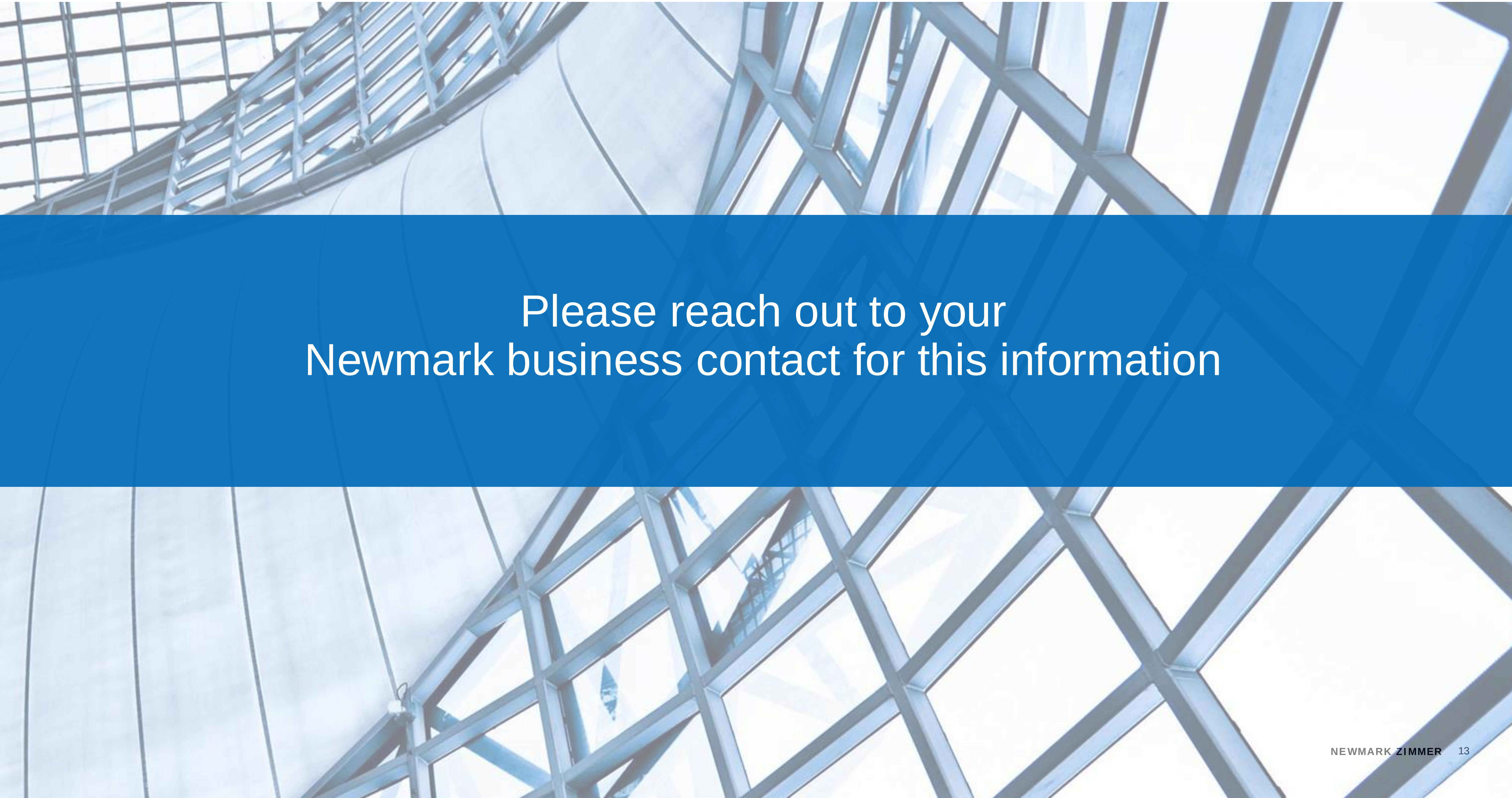
Reduced Average Leasing Activity In All Submarkets Compared To Pre-Pandemic



