



ST. LOUIS
1Q18 OFFICE MARKET

MARKET SLOWS IN THE FIRST
QUARTER WITH NEGATIVE NET
ABSORPTION AND RISING VACANCY

The St. Louis office market ended its 11-quarter streak of decreasing vacancy, as vacancy increased 30 basis points in the first quarter of 2018. Vacancy has decreased 90 basis points over the past year, from 11.2% to 10.3%. Total net absorption in the first quarter measured negative 278,391 square feet, bringing the total for the past four quarters to 964,691 square feet. Current projects under construction and deliveries to the market remained nonexistent.

\$44.0 Million Cortex Redevelopment Project Will Convert Historic Printing Plant Into Multi-Tenant Office and Lab Space

The last historic building in the Cortex Innovation District is scheduled for a \$44.0 million redevelopment. Originally constructed in 1930, the 68,025-square-foot Crescent Parts and Equipment Co. building currently sits vacant in the center of the Cortex district, adjacent to the DuPont building. With the St. Louis Tax Increment Financing Commission advancing a request to use up to \$18.4 million in TIF to redevelop the structure, Cortex will partner with Quadrangle to produce approximately 96,000 square feet of affordable creative office and shared laboratory space. Owned by Washington University, the Crescent building is currently appraised by the county at \$1.5 million. The conversion is expected to deliver to the market by 2019.

The 200-acre Cortex innovation hub and technology district has been a successful model for incubator, shared and creative spaces for the Midwest region. With more than \$60.0 million in new developments in the past five years, the district should generate almost \$38.0 million in new tax revenue for the region by 2019. Since its inception in 2002, Cortex has completed or has had under construction 1.7 million square feet of new and rehabilitated space totaling over \$550.0 million of investment. This space has generated 4,200 technology-related jobs.

CUNA Mutual Financial Group Sells 91,130-Square-Foot Building in Maryland Heights

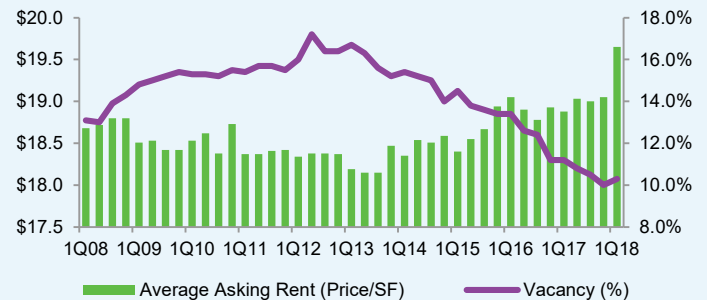
Another noteworthy office property traded in the Mid County submarket. CUNA Mutual Financial Group, a Wisconsin-based insurance and investment firm, sold the 12000 Page Building. Located at 11960 Westline Industrial Drive in Maryland Heights, 12000 Page traded for \$6.2 million, or \$68/SF, and was recently appraised by the county at a higher value of \$6.8 million. The 91,130-square-foot, five-story, Class B building was built in 1972 with major renovations completed in 1995. The building was 80.0% occupied at the time of sale and is home to key tenants including Kantar Health, Lindenwood University, YOH Services and the YMCA Leadership Development Center. Available space for rent is quoted at \$18.00/SF.

Current Conditions

- Vacancy increases 30 basis points in 1Q18.
- Avg. quoted rental rates increased \$0.77/SF during past year.
- \$44.0 million Cortex redevelopment project will offer new creative office and lab space by 2019.
- CUNA Mutual Financial Group sells 91,130 SF building in Maryland Heights.
- The Class A market continues to tighten, leaving tenants with limited options .

