Cassidy Turley
Commercial Real Estate Services

St. Louis | 2014

# Annual Market Report

# St. Louis Market Outlook

Our annual market report is a comprehensive reflection on the commercial real estate market in St. Louis throughout the past year. It is designed to provide you with a strong foundation of knowledge that can be utilized as you prepare for the coming year.

Enclosed in the following pages you will find an overview of the St. Louis economy including influencing factors such as the housing market, consumer confidence, job creation, vacancy and absorption rates. Despite factors such as rising interest rates, slow employment growth, and under utilized transportation systems, the St. Louis market continues to strengthen. Key renewals, speculative and large build-to-suit construction are all promising signs for the St. Louis commercial real estate market.

As always, this year we will continuously strive to deliver relevant information and surprising insights that help you take advantage of opportunities within our local market. We sincerely appreciate the trust bestowed to us by our clients. Locally, more than 800 of our associates are prepared to honor that trust with the highest level of knowledge and service. The St. Louis market is poised to have a great 2014.  We wish you much success this year.

Sincerely,

Dean P. Mueller

Dean Mueller CCIM, CPM, RPA
Managing Principal

## CONTENTS

# Office Market

Reinsurance Group of America began construction on its 400,000 square foot headquarters.

Most anticipated that 2013 was going to be a year of economic recovery for the St. Louis region. Both the local and national unemployment rates fell over the course of the year. However, as employment grew, the pace of individuals leaving the labor force also grew. This remains a concern. Modest improvements to wage rate growth and a sharp increase in housing prices signaled that almost every part of the economy was recovering. The recovery is expected to accelerate in the near future. During the year, a flurry of positive job announcements by local firms further bolstered the region's economic outlook.

In terms of the office market, 2013 was a banner year. The St. Louis region unhinged its recessionary shackles as the office market amassed 827,000 square feet of total positive absorption in 2013; 385,000 square feet came in the fourth quarter alone. To put it in perspective, this level of absorption is double the amount typically realized in an average year and represents the largest annual total since 2007.

All of the St. Louis office submarkets ended the year with positive absorption. This has not been accomplished since 2000.

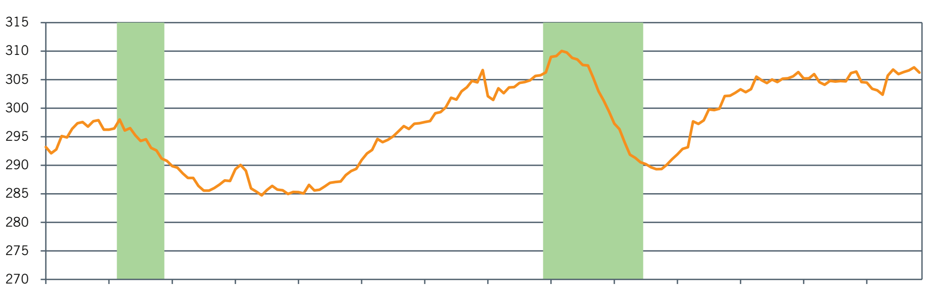
The largest share of absorption came from the largest submarket. West County was responsible for 33% of the total gains, absorbing 276,000 square feet. North County and Downtown followed with over 150,000 square feet each. Mid-County, South County, and St. Charles County all posted modest gains. Clayton, which even in tough years is typically one of the healthier submarkets, ended the year flat.

Vacancy in the area fell by 180 basis points over the course of the year to 14.7%, which is down from 16.5%.

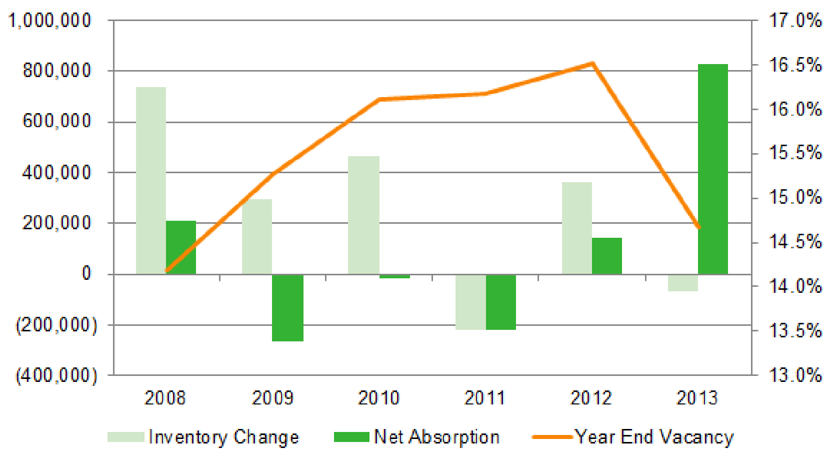
All of the St. Louis office submarkets ended the year with positive absorption. This has not been accomplished since 2000.

This was the first annual decrease to the vacancy rate since 2007, and the largest drop in over ten years. No new properties came on the market during the year, which meant that absorption had a large impact on the vacancy rate. Regardless of the circumstances, the last time vacancy figures were at this level, the market was building an average of 900,000 square feet of new office space annually. Sustained demand for office space coupled with a lack of new supply is beginning to drive prices higher. Average asking rates increased slightly during the year to end at $18.66 per square foot. This is the first annual increase to overall asking rates in five years.

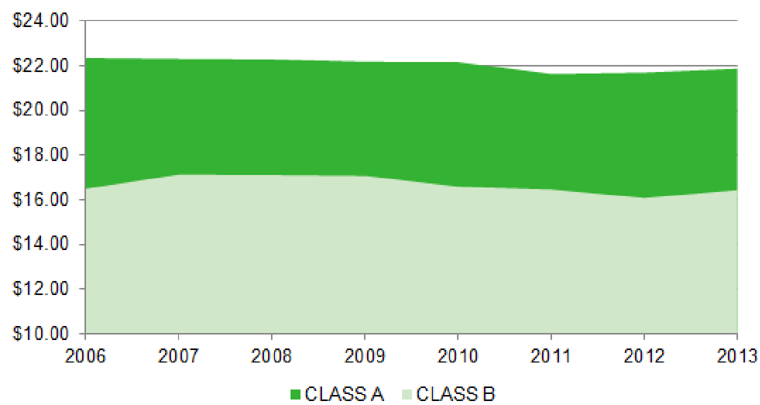
**St. Louis Office Using Employment**



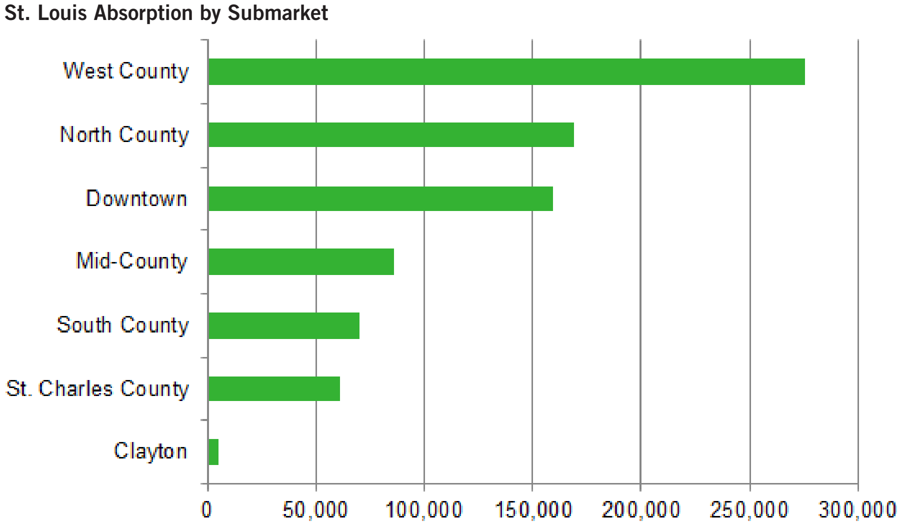
St. Louis Absorption, Vacancy, and Inventory Change




St. Louis Rental Rates




St. Louis Absorption by Submarket




Bifurcation between class A and B buildings continued. In the last ten years, class A buildings have absorbed 5.3 million square feet while class B buildings lost 1.9 million square feet. Not surprisingly, 88% of the total absorption came from class A buildings in 2013. One cause for this split could be due to the growing presence of the millennial generation in the workforce. They tend to have a strong preference for open, modern, creative office space. This means that only new or recently renovated buildings will suffice. The impact that millennials, a generation as large as the baby boomer, have on the office market is growing and deserves attention.

In the last 10 years, class A buildings have absorbed 5.3 million square feet while class B buildings lost 1.9 million square feet.

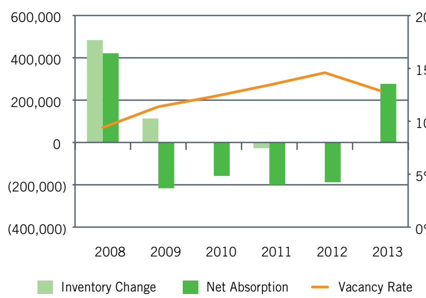
Whether it is the millennial generation or some other influencing factor, the reality is that employers are requiring less space per employee. According to estimates, the average workstation has gone from 225 square feet per worker in 2010 to 168 square feet per worker in 2013. That is a 25% decline in just three years. While most in the commercial real estate industry agree that this trend will continue, the debate is still ongoing as to how much smaller workstations can get without hindering productivity.

# Office Market

**West County**
After years of getting thrashed around in the wake of the Great Recession, the West County office market looks to have righted the ship. Positive absorption for 2013 totaled 276,000 square feet with 27,000 square feet of positive absorption in the fourth quarter.

Activity throughout the year was strong with several large transactions taking place. Reinsurance Group of America (RGA) began construction on their new 400,000 square foot headquarters, which is scheduled to be completed in late 2014. Savvis Communications leased an additional 45,000 square feet of space at Maryville Centre. This brought their total presence in St. Louis to just shy of 250,000 square feet. Cequel III leased space in two separate Chesterfield buildings for a total of 90,000 square feet, and Brown Smith Wallace leased 51,000 square feet at CityPlace Six in Creve Coeur.

