

ST. LOUIS OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
St. Louis Employment*	1,384k	1,398k	▲
St. Louis Unemployment*	3.6%	3.6%	▼
U.S. Unemployment	4.1%	3.8%	▼

*Q1 data above is quarterly averages based on January and February values.

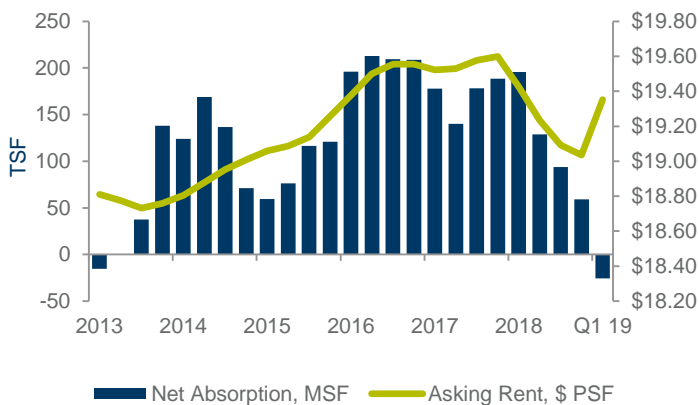
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	11.4%	12.4%	▼
Net Absorption (sf)	59k	-281k	▲
Under Construction (sf)	1.3M	1.5M	▲
Average Asking Rent*	\$18.75	\$20.02	▲

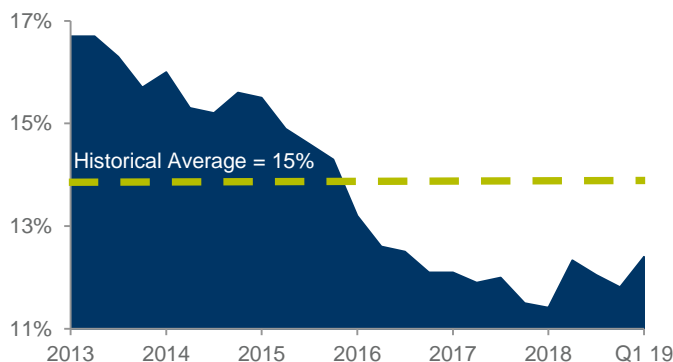
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The St. Louis labor market continued its streak of healthy fundamentals as it ended the first quarter of 2019 with an unemployment rate of 3.6%, marking the eighth consecutive quarter below 4.0%. Seasonally adjusted employment added 14,000 jobs year-over-year despite local headwinds from major consolidations resulting from mergers and acquisitions. The Federal Open Market Committee (FOMC) signaled it would suspend further rate hikes for 2019 as data-driven committee members reexamine national economic indicators. The committee stated it would complete its balance sheet roll-off program by the end of the third quarter.

Market Overview

For just the third time in the past five years, quarterly net absorption for the St. Louis office market was negative. Fortunately for St. Louis, the roughly 280,000 square feet (sf) of negative absorption recorded during the first quarter of 2019 is mostly the result of individual corporate actions not linked to the strength of the sector or region. Most notably, Scottrade's acquisition of TD Ameritrade (TDA) in September of 2017 has resulted in a major consolidation from what was once a pool of 1,800 employees to about 1,200 employees by the end of the first quarter. This corporate activity has led the group to vacate roughly half of its space in St. Louis since the acquisition was finalized, including the 180,000-sf Corporate Hill IV location in Des Peres during the first quarter. This move accounted for nearly 65.0% of the quarter's negative absorption. Despite this activity, the office market remains incredibly tight at 12.4% vacancy, just 100 basis points (bps) higher than the cyclical low reached in the first quarter of 2018 prior to the TDA move outs. Moving forward, the resulting large blocks of class A vacancy will be welcomed to the market, as these availabilities have been few and far between in the past several years. Over the mid-term, it is expected these vacancies will be absorbed given the continued demand for quality space, economic strength, and occupier momentum across St. Louis.