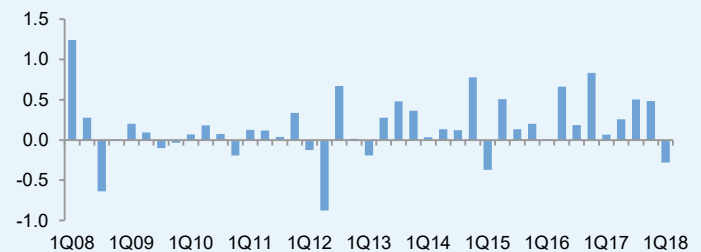
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	75MSF	75MSF	75MSF	↑
Vacancy Rate	10.3%	10.0%	11.2%	↓
Quarterly Net Absorption	-278,391	483,984	65,423	↑
Average Asking Rent	\$19.65	\$19.05	\$18.88	↑
Under Construction	0	0	380,324	↑
Deliveries	0	45,324	0	↑



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The Class A Office Market Continues to Tighten, Leaving Tenants with Limited Options in Various Submarkets

Tenants desiring Class A space outside of Downtown and the suburban extremities in St. Charles County and South County have limited options. With a 5.2% overall vacancy in the combined 19.2 million-square-foot, Class A office market comprising the Clayton, Mid County, North County and West County submarkets, there are a total of 292 individual spaces available for rent for existing properties. Analyzing only those non-owner occupied properties with at least 20,000 square feet in rentable building area, overall vacancy for this core market is at a record low—less than half the amount recorded in 2010-2011.

For tenants requiring smaller blocks of contiguous space, from 7,500 to 15,000 square feet, there are a total of 40 properties, which contain 75 individual spaces. For small to mid-range users, from 15,001 to 30,000 square feet, there are only 25 properties, which contain 53 individual spaces. For mid-range tenants in the market for 30,001 to 60,000 square feet, the options for Class A space diminish significantly, with only 10 properties offering 33 individual spaces. There are currently six properties in North County (Corporate College, Elsevier, Riverport Commons IV, Riverport Office Center, Riverport Tower and 13900 Riverport Drive), three properties in West County (520 and 550 Maryville Centre Drive and the 40 West building) and one property in Mid County (Creve Coeur Center III) that can accommodate the requirement. For larger tenants, there is only one property, the 550 Building at 550 Maryville Centre Drive in West County, which contains more than 60,001 square feet in contiguous area.

SALES ACTIVITY WAS PARTICULARLY STRONG DURING THE LAST TWO WEEKS OF 2017 AND THROUGHOUT 1Q18

The St. Louis office sector had a sluggish start to 2018, realizing negative net absorption and ending 11 consecutive quarters of decreasing vacancy. However, sales activity was particularly strong during the last two weeks of 2017 and throughout the first quarter, as out-of-town institutional investors and local development entities continued to invest in the market. The successful leasing and delivery in September 2017 of the 126,000-square-foot, Class A Delmar Gardens III, the first multitenant office building to be constructed in West County since 2008, should help spur additional development of Class A space in the Clayton, Mid County, North County and West County submarkets, where large blocks of space are scarce. Only two multi-tenant office developments are currently under construction, the Ballpark Village in Downtown and Centene's expansion in Clayton. Expect leasing activity to continue to increase during 2018, as options for top-grade space remain constricted.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
American Family Insurance	800 Northwest Plz	North County	New	84,210
Maverick Technologies	265 Admiral Trost Rd	Metro East/IL	Renewal	34,710
Cenlar	1000 Technology Dr	St. Charles County	New	34,000
Gimmel	111 Westport Plz	West County	New	13,000

Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
900-914 Olive St	Downtown	\$4,600,000	\$23	202,610
11960 Westline Industrial Dr	Mid County	\$6,200,000	\$68	91,130
5 Cityplace Dr ¹	Mid County	\$21,825,000	\$266	82,000
475 Regency Park Dr	Metro East/IL	\$6,250,000	\$120	52,000
308 N 21 st St	Downtown	\$3,000,000	\$66	45,760
2055 Craigshire Dr ²	Mid County	\$3,700,000	\$104	35,700
745 Craig Rd	Mid County	\$2,330,000	\$108	21,580

¹Medical office building.

²1031 Exchange and \$200,000 in deferred maintenance.


