envision

Third Quarter, 2010

realty advisors, inc.

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

Like most of the U.S., both the economy and the real estate markets of the St. Louis region continue to sputter. There is some good news, but lack of job growth continues to be a challenge for both the economy and real estate markets. The August 2010 unemployment rate was 9.9%, down from 10.1% in August 2009. The number of unemployed remained about the same over the year.

Residential sales were down 23.0% through August 2010 compared to the same period in 2009. The local median housing price rose 7.1% between second quarters 2009 and 2010 to $143,100. Foreclosures in the region were up in July and August. Permits for new single family housing rose 23.9% for January through August 2010 over the same period of 2009. However, the total number of permits was dismal.

Construction permits for multifamily on the Missouri side of the region increased by 297 to 1,212 permits for January through August 2010. Nearly 80% of the permits were rehab units, including the Laurel, in downtown St. Louis. The vacancy rate and average monthly rent for apartments remains stable because of the economy and competition from available condominium units. At second quarter 2010, overall vacancy was 8.8% and average monthly rent was $726.

All of the commercial real estate markets are stressed to varying degrees. The industrial market is showing some improvement as demand has increased and new supply remains limited. Overall, loans need refinancing, and financing remains tight. Tenants are negotiating for lower lease rates and considering longer terms due to the attractive lease rates. Virtually all office construction has stopped. A small number of retail facilities are being built.

The estimated vacancy of the retail market ranges from 9.0% to 10.3%, depending upon the source. The highest vacancies are in St. Charles County. Quoted rental rates have been declining since early 2009, with average overall estimates ranging from $12.00 to $13.50 per sq. ft. Many concessions and shorter terms are necessary to get a lease signed. Lower asking rents have existing tenants asking for rent reductions.

The overall industrial vacancy rate ranges from 8.0% to 11.0%, depending upon the source. The vacancy rate jumped last year because of the addition of 6 million sq. ft. at the shuttered Chrysler plants and their suppliers. Various governments will spend $2.3 million in cleaning, positioning and marketing of the shuttered plants. Industrial sales prices and lease rates have fallen, and new construction is minimal. Absorption, however, has been positive for 2010.

While the St. Louis office market is healthier than many other regions of the U.S., demand has not kept pace with supply; vacancies are up, rental rates down. Large blocks of office spaces are available in both the suburban and downtown markets. Financing remains tight. No major building is underway. The most recent delivery to office inventory was Centene Plaza in Clayton which opened this summer at nearly 100% 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. In some submarkets, Class B office space, however, is more active than Class A space. Owners are giving concessions, mostly free rent, and trying to meet tenant demands for higher improvement allowances. Some landlords appear to have reached a limit in the amount of concessions and tenant improvement allowances that they will finance.

Total available office space rose to 13.4 million sq. ft., or 17.4% of inventory during third quarter 2010, up from 16.3% at year-end 2009. Overall absorption through the first three quarters of 2010 was a negative (587,000) sq. ft. All submarkets experienced negative overall absorption except Midtown and South County. Average asking rent for all properties was $17.83 per sq. ft., continuing a decline that began at second quarter 2008.

Class A availability declined slightly to 17.0% during third quarter 2010, but remained above 6.0 million sq. ft. Absorption for Class A properties in 2010 is currently a negative (290,000) sq. ft. The Downtown Class A availability rate increased to 20.0% or 2.0 million sq. ft. at third quarter 2010 from 19.3% at second quarter 2010. Availability in the suburban markets

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Market Highlights: Class A Space

▲ **Availability** The overall availability rate continued its rising trend during the quarter and is now at 17.4%

▼ **Sublease Space** Class A sublease space fell by 3.1% during the quarter to 761,400 sq. ft. or 12.6% of available inventory

▼ **Rents** Class A average asking rents fell again during the quarter to $21.42 per sq. ft. with Clayton's average rent at $26.19 per sq. ft.

