

MARKETBEAT

St. Louis

Office Q3 2018



ST. LOUIS OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
St. Louis Employment*	1,379k	1,392k	▲
St. Louis Unemployment*	3.6%	3.5%	▼
U.S. Unemployment	4.4%	3.9%	▼

*Q3 data above is quarterly averages based on July and August values.

Market Indicators (Overall, All Classes)

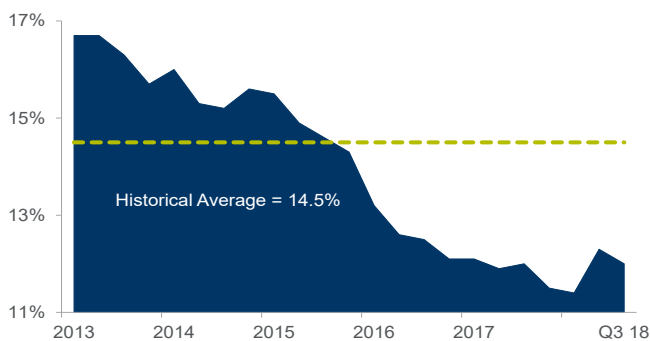
	Q3 17	Q3 18	12-Month Forecast
Vacancy	11.9%	12.0%	▼
Net Absorption (sf)	314k	169k	▲
Under Construction (sf)	1.9M	1.6M	▲
Average Asking Rent*	\$19.73	\$19.12	▲

*Rental rates reflect gross asking \$psf/year

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



Overall Vacancy



Economy

The labor market in St. Louis continued to show signs of growth during the third quarter of 2018 as the unemployment rate fell to 3.5%, with 25,800 new jobs added over the last two years. Of this employment growth, the office-user segment remained strong, adding 10,600 jobs over the same period with professional business employment accounting for nearly half of that total. On the heels of this strength, the Federal Open Market Committee raised interest rates for the third time this year, signaling an increased confidence in the United States economy. The rate will be increased by a quarter percentage point to a range of 2.00% and 2.25%, with the possibility that it could be raised for a fourth time in December. Money policymakers expect for at least three more rate hikes in 2019.

Market Overview

After posting nearly 170,000 square feet (sf) of positive absorption in the third quarter, St. Louis continues to benefit from a growing local economy and an emphasis on innovation. The city's innovation hub, Cortex Innovation District, led absorption activity with roughly 96,000 sf of positive absorption at the recently built Cortex 3.0. Given healthy activity, the market's vacancy of 12.0% fell by 30 basis points (bps) from the previous quarter. From a capital markets perspective, this dynamic will support strong rental income potential for investors over the mid-term.

West County

In the third quarter, West County vacancy reached 11.2%, about 80 bps lower than the 10-year average. Though deliveries totaled upwards of 500,000 sf in 2017, no space has delivered year-to-date.

In 2018, West County has seen a recent increase in large blocks of available space, most notably 13075 Manchester Road. The former owners, TD Ameritrade, sold the building to Drury Development Corporation during the first half of year as it consolidated former Scottrade offices in a post-acquisition move to concentrate the firm's local employee-base. Drury Development Corporation plans to occupy a portion of the building in 2019 and lease out the remaining 72,000 sf, making it only one of three Class A buildings in West County that has contiguous space over 60,000 sf.

Clayton

At 4.2% vacancy, Class A product in Clayton continues to represent the tightest office submarket in the metro St. Louis area with rental rates reaching \$29.47 per square foot (psf) in the third quarter, a 1.6% increase over second quarter. Though traditionally offering little in terms of large, contiguous blocks of space, Aon's relocation

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from Clayton to Cortex 3.0 has cleared nearly 32,000 sf of space at 8182 Maryland Avenue. As the largest block of existing Class A contiguous space in Clayton since 2014, this presents a unique opportunity for a tenant to move operations into a best-in-class office hub.

Given these healthy leasing fundamentals, Clayton presents a strong opportunity for the right investor to acquire more office product in an availability-constrained market, thus minimizing vacancy risk. Though no Class A buildings have traded thus far in 2018, three properties are currently being listed for sale within the market: 7777 Bonhomme Avenue, 7701 Forsyth Boulevard and 7733 Forsyth Boulevard.

St. Louis City

Year-to-date, St. Louis City has benefitted greatly from momentum in the Central West End and Downtown office submarkets. At current, five office developments are under construction and planned to deliver in 2019, the most of any submarket in the St. Louis metro.

In addition, Downtown's Ballpark Village development is quickly shifting the perception of the market's ability to satisfy the live-work-play trend that has defined the broader office market throughout this cycle. In fact, the ownership of 200 North Broadway, which traded for \$19.0 million in August, has plans to add an amenity floor that includes a wi-fi lounge, fitness center and conference facilities. This investment is further evidence that office improvement is top-of-mind for owners who want to maximize leasing potential.

