envision

Second Quarter, 2009

realty advisors, inc.

A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

Beyond the economy, the St. Louis region is enjoying a pleasant summer. The weather has provided sufficient rain and cool days. The highly anticipated $30 million Citygarden has opened to public acclaim, and the city of St. Louis spruced up for baseball's 2009 All-Star Game.

Like the nation, the good economic news is not close to outweighing the bad news. The St. Louis region is basically tracking the nation as a whole. The May 2009 unemployment rate was 9.0% (unadjusted for seasonal discrepancies). However, education, healthcare services and government have experienced job growth over the past year. Manufacturing has lost 12.3% of its jobs over the quarter, principally in the automobile industry. The Chrysler plants in Fenton closed permanently this summer and the General Motors plant in Wentzville is operating only one production shift. Some workers have, however, returned to Granite City Steel.

The commercial real estate markets are a lagging indicator of the national economy, and definitely are immersed in the recession. The retail market continues to weaken with consumers still not ready to spend. The St. Louis regional retail vacancy rate is near 11%. St. Charles County appears to be the most overbuilt area. The average rate for retail space has declined to just over $12 per sq. ft. with many concessions and shorter lease periods. Minimal construction is occurring.

The industrial market is also in trouble as companies pull back. As the vacancy rate has increased to nearly 13%, sale prices and lease rates have fallen. New construction has almost stopped. Leasing has slowed, even in Illinois where large distribution facilities are located. In the South County submarket, the closing of the Chrysler plants has caused suppliers to vacate over one million sq. ft., with more sublease space expected to be placed on the market. On the positive side, Milwaukee-based Fiserv is consolidating plants and a Boston office into a single warehouse in Hazelwood.

The office market has its own set of problems. There are few large spaces available, financing is tight and no major speculative buildings are under construction. Vacancy is increasing. More sublease space is coming on the market as firms downsize. Rents generally are declining. Rent abatement, tenant improvement allowances and higher brokerage commissions have returned to the marketplace as owners try to keep tenants.

The two suburban Class A buildings with large spaces include the 175,000 sq. ft. Meridian 4 in Brentwood where BJC Learning Center leased 60,000 sq. ft. The first building in the 481,000 sq. ft. Centene should open in late 2010 with 200,000 sq. ft. utilized by Centene Corp. and 125,000 sq. ft. by Armstrong Teasdale, a law firm moving from Downtown St. Louis.

At second quarter 2009, total available office space was 11.2 million sq. ft., 14.6% of inventory, up from 10.5 million sq. ft. at first quarter 2009. Year-to-date overall absorption was a negative (841,800) sq. ft. All submarkets experienced negative absorption except North County, West County and St. Charles. Of these three, only St. Charles County experienced substantial absorption. So far this year, new deliveries total 275,300 sq. ft. in mostly Class B space. Average asking rent for all properties was $18.32 per per sq. ft., continuing its decline since second quarter 2008.

The demand for Class A space declined during the second quarter 2009. The overall availability for Class A office space rose to 16.2% at second quarter from 14.7% at first quarter, and available space increased to 5.4 million sq. ft. from 4.9 million sq. ft. The Downtown Class A availability rate increased to 20.8% at second quarter 2009 or 2.1 million sq. ft. Availability in the suburban markets increased to 14.2% from 12.3% during first quarter of 2009. Absorption for Class A properties was a negative (566,700) sq. ft. Available Class A suburban space is nearly 3.3 million sq. ft.

Class A sublease space almost doubled during the second quarter of 2009, increasing to 822,000 sq. ft. or 15.1% from 453,600 sq. ft. of all available Class A space. The largest amount of avail-

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Market Highlights

- The overall availability rate rose one percentage point during the quarter to 14.6%, 1.3% higher than one year ago.
- Overall average asking rents fell during the quarter to $18.32 per sq. ft. from $18.85 per sq. ft. at the end of first quarter 2009.
- Overall absorption at the end of the quarter was negative (842,000) sq. ft. compared to 206,000 sq. ft. one year prior. Class A absorption ended the quarter at negative (567,000) sq. ft., Class B was negative (147,000) sq. ft. and Class C was negative (128,000) sq. ft.
- Class A average asking rents fell $0.51 per sq. ft. over the quarter down to $21.53 per sq. ft. almost a dollar less than one year prior.
- Class A sublease space rose 5.9% during second quarter 2009 to 822,000 sq. ft. or 15.1% of inventory.
- Major transactions this quarter include Scottrade's 85,000-sq.-ft. lease in the West County submarket and Polsinelli Shughart's 39,000-sq.-ft. lease in the CBD submarket.