▲ **Absorption** Class A absorption improved this quarter to negative (298,800) sq. ft. from negative (520,400) sq ft. a year prior

▲ **Concessions** Demand continues for free rent

▶ **Development** No new Class A developments are on the horizon

Market by Market

◆ Central Business District

Total Inventory: *25.1 mil. sq. ft.*
No. of Buildings: *195*
Average Asking Class A Rent: *$17.58*
Average Asking Class B Rent: *$14.04*
Availability Rate: *23.4%*
Available Space: *5.9 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(140,100) sq. ft.*

Several long term projects have moved beyond planning and are now underway. Work has started on the $31 million renovation of the St. Louis Centre, the former downtown retail mall, into 750 parking spaces and up to 100,000 sq. ft. of ground floor retail space. Tenants are moving into the 600 Washington building (formerly One City Centre) as renovation is completed. Workers are coming daily to The Laurel, a rehab of the former Dillard's department store into apartments, an Embassy Suites hotel and inside parking for 320 vehicles and to Roberts Tower, a $70 million, 55-unit condominium building.

West of Tucker Boulevard, activity has accelerated. Work has also commenced on Park Pacific, a rehab of the former Union Pacific building, into apartments, 45,000 sq. ft. of office space and 33,000 sq. ft. of ground floor retail. The $74 million renovation of Kiel Opera House into Peabody Opera House is underway.

The CBD has some large contiguous spaces available in Metropolitan Square, 600 Washington, 1010 Market, 500 Broadway, Laclede Gas and the 700 Market buildings. Several downtown buildings are on the market including 535 and 505 Washington, 700 Market, and 500 Broadway.

Overall availability of CBD space is now 5.9 million sq. ft. or 23.4% of inventory. Overall absorption for year-to-date 2010 was a negative (140,100) sq. ft. Available Class A space is now 2.1 million sq. ft. or 20.0% of available space, up from 19.3% at second quarter 2010. Available Class A sublease space dropped to 84,800 sq. ft. or only 4.1% of available Class A space. Class A space is experiencing negative absorption of (54,000) sq. ft. during year-to-date 2010 after positive absorption of 36,200 sq. ft. for year 2009. Average asking rent for Class A space, after hovering around $18.00 per sq. ft. for the last year, is now $17.58 per sq. ft. Currently, available Class B space totals 2.5 million sq. ft. or 29.2% of inventory. Absorption for year-to-date is negative (63,800) sq. ft. Another 1.3 million sq. ft. or 20.9% of Class C space is available. Class C space absorption is also negative (22,400) sq. ft. for 2010. Average asking rents for Class B and Class C space decreased further during the quarter.

◆ Midtown

Total Inventory: *1.2 mil. sq. ft.*
No. of Buildings: *19*
Average Asking Class A Rent: *$21.50*
Average Asking Class B Rent: *$12.18*
Availability Rate: *6.3%*
Available Space: *0.1 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *19,900 sq. ft.*

This small submarket has the lowest availability rate of all the submarkets. Total available space is 72,600 sq. ft. or 6.3% of total inventory. Available Class A space is only 30,900 sq. ft., none of which is sublease space. Class A average asking rents remain stable at $21.50 per sq. ft. Average asking rental rates for the 32,500 sq. ft. of available Class B space decreased to $12.18 per sq. ft. at third quarter 2010, reflecting the quality of that space.

◆ Clayton

Total Inventory: *9.4 mil. sq. ft.*
No. of Buildings: *118*
Average Asking Class A Rent: *$26.19*
Average Asking Class B Rent: *$19.92*
Availability Rate: *16.0%*
Available Space: *1.5 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(137,100) sq. ft.*

Even with an overall availability of 16.0% or 1.5 million sq. ft., the Clayton submarket is still considered a healthy market. The overall average asking rental rate at $21.36 per sq. ft. is the highest in the region. Large vacancies generally lease quickly, and office buildings in the submarket are popular with institutional investors. The only new major office building development in Clayton is the first building of Centene Plaza which opened recently with nearly 100% occupancy.

During third quarter 2010, average asking rent for Class A space rose to $26.19 per sq. ft. from $25.16 per sq. ft. at second quarter 2010. Class A availability fell to 15.0%, down from 16.1% at second quarter 2010. Nearly 0.8 million sq. ft. of Class A space is now available. Available sublease Class A space decreased to 41,800 sq. ft. or 5.5% of total Class A space. Absorption for year-to-date 2010 improved to negative (18,500) sq. ft. The availability rate for Class B space rose to over 0.5 million sq. ft. or 19.3% during third quarter of 2010. Class B absorption for year-to-date 2010 was a negative (84,400) sq. ft. Class B average asking rent decreased just below $20.00 for the first time since the second quarter 2009.