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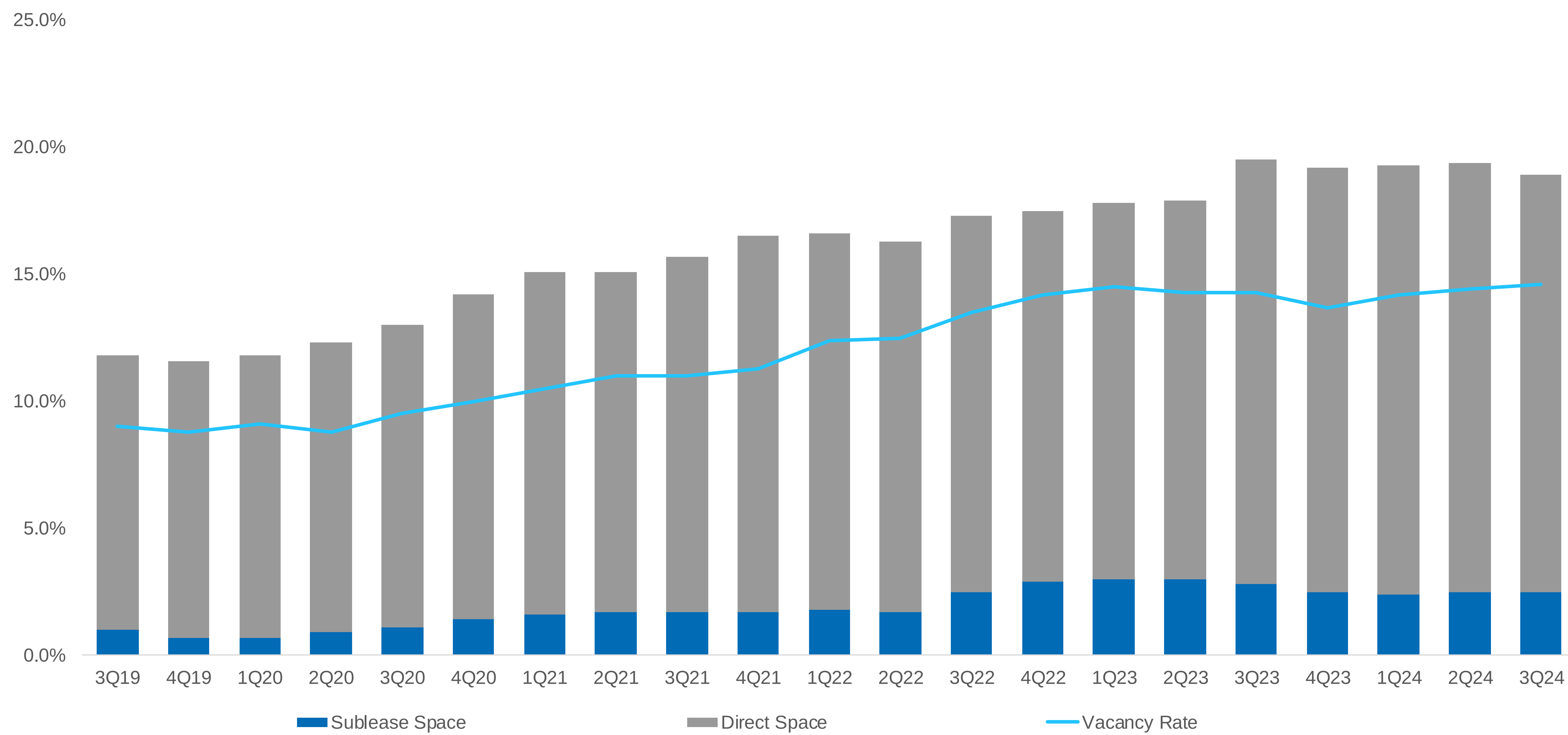
Direct Availability Continues To Climb, While Sublease Availability Stabilizes At 2.5%

