



A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

**L**ike other areas of the nation, the St. Louis region continues on the road to economic recovery, albeit slow. The August 2009 unemployment rate was 9.9% (seasonally adjusted). Over 36,000 jobs have been lost since August 2008. The Missouri Economic Development Commission, however, reports that 2,200 jobs were gained in September in the private education and local government sectors. On the bright side, Major League Baseball's All Star game held at Busch Stadium was a major hit for St. Louis providing a positive economic impact in St. Louis' CBD.

Median price and existing home sales in the St. Louis region generally follow national trends. The housing market appears to be turning, with sales increasing on a monthly basis; however, large quantities of residential lots remain vacant due to developers' financial problems. The number of foreclosures continues to decline.

Sales of apartment complexes have continued where the developments had assumable long-term financing or provided large down payments. The largest sale of the year so far occurred during third quarter when St. Louis-based Midwest Diversified Properties purchased the 694-unit Baxter Crossing in West St. Louis County for more than \$42 million.

The retail market continues to weaken with consumers still not ready to spend. The St. Louis regional vacancy is over 11%, with St. Charles County being the most overbuilt. 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 and finding tenants is difficult.

The industrial market is also troubled. Absorption has been positive for year-to-date, primarily due to the expansion of Proctor & Gamble into 372,000 sq. ft. of the Hershey Foods building in Edwardsville, Illinois. As the vacancy rate has increased to about 8%, sale prices and lease rates have fallen and new construction has almost stopped. In the South County submarket, the addition of the closed 5.1 million sq. ft. Chrysler plants and its suppliers will add more than two percentage points to the overall vacancy rate.

During third quarter 2009, the office market experienced a decline in vacancy, slightly increased rents for Class A and B space, and a small decrease in amount of Class A sublease space available. Some things, however, have not changed. There are few large office spaces available, financing is tight and very few speculative buildings are under construction.

In third quarter 2009, some were taking advantage of deals in the marketplace or were renegotiating existing leases with different rates and terms. Leases, especially renewals, tend to 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.

At third quarter 2009, total available office space was 11.1 million sq. ft., or 14.6% of inventory, about the same as second quarter, but still up from 10.5 million sq. ft. at first quarter 2009. Year-to-date overall absorption was a negative (880,200) sq. ft. All the submarkets experienced negative overall absorption except North County, West County and St. Charles. Of these three, only St. Charles experienced over 100,000 sq. ft. of absorption. New deliveries for year-to-date totaled 308,300 sq. ft., mostly Class B space. Average asking rent for all properties was \$18.45 per sq. ft., up \$0.13 per sq. ft. over second quarter 2009 and reversing its decline since third quarter 2008.

Demand for Class A space increased during third quarter 2009. The overall availability for Class A office space declined to 15.8% at third quarter 2009 from 16.2% at second quarter, and available space decreased by about 100,000 sq. ft. or 5.3 million sq. ft. Absorption for Class A properties was a negative (520,400) sq. ft. The Downtown Class A availability rate decreased to 19.8% or 2.0 million sq. ft. at third quarter from 20.8% at second quarter 2009. Availability in the suburban markets decreased to 14.0% at third quarter 2009 from 14.2% at second quarter 2009. Available Class A suburban space remains at 3.3 million sq. ft. Average Class A asking rents rose to \$21.76 per sq. ft. during third quarter from \$21.53 per sq. ft.

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## Market Highlights

- ◆ The overall availability rate remained steady at 14.6% during the third quarter and is 1.4% higher than one year prior.
- ◆ Overall average asking rents rose during the quarter to \$18.45 per sq. ft. from \$18.32 per sq. ft. at the end of second quarter 2009.
- ◆ Overall absorption at the end of the quarter was negative (880,000) sq. ft. compared to 340,000 sq. ft. one year prior. Class A absorption ended the quarter at negative (520,000) sq. ft., Class B was negative (178,000) sq. ft. and Class C was negative (182,000) sq. ft.
- ◆ Class A average asking rents rose \$0.23 per sq. ft. over the quarter to \$21.76 per sq. ft. with the Clayton submarket commanding the highest average rental rate at \$25.95 per sq. ft.
- ◆ Class A sublease space rose 0.3% during third quarter to 816,000 sq. ft. or 15.4% of inventory, compared to only 6.0% one year prior.
- ◆ Major transactions this quarter include BDK Accounting's 28,200-sq.-ft. lease in the CBD submarket and St. John's Mercy Healthcare's 23,300-sq.-ft. lease in the West County submarket.

