

ST. LOUIS OFFICE MARKET

ASKING RENTAL RATES AT RECORD HIGHS AS VACANCY DROPS TO 11.7%

The St. Louis office market realized record highs for asking rental rates in the third quarter of 2018, as rents increased to \$19.95/SF, up \$0.95/SF in the past year. The market continued to tighten, as vacancy decreased 20 basis points in the third quarter. Vacancy has decreased 60 basis points over the past year, from 12.3% to 11.7%. Total net absorption in the third quarter measured 219,210 square feet, bringing the total for the past four quarters to 558,022 square feet. Current projects under construction remained minimal at 60,000 square feet during the quarter, as no project delivered to the market.

PROPOSED CRESTWOOD CITY CENTER WILL DELIVER 240,000 SQUARE FEET OF OFFICE SPACE

With the former Crestwood Plaza Mall site now under contract by a new ownership group, redevelopment plans have been made public for the Crestwood City Center, a high-density mixed-use project. The 47-acre site of Crestwood City Center will consist of 240,000 square feet of Class A office and medical office space, 221,600 square feet of standalone and street-level retail space, 250 luxury-living apartments, a 42,000-square-foot movie theater and 1,700 covered parking spaces.

The approximately \$300.0 million project would act as a catalyst for development in the area, as the former mall closed in 2013 and was demolished in 2016 and 2017. To spur development, a total of \$25.0 million in tax incentives have already been approved by the Crestwood TIF Commission and could possibly be transferred to the current ownership group. Construction on the office component is scheduled to begin in 2019 with delivery expected for January 2020.

COMMERCIAL DEVELOPMENT COMPANY MOVES TO NEW HEADQUARTERS

Commercial Development Company (CDC), a brownfield redeveloper, moved to a new headquarters building on the site of a former quarry it had filled for 20 years. CDC will occupy the entire third floor of the Sunset Ridge Office Building, located at 1515 Des Peres Road in the West County submarket. The Class A, three-story structure was built in 2017 and offers 15,100-square-foot floorplates. Available space for rent is currently being marketed at \$27.50/SF. Newmark Grubb Zimmer will handle leasing activities for the building.

CURRENT CONDITIONS

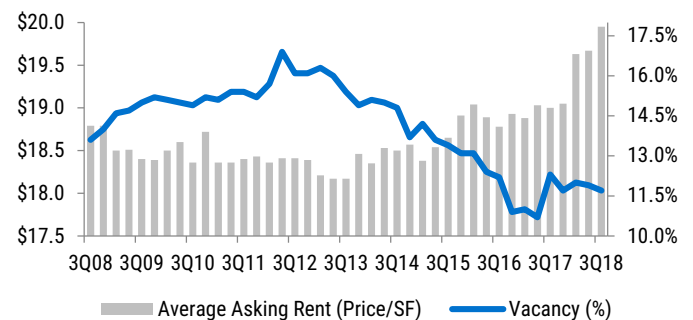
Net absorption in the past four quarters measured 558,022 causing vacancy to drop 60 basis points from 12.3% to 11.7%.

Crestwood City Center mixed-development to bring 240,000 SF of Class A space to the market.

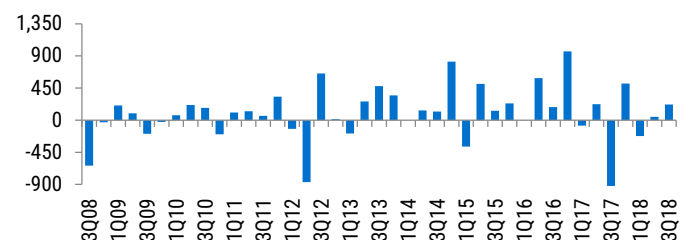
Commercial Development Company moves headquarters to the Sunset Ridge Office Building in the West County submarket.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 77 MSF | 77 MSF | 77 MSF | ↔ |
| Vacancy Rate | 11.7% | 11.9% | 12.3% | ↓ |
| Quarterly Net Absorption | 219,210 | 47,139 | -920,857 | ↑ |
| Average Asking Rent | \$19.95 | \$19.67 | \$19.00 | ↑ |
| Under Construction | 60,000 | 60,000 | 45,324 | ↑ |
| Deliveries | 0 | 0 | 335,000 | ↑ |

