



## ST. LOUIS 4Q17 OFFICE MARKET

# LARGEST SALE IN A DECADE OCCURS AT THE PLAZA IN CLAYTON

The St. Louis office market realized its 11th consecutive quarter of decreasing vacancy in the fourth quarter of 2017. Vacancy has decreased 130 basis points over the past year, from 11.0% to 9.7%. Total net absorption in the fourth quarter measured 459,527 square feet, with year-to-date absorption measuring 1.0 million square feet. Current projects under construction and deliveries to the market remained nonexistent.

### Franklin Partners Acquires The Plaza in Clayton for \$85.5 Million

The Clayton submarket continued its steady stream of benchmark sales and leasing activity, as The Plaza in Clayton office building traded in October. KBS REIT, Inc., a Newport Beach-based non-traded REIT, sold the property to Chicago-based real estate firm Franklin Partners, LLC. The largest office deal in a decade, the 16-story, multi-tenant building traded for \$85.5 million, or \$263/SF. Located at 190 Carondelet Plaza in Clayton, The Plaza in Clayton last sold in September 2006 for \$93.3 million and was recently appraised by the county at \$63.0 million. Delivered to the market in 2001, the Class A trophy office building totals 325,170 square feet and possesses 1,230 parking spaces. The building is currently 99.2% occupied and is home to key tenants including Ernst & Young, Olin Corporation, Husch Blackwell, LLP and The Northern Trust Company. The office building is part of a mixed-use complex that includes retail space as well as a 30-story residential apartment building. Earlier in the year, KBS REIT announced its intention to liquidate its portfolio of two remaining properties and distribute the proceeds to shareholders by 2019. KBS REIT is the first non-traded REIT sponsored by KBS Realty Advisors.

### The Atrium at Chesterfield Trades for \$12.9 Million to Rose International

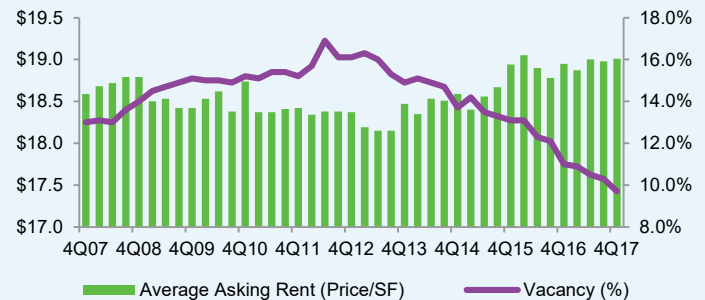
Another noteworthy office property traded via auction in the West County submarket. Colony NorthStar, Inc., a Los Angeles-based real estate investment trust, sold The Atrium at Chesterfield to locally based information technology firm Rose International. Located at 16305 Swingley Ridge Road in Chesterfield, The Atrium at Chesterfield traded for \$12.9 million, or \$107/SF, and was recently appraised by the county at the same value of \$12.9 million. The 120,160-square-foot, five-story, Class A building was built in 1989. The building is currently 91.5% occupied and is home to key tenants including Ameriprise Financial, TLC Vision Corp. and Black & Veatch. A total of 10,270 square feet is currently available with a quoted rental rate of \$24.50/SF. The Atrium at Chesterfield deal follows last quarter's \$8.5 million sale of Black's Ridge at 16253 Swingley Ridge Road by Colony NorthStar. The 68,260-square-foot, Class A property traded for \$125/SF.

### Current Conditions

- Vacancy decreases for 11<sup>th</sup> straight quarter.
- 1.0 million SF of total net absorption in 2017.
- Largest office deal in a decade occurs as The Plaza in Clayton trades for \$85.5 million.
- The Atrium at Chesterfield trades for \$12.9 million.
- Two former Scottrade office buildings up for sale brings 297,000 SF of Class A space onto West County submarket.

