

MARKETBEAT

ST. LOUIS



Office Q3 2023

YoY Chg 12-Mo. Forecast

18.0%
Vacancy Rate ▲ ▲

-25.7K
YTD Net Absorption, SF ▼ ▲

\$23.22
Asking Rent, PSF ▲ ▬

Gross, Class A and B Properties, asking rates weighted on vacant space

ECONOMIC INDICATORS Q3 2023

YoY Chg 12-Mo. Forecast

1.4M
St. Louis Employment ▲ ▼

3.0%
St. Louis Unemployment Rate ▲ ▲

3.7%
U.S. Unemployment Rate ▲ ▲

*Sources: BLS, Moody's Analytics, St. Louis Business Journal
2023Q3 statistics are based on latest available data*

ECONOMIC OVERVIEW

The Federal Reserve announced rates would remain unchanged in the most recent September 2023 meeting, marking two consecutive pauses in rate hikes. The target interest rate currently sits at 5.2%-5.5%, as the Fed maintained a commitment to reducing inflation. The increased cost of capital continues to play a major role across commercial real estate sectors, with the resulting slowdown in demand and capital environment creating pockets of distress throughout the industry. As ongoing recession fears loom, St. Louis employment remained steady in Q3 2023, recording a slight uptick in unemployment to 3.0%.

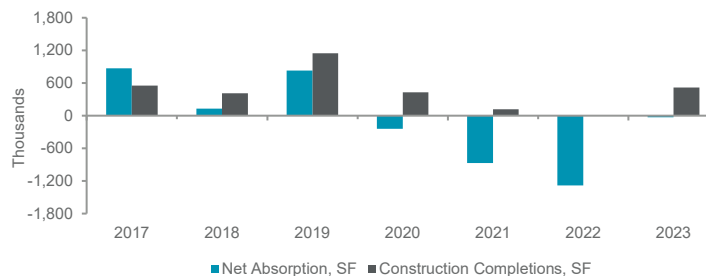
SUPPLY AND DEMAND: Vacancy Slows but Remains Historically Elevated

The St. Louis office market recorded its second consecutive quarter of overall vacancy at 18.0%, marking ten consecutive quarters of vacancy above the historical average of 14.2%. The market experienced its second quarter of positive occupancy gains in 2023, recording 7,370 square feet (sf) of net absorption in Q3, which follows a 231,957-sf quarter in Q1 2023. This marks the first year that the market has seen multiple quarters of positive occupancy movement since 2020, just before the onset of the pandemic. As occupiers continue to evaluate and finalize their corporate real estate strategy, the office market is beginning to see some stabilization in vacant space. St. Louis has recorded an overall net absorption total of negative 25,759 sf in 2023 year-to-date (YTD), compared to negative 868,124 sf in 2021 and negative 1.2 million square feet (msf) in 2022.

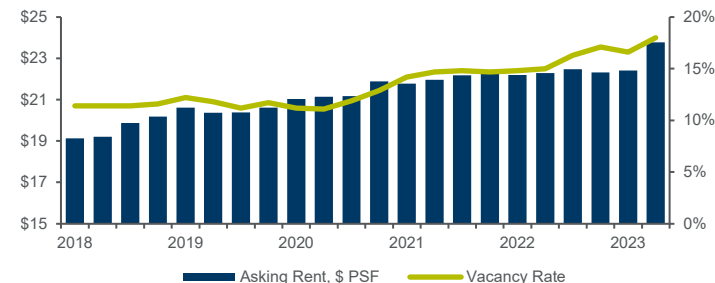
PRICING: Space Composition Impacts Rates

Overall gross average asking rents weighted on vacant space in the St. Louis office market remained stable through Q3, closing the quarter at \$23.22 per square foot (psf). This marks the second consecutive quarter of rates above the \$23.00 psf mark, despite seeing a \$0.56 decline quarter-over-quarter (QOQ). Of the 9.1 msf of vacant space in the market, roughly 55.0% is in two of the St. Louis region's most expensive submarkets, Clayton and West County. Asking rent volatility will continue as additional top tier product is leased, shifting the composition of vacant space in the market. Landlord concessions remain a critical piece within deal terms, to secure and retain occupancy throughout the St. Louis office market.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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West County