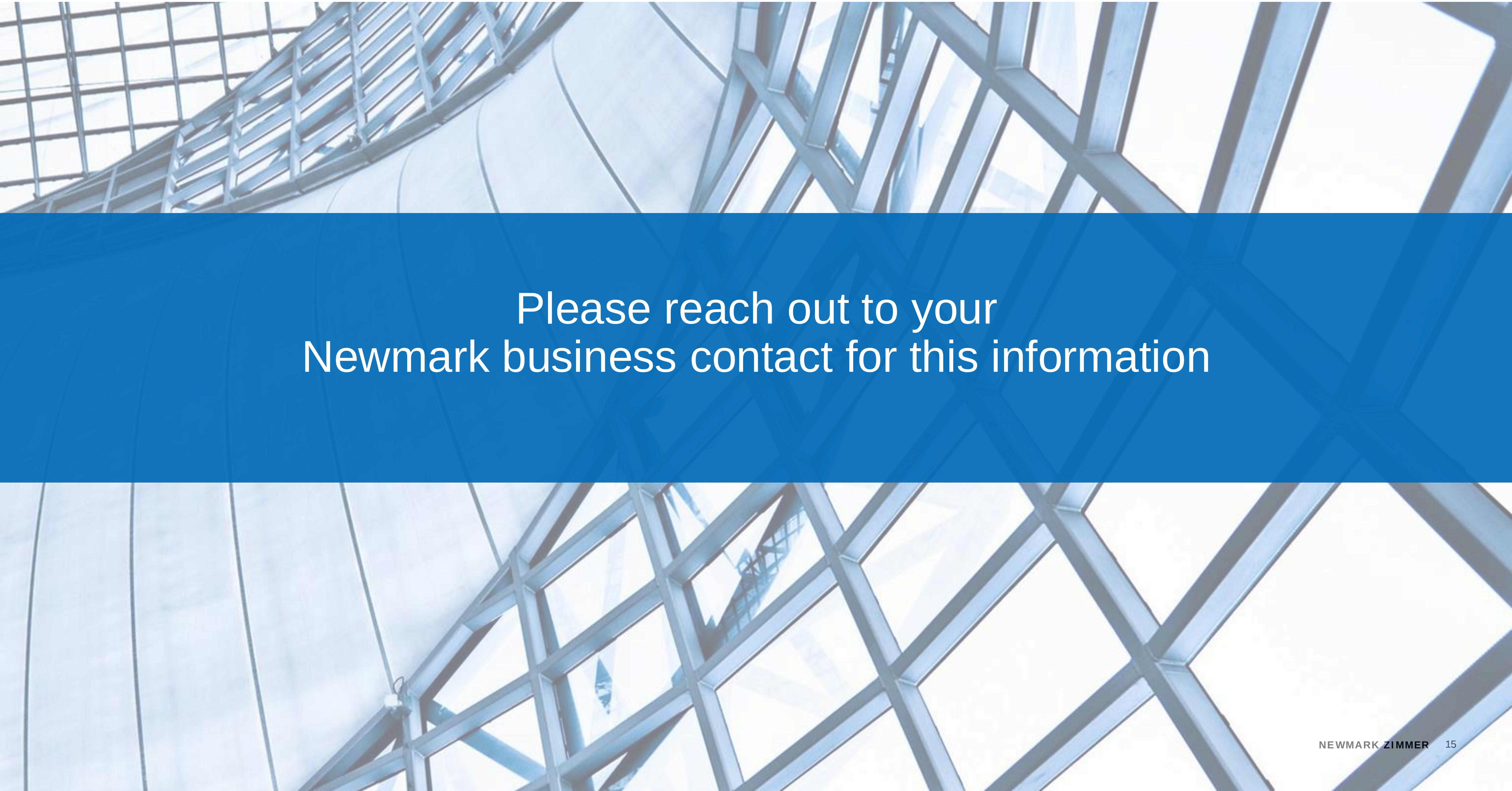
Prior to the pandemic, many tech companies, including Centene, leased space in anticipation of future employment growth, aiming to hedge against decreasing supply and rising rents. With recent job cuts in the sector, a notable portion of available sublease space is now linked to tech firms. Direct space availability is expected to remain high through the rest 