



### A Quarterly Report of St. Louis Office Market Activity

Provided by EVS Realty Advisors, Inc.

**T**he St. Louis regional economy, in many respects, remains better than other cities because of the region's conservative approach. The unemployment rate in May 2008 is at 6.0%, mainly due to short-term layoffs in the automotive industry, but still the highest rate since 1993. The automobile industry here continues to have challenges with Chrysler, Lear Corp., and Ford closing local plants. At the same time, however, General Motors' Wentzville plant has announced added production through 2008.

The purchase of Anheuser-Busch, with 6,000 employees in the region, by Belgium-based InBev is a concern to residents. While St. Louis will become Anheuser Busch/InBev's North American headquarters, they have announced a \$1.5 billion cost reduction over the next three years. This purchase could potentially have the same positive impact that the Ralston Purina sale to Nestle made to the St. Louis region. However, it is too early to make any forecasts.

The office market improved during the first quarter and remained stable during second quarter 2008. Few incentives are given today, and asking rents are stable or increasing. Because of limited, large contiguous spaces and several tight office submarkets, new office buildings are being proposed but actual construction starts on general office space are less than 0.9 million sq. ft.

The new office buildings are in various submarkets and include the 100,600 sq. ft. Center Park Square I building in Chesterfield, the 80,000 sq. ft. 825 Maryville Centre building in West County, the 127,000 sq. ft. Lakeside Crossing One, the 140,000 sq. ft. 13610 Riverport Drive in North County, the 175,000 sq. ft. and 45,000 sq. ft. buildings at The Meridian in Brentwood (Clayton submarket), the 64,000 sq. ft. Highlands Plaza Two in the city of St. Louis, and the 128,000 sq. ft. Progress Point Center

in St. Charles County. Office deliveries in the CBD are in two projects, Pacific Place, a mixed-use new and rehab development, and Cupples Station 1, a rehabbed building at 1000 Clark.

Centene Corp. has committed to build 560,000 sq. ft. of office space in two buildings in Clayton, with plans to start the first building in November 2008. Construction of the first office building in the Brown Shoe mixed-use development is also expected this fall. Express Scripts is adding a 180,000 sq. ft. building adjacent to its headquarters in NorthPark.

Total available office space is 10.2 million sq. ft., or 13.3% of inventory and is up slightly from first quarter 2008. Absorption for the first half of the year 2008 is 206,000 sq. ft. Currently, only the South County and St. Charles submarkets have experienced negative absorption. So far in 2008, new deliveries total 752,900 sq. ft., one-third of which is rehab in the CBD. Of the other submarkets, only South County and Creve Coeur/Westport do not have new buildings underway. Average asking rents were stable or increasing slightly in most submarkets during the second quarter. The overall average asking rent was \$19.07 per sq. ft., about the same as year-end 2007. The asking rent for new Class A buildings is \$29-\$31 per sq. ft.

The overall availability for Class A office space increased 0.1% to 13.9% during second quarter of 2008, but availability remained at 4.6 million sq. ft. The CBD availability rate declined to 17.1% during the quarter, or 1.7 million sq. ft. from 17.5% at first quarter 2008. Availability in the suburban markets rose slightly during second quarter, to 12.5% from 12.2%. Available Class A suburban space now totals 2.9 million sq. ft. Class A sublease space increased slightly to 5.5%, but is currently not a major factor in the marketplace. Average Class A space rent continued its rise to \$22.46 per sq. ft. from \$22.38 per sq. ft.

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## Market Highlights

- ◆ The overall availability rate rose slightly during second quarter 2008 to 13.3% from 13.0% at the end of first quarter 2008.
- ◆ Overall average asking rents remained stable over the quarter, now at \$19.07 per sq. ft. Overall asking rents are \$0.66 per sq. ft. higher than one year ago.
- ◆ Overall absorption remains positive at 206,000 sq. ft. Class A absorption leads the way and is now 276,000 sq. ft., Class B is negative 39,000 sq. ft., and Class C is negative 37,000 sq. ft.
- ◆ Class A average asking rents rose again for the fifth consecutive quarter and are now at \$22.46 per sq. ft. In the Clayton submarket, the average Class A asking rent is now \$25.34 per sq. ft.
- ◆ Class A sublease space rose during second quarter and is now at 247,000 sq. ft. or 5.5% of available inventory.
- ◆ Major transactions this quarter include Elsevier's 144,000-sq.-ft. build-to-suit lease in the North County submarket and the Charles L. Crane Agency's 34,000-sq.-ft. lease in the CBD submarket.