The West County submarket closed Q3 with an overall vacancy of 19.5%, a 300 basis-point (bps) increase year-over-year (YOY). This also marks the fifth-consecutive quarter of increased vacancy, as the submarket has seen more than negative 1.5 msf of absorption between Q3 2022 and YTD. Overall average rental rates in the West County submarket have reached their highest point on record, closing Q3 at \$24.34 psf. West County has recorded 573,201 sf of new leasing activity in 2023, accounting for over 50.0% of the market's velocity. The largest lease of the quarter was SSM Health's 181,631-sf lease at 12800 Corporate Hill Drive.

Clayton

The Clayton submarket welcomed 517,000 sf of top tier Class A space in Q2 2023, which was 65.1% preleased. The additional inventory placed upward pressure on vacancy within the submarket, closing Q3 at 19.6%, a 580-bps increase from Q1 2023. Clayton currently has more than 300,000 sf of available space that is leased, and not yet occupied. Although YTD absorption stands at negative 37,734 sf, a shift in physical occupancy is expected as tenants begin to occupy their newly leased space. The submarket continued to see strong leasing velocity, accounting for more than 30.0% of the region's new leasing activity through Q3.

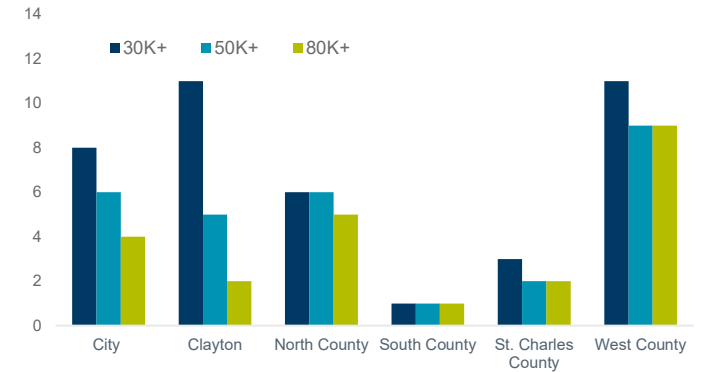
North County

North County has recorded a decrease in vacancy in each of the first three quarters of 2023. The submarket closed Q3 with an overall vacancy rate of 19.5%, a 560-bps decrease from where it ended in Q4 2022. The 322,510 sf of YTD absorption leads all submarkets, which is largely driven by Clayco's recent purchase of 8640 Evans Ave., a 227,468 sf Class A office building located in Hazelwood. Despite this positive trend in occupancy, the submarket is still home to over 500,000 sf of available sublease space, with 300,000 sf scheduled to expire over the next two years.

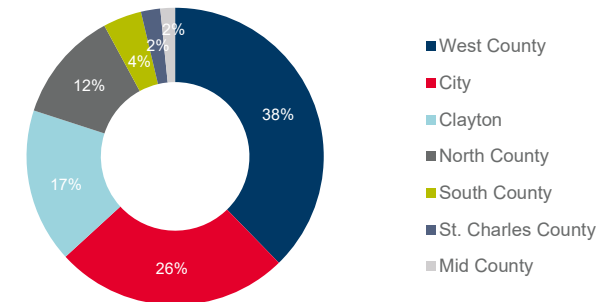
Outlook

- Flight-to-quality will continue to impact the St. Louis market despite economic headwinds
- Buildings with some combination of modern buildout and sought-after amenities will continue to see an outsized share of leasing activity as the market continues to trend towards a higher quality, more flexible workplace
- Hybrid/Remote work strategies will continue to elevate vacancy throughout the St. Louis metro, although companies are expected to pursue return-to-office policies

