

St. Louis Office, Q3 2015

St. Louis Office Market Boasts Outstanding Quarter



Vacancy
16.2%



Lease Rates
\$18.33



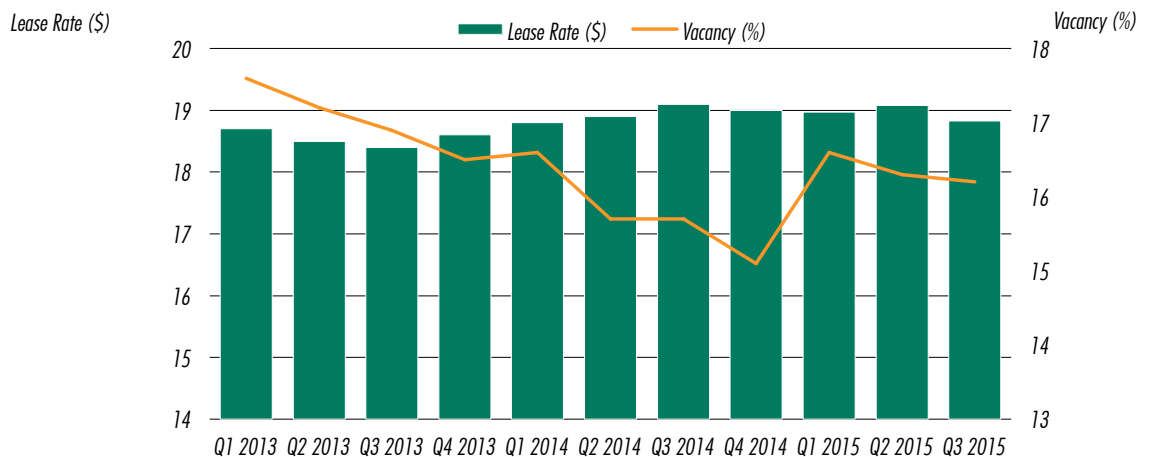
YTD Net Absorption
(2,728) Sq. Ft.



Construction
77,000 Sq. Ft

Figure 1: Lease Rate & Vacancy

*Arrows indicate change from previous quarter



Source: CBRE Research, Q3 2015.

OVERVIEW

The St. Louis office market had an outstanding Q3 2015. Net absorption for Q3 2015 was 422,336 sq. ft. offsetting much of the negative absorption that occurred earlier in the year as some major tenants downsized or exchanged leased space for owner occupied space. The vacancy rate declined to 16.2% in Q3 2015 from 16.3% in Q2 2015. The rental rate declined from \$18.58 in Q2 2015 to \$18.33 in Q3 2015. The change in vacancy and rental rates doesn't tell the whole story as over half a million sq. ft. of additional class B space was added due to the completion of a redevelopment project. This lowered asking rates in the Class B Northwest Submarket to \$16.01 per sq. ft. and in turn caused the metro average to decline.

REDEVELOPMENT

One of the exciting developments this quarter is the completion of the redevelopment of the Northwest

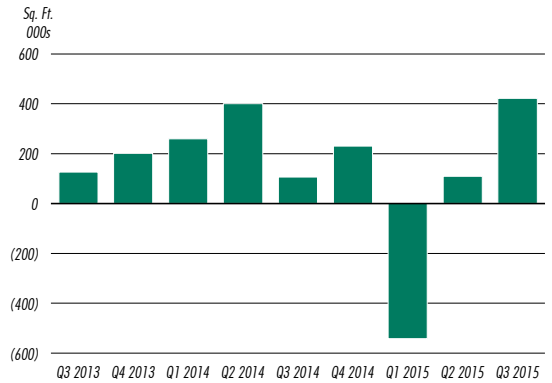
- Expansion of the suburban Class B market due to The Crossings at Northwest will likely drive down average overall asking rates in the short term and increase the vacancy rate. The Class A market will be largely unaffected by this and will continue to see a tightening market and increasing rental rates, especially in Mid-County.
- Continued increases in office employment will increase demand for existing office space and possibly spur additional new development for Class A product.
- The national unemployment level sits at 5.1% after adding an additional 142,000 jobs in September jobs report. Locally, St. Louis is at a preliminary unemployment rate of 5.1% as of August. In the last year, the metro area has added 819,000 jobs in the financial, professional and business services arenas and over 28,000 jobs in IT. All bodes well for the office market as the economy continues to grow.

