

St. Louis Office MarketView

Q3 2014

CBRE Global Research and Consulting

U.S. UNEMPLOYMENT (SEPT)
5.9%*

REAL PER CAPITA INCOME (Q2 2014)
\$37,433*

STL CIVILIAN LABOR FORCE
1,426,788(P)*

AVAILABLE SUBLEASE OFFICE SPACE
263,947 Sq. Ft.

*Arrows indicate change from previously reported period.

OFFICE MARKET CONTINUES TO IMPROVE

Quick Stats

Q3 2014	Current	Y-o-Y	Q-o-Q
Vacancy	15.7%	↓	↔
Lease Rates	\$18.61	↑	↑
YTD Net Absorption	768,155	↑	↑
Construction	0	↔	↔

Hot Topics

- CityPlace portfolio sells to Redico
- Brandview LLC purchases 720 Olive, continues conversion strategy
- US Unemployment drops below 6%
- Asking rates increase to \$18.61
- Riverport Tower welcomes Sun Edison

Top Transactions

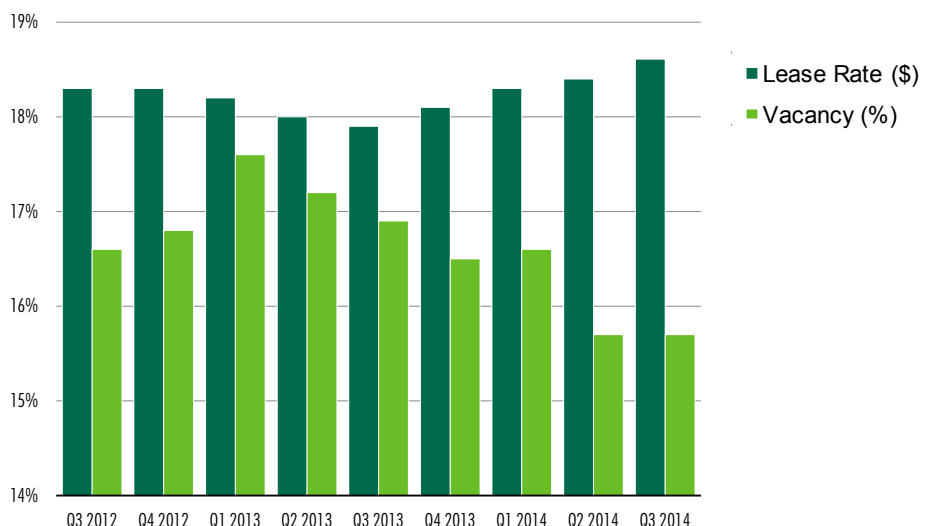
Address	Sq. Ft.	Occupier
720 Olive St., St. Louis, MO	434,912	Brandonview, LLC (Purchase)
111-125 Corporate Office Dr., Earth City, MO (2 Bldgs)	293,304	Lone Star Funds (Purchase)
1 Cityplace Dr., Creve Coeur, MO	85,000	Arch Coal (Renewal)
825 Maryville Centre Dr., Chesterfield MO	75,734	Waitt Company (Purchase)
500 N. Broadway, St. Louis MO	62,000	Federal Reserve (New Lease)
13736 Riverport Dr., Maryland Heights, MO	56,000	Sun Edison (New Lease)

The St. Louis Office market improved slightly in Q3 2014, having now posted six consecutive quarters of positive absorption. The overall vacancy rate was relatively unchanged at 15.7% for Q3 2014 and is still its lowest point since Q4 2009, when it was 15.6%. Average asking rental rates again edged higher to \$18.61 per sq. ft., and are at their highest point since Q3 2010, when they were also at \$18.61 per sq. ft.

The Mid-County and Northwest submarkets boast the lowest vacancy rates at 10.8% and 9.8% respectively. South County saw the biggest drop in its vacancy rate, going from 12.9% in Q2 2014 to 11.7% in Q3 2014. The Downtown vacancy rate for Q3 2014 increased to 26.5% and has not seen a vacancy rate in the teens since before the recession when the vacancy rate stood at 19.7% in Q3 2007. While there is some build-to-suit activity underway, little multi-tenant construction is expected in the near future.

