

A Quarterly Report of St. Louis Office Market Activity  
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Provided by EVS Realty Advisors, Inc.

**E**ven while its employment and commercial real estate markets are under stress, the St. Louis region has had some good news this quarter. The May 2010 unemployment rate was 9.2% (seasonally adjusted), down from 9.5% in April 2010 and May 2009. Although as of May 2010, the region has lost nearly 8,000 jobs, Education and Health Services and Government have experienced job increases over the year. Employment in Information, Financial Services and Leisure and Hospitality remained fairly stable. Granite City Steel, almost totally shutdown in 2009, is now at full production. The Navy has signed a multi-year agreement for purchasing 124 Boeing F/A-18 Sniper Hornet planes assembled in St. Louis.

All of the commercial real estate markets are under stress, with little activity in any type of market. Loans need refinancing, and financing remains tight. Tenants are negotiating for lower lease rates and considering longer terms due to the attractive lease rates. New construction is virtually stopped except for a limited number of retail facilities, mostly national chain restaurants and drug stores.

During first quarter 2010, the retail market experienced some improvement, with estimated availability declining from 9.0% to 8.7%. Quoted rental rates have been declining since early 2009, with average overall estimates ranging from \$12.00 to \$13.50 per sq. ft.

The overall industrial availability rate ranges from 8-11% depending upon the source. The availability rate jumped last year because of the addition of 6 million sq. ft. at the shuttered Chrysler plants and their suppliers. Industrial sales prices and lease rates have fallen, and new construction has almost stopped. Brokers, however, are reporting that more companies are looking for industrial space.

While the St. Louis office market is healthier than many other regions of the country, demand has not improved enough to compensate for the excess supply available. Vacancies are up, rental rates down. Large blocks of office spaces are available

in the suburban and downtown markets. Financing remains tight. No major building is underway except the first Centene Plaza building which will open this summer with 96% of its 485,250 sq. ft. leased.

Tenants are taking advantage of deals in the marketplace or renegotiating existing leases with different rate and terms. Tenants are occasionally using lower lease rates to move to better quality buildings. Owners are giving concessions, mostly free rent, and trying to meet tenant demands for higher improvement allowances.

Total available office space rose to 13.3 million sq. ft., or 17.2% of inventory during second quarter 2010, up from 16.9% at first quarter 2010 and 16.3% of inventory at year-end 2009. Overall absorption through the first two quarters of 2010 was a negative (508,600) sq. ft. All submarkets experienced negative overall absorption except Midtown. No new deliveries were added to inventory during the first half of 2010. Average asking rent for all properties was \$17.94 per sq. ft., continuing a decline that began at second quarter 2008. 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 17.1% or 6.0 million sq. ft. during second quarter 2010. Absorption for Class A properties in 2010 is currently a negative (301,900) sq. ft. The Downtown Class A availability rate increased to 19.3% or 2.0 million sq. ft. at second quarter 2010 from 18.9% at first quarter 2010. Availability in the suburban markets increased to 16.1% or 4.0 million sq. ft. at second quarter 2010 from 15.9% at first quarter 2010. Overall average Class A asking rents declined to \$21.44 per sq. ft. at second quarter 2010, from \$21.59 per sq. ft. at first quarter 2010, 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 949,000 sq. ft., or 15.7% of all available Class A space. The largest amounts of available Class A sublease space are in South

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## Market Highlights

- ◆ The overall availability rate continued its rising trend during second quarter 2010 and is now 17.2% up from 16.9% at first quarter 2010.
- ◆ Overall average asking rent fell again to \$17.94 per sq. ft. during second quarter 2010 from \$18.23 per sq. ft. at first quarter 2010.
- ◆ Overall absorption at the end of second quarter 2010 was negative (508,600) sq. ft. compared to negative (259,500) sq. ft. at the end of first quarter 2010. Class A absorption ended second quarter 2010 at negative (301,900) sq. ft.
- ◆ Class A average asking rents fell again during second quarter 2010 to \$21.44 per sq. ft. compared to \$21.59 at first quarter 2010. The Clayton submarket has the highest average rental rate at \$25.16 per sq. ft. with the West County submarket at \$22.88 per sq. ft.
- ◆ Class A sublease space fell slightly during second quarter 2010 to 949,000 sq. ft. or 15.7% of available inventory.
- ◆ Major transactions this quarter included Stinson Morrison Hecker's 46,500 sq. ft. lease in the Clayton submarket and Missouri State Public Defenders' 17,900 sq. ft. lease in the CBD submarket.