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Submarket Statistics

Submarket Cluster	Class	# of Buildings	Total Inventory (SF)	Total Vacancy Rate	Qtr. Absorption (SF)	YTD Absorption (SF)	Under Construction (SF)	Total Asking Rent (FSG)
Downtown		240	28,384,784	13.00%	167,099	167,099	0	\$16.93
	Class A	35	11,049,062	12.80%	139,759	139,759	0	\$19.06
	Class B	122	11,442,705	18.30%	1,607	1,607	0	\$14.38
	Class C	83	5,893,017	3.20%	25,733	25,733	0	\$14.38
Clayton		101	8,695,697	6.20%	-48,929	-48,929	0	\$23.21
	Class A	30	4,997,942	4.10%	-12,594	-12,594	0	\$28.09
	Class B	50	2,737,052	8.70%	-30,909	-30,909	0	\$20.18
	Class C	21	960,703	9.90%	-5,426	-5,426	0	\$16.76
Mid County		177	12,819,886	7.70%	-160,985	-160,985	0	\$20.90
	Class A	37	5,394,672	4.80%	-10,044	-10,044	0	\$23.56
	Class B	117	6,671,914	10.70%	-146,032	-146,032	0	\$19.46
	Class C	23	753,300	0.90%	-4,909	-4,909	0	\$15.79
North County		90	7,426,904	11.50%	53,668	53,668	0	\$17.73
	Class A	19	2,732,927	5.80%	9,624	9,624	0	\$19.55
	Class B	43	3,658,919	18.20%	37,691	37,691	0	\$16.91
	Class C	28	1,035,058	2.60%	6,353	6,353	0	\$11.50
South County		70	3,892,009	9.70%	-51,527	-51,527	0	\$22.09
	Class A	11	760,050	11.30%	2,098	2,098	0	\$27.34
	Class B	46	2,740,519	10.30%	-54,245	-54,245	0	\$21.15
	Class C	13	391,440	2.80%	620	620	0	\$16.35
St. Charles County		70	4,102,172	14.90%	-200,067	-200,067	0	\$19.14
	Class A	22	2,294,270	16.90%	-150,883	-150,883	0	\$20.73
	Class B	40	1,431,730	14.30%	-52,521	-52,521	0	\$17.22
	Class C	8	376,172	5.40%	3,337	3,337	0	\$12.58
West County		146	10,038,925	7.20%	-37,650	-37,650	0	\$23.71
	Class A	58	5,989,690	4.70%	25,790	25,790	0	\$25.86
	Class B	79	3,718,227	11.10%	-58,566	-58,566	0	\$21.31
	Class C	9	331,008	8.70%	-4,874	-4,874	0	\$14.45
St. Louis Market		894	75,360,377	10.30%	-278,391	-278,391	0	\$19.65
	Class A	212	33,218,613	8.40%	3,750	3,750	0	\$21.96
	Class B	497	32,401,066	14.20%	-302,975	-302,975	0	\$18.15
	Class C	185	9,740,698	3.90%	20,834	20,834	0	\$14.61


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Submarket Statistics – Class A

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (FSG)	Sublet Asking Rent (FSG)	Total Asking Rent (FSG)
Downtown	11,049,062	0	12.80%	139,759	139,759	\$19.26	\$15.84	\$19.06
Clayton	4,997,942	0	4.10%	-12,594	-12,594	\$28.21	\$24.35	\$28.09
Mid County	5,394,672	0	4.80%	-10,044	-10,044	\$24.46	\$20.69	\$23.56
North County	2,732,927	0	5.80%	9,624	9,624	\$20.51	\$17.41	\$19.55
South County	760,050	0	11.30%	2,098	2,098	\$27.62	\$21.50	\$27.34
St. Charles County	2,294,270	0	16.90%	-150,883	-150,883	\$21.00	\$17.30	\$20.73
West County	5,989,690	0	4.70%	25,790	25,790	\$27.26	\$18.86	\$25.86
St. Louis Market	33,218,613	0	8.40%	3,750	3,750	\$22.52	\$18.26	\$21.96

