

ST. LOUIS OFFICE MARKET

ASKING RENTAL RATES AT RECORD HIGHS HEADING INTO 2019

The St. Louis office market realized record highs for asking rental rates in the fourth quarter of 2018, as rents increased to \$20.22/SF, up \$1.17/SF in the past year. The market continued to tighten, as vacancy decreased 50 basis points in the fourth quarter. Vacancy has decreased 30 basis points over the past year, from 10.2% to 9.9%. Total net absorption in the fourth quarter measured 384,254 square feet, bringing the total for the past four quarters to 192,872 square feet. Current projects under construction remained minimal at 60,000 square feet during the quarter, as no projects delivered to the market.

CAPES SOKOL MOVES INTO LARGEST BLOCK OF SPACE AVAILABLE IN CLAYTON

The largest block of office space available in the Clayton submarket has now been claimed. Newmark Grubb Zimmer represented the landlord as Capes Sokol, one of St. Louis' largest law firms, signed a new 10-year lease to occupy the top two floors of the Regions Centre. Located at 8182 Maryland Avenue, Capes Sokol will occupy 33,710 square feet of the 278,800-square-foot, 14-story structure. Built in 1986, the Class A Regions Centre is within walking distance to more than 60 restaurants and is connected to the Merrill Lynch Centre and a 345,000-square-foot parking garage via a five-story glass atrium. Available space for rent is currently being marketed at \$33.00/SF.

Capes Sokol will vacate its space in Pierre Laclède Center I, located at 7701 Forsyth Boulevard, as the firm's rapid growth of over 50% in the past four years necessitated the move. Currently, there are only three buildings in Clayton with at least 15,000 square feet of Class A office space available for rent: the Pierre Laclède Center I, Hanley Corporate Tower and the Merrill Lynch Center.

REGIONAL FBI BUILDING IN ST. LOUIS TRADES FOR \$21.0 MILLION

Oklahoma City-based Gardner Tanenbaum Holdings, a commercial development company, purchased the 89,560-square-foot FBI office building in October for \$21.0 million, equating to \$234/SF. Cheyenne-based Tibair GSA & Investment Trust sold the two-story, Class B office building. Located on a 4.8-acre plot at 2222 Market Street in Downtown, the building was delivered to the market in 1998 as a build-to-suit for the FBI and was expanded by 15,000 square feet in 2008.

CURRENT CONDITIONS

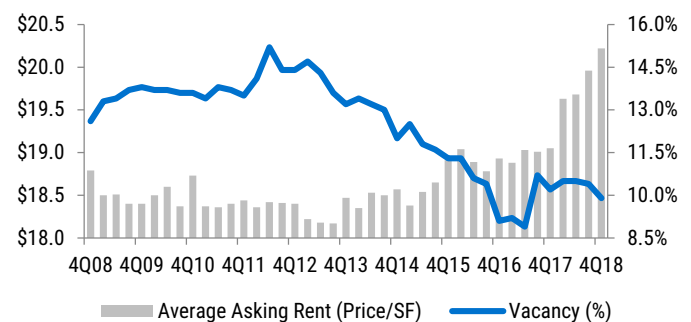
Vacancy decreases into the single digits heading into 2019 as asking rental rates are at a record high, increasing 6.1% during the past year.

Capes Sokol relocates to 33,710 SF of space at Regions Centre. Only three buildings now offer at least 15,000 SF of Class A space for rent in Clayton.

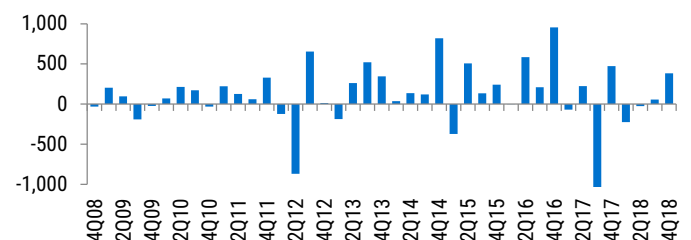
Gardner Tanenbaum Holdings purchases the FBI Office building for \$21.0 million, equating to \$234/SF.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	76 MSF	76 MSF	76 MSF	↔
Vacancy Rate	9.9%	10.4%	10.2%	↓
Quarterly Net Absorption	384,254	56,713	-473,927	↑
Average Asking Rent	\$20.22	\$19.96	\$19.05	↑
Under Construction	60,000	60,000	0	↑
Deliveries	0	0	45,324	↑

The single-tenant office building is currently fully occupied by the FBI, which has approximately eight years remaining on its lease. Due to deferred maintenance on the HVAC and roof, the buyer was credited \$500,000. With the purchase, Gardner Tanenbaum Holdings has now completed its 35th federal real estate transaction in the past three years.

