

3Q'15

Office Market Report



ST. LOUIS, MO

The Market

“As employment rebounded, the earliest job gains merely filled empty desks rather than absorbing unleased space. Once empty desks were filled, incremental unleased space has been absorbed, **much to the surprise of those who declared office absorption dead.**”

NAI Global
Chief Economist
Dr. Peter Linneman

For a copy of the **Fall 2015 Linneman Letter**, please contact your NAI DESCO broker.

Office Market Summary

Third Quarter 2015

The St. Louis Office Market ended the third quarter with Class A and Class B product averaging a vacancy rate of 11.2%, down from 11.4% in the second quarter. Net absorption in the Class A and Class B office markets totaled a negative 152,816 square feet. Average quoted rental rates within the Class A sector were \$21.67 per square foot and \$16.64 per square foot in the Class B sector.

While no new buildings were delivered in the third quarter, leasing activity was strong, absorbing many large blocks of inventory in various submarkets. In Chesterfield, Centene leased 117,000 square feet at Timberlake II – Reinsurance Group of America’s previous headquarters before completing construction in 2014 on their 405,000 square foot building (also in Chesterfield). Charter Communications signed a new 65,500 square foot lease at Barret Woods III & IV in West County and in St. Louis City, USI leased 18,000 square feet at 308 N. 4th Street. The Cortex district announced a 17,000 square foot lease to tech company Square who recently named St. Louis their mid-west hub bringing 200 jobs to the market.

The construction of Delmar Gardens III, a 125,000 square foot project, was announced this quarter. Rabo Agrifinance will lease 75,000 square feet of the building. Construction is also underway in the Cortex district on a 60,000 square foot office building at 4260 Forest Park Avenue, which will house Techshop in a portion of the building.

As inventory diminishes, and lease transaction volume remains heavy, new construction of multi-tenant Class A office product is anticipated, veering away from build-to-suit tenant driven projects to speculative developments.

*Please note throughout this report Class A and Class B are weighted based on RBA. Class C is excluded.