## Market by Market

### ◆ Central Business District

Total Inventory: 26.2 mil. sq. ft.

No. of Buildings: 200

Average Asking Class A Rent: \$17.99

Average Asking Class B Rent: \$15.65

Availability Rate: 17.4%

Available Space: 4.6 mil. sq. ft.

New Deliveries: 33,000 sq. ft.

Net Absorption (YTD): (131,700) sq. ft.

The most exciting event of the quarter was the opening of the widely acclaimed \$30 million Citygarden on two blocks along the Gateway Mall. This interactive sculpture garden has become a destination for many people as well as a welcoming spot for Downtown workers.

The CBD is the only submarket with large contiguous spaces readily available in One City Centre, 1010 Market and the former General American building. Additional spaces will be available when Husch Blackwell Sanders and Armstrong Teasdale move from the Downtown area.

The office market in the CBD has remained stalled for some time now. Current overall availability is 4.6 million sq. ft. or 17.4% of total inventory. Year-to-date absorption is a negative (131,700) sq. ft. As of the third quarter, available Class A space was 2.0 million sq. ft. or 19.8%. Available Class A sublease space jumped during second quarter 2009 to 150,200 sq. ft. or 7.1% of available Class A space, and increased to only 157,000 sq. ft. or 7.8% of available Class A space during third quarter 2009. Class A space had negative absorption of (87,800) sq. ft. for year-to-date 2009. Average asking rent for Class A space rose slightly during third quarter 2009 to \$17.99 per sq. ft. from \$17.86 per sq. ft. at second quarter 2009.

After a good year in 2008, available Class B space is nearly 1.4 million sq. ft. or 15.6% of inventory as of third quarter 2009. Year-to-date absorption ended the third quarter with a negative (42,600) sq. ft. Average asking rent for Class B space rose slightly to \$15.65 per sq. ft.

North of Downtown, Paul McKee continues to present plans to residents and the City for 4.5 million sq. ft. of new office

buildings and stores and 10,000 new homes. Streets, sewers, power grids, parks and other amenities would be added over the next 15 years on roughly 500 acres. McKee owns much of the land needed and will require millions of dollars from the City for financing.

### ◆ Midtown

Total Inventory: 1.2 mil. sq. ft.

No. of Buildings: 19

Average Asking Class A Rent: \$21.50

Average Asking Class B Rent: \$15.37

Availability Rate: 7.7%

Available Space: 0.1 mil. sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): (4,300) sq. ft.

This small submarket has the lowest availability rate still, despite its availability rate increasing to 7.7% at third quarter from 3.9% at first quarter 2009. Total available space is only 88,900 sq. ft. Available Class A space is 39,500 sq. ft., none is sublease space. During third quarter 2009, average asking rent for Class A space decreased to \$21.50 per sq. ft. from \$23.63 per sq. ft. and Class B space rose to \$15.37 per sq. ft.

### ◆ Clayton

Total Inventory: 9.0 mil. sq. ft.

No. of Buildings: 117

Average Asking Class A Rent: \$25.95

Average Asking Class B Rent: \$20.06

Availability Rate: 12.6%

Available Space: 1.1 sq. ft.

New Deliveries: 0 sq. ft.

Net Absorption (YTD): (136,500) sq. ft.

The Clayton submarket remains healthy. During third quarter, the overall availability rate declined to 12.6% from 13.2% at second quarter 2009. Absorption was positive for the quarter and year-to-date absorption declined to negative (136,500) sq. ft. During third quarter 2009, average asking rent for Class A space rose to \$25.95 per sq. ft. from \$24.30 per sq. ft. while Class B increased only slightly from \$19.86 per sq. ft. to \$20.06 per sq. ft.