CLASS A CONTIGUOUS SPACE

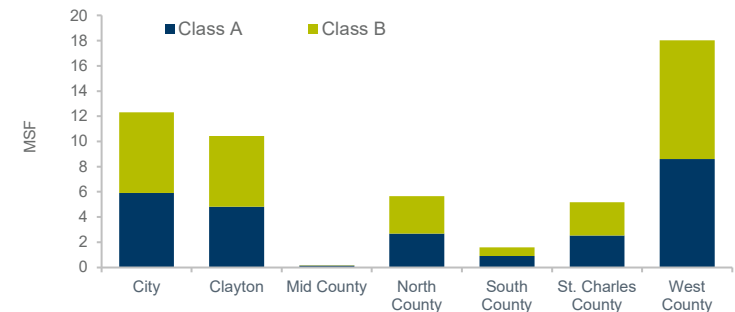


VACANT SPACE BY SUBMARKET



% of Total Vacant Space Q3 2023

OCCUPIED SPACE



MARKETBEAT ST. LOUIS

Office Q3 2023



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)**	YTD OVERALL NET ABSORPTION (SF)**	YTD LEASING ACTIVITY (SF)**	UNDER CONST. (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
St. Louis City	11,084,117	2,135,824	193,912	21.0%	-96,642	-84,403	58,818	0	\$19.01	\$20.43
CBD (Downtown)	9,911,569	1,972,467	193,912	21.9%	-96,642	-12,516	38,175	0	\$18.31	\$19.60
Clayton	7,874,559	1,490,520	50,595	19.6%	-37,483	-37,734	347,660	0	\$30.39	\$33.27
Mid County	2,173,383	143,739	980	6.7%	1,350	93,047	14,854	0	\$22.13	\$32.00
North County	5,711,784	915,330	196,697	19.5%	225,643	322,510	35,444	0	\$18.00	\$19.69
South County	2,650,997	381,810	0	14.4%	13,698	59,606	42,947	0	\$23.25	\$24.79
St. Charles	3,630,934	196,397	0	5.4%	816	18,108	13,476	0	\$20.00	\$21.96
West County	17,720,279	2,497,526	949,673	19.5%	-100,012	-396,893	573,201	0	\$24.34	\$26.60
ST. LOUIS TOTALS	50,846,053	7,761,146	1,391,857	18.0%	7,370	-25,759	1,086,400	0	\$23.22	\$25.28

CLASS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)**	YTD OVERALL NET ABSORPTION (SF)**	YTD LEASING ACTIVITY (SF)**	UNDER CONST. (SF)	DIRECT AVG ASKING RENT*	OVERALL AVG ASKING RENT*
CLASS A	31,259,939	4,591,685	1,067,848	18.1%	-4,762	-241,079	791,719	0	\$25.35	\$25.28
CLASS B	19,586,114	3,169,461	324,009	17.8%	12,132	215,320	294,681	0	\$19.24	\$19.18
ST. LOUIS TOTALS	50,846,053	7,761,146	1,391,857	18.0%	7,370	-25,759	1,086,400	0	\$23.14	\$23.22