Market by Market

◆ Central Business District

Total Inventory: *26.4 mil. sq. ft.*
No. of Buildings: *201*
Average Asking Class A Rent: *$17.86*
Average Asking Class B Rent: *$15.59*
Availability Rate: *17.5%*
Available Space: *4.6 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(108,700) sq. ft.*

The most exciting events this quarter were the opening of the widely-acclaimed $30 million Citygarden by the Gateway Foundation on two blocks along the Gateway Mall (Market Street, bordered by 8th and 10th Streets), and the All-Star Game. The interactive sculpture garden has quickly become a destination for many people as well as a welcoming spot for Downtown workers and visitors.

The office market in the CBD remained stalled through the first half of 2009. Current overall availability is 4.6 million sq. ft. or 17.5% of total inventory. Year-to-date absorption is a negative (108,800) sq. ft. Available Class A rose to 2.1 million sq. ft. or 20.8% at second quarter 2009 because of additional sublease space. Available Class A sublease space nearly doubled during the second quarter of 2009 to 150,200 sq. ft. or 7.1% of available Class A space. Class A space experienced negative absorption of (105,700) sq. ft. for the first half of 2009. Average asking rent for Class A space declined to $17.86 per sq. ft. from $18.12 per sq. ft. at first quarter 2009.

After a good year in 2008, available Class B space remained at 1.3 million sq. ft. or 15.2% of inventory as of second quarter 2009. Absorption ended the second quarter at negative (27,300) sq. ft. Another 1.2 million sq. ft. or 15.8% of Class C space is available. The only positive absorption in the CBD this quarter was in Class C space where 24,300 sq. ft. was absorbed during the first half of 2009. Average asking rent for Class B and Class C space rose slightly to $15.59 per sq. ft. and $14.04 per sq. ft. respectively. Rents in the CBD are the lowest in the region.

◆ Midtown

Total Inventory: *1.2 mil. sq. ft.*
No. of Buildings: *19*
Average Asking Class A Rent: *$23.63*
Average Asking Class B Rent: *$15.20*
Availability Rate: *7.7%*
Available Space: *0.1 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(4,000) sq. ft.*

This small submarket has the lowest availability rate in the region despite its overall availability rate increasing to 7.7% at second quarter 2009 from 3.9% at first quarter 2009. Total available space is only 88,500 sq. ft. Available Class A space is 39,500 sq. ft., none is sublease space. All average asking rents in the submarket declined during the second quarter of 2009 with Class A space decreasing to $23.63 per sq. ft. from $24.94 per sq. ft.

Two buildings, 64,000 sq. ft. and 59,000 sq. ft., are nearing completion at the Highlands Plaza across from Forest Park. Much of the space has been pre-leased.

◆ Clayton

Total Inventory: *9.0 mil. sq. ft.*
No. of Buildings: *117*
Average Asking Class A Rent: *$24.30*
Average Asking Class B Rent: *$19.86*
Availability Rate: *13.2%*
Available Space: *1.2 sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(192,000) sq. ft.*

The Clayton submarket is healthy and continues to be a good place to work. Rents are basically flat or declining somewhat. The availability rate rose from 11.5% at first quarter 2009 to 13.2% at second quarter. Overall absorption for the year-to-date was a negative (192,000) sq. ft.

Class A availability is currently 11.9%, with 0.5 million sq. ft. of Class A space available. Available sublease Class A space almost doubled during second quarter 2009 to 48,000 sq. ft. or 8.9% of total Class A space. Absorption for the first two quarters of 2009 was a negative (50,900) sq. ft. The average asking rental rate for Class A space declined to $24.30 per sq. ft. from $25.38 the previous quarter. Asking rent for the new Centene building is said to be $32.50 per sq. ft.

The availability rate for Class B space rose again during the second quarter to 17.0% or 0.5 million sq. ft. Absorption during the first half of 2009 was a negative (113,900) sq. ft. Average asking rent rose slightly to $19.86 per sq. ft. at second quarter 2009 from $19.62 per sq. ft. at first quarter 2009. Only 130,700 sq. ft. of Class C space is available in the submarket, with a negative (27,300) sq. ft. absorbed during first half of 2009.