West County

West County fundamentals are still adjusting to the ongoing TDA activity. As of quarter-end, West County totaled 133,000 sf of negative absorption. However, when excluding the TDA-moveout, the market lands around 46,000 sf of positive absorption. Despite increased vacancies, West County class A rental rates increased \$0.13 per-square-foot (psf), a testament to both the tightness and strength of the submarket's office sector. The same occupier-demand responsible for the tick up in class A rental rates during a period of increased vacancy is expected to mitigate West County's available space over the mid-term. At current, there are just five contiguous blocks of class A space greater than 30,000 sf available in the West County submarket.

Clayton

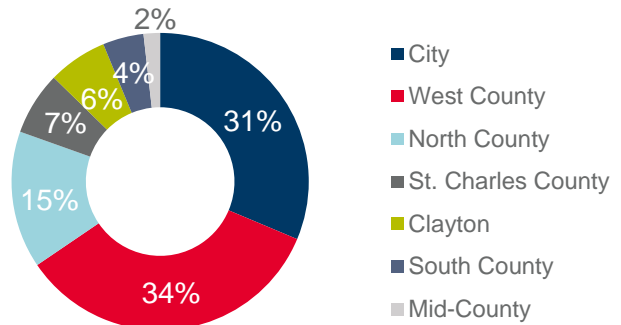
As of the end of the first quarter, Clayton remains the strongest class A office submarket within the St. Louis metro. At just 3.4% vacancy with one available contiguous block of space larger than 30,000 sf, heightened demand for quality space has created a favorable environment for Clayton's landlords. Year-over-year, Clayton class A rental rates have increased by \$1.80 psf and growth is expected to remain strong as the area benefits from the delivery of Centene Plaza Building C at 7676 Forsyth Boulevard. Centene Center is expected to command the highest rates across St. Louis, furthering the strength and recognition of the Clayton submarket. Outside of Centene's construction, there is no guarantee new space will be delivered any time soon, resulting in further downward pressure on vacancy rates while increasing the area landlords' ability to push rents higher over the mid-term.

St. Louis City

St. Louis City continued its impressive run in the first quarter of 2019 as the submarket was one of few across the metro to post positive absorption, with the Downtown submarket totaling 16,000 sf of positive absorption. At the same time, vacancy reached a cyclical low of 17.4%, marking the lowest vacancy in over 15 years. Of this activity, new market-entrant Phoenix Creative led the way with a 10,000-sf lease at 555 Washington Avenue. This positive momentum is expected to continue with signature office developments such as the Armory, City Foundry, Ball Park Village and the Crescent Building delivering towards the end of 2019 and beginning of 2020. Like many of the high-profile deliveries across St. Louis in recent years, it is expected that these transformative projects will be a boon to office fundamentals throughout the market.

Vacant Space by Submarket

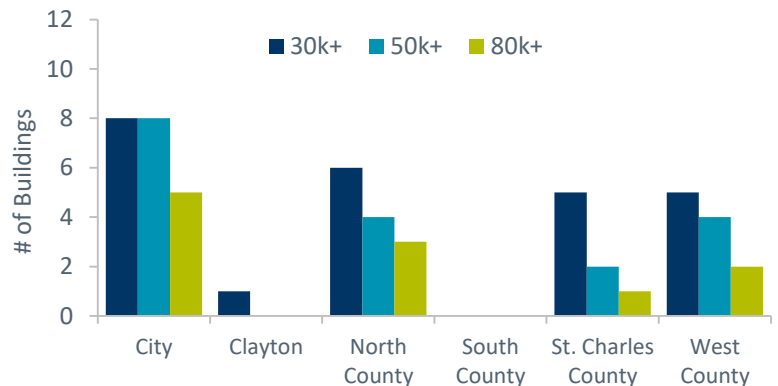
ST. LOUIS CITY CONTAINS 31.3% OF THE VACANT SPACE IN THE METRO