◆ Creve Coeur/Westport

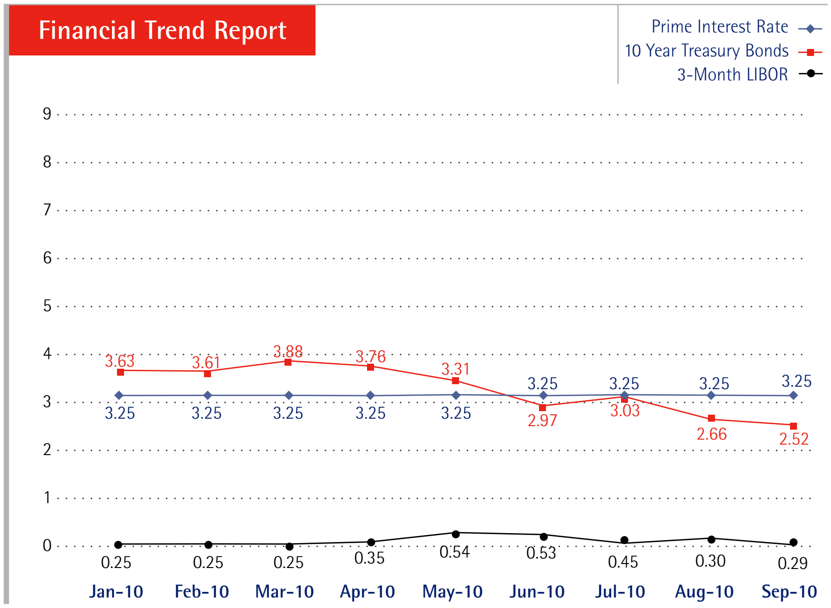
Total Inventory: *10.5 mil. sq. ft.*
No. of Buildings: *132*
Average Asking Class A Rent: *$22.19*
Average Asking Class B Rent: *$17.75*
Availability Rate: *15.9%*
Available Space: *1.7 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(36,100) sq. ft.*

The Creve Coeur/Westport office submarket has experienced ups-and-downs over the last couple years, but the market basically remains flat. The overall availability rate has been in the mid-15% since the third quarter of 2009.

Overall available space is 1.7 million sq. ft. Overall absorption through third quarter 2010 was a negative (36,100) sq. ft. Remaining stable, the average asking rental rate for Class A space is now $22.19 per sq. ft. During the quarter, average asking rent for Class B fell slightly to $17.75 per sq. ft., and Class C average asking rent declined to $13.70 per sq. ft. The amount of available Class A has been over 0.8 million sq. ft. since year-end 2009. Year-to-date Class A absorption was a negative (24,200) sq. ft. The Class A availability rate was 14.3% at third quarter 2010, about the same as second quarter. Available Class A sublease space declined to 79,500 sq. ft.

Major Office Acquisitions Third Quarter, 2010

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	$/Sq. Ft.	Buyer
Riverport Commons IV	Maryland Heights	North County	116,000	$5.4 million	$46.33	Quality Property Associates
Railway Exchange Bldg.	St. Louis	CBD	1,200,000	$18.5 million	$15.41	Yackey/Bruce Development
3221 McKelvey	Bridgeton	North County	131,000	$12.5 million	$95.50	Junior College District
975 Hornet	Hazelwood	North County	41,000	$1.4 million	$35.52	Billy Bob Investments



or 9.5% of Class A available space. Class B absorption was a negative (54,300) sq. ft. for year-to-date 2010. Available Class B space is over 0.6 million sq. ft. or 17.0% of total inventory, about the same as all of 2009.

◆ 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: *$16.53*
Availability Rate: *12.9%*
Available Space: *1.2 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(35,400) sq. ft.*

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

During third quarter of 2010, overall available space remained at slightly over 1.2 million sq. ft. or 12.9% of inventory. Overall absorption for year-to-date was negative (35,400) sq. ft. Overall average asking rent declined to $17.11 per sq. ft. at third quarter 2010 from $17.33 per sq. ft. at year-end 2009. The average asking rent for Class A space remained stable after three quarters of 2010 at $19.82 per sq. ft. Class A rents in the North County submarket are the least expensive of the suburban markets. Available Class A space remains at 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 year-to-date 2010 was a negative (85,300) sq. ft.