CREVE COEUR PORTFOLIO TOTALING 299,640 SQUARE FEET TRADES BEFORE YEAR'S END

A trio of office properties traded in the Mid County submarket. West Park I and II and Pine View Pointe, a three-building office portfolio located at 12655 and 12647 Olive Boulevard and 1285 Fern Ridge Parkway in Creve Coeur, traded in December with Tremont Mortgage Trust, closing \$29.5 million in financing on behalf of a private buyer. The portfolio of buildings was recently appraised by the county at \$26.4 million, equating to \$88/SF. The 299,640-square-foot Class A office complex consists of West Park I, a 98,590-square-foot, five-story building built in 1987; West Park II, a 134,540-square-foot, six-story building built in 1988; and Pine View Pointe, a 66,510-square-foot, three-story building built in 1999. A total of 74,580 square feet is currently available for lease in the complex with a quoted rental rate ranging from \$18.50/SF to \$25.00/SF.

CLASS A VACANCY RATES RANGE FROM 2.5% TO 4.7% IN FOUR METRO SUBMARKETS

The St. Louis office market had an active quarter of sales and leasing activity, registering positive net absorption with multiple new lease announcements. The market also continued to attract out-of-town and local investors, as various single and multi-tenant buildings successfully traded in the last quarter of the year. 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.

Class A vacancy rates range from 2.5% to 4.7% in four metro submarkets, leading to few opportunities for prospective tenants in Clayton, Mid County, North County and South County. Overall market vacancy should range from 9.0% to 10.5% in 2019.

Asking rental rates increased significantly in 2018, rising a total of \$1.17/SF. Expect asking rental rates to range from \$20.25/SF to \$21.25/SF in 2019.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Capes Sokol	8182 Maryland Ave	Clayton	New	33,710
Clearent	11330 Olive Blvd	Mid County	New	29,650
Essence Group Holdings	13736 Riverport Dr	North County	New	27,780
Axiom Product Administration	1 Progress Point Pkwy	St. Charles County	New	12,850
Progressive Insurance	600 Kellwood Pkwy	West County	New	12,770

SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
CenturyLink Port. (4) - Wentzville	St. Charles County	\$5,400,000	\$21	258,010
1881 Pine St	Downtown	\$3,000,000	\$27	110,060
2222 Market St	Downtown	\$21,000,000	\$234	89,560
901 N 10th St	Downtown	\$2,000,000	\$27	73,950
6 S Old Orchard Ave	Clayton	\$3,500,000	\$140	25,000
3990 N Illinois St	Metro East	\$3,075,000	\$185	16,610