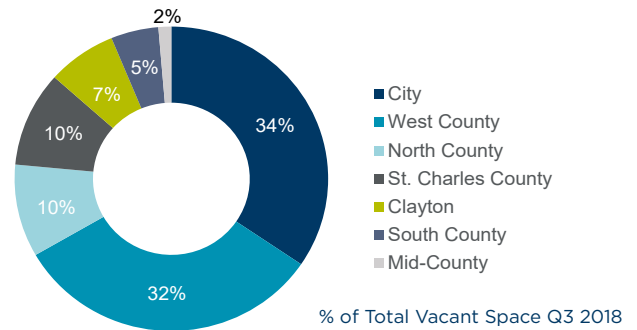
With increased activity across St. Louis City, Downtown office vacancy reached a 10-year low of 19.6% in the third quarter of 2018. In terms of product, Class A vacancy fell 160 bps relative to year-end 2017 and both Class A and B have experienced positive absorption this year.

Outlook

- With controlled speculative construction across the Metro area, large blocks of Class A space will remain in demand as leasing volume remains strong.
- Job growth is expected to be steady, which will drive leasing activity and lead to vacancy rate declines. Expect the healthcare and financial services industry to continue to gain momentum with job growth driving leasing activity.

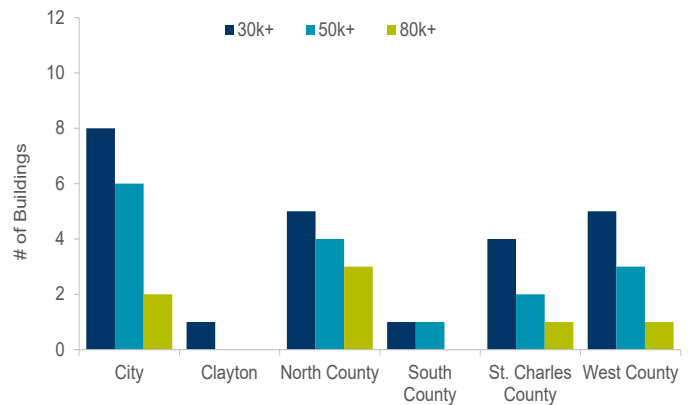
Vacant Space by Submarket

ST. LOUIS CITY CONTAINS 34.5% OF THE VACANT SPACE IN THE METRO



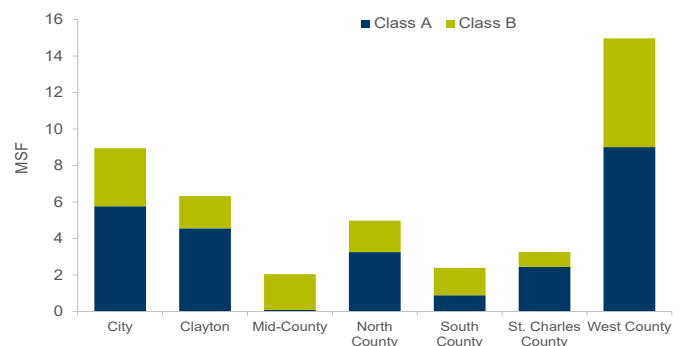
Class A Contiguous Space

FEW LARGE BLOCKS OF CLASS A SPACE AVAILABLE



Class A Submarket Comparison

SUBURBAN CLASS A OCCUPANCY CURRENTLY EXCEEDS 93.2%



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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	10,011,785	131,851	1,831,709	19.6%	7,927	62,096	120,000	\$16.75	\$ 19.37
St. Louis City	64	10,979,233	131,851	1,895,629	18.5%	103,827	243,062	709,408	\$17.03	\$ 19.79
Clayton	62	6,746,469	2,197	418,258	6.2%	23,022	10,268	604,508	\$25.05	\$29.47
Mid-County	60	2,122,478	6,016	71,997	3.7%	-3,875	-16,809	25,200	\$17.32	N/A
West County	247	16,860,597	182,799	1,708,724	11.2%	39,512	-105,017	280,000	\$21.12	\$24.71
North County	55	5,561,540	0	578,284	10.4%	-289	7,464		\$16.22	\$20.20
South County	58	2,682,052	0	288,559	10.8%	-9,888	-34,922		\$21.10	\$24.43
St. Charles County	80	3,858,246	0	594,797	15.4%	16,510	36,496		\$18.86	\$20.65
ST. LOUIS METRO TOTALS	626	48,810,615	322,863	5,556,248	12.0%	168,819	140,542	1,619,116	\$19.12	\$22.10

*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	224	28,489,669	283,410	2,196,314	8.7%	121,531	69,363	1,619,116	\$22.39	\$22.10
Class B	402	20,320,946	39,453	3,359,934	16.7%	47,288	71,179	0	\$17.17	\$17.19