BUILD-TO-SUIT PROJECTS CONTINUE STRONG AS LOCAL FIRM EXPANDS HEADQUARTERS

Another local firm announced a build-to-suit expansion plan in the St. Louis market during the quarter. Artur Express, a transportation, logistics and warehousing company, will relocate from multiple locations across the metro to a new, \$11.9 million headquarters facility in Hazelwood, Missouri. The firm purchased a 15-acre lot at 4812-4832 Park 370 Boulevard in the Park 370 Business Center and will construct a facility consisting of 40,000 square feet of office space and 25,000 square feet of industrial/flex space. The new campus is expected to deliver within 14 months of initial construction.

THE MARCUS ORGANIZATION PURCHASES WALL STREET OFFICE CENTER FOR \$6.1 MILLION

New York-based the Marcus Organization, a full service construction management and general contracting firm, purchased the 77,180-square-foot Wall Street Office Center in July for \$6.1 million, equating to \$78/SF. Locally based Brentwood-Clayton Trade Center, LLC sold the four-story, Class A office building. Located on a 3.9-acre plot within the Regency Plaza Development at 1551 Wall Street in St. Charles, Missouri, the building was delivered to the market in 2000. The multi-tenant office building is currently 73.7% occupied. The Marcus Organization plans to redevelop the property for medical office use.

ASKING RENTAL RATES HAVE SIGNIFICANTLY INCREASED IN THE PAST 4 QUARTERS, RISING \$0.95/SF TO \$19.95/SF

The St. Louis office market had a decent quarter of sales and leasing activity, registering positive net absorption and with multiple lease renewals. Local development entities continued to invest in the market, with various small- to mid-sized build-to-suit projects announced. Build-to-suit construction projects are getting underway after an absence of several years, although they will not be substantial enough in size to alter vacancy rates.

Leasing opportunities for Class A space in the Clayton, Mid County, North County and West County submarkets will remain tight, as vacancy currently ranges from 2.1% to 6.1%. Overall market vacancy should range from 10.8% to 12.0% during the next four quarters.

Asking rental rates have significantly increased in the past four quarters, rising \$0.95/SF to \$19.95/SF. Expect asking rental rates to range from \$19.65/SF to \$20.25/SF over the next four quarters.

LEASE/USER TRANSACTIONS

| Tenant | Building | Submarket | Type | Square Feet |
|---------------------|--------------------------|--------------|---------|-------------|
| Express Scripts | 8455 University Place Dr | North County | Renewal | 181,140 |
| KnowledgeLake, Inc. | 6 CityPlace Drive | Mid County | Renewal | 24,060 |
| Harbour Group | 7701 Forsyth Blvd | Clayton | Renewal | 24,000 |
| Regus | 2 CityPlace Drive | Mid County | Renewal | 23,520 |
| ClubReady | 14515 N Outer Forty | West County | New | 15,870 |

SALES TRANSACTIONS

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|-----------------------|--------------------|-------------|----------|-------------|
| 900 N Tucker Blvd | Downtown | \$3,500,000 | \$15 | 235,000 |
| 425 N New Ballas Rd | Mid County | \$5,500,000 | \$70 | 78,250 |
| 1551 Wall St | St. Charles County | \$6,050,000 | \$78 | 77,180 |
| 275 N Lindbergh Blvd | Mid County | \$1,950,000 | \$75 | 26,000 |
| 600 Trade Center Blvd | West County | \$1,980,000 | \$173 | 11,470 |