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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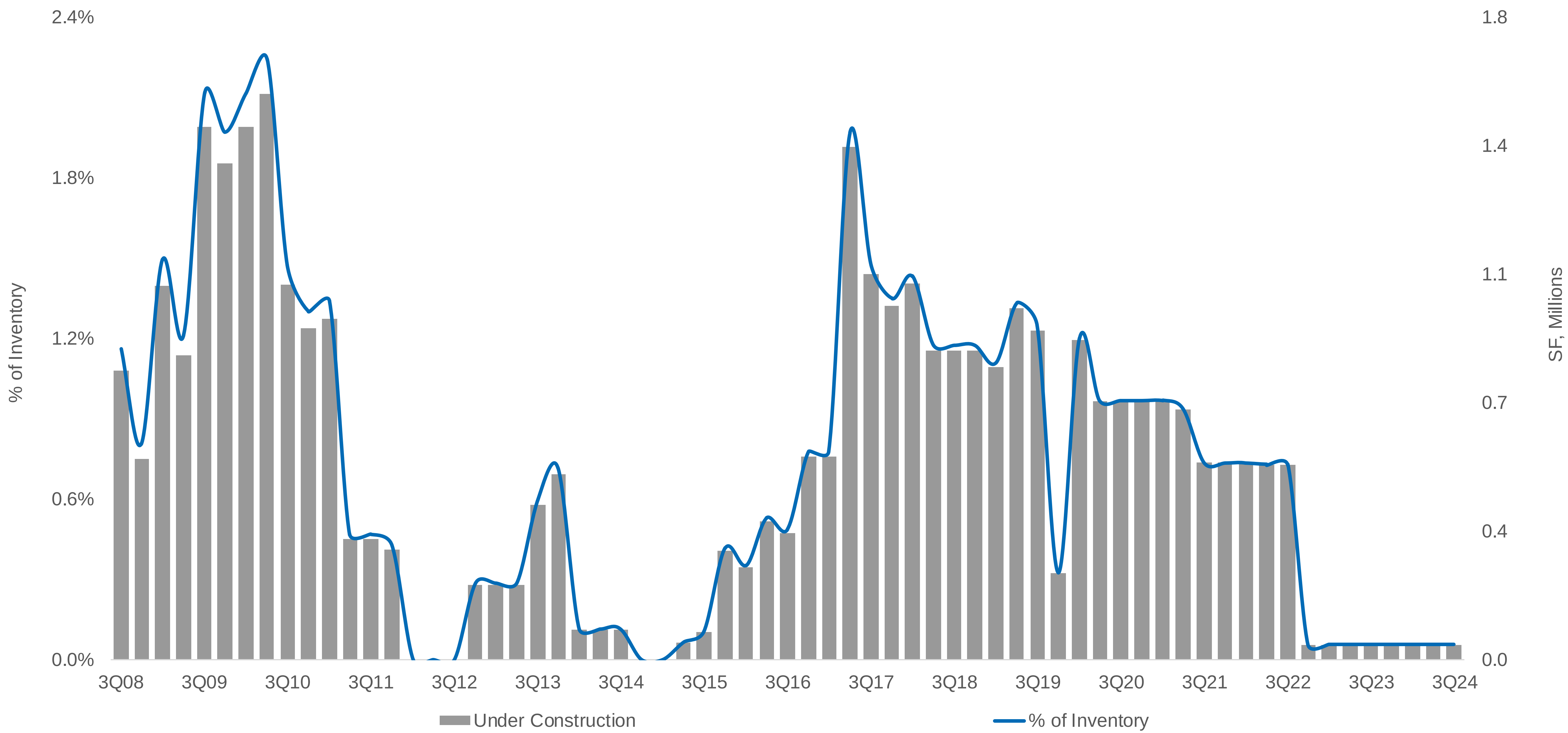
New Construction Activity Pauses As Vacancy Remains Elevated At 14.6%

Following the 2022 deliveries of Commerce Bank Tower and Forsyth Pointe in the Clayton submarket, new construction volume has dropped significantly. Current development is limited to build-to-suit and owner-occupied projects, as elevated vacancy rates of 14.6% continue to dampen speculative construction activity.