**West County Office Market Trends**
Absorption, Vacancy and Inventory Change




After beginning the year at a post-recession high of 15.0%, the vacancy rate in West County plummeted by 210 basis points to 12.9%. This is the largest annual decrease the vacancy rate has experienced since 2007. Even more impressive was the decrease in class A vacancy to 7.5%, which is lower than it has been in more than five years.

Asking rates in West County remain among the highest in the St. Louis area. Class A asking rates in West County have been steadily increasing. This continued in 2013 as rates increased by 3% to end the year at $24.08. Although rates have been consistently rising, this is the largest annual increase to class A rates in six years. The average combined rate, which includes both class A and B buildings, was relatively flat throughout the year and ended at $20.49.

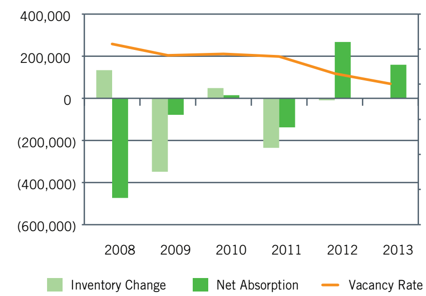
RGA began construction on their new 400,000 square foot headquarters, which is scheduled for completion in late 2014.

Overall, West County had a very strong year. In fact, 2013 was the best year the submarket has seen since the financial crisis. Many people throughout the region will continue to watch the area closely. As the market tightens, West County is an area that could potentially see additional new construction.

**Downtown**
After an impressive 2012, the Downtown office market continued to steam ahead in 2013. The submarket saw steady absorption gains each quarter and ended the year with 160,000 square feet of positive absorption. Not surprisingly, almost all of the absorption came from class A buildings.

The vacancy rate fell by 140 basis points throughout the year to its lowest point since 2006. However, with a vacancy rate of 20.1%, Downtown has the highest rate of any St. Louis submarket.

**Downtown Office Market Trends**
Absorption, Vacancy and Inventory Change




The Downtown commercial real estate headlines were dominated by some exciting announcements. In September, AT&T announced that they would be vacating the remainder of their 1.4 million square foot building. Although the announcement indicated this would occur in 2015, AT&T's existing lease in the building continues through the end of 2017. Another key announcement was made by The Laclede Group. They intend to move out of the Laclede Gas Building and into the General American Life Building, which sits just a few blocks away. Bank of America is consolidating some of their operations and will vacate over 100,000 square feet in the building located at 100 North Broadway. The AT&T and Laclede Gas buildings will both need to be repositioned and leased before the Downtown market will be able to ensure any long-term growth.

There are a lot of questions about the future of the Downtown office market, but there were also a few bright spots. Greensfelder Law signed a lease renewal for the 110,000 square feet they occupy in the 10 South Broadway Building. FleishmanHillard also signed a large renewal. They will remain in the St. Louis Place building with an office footprint of more than 130,000 square feet. Anders consolidated operations and expanded with a 44,000 square foot lease at Bank of America Plaza. A number of new users also came into the market.

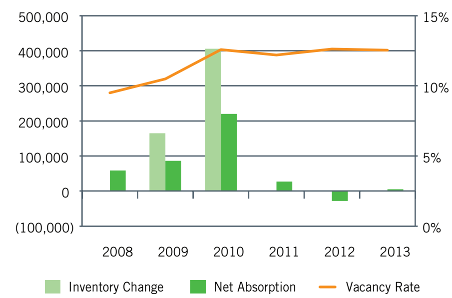
AT&T and Laclede Gas buildings will need to be repositioned and leased before Downtown will be able to ensure long-term growth.

Despite some serious headwinds on the horizon, the fundamentals in the Downtown office market improved in 2013. Various beautification and revitalization projects should help the area capitalize on shifting demographic trends. The Cortex development and T-Rex are examples of projects helping to redefine the city's image as a hub of innovation and entrepreneurship. As for the future of the Downtown office market, well, to put it plainly, the city has its work cut out for it.

### Clayton

Relative to the surrounding metro area, Clayton has been largely insulated from the swings in occupancy throughout the past several years. In 2013, the submarket saw only 5,000 square feet of positive absorption. This had a small effect on the vacancy rate, which fell from 12.6% to 12.5%. Though statistics suggest that Clayton was flat in 2013, the level of deal activity was healthy. Class A absorption gains were cancelled out by losses in class B.

**Clayton Office Market Trends**
Absorption, Vacancy and Inventory Change




The class A office market continues to strengthen as more tenants flock to new or recently renovated space. This trend was apparent in Clayton throughout the year as vacancy in the class A segment of buildings dropped from 10.3% to 9.2%. This was a result of 50,700 square feet of positive absorption in class A buildings. Vacancy in class B buildings did not fare as well. After 45,500 square feet of negative absorption, class B vacancy increased by 200 basis points to end the year at 19.2%.

NISA Investment Advisors expanded their presence in Clayton and will move into 56,000 square feet of space at

**2013 St. Louis Office Transactions**

| Property Name | Square Footage | Submarket | Type | Tenant/Buyer |
|---|---|---|---|---|
| Magellan Building | 232,521 | Earth City | Sale | Cole Capital Advisors, Inc. |
| St. Louis Place | 128,545 | Downtown | Renewal | FleishmanHillard |
| Westport Heights | 79,862 | West Port | Sale | Hogan Trucking |
| Bank of America Plaza | 43,522 | Downtown | New | Anders |
| Siemens | 40,000 | Earth City | New | Yellow Pages |
| Maryville 555 Building | 31,388 | Chesterfield | New | Perficient |
| McKelvey Road 3165 | 25,515 | Hazelwood | Renewal | BJC Health System |
| Union Station Powerhouse | 25,000 | Downtown | Renewal | Emmis Communications |
| Grand Central | 22,168 | Downtown | Renewal | Missouri Foundation for Health |

# Office Market

101 South Hanley Road. St. Louis Economic Development Partnership leased 30,000 square feet of sublease space in Pierre Laclede II, and Belden relocated from Pierre Laclede II to Shaw Park Plaza, occupying 26,000 square feet in that building.

The class A office market continues to strengthen across the board as more tenants flock to new or recently renovated space.

The number of large contiguous blocks of space available in an area is typically a good indicator of health. In Clayton, large contiguous blocks of space have diminished throughout the past year, signaling confidence in the continued strength of the submarket. As the class A market continues to tighten, users will be left with fewer options. This could potentially lead to occupancy gains in the class B market. Clayton has maintained a status as one of the strongest submarkets in the region and is positioned well for the coming year.

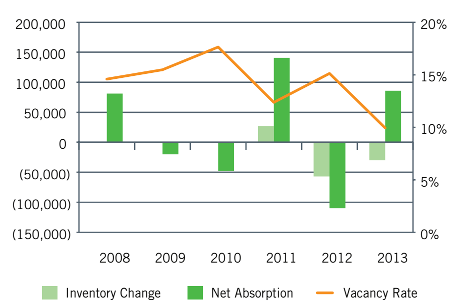
**Mid-County**

A late-year comeback made all the difference in the Mid-County office market. Several large deals netted the submarket 100,000 square feet of positive absorption in the fourth quarter. This brought the year-end absorption total to a respectable 86,000 square feet.

Almost all of the buildings in the Mid-County area fall into the class B category. Since the beginning of the recession, demand for class B office space has been very scarce. The occupancy growth in the region is a welcome turn of events.

As one of the smaller office markets in the area, it does not take much to move the needle in terms of statistics. Strong occupancy gains caused the vacancy rate to plummet by an impressive 520 basis points over the course of the year from 15.1% to 9.9%. Relatively speaking, this is uncharted territory for the Mid-County office market. The year ended with the vacancy rate at its lowest point in 15 years.

**Mid-County Office Market Trends**
Absorption, Vacancy and Inventory Change




A number of significant transactions took place in Mid-County. SSM Health Care renewed a lease and expanded their presence to 42,000 square feet in The Woodfield Building. Raymond James & Associates took 17,550 square feet of space at the LaBarge building in Ladue, and a 15,500 square foot deal was completed by the National Association of Electrical Distributors at 1181 Corporate Lake.

LaBarge Building in Ladue

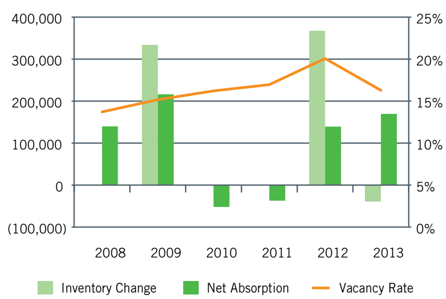
Although Mid-County had an impressive year, any further improvement will face challenges. Demand for class B space will continue to be weak. Additionally, class B asking rents in Mid-County increased 17% over the course of the year. This combination of factors does not bode well for the area. As a result, tenants who were previously considering this submarket may seek lower cost alternatives.

**North County**

North County claimed a large share of the total absorption in the St. Louis office market. The submarket finished the year with 169,000 square feet, which is double the amount of absorption seen in a typical year. This is also the second consecutive year absorption reached the six-figure mark. The vacancy rate dropped by a respectable 380 basis points to end the year at 16.3%. This is a sharp reversal to the upward trend seen in recent years.

A big win for the North County area came when Equifax signed a 99,000 square foot lease at 3470 South Rider Trail. In the same area, U.S. Bank moved into 46,000 square feet of space at 3301 South Rider Trail. Charter Communications contributed to the gains with a brand new 78,000 square foot lease at 13022 Hollenberg Drive. As the year closed, Yellow Pages finalized a 40,000 square foot deal at Siemens.

**North County Office Market Trends**
Absorption, Vacancy and Inventory Change




All this activity has yet to affect average asking rents, which fell slightly in 2013 to $16.38. Strong demand throughout the year could be the catalyst driving these rates higher in the near future. North County continues to have many large blocks of contiguous space, which makes it an ideal location for large users seeking low cost facilities with ample parking.