Office Submarket Statistics

SUBMARKET	CLASS	# BLDGS.	TOTAL RBA (SF)	TOTAL AVAIL. (SF)	TOTAL VACANT AVAIL. (%)	YTD NET Absorption (SF)	TOTAL AVG RATE (\$/SF/YR)	UNDER CONSTRUCTION (SF)
Airport	Class A	2	609,552	2,795	0.5%	0	\$22.70	0
	Class B	35	3,883,556	168,048	4.3%	4,224	\$15.83	0
	Subtotal	37	4,493,108	170,843	3.8%	4,224	\$16.76	0
Brentwood/ Maplewood	Class A	1	27,282	0	0.0%	0	\$0.00	0
	Class B	66	1,075,154	66,805	6.2%	17,263	\$16.26	0
	Subtotal	67	1,102,436	66,805	6.1%	17,263	\$15.86	0
Bridgeton/ I-70	Class A	4	687,236	104,561	15.2%	2,809	\$17.38	0
	Class B	35	1,519,452	654,291	43.1%	9,101	\$16.62	0
	Subtotal	39	2,206,688	758,852	34.4%	11,910	\$16.86	0
CBD	Class A	29	12,534,260	1,422,283	11.3%	80,494	\$18.60	0
	Class B	92	9,790,020	2,235,249	22.8%	(296,942)	\$13.82	0
	Subtotal	121	22,324,280	3,657,532	16.4%	(216,448)	\$16.50	0
Chesterfield/ Hwy 40	Class A	47	5,224,308	261,391	5.0%	(64,526)	\$25.58	98,000
	Class B	94	2,725,225	219,619	8.1%	28,769	\$19.52	0
	Subtotal	141	7,949,533	481,010	6.1%	(35,757)	\$23.50	98,000
Clayton	Class A	32	5,695,853	476,863	8.4%	7,957	\$25.67	0
	Class B	65	3,049,100	177,761	5.8%	7,385	\$19.78	0
	Subtotal	97	8,744,953	654,624	7.5%	15,342	\$23.62	0
Creve Coeur/ Hwy 67	Class A	4	232,601	54,202	23.3%	14,919	\$26.58	0
	Class B	85	3,449,611	828,163	24.0%	(2,436)	\$17.39	0
	Subtotal	89	3,682,212	882,365	24.0%	12,483	\$17.97	0
Earth City/ Riverport	Class A	15	2,214,008	178,097	8.0%	136,603	\$19.81	0
	Class B	20	716,007	96,418	13.5%	5,179	\$17.01	0
	Subtotal	35	2,930,015	274,515	9.4%	141,782	\$19.13	0
Fenton	Class A	3	251,701	18,128	7.2%	0	\$17.51	0
	Class B	25	1,766,791	130,402	7.4%	5,645	\$21.14	0
	Subtotal	28	2,018,492	148,530	7.4%	5,645	\$20.69	0
I-270/ Maryland Heights	Class A	15	2,689,584	286,852	10.7%	(133,270)	\$21.93	0
	Class B	57	2,325,565	331,920	14.3%	10,484	\$16.58	0
	Subtotal	72	5,015,149	618,772	12.3%	(122,786)	\$19.45	0
I-270/ Olive Blvd	Class A	17	2,356,371	221,783	9.4%	9,604	\$24.07	0
	Class B	79	2,888,688	497,280	17.2%	53,938	\$18.64	0
	Subtotal	96	5,245,059	719,063	13.7%	63,542	\$21.08	0
Illinois	Class A	16	651,560	87,906	13.5%	14,111	\$23.34	65,000
	Class B	441	4,687,525	613,769	13.1%	(43,461)	\$16.78	19,364
	Subtotal	457	5,339,085	701,675	13.1%	(29,350)	\$17.58	84,364
Kirkwood/ Frontenac	Class A	3	216,626	1,350	0.6%	(1,350)	\$27.27	0
	Class B	59	1,470,436	79,715	5.4%	(1,205)	\$22.79	5,000
	Subtotal	62	1,687,062	81,065	4.8%	(2,555)	\$23.37	5,000
Manchester/ I-270/	Class A	11	1,253,581	96,774	7.7%	(9,424)	\$23.66	0
	Class B	34	1,847,233	113,200	6.1%	13,740	\$20.99	0
	Subtotal	45	3,100,814	209,974	6.8%	4,316	\$22.07	0
North County	Class A	2	309,644	0	0.0%	0	\$0.00	45,000
	Class B	55	1,466,697	39,027	2.7%	4,550	\$17.76	6,600
	Subtotal	57	1,776,341	39,027	2.2%	4,550	\$14.66	51,600
South County	Class A	9	598,349	65,463	10.9%	13,704	\$22.21	0
	Class B	129	3,249,605	372,981	11.5%	25,015	\$19.54	0
	Subtotal	138	3,847,954	438,444	11.4%	38,719	\$19.96	0
St. Charles County	Class A	26	2,693,329	196,069	7.3%	(71,519)	\$21.29	0
	Class B	336	4,261,398	627,179	14.7%	(20,726)	\$15.22	5,000
	Subtotal	362	6,954,727	823,248	11.8%	(92,245)	\$17.57	5,000
St. Louis City	Class A	11	1,995,218	92,621	4.6%	(13,361)	\$22.67	0
	Class B	241	8,879,210	345,728	3.9%	28,439	\$13.70	0
	Subtotal	252	10,874,428	438,349	4.0%	15,078	\$15.35	0
West County	Class A	1	156,253	0	0.0%	0	\$0.00	0
	Class B	85	908,543	86,707	9.5%	11,471	\$17.30	0
	Subtotal	86	1,064,796	86,707	8.1%	11,471	\$14.76	0
TOTAL	Class A	248	40,397,316	3,567,138	8.8%	(13,249)	\$21.67	208,000
	Class B	2,033	59,959,816	7,684,262	12.8%	(139,567)	\$16.64	35,964
	Total	2,281	100,357,132	11,251,400	11.2%	(152,816)	\$18.67	243,964

*Source: NAI DESCO, CoStar Property®, & The Linneman Letter

St. Louis Office Market Snapshot

Vacancy

- Class A vacancy reported at 8.8%
- Class B vacancy reported at 12.8%
- Total Class A & B vacancy 11.2%