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

◆ South County

Total Inventory: *8.4 mil. sq. ft.*
No. of Buildings: *155*
Average Asking Class A Rent: *$21.09*
Average Asking Class B Rent: *$18.97*
Availability Rate: *13.4%*
Available Space: *1.1 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *33,500 sq. ft.*

The South County office submarket appears on the road to recovery. Available office space in 2009 was 1.2 million sq. ft. with major subleases placed on the market. Available office space is now 1.1 million sq. ft., and availability is 13.4% of total inventory. Net absorption for year-to-date 2010 is positive 33,500 sq. ft.

Almost 0.6 million sq. ft. of Class A space is currently available, 139,800 sq. ft. or 24.3% of which is sublease space. Average asking rent for Class A space is now $21.09 per sq. ft. As of third quarter 2010, available Class B space is nearly 0.4 million sq. ft. or 10.3% of inventory. Average asking rent for Class B space rose to $18.97 per sq. ft. at third quarter 2010. Absorption for year-to-date 2010 was a positive 54,200 sq. ft. for Class B space.

◆ West County

Total Inventory: *8.3 mil. sq. ft.*
No. of Buildings: *128*
Average Asking Class A Rent: *$22.70*
Average Asking Class B Rent: *$19.84*
Availability Rate: *16.8%*
Available Space: *1.4 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(262,200) sq. ft.*

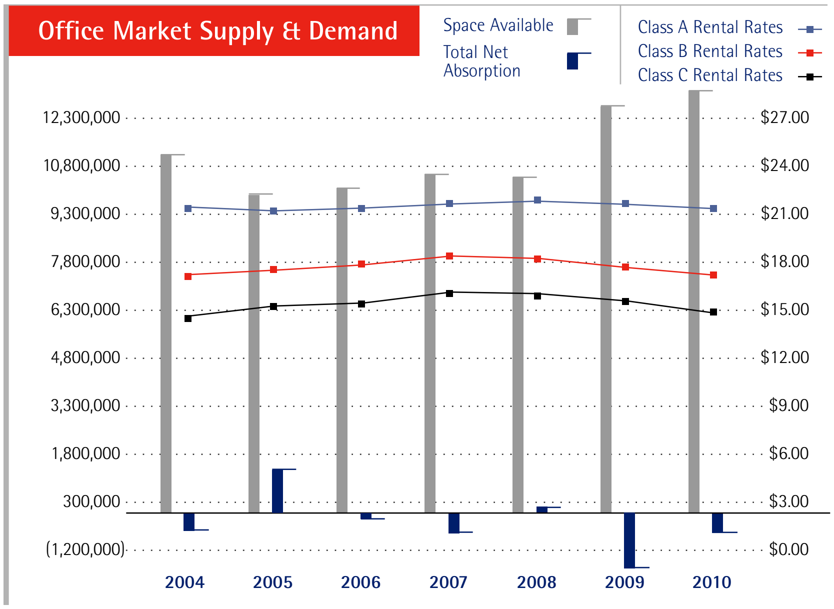
The West County submarket continues to add available space because of consolidation of offices and the move of Centene to its new headquarters in Clayton. At third quarter 2010, 1.4 million sq. ft. is available or 16.8% of inventory, up from 1.1 million sq. ft. and 13.7% at year-end 2009. Year-to-date overall absorption was a negative (262,200) sq. ft.