### South County

Average rent and vacancy in South County took a hard hit after the sale of Anheuser-Busch in 2009. Since that time, this submarket has struggled to regain its position as a high occupancy, high return office market. With 70,000 square feet of positive absorption in 2013, South County appears to

U.S. Bank moved into 46,000 square feet of space at 3301 South Rider Trail.

have finally jumped on the recovery bandwagon.

In 2013, the submarket made up for the losses it sustained in 2012. Throughout the past year, that vacancy rate dropped by 280 basis points to end the year at 13.2%, which is down from 16.0%. Signs point to continued improvement with activity picking up steam. By the end of the year, multiple deals were rumored to be taking shape, primarily in the Laumeier area.

---

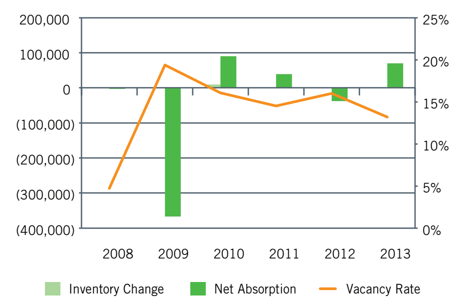
This is the second consecutive year absorption in North County reached the six-figure mark.

---

Most of the activity in the area can be attributed to a large number of relatively small deals. New Balance, which moved into 42,000 square feet at Laumeier Office Park II, is the exception.

The supply of office space in South County is limited. This has kept average asking rents on the higher end of the comparative spectrum in St. Louis. Despite a recent decline, rents are not expected to move much from their current levels at $19.97. Overall improvements in real estate fundamentals will help the South County office landscape.

**South County Office Market Trends**
Absorption, Vacancy and Inventory Change



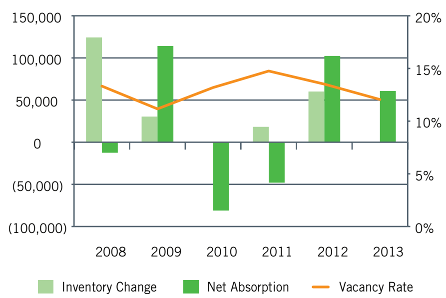

### St. Charles

After a sharp rebound in 2012, St. Charles County pulled out a second straight year of occupancy growth in 2013 with 61,000 square feet of positive absorption. Similar to many other submarkets, 90% of the absorption gains came from the class A set of buildings.

Unlike the previous year, St. Charles County did not gain any new inventory in 2013. The total absorption had a greater impact on the vacancy rate in 2013 than in 2012, despite the higher absorption total in 2012. The vacancy rate dropped 150 basis points to end at 12.0%.

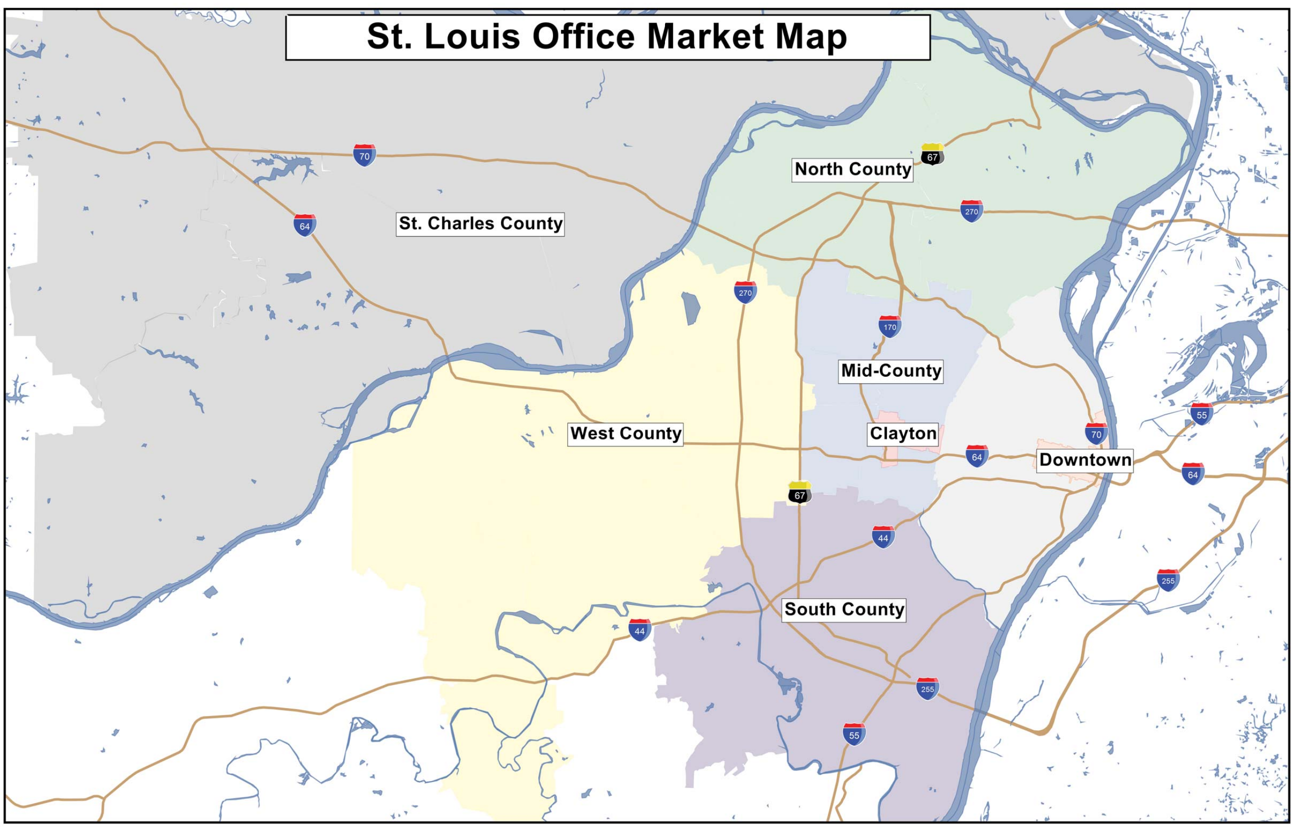
# Office Market

**St. Charles County Office Market Trends**
Absorption, Vacancy and Inventory Change




A big win for the region came in the form of an announcement that Virginia-based Serco Inc. leased 90,000 square feet of office space at The Crossings in Wentzville. This is not only a boost for St. Charles County, but also for the market as the company filled the space with more than 700 new employees. Most of the other deals closed during the year involved a mix of smaller tenants.

Average asking rates in St. Charles County fell slightly throughout the course of the year. This decrease coupled with a sharp increase in rates in the Mid-County area bumped St. Charles County to the bottom of the list.



## 2013 Office Market Comparisons

| | Existing Properties | | | | | Absorption | | |
|---|---|---|---|---|---|---|---|---|
| Market | Buildings | Inventory | Occupied | Vacant | Vacancy Rate | Annual Net Absorption | Inventory Change | Asking Rate Per Square Foot |
| **Downtown:** | | | | | | | | |
| A | 22 | 6,490,333 | 5,524,339 | 965,994 | 14.9% | 179,334 | 120,000 | $19.60 |
| B | 37 | 4,633,377 | 3,367,371 | 1,266,006 | 27.3% | -20,086 | -119,478 | $14.65 |
| Total | 59 | 11,123,710 | 8,891,710 | 2,232,000 | 20.1% | 159,248 | 522 | $16.62 |
| **Clayton:** | | | | | | | | |
| A | 27 | 4,558,783 | 4,139,335 | 419,448 | 9.2% | 50,737 | 0 | $25.59 |
| B | 37 | 2,271,868 | 1,835,093 | 436,775 | 19.2% | -45,510 | 0 | $20.87 |
| Total | 64 | 6,830,651 | 5,974,428 | 856,223 | 12.5% | 5,227 | 0 | $23.20 |
| **Mid-County:** | | | | | | | | |
| A | 5 | 127,062 | 123,211 | 3,851 | 3.0% | -3,851 | 0 | $15.95 |
| B | 55 | 2,026,350 | 1,816,267 | 210,083 | 10.4% | 89,884 | -30,000 | $17.14 |
| Total | 60 | 2,153,412 | 1,939,478 | 213,934 | 9.9% | 86,033 | -30,000 | $17.13 |
| **West County:** | | | | | | | | |
| A | 95 | 9,152,495 | 8,470,265 | 682,230 | 7.5% | 320,069 | 0 | $24.08 |
| B | 154 | 7,012,636 | 5,611,660 | 1,400,976 | 20.0% | -43,665 | 0 | $18.06 |
| Total | 249 | 16,165,131 | 14,081,925 | 2,083,206 | 12.9% | 276,404 | 0 | $20.49 |
| **North County:** | | | | | | | | |
| A | 23 | 3,341,034 | 2,982,712 | 358,322 | 10.7% | 73,775 | 0 | $19.78 |
| B | 33 | 1,965,122 | 1,460,203 | 504,919 | 25.7% | 95,700 | -39,700 | $13.46 |
| Total | 56 | 5,306,156 | 4,442,915 | 863,241 | 16.3% | 169,475 | -39,700 | $16.38 |
| **South County:** | | | | | | | | |
| A | 21 | 1,158,723 | 999,863 | 158,860 | 13.7% | 55,945 | 0 | $21.95 |
| B | 38 | 1,354,799 | 1,181,810 | 172,989 | 12.8% | 14,361 | 0 | $18.29 |
| Total | 59 | 2,513,522 | 2,181,673 | 331,849 | 13.2% | 70,306 | 0 | $19.97 |
| **St Charles County:** | | | | | | | | |
| A | 58 | 3,430,425 | 3,162,650 | 267,775 | 7.8% | 54,687 | 0 | $18.10 |
| B | 29 | 705,537 | 475,410 | 230,127 | 32.6% | 5,857 | 0 | $11.64 |
| Total | 87 | 4,135,962 | 3,638,060 | 497,902 | 12.0% | 60,544 | 0 | $15.13 |
| **St. Louis Metro:** | | | | | | | | |
| A | 251 | 28,258,855 | 25,402,375 | 2,856,480 | 10.1% | 730,696 | 120,000 | $21.86 |
| B | 383 | 19,969,689 | 15,747,814 | 4,221,875 | 21.1% | 96,541 | -189,178 | $16.43 |
| Total | 634 | 48,228,544 | 41,150,189 | 7,078,355 | 14.7% | 827,237 | -69,178 | $18.66 |
| **Quarterly Comparison** | | | | | | | | |
| Q3 2012 | 634 | 48,175,282 | 40,305,647 | 7,869,635 | 16.3% | -209 | 125,000 | $18.81 |
| Q4 2012 | 635 | 48,297,722 | 40,322,952 | 7,974,770 | 16.5% | 17,305 | 122,440 | $18.52 |
| Q1 2013 | 635 | 48,297,722 | 40,284,376 | 8,013,346 | 16.6% | -38,576 | 0 | $18.64 |
| Q2 2013 | 636 | 48,298,244 | 40,569,430 | 7,728,814 | 16.0% | 285,054 | 522 | $18.77 |
| Q3 2013 | 634 | 48,228,544 | 40,765,365 | 7,463,179 | 15.5% | 195,935 | -69,700 | $18.63 |
| Q4 2013 | 634 | 48,228,544 | 41,150,189 | 7,078,355 | 14.7% | 384,824 | 0 | $18.66 |

# Industrial Market

In 2014, TriStar Properties will break ground on the first speculative development in St. Louis since 2007.

