



ST. LOUIS OFFICE MARKET REPORT RESEARCH & FORECAST



Is St. Louis Turning a Corner?

ECONOMY EXPANDING WITH CRE STARTING TO CHURN

Nationally and locally, the economy seems to be turning a corner. According to the Federal Reserve's *Beige Book*, local economic activity has "expanded at a moderate pace." Firms in business support, distribution, healthcare technology, and personal care reported to the Fed plans to hire new workers or expand operations. In addition, several manufacturers reported plans to hire new employees, open new plants, or expand operations, while fewer manufacturers reported plans to lay off workers or close plants.

For real estate, however, things are not moving as quickly as some folks would like. Though residential real estate market conditions are improving, commercial and industrial real estate market conditions continue to be mixed. Year-to-date, absorption for the greater St. Louis region was positive 456,990 sq. ft. for all building classes. The overall vacancy rate fell over the third quarter to 13.2% from 13.8% at the end of the second quarter. The Class A vacancy rate also fell during the quarter ending at 11.5%, down two percentage points from one year prior.

Rental rates seem to be bottoming out with a steady \$17.40 per sq. ft. average throughout the region. In addition, the amount of sublease space on the market is now the lowest it has been since the third quarter of 2008.

In the following pages, data and forecasts for each submarket in the region is provided. Below are some of the highlights and trends:

- St. Charles continues to see activity with over 100,000 sq. ft. of positive absorption in 2012 after a straight year of negative absorption in 2011.
- North County and Creve Coeur submarkets continue to struggle with (216,400) sq. ft. of negative absorption year-to-date in NC and (171,100) sq. ft. of negative absorption in CC.
- The CBD's office market appears to be improving with the Class A vacancy rate dropping from 16.9% in first quarter 2012 to 13.5% this quarter.
- Not surprisingly, tenants are taking advantage of the market and are using lower lease rates to move to better quality buildings (flight-to-quality).
- Overall the office market in St. Louis is showing signs of activity. In each submarket, deals are being done and movement - although slow - is headed in the right direction.

MARKET INDICATORS

	Q2 2012	Q3 2012
VACANCY	↑	↓
ABSORPTION	↓	↑
CONSTRUCTION	—	—
RENTAL RATE	↓	—

ST. LOUIS VACANT SPACE BY CLASS



CENTRAL BUSINESS DISTRICT (CBD)

Over the year, the Central Business District has seen a drop in its overall vacancy from 19.1% to 16.5%. With over 27 million sq. ft. of inventory, currently 4.5 million remains vacant, but deals are being done as noted below. Year-to-date, overall absorption has been positive with average rental rates remaining steady at \$14.57 per sq. ft., a slight increase from second quarter 2012. Some notable transactions include:

- St. Louis Development Corporation vacated roughly 58,000 sq. ft. of space in The Locust Building.
- CBS Radio, better known in the region as KMOX, moved into 24,000 sq. ft. of space at Park Pacific resulting in a 10,000 sq. ft. vacancy at Gateway Tower.
- The St. Louis Language Immersion Schools Inc. occupied 31,000 sq. ft. at 1881 Pine Street early this quarter.
- Asynchrony moved into 45,000 sq. ft. at the Cupples 9 building.
- Fusion Marketing signed a new, 27,500 sq. ft. lease at 1906-1918 Locust Street building formerly occupied by Paradowski Creative.

Forecast for Q4 2012

Positive absorption overall

No new construction

Rental rates steady

Tenant's remain in the driver's seat

192 buildings**CLAYTON**

With over 9.1 million sq. ft. of inventory, the Clayton submarket has maintained an average vacancy rate of 10 to 11 percent over the past year. In third quarter 2012, absorption was negative, but only slightly, losing 19,769 sq. ft. of occupancy year-to-date. Average asking rates have remained over the twenty dollar per sq. ft. mark, however a slight decrease from second quarter's \$20.82 rate to \$20.67 should be noted. In third quarter 2012, highlighted transactions include:

- Riot Games signed a new lease for over 11,600 sq. ft. of office space in The Sevens Building.
- Two tenants, Assurant Employee Benefits and Brighton Agency, Inc., moved into 5,600 sq. ft. at The Equity in Clayton.
- Smith McGehee Insurance Solutions relocated into 4,600 sq. ft. of space at the Old Town Executive Office I at 168 N. Meramec.