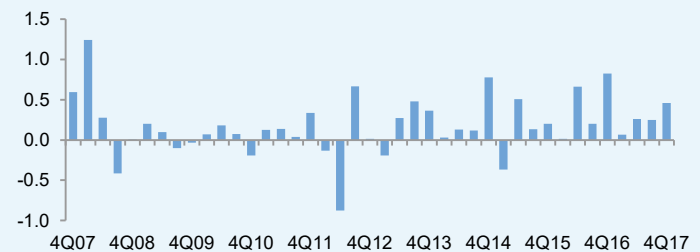
### Market Analysis

#### 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	9.7%	10.3%	11.0%	↓
Quarterly Net Absorption	459,527	247,001	825,812	↑
Average Asking Rent	\$19.01	\$18.98	\$18.95	↑
Under Construction	0	0	125,000	↑
Deliveries	0	125,000	0	↑



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### For Sale. Former Scottrade Office Buildings will Offer Desirable Class A Space in West County

The former Scottrade headquarters building and a second Scottrade office property in the West County submarket are officially on the market for sale. TD Ameritrade closed its \$4.0 billion acquisition of locally based discount brokerage firm Scottrade Financial Services, Inc. in September. With a reduction in the former Scottrade workforce, two properties totaling 297,000 square feet of rentable building area are now fully vacant and will offer desirable Class A office space to the West County area.

The first property, Corporate Hill IV, is the former Scottrade headquarters. Located at 12800 Corporate Hill Drive in Des Peres, Missouri, the five-story, Class A structure totals 165,500 square feet and offers a 3.8/1,000 parking ratio. It was originally constructed in 1984 and was last renovated in 2015. Corporate Hill IV last sold in 2004 for \$26.3 million. The property is currently appraised at \$21.9 million, or \$75/SF.

The second property is located at 13075 Manchester Road in Des Peres, Missouri. The four-story, Class A structure totals 131,500 square feet and offers a 4.1/1,000 parking ratio. It was originally constructed in 1986 and was last renovated in 2016. The building last sold in 2015 for an undisclosed amount. The property is currently appraised at \$14.4 million, or \$57/SF. The buildings are not expected to stay on the market for long, as Class A vacancy in West County sits at 5.6%, leaving few options for tenants seeking large blocks of space.

## EXPECT THE OVERALL MARKET VACANCY RATE TO FALL TOWARD 9.0% AND ASKING RENTAL RATES TO SLOWLY RISE TO \$19.20/SF IN 2018

The St. Louis office sector finished the year strong, as out-of-town institutional investors and local development entities continued to invest in the market. Sales transaction volume in 2018 is expected to stay on pace with 2017. Outside the Downtown submarket, leasing opportunities for Class A space in Clayton, Mid County, North County and West County submarkets will remain tight, as vacancy currently ranges from 3.9% to 7.3%. Positive net absorption has occurred in 18 out of the past 19 quarters, with an impressive 130-basis-point decrease in vacancy over the past four quarters. Expect the overall market vacancy rate to fall toward 9.0% and asking rental rates to slowly rise to \$19.20/SF in 2018.

### Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
Mass Mutual	16150 Main Circle Dr	West County	New	25,000
AECOM	100 N Broadway	Downtown	New	17,000
Smith Moore and Co.	7777 Bonhomme Ave	Clayton	Renewal	10,250
AOS	1859 Bowles Ave	South County	Renewal	10,000

### Select Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
190 Carondelet Plz	Clayton	\$85,500,000	\$263	325,170
502-514 Earth City Expy	North County	\$2,800,000	\$22	128,290
16305 Swingley Ridge Rd <sup>1</sup>	West County	\$12,900,000	\$107	120,160
1 Rider Trail Plaza Dr	North County	\$15,075,000	\$135	112,000
10777 Sunset Office Dr <sup>2</sup>	South County	\$8,200,000	\$157	52,190
2130-2132 Kratky Rd <sup>3</sup>	North County	\$3,180,000	\$87	36,740

<sup>1</sup>Auction sale.

<sup>2</sup>Medical office building.

<sup>3</sup>Sold in a five-building portfolio sale. Sale price reflects the allocated amount for the property.