When describing the St. Louis industrial market in 2013, the phrase "tipping point" comes to mind. Since bottoming out in 2010, the industrial real estate fundamentals have been consistently improving. As the economy recovered, the market tightened, and large blocks of quality vacant space became hard to find. Heavy demand put an incredible amount of pressure on the market, which led to the return of speculative development in St. Louis.

Speculative development is something that has not been seen in St. Louis since 2007. In the spring, St. Louis-based TriStar Properties will break ground on a new 540,000 square foot building located in Gateway Commerce Center.

Throughout the year, manufacturing employment in St. Louis expanded slightly, industrial production in the U.S. increased by 4%, and GDP grew by 1.49%. Most economists project that the rate of GDP growth will rise to about 3% in 2014. Consumer confidence increased by 17% in 2013, which suggests that the American people are increasingly optimistic about the health of the economy.

Absorption gains, the return of demand, and new development were a few of the themes that dominated the St. Louis industrial market in 2013. With 254,000 square feet of positive absorption, the fourth quarter was the latest in a string of six straight quarters with positive absorption. By the end of 2013, total absorption grew to 1.4 million square feet, and the vacancy rate decreased by 50 basis points to 8.0%.

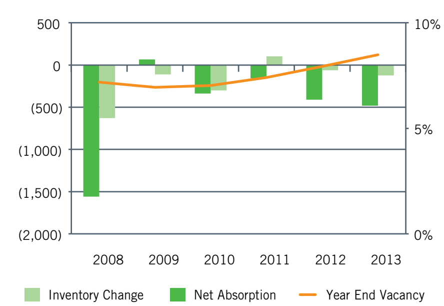
Similar to 2012, all major product types, except for service centers, realized positive absorption in 2013. For the third consecutive year, modern bulk buildings had the best showing as the vacancy rate decreased by 40 basis points to settle at 11.8%. The demand for these buildings is expected to remain strong. Along with a tightening industrial market, this is creating some upward pressure on rental rates. Effective rates in the region have been rising throughout the past few years and increased again in 2013 to end at $3.97.

Demand is strongest along the I-70 corridor where transportation, quality labor, and efficient industrial buildings are all readily available. Markets along this interstate saw a flood of new expansion pressures. These are areas in which additional speculative development is most likely to occur.

### City

The City of St. Louis is not a great market for the type of industrial space currently in demand. Most of the buildings are either too old or too small for what is commonly required by today's users. As a result, the City has endured four consecutive years of negative absorption. The total negative absorption for the year was 482,192 square feet.

**City Industrial Market Trends**
Absorption, Vacancy and Inventory Change




The vacancy rate increased by 60 basis points to end the year at 8.5%. Negative absorption caused the vacancy rate to rise consistently over the past few years. This trend started well before the recession began.

Demand is strongest along the I-70 corridor where transportation, quality labor, and efficient industrial buildings are readily available.

Occupancy losses mounted throughout the year. Sequestration and military spending cuts caused government contracts to dry up at LaBarge Products Inc., which went out of business this year and left 100,000 square feet vacant at Guarantee Electric Complex. Another loss came as Clark Logistic walked away from 78,400 square feet at Union 70 Center.

As previously mentioned, the demand for modern bulk space is very strong. This was illustrated when Universal Storage & Distribution leased the large block of space vacated by Sigma Aldrich in St. Louis Commerce Center II within a few months of its availability in the market.

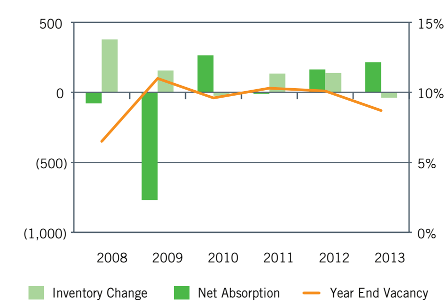
Public incentives could influence whether or not the City is able to attract new industrial users. The availability of Federal New Markets Tax Credits was one of the factors behind Bissinger's decision to consolidate their operations and purchase a 226,000 square foot building located at 1600 North Broadway.

**South County**

South County finally shook off the lingering effects caused by the Chrysler manufacturing plant closing. In 2013, the submarket saw a second straight year of occupancy gains with 215,000 square feet of positive absorption. As expected, an overwhelming majority (70%) of the absorption in South County came from the Modern Bulk class of buildings.

At the end of 2012, South County and North County were the only two submarkets in the St. Louis area with vacancy rates above 10%. This changed in 2013 as both areas saw significant reductions in the amount of vacant space available in their respective markets. In South County, the rate fell by 140 basis points to end the year at 8.7%.

**South County Industrial Market Trends**
Absorption, Vacancy and Inventory Change



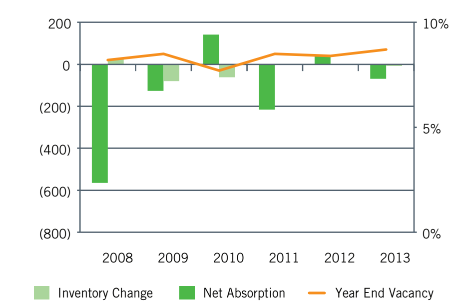

A few key transactions played a large role in the improvement of South County's statistics. Sportsman Supply Inc. leased 101,000 square feet in the former Chrysler Supply building in Fenton. Magnet Works, Ltd., a company that started in a garage, expanded their operation to occupy 75,000 square feet in the Commerce Center II building. Budrovich purchased the 80,000 square foot 9711-9719 Green Park Industrial building, and Cogent Inc. bought a 63,500 square foot property located at 1550 Larkin Williams Road.

**Mid-County**

The Mid-County industrial market regressed in 2013. This submarket has a few quirks, which make industrial growth difficult. The most obvious quirk is the lack of any modern bulk buildings where demand has been the strongest. Another hindrance facing Mid-County are the buildings located in the area, which, on average, are the smallest in St. Louis. These are examples of factors that contributed to the 69,427 square feet of negative absorption in 2013.

A large hit to occupancy was recognized in the second quarter when Buffalo Tools relocated to O'Fallon, Missouri and left nearly 150,000 square feet of space sitting vacant at 1220 North Price Road. Monsanto also contributed to the total losses when it vacated 165,000 square feet of space in a building at 1355 North Warson Road.

**Mid-County Industrial Market Trends**
Absorption, Vacancy and Inventory Change




A number of smaller leases helped to mitigate any further losses. Among the new entrants to the market were HY-C

# Industrial Market

Company, Interior Investments, and Good Times Inc., which all signed leases for more than 20,000 square feet of space. The largest deal was a 58,631 square foot renewal signed by event marketing company, Reveal, Inc. at 1241 Ambassador Boulevard.

Although rents dipped in 2013, they have been trending up throughout the last few years in Mid-County. The vacancy rate ended higher than in recent years, but overall, it has not seen much movement. As demand increases in the St. Louis market, a possible trickle-down effect could extend to the Mid-County market. However, the area is likely to remain unchanged.

### West County

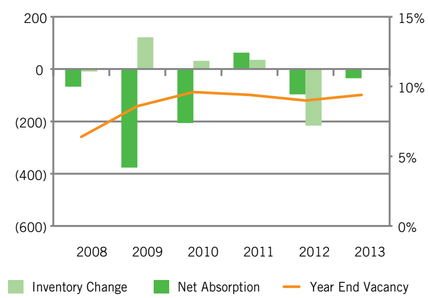
West County has struggled since the recession. Since, 2010, vacancy has been above 9% and absorption was positive in just one of the last six years. This slide continued into 2013 as the area ended the year with 35,115 square feet of negative absorption, and the vacancy rate rose by 20 basis points to 9.4%.

TAGG Logistics, a distribution, fulfillment, and logistics provider consolidated three locations along Fairgrove Industrial. Together, these locations totaled approximately 150,000 square feet. The company relocated and expanded into 202,613 square feet at Hazelwood Logistics Center.

OIA Global Logistics and Meridian Electric renewed and expanded operations. Habitat for Humanity St. Louis entered the submarket with a 48,321 square foot lease at 2117 Sams Drive. SOTEL Systems made a long-term commitment to the area when they purchased a 63,540 square foot property located at 2465 Centerline Industrial Drive in Maryland Heights.

Occupancy growth is expected to stall in West County. This is primarily due to the lack of demand for class B/C buildings, which comprise 95% of properties located within the submarket.