The first building in Centene Plaza is well underway. The 481,000 sq. ft. of office space will be mostly occupied by Centene Corp. and Armstrong Teasdale, a law firm. No announcement has been made of tenants for the 28,125 sq. ft. of retail space. Nearing completion is the 175,000 sq. ft. Meridian 4, south of the city of Clayton at the I-64 per Highway 40 and Hanley Road interchange in Brentwood where BJC Learning Center has leased 60,000 sq. ft.

◆ Creve Coeur/Westport

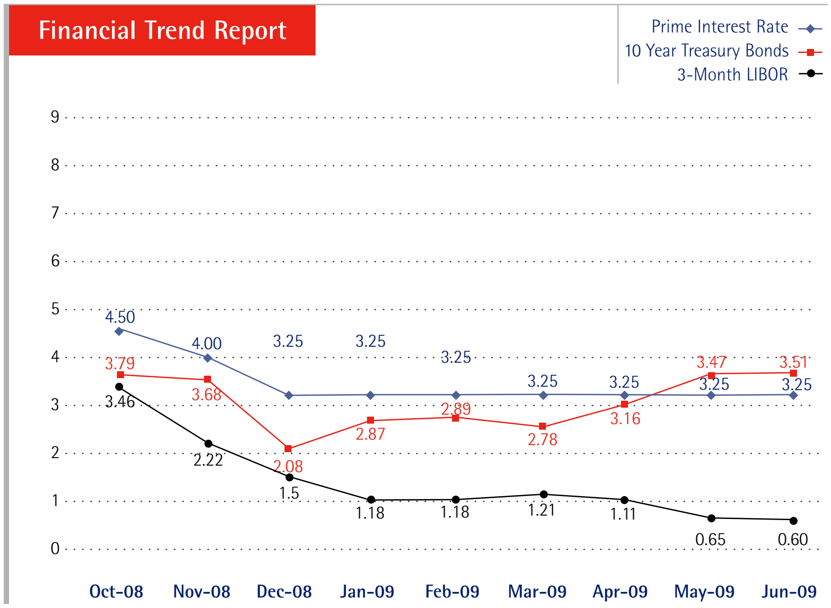
Total Inventory: *9.5 mil. sq. ft.*
No. of Buildings: *131*
Average Asking Class A Rent: *$22.32*
Average Asking Class B Rent: *$17.71*
Availability Rate: *16.3%*
Available Space: *1.5 mil. sq. ft.*
New Deliveries: *165,000 sq. ft.*
Net Absorption (YTD): *(292,200) sq. ft.*

During the first half of 2009, the availability rate increased from 13.5% at year-end 2008 to 16.3% at second quarter 2009. Available space is over 1.5 million sq. ft. Absorption in first half of 2009 was a negative (292,200), the second worst in the region. During the quarter, the average asking rental rate activity was mixed, Class A declined slightly, Class B increased slightly and Class C dropped over $2 per sq. ft. to $14.21 per sq. ft.

During the second quarter of 2009, the amount of available Class A jumped above 0.7 million sq. ft. with absorption a negative (186,700) sq. ft. The availability rate increased from 13.7% at first quarter 2009 to 15.9% at second quarter 2009. Avail-

Major Office Acquisitions Second Quarter, 2009

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	$/Sq. Ft.	Buyer
Curlee Building (Class B)	St. Louis	CBD	84,000	$7.2 million	$86	SCR Investments



able sublease Class A space rose to 40,700 sq. ft. or 5.4% of Class A available space during the second quarter.

◆ North County

Total Inventory: *9.6 mil. sq. ft.*
No. of Buildings: *111*
Average Asking Class A Rent: *$17.88*
Average Asking Class B Rent: *$16.37*
Availability Rate: *12.5%*
Available Space: *1.2 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *9,000 sq. ft.*

During the second quarter of 2009, the North County submarket improved slightly. Available space is now 1.2 million sq. ft. or 12.5% of inventory. Absorption for the year-to-date is 9,100 sq. ft. The Missouri Department of Transportation's approval of funding for Highway 141 to I-70 should also help the market, providing an "outer beltway" from Arnold in Jefferson County to Highway 370 in North St. Louis County.

Available Class A space now totals nearly 0.6 million sq. ft. or 18.5%, 15.4% or 85,200 sq. ft. of which is sublease space. Absorption for Class A space in first quarter 2009 was 13,400 sq. ft. Average asking rent continued to decline, however, to $17.88 per sq. ft. at second quarter 2009 from $18.94 per sq. ft. at first quarter 2009 .