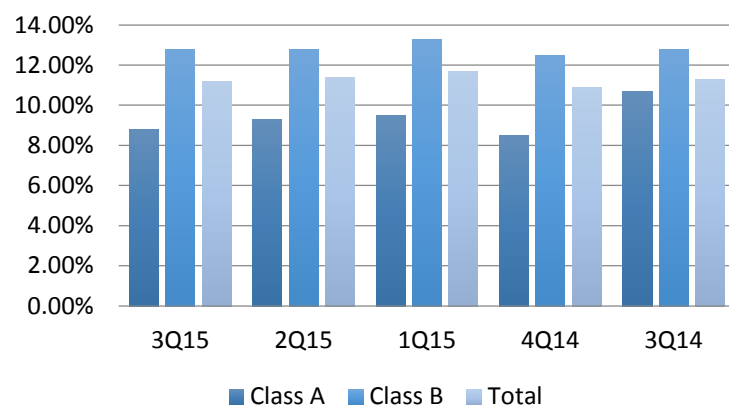
Rental Rates

- Rental rates ended the 3Q at \$18.67
- Quoted rates in Class A space averaged at \$21.67 per square foot at the end of Q3, while Class B rates averaged \$16.64 per square foot.

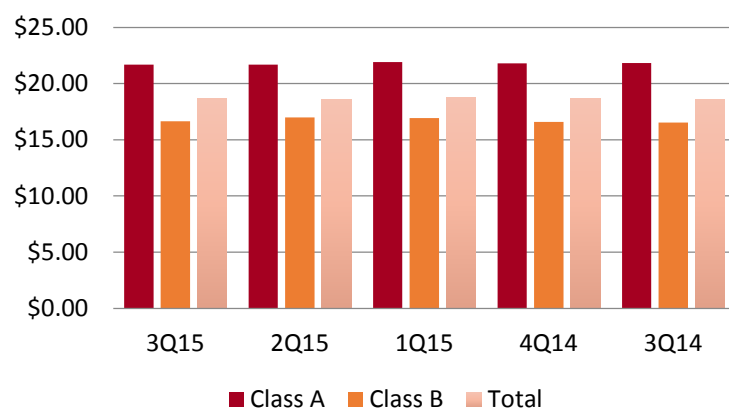
Net Absorption

- Class A experienced a negative net absorption of 13,249 square feet, while Class B totaled a negative 139,567 square feet.
- St. Louis, MO Office Market YTD net absorption totaled (152,816) square feet at end of Q3 2015