## Market by Market

### ◆ Central Business District

Total Inventory: 25.5 mil. sq. ft.  
 No. of Buildings: 198  
 Average Asking Class A Rent: \$17.87  
 Average Asking Class B Rent: \$14.09  
 Availability Rate: 22.9%  
 Available Space: 5.8 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (95,200) sq. ft.

Like spring, new projects are popping out all over Downtown St. Louis. Financing has been achieved for several buildings long in the planning stage. The Laurel, a rehab of the former Dillard's department store, into 205 apartments; and a 212-room Embassy Suites hotel and inside parking for 320 vehicles, will be underway shortly. The sky bridge over Washington Avenue from St. Louis Centre has been demolished. Work has started on the \$31 million renovation of the St. Louis Centre, the former downtown retail mall, into 705 parking spaces and up to 100,000 of ground floor retail space. Renovation of 600 Washington (formerly One City Centre) is also underway, and tenants are moving in.

West of Tucker Boulevard, activity is also picking up. Work has also begun on Park Pacific, a rehab of the Union Pacific building into 232 apartments, 45,000 of sq. ft. of office space and 33,000 sq. ft. of ground floor retail. Work should begin shortly on the \$74 million renovation of Kiel Opera House into Peabody Opera House, an entertainment/sports/art venue. Several buildings are on the market including 500 Broadway, 535 and 505 Washington, and the vacant 700 Market.

Overall availability of Downtown space has increased to 5.8 million sq. ft. or 22.9% of inventory from 4.6 million sq. ft. or 17.5% of total inventory at first quarter 2009. Overall absorption for first half of 2010 was a negative (95,200) sq. ft. Available Class A space is now 2.0 million sq. ft. or 19.3% of available space, up from 18.9% at first quarter 2010. Available Class A sublease space is now 108,900 sq. ft. and only 5.5% of available Class A space, down from 8.6% at year-end 2009. Continuing a very short trend, Class A space had positive absorption of 20,600 sq. ft. during

the first half of 2010 after positive absorption of 36,200 sq. ft. in 2009. Average asking rent for Class A space remained stable during the year at near \$18.00 per sq. ft. and is now \$17.87 per sq. ft.

### ◆ Midtown

Total Inventory: 1.2 mil. sq. ft.  
 No. of Buildings: 19  
 Average Asking Class A Rent: \$21.50  
 Average Asking Class B Rent: \$12.42  
 Availability Rate: 6.0%  
 Available Space: 0.1 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): 23,100 sq. ft.

This small submarket has the lowest availability rate of all the submarkets. Total available space is only 69,400 sq. ft. or 6.0% of total inventory. Available Class A space is only 32,200 sq. ft., none of which is sublease space. Class A average asking rents were stable during 2009 and the first half of 2010. Average asking rental rates of the 28,000 sq. ft. At Grand and Chouteau, the former Peverly Dairy buildings on ten acres will be converted to loft apartments.

### ◆ Clayton

Total Inventory: 9.4 mil. sq. ft.  
 No. of Buildings: 118  
 Average Asking Class A Rent: \$25.16  
 Average Asking Class B Rent: \$20.30  
 Availability Rate: 16.2%  
 Available Space: 1.5 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (162,100) sq. ft.

Although the overall availability rate increased in the second quarter of 2010 to 16.2% from 15.1% at first quarter 2010, the Clayton submarket is considered stable. Large vacancies are generally leased quickly. Currently, only three buildings have 25,000 sq. ft. or more of contiguous space.

The current amount of total available space is 1.5 million square feet. Absorption for the first quarter 2010 was a negative (162,100) sq. ft. Overall average asking rent continued to decline slightly during

the first half of 2010 to \$21.15 per sq. ft. from \$21.81 per sq. ft. at year-end 2009.

During second quarter 2010, average asking rent for Class A space remained relatively stable at \$25.16 per sq. ft. Class A availability is currently 16.1%, with 0.8 million sq. ft. available. Available sublease Class A space was almost stable at 66,800 sq. ft. or 8.2% of total Class A space. Absorption for first half 2010 was a negative (74,600) sq. ft.

