

A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

**W**hile the national media reports that the recession is over, most areas of the country continue to struggle with economic problems including St. Louis. However, a recent Federal Reserve Beige Book stated that the economies of 10 of its 12 district banks, including St. Louis, are improving. Unemployment and commercial real estate are the main concerns in the region. The November 2009 unemployment rate was 10.6%. This rate is the highest since April 1983 when it was 11.6%.

The housing market remains depressed. Home sales in the St. Louis area fell a whopping 34 percent between November and December, the lull after a stampede of buyers claimed soon-to-expire federal tax credits. In the multifamily market, permits declined 34.2% for the year through November 2009 when compared to the same period in 2008. Condominium sales in completed projects have improved as proposed developments are halted. The retail market is now a tenant's market with existing tenants asking for rent reductions. The average rate for retail space has declined to about \$12 per sq. ft. with many concessions and shorter lease periods. The St. Louis regional vacancy continues to range from 10% to over 11%, depending upon the source. The industrial market has problems also. Absorption was positive for the year only in the city of St. Louis and Metro East. In the South St. Louis County submarket, the recently closed 5.1 million sq. ft. Chrysler assembly plants and its suppliers will add more than 2 percentage points to the overall industrial vacancy rate.

While the office market is healthier than many other regions of the country, the St. Louis office market is still challenging. Vacancies are up, rental rates down, and several large office spaces are now available in the suburban market. Financing remains tight. No major building is underway except the 485,250 sq. ft. building at Centene Plaza. The Centene building will open in 2010 with 200,000 sq. ft. utilized by Centene Corp, 125,000 sq. ft. by Armstrong Teasdale, a law firm moving from Downtown St. Louis, and 46,500 sq. ft. leased to Stinson Morrison Hecker, a Clayton law firm. The recently completed the Meridian 4 in Brentwood is now 94% leased.

In fourth quarter 2009, some tenants were taking advantage of deals in the marketplace or renegotiating existing leases with different rate and terms. Leases, especially renewals, can be short-term, three 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 today's marketplace as owners strive to keep their tenants.

By year-end 2009, total available office space had increased to 12.8 million sq. ft. or 16.3% of inventory, up from 10.4 million sq. ft. or 13.4% of inventory at year-end 2008. Year-to-date overall absorption was a negative (2.6) million sq. ft. compared to 77,000 sq. ft. of positive absorption in 2008. All the submarkets experienced negative overall absorption in 2009 except North County and St. Charles County. St. Charles County experienced over 85,000 sq. ft. of absorption. New deliveries in the region for 2009 totaled 1.9 million sq. ft., including 1.1 million sq. ft. for Edward Jones Company and the Centene Plaza building. Average asking rent for all properties decreased during 2009 to \$18.37 per sq. ft. from \$18.95 per sq. ft. at year-end 2008, continuing a decline that began at second quarter 2008.

Class A availability rose during 2009 and was 15.9% at year-end or 5.6 million sq. ft. compared to 14.6% or 4.9 million sq. ft. at year-end 2008. Absorption for Class A properties in 2009 was a negative (829,100) sq. ft. compared to 28,400 sq. ft. of absorption at year-end 2008. However, absorption was positive for the CBD submarket in 2009 at 36,200 sq. ft. even while the availability rate remained fairly high, however, at 18.6% or 1.9 million sq. ft. Availability in the Class A suburban markets increased during 2009 to 14.9% at year-end 2009 from 12.3% at year-end 2008. Available Class A suburban space is now 3.7 million sq. ft. Average Class A asking rents fell during 2009 to \$21.68 per sq. ft. at year-end 2009 from \$21.98 per sq. ft. at year-end 2008.

Class A sublease space almost doubled during second quarter 2009 and then continued to rise to 936,000 sq. ft. or 16.8%

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## Market Highlights

- ◆ The overall availability rate rose during 2009 to 16.3% from 13.4% at year-end 2008, raising 1.7% during the fourth quarter.
- ◆ Overall average asking rents fell during 2009 and are now at \$18.37 per sq. ft. compared to \$18.95 per sq. ft. at year-end 2008.
- ◆ More and more space continued to be put on the market during 2009 and overall absorption at year-end 2009 was negative (2,567,000) sq. ft. compared to 77,000 sq. ft. at year-end 2008. Class A absorption ended the quarter at negative (829,000) sq. ft.
- ◆ Class A average asking rents fell during 2009 to \$21.68 per sq. ft. compared to \$21.98 at year-end 2008. The Clayton submarket now commands the highest average rental rate at \$26.06 per sq. ft.
- ◆ Class A sublease space rose 6.4% during 2009 to 936,000 sq. ft. or 16.8% of available inventory, compared to 10.4% one year prior.
- ◆ Major transactions this quarter include Stifel Financial Corp's 140,900-sq.-ft. lease in the CBD submarket and Lewis, Rice & Fingersh's 104,700-sq.-ft. lease also in the CBD submarket.