Office Under Construction and % of Inventory

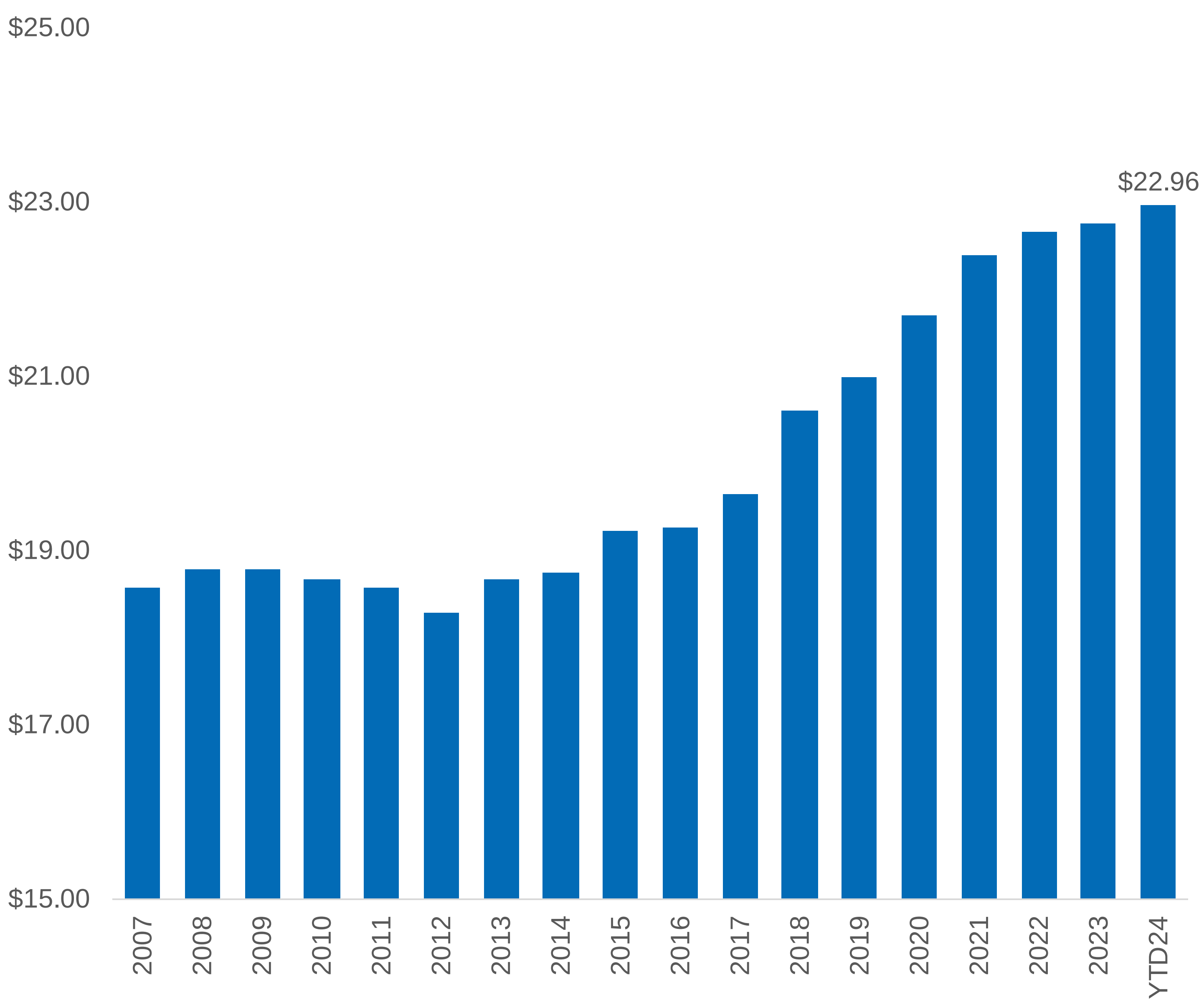


Source: Newmark Research, CoStar, St. Louis Market

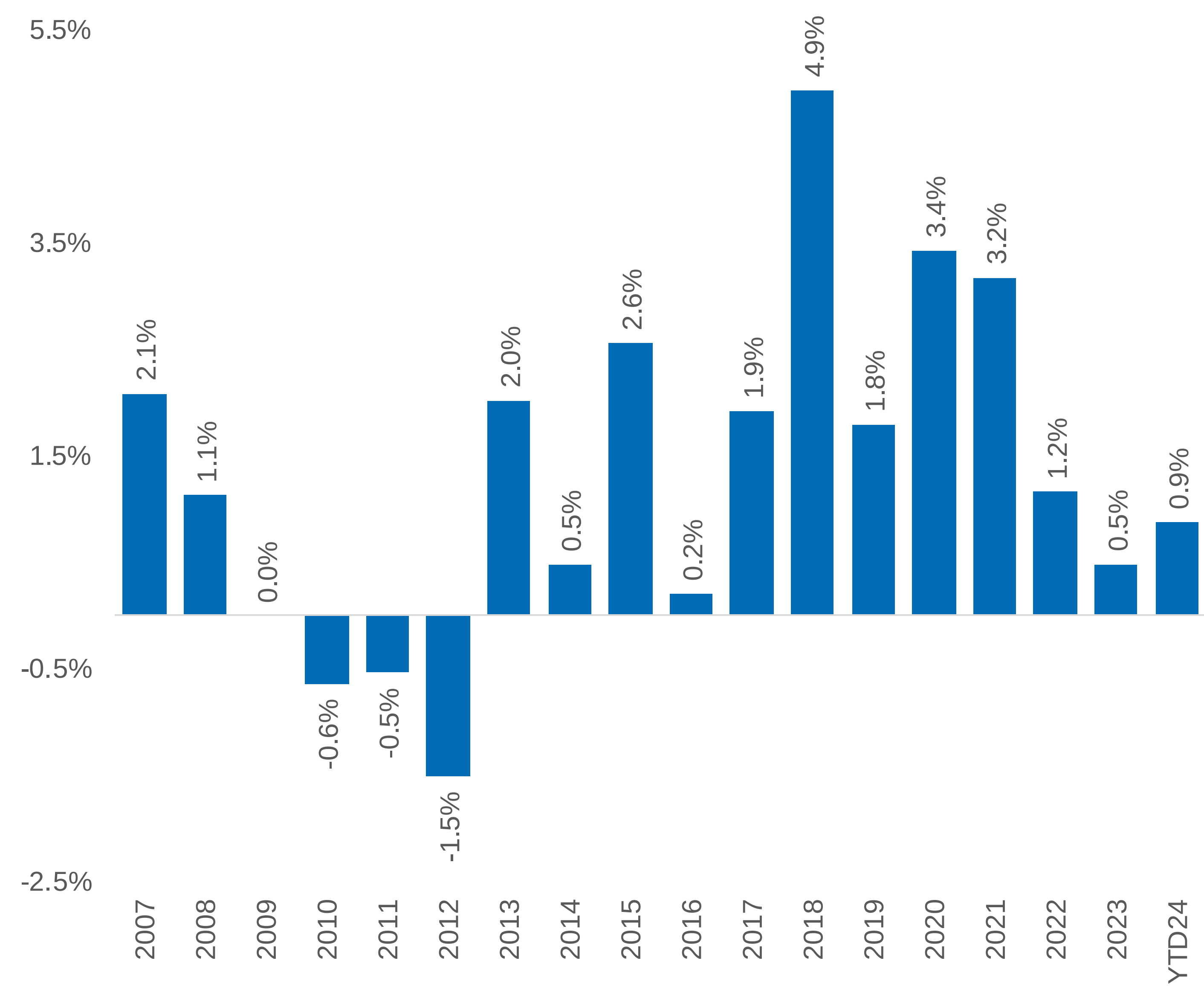
Rents Continue to Rise, But At A Slower Pace

Overall asking rents increased year over year to $22.96/SF. However, rental rates are expected to remain flat over the next four quarters as limited liquidity pushes some landlords to lower rents rather than offer larger concession packages. With inflation remaining above average over the past 12 months, real growth in asking rental rates within the office sector has largely stagnated.

