

# MARKETBEAT

## St. Louis

### Office Q4 2018



#### ST. LOUIS OFFICE

##### Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
St. Louis Employment*	1,379k	1,389k	▲
St. Louis Unemployment*	3.6%	3.3%	▼
U.S. Unemployment	4.1%	3.7%	▼

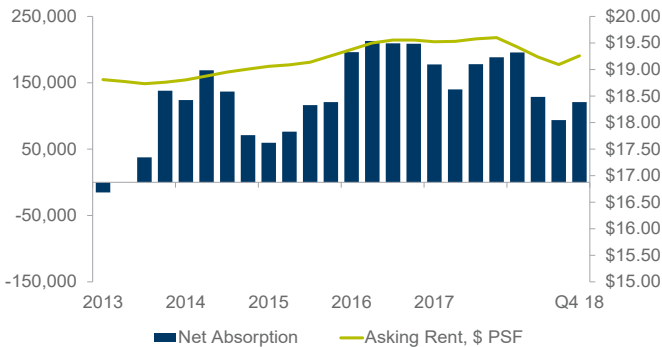
\*Q4 data above is quarterly averages based on October and November values.

##### Market Indicators (Overall, All Classes)

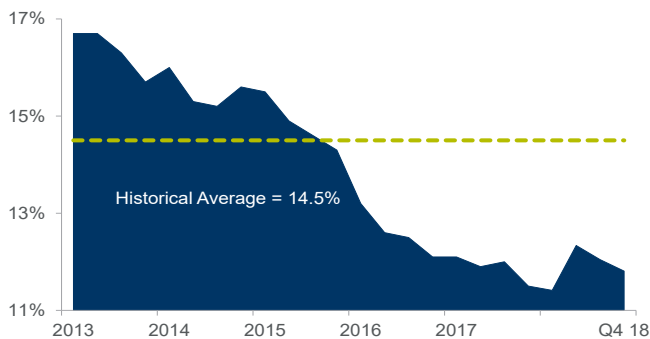
	Q4 17	Q4 18	12-Month Forecast
Vacancy	11.7%	11.8%	▼
Net Absorption (sf)	282k	73k	▲
Under Construction (sf)	2.2M	1.4M	▲
Average Asking Rent*	\$19.61	\$19.40	▲

\*Rental rates reflect gross asking \$psf/year

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



##### Overall Vacancy



##### Economy

St. Louis labor market fundamentals ended the year with continued growth and optimism as unemployment reached further historical lows during the fourth quarter of 2018. Seasonally adjusted unemployment reached 3.3% as of quarter-end, which is 40 basis points (bps) lower than the national average of 3.7%. In addition, office-using employment has added nearly 8,100 jobs to the St. Louis economy over the past 24 months. As the U.S. economy grew at a steady clip, the Federal Open Market Committee (FOMC) committed to raising interest rates by 25 bps during their December meeting, marking the fourth increase in 2018. This will adjust the new range to 2.25%-2.50%, the highest level since 2008. Heading into 2019, the FOMC has lowered its projection for the number of rate hikes from three to two.

##### Market Overview

Office product in St. Louis experienced roughly 73,000 square feet (sf) of positive net absorption in the fourth quarter, totaling 228,000 sf of positive absorption for the year. In fact, 2018 marked the fifth consecutive year with positive absorption. Occupier demand continued to drive up rental rates, which increased another 2.6% over the past three quarters, totaling an increase of \$0.50 per square foot (psf). Conversely, this demand has driven supply-side fundamentals such as construction, which registered 1.4 million square feet (msf) of activity throughout the quarter.

##### West County

In 2018, West County's vacancy rate increased 210 bps relative to year-end 2017. Though an increase in vacancy can be a cause for concern, West County's bump was largely the result of TD Ameritrade's (TDA) acquisition of Scottrade and the resulting office space consolidation. TDA vacated nearly 133,000 sf at 13075 Manchester Road during the first half of the year, 50,000 sf at 12855 Flushing Meadows Drive in the fourth quarter and is expected to vacate approximately 180,000 sf of space at 12800 Corporate Hill Drive in the first quarter of 2019. Because of TDA's activity, West County now leads all markets in aggregate square footage of contiguous blocks of space upwards of 20,000 sf, totaling roughly 580,000 sf across ten spaces. Given the recent influx of Class A contiguous space, the expectation is that continued occupier demand across St. Louis will soak up a significant portion of this supply over the mid-term. In fact, a portion of TDA's large vacancies are already spoken for as Drury Development, which acquired 13075 Manchester Road from TDA in early 2018, plans to occupy a portion of the building in late 2019.