% of Total Vacant Space Q1 2019

Class A Contiguous Space

FEW LARGE BLOCKS OF CLASS A SPACE AVAILABLE

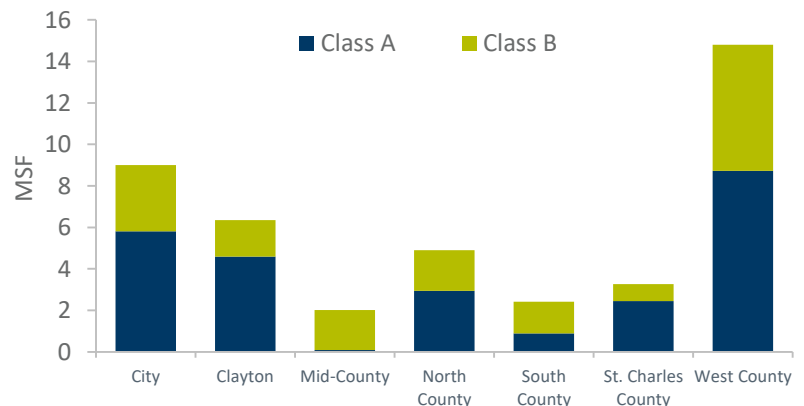


Outlook

- The legislation around Opportunity Zones, a new federal initiative that provides a tax advantage to investors who invest capital gains into historically disinvested areas, could have a major impact on capital markets activity. Of the top ten Opportunity Zones in Missouri, as defined by a December 2018 study by Smart Growth America, four large tracts of downtown St. Louis make the list.
- Increased vacancy on the heels of corporate activity is expected to decline as newly available space gets snapped up. Moving forward, the continued demand for high-quality office space coupled with a controlled construction pipeline, will work to mitigate vacancies across the market, providing landlords the leverage necessary to push asking rates higher.

Submarket Comparison

SUBURBAN CLASS A OCCUPANCY CURRENTLY EXCEEDS 90.8%



MARKETBEAT

St. Louis

Office Q1 2019



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
CBD (Downtown)	9,929,011	131,851	1,721,858	18.7%	16,139	16,139	113,057	120,000	\$17.35	\$ 19.40
St. Louis City	10,896,459	131,851	1,766,119	17.4%	2,363	2,363	148,057	507,408	\$17.51	\$ 19.54
Clayton	6,746,489	2,197	387,528	5.8%	-28,729	-28,729	76,409	604,508	\$25.38	\$30.25
Mid-County	2,122,478	0	108,803	5.1%	-36,010	-36,010	30,000	25,200	\$18.10	N/A
West County	16,867,248	123,309	1,947,151	12.3%	-132,520	-132,520	113,022	280,000	\$22.27	\$25.77
North County	5,803,009	0	904,833	15.6%	-126,078	-126,078	88,698	0	\$17.93	\$21.05
South County	2,682,052	3,551	266,056	10.1%	13,711	13,711	11,143	0	\$21.72	\$24.69
St. Charles	3,685,735	0	416,638	11.3%	26,734	26,734	62,427	40,000	\$19.23	\$20.96
ST. LOUIS TOTALS	48,803,470	260,908	5,797,128	12.4%	-280,529	-280,529	529,756	1,457,116	\$20.02	\$22.69

*Rental rates reflect gross asking \$psf/year
**Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	28,523,626	254,641	2,771,993	10.6%	-323,772	-323,772	305,929	1,457,116	\$22.95	\$22.69
Class B	20,279,844	6,267	3,025,135	14.9%	43,243	43,243	223,827	0	\$17.61	\$17.61

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
901 N. Tenth	73,000	St. Louis Post-Dispatch	New Lease	Downtown
3301 S. Rider Trail	46,406	US Bank	Renewal	Earth City
1450 Beale St.	40,000	Elekta	New Lease	St. Charles I-70

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	SUBMARKET
West Park I & II, Pine View Pointe	299,985	Fulcrum / Larson Financial	Creve Coeur
Westline Corporate Campus Building 1-3	124,963	Sara Investment Real Estate / Summit Development	Westport
Progress Point Center	123,023	Sara Investment Real Estate / Bamboo Equity Partners	St. Charles I-64

