

MARKETBEAT

St. Louis

Office Q2 2018



ST. LOUIS OFFICE

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
St. Louis Employment*	1,377k	1,386k	▲
St. Louis Unemployment*	3.8%	3.5%	▼
U.S. Unemployment	4.3%	3.8%	▼

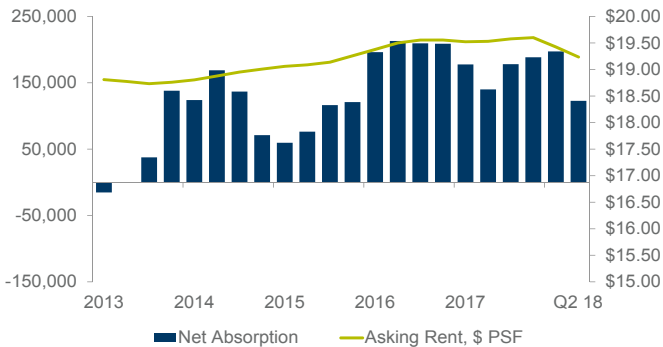
*Q2 data above is quarterly averages based on April and May values.

Market Indicators (Overall, All Classes)

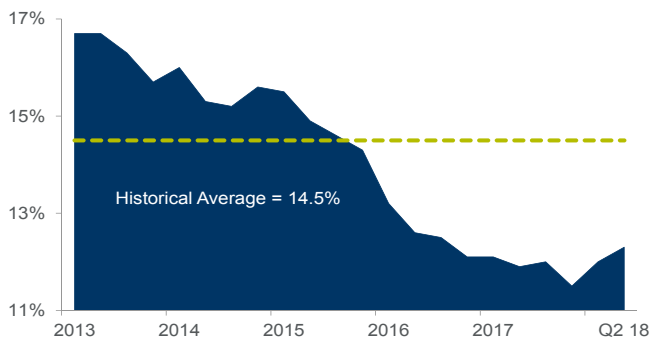
	Q2 17	Q2 18	12-Month Forecast
Vacancy	11.9%	12.3%	▼
Net Absorption (sf)	189k	-109k	▲
Under Construction (sf)	1.7M	1.4M	▲
Average Asking Rent*	\$19.47	\$18.90	▲

*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The St. Louis labor market demonstrated significant growth during the first half of 2018, adding 5,400 jobs. Year-over-year the local economy generated 11,700 jobs with office-using employment accounting for 7,000 of the jobs created during the same period and 5.5% growth over the past five years. St. Louis's seasonally adjusted unemployment rate of 3.5% during the second quarter of 2018 marked the 36th consecutive month below the national average of 3.8%. With the United States economy at near-full employment, the Federal Open Market Committee raised interest rates by 25 basis points (bps) to a range of 1.75% to 2.0%, the second rate increase this year. Money policymakers indicated that there could be four rate hikes in 2018.

Market Overview

The St. Louis market ended the second quarter with a vacancy rate of 12.3%, which is 240 bps below the 10-year average despite recording negative 109,000 square feet (sf) of net absorption for the quarter. The majority of the negative absorption was due to TD Ameritrade's downsizing out of 133,000 sf and Cequel III's move-out of 58,000 sf, which added some much-needed opportunities for tenants to grow. The suburban average asking rate reached \$20.14 per square foot (psf), increasing by \$0.32 psf quarter-over-quarter and - as tenant demand remains strong - is expected to continue to grow.

West County

The West County vacancy rate increased by 170 bps year-over-year, rising to 11.3% as TD Ameritrade, which acquired Scottrade at the end of 2017, moved out of the entire building at 13075 Manchester Road for 133,000 sf. The firm is consolidating its offices at 13075 Manchester Road and 12800 Corporate Hill Drive to other area locations as it eliminates more than 1,100 jobs. Drury Development Corporation purchased 13075 Manchester at the end of the quarter, leaving 128000 Corporate Hill still available for sale.

The rise in vacancy was also affected by the former HBE Corporation building at 11330 Olive Boulevard, which added 171,000 sf to the market. Previous building renovation plans called for a 260-room Hilton hotel. With the limited amounts of large blocks of available space in the West County submarket, HBE Corporate decided to offer the building for lease making it one of four properties in the submarket capable of offering over 50,000 sf of contiguous space.