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#### Clayton

As of year-end, Clayton remained the tightest office submarket within St. Louis at just 3.1% Class A vacancy, the lowest rate historically. Further demonstrating this tightness is the fact that Clayton was one of the only markets with zero available contiguous blocks of space greater than 20,000 sf, a prerequisite for many major occupiers. Despite an apparent need, supply-side dynamics have yet to shift towards speculative development. Of the construction that was underway in Clayton at the end of 2018, it was recently announced that the first tenant in Centene's new, 27-story office tower will be a reported eight business divisions within Bank of America's local workforce as the company looks to consolidate its suburban operations.

#### St. Louis City

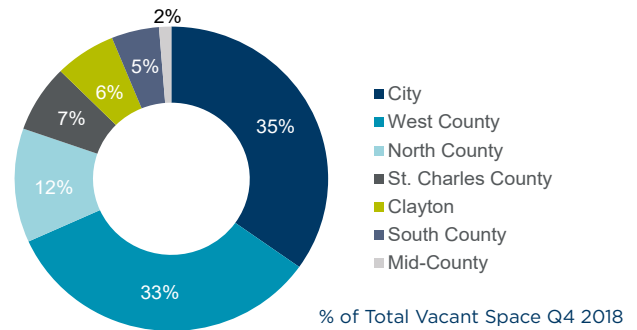
Among submarkets undergoing significant change, St. Louis City continued to take major strides towards long-term viability as an office hub. Ending the year at 18.2% vacancy, the submarket reached the lowest level since 2002 as vacancy has continued to decline since peaking at nearly 25% in 2015. With current availability of vintage building stock, land opportunity and a rapidly-changing millennial demographic, the urban workforce wave has started to make landfall in St. Louis City. Driven by these trends, development has been on the rise within the urban core. Of the 1.4 msf under construction in St. Louis, 30% of this total resides within the City-limits. With signature developments such as the Armory, City Foundry, Ball Park Village, and multiple proposed projects in Cortex expected to deliver by the end of 2020, the urban core of St. Louis will be transformed significantly.

### Outlook

- Keep an eye on the impact of Opportunity Zone legislation, a new federal initiative that provides a tax advantage to investors who invest capital gains into historically disinvested areas. 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.
- Looking ahead through 2019, expect continued rental rate growth coupled with additional vacancy decline. A strong economic outlook and controlled speculative development bodes well for the office market across the St. Louis metropolitan area.