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	MARKET
3 CityPlace Dr.	56,557	Lockton Companies	Renewal	West County
211 N. Broadway	27,126	St. Louis Regional Chamber & Growth	Renewal	City
6 CityPlace Dr.	24,059	Knowledgelake	Renewal	West County
800 Market St.	20,391	C J Thomas Company	Renewal	City
14767 N. Hwy 40 Outer Rd.	18,683	Rabo Agrifinance	Expansion	West County
600 Washington Ave.	18,468	Cushman & Wakefield	Renewal	City
13801 Riverport Dr.	16,557	Aegis Home Warranty Group	New Lease	North County
1 Memorial Dr.	16,101	East-West Gateway Council of	Renewal	City
14515 N. Hwy 40 Outer Rd.	15,869	Club Ready	New Lease	West County
3 CityPlace Dr.	12,980	New York Life Insurance Company	New Lease	West County

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	INVESTOR/USER	MARKET
200 N. Broadway	337,088	M-IV STL Place, LLC / BPRE Saint Louis GP Corp	Investor	City
900 N Tucker Blvd.	235,000	Lee Enterprises / StarLake Holdings	Investor	City
1015 Corporate Square Dr.	71,721	1015 Corp Square LLC / 1015 CS Partners LLC	Investor	Mid-County

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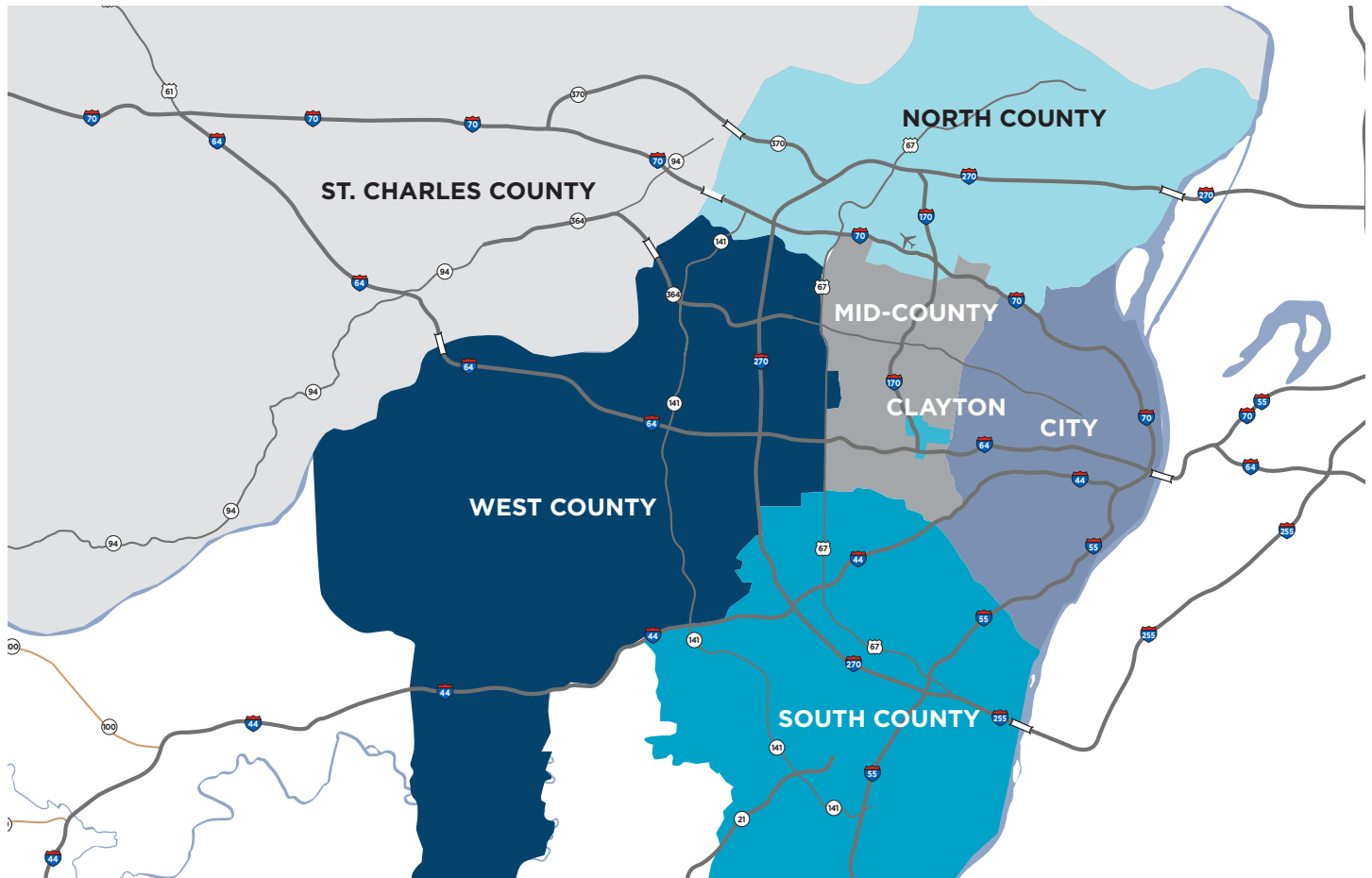
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OFFICE SUBMARKETS

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



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