## Market by Market

### ◆ Central Business District

Total Inventory: 26.2 mil. sq. ft.  
 No. of Buildings: 200  
 Average Asking Class A Rent: \$17.97  
 Average Asking Class B Rent: \$15.22  
 Availability Rate: 21.9%  
 Available Space: 5.7 mil. sq. ft.  
 New Deliveries: 33,000 sq. ft.  
 Net Absorption (YTD): (1,300,500) sq. ft.

The renaissance in Downtown St. Louis has slowed due to the economy, but good things are still happening. Roberts Tower, a \$70 million, 25 -story condominium building, is under construction. Downtown law firm Lewis, Rice & Fingersh will relocate to the top six floors of 600 Washington (f/k/a One City Center). LarsenAllen will also move 100 employees from West County into the building, and existing tenant Sandberg Phoenix and von Goutard will remain in the building.

Macy's is reducing the size of its Downtown store from seven stories to three and has put the excess space on the market. Several downtown buildings are for sale including 535 and 505 Washington. Centaur Properties, owner of the former General American Life building, plans to spend as much as \$10 million to attract tenants to 700 Market, a 128,500 sq. ft. building designed by Phillip Johnson.

The overall availability rate in the CBD rose during 2009 to 5.7 million sq. ft. or 21.9% from 4.5 million sq. ft., or 17.1% of total inventory, at year-end 2008. Overall absorption for 2009 was a negative (1.3) million sq. ft. However, available Class A space is now 1.9 million sq. ft. or 18.6% of available space, down from 19.8% at year-end 2008. Available Class A sublease space popped during second quarter 2009 to 150,200 sq. ft. and ended the year at 163,500 sq. ft. or 8.6% of available Class A space. Reversing a trend, Class A space had positive absorption of 31,900 sq. ft. for 2009. The average asking rent for Class A space remained stable during 2009 at just below \$18 per sq. ft.

After a good year in 2008, available Class B space jumped dramatically during 2009 to 2.6 million sq. ft. or 29.6% of inventory, from 1.3 million sq. ft. or 14.9% of inventory, mainly due to the 1.2 million sq. ft.

addition of office space at the Railway Exchange building. Absorption for the year was a negative (1.3) million sq. ft. Another 1.3 million sq. ft. of Class C space is available. Class C space absorption in 2009 was negative (80,900) 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: \$15.20  
 Availability Rate: 8.0%  
 Available Space: 0.1 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (8,000) sq. ft.

This small submarket has the lowest availability rate, despite its availability rate increasing during the year to 8.0% at year-end 2009 from 3.9% at year-end 2008. Overall available space is only 92,500 sq. ft. Available Class A space is only 41,000 sq. ft., none of which is sublease space. Class A average asking rents were stable during 2009. Macy's has sold its nearly one million sq. ft. distribution facility. The building was closed in 2008. The new owners say it will continue to be utilized as warehouse space.

### ◆ Clayton

Total Inventory: 9.7 mil. sq. ft.  
 No. of Buildings: 118  
 Average Asking Class A Rent: \$26.06  
 Average Asking Class B Rent: \$21.43  
 Availability Rate: 13.9%  
 Available Space: 1.4 sq. ft.  
 New Deliveries: 485,300 sq. ft.  
 Net Absorption (YTD): (378,300) sq. ft.

The Clayton submarket is weathering the economic downturn. During 2009, the overall availability rate increased to 13.9% from 10.8% at year-end 2008. Overall available space increased to 1.4 million sq. ft. with the addition of Centene Plaza from 981,000 sq. ft. at year-end 2008. Overall absorption for 2009 was negative (378,300) sq. ft. Average asking rents, however, rose bolstered by the Centene Plaza rental rate.

During 2009, average asking rent for Class

A space rose to \$26.06 per sq. ft. from \$25.20 per sq. ft. at year-end 2008. Asking rent for the Centene building under construction is \$32.50 per sq. ft. Class B average asking rent increased to \$21.43 per sq. ft. from \$19.96 per sq. ft. at year-end 2008. Class C average asking rents fell, however, during 2009. Class A availability ended the year at 14.6%, with 0.7 million sq. ft. available, up from 10.8%, or 491,500 sq. ft. at year-end 2008. Available Class A sublease space increased during the year to 51,600 sq. ft. or 7.0% of total Class A space from 27,000 sq. ft. or 5.5% of available inventory. Class A absorption for 2009 was a negative (245,000) sq. ft., Class B absorption was a negative (91,000) sq. ft. and Class C absorption was a negative (42,300) sq. ft.