Office Average Asking Rent, $/SF, FS



Year-Over-Year Asking Rent Growth Rate

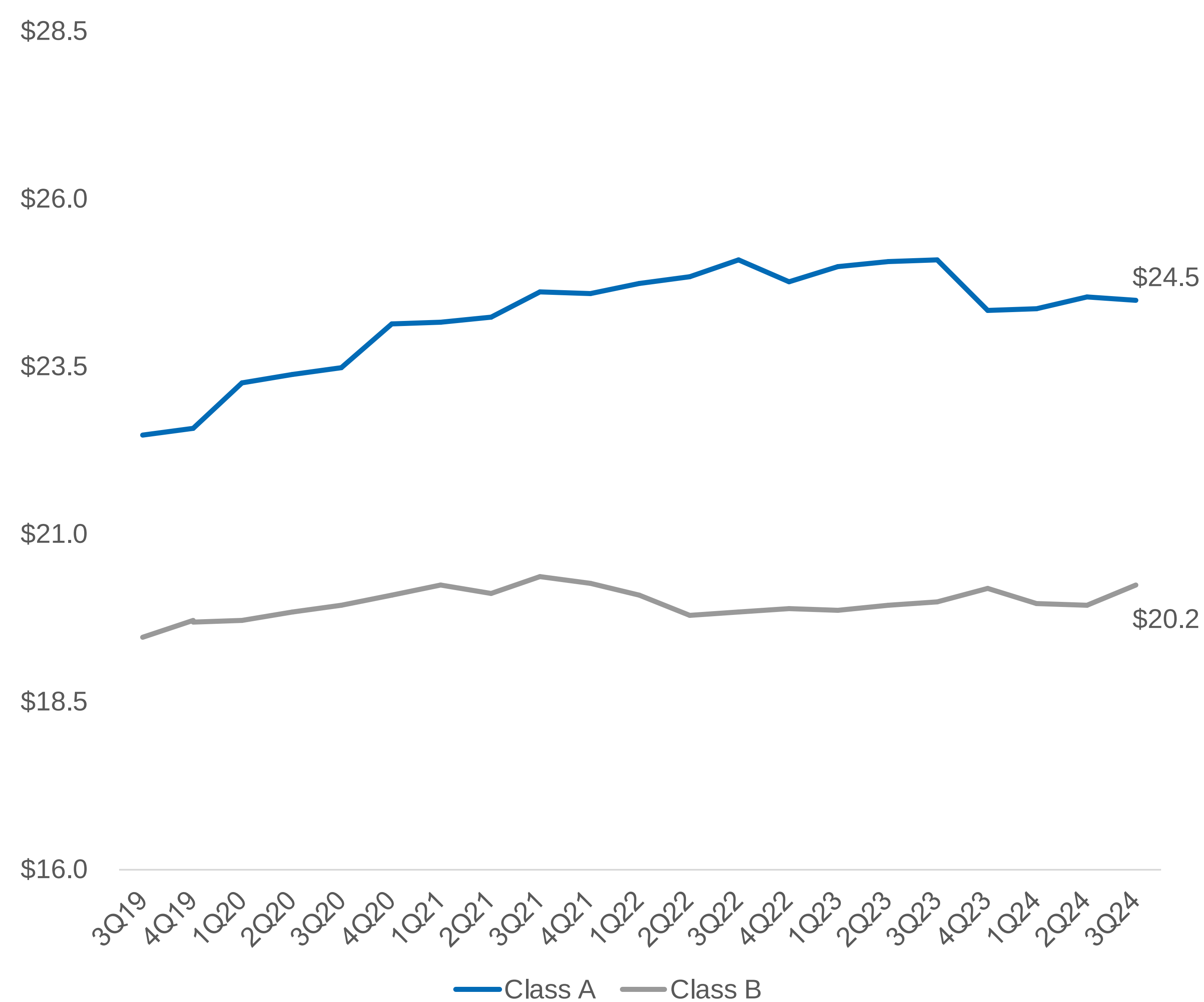


Source: Newmark Research, CoStar

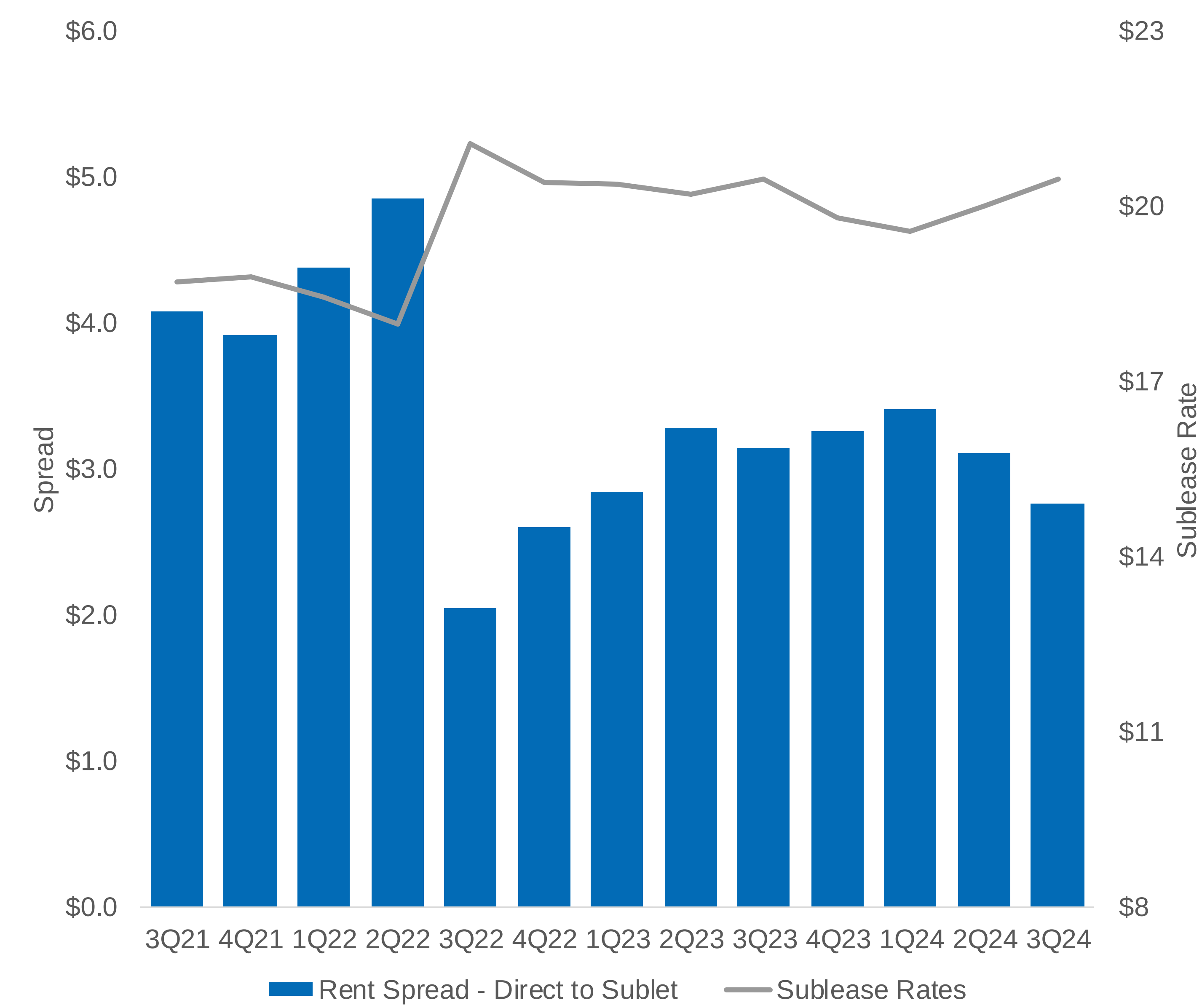
Class A Rents Compress Year-Over-Year

While asking rental rates have remained relatively stable since the onset of the pandemic, past cycles suggest that rents eventually adjust downward to reflect reduced demand. The rent compression seen in major markets during 2023 has now begun to impact select secondary and tertiary markets, including St. Louis. Sublease rents rose to $20.46/SF in the third quarter of 2024, narrowing the rent spread to $2.77/SF.