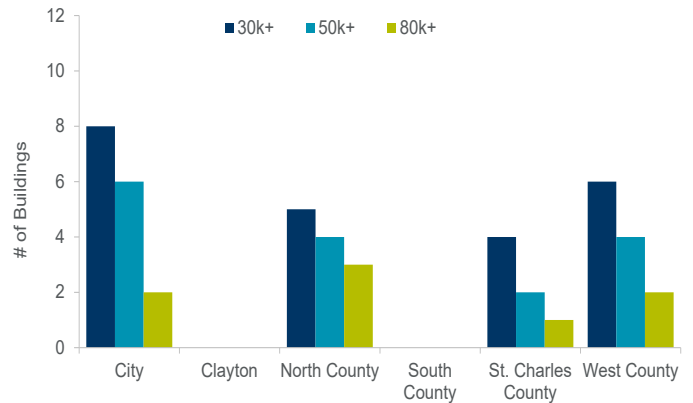
#### Vacant Space by Submarket

ST. LOUIS CITY CONTAINS 35.0% OF THE VACANT SPACE IN THE METRO



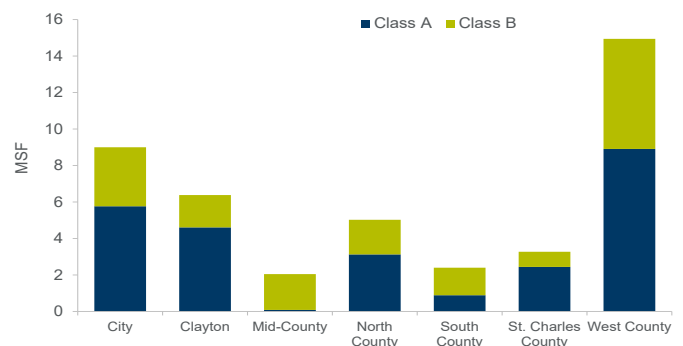
#### Class A Contiguous Space

FEW LARGE BLOCKS OF CLASS A SPACE AVAILABLE



#### Class A Submarket Comparison

SUBURBAN CLASS A OCCUPANCY CURRENTLY EXCEEDS 92.4%



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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	10,039,071	131,851	1,809,250	19.3%	20,038	83,034	120,000	\$16.91	\$ 19.36
<b>St. Louis City</b>	<b>64</b>	<b>11,006,519</b>	<b>131,851</b>	<b>1,874,835</b>	<b>18.2%</b>	<b>18,373</b>	<b>262,335</b>	<b>411,408</b>	<b>\$17.21</b>	<b>\$ 19.79</b>
Clayton	62	6,746,469	5,218	358,734	5.4%	51,883	66,828	604,508	\$24.91	\$30.14
Mid-County	60	2,122,478	0	72,793	3.4%	5,220	-11,589	73,200	\$17.24	N/A
West County	247	16,867,248	171,366	1,753,845	11.4%	24,268	34,746	280,000	\$21.74	\$25.64
North County	55	5,721,540	0	697,286	12.2%	5,237	-29,685	0	\$16.14	\$20.90
South County	58	2,682,052	0	283,322	10.6%	9,818	46,314	0	\$21.39	\$24.70
St. Charles County	78	3,685,735	0	412,472	11.2%	-41,403	-140,988	40,000	\$19.24	\$20.75
<b>ST. LOUIS METRO TOTALS</b>	<b>624</b>	<b>48,832,061</b>	<b>308,435</b>	<b>5,453,287</b>	<b>11.8%</b>	<b>73,396</b>	<b>227,961</b>	<b>1,409,116</b>	<b>\$19.40</b>	<b>\$22.46</b>

\*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	28,523,606	283,233	2,401,018	9.4%	-216,900	-138,346	1,409,116	\$22.76	\$22.46
Class B	400	20,308,435	25,202	3,052,269	15.2%	290,296	366,307	0	\$17.14	\$17.14

\*Rental rates reflect gross asking \$psf/year

### Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	MARKET
1345 Smizer Mill Rd.	55,000	SSM Health Care	New Lease	South County
4300-4320 Forest Park Ave.	42,728	Stereotaxis Inc.	Renewal	City
211 N. Broadway	38,686	Teachers Insurance & Annuity Association	Renewal	City
8182 Maryland Ave.	34,000	Capes Sokol Goodman and Sarachan	New Lease	Clayton
11330 Olive Blvd.	28,439	Clearent	New Lease	West County
7700 Bonhomme Ave.	20,492	Arco/Murray Corporate Services, Inc.	Expansion / Renewal	Clayton
4300-4320 Forest Park Ave.	19,208	BioGenerator	Renewal	City
1 Progress Point Pkwy.	12,848	Axiom	New Lease	St. Charles
707 N. Second St.	11,551	Brand Addition	New Lease	City
16305 Swingley Ridge Rd.	10,646	Black & Veatch Engineers	Renewal	West County

### Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	INVESTOR/USER	MARKET
1151 Century Link Dr.	263,700	Century Complex Group / Urshan Collegiate Support	User	St. Charles
12800 Corporate Hill Dr.	182,723	Scotttrade / Franklin Partners LLC	Investor	West County
7700 Bonhomme Ave.	102,000	TA Associates Realty / Scott Properties	Investor	Clayton