SUBMARKET STATISTICS

| Submarket | Class | Total Number of Buildings | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Total Asking Rent (Price/SF) |
|---------------------------|----------------|---------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|------------------------------|
| Downtown | ALL | 244 | 28,639,565 | 0 | 17.60% | 26,256 | 262,113 | \$17.38 |
| | Class A | 36 | 11,132,012 | 0 | 25.00% | -3,559 | 178,542 | \$19.02 |
| | Class B | 124 | 11,593,696 | 0 | 17.50% | 25,647 | 107,362 | \$15.14 |
| | Class C | 84 | 5,913,857 | 0 | 3.60% | 4,168 | -23,791 | \$14.22 |
| Clayton | ALL | 100 | 8,610,552 | 0 | 4.20% | 114,846 | 143,631 | \$24.58 |
| | Class A | 30 | 4,917,084 | 0 | 2.10% | 77,853 | 87,961 | \$29.47 |
| | Class B | 50 | 2,773,659 | 0 | 6.80% | 6,835 | 33,975 | \$20.57 |
| | Class C | 20 | 919,809 | 0 | 7.40% | 30,158 | 21,695 | \$18.57 |
| Mid County | ALL | 178 | 12,930,888 | 0 | 7.30% | 96,284 | -153,671 | \$20.76 |
| | Class A | 37 | 5,442,256 | 0 | 4.30% | -6,529 | 6,767 | \$24.06 |
| | Class B | 118 | 6,789,099 | 0 | 10.40% | 103,413 | -160,265 | \$19.28 |
| | Class C | 23 | 699,533 | 0 | 0.30% | -600 | -173 | \$18.01 |
| North County | ALL | 92 | 7,868,714 | 0 | 10.90% | 41,495 | 49,578 | \$18.24 |
| | Class A | 21 | 3,175,927 | 0 | 4.20% | 30,572 | 34,235 | \$20.38 |
| | Class B | 43 | 3,658,969 | 0 | 19.10% | 13,782 | 3,570 | \$17.18 |
| | Class C | 28 | 1,033,818 | 0 | 2.10% | -2,859 | 11,773 | \$9.83 |
| South County | ALL | 74 | 4,096,949 | 0 | 8.80% | 19,800 | -1,992 | \$21.50 |
| | Class A | 13 | 910,050 | 0 | 10.50% | 6,557 | -7,362 | \$22.22 |
| | Class B | 48 | 2,795,459 | 0 | 9.20% | 15,657 | 2,251 | \$21.56 |
| | Class C | 13 | 391,440 | 0 | 2.20% | -2,414 | 3,119 | \$16.98 |
| St. Charles County | ALL | 70 | 4,102,172 | 60,000 | 15.00% | -3,526 | -168,625 | \$19.07 |
| | Class A | 23 | 2,316,520 | 60,000 | 16.80% | -1,650 | -181,725 | \$20.85 |
| | Class B | 39 | 1,409,480 | 0 | 14.80% | -7,039 | 6,952 | \$17.15 |
| | Class C | 8 | 376,172 | 0 | 4.60% | 5,163 | 6,148 | \$12.29 |
| West County | ALL | 148 | 10,598,156 | 0 | 7.50% | -75,945 | -86,939 | \$24.14 |
| | Class A | 58 | 5,987,555 | 0 | 6.10% | -46,310 | -44,330 | \$26.81 |
| | Class B | 81 | 4,279,593 | 0 | 9.60% | -29,635 | -47,703 | \$21.92 |
| | Class C | 9 | 331,008 | 0 | 5.70% | 0 | 5,094 | \$15.87 |
| St. Louis Market | ALL | 906 | 76,846,996 | 60,000 | 11.70% | 219,210 | 44,095 | \$19.95 |
| | Class A | 218 | 33,881,404 | 60,000 | 12.10% | 56,934 | 74,088 | \$21.93 |
| | Class B | 503 | 33,299,955 | 0 | 13.50% | 128,660 | -53,858 | \$18.58 |
| | Class C | 185 | 9,665,637 | 0 | 3.60% | 33,616 | 23,865 | \$14.37 |