Submarket Statistics – Class B

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Direct Asking Rent (FSG)	Sublet Asking Rent (FSG)	Total Asking Rent (FSG)
Downtown	11,442,705	0	18.30%	1,607	1,607	\$14.38	-	\$14.38
Clayton	2,737,052	0	8.70%	-30,909	-30,909	\$20.12	\$25.00	\$20.18
Mid County	6,671,914	0	10.70%	-146,032	-146,032	\$19.53	\$20.17	\$19.46
North County	3,658,919	0	18.20%	37,691	37,691	\$16.91	-	\$16.91
South County	2,740,519	0	10.30%	-54,245	-54,245	\$21.29	\$18.75	\$21.15
St. Charles County	1,431,730	0	14.30%	-52,521	-52,521	\$17.22	-	\$17.22
West County	3,718,227	0	11.10%	-58,566	-58,566	\$21.40	\$17.58	\$21.31
St. Louis Market	32,401,066	0	14.20%	-302,975	-302,975	\$18.10	\$19.70	\$18.15



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ECONOMIC CONDITIONS

The local economy continued to improve through February, with total employment growth of 0.4% and positive growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

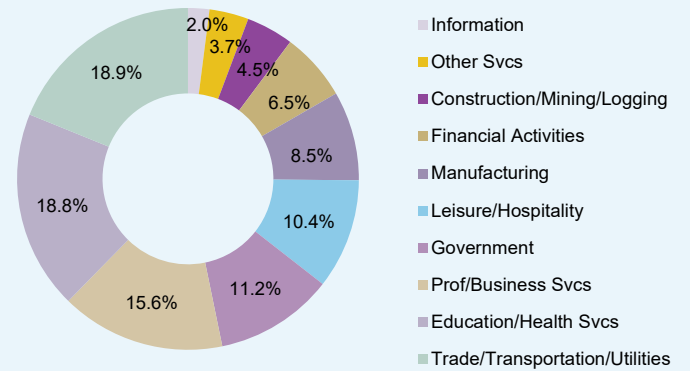
Payroll employment in St. Louis decreased 120 basis points compared to the prior year registering 0.4% in February 2018. The national average decreased 20 basis points to 1.6%. Both indices have realized positive 12-month percent changes since September 2012.

The Consumer Price Index (CPI) for the United States decreased 50 basis points to 2.2% over the past year. The Midwest Urban CPI decreased 70 basis points to 1.7% in February 2018.

Unemployment in the United States remained flat at 4.1% in February, while unemployment in St. Louis decreased 20 basis points to 3.4% over the past quarter. Unemployment in St. Louis decreased 70 basis points from a year prior.

Employment By Industry

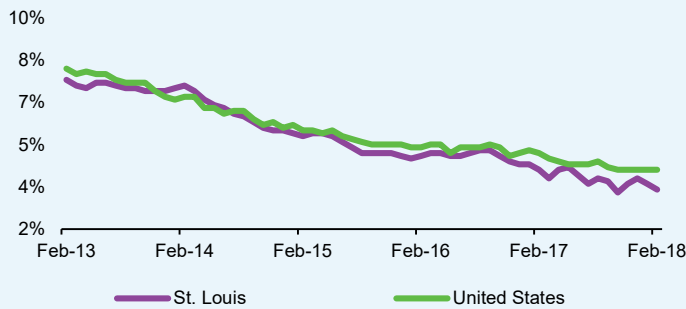
St. Louis, February 2018



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

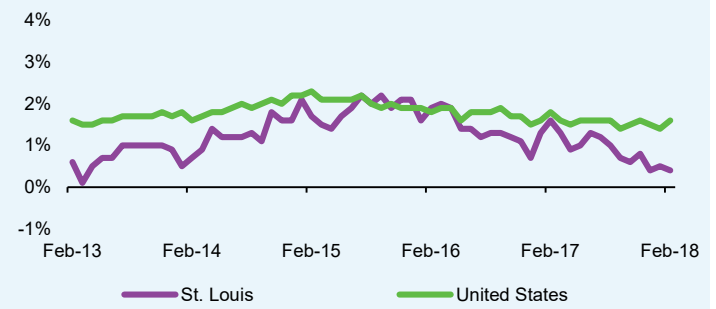
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