**West County Industrial Market Trends**
Absorption, Vacancy and Inventory Change

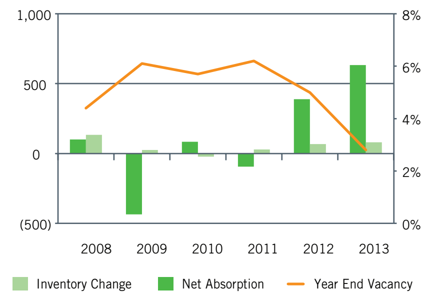



### St. Charles

In one of the most pursued industrial markets in the region, St. Charles County contributed 633,798 square feet of positive absorption to the St. Louis total. A large portion of the remaining class A space in the submarket was occupied during the year, which left only 30,821 of the more than six million square feet available. The vacancy rate for the class A stock of industrial buildings in St. Charles County is almost nonexistent at 0.5%.

Strong absorption growth caused the total vacancy rate to plummet by 220 basis points and end the year at 2.8%. This is the lowest level of vacancy in the area in more than 10 years. Tightening

**St. Charles County Industrial Market Trends**
Absorption, Vacancy and Inventory Change




in the market caused effective rates to rebound to pre-recession levels, which now stand at $4.02.

Most of the deals were concentrated around the buildings that comprise Fountain Lakes I, II, and III. These buildings were among the many institutionally owned properties that changed ownership over the course of the year. Exeter Property Group completed the purchase of this 852,128 square foot portfolio in October.

The same buildings also saw some impressive leasing activity. ALMO Distribution leased 128,740 square feet, and Vi-Jon expanded to 61,890 square feet of space in Fountain Lakes II. Keefe Supply Company renewed a lease for 117,804 square feet in the Fountain Lakes I building. Outside Fountain

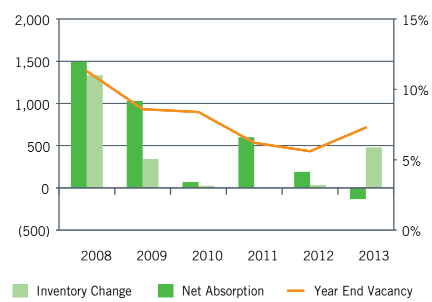
The vacancy rate for the class A industrial buildings in St. Charles County is almost nonexistent at 0.5%.

Lakes, True Manufacturing made news when it leased 101,341 square feet at West 70 Commerce Center I.

**Metro East**

Although the year-end figures may not show it, demand for industrial buildings in the Metro East was strong and the market fundamentals remain solid. Large swings in absorption throughout the year ultimately ended at negative 134,008 square feet. Many dynamics in the Metro East submarket led to an increase in the vacancy rate, which reached 7.3% by the end of the year.

**Metro East Industrial Market Trends**
Absorption, Vacancy and Inventory Change




An exciting story in the Metro East was Procter & Gamble's renewal and expansion at Gateway Commerce Center. With the addition of the newly constructed Westway I building, Procter & Gamble now occupies three million square feet of space in the Metro East. UniLever also helped improve market fundamentals by signing a 1,262,648 square foot renewal at 5620 Inner Park Drive. The company also expanded in the market, occupying 297,000 square feet with a new lease at 9 Gateway Commerce Center Drive. A major sale closed at the end of the year as USAA Real Estate purchased Gateway Distribution Center I & II totaling 919,971 square feet.

Without a doubt, the most newsworthy story in the Metro East was the announcement that St. Louis-based TriStar Properties will begin development on the first speculative industrial building in St. Louis since 2007. This building will be located in Gateway Commerce Center. The Class A modern bulk facility will have expansion capabilities of more

In 2014, TriStar Properties will begin 540,000 square feet of development on the first speculative building in St. Louis since 2007.

than one million square feet and will be available for occupancy in the summer of 2014.

The already strong demand continues to grow in the Metro East industrial market, and additional new developments are imminent.

**North County**

The activity in the class A segment of the North County industrial market was incredible in 2013. This is not surprising considering the area contains 35% of the total modern bulk space in St. Louis. The submarket benefited from a large supply of highly sought after space. It added 1,293,486 square feet of positive

**2013 St. Louis Industrial Lease Transactions**

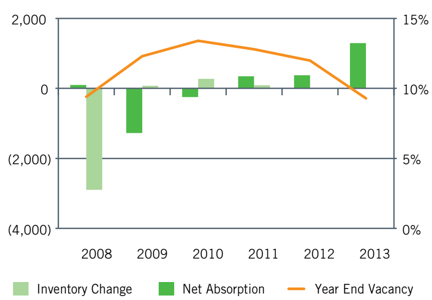
| Property Name | Square Footage | Tenant | Transaction Type |
|---|---|---|---|
| Westway I & II | 2,119,452 | Procter & Gamble | Renewal & Expansion |
| Unilever HPC | 1,262,648 | Unilever | Renewal |
| Northside Distribution | 494,333 | Jacobson Warehouse Co. | Renewal & Expansion |
| I-255 Logistics Center | 300,481 | Medline | New |
| Gateway Distribution Center I | 297,095 | Unilever | New |
| Aviator Distribution Center I | 227,500 | International Food Products | New |
| Hazelwood Logistics Center | 202,613 | TAGG Logistisc | New |

# Industrial Market

absorption of which 710,877 square feet came from modern bulk buildings.

The robust activity led to a 270 basis point decline in the vacancy rate, which ended the year at 9.3%. The vacancy rate recovered over the past few years and now sits at pre-recession levels.

**North County Industrial Market Trends**
Absorption, Vacancy and Inventory Change




A slew of new entrants migrated to North County in 2013. TAGG Logistics relocated three different operations to 202,613 square feet in Hazelwood Logistics Center I. Challenge Manufacturing leased 126,400 square feet of space at 35-45 Corporate Woods Drive and GPO Merchants & Operators leased 123,180 square feet of space in the Contico Complex.

Among the larger of the deals completed in 2013 was the renewal and expansion of Jacobson Warehouse Company, which took 494,333 square feet of space in The Northside Distribution building. Also renewing a 100,000+ square foot lease were Daimler-Chrysler Mopar Parts Division and United States Postal Service. Aviator Business Park, a 227,500 square foot build-to-suit facility, was occupied by International Food Products Corporation.

By the end of 2013, more than 30 leases, totaling 20,000+ square feet were signed throughout North County.

While it will not be reflected in the 2013 statistics, one of the largest leases was signed by True Manufacturing. They leased 542,600 square feet on Lakefront Drive; also known as the former Centric building. It had been on the market since 2010.

True Manufacturing leased 542,600 SF on Lakefront Drive.

By the end of the year, more than 30 leases were signed throughout North County, totaling 20,000+ square feet of space. The robust activity in the area suggests that North County could be another submarket with new development in the upcoming year. Rental rates have been rising since 2010; increasing demand could push rates even higher.

News in this area is great for the St. Louis industrial market, but room for growth exists. North County is a tightening market in a strong position to capitalize on new demand.

**2013 St. Louis Industrial Sale Transactions**

| Property Name | Square Footage | Buyer | Seller |
|---|---|---|---|
| Westway I & II | 2,119,452 | JP Morgan | Bentall Kennedy |
| Unilever HPC | 1,262,648 | Welsh Property Trust | Prologis |
| Gateway Distribution I & II | 919,971 | USAA | Bentall Kennedy |
| Fountain Lakes I, II, & III | 851,892 | Exeter | PNC Bank |
| 7 & 29 Gateway | 780,000 | Great Point | SC Johnson |

## Industrial Market Comparisons - Fourth Quarter 2013

| Market | Buildings | Inventory | Vacant | Vacancy Rate | Annual Net Absorption | Inventory Change |
|---|---|---|---|---|---|---|
| **City:** | | | | | | |
| A | 10 | 2,217,839 | 517,402 | 23.3% | -193,277 | 0 |
| B | 1,562 | 64,185,873 | 5,119,956 | 8.0% | -289,376 | 0 |
| Total | 1,572 | 66,403,712 | 5,637,358 | 8.5% | -482,653 | 0 |
| **Metro East:** | | | | | | |
| A | 28 | 14,566,961 | 837,376 | 5.7% | -184,659 | 479,220 |
| B | 260 | 12,721,062 | 1,146,463 | 9.0% | 50,651 | 0 |
| Total | 288 | 27,288,023 | 1,983,839 | 7.3% | -134,008 | 479,220 |
| **Mid-County:** | | | | | | |
| A | 14 | 1,494,598 | 139,780 | 9.4% | 21,957 | 0 |
| B | 717 | 23,354,367 | 2,012,601 | 8.6% | -91,384 | -8,000 |
| Total | 731 | 24,848,965 | 2,152,381 | 8.7% | -69,427 | -8,000 |
| **North County:** | | | | | | |
| A | 87 | 14,285,925 | 1,099,837 | 7.7% | 1,023,757 | 5,667 |
| B | 500 | 32,787,336 | 3,257,920 | 9.9% | 269,729 | 10,728 |
| Total | 587 | 47,073,261 | 4,357,757 | 9.3% | 1,293,486 | 16,395 |
| **South County:** | | | | | | |
| A | 22 | 2,986,204 | 897,005 | 30.0% | 122,522 | 0 |
| B | 536 | 17,399,791 | 881,069 | 5.1% | 92,783 | -37,683 |
| Total | 558 | 20,385,995 | 1,778,074 | 10.1% | 215,305 | -37,683 |
| **St. Charles County:** | | | | | | |
| A | 41 | 6,262,298 | 30,821 | 0.5% | 343,853 | 80,000 |
| B | 520 | 19,431,957 | 692,169 | 3.6% | 289,945 | 0 |
| Total | 561 | 25,694,255 | 722,990 | 2.8% | 633,798 | 80,000 |
| **West County:** | | | | | | |
| A | 3 | 1,117,760 | 1,117,840 | 100.0% | 0 | 0 |
| B | 597 | 21,635,412 | 1,015,034 | 4.7% | -35,115 | -16 |
| Total | 600 | 22,753,172 | 2,132,874 | 10.0% | -35,115 | -16 |
| **St. Louis Metro:** | | | | | | |
| A | 205 | 42,931,585 | 4,640,061 | 10.8% | 1,134,073 | 564,887 |
| B | 4,692 | 191,515,798 | 14,125,212 | 7.4% | 287,313 | -159,764 |
| Total | 4,897 | 234,447,383 | 18,765,273 | 8.0% | 1,421,386 | 405,123 |
| **Quarterly Comparison** | | | | | | |
| Q1-12 | 4,900 | 234,086,951 | 20,856,421 | 8.9% | -359,439 | 9,749 |
| Q2-12 | 4,902 | 234,262,399 | 21,040,725 | 9.0% | -8,856 | 175,448 |
| Q3-12 | 4,903 | 234,330,399 | 20,512,427 | 8.8% | 596,298 | 68,000 |
| Q4-12 | 4,901 | 234,042,260 | 19,781,536 | 8.5% | 442,752 | -288,139 |
| Q1-13 | 4,899 | 233,956,217 | 19,342,341 | 8.3% | 353,152 | -86,043 |
| Q2-13 | 4,898 | 234,407,399 | 19,153,920 | 8.2% | 639,603 | 451,182 |
| Q3-13 | 4,897 | 234,399,399 | 18,970,724 | 8.1% | 175,196 | -8,000 |
| Q4-13 | 4,897 | 234,447,383 | 18,765,273 | 8.0% | 253,435 | 47,984 |

# Retail Market

IKEA plans to open a new store in St. Louis in the fall of 2015.

