

A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

**T**he news out of St. Louis is similar to the rest of the country. The US credit crisis has everyone's attention as we deliberate the causes and cures for this situation. The unemployment rate in August 2008 jumped to 7.2% from 5.6% a year ago with all sectors of the economy feeling the pain. Wachovia Securities transferred approximately 700 people into St. Louis, and they expect to remain in St. Louis with the purchase of Wachovia by Wells Fargo Bank.

The purchase of Anheuser-Busch, with 6,000 employees in the region, by Belgium-based InBev is expected to close in December. St. Louis will become the North American headquarters for the combined company Anheuser-Busch InBev and the global home of the Budweiser brand. A \$1.5 billion cost reduction is anticipated over the next three years. While unsettling to most St. Louisians, the Anheuser-Busch InBev buyout could have a positive impact on the region similar to the Ralston Purina sale to Nestle several years ago.

Median price and existing home sales continue to follow national trends. According to the National Association of Realtors, the local median housing price fell 5.5% during first half of 2008, while the U.S. median housing price decreased 7.6%. Rental apartments are becoming more popular, causing occupancies and rents to improve. Large quantities of residential lots are sitting vacant while the developers are "under water."

The commercial real estate markets are basically holding their own despite the growing unemployment, the falling housing market, eroding consumer confidence and the credit crisis. The retail market is probably the weakest of the commercial markets. Retail sales are down, and store vacancies are increasing, with grocery-anchored shopping centers and in-fill areas the most successful. With industrial vacancy below 7%, the industri-

al market is currently stable. That market, however, does face some challenges, including the large amount of bulk warehouse space that is available.

The office market improved during the first quarter of 2008, but has slowed during the second and third quarters. After a period of few incentives, rent abatement and tenant improvement allowances are back in the marketplace. Large contiguous spaces continue to be limited. New buildings have been proposed but actual construction starts on general office space is less than 0.9 million sq. ft. Lack of new construction has increased demand for build-to-suits, especially in the North County submarket.

Centene Corp. received the required approvals from Clayton to build two office buildings, a multi-story parking garage, and retail space in all three buildings. The property has been fenced for demolition of the existing buildings. Construction on the first office building in the Brown Shoe mixed-use development has been scheduled this fall. Many are questioning whether the current debt market will allow these projects to move forward in the near future.

Total available office space is 10.1 million sq. ft., or 13.2% of inventory as of third quarter 2008, down slightly from second quarter 2008. Year-to-date absorption was 339,700 sq. ft. through third quarter 2008, up from 206,000 sq. ft. at second quarter 2008. Only the CBD, South County and St. Charles submarkets experienced negative absorption. So far in 2008, new deliveries total 779,200 sq. ft., 31% of which is rehab in the CBD. Average asking rents were generally stable in most submarkets during third quarter. Overall average asking rent was \$19.04 per sq. ft., slightly higher than year-end 2007. Asking price for new prime buildings is \$29-\$31 per sq. ft.

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## Market Highlights

- ◆ The overall availability rate fell one-tenth of a percent during third quarter 2008 to 13.2%, remaining four-tenths of a percent lower than one year ago.
- ◆ Overall average asking rents remained stable over the quarter, now at \$19.04 per sq. ft. still \$0.24 per sq. ft. higher than one year ago.
- ◆ Overall absorption remains positive now at 340,000 sq. ft. Class A absorption is now at 370,000 sq. ft., Class B is 46,000 sq. ft., while Class C is negative (77,000) sq. ft.
- ◆ Class A average asking rents remained stable over the quarter and are now at \$22.40 per sq. ft. In the Clayton submarket, the average Class A asking rent is now \$25.21 per sq. ft.
- ◆ Class A sublease space rose one-half of a percent during the quarter and is now at 274,000 sq. ft. or 6.0% of available inventory.
- ◆ Major transactions this quarter include Computerized Medical Systems' 52,600-sq.-ft. lease in the North County submarket and J.W. Terrill's 35,400-sq.-ft. lease in the West County submarket.