SUBMARKET STATISTICS – CLASS A

| Submarket | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|-------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|-------------------------------|-------------------------------|------------------------------|
| Downtown | 11,132,012 | 0 | 25.00% | -3,559 | 178,542 | \$19.32 | \$15.97 | \$19.02 |
| Clayton | 4,917,084 | 0 | 2.10% | 77,853 | 87,961 | \$29.49 | \$25.00 | \$29.47 |
| Mid County | 5,442,256 | 0 | 4.30% | -6,529 | 6,767 | \$24.92 | \$20.31 | \$24.06 |
| North County | 3,175,927 | 0 | 4.20% | 30,572 | 34,235 | \$20.73 | \$17.68 | \$20.38 |
| South County | 910,050 | 0 | 10.50% | 6,557 | -7,362 | \$22.12 | \$22.70 | \$22.22 |
| St. Charles County | 2,316,520 | 60,000 | 16.80% | -1,650 | -181,725 | \$21.12 | \$16.50 | \$20.85 |
| West County | 5,987,555 | 0 | 6.10% | -46,310 | -44,330 | \$27.42 | \$21.24 | \$26.81 |
| St. Louis Market | 33,881,404 | 60,000 | 12.10% | 56,934 | 74,088 | \$22.33 | \$18.45 | \$21.93 |

SUBMARKET STATISTICS – CLASS B

| Submarket | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|-------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|-------------------------------|-------------------------------|------------------------------|
| Downtown | 11,593,696 | 0 | 17.50% | 25,647 | 107,362 | \$15.16 | \$12.81 | \$15.14 |
| Clayton | 2,773,659 | 0 | 6.80% | 6,835 | 33,975 | \$20.52 | \$22.01 | \$20.57 |
| Mid County | 6,789,099 | 0 | 10.40% | 103,413 | -160,265 | \$19.30 | \$18.85 | \$19.28 |
| North County | 3,658,969 | 0 | 19.10% | 13,782 | 3,570 | \$17.31 | \$13.00 | \$17.18 |
| South County | 2,795,459 | 0 | 9.20% | 15,657 | 2,251 | \$21.76 | \$18.75 | \$21.56 |
| St. Charles County | 1,409,480 | 0 | 14.80% | -7,039 | 6,952 | \$17.03 | \$22.50 | \$17.15 |
| West County | 4,279,593 | 0 | 9.60% | -29,635 | -47,703 | \$22.02 | \$18.01 | \$21.92 |
| St. Louis Market | 33,299,955 | 0 | 13.50% | 128,660 | -53,858 | \$18.61 | \$17.65 | \$18.58 |

ECONOMIC CONDITIONS

The local economy continued to improve through August, with total employment growth of 0.8% and positive growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

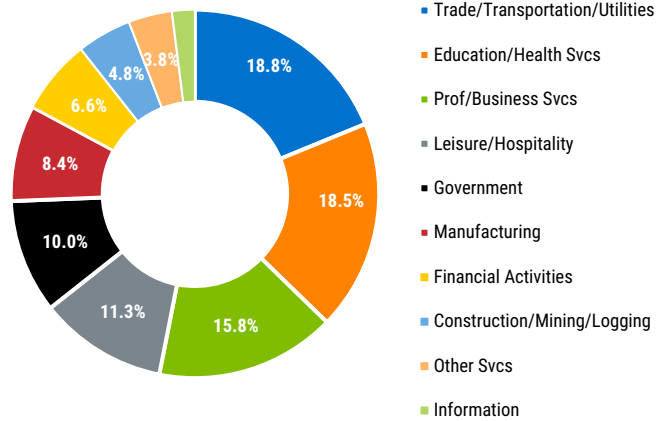
Payroll employment in St. Louis decreased 20 basis points compared to the prior year registering 0.8% in August 2018. The national average increased 10 basis points to 1.7%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States increased 80 basis points to 2.7% over the past year. The Midwest Urban CPI increased 60 basis points to 2.1% in August 2018.

