

A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

The nation's economic woes are moving into the St. Louis commercial real estate markets. Previously, the problems were primarily in the falling housing market and jobs layoffs. Today, with the addition of eroding consumer confidence and the credit crisis, all parts of the economy are affected.

Unemployment has become a major concern. The November 2008 unemployment rate was 7.3% , up from 5.2% in November 2007. Approximately 3,500 jobs were lost in November 2008, not counting cutbacks pending at Anheuser-Busch InBev, Granite City Steel, AT&T, Pfizer, CitiGroup, Doe Run and others.

Median price and existing home sales continue to follow national trends. Multifamily permits declined 26% through November 2008 when compared to the same period in 2007. Sales of condominiums, especially of luxury units, have tanked, and a number of planned developments have been cancelled. The retail market is the weakest sector of the commercial markets. Retail sales were weak, especially during the holiday season, store vacancies are increasing, and retail projects are being delayed.

The industrial market faces challenges as well. The vacancy rate is increasing as companies retreat and speculative space, especially bulk warehouse space, remains available. In the South County submarket, Chrysler suppliers have vacated over one million sq. ft, and more space is expected to become available for sublease in 2009. Rental rates have fallen slightly, and purchases have declined dramatically.

The office market is probably the healthiest of the commercial real estate markets as new supply is limited. After a period of few incentives, rent abatement and tenant improvement allowances are slowly coming back in the marketplace. Large contiguous spaces are few. New buildings have been proposed but actual construction starts on general office space is lagging.

Lack of new construction has increased demand for build-to-suits, especially in the North County submarket; however, even this is going slowly.

In Clayton, Centene Corp. plans to build two office buildings and a multi-story parking garage, with retail space in all three buildings. The existing buildings on the site have been demolished yet some people question whether construction of the first tower, Centene's headquarters and general office space, will be started given the current debt market. The Brown Group headquarters and mixed-use development has been placed on-hold as well as Montgomery Bank's office project.

At year-end 2008, total available office space was 10.4 million sq. ft. or 13.4% of inventory up 0.3 million sq. ft. from third quarter 2008. Year-to-date absorption only 77,300 sq. ft., a drop from 339,700 sq. ft. recorded through third quarter 2008. Only the CBD, South County and St. Charles submarkets experienced negative absorption. In 2008, new deliveries totaled only 919,300 sq. ft. Average asking rent for all properties is now \$18.95 per sq. ft., falling just below the \$19 mark for the first time in over a year. Asking rents for new prime buildings range between \$29-\$31 per sq. ft.

The Class A market weakened during fourth quarter 2008. The overall availability for Class A office space increased slightly to 14.6%, and available space rose to 4.9 million sq. ft. The CBD availability rate rose to 19.8% million sq. ft. during the quarter or 2.0 million sq. ft. Availability in the suburban markets increased during the quarter to 12.3% from 11.4% at the end of the third quarter. Absorption for Class A properties in 2008 was only 28,400 sq. ft., down from 370,100 sq. ft. at third quarter 2008.

Class A sublease space almost doubled in the fourth quarter of 2008, increasing from 274,300 sq. ft. to 507,300 sq. ft.

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Market Highlights

- ◆ The overall availability rate rose two-tenths of a percent during fourth quarter 2008 to 13.4%, just one-half a percent lower than one year ago.
- ◆ Overall average asking rents fell during the quarter and ended the year at \$18.95 per sq. ft., eight cents lower than one year ago.
- ◆ Overall absorption still remains positive at 77,300 sq. ft. Class A absorption was an unimpressive 28,400 sq. ft. for the year, while Class B was 210,800 sq. ft. and Class C was negative (161,900) sq. ft.
- ◆ Class A average asking rents dropped over the quarter and are now at \$21.98 per sq. ft., which is slightly less than one year prior.
- ◆ Class A sublease space rose 4.14 percent during fourth quarter and is now at 507,000 sq. ft. or 10.4% of available inventory. This is the highest Class A sublease rate since the second quarter of 2004.
- ◆ Major transactions this quarter include the Special School District's 27,600-sq.-ft. lease in the Creve Coeur/Westport submarket and CIC Group Inc's 13,400-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: \$18.05

Average Asking Class B Rent: \$15.68

Availability Rate: 17.1%

Available Space: 4.5 mil. sq. ft.

New Deliveries: 245,000 sq. ft.