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	28,720,147	0	13.50%	65,795	202,914	\$17.69
	Class A	36	11,132,012	0	26.00%	22,114	74,162	\$19.15
	Class B	124	11,604,546	0	6.90%	15,251	124,113	\$15.38
	Class C	84	5,983,589	0	3.10%	28,430	4,639	\$14.52
Clayton	ALL	100	8,610,552	0	3.90%	64,374	171,454	\$25.10
	Class A	31	4,937,329	0	2.50%	23,092	69,611	\$29.34
	Class B	49	2,753,414	0	6.60%	1,424	40,290	\$20.69
	Class C	20	919,809	0	3.10%	39,858	61,553	\$18.70
Mid County	ALL	179	12,950,976	0	7.70%	-36,199	-201,344	\$20.56
	Class A	37	5,442,256	0	4.70%	-3,429	-11,848	\$24.03
	Class B	119	6,809,187	0	10.90%	-34,500	-191,053	\$19.33
	Class C	23	699,533	0	0.10%	1,730	1,557	\$18.19
North County	ALL	91	7,857,537	0	8.90%	129,688	177,474	\$18.56
	Class A	21	3,186,986	0	2.60%	40,129	57,594	\$20.70
	Class B	43	3,658,969	0	15.90%	103,903	122,451	\$17.16
	Class C	27	1,011,582	0	3.60%	-14,344	-2,571	\$11.23
South County	ALL	74	4,098,871	0	8.50%	26,694	11,263	\$21.37
	Class A	14	1,025,531	0	4.10%	56,902	47,687	\$22.74
	Class B	47	2,681,900	0	11.10%	-30,588	-39,923	\$20.87
	Class C	13	391,440	0	2.10%	380	3,499	\$19.00
St. Charles County	ALL	70	4,114,435	60,000	10.10%	197,235	37,280	\$19.32
	Class A	23	2,316,520	60,000	11.90%	107,786	-60,939	\$21.58
	Class B	39	1,409,638	0	8.20%	97,249	99,871	\$17.20
	Class C	8	388,277	0	6.50%	-7,800	-1,652	\$12.54
West County	ALL	148	10,089,368	0	9.10%	-63,333	-206,169	\$24.23
	Class A	58	5,987,555	0	7.10%	-49,095	-104,291	\$26.76
	Class B	81	3,770,805	0	12.40%	-14,582	-107,316	\$22.02
	Class C	9	331,008	0	5.60%	344	5,438	\$16.50
St. Louis Market	ALL	906	76,441,886	60,000	9.90%	384,254	192,872	\$20.22
	Class A	220	34,028,189	60,000	12.00%	197,499	71,976	\$22.19
	Class B	502	32,688,459	0	9.80%	138,157	48,433	\$18.75
	Class C	184	9,725,238	0	3.10%	48,598	72,463	\$14.91

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	26.00%	22,114	74,162	\$19.36	\$17.11	\$19.15
Clayton	4,937,329	0	2.50%	23,092	69,611	\$29.37	\$24.58	\$29.34
Mid County	5,442,256	0	4.70%	-3,429	-11,848	\$25.22	\$20.18	\$24.03
North County	3,186,986	0	2.60%	40,129	57,594	\$20.88	\$19.00	\$20.70
South County	1,025,531	0	4.10%	56,902	47,687	\$22.78	\$22.46	\$22.74
St. Charles County	2,316,520	60,000	11.90%	107,786	-60,939	\$22.03	\$16.50	\$21.58
West County	5,987,555	0	7.10%	-49,095	-104,291	\$27.38	\$20.37	\$26.76
St. Louis Market	34,028,189	60,000	12.00%	197,499	71,976	\$22.57	\$18.88	\$22.19

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	11,604,546	0	6.90%	15,251	124,113	\$15.41	\$14.55	\$15.38
Clayton	2,753,414	0	6.60%	1,424	40,290	\$20.69	-	\$20.69
Mid County	6,809,187	0	10.90%	-34,500	-191,053	\$19.39	\$17.50	\$19.33
North County	3,658,969	0	15.90%	103,903	122,451	\$17.29	\$13.00	\$17.16
South County	2,681,900	0	11.10%	-30,588	-39,923	\$20.98	\$18.75	\$20.87
St. Charles County	1,409,638	0	8.20%	97,249	99,871	\$17.08	\$22.50	\$17.20
West County	3,770,805	0	12.40%	-14,582	-107,316	\$22.11	\$17.83	\$22.02
St. Louis Market	32,688,459	0	9.80%	138,157	48,433	\$18.82	\$16.45	\$18.75

ECONOMIC CONDITIONS

The local economy continued to improve through November, with total employment growth of 0.6% and positive growth occurring in six out of ten industries, calculated on a 12-month percent change basis.