Class A and Class B Asking Rents

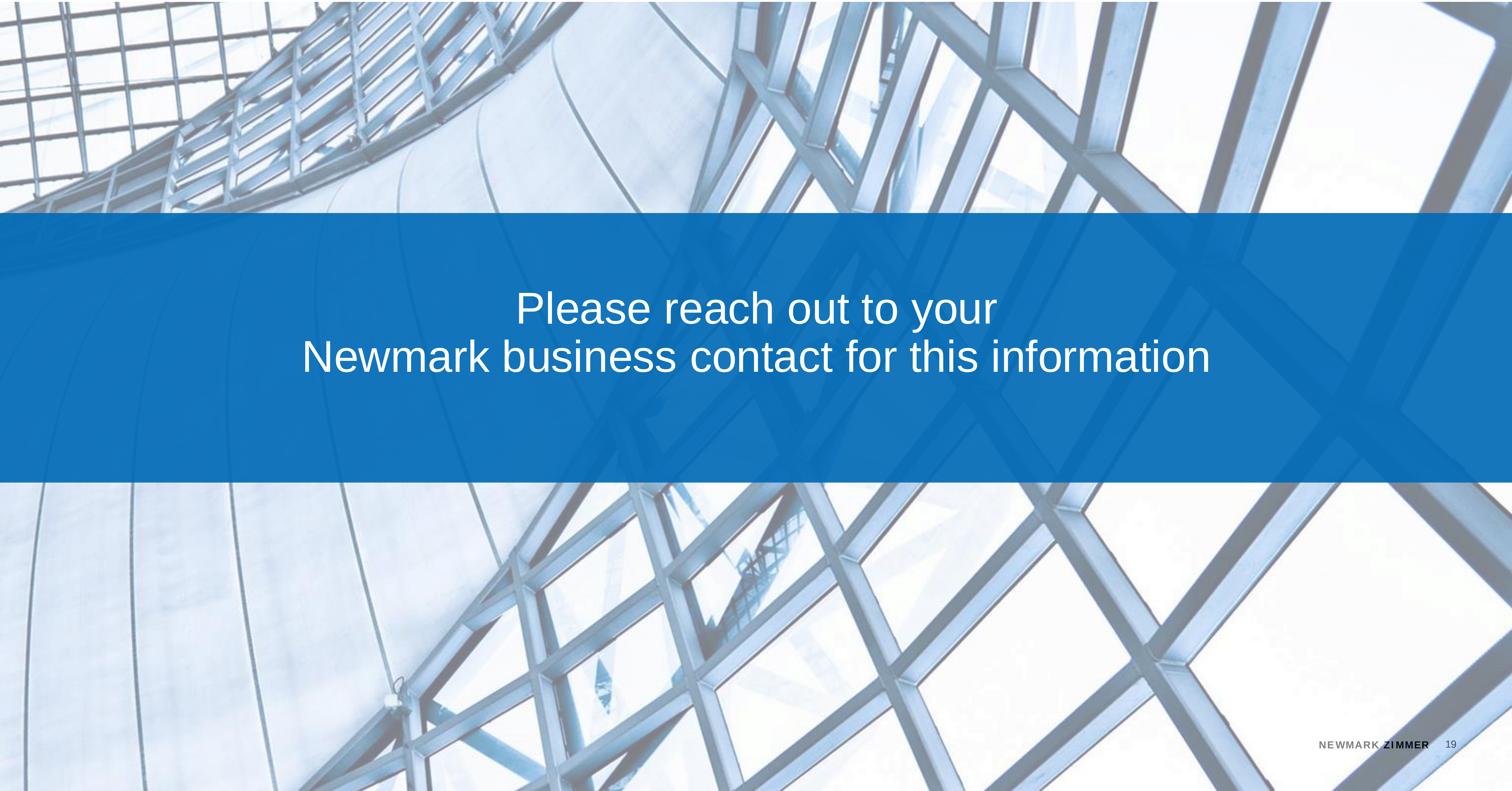


Sublease Rates



Source: Newmark Research, CoStar

Marquee Submarkets See Largest Rental Rate Growth Since 2019



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3Q24 Notable Leasing Activity