Net Absorption (YTD): (128,000) sq. ft.

A number of projects for Downtown have been downsized, postponed or await financing. The Roberts Tower is the only high-rise condominium building under construction although other projects were announced. Preliminary site work on Ballpark Village is now expected before the July 2009 All Star game at Busch stadium. The developer, Cordish Company and the Baseball Cardinals, report that the private financing is ready, and that 81% of phase one of the project has been leased.

Thompson Coburn, the largest law firm Downtown, has renewed its lease for 12 years at US Bank Plaza. Armstrong Teasdale and Husch Blackwell Sanders plan to move to Clayton. Another major law firm, Lewis Rice, is considering various locations.

The office market in the CBD stalled once again in 2008. Current overall availability is 4.5 million sq. ft. or 17.1% of total inventory. Absorption in 2008 was a negative (127,600) sq. ft. Available Class A space increased from 1.7 million sq. ft. or 17.6% at year-end 2007 to 2.0 million sq. ft. or 19.8% of inventory at year-end 2008. Class A space experienced negative absorption of (262,700) sq. ft. for 2008. At year-end 2008, available Class A sublease space is only 3.9% and not a major factor in the marketplace. Average asking rent for Class A space declined to \$18.05 per sq. ft. during the quarter from \$18.31 per sq. ft. at third quarter 2008.

Available Class B space, however, dropped to 1.3 million sq. ft. or 14.9% of inventory as of year-end 2008. Absorption in 2008 was 148,700 sq. ft. Average asking rent for Class B space rose slightly to \$15.68 per sq. ft. Another 1.2 million sq. ft. or 16.2% of Class C space is available. Class C rents

stabilized near \$14.14 per sq. ft. Rents in the CBD are the lowest in the region.

◆ Midtown

Total Inventory: 2.1 mil. sq. ft.

No. of Buildings: 19

Average Asking Class A Rent: \$25.88

Average Asking Class B Rent: \$16.51

Availability Rate: 3.9%

Available Space: 0.1 mil. sq. ft.

New Deliveries: 123,000 sq. ft.

Net Absorption (YTD): 30,000 sq. ft.

This small submarket has the lowest availability rate again in fourth quarter 2008. The submarket is tight with only 3.9% or 84,600 sq. ft. available. Available Class A space is only 33,500 sq. ft. All average asking rents in the submarket remained stable during the fourth quarter of 2008. Two buildings, 64,000 sq. ft. and 59,000 sq. ft. are being constructed 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: \$25.20

Average Asking Class B Rent: \$19.96

Availability Rate: 10.8%

Available Space: 0.9 mil. sq. ft.

New Deliveries: 45,000 sq. ft.

Net Absorption (YTD): 173,000 sq. ft.

Clayton remains the strongest market in the region. The availability rate declined to 10.8% during fourth quarter from 11.7% at third quarter 2008. Overall absorption in 2008 was 173,300 sq. ft.

Space, both large and small, in the premium office buildings is difficult to find, and asking rents can be over \$30 per sq. ft. in some instances. Class A availability is currently 10.8% with 122,500 sq. ft. of absorption in 2008. Only 0.5 million sq. ft. of Class A space is available, 5.5% or 27,000 sq. ft. of which is sublease space. The average asking rental rate for Class A space rose during the to \$25.88 per sq. ft. The availability rate for Class B space rose slightly during fourth quarter to 12.8% from 12.5% at third quarter

2008. Only 0.39 million sq. ft. of Class B space remains available. Absorption for 2008 was 72,200, more than any other submarket except the CBD. Average asking rents declined slightly to \$19.96 per sq. ft. at year-end 2008. Only 9,300 sq. ft. of Class C space is available in the submarket, with a negative (21,400) sq. ft. absorbed for 2008.

The site for Centene Plaza, has been fenced and cleared of existing buildings for its 585,000 sq. ft. office and retail complex. Some sources are concerned the credit crisis could impact the debt structure and push back the project.

◆ Creve Coeur/Westport

Total Inventory: 9.3 mil. sq. ft.

No. of Buildings: 129

Average Asking Class A Rent: \$22.57

Average Asking Class B Rent: \$17.54

Availability Rate: 13.5%

Available Space: 1.3 mil. sq. ft.

New Deliveries: 0

Net Absorption (YTD): 174,000 sq. ft.

