

MarketView St. Louis Office

Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	15.6%	↑	↑
Lease Rates	\$18.65	↑	↓
Net Absorption	52,502 SF	↓	↓
Construction	598,250 SF	↓	↓

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Thompson Coburn inks lease extension to stay Downtown in largest deal of the quarter
- Number of distressed assets in St. Louis appears to be increasing
- Vacancy rate rises as lease rates fall
- Mid-County Class A vacancy rate increases with space available at Shaw Park Plaza
- Absorption slightly positive as construction remains slow

The St. Louis office market saw vacancy rates move up slightly and average lease rates decline during the third quarter due to limited activity.

The vacancy rate rose to 15.6%, up from 15.5% the previous quarter and 14.3% a year ago, and the availability rate in the market spiked above 20%, as the amount of space available for sublease in the market continues to be high.

Average direct lease rates were \$18.65 per square foot, down about 20 cents from the prior quarter, and additional concessions in the market continue to depress effective lease rates.

Brokers reported activity may have picked up slightly, but it remains below traditional levels. There are still a few large tenants in the market looking to make decisions, including Lewis Rice and Panera Bread.

The largest transaction of the quarter was signed on the very last day of the quarter, with Thompson Coburn law firm extending its lease of 238,000 square feet at US Bank Plaza downtown.

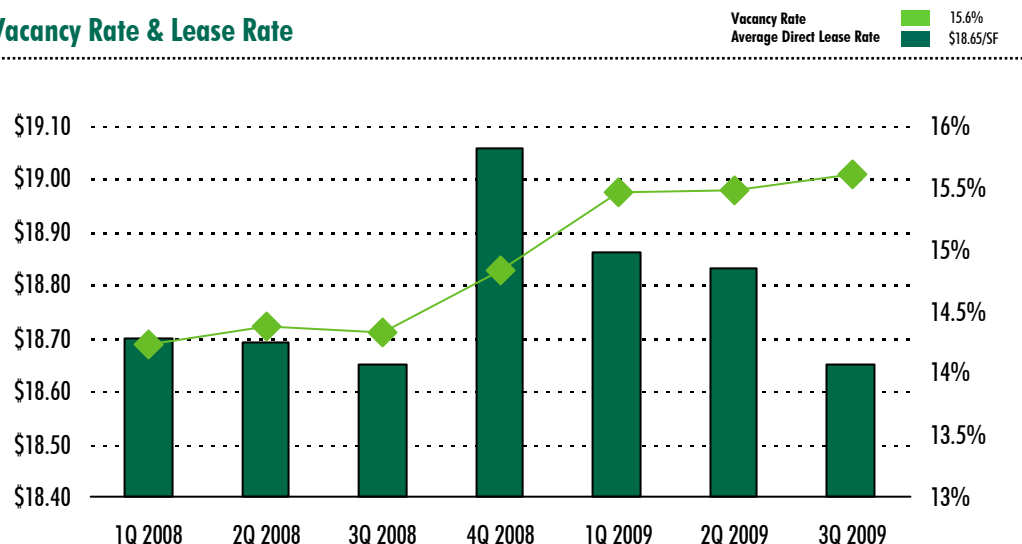
With between 500,000 and 850,000 square feet of space available for sublease on the market, tenants truly have their choice of locations and can sign shorter-term leases, often at discounted prices.

One item brokers are keeping a close eye on is the status of troubled or “distressed” properties. St. Louis is beginning to experience a higher percentage of lender involvement through refinancing, workouts and foreclosures.

Some lenders are foreclosing and electing to operate the asset, while others are quickly divesting. The former strategy involves being very aggressive to try to lease vacant space and boost occupancy figures in the hope that their building will be better positioned when the investment market regains momentum.

In the meantime, most of the leases being signed have been renewals, as well as some companies downsizing to smaller amounts of space to better accommodate their business needs in the slow economic times.