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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)
<b>Downtown</b>		240	28,367,455	12.70%	253,527	467,137	0	\$16.53
	Class A	34	11,015,617	13.80%	65,562	-28,263	0	\$18.06
	Class B	122	11,437,705	16.30%	18,565	1,057	0	\$14.28
	Class C	84	5,914,133	3.90%	169,400	494,343	0	\$14.78
<b>Clayton</b>		100	8,677,964	6.00%	-82,274	51,876	0	\$22.70
	Class A	30	4,997,942	3.90%	-27,755	34,867	0	\$27.12
	Class B	49	2,726,580	8.50%	-57,364	-6,229	0	\$20.03
	Class C	21	953,442	10.10%	2,845	23,238	0	\$16.29
<b>Mid County</b>		176	12,614,364	6.80%	184,137	140,518	0	\$21.12
	Class A	37	5,266,951	5.30%	125,246	82,440	0	\$24.64
	Class B	116	6,594,113	8.70%	28,171	44,309	0	\$19.08
	Class C	23	753,300	0.30%	30,720	13,769	0	\$15.79
<b>North County</b>		90	7,426,904	12.70%	36,736	85,064	0	\$16.30
	Class A	19	2,732,927	7.30%	38,288	-26,307	0	\$18.96
	Class B	43	3,658,919	19.40%	-3,128	114,977	0	\$17.06
	Class C	28	1,035,058	3.20%	1,576	-3,606	0	\$8.82
<b>South County</b>		70	3,931,858	6.50%	79,205	112,783	0	\$21.63
	Class A	11	760,050	11.30%	-7,515	54,941	0	\$26.95
	Class B	46	2,780,368	5.70%	82,299	51,946	0	\$20.15
	Class C	13	391,440	3.00%	4,421	5,896	0	\$18.20
<b>St. Charles County</b>		69	4,066,927	10.20%	-37,165	12,764	0	\$18.76
	Class A	21	2,240,338	10.70%	-37,670	-7,156	0	\$20.45
	Class B	40	1,450,417	10.50%	505	18,524	0	\$17.38
	Class C	8	376,172	6.20%	0	1,396	0	\$14.12
<b>West County</b>		145	9,962,215	7.00%	25,361	162,598	0	\$23.10
	Class A	57	5,951,185	5.60%	20,825	182,808	0	\$25.51
	Class B	79	3,680,022	9.50%	-12,825	-33,505	0	\$20.43
	Class C	9	331,008	3.80%	17,361	13,295	0	\$16.34
<b>St. Louis Market</b>		<b>890</b>	<b>75,047,687</b>	<b>9.70%</b>	<b>459,527</b>	<b>1,032,740</b>	<b>0</b>	<b>\$19.01</b>
	Class A	<b>209</b>	<b>32,965,010</b>	<b>8.70%</b>	<b>176,981</b>	<b>293,330</b>	<b>0</b>	<b>\$21.35</b>
	Class B	<b>495</b>	<b>32,328,124</b>	<b>12.50%</b>	<b>56,223</b>	<b>191,079</b>	<b>0</b>	<b>\$17.84</b>
	Class C	<b>186</b>	<b>9,754,553</b>	<b>4.20%</b>	<b>226,323</b>	<b>548,331</b>	<b>0</b>	<b>\$13.44</b>


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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	11,015,617	0	13.80%	65,562	-28,263	\$18.20	\$15.97	\$18.06
Clayton	4,997,942	0	3.90%	-27,755	34,867	\$27.14	\$22.33	\$27.12
Mid County	5,266,951	0	5.30%	125,246	82,440	\$25.30	\$21.30	\$24.64
North County	2,732,927	0	7.30%	38,288	-26,307	\$19.69	\$17.82	\$18.96
South County	760,050	0	11.30%	-7,515	54,941	\$27.20	\$21.50	\$26.95
St. Charles County	2,240,338	0	10.70%	-37,670	-7,156	\$20.85	\$17.30	\$20.45
West County	5,951,185	0	5.60%	20,825	182,808	\$26.94	\$16.69	\$25.51
<b>St. Louis Market</b>	<b>32,965,010</b>	<b>0</b>	<b>8.70%</b>	<b>176,981</b>	<b>293,330</b>	<b>\$21.87</b>	<b>\$18.14</b>	<b>\$21.35</b>