Investment activity continues to be robust in St. Louis in 2014. This quarter, Redico purchased the premier mixed-use CityPlace portfolio, a six-building 871,000 sq. ft. campus in Creve Coeur, MO. The campus is home to high profile tenants such as Microsoft, Arch Coal, Daugherty Systems and New York Life. Brandonview, LLC purchased 720 Olive St. in Downtown St. Louis. Once Laclede Gas moves out and into their new headquarters at 700 Market, the 434,912 sq. ft. building will have almost half of its space converted to residential apartments and the other half will remain office space. Lone Star Funds purchased the two-building, 293,304 sq. ft. portfolio of 111 and 125 Corporate Office Drive in Earth City, MO. 825 Maryville Centre Dr. in Chesterfield, MO was purchased by Waitt Company. There are still several very high profile properties in the Metro Area that are about to either close or go on the market here in Q4 2014. In-

Figure 1: Vacancy Rate & Average Asking Lease Rate



vestors have been attracted to the long term stability and the relatively high returns that a market like St. Louis has to offer.

Leasing activity was strong enough in Q3 2014 to keep the market moving forward. Arch Coal signed a renewal for 85,000 sq. ft. at 1 Cityplace Dr. in Creve Coeur, MO. Sun Edison leased approximately 56,000 sq. ft. at 13736 Riverport Dr., Maryland Heights, MO. The Federal Reserve leased 62,000 sq. ft. at 500 N. Broadway in Downtown St. Louis and Rawlings renewed 51,518 sq. ft. at 500 – 510 Maryville Centre Dr. , Town and Country, MO.

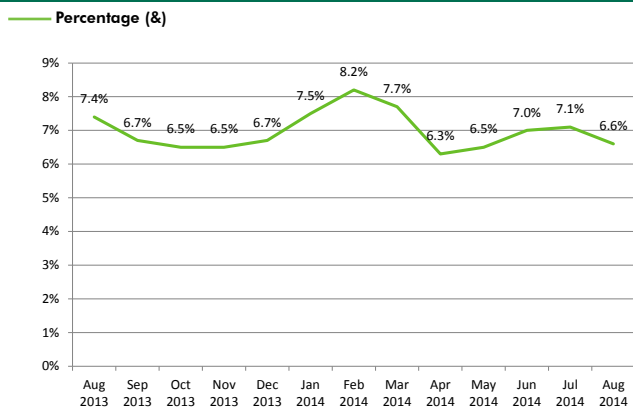
The Commerce Department released new GDP figures showing that the 21st ranked St. Louis Area economy barely grew in 2013. The \$145 billion economy grew by just 0.13% from 2012 to 2013. Collectively, growth for U.S. Metropolitan areas was 1.7% for 2013. The new number gave credence to the feeling that many local brokers have had that the market has not been improving as well as it should be or was thought to be by original estimates. Historically, when in downturns, St. Louis tends to decline slower than the country as a whole and in this new upturn, St. Louis is taking its time to grow along with the rest of the country.

The national unemployment rate dropped to 5.9% as of Sep-

tember, and Missouri has a 6.1% preliminary unadjusted unemployment as of August. The St. Louis Metro area is reflecting a 6.6% preliminary unemployment rate as of August, the most recent period reported. According to the Bureau of Labor Statistics, The number of unemployed persons decreased by 329,000 to 9.3 million. Over the year, the unemployment rate and the number of unemployed persons were down by 1.3 percentage points and 1.9 million, respectively. Locally the number of employed has still not reached pre-recession levels.

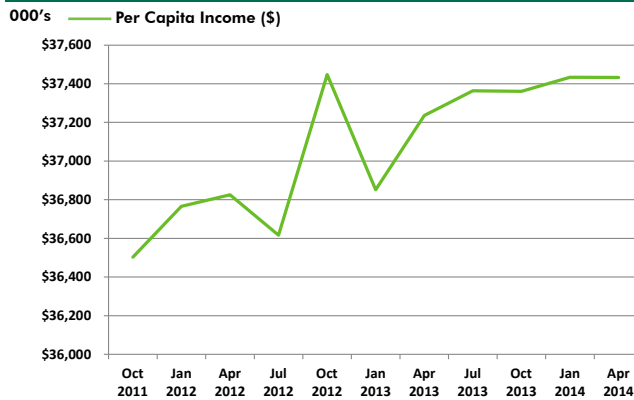
As the economy has improved steadily this year, so has the St. Louis office market at large. Activity remains strong in the suburban markets especially amongst Class A assets. Very few options exist for tenants in the 100,000 sq. ft. range. The Class A vacancy rate in Mid-County is now at its lowest level since Q1 2009 and West County Class A is at its lowest level since Q3 2008. As Class A space continues to rebound and as supply shrinks and prices increase, some tenants may opt for Class B alternatives in certain submarkets. Larger Class A tenants looking for suburban options will have to look at build-to-suit options if the few options available do no suit their purpose.