## Market by Market

### ◆ Central Business District

Total Inventory: 25.5 mil. sq. ft.  
No. of Buildings: 201  
Average Asking Class A Rent: \$18.31  
Average Asking Class B Rent: \$15.50  
Availability Rate: 17.3%  
Available Space: 4.4 mil. sq. ft.  
New Deliveries: 245,000 sq. ft.  
Net Absorption (YTD): (26,700) sq. ft.

With the tight credit situation and the peaking of the loft and condominium market, a number of projects Downtown have been downsized or postponed. Concerns about sales of the historic tax credit are also delaying projects.

Work on Ballpark Village has not started. Preliminary site work is now expected before the July 2009 All Star game. The developer, Cordish Company and the Baseball Cardinals, still need a development agreement by the city and the state and up to \$115 million in public financing bonds sold by the city. Two major users of office space Downtown, Polsinelli Shalton Flanigan Suelthaus and Stifel Financial, are discussing moving their offices into Ballpark Village.

Thompson Coburn, the largest law firm Downtown, will renew its lease for 12 years at US Bank Plaza, and KPMG renewed its lease at 10 S. Broadway. Armstrong Teasdale, another major law firm, has indicated it would relocate to the new Centene property in Clayton.

The office market in the CBD remained stable through the third quarter of 2008. Current availability is 4.4 million sq. ft. or 17.3% of total inventory. Year-to-date absorption declined during third quarter 2008 to negative (26,700) sq. ft. from 10,400 sq. ft. at second quarter. Available Class A space increased to 1.9 million sq. ft. or 18.7% of inventory from 1.7 million sq. ft. or 17.1% at second quarter. Class A space experienced negative absorption of (161,400) sq. ft. for the year-to-date.

Available Class B space totals 1.4 million sq. ft. or 17.8% of inventory as of third quarter 2008, dropping below 18% for the first time in two years. Year-to-date absorption is now 58,400 sq. ft.

### ◆ Midtown

Total Inventory: 2.1 mil. sq. ft.  
No. of Buildings: 18  
Average Asking Class A Rent: \$25.88  
Average Asking Class B Rent: \$16.44  
Availability Rate: 4.1%  
Available Space: 0.1 mil. sq. ft.  
New Deliveries: 64,000 sq. ft.  
Net Absorption (YTD): 28,200 sq. ft.

This small submarket has the lowest availability rate of all submarkets. The submarket is tight with only 4.1% or 86,800 sq. ft. available. Available Class A space is only 34,500 sq. ft. Average asking rents in the submarket remained stable during the third quarter. The 64,000 sq. ft. Highlands Plaza Two is under construction across from Forest Park. Seventy-five percent of the building has been pre-leased.

### ◆ Clayton

Total Inventory: 9.0 mil. sq. ft.  
No. of Buildings: 117  
Average Asking Class A Rent: \$25.21  
Average Asking Class B Rent: \$19.99  
Availability Rate: 11.7%  
Available Space: 1.0 mil. sq. ft.  
New Deliveries: 45,000 sq. ft.  
Net Absorption (YTD): 147,300 sq. ft.

Clayton remains the strongest market in the region. Asking rents are over \$30 per sq. ft. in some instances. The overall availability rate declined during third quarter 2008 to 11.7% from 12.0% at second quarter 2008. Overall year-to-date absorption rose to 147,300 sq. ft.

Space, both large and small, in premium office buildings is difficult to find. Class A availability is currently 11.4%, due to year-to-date absorption of 93,800 sq. ft. Only 0.5 million sq. ft. of Class A space is available, 5.2% or 27,000 sq. ft. of which is sublease space. The average asking Class A rental rate remained stable, above the \$25 per sq. ft. mark, during third quarter 2008.

The market for Class B space remained fairly constant. The availability rate decreased to 12.5% during the quarter from 14.7% in second quarter 2008. Absorption for the year is positive 81,300 sq. ft. Average asking rents remained stable near \$20 per sq. ft.

Centene Corp. has received all its approvals from Clayton for its 585,000 sq. ft. office and retail complex. The first building would be a 21-story headquarters and general office tower and multi-tenant garage at Forsyth Boulevard and Hanley Road and a multi-story parking garage. Most recently, some sources are concerned the credit crisis could impact the debt structure and push back the project.

Construction on the new Brown Group headquarters and parking garage could begin yet this year. The size of the first building is unknown except that Brown will lease 300,000 sq. ft. plus from the developers, Clayco and U.S. Equities Realty, for its headquarters.