Absorption for first quarter 2009 for Class B space was 5,400 sq. ft. About 0.4 million sq. ft. or 8.6% of Class B space is available. Class B average asking rent decreased slightly to $16.37 per sq. ft.

◆ South County

Total Inventory: *8.4 mil. sq. ft.*
No. of Buildings: *155*
Average Asking Class A Rent: *$22.02*
Average Asking Class B Rent: *$19.41*
Availability Rate: *12.3%*
Available Space: *1.0 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(410,400) sq. ft.*

The South County office submarket is being hit hard in both the office and industrial sectors. Anheuser-Busch InBev is subleasing 150,000 sq. ft. at its Sunset Hills campus, with the potential for several thousand square feet of space to be vacated. Maritz is also marketing 68,400 sq. ft. at its campus. Closing of the Chrysler plants and its suppliers is putting over a million sq. ft. of industrial space on the market.

Available office space rose in the second quarter 2009 to over 1.0 million sq. ft. or 12.3% from 0.7 million sq. ft. or 8.2% of total inventory. Absorption for the first half of 2009 was a negative (410,400) sq. ft., with negative absorption in all classes of space.

Over 0.5 million sq. ft. of Class A space is currently available, 262,900 sq. ft. or 48.1% of which is sublease space. Average asking price for Class A space rose slightly during the quarter to $22.02 per sq. ft. from $21.89 per sq. ft. at first quarter.

◆ West County

Total Inventory: *8.3 mil. sq. ft.*
No. of Buildings: *128*
Average Asking Class A Rent: *$23.14*
Average Asking Class B Rent: *$20.05*
Availability Rate: *12.7%*
Available Space: *1.1 mil. sq. ft.*
New Deliveries: *63,700 sq. ft.*
Net Absorption (YTD): *37,400 sq. ft.*

The West County submarket has experienced improvement even with additional Class A sublease space on the market. The overall availability rate continues to decline to 12.7% at second quarter 2009 from 13.1% at first quarter 2009. Available space remains near 1.1 million sq. ft. Overall absorption during first quarter 2009 was 37,400 sq. ft.

Available Class A space is now 0.7 million sq. ft., 18.4% or 130,600 sq. ft. of which is sublease space. Class A absorption during the first half of 2009 was 19,300 sq. ft. Average asking rent for Class A space increased from $23.00 per sq. ft. at year-end 2008 to $23.67 per sq. ft. at first quarter 2009 but declined again during the second quarter 2009 to $23.14 per sq. ft.

Sachs Properties had planned a second building of 150,000 sq. ft. in Chesterfield Village for late 2008, but the building has yet to be started. Opus Northwest announced a two-building, 340,000 sq. ft. speculative office building on Conway Road, but the building is now on-hold.

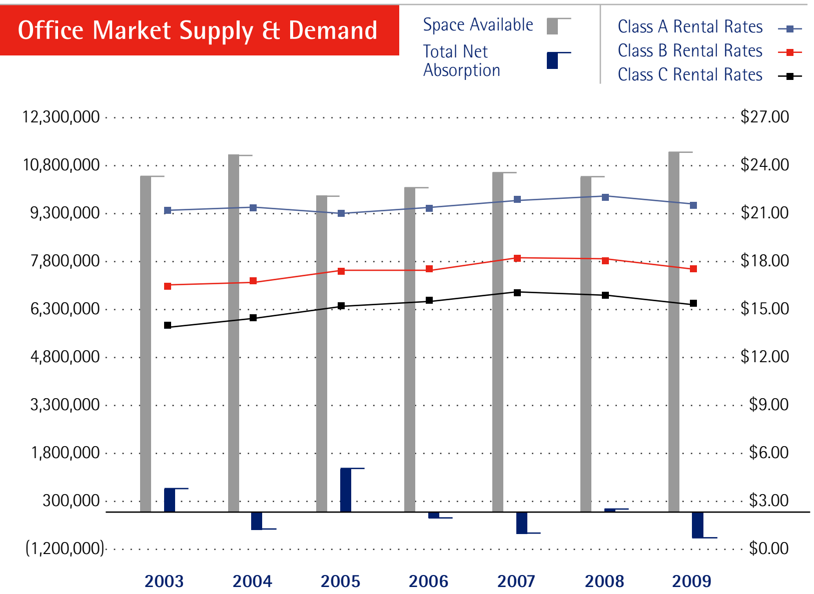
◆ St. Charles

Total Inventory: *4.5 mil. sq. ft.*
No. of Buildings: *66*
Average Asking Class A Rent: *$21.06*
Average Asking Class B Rent: *$17.88*
Availability Rate: *10.2%*
Available Space: *0.5 mil. sq. ft.*
New Deliveries: *46,500 sq. ft.*
Net Absorption (YTD): *119,100 sq. ft.*