Figure 2: 2014 St. Louis Unemployment Rate



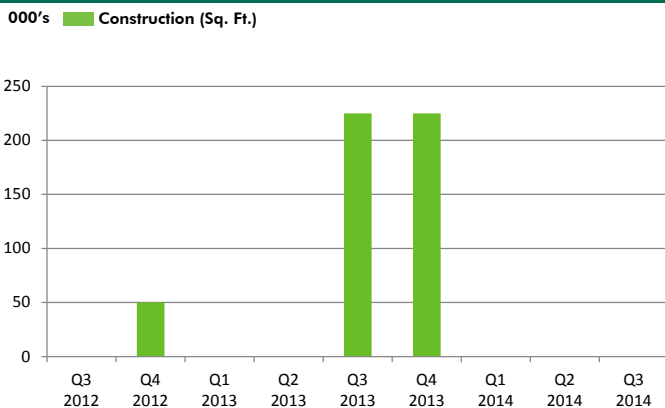
Source: U.S. Bureau of Labor Statistics, Oct 2014.

Figure 3: Missouri Real Per Capita Personal Income



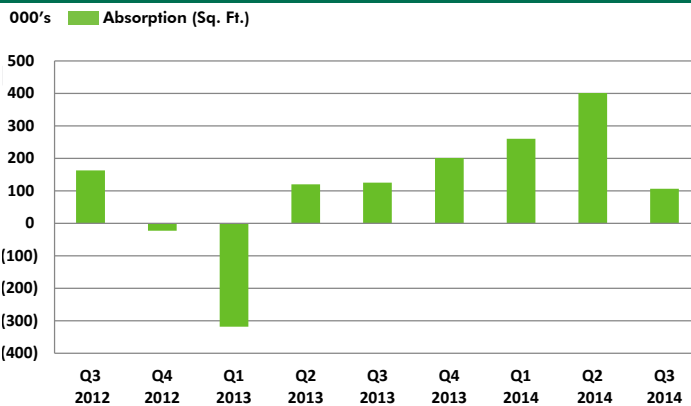
Source: Federal Reserve Bank of St. Louis, Oct 2014.

Figure 4: Office Construction (Sq. Ft.)



Source: CBRE Research, Q3 2014.

Figure 5: Quarterly Office Absorption (Sq. Ft.)



Source: CBRE Research, Q3 2014.