## Market by Market

### ◆ Central Business District

Total Inventory: 25.5 mil. sq. ft.  
 No. of Buildings: 202  
 Average Asking Class A Rent: \$18.55  
 Average Asking Class B Rent: \$15.26  
 Availability Rate: 17.2%  
 Available Space: 4.4 mil. sq. ft.  
 New Deliveries: 245,000 sq. ft.  
 Net Absorption (YTD): 10,400 sq. ft.

There is a new agreement between Cordish Company, the Baseball Cardinals, and the city of St. Louis regarding Ballpark Village. The agreement allows Ballpark Village to build between 100,000 sq. ft. and 750,000 sq. ft. of office space and between 225,000 sq. ft. and 260,000 sq. ft. of retail and entertainment space. Residential units may or may not be included. Preliminary site work is expected to begin late this summer.

The office market in the CBD remained stable through the second quarter of 2008. Current availability is 4.4 million sq. ft. or 17.2% of total inventory. Absorption declined during the second quarter of 2008 to only 10,400 sq. ft. from 66,100 sq. ft. Available Class A space declined by 40,000 sq. ft., remaining stable at 1.7 million sq. ft. or 17.1% of inventory. Class A space in the CBD experienced positive absorption of 1,100 sq. ft.

Available Class B space totals 1.5 million sq. ft. or 18.5% of inventory, similar to the prior year. Absorption during the first half of 2008 was 2,600 sq. ft. Another 1.2 million sq. ft. of Class C space is available with an availability rate of 15.9%. Average asking rents for all categories of office space in the CBD remained stable.

A big change could be coming to the downtown office market. A half dozen major law firms need to move or renew nearly one million sq. ft. of expiring leases over the next two years. Two of the firms are considering moving up to 1,000 employees into Clayton in either the Centene or Brown Shoe complex. The moves would be a tremendous blow to the CBD office market.

### ◆ Midtown

Total Inventory: 2.1 mil. sq. ft.  
 No. of Buildings: 19  
 Average Asking Class A Rent: \$25.88  
 Average Asking Class B Rent: \$17.68  
 Availability Rate: 13.7%  
 Available Space: 0.1 mil. sq. ft.  
 New Deliveries: 64,000 sq. ft.  
 Net Absorption (YTD): 35,900 sq. ft.

This small submarket has the lowest availability rate at only 3.7% or 79,100 sq. ft. available. Available Class A space is only 32,600 sq. ft. All rents in the submarket rose during second quarter with the largest increase in Class A, up to \$25.88 per sq. ft. from \$25.08 per sq. ft. at first quarter 2008. The 64,000 sq. ft. Highlands Plaza Two across from Forest Park is now under construction.

### ◆ Clayton

Total Inventory: 9.1 mil. sq. ft.  
 No. of Buildings: 118  
 Average Asking Class A Rent: \$25.34  
 Average Asking Class B Rent: \$20.10  
 Availability Rate: 12.0%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 45,000 sq. ft.  
 Net Absorption (YTD): 62,800 sq. ft.

The Clayton office market continues to receive good news. First was the announcement by Brown Group that it had decided to remain at its current 12.5 acre headquarters. The site could eventually contain 1.25 million sq. ft. of office space, 300 condos, a hotel and 70,000 sq. ft. of retail space. Brown will lease 300,000 sq. ft. plus from the developers, Clayco and U.S. Equities Realty, for its headquarters. Construction on the first building and parking garage could begin this fall.

Second, Centene Corp. hopes to start construction in November 2008 on its 585,000 sq. ft. office and retail complex. The first building would be a 21-story headquarters and general office tower at Forsyth Boulevard and Hanley Road. A second 10-story building at Carondelet Avenue and Hanley would be built later.

Furniture Brands International has announced that it is changing its corporate structure from a holding company to an operating company and will move to a new headquarters at Shaw Park in Clayton. The space will house an additional 150 employees.

Clayton remains the strongest market in the region. Asking rents are over \$30 per sq. ft. in some instances. The overall availability rate rose slightly during the quarter to 12.0% from 11.1% at first quarter 2008, reflecting year-to-date absorption dropping from 140,400 sq. ft. at first quarter to 62,800 sq. ft. at second quarter.

Space, both large and small, in the premium office buildings is difficult to find. Class A availability is currently 11.9%, due to year-to-date absorption of 72,900 sq. ft. Only 0.5 million sq. ft. of Class A space is available, 5.3% or 28,900 sq. ft. of which is sublease space. Average asking rental rate rose for Class A space by \$0.22 sq. ft. to \$25.34 per sq. ft. during the second quarter of 2008.