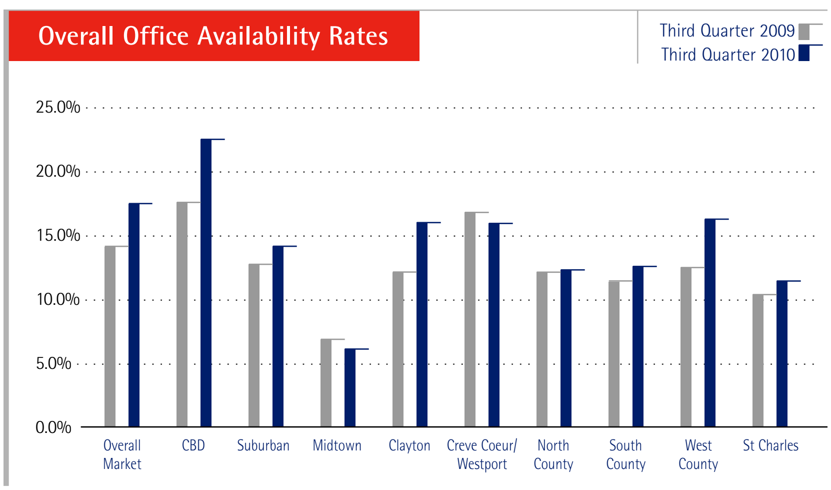
Available Class A space is over 0.9 million sq. ft. or 17.7% of total inventory, up from 0.8 million sq. ft. or 14.6% at first quarter 2010. Available sublease space jumped during third quarter 2010 to 211,400 sq. ft. or 23.0% of inventory, up from 136,400 sq. ft. or 15.8% at second quarter 2010. Class A absorption during year-to-date 2010 was a negative (163,700) sq. ft. Average asking rent for Class A space continues its slow decline and was $22.70 per sq. ft. at third quarter 2010.

◆ 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: *$17.74*
Availability Rate: *11.7%*
Available Space: *0.5 mil. sq. ft.*
New Deliveries: *0 sq. ft.*
Net Absorption (YTD): *(29,300) sq. ft.*

The St. Charles office market was stable during third quarter 2010. Overall year-to-date absorption was a negative (29,300) sq. ft. At third quarter 2010, overall availability was 0.5 million sq. ft. or 11.7% of inventory, about the same as second quarter 2010. Available Class A space is now 203,100 sq. ft. or 7.9% of inventory, again about the same as second quarter 2010. Class A sublease space was 104,300 sq. ft. or 51.3% of available Class A space. Class A absorption at third quarter 2010 was 6,100 sq. ft. The average asking Class A rent is now $20.27 per sq. ft. down from $21.19 per sq. ft. at year-end 2009. St. Charles backed $40 million in bonds for the proposed $385 million Streets of St. Charles development, and ground work for the project started again this summer.





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decreased to 15.8% or 4.0 million sq. ft. at third quarter 2010 from 16.1% at second quarter 2010. Average Class A asking rents have declined to $21.42 per sq. ft. at third quarter 2010, from $21.68 per sq. ft. at year-end 2009 and from over $22.00 per sq. ft. at first quarter 2009.

Class A sublease space dropped during third quarter 2010, falling to 761,400 sq. ft. or 12.6% of all available Class A space from 949,000 sq. ft., or 15.7% at second quarter 2010. The largest amounts of available Class A sublease space are in the West County (211,400 sq. ft.), South County (139,800 sq. ft.) and St. Charles County (104,300 sq. ft.) submarkets. Class A sublease space in the South County submarket dropped by 194,800 sq. ft. during third quarter 2010. Available sublease space may 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 third quarter 2010 to 18.5% or 5.1 million sq. ft. Absorption through third quarter 2010 jumped to a negative (206,400) sq. ft. from (95,400) at second quarter 2010. Class B asking average rent continued its decline falling to $17.12 per sq. ft. at third quarter 2010.

The availability rate for Class C space increased slightly to 16.1% or 2.3 million sq. ft. at third quarter 2010 from 15.9% at second quarter 2010. Class C absorption during 2010 is now a negative (90,800) 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 per sq. ft. during 2008, but has since declined to $14.95 per sq. ft. as of third quarter 2010.

Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Safeco Insurance	Maritz Corporate Campus Bldg.	Fenton	South County	55,000
Cassidy Turley	Centene Plaza	Clayton	Clayton	27,404
TASC, Inc.	1010 Market	St. Louis	CBD	15,500
Ascension Health	Creve Coeur Pointe	Creve Coeur	Creve Coeur/Westport	11,600
Catalina Marketing	Center 40 Executive	Brentwood	Clayton	7,300
Grant Thornton	Bemiston Tower	Clayton	Clayton	6,400
Javelin, Inc.	1910-1918 Locust Street	St. Louis	CBD	6,400
Brand Asset Management	Roosevelt Office Building	Chesterfield	West County	5,400
UMB Bank	Centene Plaza	Clayton	Clayton	3,500

For more information

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