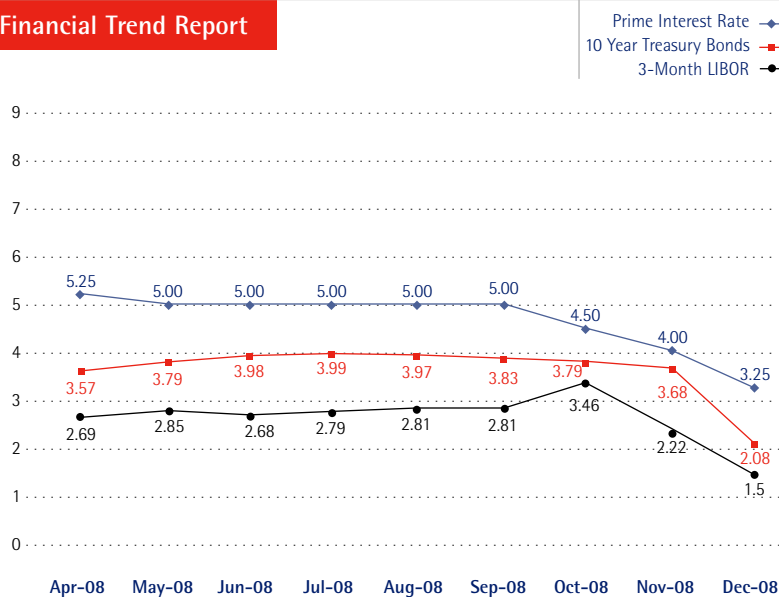
The Creve Coeur/Westport submarket continued to improve during 2008. The availability rate decreased to 13.5% at year-end 2008 from 15.5% at year-end 2007. Available space is 1.3 million sq. ft. Absorption in 2008 improved to 173,900 sq. ft., the best in the region. Average asking rental rate for all classes of office space remained stable at \$18.87 per sq. ft.

The amount of available Class A space continued to decline through fourth quarter 2008 to below 0.6 million sq. ft. but by only 10,000 sq. ft. The availability rate decreased to 11.9% during the quarter from 12.1% at third quarter 2008. Class A absorption for 2008 totaled 115,000 sq. ft. Available sublease Class A space rose during the second and third quarters of 2008, but declined again in the fourth quarter. It now stands at 68,500 sq. ft. or 12.2% of available Class A space. Class B space absorption turned positive in the third quarter, and total absorption in 2008 was 62,500 sq. ft. Available Class B space is 0.5 million sq. ft. or 15.1% of total inventory. Only 161,400 sq. ft. or 15.3% of Class C space is available in the submarket.

Major Office Acquisitions Fourth Quarter, 2008

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	\$/Sq. Ft.	Buyer
Lakeside Crossing One	Maryland Heights	North County	128,000	\$19.8 million	\$155	Franklin Street Properties
Williams Telecom	Earth City	North County	81,000	\$7.9 million	\$97	US Bank
Parkway Tower	Clayton	Clayton	89,000	\$7.6 million	\$85	Parkway Tower LLC

Financial Trend Report



◆ North County

Total Inventory: 10.3 mil. sq. ft.

No. of Buildings: 112

Average Asking Class A Rent: \$19.13

Average Asking Class B Rent: \$16.79

Availability Rate: 12.7%

Available Space: 1.2 mil. sq. ft.

New Deliveries: 186,000 sq. ft.

Net Absorption (YTD): 76,000 sq. ft.

Available space increased again during fourth quarter 2008, now at 1.2 million sq. ft. or 12.7% of inventory. Total absorption during 2008 was 76,300 sq. ft. Class A availability also rose during the quarter to 18.9% from 15.4% at third quarter. Available Class A space now totals 0.6 million sq. ft., 15.1% or 85,200 sq. ft. of which is sublease space, a jump from 25,300 sq. ft. in third quarter 2008. Absorption for Class A space in 2008 was 129,900 sq. ft. Average asking rent declined during fourth quarter to \$19.13 per sq. ft. from \$19.59 per sq. ft. at third quarter 2008. Absorption for 2008 for Class B space was 56,500 sq. ft. About 0.4 million sq. ft. or 8.9% of Class B space is available. Class B average asking rent increased slightly to \$16.95 per sq. ft.

◆ South County

Total Inventory: 8.3 mil. sq. ft.