The market for Class B space remained fairly constant. The availability rate rose slightly to 14.7% during the second quarter from 14.1% in the first quarter 2008. Only 106,100 sq. ft. of Class C space is available in the submarket.

### ◆ Creve Coeur/Westport

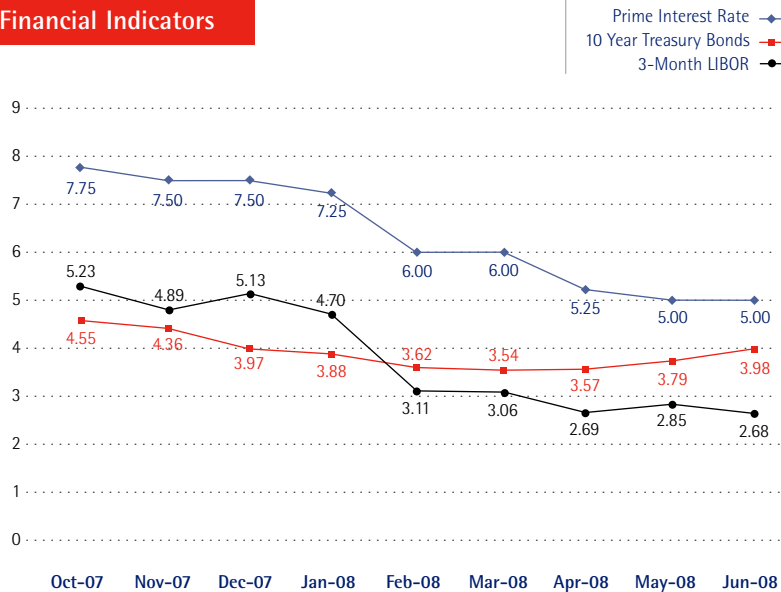
Total Inventory: 9.3 mil. sq. ft.  
 No. of Buildings: 129  
 Average Asking Class A Rent: \$22.78  
 Average Asking Class B Rent: \$17.40  
 Availability Rate: 14.4%  
 Available Space: 1.3 mil. sq. ft.  
 New Deliveries: 0  
 Net Absorption (YTD): 91,200 sq. ft.

After rapid improvement during first quarter of 2008, the Creve Coeur/Westport submarket changed little during the second quarter. The availability rate decreased to 14.4% from 14.6% at first quarter. Available space remained at 1.3 million sq. ft. Overall year-to-date absorption improved to 91,200 sq. ft. from 83,500 sq. ft. at first quarter 2008. Average asking rental rate for all classes of office space remained stable.

## Major Office Acquisitions Second Quarter, 2008

| Building             | City           | Submarket            | Size (Sq. Ft.) | Purchase Price | \$/Sq. Ft. | Buyer                     |
|----------------------|----------------|----------------------|----------------|----------------|------------|---------------------------|
| National City Center | Clayton        | Clayton              | 297,000        | \$50.0 million | \$168      | Clayton Central Investors |
| Carondelet East      | Clayton        | Clayton              | 78,000         | \$8.9 million  | \$114      | EPM Carondelet LLC        |
| Pulaski HQ Building  | Creve Coeur    | Creve Coeur/Westport | 34,000         | \$6.8 million  | \$200      | United Trust Fund         |
| Solutia Building     | Town & Country | West County          | 257,000        | \$42.7 million | \$160      | Bluerock Real Estate      |

## Financial Indicators



The amount of available Class A space continued to decline through second quarter 2008 to below 0.6 million sq. ft. The availability rate decreased to 12.2% during the quarter from 12.8% at first quarter 2008. Class A year-to-date absorption jumped during second quarter by 28,000 sq. ft. to 101,800 sq. ft. Available sublease Class A space rose during the second quarter 2008, and now stands at 51,200 sq. ft. or 8.9% of Class A inventory.

### ◆ North County

Total Inventory: 10.3 mil. sq. ft.  
 No. of Buildings: 113  
 Average Asking Class A Rent: \$19.73  
 Average Asking Class B Rent: \$16.71  
 Availability Rate: 10.8%  
 Available Space: 1.1 mil. sq. ft.  
 New Deliveries: 186,000 sq. ft.  
 Net Absorption (YTD): 175,000 sq. ft.

Activity slowed a bit in the North County submarket during the second quarter. Available space increased 127,200 sq. ft. to 10.8% of inventory. Year-to-date absorption is now 175,000 sq. ft. Average asking rents for Class A and B space remained stable. The Class A availability rate turned upward again during the second quarter to 18.5% from 15.6% during first quarter 2008. Available Class A space now totals nearly 0.6 million sq. ft., only 4.6% or 25,300 sq. ft. of which is sublease space. Year-to-date absorption for Class A space is 142,700 sq. ft.