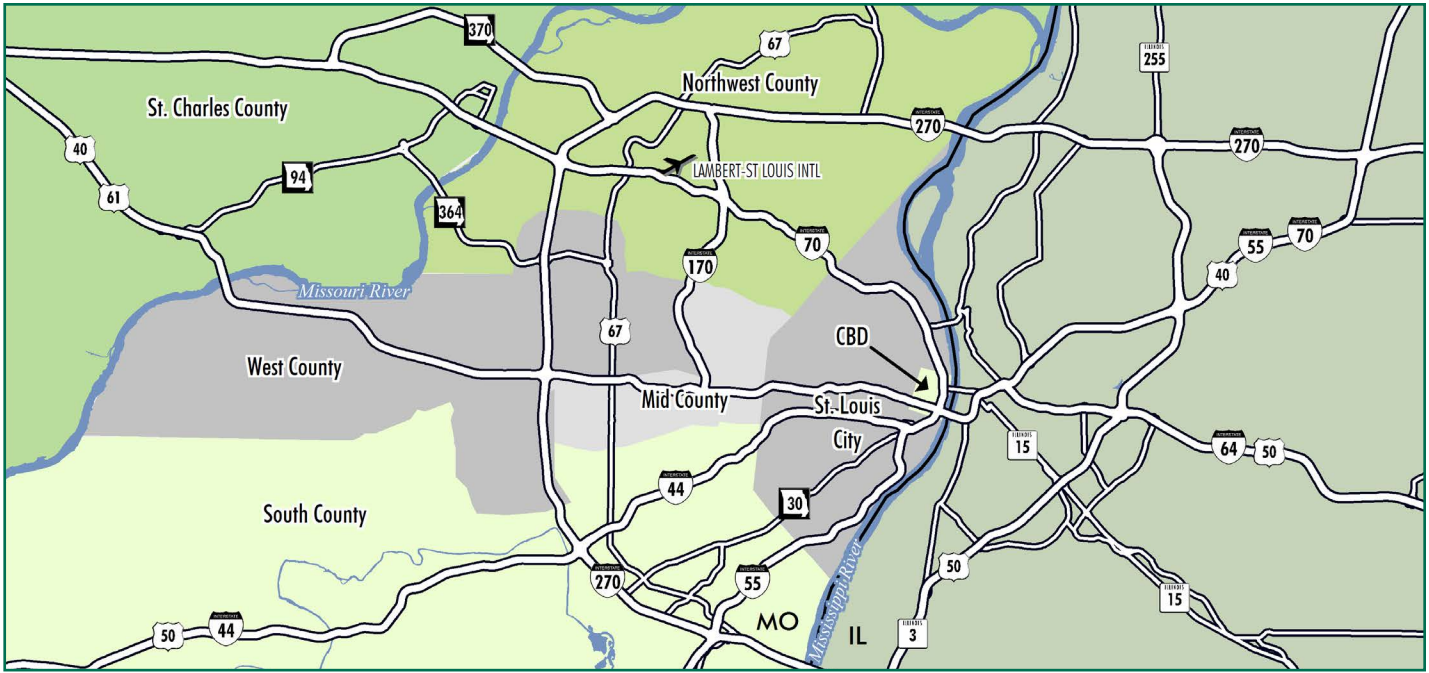
ST. LOUIS OFFICE SUBMARKET

Q3 2014 REPORTS

Figure 6: Submarket Report

Market	Rentable Area Sq. Ft.	Vacancy Rate (%)	Availability Rate (%)	YTD Net Absorption Sq. Ft.	Under Construction Sq. Ft.	Average Asking Lease Rate — Sq. Ft. /YR
DOWNTOWN						
Class A	5,661,250	11.8	12.4	206,554	0	\$18.08
Class B	6,369,818	40.7	43.0	(91,695)	0	\$15.04
Class C	2,163,608	22.9	22.9	(21,327)	0	\$11.71
TOTAL	14,194,676	26.5	27.7	93,532	0	\$15.22
MID COUNTY						
Class A	4,347,468	8.2	11.0	370	0	\$26.58
Class B	2,306,928	13.7	14.6	12,675	0	\$23.62
Class C	861,088	16.0	17.6	8,453	0	\$16.52
TOTAL	7,515,484	10.8	12.8	21,498	0	\$23.81
NORTHWEST COUNTY						
Class A	2,795,028	10.8	16.5	239,246	0	\$20.66
Class B	2,212,753	9.6	12.7	144,210	0	\$18.47
Class C	597,804	5.7	6.2	6,303	0	\$11.60
TOTAL	5,605,585	9.8	13.9	389,759	0	\$19.47
SOUTH COUNTY						
Class A	894,275	18.4	19.1	8,141	0	\$21.62
Class B	1,258,595	8.9	10.9	27,250	0	\$18.49
Class C	491,018	6.8	7.0	13,970	0	\$15.25
TOTAL	2,643,888	11.7	13.0	49,361	0	\$19.77
ST. CHARLES						
Class A	1,088,723	10.3	20.0	854	0	\$19.27
Class B	1,082,229	17.8	18.4	(26,749)	0	\$15.20
Class C	169,283	22.5	25.4	2,871	0	\$11.82
TOTAL	2,340,235	14.7	19.7	(23,024)	0	\$16.49
WEST COUNTY						
Class A	8,732,583	7.2	13.3	63,071	0	\$23.62
Class B	6,568,495	15.2	19.6	207,103	0	\$18.03
Class C	862,768	22.7	26.4	(33,145)	0	\$16.24
TOTAL	16,163,846	11.3	16.5	237,029	0	\$20.28
OVERALL TOTALS	48,463,714	15.7%	18.9%	768,155	0	\$18.61

Source: CBRE Research, Q3 2014.



CONTACTS

For more information about this Local MarketView, please contact:

U.S. RESEARCH

Eric Thomas

Senior Research Analyst
 St. Louis Research
 CBRE
 190 Carondelet Plaza, Suite 1400
 St. Louis, MO 63109
 t: +1 314 655 5804
 e: eric.thomas@cbre.com

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