Unemployment in the United States increased 10 basis points to 3.9% in August, while unemployment in St. Louis decreased 20 basis points to 3.3% over the past quarter. Unemployment in St. Louis decreased 40 basis points from a year prior.

EMPLOYMENT BY INDUSTRY

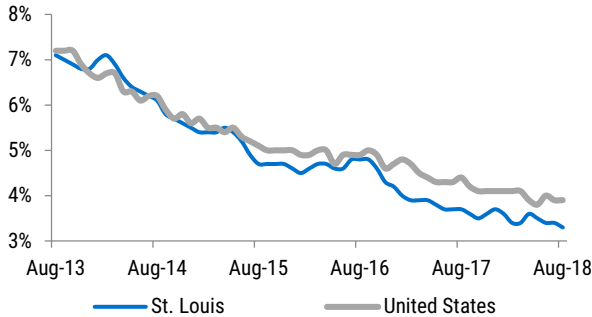
St. Louis, August 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

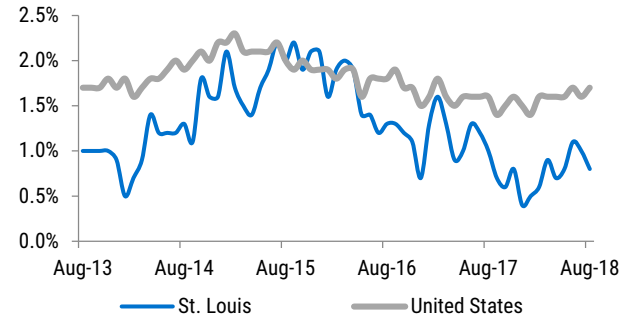
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

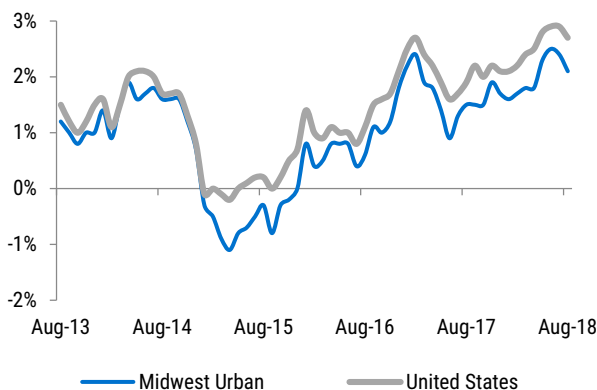
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

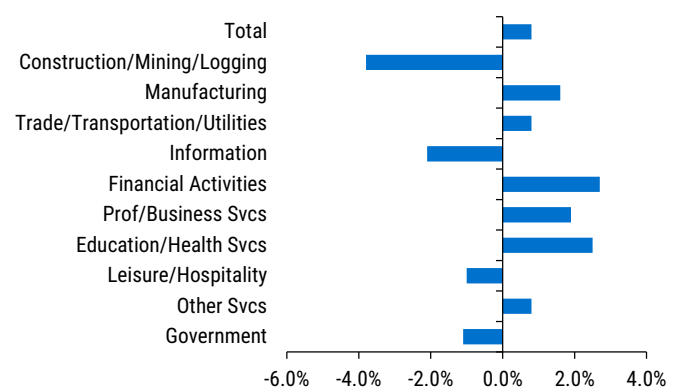
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