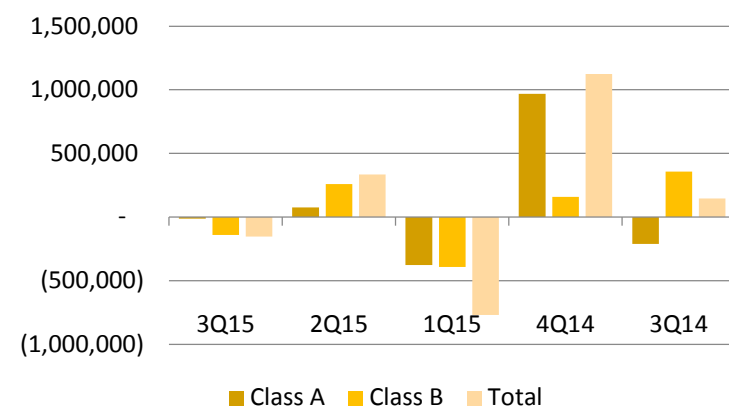
Vacancy Rates



Rental Rates

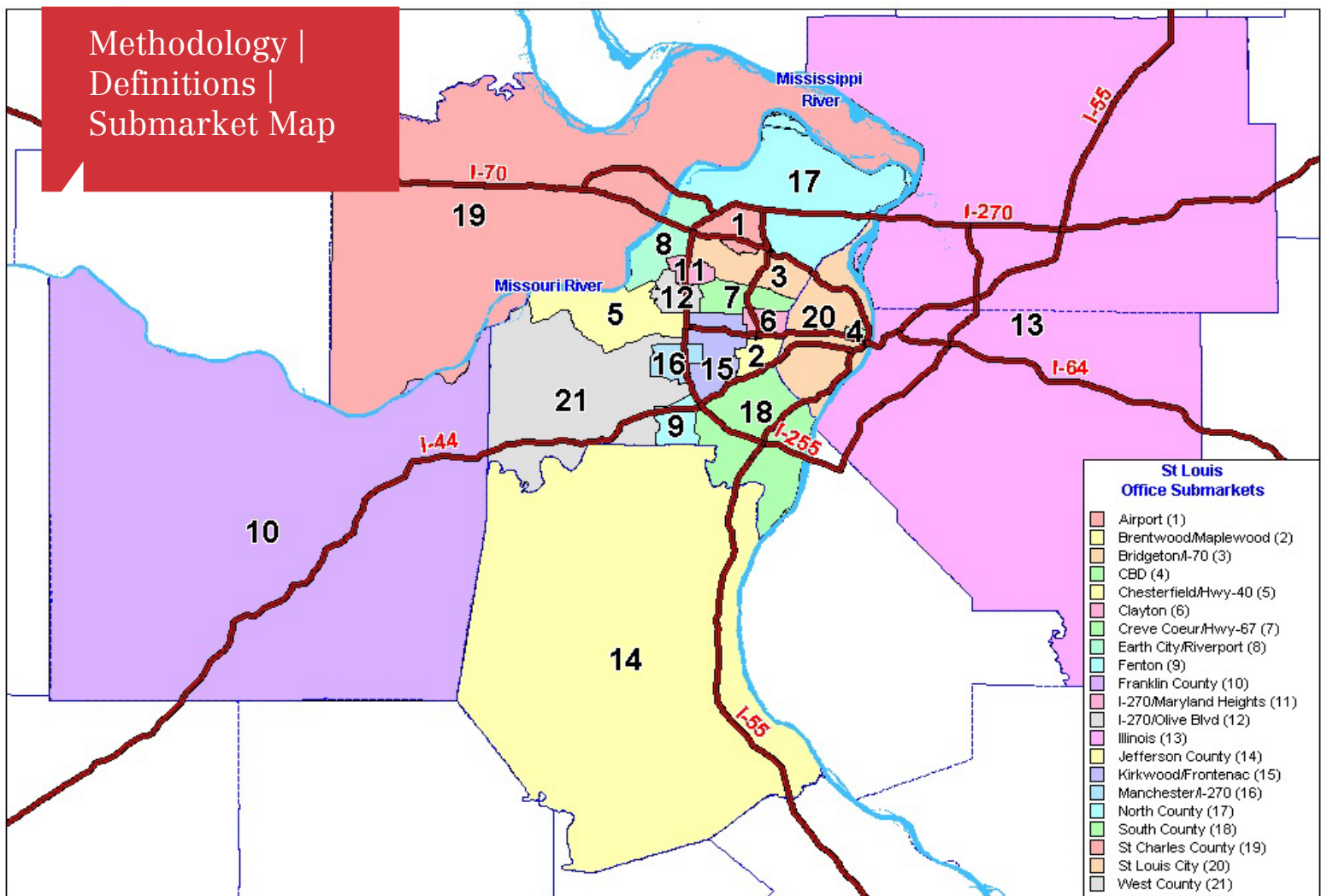


Net Absorption



Q3 Notable Office Leases

Building / Address	Tenant / Buyer	Size (SF)	Submarket
Timberlake Corporate Ctr. II	Centene	117,000	Chesterfield / Hwy 40
14767 N. Hwy. 40 Outer Rd.	Rabo Agrifinance	75,000	Chesterfield / Hwy 40
Barrett Woods III & IV	Charter	65,500	West County
308 N. 21 st Street	USI	18,000	St. Louis City
Shaw Park Plaza	Nike	12,900	Clayton



Absorption (Net)

The change in occupied space in a given time period.

Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate

Rental rate as quoted from each building's owner / management company. For office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NN basis.

Building Class

Class A Product is office space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office space built after 1980, fair to good finishes & wide range of tenants.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

Market Size

Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

Overall Vacancy

All physically unoccupied lease space, either direct or sublease.

SF/PSF

Square foot/per square foot, used as a unit of measurement.

Sublease

Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

Sublease Space

Total square footage being marketed for lease by the tenant.

Sublease Vacancy

Space currently available in the market for sublease with an existing tenant within a building acting as the landlord.

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St. Louis Office Market Report

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