

A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

According to some experts, the recession is over. The economy is growing again with the Gross Domestic Product back to mid-2008 levels. The stock market has experienced a rebound. Businesses have begun to spend, and consumer spending appears to be increasing. Yet, a pessimistic attitude remains as unemployment stays high, the housing market still struggles, commercial real estate markets are stressed, and credit is tight.

In the St. Louis region, unemployment and the commercial real estate markets are the main concerns. The February 2010 unemployment rate was 10.3% (seasonally adjusted), up from 9.7% in January. In the year ending February 2010, the region lost 5,000 jobs. While disturbing, the number of jobs lost is less than in some other regions.

All of the commercial real estate markets are under stress. Loans need refinancing, and financing remains tight. Tenants are negotiating lower lease rates and shorter terms, reducing income. New construction is virtually stopped except for a limited number of retail facilities, mostly national chain restaurants and drug stores. In 2009, investment in commercial properties totaled \$240 million, the lowest amount in a decade. More sales are anticipated in 2010, however, of default and foreclosed properties.

The St. Louis office market is healthier than many other regions of the country, but it has yet to be stabilized. Vacancies are up, rental rates down. Large blocks of office space are now available in both the downtown and the suburban markets. Financing remains tight. No major building is underway except the 485,250 sq. ft. building at Centene Plaza. The Centene building will open in 2010 with 200,000 sq. ft. utilized by Centene Corp., 125,000 sq. ft. by Armstrong Teasdale, and 46,500 sq. ft. leased to Stinson Morrison Hecker.

Tenants are taking advantage of deals in the marketplace or renegotiating existing leases with different rate and terms. Leases, especially renewals, can be short-term, one to five years. Tenants are occasionally using lower lease rates to move

to better quality buildings. Rent abatement, tenant improvement allowances, and higher brokerage commissions are common in the marketplace as owners try to retain tenants.

During first quarter 2010, total available office space rose to 13.1 million sq. ft. or 16.9% of inventory, up from 12.8 million sq. ft. at year-end 2009, and 11.1 million sq. ft. or 14.6% of inventory at third quarter 2009. Overall absorption was a negative (259,500) sq. ft. All submarkets experienced negative overall absorption except Midtown, Creve Coeur/Westport, and St. Charles County, and even these amounts were small. No new deliveries were added to inventory during the first quarter of 2010. Average asking rent for all properties was \$18.23 per sq. ft., continuing a decline that began at second quarter 2008. Besides shorter lease term renewals and lower rents, the average amount of space leased has also decreased. On the positive side, a number of companies are currently looking for 50,000 sq. ft. or more of space to lease.

Class A availability rose to 16.8% or 5.96 million sq. ft. during first quarter 2010. Absorption for Class A properties is a negative (192,500) sq. ft. The CBD Class A availability rate increased to 18.9% or 2.0 million sq. ft. at first quarter 2010 from 18.6% or 1.9 million sq. ft. at year-end 2009. Availability in the suburban markets increased to 15.9% at first quarter 2010 from 14.9% at year-end 2009. Available Class A suburban space is now 4.0 million sq. ft. Average Class A asking rents declined to \$21.59 per sq. ft. at first quarter 2010 from \$21.68 per sq. ft. during year-end of 2009, down from over \$22.00 per sq. ft. at first quarter 2009 and most of 2008.

Class A sublease space rose during first quarter 2010, increasing to 936,900 sq. ft., or 15.8% of all available Class A space. The largest amounts of available Class A sublease space are in South County (326,500 sq. ft.), West County (153,200 sq. ft.), and the CBD (115,800 sq. ft.) submarkets. Available sublease space could actually be higher as some companies appear to be retaining underutilized space while awaiting economic recovery.

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Market Highlights

- ◆ The overall availability rate continued to rise during first quarter 2010 to 16.9% from 16.3% at year-end 2009.
- ◆ Overall average asking rents fell during first quarter 2010 and are now at \$18.23 per sq. ft. compared to \$18.85 per sq. ft. at the end of 1st quarter 2009.
- ◆ Overall absorption at the end of first quarter 2010 was negative (260,000) sq. ft. compared to negative (173,000) sq. ft. at the end of first quarter 2009. Class A absorption ended first quarter 2010 at negative (193,000) sq. ft.
- ◆ Class A average asking rents fell during first quarter 2010 to \$21.59 per sq. ft. compared to \$21.68 at year-end 2009. The Clayton submarket has the highest average rental rate at \$25.19 per sq. ft.
- ◆ Class A sublease space fell during first quarter 2010 to 937,000 sq. ft. or 15.8% of available inventory, compared to 9.2% one year prior.
- ◆ Major transactions this quarter included Panera's 73,800 sq. ft. lease in the South County submarket and Rabo Agrifinance's 44,400 sq. ft. lease in the Creve Coeur/Westport submarket.