Forecast for Q4 2012

Negative absorption overall

No new construction

Rental rates falling slightly

Tenant's remain in the driver's seat

115 buildings**CREVE COEUR/ WESTPORT**

With over 11.6 million sq. ft. of inventory, the Creve Coeur/Westport submarket has the second highest overall vacancy rate in St. Louis - currently at 13.3%. Year-to-date, absorption is negative (171,072) sq. ft. - due to some of the major vacated spaces noted below. As with most of the region, average asking rental rates remained steady at \$17.23 per sq. ft. in third quarter 2012. Some transactions of note include:

- Ceridian is downsizing and gave back over 40,000 sq. ft. at Ballas Place Office Building
- Vandover recently relocated into 12,300 sq. ft. of space at 270 Park I in Westport.
- Ascension Health continues to grow as they expanded into 23,700 sq. ft. of Class A office space in Creve Coeur Pointe during third quarter 2013.
- HUB Group signed a new lease at Park 270 for 55,000 sq. ft.

Forecast for Q4 2012

Negative absorption overall

No new construction

Rental rates steady

Tenant's remain in the driver's seat

172 buildings**MIDTOWN**

Midtown is home to the Grand Center cultural district and continues to be the smallest submarket in the region with the lowest overall vacancy rate of 3.0%. Total inventory is 1.7 million sq. ft. with year-to-date positive absorption at 10,297 sq. ft. Average asking rental rates are at \$15.25, down from \$17.12 a year ago.

Highlights from third quarter 2012 include:

- Construction is on-going at University of Missouri-St. Louis' KWMU radio station (an NPR affiliate).

Forecast for Q4 2012

Positive absorption overall

No new construction

Rental rates steady

Tenant's remain in the driver's seat

28 buildings

NORTH COUNTY

In North County, large blocks of space still remain as activity levels are modest resulting in over 10.7 million sq. ft. of inventory. A few large tenants (50,000 sq. ft. and up) are out in the market, offering some optimism, however overall absorption year-to-date is negative 216,408 sq. ft. with the vacancy rate rising to 11.6%. Average asking rent was \$16.34 per sq. ft. at third quarter 2012, with 1.24 million of vacant space available. The Class A properties are performing better than Class B and C, ending the quarter with 47,000 sq. ft. of positive absorption and a vacancy rate of 10.1%. Some transactions of note include:

- At 305-329 James S. McDonnell Blvd. in Hazelwood, Mallinckrodt, LLC newly leased over 140,000 sq. ft. of Class B office space from The Boeing Company.

Forecast for Q4 2012

Negative absorption overall
No new construction
Rental rates steady

118 buildings**SOUTH COUNTY**

For South County, activity picked up in third quarter 2012. Total absorption was 65,264 sq. ft. - the first quarter of over 30,000 sq. ft. of absorption since third quarter 2010. Total inventory remains at 9.45 million sq. ft. with 1.1 million sq. ft. vacant or 12.0%. Over the past year, rental rates have remained steady with a current average of \$19.95 per sq. ft. Some transactions of note include:

- Softech Integration renewed for 14,500 sq. ft. of Class A space at the Laumeier II building on Geyer Road.
- Paradowski Creative relocated into 8,500 sq. ft. at the Owen Ridge Campus, Class C office building located in Webster Groves.
- Apollo Surgical Group LLC signed a new, 6,500 sq. ft. lease for Class B office space at the Sunnen Business Park building.