A number of other office developments are being discussed, but are not committed at this time. The development arm of Montgomery Bank has announced plans for a \$100 million, 25-30 story mixed-use building across from the County Courthouse. Apex Oil Co. and Koman Properties have proposed Shaw Park Pointe, a 300,000 sq. ft. mixed-use building on Forsyth. Conrad Properties plans two buildings, one with 130 luxury apartment units and one with 75-80,000 sq. ft. of office space, on Clayton's north side.

### ◆ Creve Coeur/Westport

Total Inventory: 9.3 mil. sq. ft.  
No. of Buildings: 129  
Average Asking Class A Rent: \$22.58  
Average Asking Class B Rent: \$17.47  
Availability Rate: 14.2%  
Available Space: 1.3 mil. sq. ft.  
New Deliveries: 0  
Net Absorption (YTD): 112,500 sq. ft.

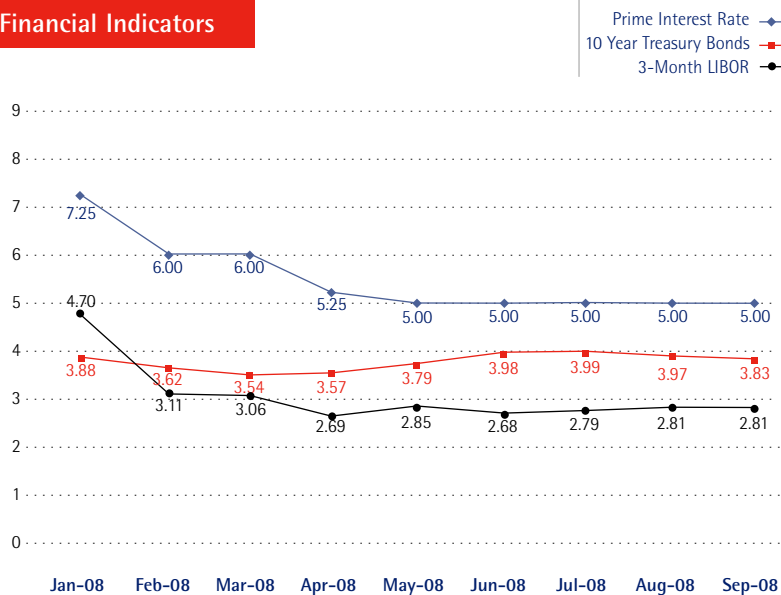
After rapid improvement during first quarter 2008, the Creve Coeur/Westport submarket has changed little since then. The overall availability rate has decreased to 14.2% from 14.6% at first quarter 2008. Overall available space remains at 1.3 million sq. ft. Overall year-to-date absorption improved to 112,500 sq. ft. over second quarter's 91,200 sq. ft. Average asking rental rates for all classes remained stable.

The amount of available Class A space continued to decline through third quarter 2008 to below 0.6 million sq. ft., but by only 3,100 sq. ft. The Class A availability rate decreased to 12.1% at third quarter 2008 from 12.8% at the end of first quarter. Class A year-to-date absorption rose slightly during the quarter to 104,900

## Major Office Acquisitions Third Quarter, 2008

There were no major office acquisitions during the quarter.

## Financial Indicators



sq. ft. Available sublease Class A space rose during the second and third quarters of 2008, and now stands at 93,000 sq. ft. or 16.3% of Class A inventory. Class B space absorption turned positive during the quarter and year-to-date absorption is now 13,300 sq. ft.

### ◆ North County

Total Inventory: 10.3 mil. sq. ft.  
 No. of Buildings: 112  
 Average Asking Class A Rent: \$19.59  
 Average Asking Class B Rent: \$16.71  
 Availability Rate: 11.1%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 186,000 sq. ft.  
 Net Absorption (YTD): 141,900 sq. ft.

Activity was strong in the North County submarket in third quarter 2008 even with available space increasing to 1.1 million sq. ft. or 11.1% of inventory. Year-to-date absorption is now 141,900 sq. ft. Average asking rents for Class A and B space remained stable, however, rents for Class C space declined. The Class A availability rate dropped significantly during third quarter to 15.4% from 18.5% at second quarter. Available Class A space now totals 0.5 million sq. ft., only 5.5% or 25,300 sq. ft. of which is sublease space. Year-to-date absorption for Class A space is a healthy 235,800 sq. ft.