Market by Market

◆ Central Business District

Total Inventory: 25.4 mil. sq. ft.

No. of Buildings: 198

Average Asking Class A Rent: \$18.04

Average Asking Class B Rent: \$15.00

Availability Rate: 23.0%

Available Space: 5.8 mil. sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): (105,400) sq. ft.

The office market in the CBD changed drastically in 2009. Residential and office developments are very slow to being at a standstill. Overall availability has risen and is now at 5.8 million sq. ft. or 23.0% of inventory from 4.6 million sq. ft. or 17.4% of total inventory at first quarter 2009. Absorption for first quarter 2010 was a negative (105,400) million sq. ft.

Available Class A space is now 2.0 million sq. ft. or 18.9% of available space. While available Class A sublease space popped during the second quarter of 2009 to 150,200 sq. ft. or 7.1% of available Class A space, it is now 115,800 sq. ft. or 5.9% of available Class A space. Continuing a very short trend, Class A space had positive absorption of 58,900 sq. ft. during first quarter 2010 after positive absorption of 36,200 sq. ft. for year 2009. Average asking rent for Class A space remained stable during the year at near \$18.00 per sq. ft.

Currently, available Class B space totals 2.5 million sq. ft. or 30.0% of inventory. Absorption for first quarter 2010 was a negative (110,100) sq. ft. Another 1.3 million sq. ft. or 20.2% of Class C space is available. Class C space absorption was a negative (54,200) sq. ft. for first quarter of 2010. Average asking rent for Class B space declined to \$15.00 per sq. ft. at first quarter 2010 from \$15.22 per sq. ft. at year-end 2009, and Class C space average asking rent decreased further to \$12.94 per sq. ft. Rents in the CBD are the lowest in the region and the best bargain for tenants.

The CBD has some large contiguous spaces readily available in 600 Washington, 1010 Market, 500 N. Broadway, Laclede Gas, Metropolitan Square, and 700 Market Street.

Several downtown buildings are on the market including 535 Washington, 505 Washington, and 500 N. Broadway.

Paul McKee continues to work on his plan for 4.5 million sq. ft. of new commercial buildings and 10,000 new homes north of Downtown. Infrastructure, parks and other amenities would be added over the next 15 years on roughly 500 acres.

◆ Midtown

Total Inventory: 1.2 mil. sq. ft.

No. of Buildings: 19

Average Asking Class A Rent: \$21.50

Average Asking Class B Rent: \$13.97

Availability Rate: 7.1%

Available Space: 0.1 mil. sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): 10,800 sq. ft.

This small submarket has the lowest overall availability rate, at 7.1%, of all the submarkets. Total available space is only 81,700 sq. ft. Available Class A space is only 39,500 sq. ft., none of which is sublease space. Class A average asking rents were stable during 2009 and first quarter 2010. Saint Louis University and the Lawrence Group will convert the former Interiors Unlimited building on Olive into a 57-room boutique hotel.

◆ Clayton

Total Inventory: 9.4 mil. sq. ft.

No. of Buildings: 118

Average Asking Class A Rent: \$25.19

Average Asking Class B Rent: \$20.71

Availability Rate: 15.1%

Available Space: 1.4 mil. sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): (57,800) sq. ft.

Although the availability rate increased in the first quarter of 2010 to 15.1% from 13.9% at year-end 2009, the Clayton submarket is still considered stable. Office buildings in the submarket are popular with institutional investors. Recently, the 580,000 sq. ft. Pierre Laclede Center was purchased by Newport Beach-based KBS Capital Markets for an estimated \$75 million. The only new, major office development in the region is the first building

of Centene Plaza. It should be completed by mid-2010.

The current amount of total available space is 1.4 million sq. ft. Absorption for the first quarter 2010 was a negative (57,800) sq. ft. Overall average asking rent declined slightly during the first quarter of 2010 to \$21.29 per sq. ft. from \$21.81 per sq. ft. at year-end 2009.

During first quarter 2010, average asking rent for Class A space declined to \$25.19 per sq. ft. from \$26.06 per sq. ft. at year-end 2009, the lowest amount since second quarter 2009. Class B average asking rent increased to \$20.71 per sq. ft. from \$21.43 per sq. ft. during first quarter 2010.