Class A availability is currently 11.2%, with 0.5 million sq. ft. 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, but declined during the third quarter to 41,800 sq. ft. or 8.2% of total Class A space. Absorption for third quarter 2009 was a negative (18,300) sq. ft. Asking rent for the Centene building currently under construction is said to be \$32.50 per sq. ft., substantially higher than the submarket's current average asking rent of \$25.75 per sq. ft.

The availability rate for Class B space declined during third quarter 2009 from 17.0% to 16.4% or 0.5 million sq. ft. Absorption year-to-date 2009 was a negative (91,900) sq. ft., but was positive during the third quarter.

The first building in Centene Plaza is well underway. The 477,000 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.

### ◆ Creve Coeur/Westport

Total Inventory: 9.5 mil. sq. ft.

No. of Buildings: 130

Average Asking Class A Rent: \$22.13

Average Asking Class B Rent: \$18.00

Availability Rate: 17.1%

Available Space: 1.6 mil. sq. ft.

New Deliveries: 165,000 sq. ft.

Net Absorption (YTD): (363,000) sq. ft.

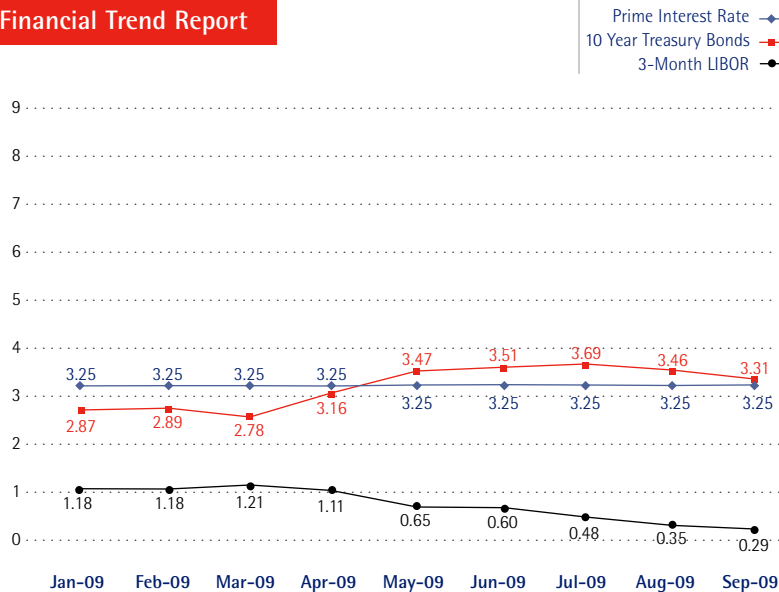
The Creve Coeur/Westport office submarket appears to be stepping backward. The availability rate increased to 17.1% at third quarter 2009 from 13.5% at year-end 2008. Available space is over 1.6 million sq. ft. Absorption for year-to-date 2009 was negative (363,000) sq. ft., the worst in the region. During the quarter, the average asking rental rate activity was mixed. Class A average asking rent decreased only slightly, but continues a decline that began several years ago. Average asking rent for Class B space increased slightly to \$18.00 per sq. ft.

During third quarter 2009, the amount of available Class A rose to 0.8 million sq. ft. with absorption at negative (227,900) sq. ft. The availability rate increased to 16.7% at third quarter from 15.9% at second quarter 2009. Available sublease Class A space more than doubled

## Major Office Acquisitions Third Quarter, 2009

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	\$/Sq. Ft.	Buyer
Clayton Heritage Bldg.	Clayton	Clayton	63,000	\$7.48 million	\$119	Clayton Police Department

## Financial Trend Report



during third quarter to 85,300 sq. ft. or 10.8% of Class A available space. Class B absorption ended the quarter at negative (29,500) sq. ft. Available Class B space is nearly 0.6 million sq. ft. or 15.3% of total inventory.