The only new major office building development in the region is the first building of Centene Plaza which will open shortly with 96% occupancy. Asking rent for the remaining office space is \$32.50 per sq. ft.

### ◆ Creve Coeur/Westport

Total Inventory: 10.5 mil. sq. ft.  
 No. of Buildings: 132  
 Average Asking Class A Rent: \$22.16  
 Average Asking Class B Rent: \$17.77  
 Availability Rate: 15.6%  
 Available Space: 1.7 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (7,400) sq. ft.

The Creve Coeur/Westport office submarket has experienced ups-and-downs over the last couple years, but the market basically is flat. The overall availability rate has been in the mid-15% ever since third quarter 2009 when it was 17.1%. Overall available space remains over 1.6 million sq. ft. Absorption through second half 2010 was a negative (7,400) sq. ft.

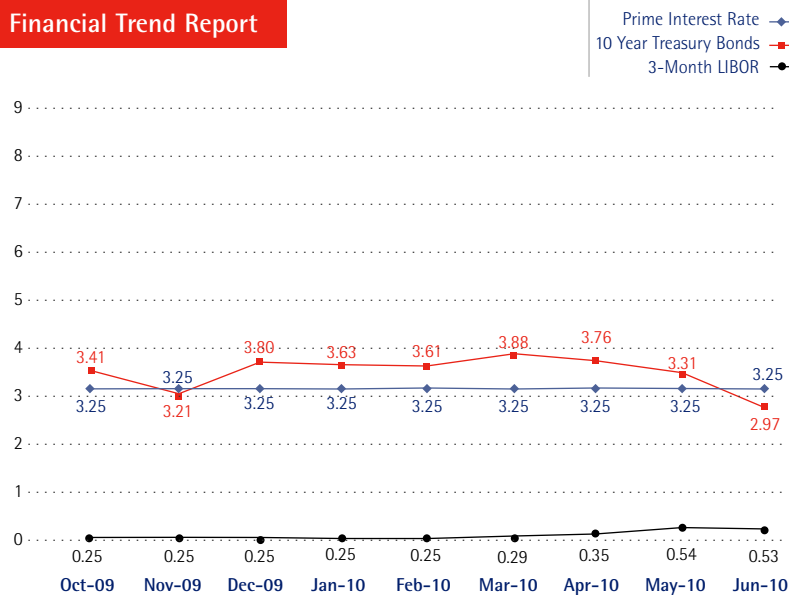
During the first quarter, the average asking rental rate for Class A space fell to \$22.16 per sq. ft. from \$22.26 per sq. ft. at first quarter 2010. The amount of available Class A has been over 0.8 million sq. ft. since year-end 2009. Year-to-date Class A absorption is now a negative (35,500) sq. ft. The availability rate at second quarter 2010 was 14.5%. Available sublease Class A space rose to 98,200 sq. ft. or 11.6% of Class A available space.

St. Louis County is spending \$5.1 million to finance a conversion of a 47,000 sq. ft. building in Corporate Square into a biotech incubator called Helix Center.

## Major Office Acquisitions Second Quarter, 2010

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	\$/Sq. Ft.	Buyer
1100 Corporate Sq. Dr.	Creve Coeur	Creve Coeur/Westport	47,000	\$2,400,000	\$50	St. Louis County

## Financial Trend Report



### ◆ North County

Total Inventory: 9.6 mil. sq. ft.  
 No. of Buildings: 111  
 Average Asking Class A Rent: \$19.82  
 Average Asking Class B Rent: \$16.99  
 Availability Rate: 13.0%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (42,300) sq. ft.

Access to interstates and highways and availability of large acreages and parking lots has made the North County submarket successful. In the future, the extension of Highway 141 from I-64/Highway should improve traffic and attract additional businesses to the submarket.

During second quarter 2010, overall available space declined slightly to 1.2 million sq. ft. or 13.0% of inventory. Overall absorption for year-to-date was a negative (42,300) sq. ft. The average asking rent for Class A space remained stable during the first half of 2010 at \$19.82 per sq. ft., the least expensive in the suburbs. Available Class A space totals 0.6 million sq. ft. or 21.2% of inventory, 15.7% or 99,800 sq. of which is sublease space. Absorption for Class A space for first half of 2010 was a negative (85,300) sq. ft., having no change from first quarter 2010.