Express Scripts has a \$30 million, 180,000 sq. ft. building under construction near its

headquarters at NorthPark and is considering a third building. Duke Realty has begun construction of a 127,000 sq. ft. building at Lakeside Crossing One for Monsanto. Edward D. Jones received approval for three office buildings and a parking garage totaling 817,000 sq. ft. at its Maryland Heights campus. The first 200,000 sq. ft. building will be completed later this year. The second building of 372,000 sq. ft. will be finished by September 2009. Duke Realty has a 146,000 sq. ft. corporate campus building under construction for Elsevier at 13610 Riverport Drive.

### ◆ South County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 156  
 Average Asking Class A Rent: \$21.91  
 Average Asking Class B Rent: \$19.22  
 Availability Rate: 6.6%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 0  
 Net Absorption (YTD): (129,700) sq. ft.

Available space increased during second quarter by 51,000 sq. ft. to 544,600 sq. ft. or 6.6% of inventory. Year-to-date absorption is a negative 129,700 sq. ft. with negative absorption in both Class A and B space. Still, only 160,200 sq. ft. of Class A space is available, 23,700 sq. ft. or 14.8% of which is sublease space. No speculative space is under construction. Average asking rent for Class A space is \$21.91 per sq. ft. at second quarter 2008, down from \$22.28 per sq. ft. at first quarter, reflecting the age and quality of available space.

### ◆ West County

Total Inventory: 8.3 mil. sq. ft.  
 No. of Buildings: 130  
 Average Asking Class A Rent: \$23.85  
 Average Asking Class B Rent: \$21.37  
 Availability Rate: 14.4%  
 Available Space: 1.2 mil. sq. ft.  
 New Deliveries: 30,000 sq. ft.  
 Net Absorption (YTD): 73,700 sq. ft.

During second quarter 2008, the West County submarket continued to improve. The availability rate decreased to 14.4% during the quarter from 15.0% at first quarter 2008. Available space dropped below 1.2 million sq. ft. Year-to-date absorption is 73,700 sq. ft. Available Class A space has declined to 0.8 million sq. ft., 7.0% or 53,800 sq. ft. of which is sublease space. The Class A availability rate decreased to 14.8% during the quarter from 15.9% at first quarter 2008. Year-to-date Class A absorption was a positive 120,900 sq. ft.

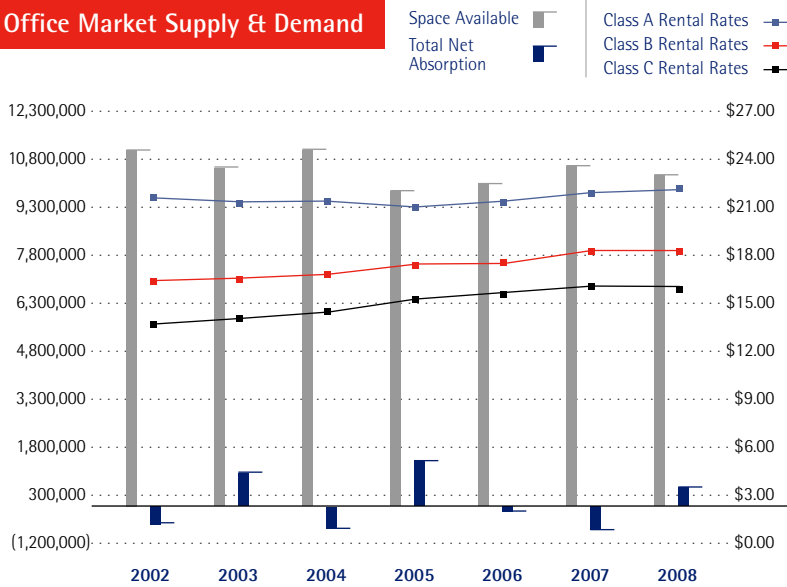
Speculative buildings are being announced and appear to be in response to the lack of large contiguous space in the submarket. Sachs Properties has started work on Chesterfield Village in the 100,600 sq. ft. Central Park Square I. Sachs plans a second building of 150,000 sq. ft. for later this year. Sachs also announced plans to build "Downtown Chesterfield", including two office buildings totaling 250,000 sq. ft. and 26,000 sq. ft. of retail. Also under construction is Lester Miller's three-story, 80,000 sq. ft. building at 835 Maryville Centre, about half of which is pre-leased.