No. of Buildings: 155

Average Asking Class A Rent: \$22.03

Average Asking Class B Rent: \$19.70

Availability Rate: 7.4%

Available Space: 0.6 mil. sq. ft.

New Deliveries: 0

Net Absorption (YTD): (203,000) sq. ft.

The South County office submarket is being affected by cutbacks by Anheuser-Busch InBev at its Sunset Hill campus. Available space rose in the fourth quarter 2008 to 617,900 sq. ft. or 7.4%, the second lowest rate in the region. Absorption in 2008 was a negative (203,100) sq. ft., with negative absorption in all classes of space. Still, only 215,000 sq. ft. of Class A space is available, 87,800 sq. ft. or 40.8% of which is sublease space, extremely high for the submarket. Average asking price for Class A space at year-end 2008 was \$22.03 per sq. ft., down from \$23.32 per sq. ft. at third quarter 2008. Available Class B space has been climbing since year-end 2007. It is now 301,000 sq. ft. or 8.5% of inventory. Average asking rent has risen to \$19.70 per sq. ft. over the year.

◆ West County

Total Inventory: 8.3 mil. sq. ft.

No. of Buildings: 130

Average Asking Class A Rent: \$23.00

Average Asking Class B Rent: \$20.43

Availability Rate: 13.5%

Available Space: 1.1 mil. sq. ft.

New Deliveries: 30,000 sq. ft.

Net Absorption (YTD): 149,000 sq. ft.

During fourth quarter 2008, availability in the West County submarket rose slightly

after several quarters of decreasing availability. The availability rate increased from 13.0% at third quarter 2008 to 13.5% at fourth quarter 2008. Available space increased to 1.1 million sq. ft. Absorption in 2008 totaled 149,100 sq. ft. By year-end 2008, available Class A space was 0.8 million sq. ft., 8.7% or 65,800 sq. ft. of which is sublease space. The availability rate increased slightly from 14.1% at third quarter 2008 to 14.5% at first quarter 2008. Class A absorption in 2008 was a positive 137,200 sq. ft. Absorption was positive in 2008 in both Class B and Class C space, but only with 3,300 sq. ft. and 8,600 sq. ft. respectively. Available Class B space is 0.4 million sq. ft., while available Class C space is only 17,000 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: 4.5 mil. sq. ft.

No. of Buildings: 66

Average Asking Class A Rent: \$19.97

Average Asking Class B Rent: \$18.22

Availability Rate: 13.1%

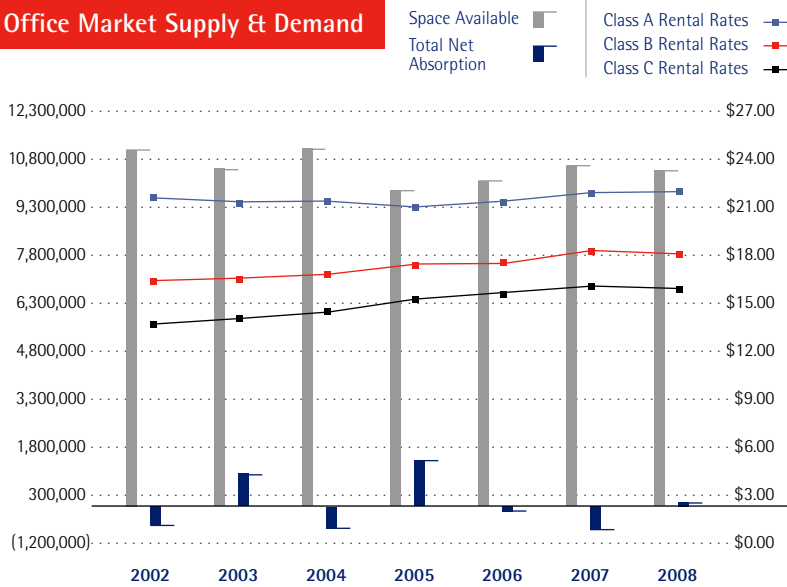
Available Space: 0.6 mil. sq. ft.

New Deliveries: 290,000 sq. ft.