Forecast for Q4 2012

Positive absorption overall
No new construction
Rental rates steady

163 buildings**ST. CHARLES**

In 2012, St. Charles' office market is seeing improved activity having had positive absorption of 105,889 sq. ft. year-to-date. Total office inventory is at 4.6 million sq. ft. with only 445,210 sq. ft. remaining vacant. The region has the second lowest vacancy rate (9.7%) with asking rental rates averaging \$16.33 per sq. ft. Some transactions of note include:

- Air Evac Lifeteam relocated into 10,400 sq. ft. of Class A office space in the Boardwalk Corporate Center in O'Fallon, Missouri and is working towards adding 190 jobs. Total absorption for the firm once all transactions are complete is predicted to be around 52,000 sq. ft.
- Midwest Recovery Systems leased 4,800 sq. ft. of Class C space at the 12 Westbury Drive building.

Forecast for Q4 2012

Slight increase in absorption overall
No new construction
Rental rates steady

76 buildings**WEST COUNTY**

West County continues to struggle with tenant downsizings, but moved forward during the first half of 2012. As of the third quarter 2012, 960,000 sq. ft. of office space was vacant or 12.1% of inventory, down from 1.12 million sq. ft. and 14.2% a year ago. Overall absorption year-to-date is negative 26,186 sq. ft. Average asking rents declined slightly at \$18.89 per sq. ft. during third quarter 2012. Some transactions of note include:

- At 555 Maryville, Optimus, LLC subleased 3,000 sq. ft. and SB Financial Group subleased 4,400 sq. ft.
- Black & Veatch signed a new lease of 11,000 sq. ft. at 16305 Swingley Ridge Road.
- CBIZ signed a 24,000 sq. ft. lease at 625 Maryville.
- Cass Information Systems leased approximately 24,500 sq. ft. at Manchester/270 Office Center.

Forecast for Q4 2012

Negative absorption overall
No new construction
Rental rates steady
Tenant's remain in the driver's seat

119 buildings

MAJOR OFFICE SALES COMPS YEAR-TO-DATE

PROPERTY	SALE PRICE	RSF	PRICE/ RSF	SUBMARKET	CLASS	AT-SALE OCCUPANCY
4400 N Hanley	\$42,600,000	227,467	\$187.28	North County	B	100%
University Village 1034 S Brentwood	\$35,156,084*	262,132	\$134.12	Clayton	A	72.2%
Westport Plaza	\$33,000,000	699,000	\$47.12	CCWP	A	76%
1610 Des Peres Rd (3 Properties)	\$23,780,000	290,000	\$82.00	West County	A	80.8%
St. Louis Place 200 N Broadway	\$13,000,000*	337,088	\$38.57	CBD	A	82.3%
7345 Watson Rd	\$7,000,000	45,000	\$155.56	South County	B	100%
100 Chesterfield Business Pkwy	\$6,840,000*	54,907	\$124.57	West County	A	75%

*represents property foreclosures

MAJOR OFFICE LEASE COMPS YEAR-TO-DATE

TENANT	PROPERTY	RSF	SUBMARKET	CLASS	TYPE
Gateway EDI	One Financial Plaza	124,016	CBD	A	Expansion
Nestle Purina	Bank of America Tower	90,000	CBD	A	New
American Family Insurance	Riverport Commons IV	70,000	North County	A	New
Brown & James	Bank of America Plaza	59,000	CBD	A	New
State Farm	575 Maryville	40,000	West County	A	New
XTRA	7911 Forsyth	29,000	Clayton	A	New
Fusion Marketing	1910 Locust	27,600	Midtown	B	New
Talisen Technologies	West Park I	25,296	CCWP	A	Renewal
CBRE	The Plaza	25,000	Clayton	A	New
CBS Radio/ KMOX	Park Pacific	24,323	CBD	A	New
Ascension Health	Creve Coeur Pointe	23,700	CCWP	A	New
TricorBraun	City Place Six	22,587	CCWP	A	Sublease
Cisco Systems	Chesterfield Ridge Center	17,386	West County	A	Renewal
CI Select	11830 Westline	17,136	CCWP	B	New
Barry Wehmiller	8325 Maryland	14,000	Clayton	B	New

522 offices in
62 countries on
6 continents

- 1.8 billion in revenue
- 12,300 professionals
- 4,800 brokers
- 1.25 billion sq. ft. managed

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