### ◆ North County

Total Inventory: 9.6 mil. sq. ft.  
 No. of Buildings: 111  
 Average Asking Class A Rent: \$17.89  
 Average Asking Class B Rent: \$16.17  
 Availability Rate: 12.5%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): 7,000 sq. ft.

During third quarter 2009, the North County submarket was stable. Available space remained at 1.2 million sq. ft. or 12.5% of inventory. Absorption for the year-to-date at the end of third quarter was 7,000 sq. ft. The average asking rent for Class A space rose, however, during third quarter 2009 to \$19.89 per sq. ft. Class B rents declined slightly.

Available Class A space now totals nearly 0.6 million sq. ft. or 18.5%, 10.5% or 58,400 sq. ft. of which is sublease space. Absorption for Class A space for year-end 2009 was 12,400 sq. ft. Absorption for three quarters of 2009 for Class B space was 5,300 sq. ft. About 0.4 million sq. ft. or 8.6% of Class B space is available, about the same as second quarter 2009.

Build-to-suits remain popular and no speculative office space is under construction.

### ◆ South County

Total Inventory: 8.4 mil. sq. ft.  
 No. of Buildings: 155  
 Average Asking Class A Rent: \$22.17  
 Average Asking Class B Rent: \$18.97  
 Availability Rate: 11.7%  
 Available Space: 1.0 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (360,000) sq. ft.

The South County 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 space at its campus. 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 nearly 1.0 million sq. ft. and is now 11.7% of total inventory, down from 12.3% at second quarter 2009. Net absorption for year-to-date was negative (359,900) sq. ft. Nearly 0.5 million sq. ft. of Class A space is currently available, 232,400 sq. ft. or 47.5% of which is sublease space. Average asking price for Class A space rose slightly during the third quarter, to \$22.17 per sq. ft. from \$22.02 per sq. ft.

Available Class B space has been climbing since year-end 2007 but remained stable during third quarter 2009. Class B space is nearly 0.4 million sq. ft. or 10.1% of inventory. Average asking rent, however, continues its decline, and was \$18.97 per sq. ft. at the end of third quarter of 2009.

### ◆ West County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 128  
 Average Asking Class A Rent: \$22.94  
 Average Asking Class B Rent: \$20.12  
 Availability Rate: 13.2%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 63,700 sq. ft.  
 Net Absorption (YTD): 1,000 sq. ft.

The West County submarket is experiencing small fluctuations in availability over 2009. At third quarter 2009, 1.1 million sq. ft. was available or 13.2% of inventory. Year-to-date absorption was only 685 sq. ft. Available Class A space is now 0.7 million sq. ft., 19.3% or 139,300 sq. ft. of which is sublease space. Class A absorption during year-to-date 2009 was 9,800 sq. ft. Average asking rent for Class A space decreased to \$22.94 per sq. ft. from \$23.00 per sq. ft. at year-end 2008.

Scottrade is planning a \$36.3 million expansion, including a parking garage, to its headquarters in Town & Country. Other buildings have been announced in the submarket, but all appear to be awaiting improvements in the marketplace.