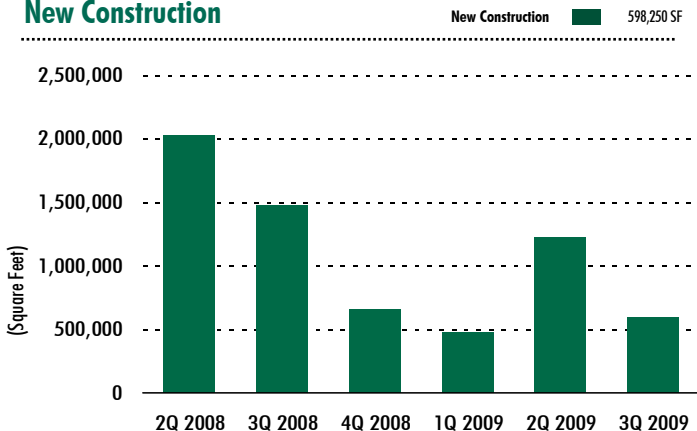
Vacancy Rate & Lease Rate



Submarket Report

Market	Gross Building SF	Vacancy Rate (%)	Availability Rate (%)	YTD Net Absorption (SF)	Under Construction (SF)	Average Asking Lease Rate Average (Annual Price/SF)
<u>Downtown</u>						
• Class A	5,308,638	23.0%	27.0%	(7,573)	0	\$18.74
• Class B	5,629,921	22.2%	26.8%	24,205	0	\$14.90
• Class C	2,372,200	20.4%	25.6%	(68,130)	0	\$13.07
Total	13,310,759	22.2%	26.7%	(51,498)	0	\$16.21
<u>St. Louis City</u>						
• Class A	381,586	4.1%	4.1%	48,386	0	\$26.00
• Class B	89,581	14.8%	23.2%	0	0	\$18.50
• Class C	202,906	9.6%	13.2%	0	0	\$11.74
Total	674,073	7.2%	9.4%	48,386	0	\$17.05
<u>Mid County</u>						
• Class A	3,926,569	10.5%	14.0%	40,016	482,250	\$27.45
• Class B	2,380,403	13.3%	16.7%	(32,658)	0	\$21.36
• Class C	867,437	14.2%	16.3%	1,471	0	\$17.73
Total	7,174,409	11.9%	15.2%	8,829	482,250	\$23.80
<u>Northwest County</u>						
• Class A	2,243,148	13.8%	21.1%	227,372	0	\$20.85
• Class B	2,272,159	13.7%	20.8%	0	0	\$16.40
• Class C	607,236	8.1%	8.8%	0	0	\$11.09
Total	5,122,543	13.1%	19.5%	227,372	0	\$18.17
<u>South County</u>						
• Class A	769,011	22.3%	27.8%	(140,985)	0	\$20.92
• Class B	1,226,401	17.4%	22.2%	(10,344)	0	\$20.87
• Class C	836,083	10.1%	10.1%	(24,258)	0	\$16.37
Total	2,831,495	16.6%	20.17%	(175,587)	0	\$19.68
<u>St. Charles County</u>						
• Class A	932,336	16.6%	17.6%	116,634	0	\$20.73
• Class B	1,087,762	18.6%	25.5%	19,457	0	\$16.15
• Class C	169,364	21.1%	21.8%	(3,790)	0	\$12.81
Total	2,189,462	18.0%	21.8%	132,301	0	\$17.32
<u>West County</u>						
• Class A	8,553,153	8.5%	13.6%	42,749	116,000	\$22.76
• Class B	6,556,194	15.4%	20.8%	(81,029)	0	\$18.74
• Class C	972,684	28.0%	29.8%	(53,779)	0	\$15.78
Total	16,082,031	12.5%	17.5%	(92,059)	116,000	\$20.04
Total	47,384,772	15.6%	20.2%	97,744	598,250	\$18.65

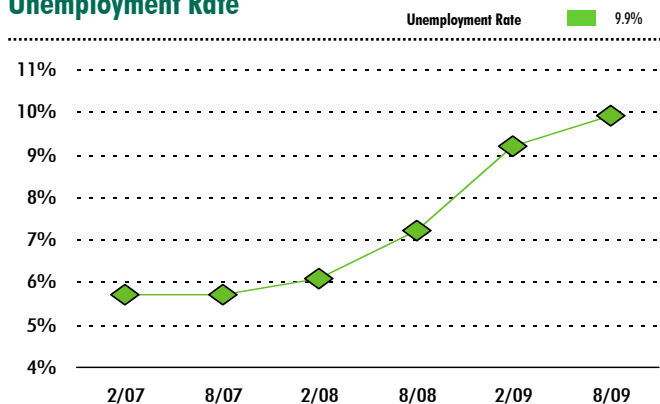
New Construction



The number of new construction projects dropped off in the third quarter, with the largest project under construction being the 448,965-square-foot Centene Plaza in downtown Clayton. The property is currently listed with more than 120,000 square feet of available space and will be delivered to the market in August of 2010.