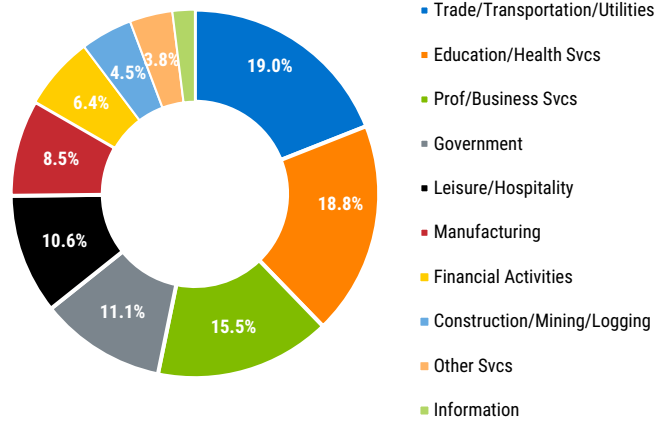
Payroll employment in St. Louis decreased 20 basis points compared to the prior year registering 0.6% in November 2018. The national average remained flat at 1.6%. Both indices have realized positive 12-month percent changes since August 2010.

The Consumer Price Index (CPI) for the United States remained flat compared to the prior year registering 2.2% in November 2018. The Midwest Urban CPI decreased 50 basis points to 1.4% in November 2018.

Unemployment in the United States decreased 20 basis points to 3.7% in November, while unemployment in St. Louis remained flat at 3.3% compared to the past quarter. Unemployment in St. Louis decreased 30 basis points from a year prior.

EMPLOYMENT BY INDUSTRY

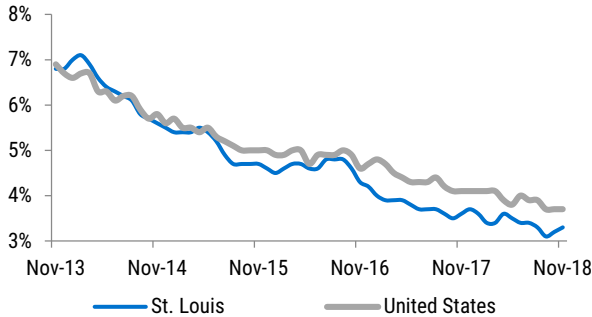
St. Louis, November 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

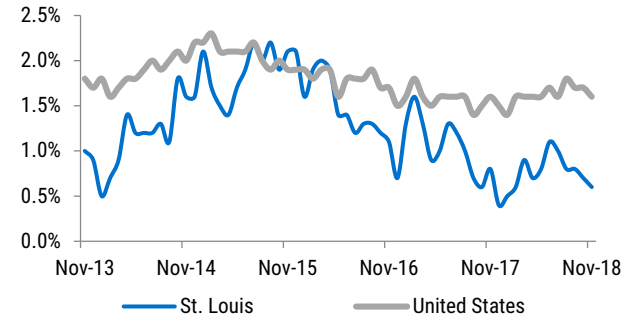
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

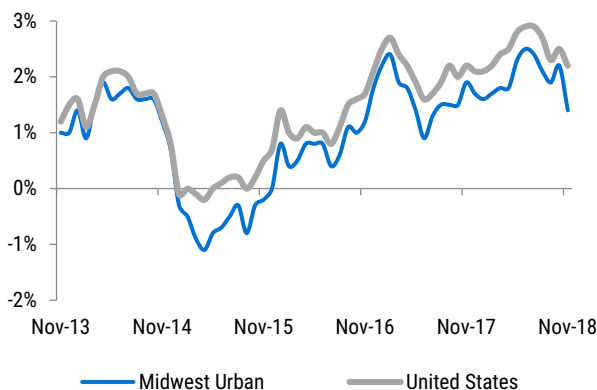
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

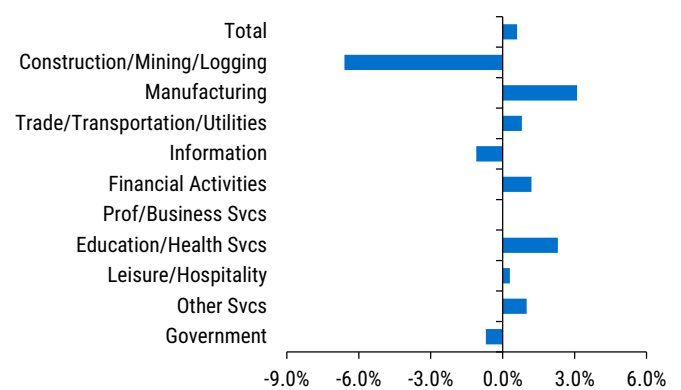
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