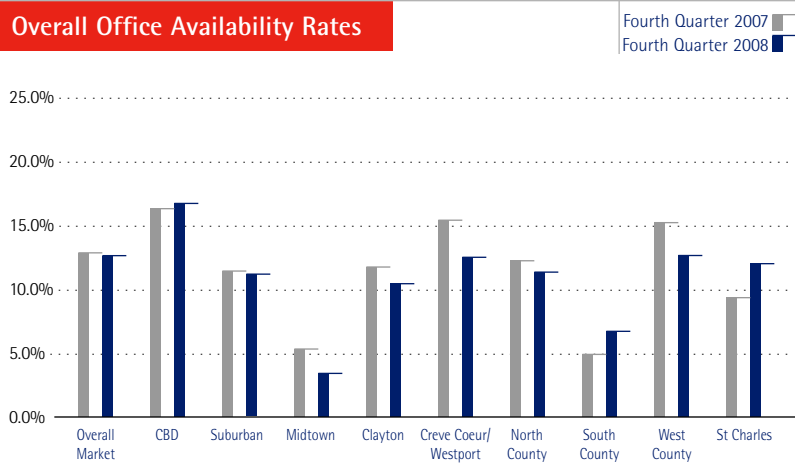
Net Absorption (YTD): (195,000) sq. ft.

The small St. Charles County submarket experienced its first problematic year in recent memory. Absorption in 2008 was a negative (195,200) sq. ft. The overall availability rate rose to 13.1% at year-end 2008 from 9.3% at year-end 2007. Available Class A space is 0.3 million sq. ft. or 10.2%, up from 6.3% at year-end 2007. The amount of Class A sublease space at year-end was 94,200 sq. ft., 36.7% of Class A available space. Absorption in 2008 was a negative (110,600) sq. ft. Average asking rent for Class A space decreased over the year to \$19.97 per sq. ft. from \$21.28 per sq. ft. at year-end 2007. Peoria-based Cullinan Properties, the developer of the Streets of St. Charles, says that construction will begin this spring on phase one. Plans for the development include retail, theater, restaurant and office space.

Office Market Supply & Demand



Overall Office Availability Rates



Continued from page 1

or 10.4% of all available Class A space. The largest jumps in available sublease space were in St. Charles County (94,200 sq. ft. or 36.7% of available Class A space), North County and South County submarkets. Average Class A rents remained stable through early 2008 at or near \$22.40 per sq. ft., but dropped to \$21.98 per sq. ft. during the fourth quarter of 2008.

Class B space was the bright spot in the office market in 2008. The availability rate for Class B office space continued to decrease, dropping to 12.4% at year-end 2008 from 13.1% at third quarter 2008. Total available Class B space is now 3.6 million sq. ft. Absorption for 2008 was 210,800 sq. ft., with only three submarkets experiencing negative absorption. Asking average rent was \$18.10 per sq. ft. at year-end 2008. Average asking rent has been \$18.00 per sq. ft. or better since third quarter 2007.

The availability rate for Class C space increased to 12.5% during fourth quarter from 12.2% at third quarter 2008. Available Class C space is 1.9 million sq. ft. Absorption in 2008 was a negative (161,900) 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 \$16.00 per sq. ft. for the past year.

Significant Leasing Activity

Tenant Name	Building	City	Submarket	Size (Sq. Ft.)
Special School District	The Crossings at Westport	Maryland Heights	Creve Coeur/Westport	27,600
CIC Group, Inc.	530 Maryville Centre	Town & Country	West County	13,400
Announce Media	Louis London Bldg.	University City	Clayton	12,000
HDR, Inc.	Union Square Plaza	St. Louis	CBD	11,400
Battelle Survey Operation	Pavillion Office Center	Creve Coeur	Creve Coeur/Westport	8,400
Childress & Associates	1010 Market	St. Louis	CBD	6,600
Franchise Concepts, Inc.	Interco Corporate Tower	Clayton	Clayton	6,200
Winter & Associates LLC	Maryland Park East	Clayton	Clayton	4,100
Paul J. Passanante, P.C.	1010 Market	St. Louis	CBD	4,800
The Guardian	CityPlace Three	Creve Coeur	Creve Coeur/Westport	3,400

For more information

For more information regarding this issue of *envision*, please contact:

Jack Reis, President
314.241.1175
jack.reis@evsra.com

Sarah Hakes, Vice President
314.241.1175
sarah.hakes@evsra.com

EVS Realty Advisors, Inc.
701 Market Street
Suite 1230
Saint Louis, MO 63101
314.241.1175
www.evsra.com