Notable transactions for the quarter included: Aetna Life Insurance Company's 35,000-sf lease at 1285 Fern Ridge Parkway, Intelliteach's 31,000-sf expansion at 701 Emerson Road, and The Ultimate Software Group, Inc.'s 17,000-sf lease at 940 Westport Plaza Drive.

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Clayton

Clayton's Class A vacancy rate fell to 4.3% during the second quarter of 2018, 200 basis points lower than at the beginning of 2017. Class A asking rates continued to rise, reaching \$29.00 psf gross. Blocks of space remain in short supply with only five availabilities of Class A space over 10,000 sf contiguous. A 1.61-acre land site along North Bemiston Avenue was listed for sale this quarter, offering developers an opportunity to capitalize on the supply constrained submarket.

The \$3 million mixed-use renovation at 7700 Clayton Road was completed in the second quarter, adding 19,000 sf of office space where Williamson Home has already executed a lease for a full floor (10,000 sf). Prior to renovation, the 64,000-sf property was purchased for \$4.4 million at the end of 2016. Other notable transactions included: Parkside Financial, Inc.'s renewal for 16,000 sf at 8112 Maryland Avenue and Harbour Group's 16,000-sf relocation to 7733 Forsyth Boulevard from 7701 Forsyth Boulevard.

St. Louis City

St. Louis City recorded the highest absorption of any submarket in the second quarter of 2018, with 114,000 sf of positive absorption. Construction finished on 4220 Duncan Avenue (172,000 sf), which was 80.0% pre-leased. Cambridge Innovation Center (CIC) occupied 41,000 sf this quarter and the remaining tenants will move in during the second half of 2018. Aon signed a 30,000-sf lease at 4220 Duncan Avenue, relocating 200 employees from Clayton to the Cortex district. Two more Cortex buildings, Cortex K (94,000 sf) and 4340 Duncan Avenue (96,000 sf), started construction this quarter.

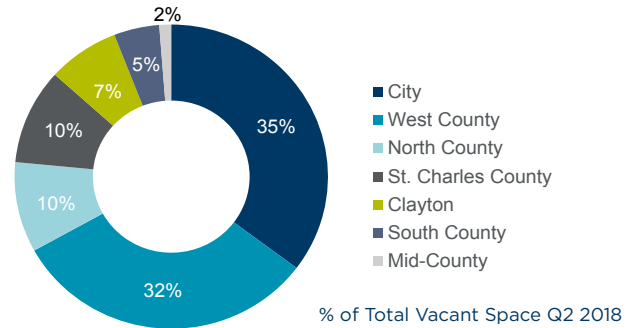
Other notable absorption changes for the quarter included: St. Louis University's expansion into 1831 Chestnut Street (53,000 sf) and Square's expansion into the old TechShop space at 4260 Forest Park Avenue (18,000 sf).

Outlook

- New large blocks of space in the suburban market will result in strong leasing activity for the remainder of the year.
- Tenant demand remains focused on premier space; expect rental rate growth as the market continues its streak of strong leasing velocity.