Plaza Mall into office space. Now known as The Crossings at Northwest, the \$106 million mixed-use redevelopment added 542,143 sq. ft. to the Class B office inventory. The pre-existing office tower and a new tenant, Charter Spectrum, which currently occupies over 134,000 sq. ft. in the former Macy’s department store, currently anchor the redevelopment. The redevelopment involved demolition of much of the former mall and re-imagining of other sections, while keeping some of the mall’s history intact. The new concept allows for large open spaces as well as up to 10/1000 parking ratio. The innovative redevelopment will be closely watched to see if it attracts additional tenants and if it will be a model for other malls.

CONSTRUCTION

New construction has been essentially non-existent outside of build-to-suit projects for owner-occupiers. However, in Q3 2015, construction began on a new 60,000 sq. ft. office building in Mid-town’s Cortex campus. Cortex, which is St. Louis’s 200-acre innovation hub and technology district continues to grow with the announcement of 4260 Forest Park Avenue. The new building will be the home of Techshop, which will occupy 18,000 sq. ft. Another tenant has signed a letter of intent to occupy the remainder of the building. In addition to the new building, Cortex’s existing @4240 building, which was a redevelopment of a former 190,000 sq. ft. industrial building, is expanding by 17,000 sq. ft. to make room for Square, the credit card processing system company which announced it would be opening an office in St. Louis and plans to hire 200 employees.

Figure 2: Quarterly Net Absorption



Source: CBRE Research, Q3 2015.

LEASING AND INVESTMENT

Leasing activity was strong with several major transactions taking place. Centene leased 117,000 sq. ft. at 1370 Timberlake Manor Parkway in Chesterfield, MO. The space was previously left vacant when Reinsurance Group of America departed to occupy their new 405,000 sq. ft. owner occupied headquarters also in Chesterfield, MO. Towers Watson renewed 25,500 sq. ft. at 101 S. Hanley in Clayton, MO and a sportswear company leased 12,916 sq. ft. at 1 North Brentwood in Clayton, MO. The St. Louis investment market remained active this quarter with the Deloitte Building, a 249,081 sq. ft. office building at 100 S. 4th Street in the St. Louis, CBD being purchased by Stanton Road Capital. Corporate Plaza a 210,409 sq. ft. building at 14528 S. Outer 40 Rd. in Chesterfield, MO was purchased by Griffin-American Healthcare REIT III. According to Real Capital Analytics, over \$289 million was invested in St. Louis office properties in Q3 2015 and over \$841 million year-to-date. This would be a 94% increase over the same period last year.