Build-to-suit developments are popular in the submarket. Buildings are under construction for Express Scripts, Monsanto,

and Elsevier. Edward D. Jones received approval for three office buildings and a parking garage totaling 817,000 sq. ft. at its Maryland Heights campus.

### ◆ South County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 155  
 Average Asking Class A Rent: \$23.32  
 Average Asking Class B Rent: \$19.28  
 Availability Rate: 6.5%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 0  
 Net Absorption (YTD): (124,800) sq. ft.

The South County submarket remains healthy and stable. Overall available space dropped slightly in third quarter 2008 to 539,700 sq. ft. or 6.5%. Year-to-date absorption is a negative (124,800) sq. ft., with negative absorption in both Class A and B space. Still, only 142,600 sq. ft. of Class A space is available; 29,500 sq. ft. or 20.7% of which is sublease space. In Des Peres, Edward D. Jones is under construction with a 225,000 sq. ft. expansion to its headquarters. Nearby, Scottrade is considering doubling the size of its headquarters, adding a 7-story, 201,600 sq. ft. building.

### ◆ West County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 130  
 Average Asking Class A Rent: \$23.78

Average Asking Class B Rent: \$21.40  
 Availability Rate: 13.0%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 30,000 sq. ft.  
 Net Absorption (YTD): 189,600 sq. ft.

During third quarter 2008, overall availability in the West County submarket dropped to 13.0% from 14.4% at second quarter. Available space dropped below 1.1 million sq. ft., while year-to-date absorption rose to 189,600 sq. ft.

By third quarter 2008, available Class A space declined to 0.7 million sq. ft., 8.5% or 62,000 sq. ft. of which is sublease space. The availability rate decreased to 14.1% from 14.8% at second quarter. Year-to-date Class A absorption was a positive 160,300 sq. ft.

Along the prestigious I-64/Highway 40 corridor, a number of speculative buildings have been announced. Opus Northwest is planning a two-building, 340,000 sq. ft. speculative office building on Conway Road. Duke Realty has two sites available, one for a 170,000 sq. ft. building at I-64 and Woods Mill and one for a 72,000 sq. ft. building at Maryville Centre.

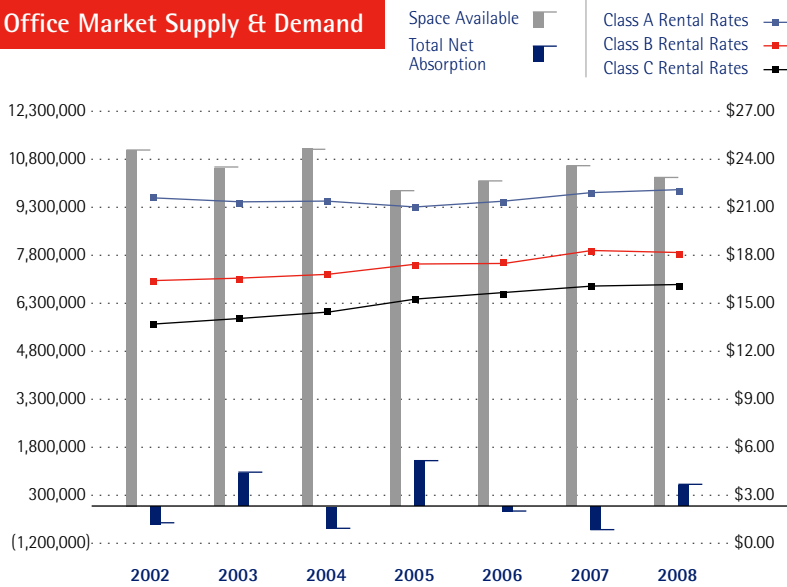
### ◆ St. Charles

Total Inventory: 4.4 mil. sq. ft.  
 No. of Buildings: 65  
 Average Asking Class A Rent: \$20.53  
 Average Asking Class B Rent: \$17.67  
 Availability Rate: 11.8%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 209,400 sq. ft.  
 Net Absorption (YTD): (128,400) sq. ft.