The first building in Centene Plaza should be complete by mid-2010. Tenants in the 485,200 sq. ft. of office space will be Centene Corp. (200,000 sq. ft.), Armstrong Teasdale, a law firm (125,000 sq. ft.) and Stinson Morrison Hecker, also a law firm (46,000 sq. ft.). No announcement has been made of tenants for the 28,125 sq. ft. of retail space.

### ◆ Creve Coeur/Westport

Total Inventory: 10.6 mil. sq. ft.  
 No. of Buildings: 132  
 Average Asking Class A Rent: \$21.96  
 Average Asking Class B Rent: \$17.94  
 Availability Rate: 15.5%  
 Available Space: 1.6 mil. sq. ft.  
 New Deliveries: 1.3 mil. sq. ft.  
 Net Absorption (YTD): (386,200) sq. ft.

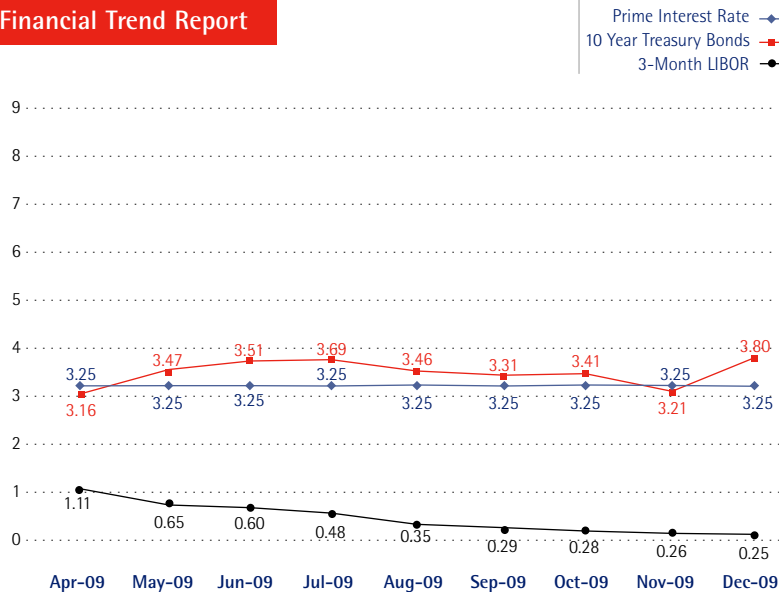
The Creve Coeur/Westport submarket remains problematic. During 2009, the overall availability rate increased to 15.5% at year-end 2009 from 13.5% at year-end 2008. Overall available space is now 1.6 million sq. ft. Overall absorption for 2009 was a negative (386,200) sq. ft. During 2009, the overall average asking rental rate decreased to \$18.05 per sq. ft. from \$18.87 per sq. ft. at year-end 2008.

In the Class A market, the amount of available space rose during the year to 813,300 sq. ft. from 590,100 sq. ft. at year-end 2008 with absorption during the year being a negative (253,200) sq. ft.

## Major Office Acquisitions Fourth Quarter, 2009

Building	City	Submarket	Size (Sq. Ft.)	Purchase Price	\$/Sq. Ft.	Buyer
Bank of America Plaza	St. Louis	CBD	750,000	\$47.8 million	\$63	Positive Investments Inc.
Woodlands Plaza III	Maryland Heights	Creve Coeur/Westport	63,000	\$3.45 million	\$55	Woodlands Parkway Assoc.

## Financial Trend Report



The Class A availability rate increased during the year to 13.9% from 11.9% at year-end 2008; however, it did fall during the fourth quarter, perhaps a good sign. Available Class A sublease space also rose during the year to 119,500 sq. ft. or 15.5% of Class A available space from 68,500 sq. ft. at year-end 2008. The average asking Class A rents decreased during 2009 to \$21.96 per sq. ft. from \$22.57 per sq. ft. at year-end 2008.

### ◆ North County

Total Inventory: 9.6 mil. sq. ft.  
 No. of Buildings: 111  
 Average Asking Class A Rent: \$17.87  
 Average Asking Class B Rent: \$15.97  
 Availability Rate: 12.5%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): 9,100 sq. ft.