MARKETBEAT

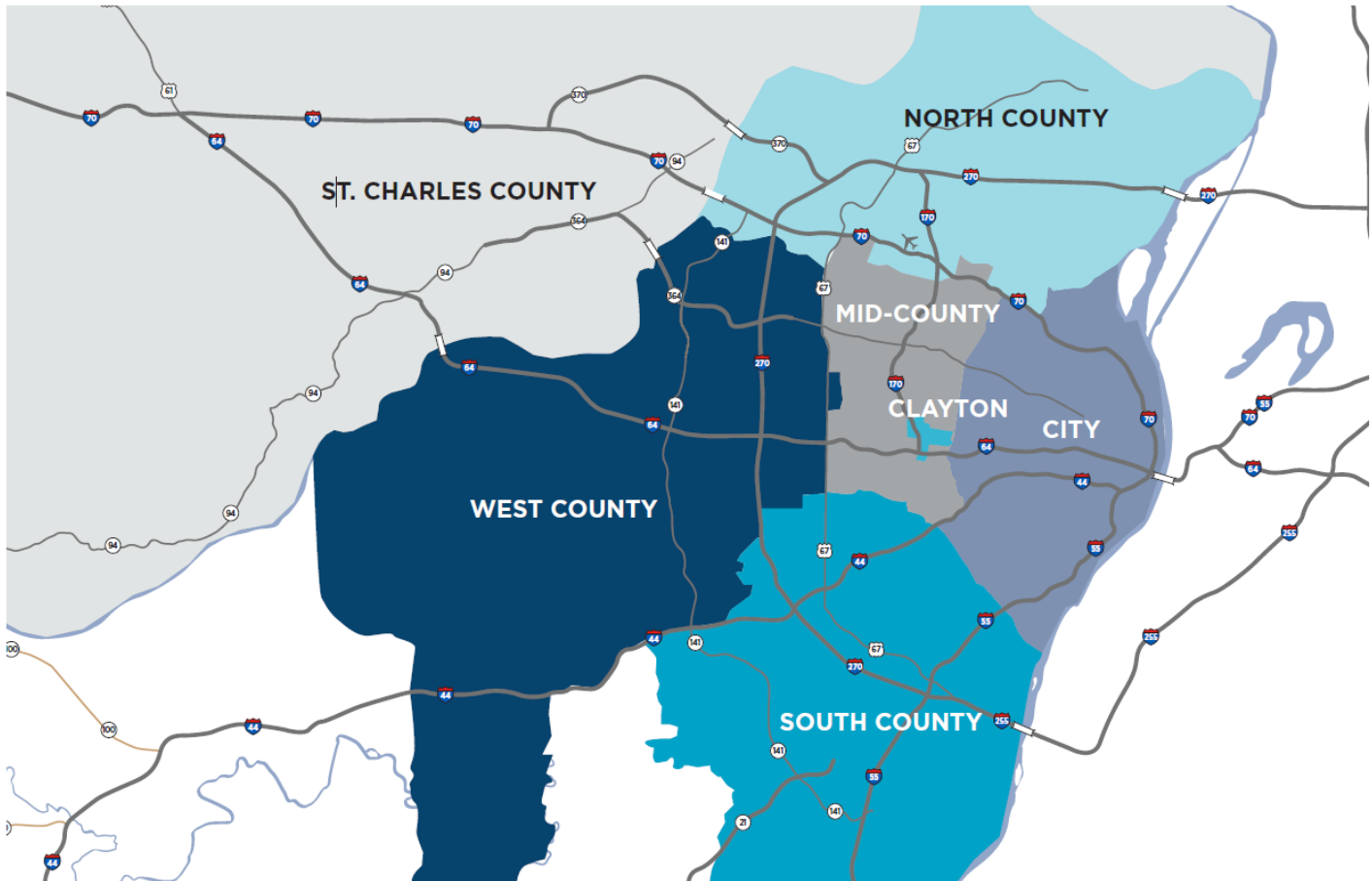
St. Louis

Office Q1 2019



OFFICE SUBMARKETS

St. Louis City / St. Louis County / St. Charles County



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