The St. Louis retail sector continued down a path of steady improvement in 2013. In many regards, our market fundamentals continue to trend with most major Midwestern cities, which lag coastal markets. St. Louis is poised for considerable improvement in 2014, and disparity between the class A and class B product should finally narrow. This will be driven by much improved retailer expansion plans, a lack of any speculative development, and the rising occupancy costs seen in class A product.

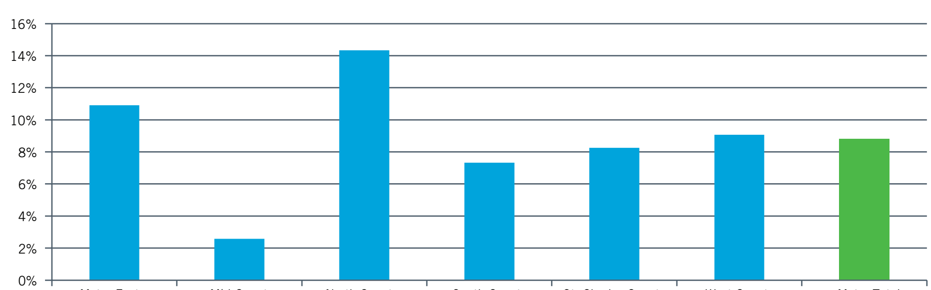
Moving into 2014, national retailers are projecting the most robust expansion plans that since before the recession.

The vast majority, 45% of total planned stores, are being driven by food-related retailers. It is also predominately comprised of high end and discount retailers, as those focused on the middle market consumer continue to get squeezed. St. Louis is no exception to these national trends. More grocery concepts are actively searching for space in the St. Louis market including Fresh Market, Fresh Thyme, Natural Grocers, and Lucky's Market. Resurgence in "Mom & Pop" retailer expansion is anticipated this year, which is especially important to the recovery of class B space.

Overall, the occupancy rate for St. Louis' retail product is 91% in-line with most Midwestern cities. When broken apart into product classes, class A is 98% occupied and class B is 81% occupied. A big disparity clearly exists between product classes today. Demand for class A real estate is beginning to change rental rates considerably. Last year, rental rates rose roughly 10% in class A product, which is a trend expected to continue throughout 2014. As rental rates continue to rise in class A, many retailers looking for new space will simply be priced out of this product class. These retailers will be forced to look at class B opportunities. Class B owners will also benefit from retailers being pushed out of class A. Looking at class A real estate today, a number of retailers occupy space traditionally occupied by class B tenants. These retailers took advantage of a flight to quality during the downturn, and as their leases burn off, they will be forced back to their traditional product class.

With improving market fundamentals, St. Louis' new development pipeline is significantly improved. Two million square feet of planned new deliveries over the next 18 months clearly represents the best new construction pipeline seen since before the recession. Much of the new construction is being driven by single tenant users. After adding two locations in 2013, Menard's has committed to three more sites this coming year. Wal-Mart has announced plans for a new Super Center in Florissant near New Halls Ferry and Lindbergh. IKEA, arguably the biggest news in retail this past year, has

**Vacancy Rate by Market**

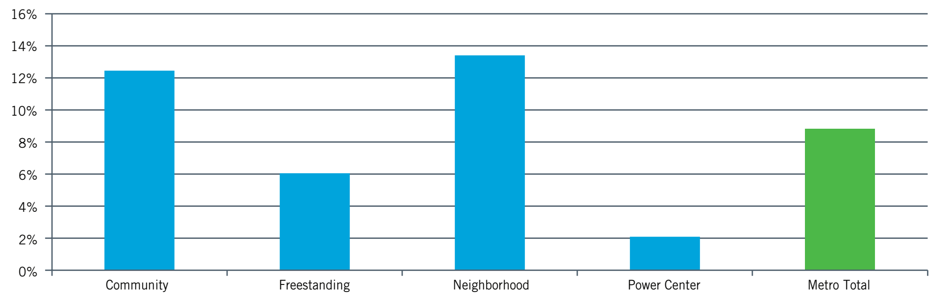


commitment to St Louis' Cortex area in our downtown market. St. Louis is also seeing several mixed-use developments such as Opus' Lindel Residences project, Washington University's project in the Loop, and local developer Bruce Mills' City Walk project, which will be anchored by Whole Foods. These mixed-use developments are needed in our market. They are heavily weighted on the multi-family side and include a minimal amount of retail product. As a result, they have little to no impact on the retail fundamentals of the overall market. A few multi-tenant developments are planned such as Simon's 70,000 square foot expansion of their outlet center in the Central West End and Pace's Midtown Station development adjacent to IKEA's site. While the demand exists for these projects, neither will likely come out of ground without the pre-commitments in place. Speculative development is not expected to be seen in the market, which is a critical piece to the continued improvement in the fundamentals of the existing product.

With improvement in both class A and class B properties, the occupancy gap will narrow for the first time in several years.

This retail report clearly conveys some of the best news that delivered in several years. The market fundamentals of class A and B product, renewed expansion from retailers, and a lack of any speculative development in St. Louis' retail product clearly poises the market for success this coming year. The opportunity exists for owners of class A to continue to grow rent, and class B owners to significantly improve their occupancy. With improvement in both property classes, the gap between them will narrow for the first time in several years.

**Vacancy Rate by Property Type**




### Mid-County

The Mid-County submarket continues to be one of the top performing retail hubs in St. Louis with a vacancy rate of only 2.6%. The strong population density and above average incomes, in addition to the centralized location, has allowed Mid-County to maintain its reputation as one of the premier submarkets with most retailers considering it to be a "must serve" market when entering or expanding in St. Louis.

Some exciting announcements were made in relation to this submarket in 2013. They include The Fresh Market, a North Carolina-based national grocer with 130 stores in more than 20 states plans to occupy the 33,000 square foot former Schnucks building at the intersection of Hanley and Clayton, which has sat vacant for the past several years. Additional news broke in September by the Richmond Heights City Council that they approved $15 million in TIF financing to support a $63 million Menards development at Hadley Township. The area has endured more than 12 years of failed redevelopment attempts.

Lastly, Deer Creek Shopping Center received a major facelift that provided a considerable boost to the Maplewood trade area. Tenants including Ross Dress for Less, Marshalls, JoAnn Fabrics, and Gordon Foods moved into the 211,000-square-foot center, which pushed occupancy levels to 95%.

### Metro East

The Metro East finished the year with a vacancy rate of 10.9%. Macro challenges facing this submarket include low population density, above average crime rates, and lower than average income levels. As a result, most of the trade areas within the Metro East have endured lagging demand for a considerable amount of time. However, there are silver linings within this submarket.

# Retail Market

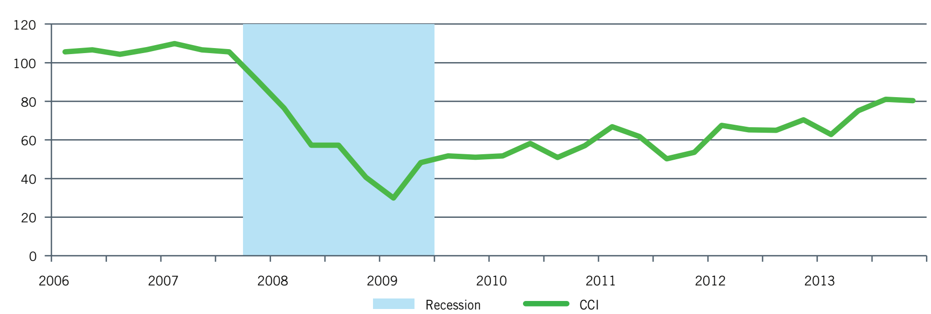
**2013 St. Louis Retail Transactions**

| Property Name | Square Footage | Submarket | Type | Tenant |
|---|---|---|---|---|
| Arnold Crossroads | 53,500 | South County | Lease | Gordmans |
| South County Center | 50,000 | South County | Lease | Dick's Sporting Goods |
| Orchard Bend Shopping Centre | 50,000 | North County | Lease | Hobby Lobby |
| Central Park Square | 40,780 | Metro East | Lease | Cloth Furniture |
| 13867 Manchester Road | 34,961 | West County | Lease | Gold's Gym |
| Shoppes at Cross Keys | 342,334 | North County | Sale | Realty Associates Fund |
| Hilltop Plaza | 302,921 | St. Charles County | Sale | Spirit Realty Capital |
| Deer Creek Center | 211,000 | Mid-County | Sale | Ramco-Gershenson |
| Lincoln Place I & II | 184,656 | Metro East | Sale | Spirit Realty Capital |

Edwardsville, O'Fallon, and Fairview Heights, Illinois are all examples of trade areas within this market that have seen positive activity and are faring reasonably well. Menards continued its expansion plans throughout the region with the Metro East's first store at 1179 Central Park Drive in O'Fallon. The 162,000 square foot hardware and home improvement store also includes a 42,000 square foot outdoor warehouse.