The North County submarket remained fairly stable during 2009. Available space remained at 1.2 million sq. ft. during the year, fluctuating slightly during the quarters. Absorption for the year-to-date was 9,100 sq. ft. Overall average asking rents fell slightly during the year to \$17.33 per sq. ft. from \$17.62 at year-end 2008.

Available Class A space now totals 0.5 million sq. ft. or 18.4% of available inventory, 58,400 sq. ft. or 10.6% of which is sublease space. It is anticipated that the amount of available sublease space will continue to grow during 2010. Absorption for Class A space for 2009 was only 16,900 sq. ft., however it was better than several other

submarkets. The North County submarket is attractive to large users needing large amounts of parking. Twelve blocks of space of 30,000 sq. ft. or more are currently available in the submarket. In addition, a \$60 million, 221,000 sq. ft. building is under construction in NorthPark for Express Scripts.

### ◆ South County

Total Inventory: 8.4 mil. sq. ft.  
 No. of Buildings: 155  
 Average Asking Class A Rent: \$22.09  
 Average Asking Class B Rent: \$19.14  
 Availability Rate: 14.0%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 0 sq. ft.  
 Net Absorption (YTD): (549,100) sq. ft.

The South County submarket was hit hard in 2009 in both the office and industrial sectors. Anheuser-Busch InBev will sublease its 375,000 sq. ft. Sunset Hills campus. The closing of the Chrysler plants and its suppliers is putting nearly 6 million sq. ft. of industrial space on the market. Overall available office space rose in 2009 to 1.2 million sq. ft., and is now 14.0% of total inventory. Overall net absorption for the year-to-date 2009 was a negative (549,100) sq. ft.

Over 0.6 million sq. ft. of Class A space is currently available, 326,000 sq. ft. or 53.1% of which is sublease space. Class A average asking rents remained fairly stable over the year and are now at \$22.09 per sq. ft., slightly higher than \$22.03 per sq. ft. recorded at year-end 2008.

### ◆ West County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 128  
 Average Asking Class A Rent: \$22.80  
 Average Asking Class B Rent: \$20.10  
 Availability Rate: 13.7%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 63,700 sq. ft.  
 Net Absorption (YTD): (39,500) sq. ft.

The West County submarket experienced small fluctuations in availability over 2009. At year-end 2009, 1.1 million sq. ft. was available in all building classes or 13.7% of inventory, about the same as last year. Overall year-to-date absorption was a negative (39,500) sq. ft.

Available Class A space is now 0.8 million sq. ft., 18.5% or 139,300 sq. ft. of which is sublease space. The amount of Class A sublease space rose during 2009 by 9.8%. Class A absorption during 2009 was a negative (23,600) sq. ft. Class A average asking rent decreased slightly during the year to \$22.80 per sq. ft. from \$23.00 per sq. ft. at year-end 2008.

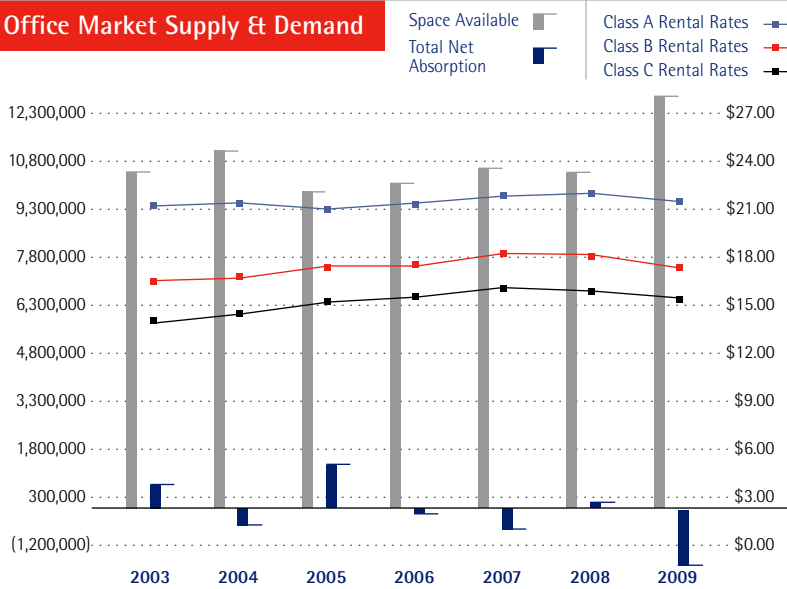
Monsanto will purchase Chesterfield Village Research Center from Pfizer for \$435 million in 2010. Pfizer will move its facilities to other locations following its merger with Wyeth and lay off 600 employees. Scottrade plans a \$36.3 million expansion, including a parking garage, to its headquarters in Town & Country and will add 250 IT jobs.