*Rental rates reflect gross asking \$psf/year and are weighted on vacant space

**Renewals not included in leasing statistics

KEY LEASE TRANSACTIONS Q3 2023

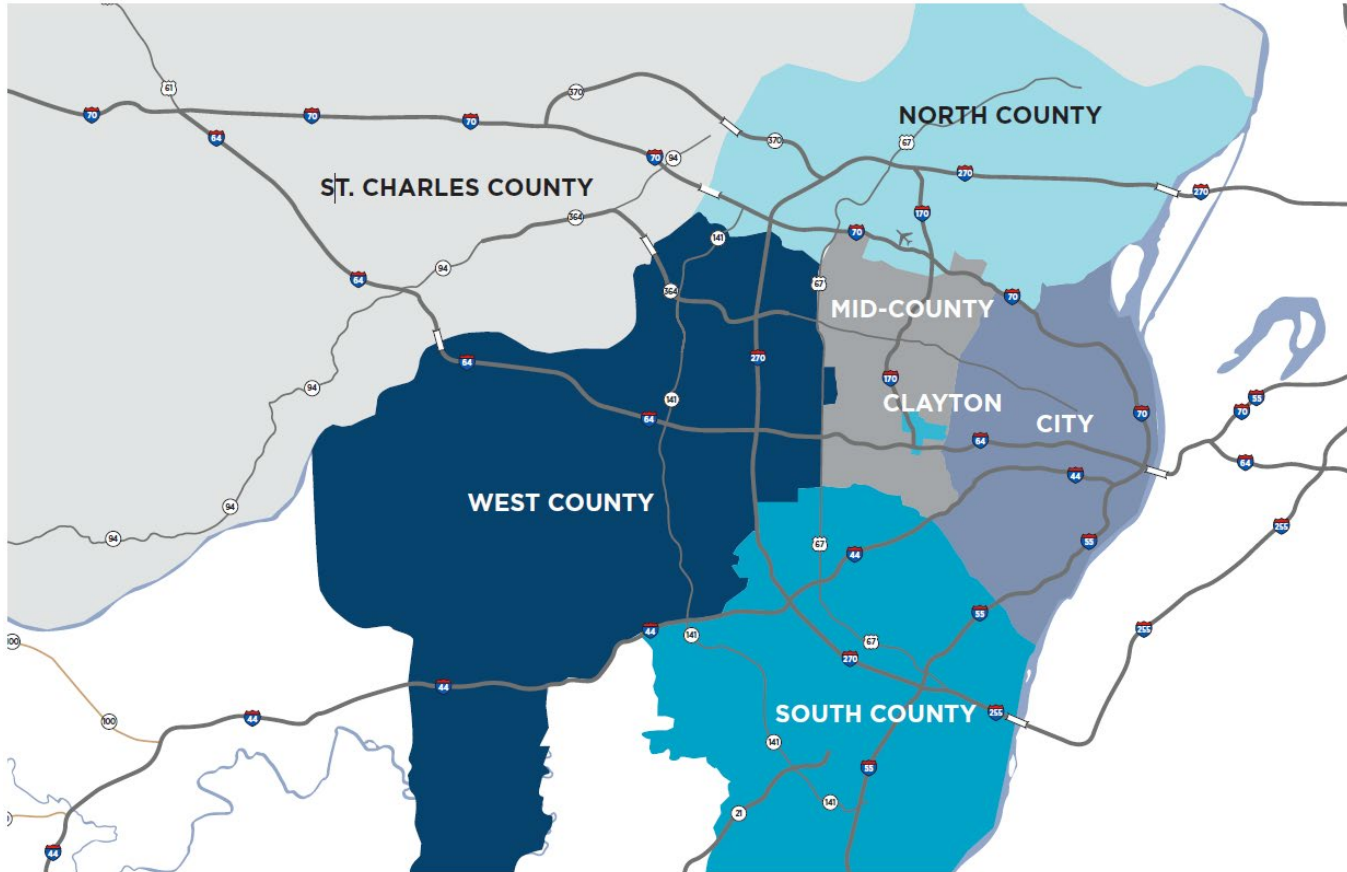
PROPERTY	SUBMARKET	TENANT	SF	TYPE
12800 Corporate Hill Dr.	West County	SSM Health	181,631	New
120 S. Central Ave.	Clayton	St. Louis Economic Development Council	17,318	New
190 Carondelet Plaza Dr.	Clayton	Lathrop & Gage	16,023	New
1 Memorial Dr.	CBD (Downtown)	Oculus Inc.	14,808	**Renewal
10733 Sunset Office Dr.	South County	Enclos Corp	11,017	Renewal/Expansion

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER BUYER	SF	PRICE \$ PSF
8640 Evans Ave.	North County	Orion Office REIT Inc. Clayco	233,745	\$9.65 M \$41.28



OFFICE SUBMARKETS



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