In 2014, produce-focused grocer Fresh Thyme Farmers Market plans to open its first St. Louis location in Fairview Heights at the former Belleville Road Shopping Center, which is being redeveloped as Fairview City Centre. In 2013, "cash and carry" national food distributor GFS Marketplace also opened a store in Fairview Heights.

**Consumer Confidence**




### South County

South County continues to be a relatively stable market for investors and retailers alike. The vacancy rate in this market closed the year at 7.3%, which is one of the lower vacancy numbers in the St. Louis market.

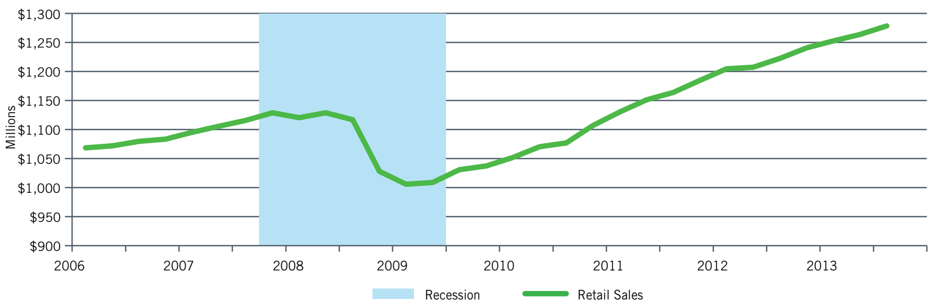
Despite the improved market fundamentals, a continued source of frustration in the South County market is the currently vacant and formerly booming Crestwood Court Mall. After several years of attempting to redevelop into a lifestyle center, the announcement was recently made that the owner decided to abandon its efforts in an attempt to sell the property.

In terms of completed transactions within the submarket, Arnold Crossroads Shopping Center received a substantial boost in occupancy with the signing of a new Gordman's location, which is expected to be running in 2014. Dick's Sporting Goods also made an entrance into the South County market by opening a new store on the outparcel of the South County Center. This will be the company's fourth store to open in the St. Louis area, positioning itself to serve South County and Jefferson County residents.

### North County

At 14.3%, North County currently maintains the highest vacancy rate among the retail submarkets and remains a challenging area of St. Louis

**United States Retail Sales**




for retailer growth. Despite this fact, a few noteworthy retailers completed deals in North County during 2013. Hobby Lobby will lease 45,400 square feet at Orchard Bend Shopping Center, located on St. Charles Rock Road in Bridgeton. Menards will anchor the $106 million mixed-use redevelopment of the former Northwest Plaza mall. The redevelopment is an exciting project that will transform the former vacant mall into a premiere destination for a variety of businesses.

**St. Charles**

Overall, the market fundamentals in St. Charles continue to improve. The vacancy rate is at 8.3% and has been strengthening over the past few years. Menards opened its St. Peters' store, located at Mexico Road and Spencer Road near the Mid Rivers Mall. Along with the O'Fallon, Illinois store, it was Menards' first appearance in the St. Louis marketplace. The $385 million mixed-use development, Streets of St. Charles, made significant strides in 2013. Retailers in the development now include Massage Luxe, Tucanos, Prasino, Five Guy's Burgers and Fries, and Bar Louie. AMC Theatres will also be a part of the development with plans to for a 40,000 square foot theatre, which is slated to open in the fall of 2014.

**West County**

The vacancy rate in West County has rebounded nicely throughout the past few years and now holds steady around average for the St. Louis market at 9.1%.

Highlighting the activity in this submarket for 2013 was the opening of two new outlet malls in Chesterfield Valley: Taubman Prestige Outlets and St. Louis Premium Outlets. These two centers, which are comparable to each other in terms of aesthetics, each showcase a wide array of premium brand stores in an open air setting. The price tag for these projects, which house over 100 stores in 800,000 square feet of space, totaled approximately $250 million. Both outlet malls have enjoyed early success, and Simon Properties has already announced plans for a 70,000 square foot expansion. Given the close proximity to the Chesterfield Mall, approximately four miles away, it remains to be seen what the impact the outlet malls will have, if any, on the mall in the upcoming years.

**Retail Growth 2014**

- Fitness/Health/Spa Concepts
- Drug Stores
- Thrift Stores
- Grocery (Smaller Format Concepts)
- Discount
- Ethnic
- Organic
- Upscale
- Fast Food
- Fast Casual
- Automotive
- Discounters
- Dollar Stores
- Off-Price Apparel
- Pet Supplies
- Sporting Goods
- Wireless Stores
- Banks

**Retail Contraction 2014**

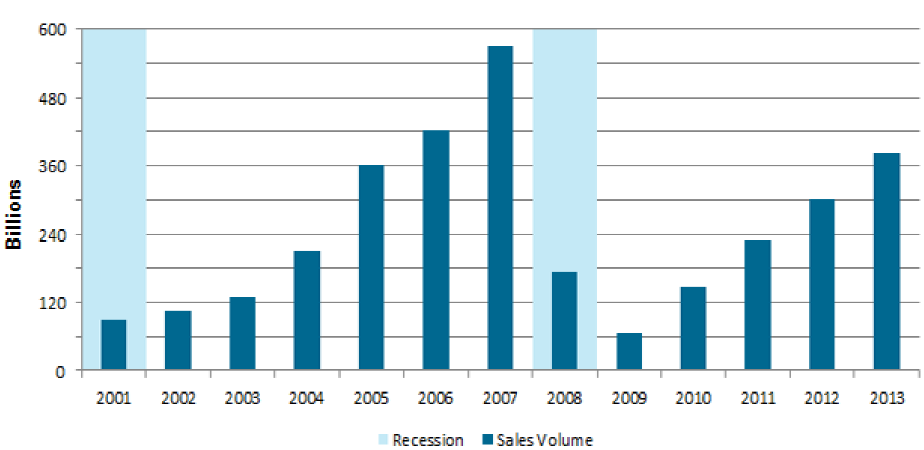
- Bookstores
- Video Stores
- Do-It-Yourself Home Stores
- Mid-Priced Apparel
- Mid-Priced Grocery (Particularly Unionized)
- Office Supplies
- Stationary/Gift Shops
- Shipping/Postal Stores
- Casual Dining (Older Concepts Shrinking)

# Capital Markets


Gateway Commerce Center is a 1.26 million square foot modern bulk facility that was purchased for $53 million.

The St. Louis commercial real estate investment market looked better in 2013 than it has in recent memory. Sales volume has been increasing since the years following the recession. Throughout the past four years, sales have increased. The St. Louis area saw $1.1 billion in commercial real estate sales activity in 2013, which in comparison to the past ten years was about average.

**Sales by Year - United States**




Real Capital Analytics shows national sales transactions totaled $355 billion in 2013. This is a slight increase in sales volume from 2012 and mirrors the sales activity from the years before the recession. While activity in the 24-hour coastal markets was strong, the focus of sales activity shifted from the primary markets to a mix of primary and secondary markets.

As the recession took hold of the U.S. economy, cap rates saw a sharp increase across all commercial real estate markets. Since their peak in 2010, rates have been compressing at a very slow pace. As the market began to recover, some compression took place, but it was almost exclusively in primary markets such as San Francisco and Washington DC. It wasn't until 2013 that this phenomenon made its way into secondary markets. Plenty of yield potential still exists in the St. Louis market, and average local rates moved closer to the national averages. As yield dries up in the primary markets, investors will increasingly look elsewhere to fill in the gap.

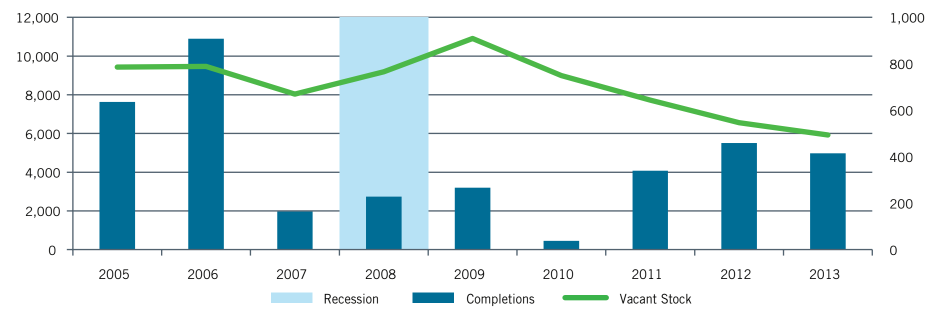
The St. Louis area saw $1.1 billion in commercial real estate sales activity in 2013.

Distressed assets decreased throughout the past few years. Since the peak in mid-2010, total distressed assets have decreased by 27%. As banks clear bad debt from their books, capital is becoming increasingly available.

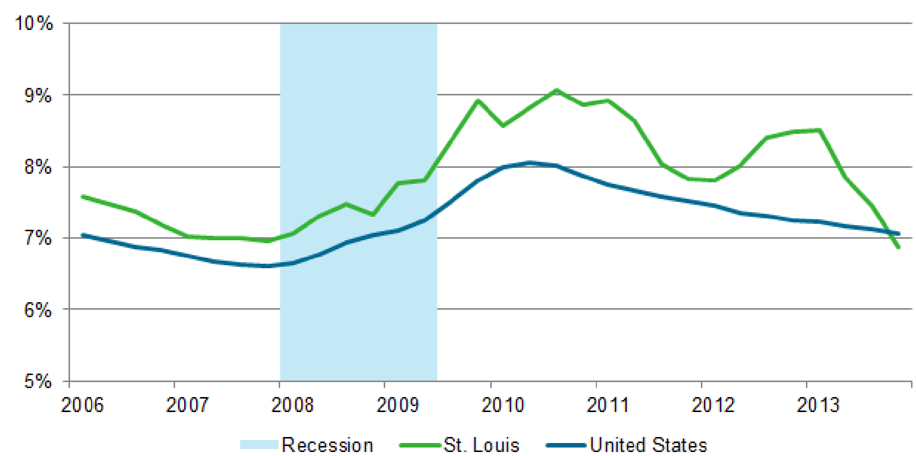
**Multi-Family**

Multi-family has been the darling of the commercial real estate market for the last few years. The millennial generation is influencing the market by delaying home purchases longer than previous generations. Millennial demand is concentrated around dense city centers with easy access to public

**St. Louis Multi-Family**




**Average Cap Rates**




transit. Walkability and proximity to entertainment are also important factors.