### ◆ St. Charles

Total Inventory: 4.5 mil. sq. ft.  
 No. of Buildings: 66  
 Average Asking Class A Rent: \$21.19  
 Average Asking Class B Rent: \$17.00  
 Availability Rate: 11.0%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 46,500 sq. ft.  
 Net Absorption (YTD): 85,700 sq. ft.

Overall absorption in 2009 was 85,700 sq. ft., the best in the region. Overall availability fell during 2009 and is currently 0.5 million sq. ft. or 11.0% of inventory. Class A available space also fell by 2.1% during 2009 and is now 209,200 sq. ft. or 8.1% of inventory. Sublease space rose slightly over 2009 and is currently 77,300 sq. ft. or 37.0% of available Class A space. Class A absorption for 2009 was 47,400 sq. ft. The Class A average asking rent rose during the year to \$21.19 per sq. ft. from \$19.97 per sq. ft. at year-end 2008.

## Office Market Supply & Demand



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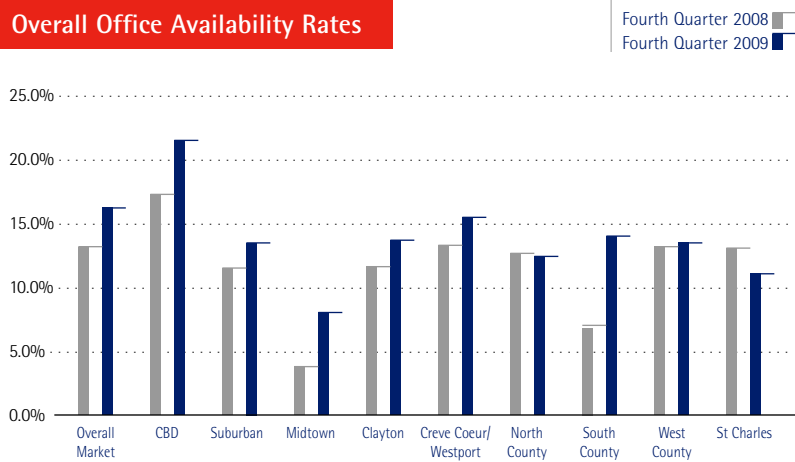
of all available Class A space at year-end 2009. The largest amounts of available Class A sublease space are in South County (326,500 sq. ft.), the Central Business District (163,500 sq. ft.), West County (139,300 sq. ft.), and the Creve Coeur/Westport (119,500 sq. ft.) submarkets.

The availability rate for Class B office space rose during the year to 17.9% at year-end 2009 from 12.4% at year-end 2008. Total available Class B space increased to 5.0 million sq. ft. at year-end 2009 from 3.6 million sq. ft. at year-end 2008. Absorption for 2009 was a negative 1.5 million sq. ft., with all but three submarkets experiencing negative absorption. Class B asking average rent fell during 2009 to \$17.75 per sq. ft. from \$18.10 per sq. ft. at year-end 2008.

The availability rate for Class C space also increased during 2009, ending the year at 14.4% from 12.5% at year-end 2008. Available Class C space is now 2.2 million sq. ft. Absorption during 2009 was a negative (281,500) sq. ft. The average asking rental rate for Class C space has since declined to \$15.67 sq. ft. at year-end 2009.

With the national credit crunch, investment office sales have virtually stopped. The 750,000 sq. ft. Bank of America Plaza sold at the end of 2009 for \$47.8 million. The previous owner purchased it in late 2003 for \$82 million. The Pierre Laclede Center in the Clayton submarket, the General American Life building downtown, and Westport Plaza in Maryland Heights, along with a number of smaller buildings, are on the market. The largest real estate transaction will close in 2010. Monsanto will purchase 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.)
Stifel Financial Corp.	One Financial Plaza	St. Louis	CBD	140,900
Lewis, Rice & Fingersh	600 Washington	St. Louis	CBD	104,700
Barnes Jewish West County Hosp.	The Meridian	Brentwood	Clayton	50,000
Stinson Morrison Heckler	Centene Place	Clayton	Clayton	46,500
Brown & Crouppen	Metropolitan Square	St. Louis	CBD	25,000
Kohn, Shands, Elbert et. al.	Shaw Park Plaza	Clayton	Clayton	11,900
DeVry University	Westline Corporate Campus	Maryland Heights	Creve Coeur/Westport	7,500
Wiser Company	Laumeier III	Sunset Hills	South County	6,100
The Guardian	CityPlace Three	Creve Coeur	Creve Coeur/Westport	3,400

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