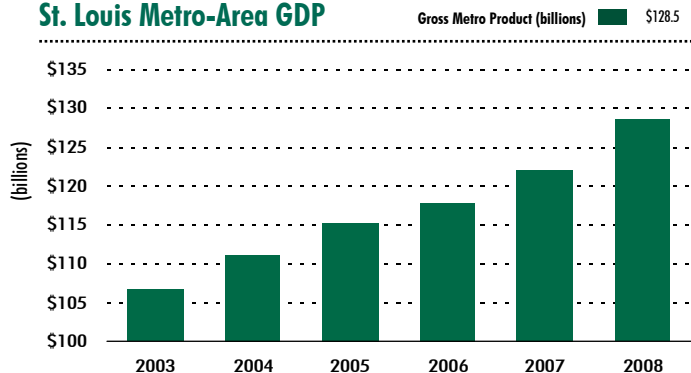
Multiple build-to-suit/single-tenant office buildings were completed during the quarter, which resulted in the lower overall construction figure. Brokers are hopeful that the lack of new construction will help existing buildings when activity picks up.

Unemployment Rate



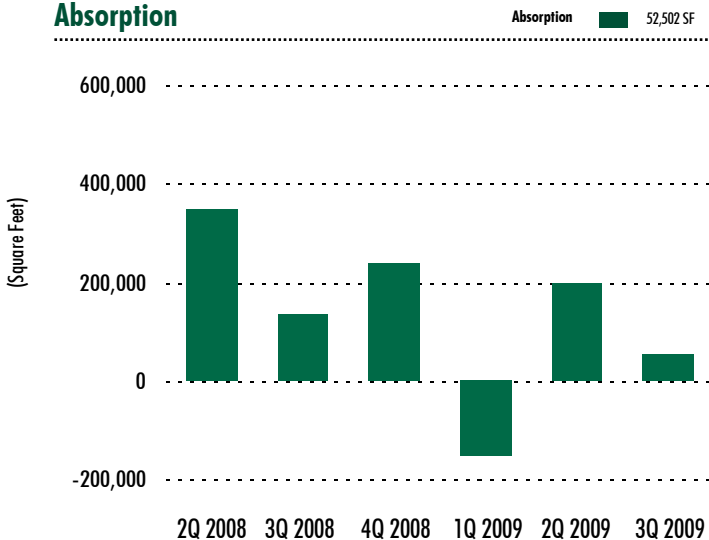
The unemployment rate continued to rise during the third quarter, reaching 9.9% as of August, according to data from the Bureau of Labor Statistics. The unemployment rate was unchanged from July, and the number of people filing for unemployment actually was down in August, at 141,700, compared to 142,500 in July. Still, when compared to a year ago, the results are shocking. As of August of 2008, the unemployment rate was just 7.2%, with 103,900 people filing for unemployment. The St. Louis labor force has decreased by about 20,000 people since last August, suggesting that people are either moving out of the area or no longer actively seeking work.

St. Louis Metro-Area GDP



The U.S. Bureau of Economic Analysis recently released 2008 Gross Domestic Product figures broken down by Metropolitan Area. The St. Louis metro had a GDP of \$128.5 billion, up about 5% from \$122.1 billion in 2007. The GDP is a measure of the value of goods produced, and is reported in current dollars and not adjusted for inflation. The St. Louis region's GDP leaders included industries in which the region has high levels of employment, such as Financial Activities and Professional and Business Services. Within the private sector, about 78% of the GDP comes from services-producing industries as opposed to goods-producing industries.

Absorption



Net absorption was a positive 52,500 square feet during the quarter, with most submarkets seeing slight positive absorption. The exception was Downtown, which had negative 12,722 square feet of absorption, due to nearly 30,000 square feet of negative absorption in the Class A market. Downtown did have some good news at the end of the quarter, however, when Thompson Coburn decided to renew its 238,000-square-foot lease at US Bank Plaza. Had the law firm moved out of Downtown, it would have dealt a large blow to the submarket.

South County and Mid County both saw positive absorption figures of more than 25,000 square feet in the Class A market, as Linde Healthcare moved into 26,765 square feet in South County and multiple tenants moved into space at 1005 N. Warson in Mid-County.