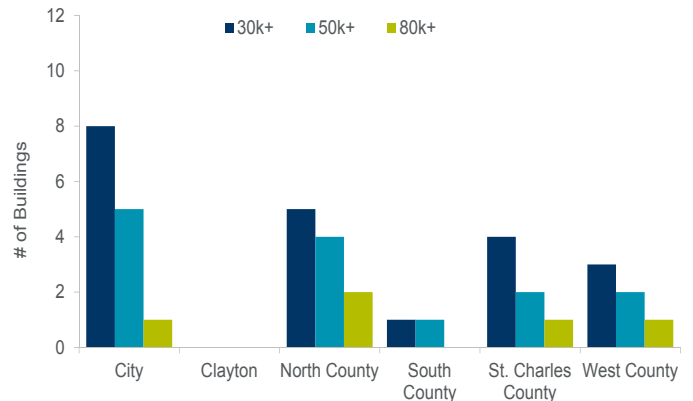
Vacant Space by Submarket

ST. LOUIS CITY CONTAINS 35.3% OF THE VACANT SPACE IN THE METRO



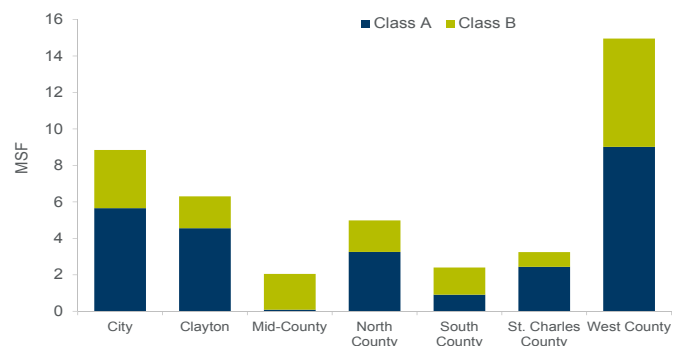
Class A Contiguous Space

FEW LARGE BLOCKS OF CLASS A SPACE AVAILABLE



Class A Submarket Comparison

SUBURBAN CLASS A OCCUPANCY CURRENTLY EXCEEDS 94.2%



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD (Downtown)	53	10,012,000	128,000	1,846,000	19.7%	55,000	52,000	120,000	\$ 16.83	\$ 19.37
St. Louis City	63	10,968,000	128,000	1,994,000	19.3%	114,000	137,000	537,000	\$ 17.10	\$ 19.77
Clayton	62	6,746,000	13,000	432,000	6.6%	-22,000	-19,000	605,000	\$23.64	\$ 29.00
Mid-County	60	2,122,000	7,000	67,000	3.5%	-15,000	-13,000	25,000	\$16.18	N/A
West County	247	16,861,000	146,000	1,761,000	11.3%	-161,000	-155,000	280,000	\$20.97	\$ 24.95
North County	55	5,562,000	0	578,000	10.4%	10,000	8,000	0	\$16.08	\$ 20.20
South County	58	2,682,000	0	282,000	10.5%	-45,000	-21,000	0	\$20.43	\$ 23.47
St. Charles County	80	3,858,000	0	611,000	15.8%	9,000	20,000	0	\$19.00	\$ 20.80
ST. LOUIS METRO TOTALS	625	48,799,000	294,000	5,725,000	12.3%	-109,000	-44,000	1,447,000	\$18.90	\$ 21.86

*Rental rates reflect gross asking \$psf/year

	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT	OVERALL AVERAGE ASKING RENT
Class A	223	28,478,000	246,000	2,316,000	9.0%	-75,000	-57,000	1,447,000	\$22.13	\$21.86
Class B	402	20,321,000	48,000	3,409,000	17.0%	-34,000	14,000	0	\$17.07	\$17.08

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	MARKET
211 N. Broadway	261,792	Bryan Cave LLP	Renewal	City
500 Northwest Plz.	125,000	Save-A-Lot	New	North County
1831 Chestnut St.	52,320	Saint Louis University	New	City
1285 Fern Ridge Pkwy.	35,313	Aetna Life Insurance Company	New	West County
701 Emerson Rd.	30,862	Intelliteach	Renewal / Expansion	West County
4220 Duncan Ave.	30,000	Aon	New	City
4260 Forest Park Ave.	18,000	Square	New	City
940 West Port Plaza Dr.	17,154	The Ultimate Software Group, Inc.	New	West County
575 Maryville Centre Dr.	16,417	Maryville University of St. Louis	New	West County
1 Memorial Dr.	14,808	Oculus Inc.	Renewal / Expansion	City

Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER/BUYER	INVESTOR/USER	MARKET
533 & 555 Maryville Centre Dr.	252,378	Tryperion Partners / Pacer Partners	Investor	West County
1001 Highlands Plaza Dr.	145,000	Sun Life Assurance Co. / Altus Highlands LLC	Investor	City
13075 Manchester Rd.	132,736	TD Ameritrade / Drury Development Corporation	Investor/User	West County
12400 Olive Blvd.	115,460	Paragon St Louis LLC / Paragon Office Property Group LLC	Investor	West County