### ◆ St. Charles

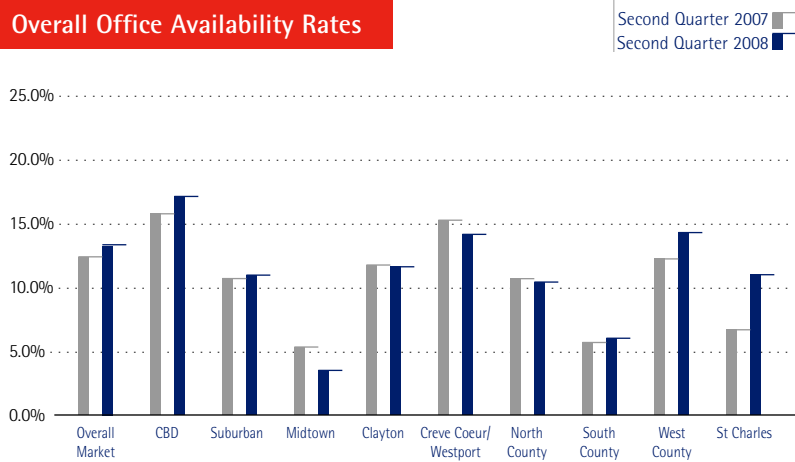
Total Inventory: 4.4 mil. sq. ft.  
 No. of Buildings: 64  
 Average Asking Class A Rent: \$21.60  
 Average Asking Class B Rent: \$18.39  
 Availability Rate: 11.5%  
 Available Space: 0.5 mil. sq. ft.  
 New Deliveries: 183,000 sq. ft.  
 Net Absorption (YTD): (113,300) sq. ft.

The small St. Charles County submarket remains healthy even though a negative 113,300 sq. ft. was absorbed during the first half of 2008. The overall availability rate remains stable at 11.5% or 0.5 million sq. ft. Average asking rental rates remained stable for all classes of office space. Available Class A space is 261,700 sq. ft., 19.1% or 50,000 sq. ft. of which is sublease space. A 128,000 sq. ft. speculative office building is under construction in Progress Point business park by TRISTAR.

## Office Market Supply & Demand



## Overall Office Availability Rates



Continued from page 1

at the end of first quarter 2008.

The amount of available space and the availability rate for Class B office space remained stable. The availability rate of Class B space increased during the quarter to 13.4% from 13.2% at first quarter 2008. Total available Class B space is now 3.8 million sq. ft. Absorption year-to-date is negative 39,500 sq. ft., with four submarkets experiencing negative absorption. Asking average rent per sq. ft., however, rose to \$18.27 per sq. ft. during the quarter from \$18.18 per sq. ft. at first quarter 2008.

The availability rate for Class C space increased to 11.6% during the quarter from 10.9% at first quarter 2008. Available Class C space is now 1.8 million sq. ft. Year-to-date absorption is now negative 30,900 sq. ft. after positive absorption during the first quarter. The CBD has the most Class C space available with 1.2 million sq. ft. Average asking rental rates for Class C space have hovered in the mid \$16 per sq. ft. range for the past year.

Investment property sales have slowed, with less property and less buyers in the market. During second quarter 2008, only two major office buildings were purchased, National City Center in Clayton, and Solutia's headquarters building in West County. The Solutia building was acquired by Bluerock Real Estate for an estimated \$42.75 million, one of the area's largest sales in 2008.

## Significant Leasing Activity

| Tenant Name             | Building                    | City             | Submarket            | Size (Sq. Ft.) |
|-------------------------|-----------------------------|------------------|----------------------|----------------|
| Elsevier                | 13610 Riverport Drive       | Maryland Heights | North County         | 144,000        |
| Charles L. Crane Agency | Bank of America Tower       | St. Louis        | CBD                  | 33,800         |
| Senniger Powers LLP     | Bank of America Tower       | St. Louis        | CBD                  | 30,800         |
| UnitedHealthcare Group  | Riverport Tower             | Maryland Heights | North County         | 30,100         |
| Boomerang Tube          | 40 West                     | Chesterfield     | West County          | 22,200         |
| Herzog Crebs LLC        | Bank of America Tower       | St. Louis        | CBD                  | 22,100         |
| MEMCO Barge Line        | Central Park Square I       | Chesterfield     | West County          | 18,000         |
| The Korte Company       | Highlands Plaza Two         | St. Louis        | Midtown              | 13,000         |
| OPAA! Food              | 100 Chesterfield Bus. Pkwy. | Chesterfield     | West County          | 9,000          |
| Intra ISP               | CityPlace Four              | Creve Coeur      | Creve Coeur/Westport | 7,000          |

## For more information

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