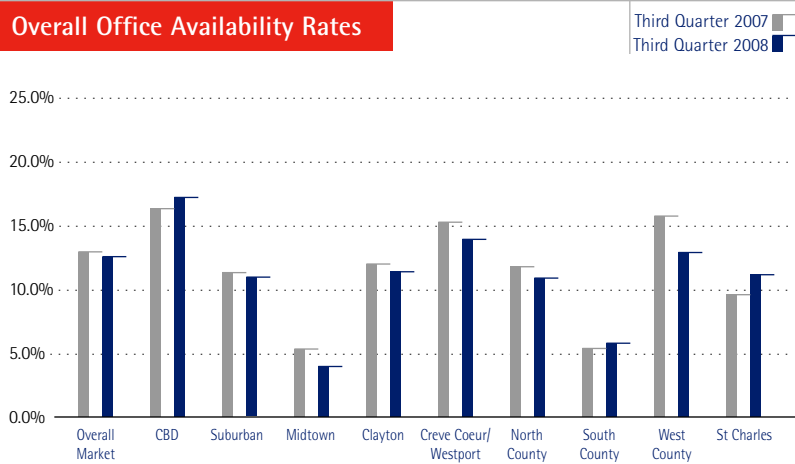
The small St. Charles County submarket remains healthy even though a negative (128,400) sq. ft. of year-to-date absorption. The overall availability rate rose to 11.8% or 0.5 million sq. ft. during third quarter from 11.5% at second quarter. Average asking rental rates remained stable for Class A properties. Available Class A space is 177,600 sq. ft., 7.4% or 13,100 sq. ft. of which is sublease space.

A 128,000 sq. ft. speculative office building is under construction in Progress Point business park. McEagle Properties has announced a 75,000 sq. ft. speculative office building in Winghaven. A 60,000 sq. ft. building, Wall Street II, has been announced for St. Charles. A new 90,000 headquarters facility is nearing completion for Novus in St. Charles.

## Office Market Supply & Demand



## Overall Office Availability Rates



## Continued from page 1

The overall availability for Class A office space decreased 0.3% to 13.6% during third quarter 2008 and available space fell to 4.5 million sq. ft. The CBD availability rate rose to 18.7% during third quarter 2008 or 1.9 million sq. ft. from 17.1% at second quarter. Availability in the suburban markets, however, declined during third quarter, to 11.4% from 12.5%. Available Class A suburban space now totals 2.6 million sq. ft. Class A sublease space increased slightly to 6.0% of available space, but is not a major factor in the marketplace. Average Class A rent remained stable through third quarter now at \$22.40 per sq. ft.

The availability rate for Class B office space decreased to 13.1% during the quarter from 13.4% at second quarter 2008. Total available Class B space is now 3.7 million sq. ft. Absorption year-to-date was 46,300 sq. ft. Asking average rent declined to \$18.06 per sq. ft. during the quarter from \$18.27 per sq. ft. at second quarter 2008.

The availability rate for Class C space increased to 12.2% during third quarter from 11.6% during second quarter 2008. Available Class C space is now 1.8 million sq. ft. Year-to-date absorption was a negative (76,700) sq. ft. through third quarter 2008 after positive absorption during the first quarter.

With the national credit crunch, investment property sales have stopped. During the third quarter of 2008, no significant office transactions occurred, which is very unusual.

## Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Computerized Medical Systems	Riverport Lakes East	Maryland Heights	North County	52,600
J.W. Terrill, Inc.	825 Maryville Centre	Town & Country	West County	35,400
Renaissance Financial	Highlands Plaza Two	St. Louis	Midtown	32,000
Missouri College	The Meridian	Brentwood	Clayton	30,000
CH2M Hill	University Village	Richmond Heights	Clayton	28,100
Cannonball, Inc.	Maryland Park East	Clayton	Clayton	15,900
Kohner Properties	University Village	Richmond Heights	Clayton	11,900
Hanson Professional Services	Riverport Lakes West	Maryland Heights	North County	8,300
Gio's Ristorante & Bar	Gateway One	St. Louis	CBD	7,000
Endurance Insurance	Black's Ridge	Chesterfield	West County	6,800

## For more information

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