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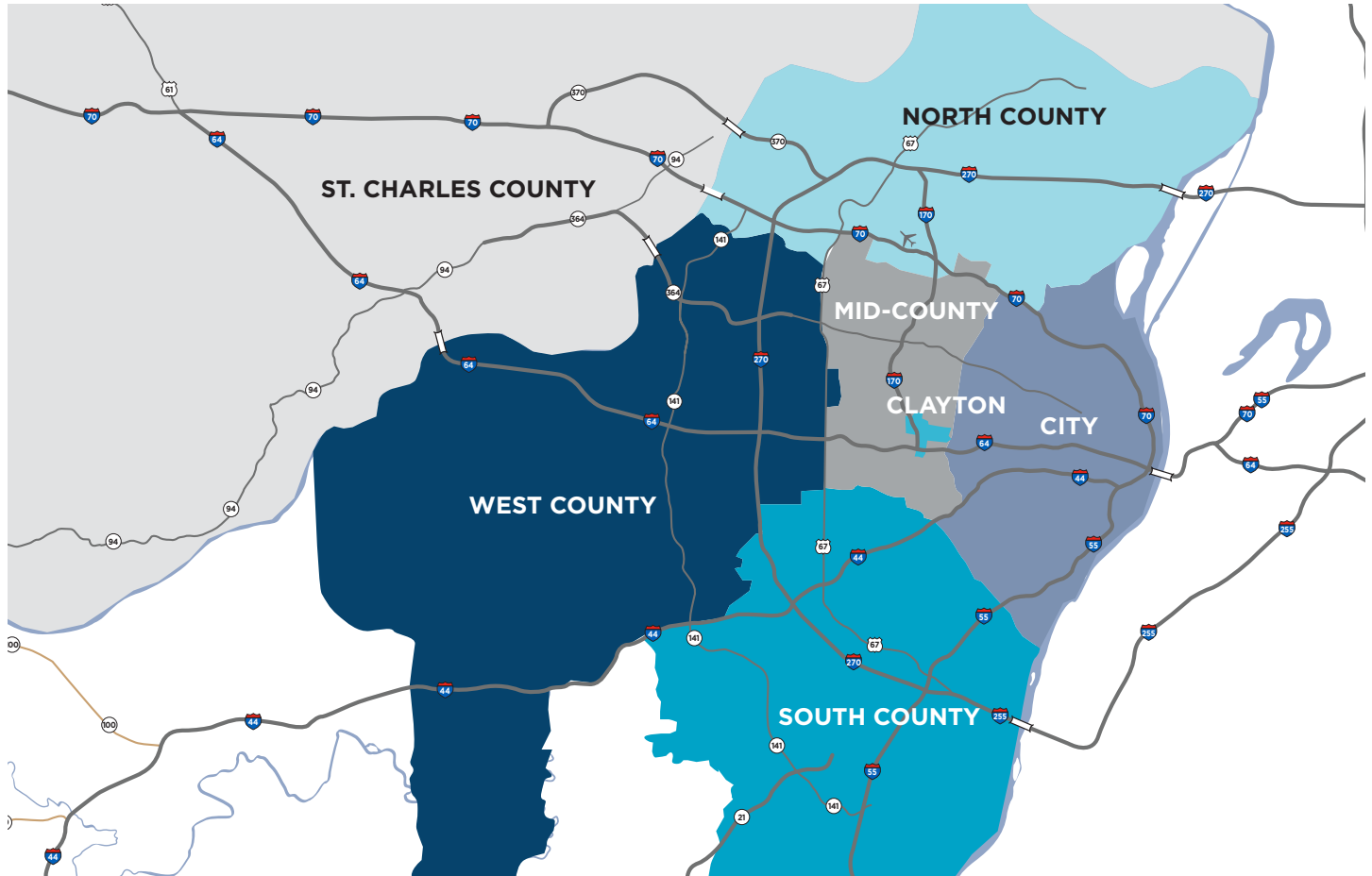
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OFFICE SUBMARKETS

ST. LOUIS CITY / ST. LOUIS COUNTY / ST. CHARLES COUNTY



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