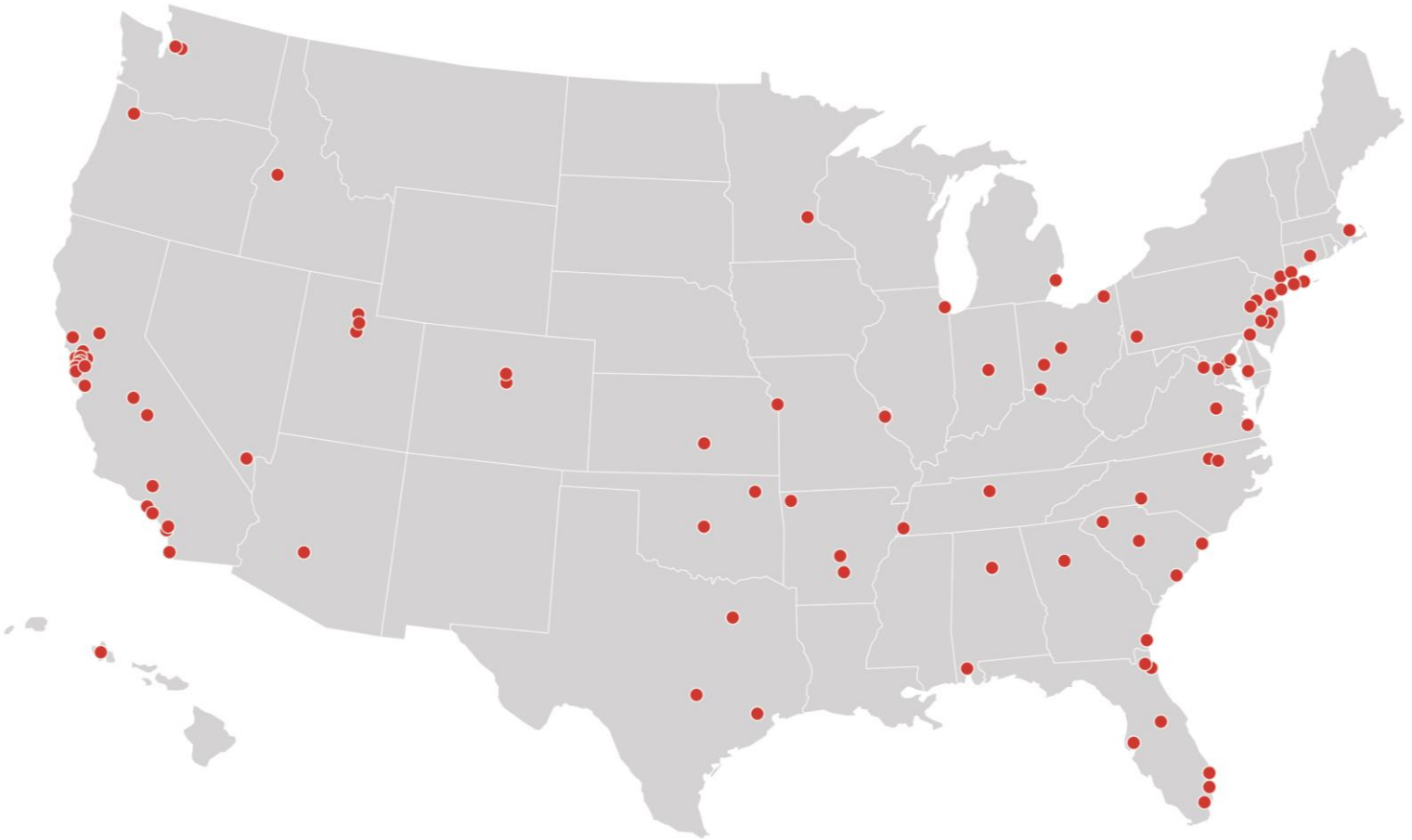
EMPLOYMENT GROWTH BY INDUSTRY

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



Source: U.S. Bureau of Labor Statistics

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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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