**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	11,437,705	0	16.30%	18,565	1,057	\$14.28	\$18.00	\$14.28
Clayton	2,726,580	0	8.50%	-57,364	-6,229	\$19.96	\$25.00	\$20.03
Mid County	6,594,113	0	8.70%	28,171	44,309	\$19.13	\$17.90	\$19.08
North County	3,658,919	0	19.40%	-3,128	114,977	\$17.06	-	\$17.06
South County	2,780,368	0	5.70%	82,299	51,946	\$20.24	\$18.75	\$20.15
St. Charles County	1,450,417	0	10.50%	505	18,524	\$17.25	\$23.00	\$17.38
West County	3,680,022	0	9.50%	-12,825	-33,505	\$20.54	\$17.23	\$20.43
<b>St. Louis Market</b>	<b>32,328,124</b>	<b>0</b>	<b>12.50%</b>	<b>56,223</b>	<b>191,079</b>	<b>\$17.83</b>	<b>\$18.56</b>	<b>\$17.84</b>



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**ECONOMIC CONDITIONS**

The local economy continued to improve through November, 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.

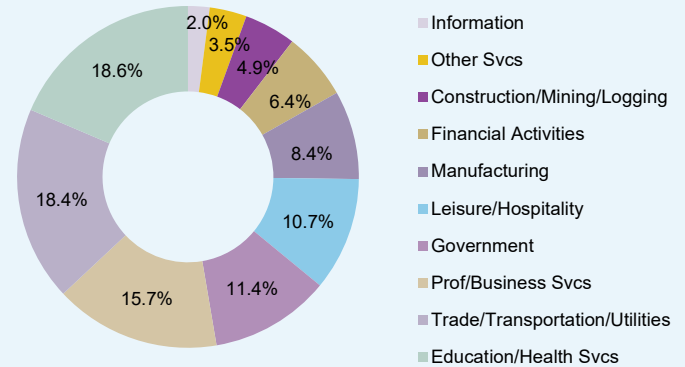
Payroll employment in St. Louis decreased 40 basis points compared to the prior year registering 1.1% in November 2017. The national average decreased 20 basis points to 1.4%. Both indices have realized positive 12-month percent changes since September 2012.

The Consumer Price Index (CPI) for the United States increased 50 basis points to 2.2% over the past year. The Midwest Urban CPI increased 70 basis points to 1.9% in November 2017.

Unemployment in the United States decreased 30 basis points to 4.1% in November, while unemployment in St. Louis decreased 20 basis points to 3.6% over the past quarter. Unemployment in St. Louis decreased 80 basis points from a year prior.

**Employment By Industry**

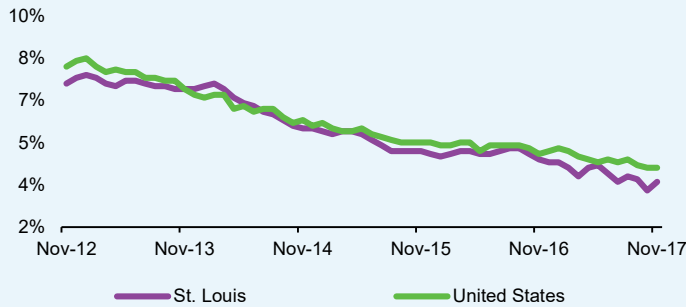
St. Louis, November 2017



Source: U.S. Bureau of Labor Statistics

**Unemployment Rate**

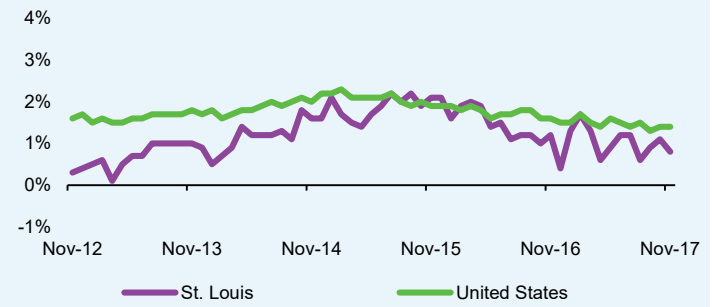
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