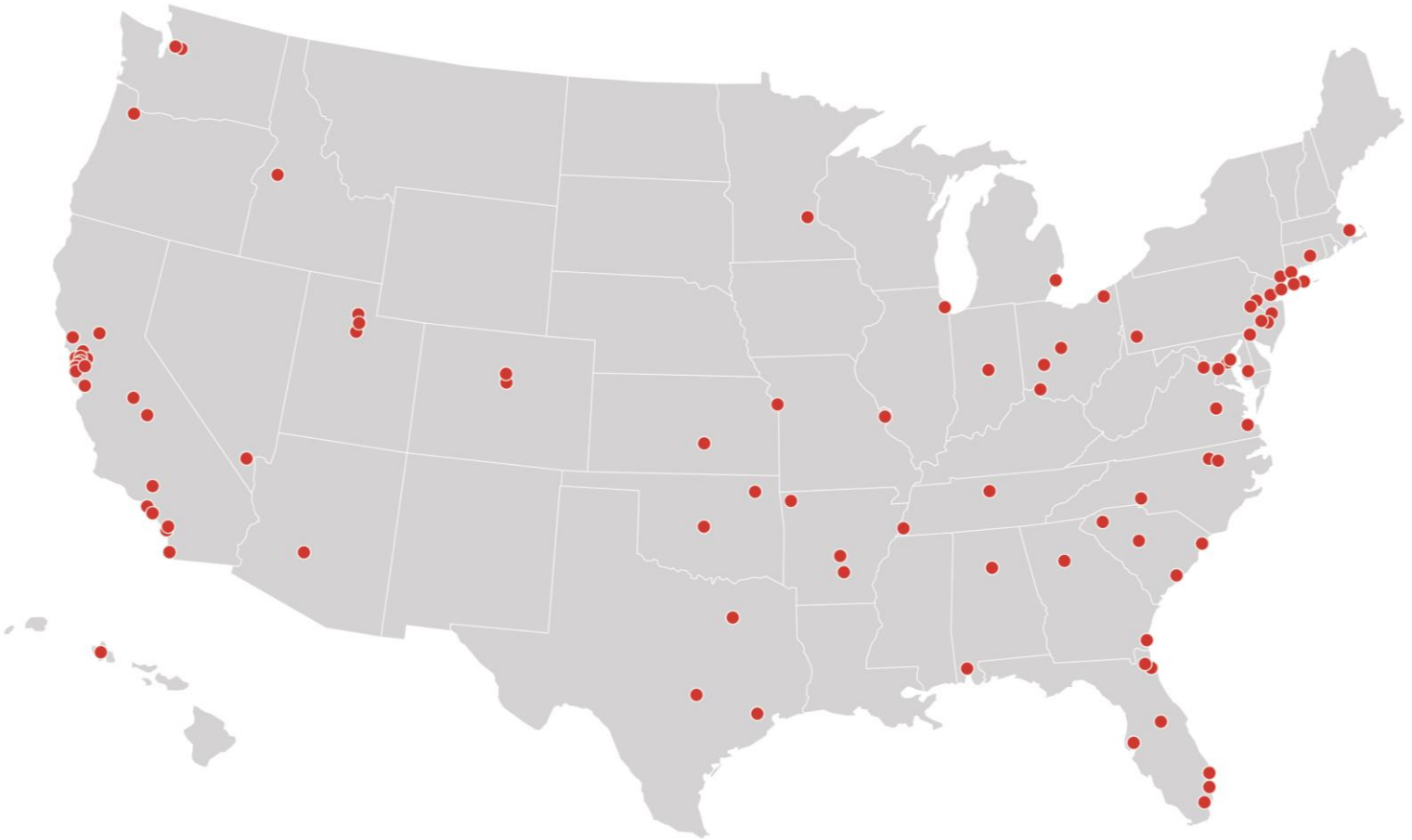
EMPLOYMENT GROWTH BY INDUSTRY

STL, Aug. 2018, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

NEWMARK KNIGHT FRANK UNITED STATES OFFICE LOCATIONS



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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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