Class A availability is currently 15.3%, with 0.8 million sq. ft. available. Available sublease Class A space increased slightly during first quarter 2010 to 68,000 sq. ft. or 8.8% of total Class A space. Absorption for first quarter 2010 was a negative (35,700) sq. ft. The availability rate for Class B space increased during the quarter to 16.3% or 0.5 million sq. ft. from 14.5% at year-end 2009. Class B absorption for first quarter 2010 was just 510 sq. ft.

◆ Creve Coeur/Westport

Total Inventory: 10.5 mil. sq. ft.

No. of Buildings: 132

Average Asking Class A Rent: \$22.26

Average Asking Class B Rent: \$17.64

Availability Rate: 15.4%

Available Space: 1.6 mil. sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): 24,900 sq. ft.

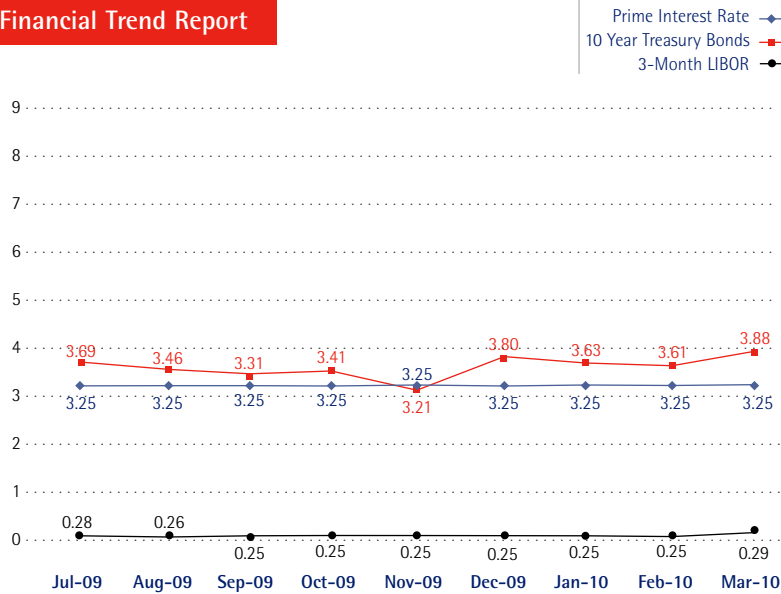
There was little activity during first quarter 2010 in the Creve Coeur/Westport office submarket, but any activity is better than previous quarters when the submarket appeared to be flat. The availability rate declined to 15.4% at first quarter 2010 from 15.5% at year-end 2009. Available space remains at 1.6 million sq. ft. Absorption for first quarter 2010 was a positive 24,900 sq. ft.

During the first quarter, the average asking rental rate for Class A space rose to \$22.26 per sq. ft. from \$21.96 per sq. ft. at year-end 2009. Average asking rent for Class B space decreased slightly during the

Major Office Acquisitions First Quarter, 2010

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	\$/Sq. Ft.	Buyer
Pierre Laclede Center	Clayton	Clayton	580,000	\$75,000,000	\$129	KBS Capital Markets
Lakeside Crossing II	Maryland Heights	Creve Coeur/Westport	116,000	\$19,000,000	\$163	Franklin Street Properties

Financial Trend Report



quarter to \$17.64 per sq. ft. from \$17.94 per sq. ft.

During first quarter 2010, the amount of available Class A increased to 0.9 million sq. ft. with absorption a negative (46,100) sq. ft. The availability rate rose to 14.7% at first quarter 2010. Available Class A sublease space declined to 92,300 sq. ft. or 10.7% of Class A available space. Available Class B space is 0.5 million sq. ft. or 14.5% of total inventory, slightly lower than all of 2009. Class B absorption was 37,100 sq. ft. for first quarter 2010.

◆ North County

Total Inventory: *9.6 mil. sq. ft.*
 No. of Buildings: *111*
 Average Asking Class A Rent: *\$19.86*
 Average Asking Class B Rent: *\$16.88*
 Availability Rate: *13.4%*
 Available Space: *1.3 mil. sq. ft.*
 New Deliveries: *0 sq. ft.*
 Net Absorption (YTD): *(82,200) sq. ft.*

During first quarter 2010, overall available space increased slightly to 1.3 million sq. ft. or 13.4% of inventory. Overall absorption for the quarter was a negative (82,200) sq. ft. The average asking rent for Class A space remained stable during first quarter 2010 at \$19.86 per sq. ft. Available Class A space now totals 0.6 million sq. ft. or 21.2% of inventory, 15.7% or 99,800 sq. ft. of which is sublease space. Absorption for Class A space during first quarter 2010 was a negative (85,300) sq. ft.

The North County submarket is attractive

to large users needing large amounts of parking. Twelve blocks of space of 30,000 sq. ft. or more are currently available in the submarket. Rents are the least expensive of the suburban markets.