Although demand for multi-family is strong in many city centers, it has been more evenly distributed between the urban and suburban areas of St. Louis. An estimated $227 million in multi-family transactions were recorded in 2013. The 165-unit Coranado high-rise building located near Saint Louis University sold as part of a $68.5 million portfolio sale that included the nearby Moolah Place and Lindell Tower apartments. The Vanguard Lofts on Washington Avenue in Downtown St. Louis sold for $11.5 million. Outside the city, the Madison Rockwood apartment complex in Ballwin was purchased and later sold for $19.1 million. Greenmar I & II in Fenton also sold for approximately $19 million.

Although demand for multi-family is strong in many city centers, it has been more evenly distributed between the urban and suburban in St. Louis.

### Office

The St. Louis office sector saw activity in 2013, but it still lags the national market. Sales totaled approximately $300 million. The largest office sale was Magellan Behavioral Health, which is a 232,521 square foot office building. The property sold for $45.8 million. The UnitedHealthcare building in Maryland Heights located at 13655 Riverport Drive was sold as part of a 16 property portfolio. As the office market continues to improve, sales are once again taking place in non-distressed properties.

### Industrial

The industrial product was the star of the St. Louis market in 2013. This sector contributed $365 million to the total deals closed during the year. The largest of these deals was Westway I & III in Edwardsville, which sold for a $104 million. These buildings are designated as modern bulk properties; a category of buildings, which overwhelmingly dominates the industrial sector. Gateway Commerce Center I, also in Edwardsville, is a 1.26 million square foot modern bulk facility that was purchased for $53 million. In Missouri, Fountain Lakes I, II & III in St. Charles sold for $35.5 million.

### Retail

Ten retail property sales closed in 2013 that totaled $5 million or more. Four of these transactions were for Walgreens' stores at various locations around the St. Louis area. The largest deal was the Shoppes at Cross Keys, which sold to an out of town investment group for $53 million. The newly developed Deer Creek Center also sold during the year for $24 million. Sales in the St. Louis area totaled approximately $218 million and cap rates on these properties hover just below 7%.

# Land Market

Compared to recent years, land sales in the St. Louis metro area improved in 2013, but the land market has yet to see a robust recovery. After hitting a peak of 4,500 acres sold in 2006, the market plummeted to just 400 acres in 2009. After a few years of flat sales figures, the market improved to an estimated 1,417 acres sold in 2013. This put the market on par with 2008 figures, which is triple the amount sold in 2012. These are signs that the land market could be on the mend.

## Commercial

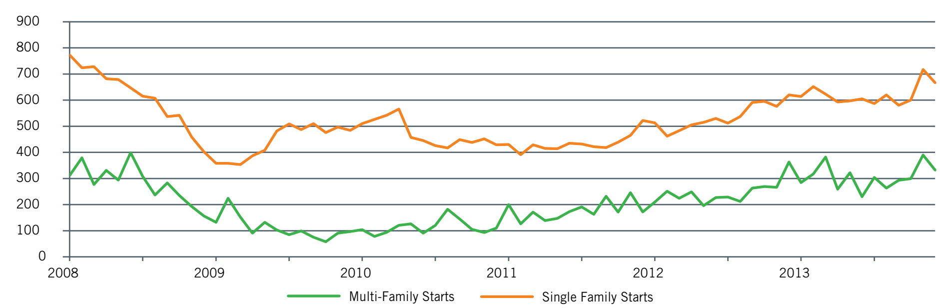
With the resurgence of demand in the industrial sector and the return of speculative development, undeveloped sites may begin to receive increased attention. This will be a direct result of low interest rates and upward pressure on rents across all of the commercial real estate sectors. As leasing becomes more expensive, companies looking to expand will find that building their own facilities may be more economical.

New construction has returned to the primary markets such as San Francisco, Houston, and Washington DC, but it has yet to trickle down into most of the secondary markets. As yield fatigue begins to hit the major markets, investors will turn to secondary markets where yields are still high enough to justify new construction. This is very noticeable in some Midwest markets such as Nashville and Indianapolis. Consumers are expecting more from retailers and e-commerce websites, which translates into more opportunities for markets with strong supply chain and logistics characteristics. St. Louis' central location and access to major interstates could make it a prime location for new development of distribution facilities.

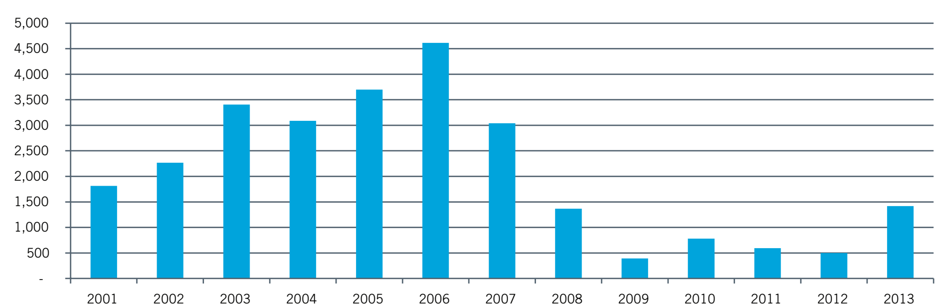
## Residential

The pace of recovery in the residential sector has been much faster than in the commercial sector. Moody's Analytics predicts that 2014 will be a peak year for new single-family permits in the St. Louis area. They project that permits will see a 70% increase compared to 2013, and existing home prices will rise by 8%. Strengthening in the residential sector is a good indicator that the area's economy is strong heading into 2014.

**National Housing Starts**




**Acreage Sold**



# St. Louis Associates

**Building Management**
*David Hilton, CPM*
*Senior Vice President, Principal*

*Marla Maloney, CPM*
*Executive Managing Director, Principal*

*Brian Ungles, CCIM*
*Senior Managing Director, Principal*

**Corporate Services**
*Richard Etzkorn, CPM, RPA*
*Executive Managing Director, Principal*

*Greg Schuster, CCIM*
*Senior Managing Director, Principal*

**Capital Markets**
*Michael Hanrahan*
*Senior Managing Director, Principal*

*Paul Hilton*
*Senior Managing Director, Principal*

**Industrial Sales & Leasing**
*Matt Eastin*
*Associate*

*Joe Freeman*
*Associate*

*Ed Lampitt, SIOR, CCIM*
*Senior Vice President, Principal*

*Keith Schneider, CCIM, SIOR*
*Senior Vice President, Principal*

*J. Michael Searles, SIOR*
*Vice President*

*Bryan Ziercher*
*Vice President*

*Keith Ziercher*
*Associate*

**Land Sales & Leasing**
*Hassan Jadali, CCIM, SIOR*
*Senior Vice President, Principal*

**Marketing Services**
*Amy Freeman*
*Marketing Manager*

*Benjamin Schneider*
*Graphic Designer*

**Office Sales & Leasing**
*Andrew Bagy*
*Associate Vice President*

*Scott Bazoian, CCIM, SIOR*
*Senior Managing Director, Principal*

*Scott Dunwoody*
*Associate*

*D.J. Fuchs*
*Associate*

*Jay Holland*
*Senior Managing Director, Principal*

*David Kelpe, CCIM, SIOR*
*Senior Vice President, Principal*

*Carrie Mauch*
*Vice President*

*Terry McCaffrey, SIOR*
*Vice President*

*Richard Messey, CCIM*
*Senior Managing Director, Principal*

*James Mosby, CCIM, SIOR*
*Senior Managing Director, Principal*

*Piers Pritchard*
*Senior Vice President, Principal*

**Project and Development Services**
*Zig Piwowarski*
*Senior Manager*

**Research Services**
*Terrence Madlinger*
*Research Analyst*

*Jeradawn Vaughn*
*Research Analyst*

**Retail Sales & Leasing**
*Joshua Roedemeier*
*Vice President*

*Chase Young*
*Vice President*

*Nick Cascella*
*Associate*

**St. Louis Management**
*Dean Mueller, CCIM, CPM, RPA*
*Managing Principal*

*Libby Riley*
*Office Manager*

### Core Services

- Capital Markets
  - Debt Placement
  - Investment Sales
  - Note Sales
  - Structured Finance
- Corporate Services
  - Facilities Management
  - Portfolio Administration
  - Project Management
  - Strategic Consulting
  - Transaction Management
- Project Leasing
- Project and Development Services
- Property Management
- Tenant Representation

### Practices and Specialties

- Auction Services
- Distressed Assets
- Financial Advisory
- Food and Beverage
- Golf and Resort Properties
- Government Contracting
- Government Services
- Healthcare
- Higher Education
- Hospitality
- Law Firm
- Life Sciences
- Location Advisory and Incentives
- Mission Critical
- Net Lease
- Not-For-Profit
- Private Client
- Supply Chain
- Sustainability Services

### Real Estate Types

- Industrial
- Land
- Multi-Family
- Office
- Retail

**About Cassidy Turley**

Cassidy Turley is a leading commercial real estate services provider with more than 3,800 professionals in more than 60 offices nationwide. The company represents a wide range of clients—from small businesses to Fortune 500 companies, from local non-profits to major institutions. The firm completed transactions valued at $22 billion in 2012, manages approximately 400 million square feet on behalf of institutional, corporate and private clients and supports more than 23,000 domestic corporate services locations. Cassidy Turley serves owners, investors and tenants with a full spectrum of integrated commercial real estate services—including capital markets, tenant representation, corporate services, project leasing, property management, project and development services, and research and consulting. Cassidy Turley enhances its global service delivery outside of North America through a partnership with GVA, giving clients access to commercial real estate professionals in 65 international markets. Please visit www.cassidyturley.com for more information about Cassidy Turley.

Visit www.cassidyturley.com
for more information on the full range
of our commercial real estate services.

Cassidy Turley / Commercial Real Estate Services

7700 Forsyth Boulevard, 9th Floor
St. Louis, MO 63105
314.862.7100