**Payroll Employment**

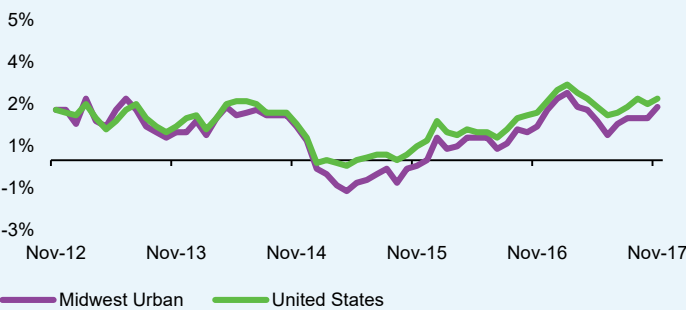
Total Nonfarm, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics,

**Consumer Price Index (CPI)**

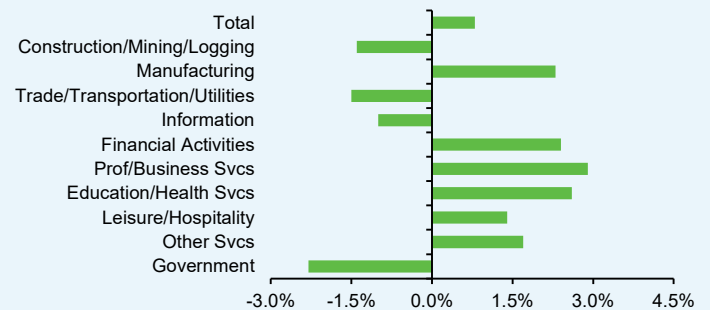
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

**Employment Growth by Industry**

St. Louis, November 2017, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

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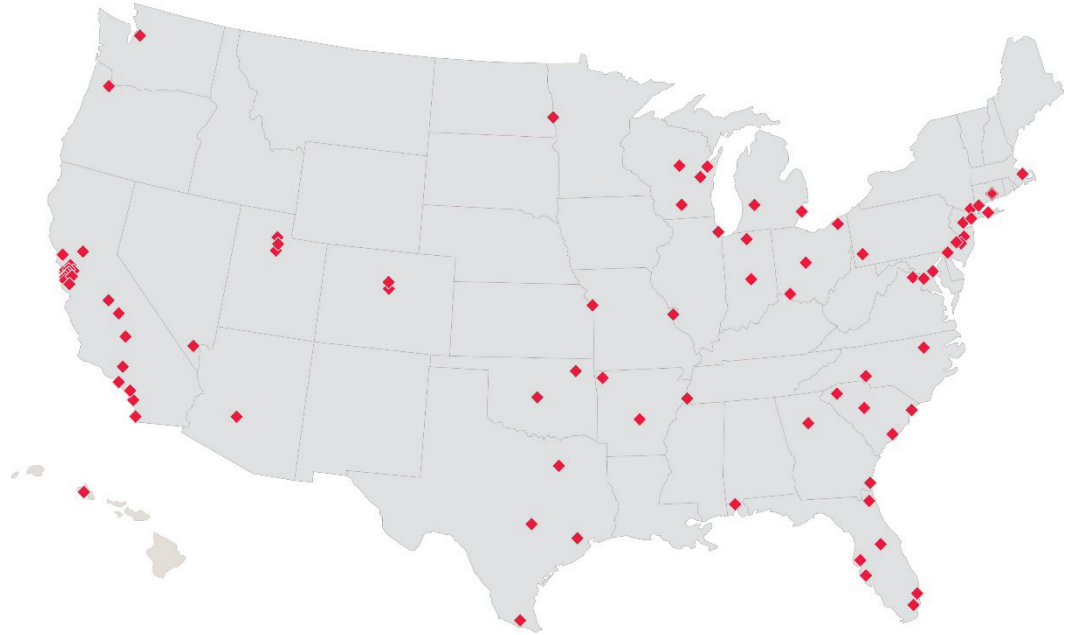
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