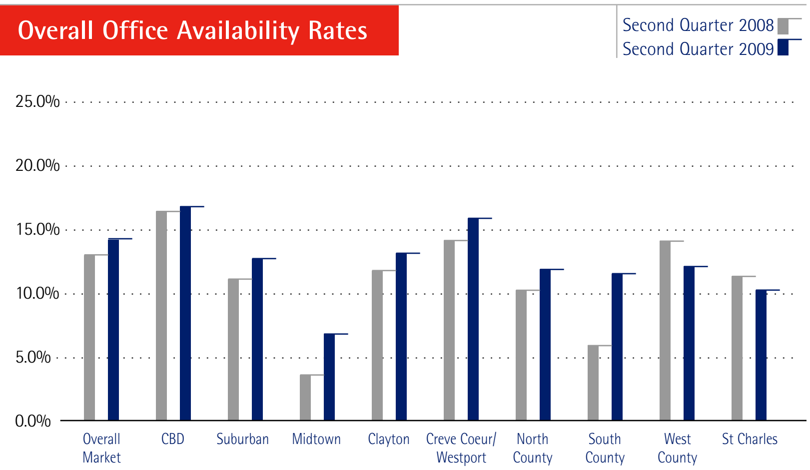
After concerns in the small St. Charles County submarket in 2008, the first half of 2009 has brought improvement. Overall absorption was 119,100 sq. ft., the best in the region. The overall availability rate declined 10.5% at first quarter 2009 to 10.2% at second quarter 2009.

Available Class A space is now 174,800 sq. ft. or 6.8%, 59.8% or 104,500 sq. ft. is sublease space. Year-to-date absorption was 81,900 sq. ft. The average asking rent rose to $21.06 per sq. ft. from $20.63 per sq. ft. at first quarter 2009 because of the quality of the space.

Office Market Supply & Demand



Overall Office Availability Rates



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able Class A sublease space is in South County (262,900 sq. ft.), the CBD (150,200 sq. ft.), West County (130,600 sq. ft.), and St. Charles County (101,500 sq. ft). Average Class A asking rents continued to decrease, dropping to $21.53 per sq. ft. from $22.04 per sq. ft. during second quarter of 2009.

The availability rate for Class B office space rose to 13.3% during the second quarter from 12.7% during the first quarter 2009. Total available Class B space is now 3.7 million sq. ft. Absorption for year-to-date 2009 was a negative (146,600) sq. ft., with four submarkets experiencing negative absorption. Asking average rent per sq. ft. was $17.76 per sq. ft. at second quarter 2009, down slightly from first quarter's $17.85 per sq. ft. 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 13.4% during second quarter 2009 from 12.7% at first quarter 2009. Available Class C space is 2.1 million sq. ft. Absorption during the first quarter of 2009 was a negative (128,500) sq. ft. The CBD has the most Class C space available with 1.2 million sq. ft. The average asking rental rate for Class C space has hovered in the mid to upper $16 per sq. ft. for the past year., but declined during the second quarter to $15.68 per sq. ft.

With the national credit crunch, investment office sales have virtually stopped. No major purchases were made in the St. Louis region during second quarter 2009, except a small Class B building in the CBD.

Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Scottrade	500-510 Maryville Centre	Town and Country	West County	85,000
Polsinelli Shughart	Deloitte Building	St. Louis	CBD	39,000
E.S.R.I.	370 Corporate Center III	St. Charles	St. Charles	33,000
Dealer Preferred Warranties	370 Corporate Center IV	St. Charles	St. Charles	26,000
Adrian N. Baker & Company	Maryland Place	Clayton	Clayton	17,000
DNA	CityPlace East	Creve Coeur	Creve Coeur/Westport	12,000
Jordan Lawrence	40 West	Chesterfield	West County	11,000
Envision	CityPlace Six	Creve Coeur	Creve Coeur/Westport	8,000
Centrec Care	Fern Ridge Executive	Creve Coeur	Creve Coeur/Westport	6,000
The Guardian	CityPlace Three	Creve Coeur	Creve Coeur/Westport	3,000

For more information

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