Figure 3: Top Transactions

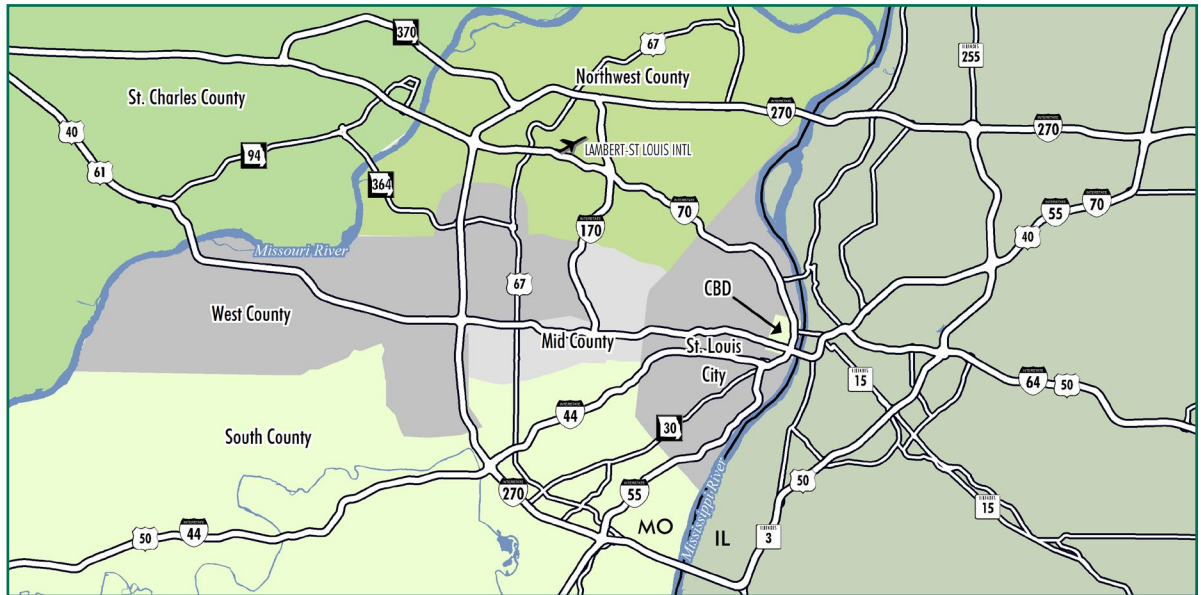
Tenant/Owner	Size (SF)	Property	City	Type
Stanton Road Capital	249,081	100 S. 4th St.	St. Louis, MO	Purchase
Griffin-American Healthcare REIT III	210,409	14528 S. Outer 40 Rd.	Chesterfield, MO	Purchase
Centene	117,000	1370 Timberlake Manor Pkwy.	Chesterfield, MO	New Lease
Towers Watson	25,500	101 S. Hanley Rd.	Clayton, MO	Renewal
Sportswear Company	12,916	1 North Brentwood Blvd.	Clayton, MO	New Lease

Source: CBRE Research, Q3 2015.

Figure 2: Submarket Report

Market	Rentable Area (SF)	Vacancy Rate (%)	Availability Rate (%)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate (\$, SF/Yr)
Downtown						
Class A	5,661,250	15.4	17.4	(233,002)	77,000	19.79
Class B	6,191,395	38.7	41.7	76,504	0	14.16
Class C	1,949,108	27.8	29.1	26,659	0	12.10
Total	13,801,753	27.6	29.9	(129,839)	77,000	15.58
Mid County						
Class A	4,347,468	7.0	10.0	58,007	0	26.31
Class B	2,306,928	12.6	14.0	5,035	0	23.39
Class C	861,088	13.4	15.5	16,624	0	16.55
Total	7,515,484	9.5	11.9	79,666	0	23.77
Northwest County						
Class A	2,795,028	9.3	10.8	(36,438)	0	19.61
Class B	2,722,486	22.0	23.5	130,528	0	16.01
Class C	597,804	6.4	6.4	(3,382)	0	11.54
Total	6,115,318	14.7	16.0	90,708	0	16.94
South County						
Class A	1,219,361	8.9	20.8	118,921	0	21.84
Class B	1,277,479	7.4	8.3	22,819	0	19.44
Class C	491,018	7.7	7.7	(1,993)	0	14.95
Total	2,987,858	8.0	13.3	139,747	0	20.54
St. Charles						
Class A	1,088,723	20.5	25.8	(40,951)	0	19.45
Class B	1,070,469	12.4	20.7	37,188	0	15.09
Class C	169,283	15.9	22.0	8,126	0	11.24
Total	2,328,475	16.4	23.2	4,363	0	16.75
West County						
Class A	8,746,583	9.4	13.1	(185,229)	0	23.05
Class B	6,540,495	13.9	19.3	4,581	0	18.10
Class C	782,904	18.5	22.4	(6,725)	0	14.95
Total	16,069,982	11.7	16.1	(187,373)	0	20.05
OVERALL TOTALS	48,818,870	16.2	19.5	(2,728)	77,000	18.33

Source: CBRE Research, Q3 2015.

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