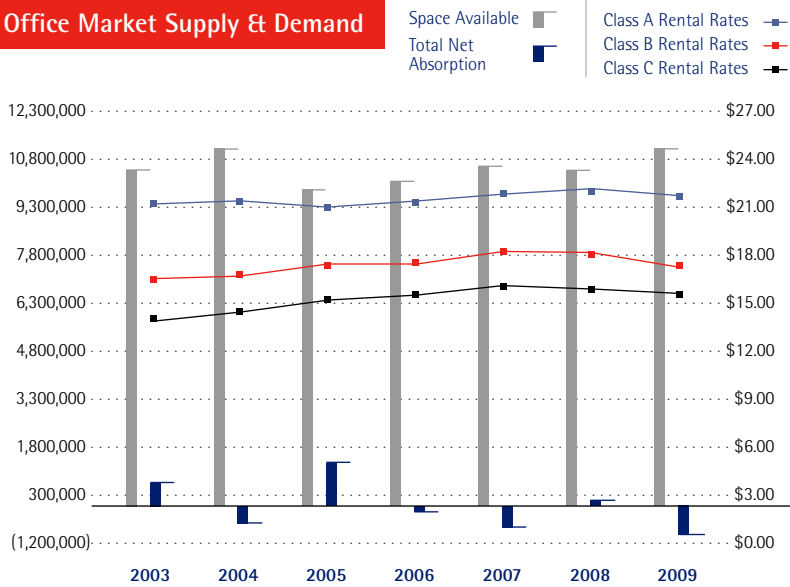
### ◆ St. Charles

Total Inventory: 4.5 mil. sq. ft.  
 No. of Buildings: 66  
 Average Asking Class A Rent: \$21.52  
 Average Asking Class B Rent: \$17.19  
 Availability Rate: 10.5%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 46,500 sq. ft.  
 Net Absorption (YTD): 107,500 sq. ft.

Third quarter 2009 brought little improvement to the St. Charles County submarket. Year-to-date absorption was 107,500 sq. ft., still the best in the region but down from second quarter 2009. Overall availability is 0.5 million sq. ft. or 10.5% of inventory at third quarter 2009.

Available Class A space is now 184,400 sq. ft. or 7.2%, 55.0% or 101,400 sq. ft. is sublease space. Year-to-date absorption was 72,300 sq. ft. The average asking rent rose to \$21.52 per sq. ft. at third quarter from \$21.06 per sq. ft. at second quarter 2009. Class B availability rose to 201,900 sq. ft. or 14.5% of inventory. Absorption year-to-date 2009 was 26,700 sq. ft. The Class B average asking rent has declined to \$17.19 per sq. ft. from \$18.22 per sq. ft. at year-end 2008.

## Office Market Supply & Demand



Continued from page 1

during the second quarter of 2009.

Class A sublease space almost doubled during second quarter 2009, increasing from 453,600 sq. ft. to 822,000 sq. ft. or 15.1% of all available Class A space. During third quarter, sublease Class A space decreased by 6,000 sq. ft. to 816,000 sq. ft. The largest amounts of available Class A sublease space are in South County (232,400 sq. ft.), the CBD (157,300 sq. ft.), West County (139,300 sq. ft.) and St. Charles County (101,400 sq. ft.).

The availability rate for Class B office space rose to 13.5% during the quarter from 13.3% at second quarter 2009. Total available Class B space is still 3.7 million sq. ft. Absorption for year-to-date 2009 was a negative (178,200) sq. ft., with four submarkets experiencing negative absorption. Asking average rent was \$17.69 per sq. ft. at third quarter 2009.

The Class C availability rate increased to 13.8% during the quarter from 13.4% at second quarter 2009. Available Class C space is 2.1 million sq. ft. Absorption is now negative (181,600) sq. ft. The average asking rental rate for Class C space declined to \$15.89 per sq. ft. at third quarter.

With the national credit crunch, investment office sales have virtually stopped. No major purchases were made in the St. Louis region during third quarter 2009 although there are rumors that Macy's has sold the 1.1 million sq. ft. Railway Exchange Building for \$35 million, to close later. The Pierre Laclede Center in Clayton is now on the market.

## Overall Office Availability Rates



## Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
BDK Accounting	Metropolitan Square	St. Louis	CBD	28,200
St. John's Mercy Healthcare	Maryville Quadrangle Bldg.	Town & Country	West County	23,300
Gateway EDI	One Financial Plaza	St. Louis	CBD	22,700
Penta Engineering Company	10123-10139 Corporate Sq. Dr.	Creve Coeur	Creve Coeur/Westport	14,300
Benefit Finance Partner	CityPlace Six	Creve Coeur	Creve Coeur/Westport	14,200
Avchem, Inc.	Northwest Corporate Center	Hazelwood	North County	10,100
Envision	CityPlace Six	Creve Coeur	Creve Coeur/Westport	8,300
Fireman's Fund Insurance	Progress Point Center	O'Fallon	St. Charles	6,800
LOGS Group	Riverport Lakes West	Maryland Heights	North County	4,500

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