A \$60 million, 221,000 sq. ft. high-volume prescription fulfillment center center is under construction in NorthPark for Express Scripts. No other build-to-suit or speculative office buildings are now under construction.

### ◆ South County

Total Inventory: 8.4 mil. sq. ft.  
 No. of Buildings: 155  
 Average Asking Class A Rent: \$21.85  
 Average Asking Class B Rent: \$18.60  
 Availability Rate: 14.3%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (34,400) sq. ft.

South County's office market is experiencing problems. Anheuser-Busch InBev and Maritz have sublease space on the market.

Overall available office space rose in 2009 to 1.2 million sq. ft., and availability remains at 14.3% of total inventory. Overall net absorption for the first half of 2010 was a negative (34,400) sq. ft. Over 0.6 million sq. ft. of Class A space is currently available, 334,700 sq. ft. or 51.6% of which is sublease space. Average asking price for Class A space has decreased slightly during 2010 to \$21.85 per sq. ft. from \$22.09 per sq. ft. at year-end 2009.

### ◆ West County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 128  
 Average Asking Class A Rent: \$22.88  
 Average Asking Class B Rent: \$20.09  
 Availability Rate: 15.7%  
 Available Space: 1.3 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (174,200) sq. ft.  
 During second quarter 2010, the West

County submarket experienced a large increase in availability. At second quarter 2010, 1.3 million sq. ft. is available or 15.7% of inventory, up from 1.2 million sq. ft. and 14.2% at first quarter 2010. Year-to-date overall absorption was a negative (174,200) sq. ft., up from a negative (43,300) sq. ft. at first quarter 2010.

Available Class A space is almost 0.9 million sq. ft. or 16.7% of total inventory, up from 0.8 million sq. ft. or 15.8% at first quarter 2010. Available sublease space is now 136,400 sq. ft. or 15.8%, down 17,000 sq. ft. from first quarter 2010. Class A absorption during year-to-date 2010 was a negative (110,000) sq. ft. Average asking rent for Class A space remained stable at \$22.88 at second quarter 2010.

No new office space is under construction at this time. Monsanto has purchased Chesterfield Village Research Center from Pfizer for \$435 million and plans \$65 million in updates and additions and will employ 500 employees at the Center.

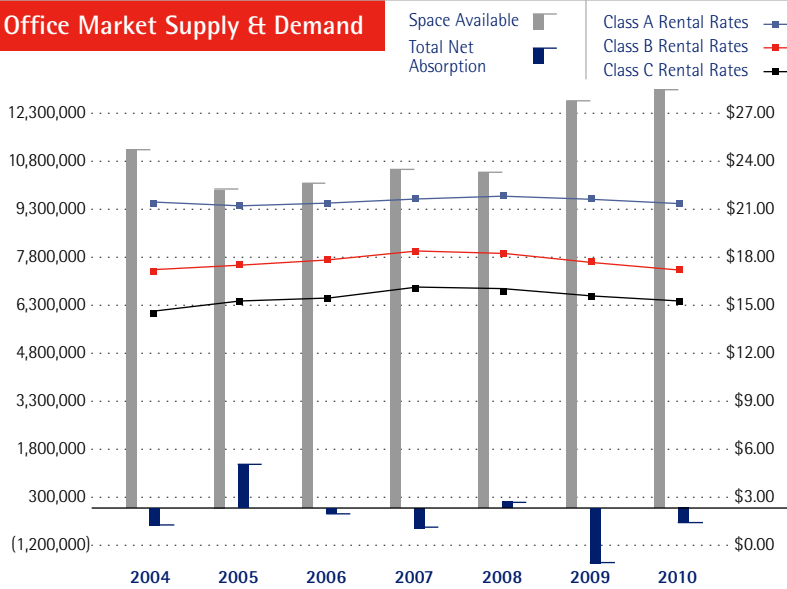
### ◆ St. Charles

Total Inventory: 4.5 mil. sq. ft.  
 No. of Buildings: 66  
 Average Asking Class A Rent: \$20.27  
 Average Asking Class B Rent: \$16.95  
 Availability Rate: 11.4%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (16,000) sq. ft.