◆ South County

Total Inventory: *8.4 mil. sq. ft.*
 No. of Buildings: *155*
 Average Asking Class A Rent: *\$22.04*
 Average Asking Class B Rent: *\$18.95*
 Availability Rate: *14.0%*
 Available Space: *1.2 mil. sq. ft.*
 New Deliveries: *0 sq. ft.*
 Net Absorption (YTD): *(10,800) sq. ft.*

Once noted for its high occupancies and low turnover rate, the South County submarket has been hit hard in both the office and industrial sectors. Both Anheuser-Busch InBev and Maritz have sublease space on the market. The closing of the Chrysler plants and its suppliers is putting nearly 6 million sq. ft. of industrial space on the market. Available office space has risen to 1.2 million sq. ft., and availability is now 14.0% of total inventory. Overall net absorption for first quarter of 2010 was a negative (10,800) sq. ft.

Over 0.6 million sq. ft. of Class A space is currently available, 326,500 sq. ft. or 50.5% of which is sublease space. Average asking price for Class A space decreased slightly during the first quarter to \$22.04 per sq. ft. from \$22.09 per sq. ft. at year-end 2009. Class A absorption for first quarter 2010 was a negative 31,600 sq. ft.

◆ West County

Total Inventory: *8.3 mil. sq. ft.*
 No. of Buildings: *128*
 Average Asking Class A Rent: *\$22.92*
 Average Asking Class B Rent: *\$19.94*
 Availability Rate: *14.2%*
 Available Space: *1.2 mil. sq. ft.*
 New Deliveries: *0 sq. ft.*
 Net Absorption (YTD): *(43,300) sq. ft.*

The prestigious West County submarket has experienced small fluctuations in availability for the past year. At first quarter 2010, 1.2 million sq. ft. is available or 14.2% of inventory, up slightly from 13.7% at year-end 2009. First quarter overall absorption was a negative (43,300) sq. ft. Available Class A space is now 0.8 million sq. ft., 18.7% or 153,200 sq. ft. of which is sublease space. Class A absorption during first quarter 2010 was a negative (64,300) sq. ft. Average asking rent for Class A space was \$22.92 at first quarter 2010, up from \$22.80 per sq. ft. at year-end 2009.

Monsanto will purchase Chesterfield Village Research Center from Pfizer for \$435 million in 2010. The 1.3 million sq. ft. center can accommodate 1,000 researchers. Scottrade plans a \$36.3 million expansion, including a parking garage, at its headquarters location in Town & Country.

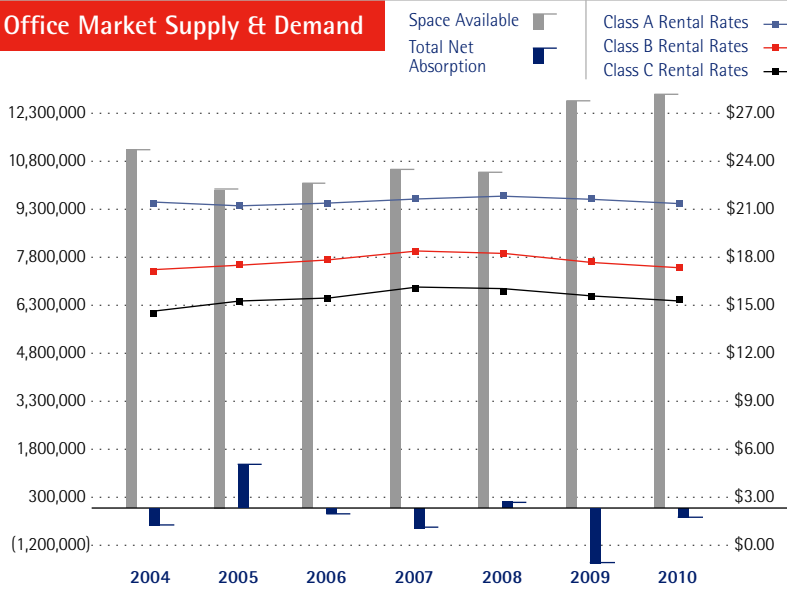
◆ St. Charles

Total Inventory: *4.5 mil. sq. ft.*
 No. of Buildings: *66*
 Average Asking Class A Rent: *\$20.90*
 Average Asking Class B Rent: *\$16.98*
 Availability Rate: *10.9%*
 Available Space: *0.5 mil. sq. ft.*
 New Deliveries: *0 sq. ft.*
 Net Absorption (YTD): *4,300 sq. ft.*