Payroll Employment

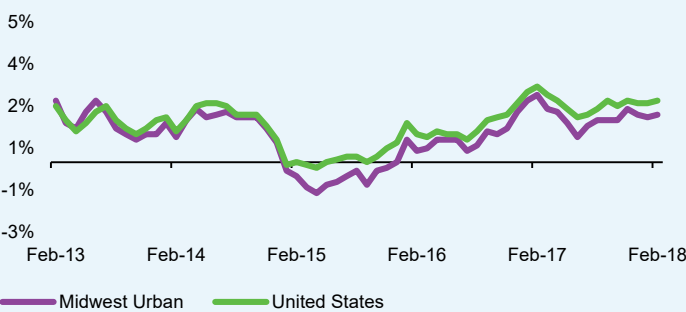
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics,

Consumer Price Index (CPI)

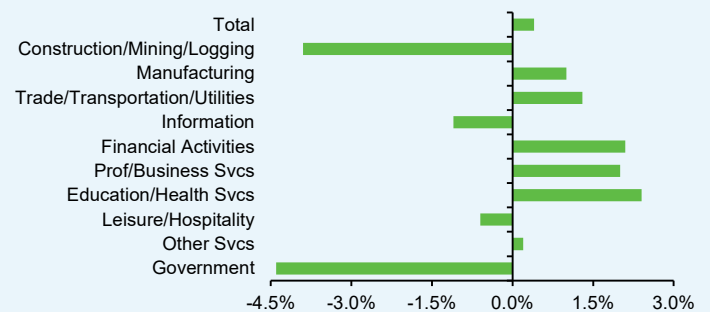
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

St. Louis, February 2018, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics



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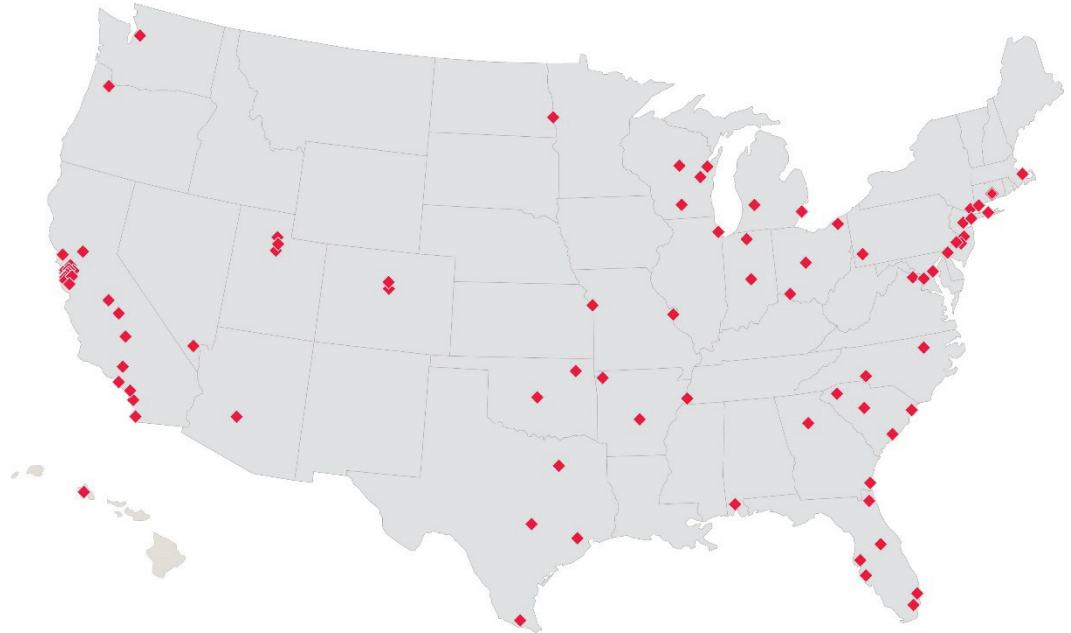
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