The St. Charles office market remained stable during the second quarter of 2010. Overall year-to-date absorption decreased to a negative (16,000) sq. ft. At second quarter 2010, overall availability was 0.5 million sq. ft. or 11.4% of inventory, up from 10.9% at first quarter 2010. Available Class A space is now 201,000 sq. ft. or 7.8% of inventory. Sublease space rose to 104,300 sq. ft. or 51.9% of available Class A space. Class A absorption for first quarter 2010 was 8,200 sq. ft. The Class A average asking rent decreased to \$20.27 per sq. ft. at second quarter 2010 from \$21.19 per sq. ft. at year-end 2009.

St. Charles has backed \$40 million in bonds for the proposed \$385 million Streets of St. Charles development. Ground work for the project started this summer. The initial building includes 293,000 sq. ft. of commercial and retail space on the first floor and 196 residential units on the second floor.

## Office Market Supply & Demand



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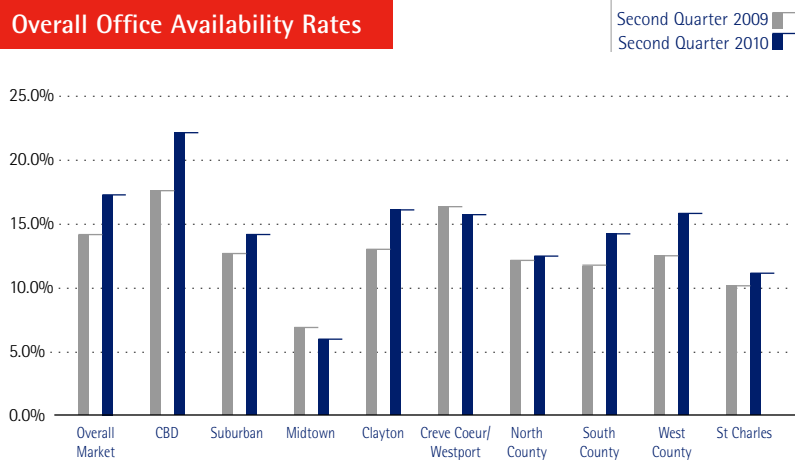
County (334,700 sq. ft.), West County (136,400 sq. ft.), Central Business District (108,900 sq. ft.) and St. Charles County (104,300 sq. ft.) submarkets. Available sublease space could actually be higher as some companies appear to be retaining underutilized space while awaiting economic recovery.

The availability rate for Class B office space rose during the second quarter 2010 to 18.1% or 5.0 million sq. ft. Absorption through second quarter 2010 was a negative (95,400) sq. ft. Class B asking average rent declined to \$17.15 per sq. ft. at second quarter 2010 from \$17.51 per sq. ft. at first quarter 2010. 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 slightly to 15.9% or 2.3 million sq. ft. at second quarter 2010 from 15.7% at first quarter 2010. Absorption during the first half of 2010 was a negative (111,300) 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 \$15.23 per sq. ft. at second quarter 2010.

With the national credit crunch, the investment office market has slowed, but more purchases are anticipated with coming defaults and foreclosure. The 1.2 million sq. ft. Railway Exchange building, home to Macy's downtown, is under contract to local developers. The largest real estate transaction expected in 2010 is Monsanto's purchase of the 1.3 million sq. ft., 210-acre Chesterfield Village Research Center from Pfizer for \$435 million.

## Overall Office Availability Rates



## Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Stinson Morrison Hecker	Centene Place	Clayton	Clayton	46,500
Missouri State Public Defenders	1010 Market	St. Louis	CBD	17,900
Benjamin F. Edwards	Shaw Park Plaza	Clayton	Clayton	15,000
Jenkins & Kling, P.C.	Old Town Executive	Clayton	Clayton	9,900
Foster & Adoptive Care Coalition	Joseph H. White Building	Brentwood	Clayton	9,100
Pace Properties	Magna Place	Brentwood	Clayton	8,900
Haar & Woods, LLP	1010 Market	St. Louis	CBD	7,100
Gonnerman Reinert, LLC	222 Building	Clayton	Clayton	4,500

## For more information

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