Demand for new or newly renovated Class A office space in marquee submarkets, especially those with prime amenities, is expected to remain strong over the next four quarters. Following significant tenant departures from outdated spaces and property conversions to multifamily and hospitality uses, the overall market has begun to stabilize, with a 30-basis-point increase in vacancy since the third quarter of 2023.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Fisher-Rosemount Systems, Inc.	9315 Olive Boulevard	Mid County	Direct Lease	128,110
Fisher-Rosemount Systems, Inc., a subsidiary of Emerson Electric Co., signed a 10-year lease for the entire 128,110-SF property located at 9315 Olive Blvd. in St. Louis. The firm will backfill the former Enterprise Fleet Management space which was officially vacated in December 2024.				
Mercy	14528 S Outer 40 Road	West County	Renewal	53,600
The healthcare organization signed a renewal for 53,600 SF on the third floor of the 225,900-SF Chesterfield Corporate Plaza.				
Northwestern Mutual	101 S Hanley Road	Clayton	Direct Lease	40,040
Northwestern Mutual announced it will occupy 40,040 SF on the 15th and 16th floors of The 101 in Clayton. The asking rental rate was $33.50/SF prior to leasing.				
Dentons US LLP	101 S Hanley Road	Clayton	Sublease	18,940
Dentons US LLP agreed to a 38-month sublease for 18,940 SF of space on the sixth floor of The 101 in Clayton.				
The Oasis Institute	500 NW Plaza Drive	North County	Direct Lease	5,230
The non-for-profit will relocate its headquarters from the Center of Clayton to the Crossings at Northwest in St. Ann. The Oasis Institute signed a 10-year lease on the fourth floor of the 223,650-SF multi-tenant building.				

Source: Newmark Research

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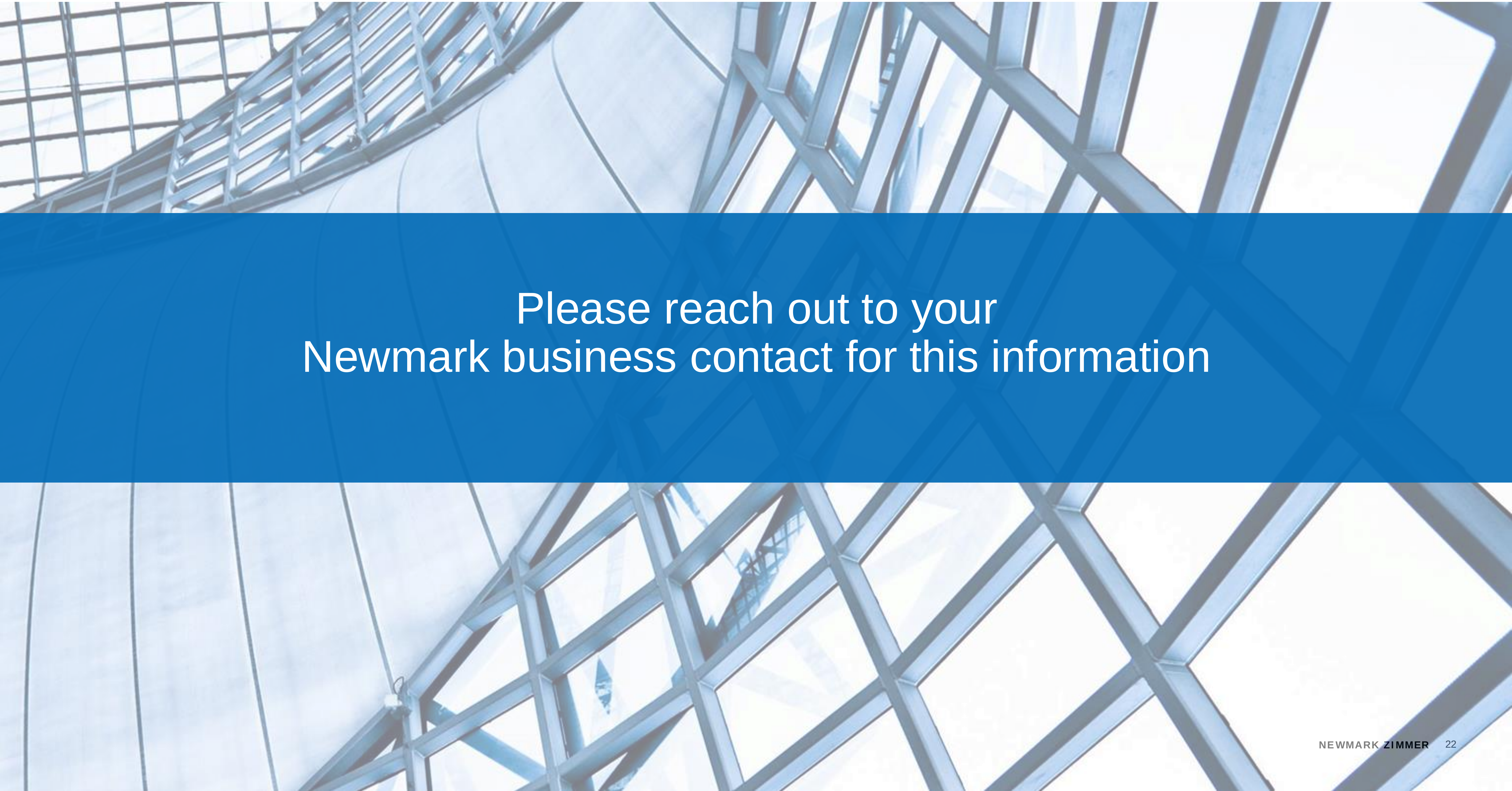
Submarket Statistics

Submarket Statistics: All Classes, Class A, Class B



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