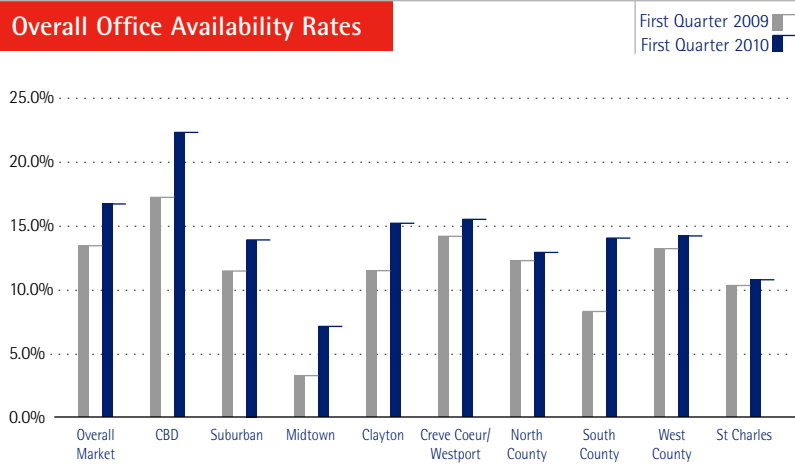
The St. Charles office market was stable during the first quarter of 2010. Year-to-date absorption is 4,300 sq. ft. Overall availability is 0.5 million sq. ft. or 10.9% of inventory. Available Class A space is now 199,200 sq. ft. or 7.7% of inventory. Sublease space is 81,300 sq. ft. or 40.8% of available Class A space. Class A absorption for first quarter 2010 was 10,000 sq. ft. The Class A average asking rent decreased to \$20.90 at first quarter 2010 from \$21.19 per sq. ft. at year-end 2009.

Medco Finance Corp. of Carol Stream, Illinois has purchased US Fidelis headquarters in Wentzville for \$2.7 million at a foreclosure sale.

Office Market Supply & Demand



Overall Office Availability Rates



Continued from page 1

The availability rate for Class B office space remained stable during first quarter 2010 at 17.8%. Total available Class B space is 4.9 million sq. ft. Absorption for first quarter 2010 was a positive 21,800 sq. ft. Class B asking average rent declined to \$17.51 per sq. ft. at first quarter 2010 from \$17.75 per sq. ft. at year-end 2009. Average asking rent had been \$18.00 per sq. ft. or better from third quarter 2007 to year-end 2008.

The availability rate for Class C space increased to 15.7% or 2.3 million sq. ft. at first quarter 2010 from 14.4% at year-end 2009. Absorption during first quarter 2010 was a negative (88,800) sq. ft. The CBD has the most Class C space available with 1.3 million sq. ft. The average asking rental rate for Class C space had hovered in the mid to upper \$16.00 per sq. ft. during 2008, but has since declined to the \$15.00 per sq. ft. range.

With the national credit crunch, the investment office market has slowed, but more purchases are anticipated with coming defaults and foreclosures. The 1.2 million sq. ft. Railway Exchange building, home to Macy's downtown, is under contract to local developers. Also Downtown, Positive Investments of Los Angeles has acquired the 750,000 sq. ft. Bank of America Plaza for \$47.85 million. Several million dollars will be spent on upgrades.

Construction on the new toll-free, four-lane, bridge north of Downtown St. Louis will start in spring 2010, and the bridge should be completed by 2014. Already overpasses along I-70 have been demolished in preparation of bridge construction.

Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Panera LLC	Laumeier I	Sunset Hills	South County	73,800
Rabo Agrifinance	Creve Coeur Pointe	Creve Coeur	Creve Coeur/Westport	44,400
McCormack Baron Salazar	Laclede Gas Building	St. Louis	CBD	37,100
Enterprise Bank & Trust	Old Town Executive	Clayton	Clayton	28,700
Cassidy Turley	Centene Plaza	Clayton	Clayton	27,000
Ascension Health	Creve Coeur Pointe	Creve Coeur	Creve Coeur/Westport	23,700
Schmersahl Treavor and Co.	Sunset Commons Office Bldg.	Sunset Hills	South County	14,900
Smurfit-Stone Container	Riverport Lakes	Maryland Heights	North County	14,800
IPS	Sunset Place	St. Louis	South County	12,400

For more information

For more information regarding this issue of *envision*, please contact:

Jack Reis, President
314.241.1175
jack.reis@evsra.com

Sarah Hakes, Vice President
314.241.1175
sarah.hakes@evsra.com

EVS Realty Advisors, Inc.
701 Market Street
Suite 1230
Saint Louis, MO 63101
314.241.1175
www.evsra.com

