

# Market Research

OFFICE | FIRST QUARTER | 2009

## St. Louis Office Absorption Remains Positive Into 2009

As the recession churns on amid mixed opinions as to when the turnaround will occur, the St. Louis office market managed to stay in positive territory for the first quarter of 2009. Largely on the strength of the health care industry, the market recorded 273,000 square feet of absorption. The gains came as a result of Express Scripts expanding into a second building of 181,000 square feet, this comes less than two years after taking occupancy in its 320,000 square foot headquarters in North County near the UMSL Campus. With the move to the second building, Express Scripts vacated an additional 47,000 square feet in Riverport. However, Essence Health Care has leased approximately 105,000 square feet of Express Scripts former 142,000 square foot headquarters building in Riverport.

The completion of Meridian at Brentwood 4 and 5 accounted for absorption of 60,000 square feet and 30,000 square feet, respectively. BJC Health Care leased approximately 60,000 square feet in Meridian 4, and Missouri College, a private educational institution specializing in business and health care education, consolidated from several Class B buildings into the entire 30,000 square foot Meridian 5 building which was a build-to-suit.

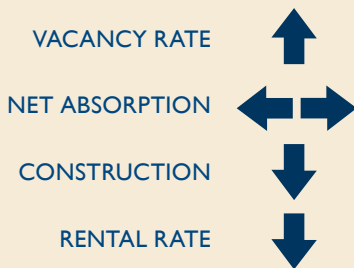
Off-setting these gains were the 17,000 square foot downsizing by UMB Bank in Downtown, and the Verizon Wireless' move from 110,000 square feet in 500 Maryville Centre Drive in West County. The Verizon Wireless' space will eventually be occupied by Scottrade, which purchased the building for expansion, along with a second Maryville office building, the 215,000 square foot Maryville 700 Building currently occupied by Edward Jones. Scottrade plans to occupy this building when Edward Jones vacates in summer of 2012 when it consolidates into new construction underway in both its Westport and Des Peres campuses.

All this is occurring as employment in the St. Louis metropolitan area continues to fall. February employment was estimated at 1,294,000 employed persons, down from 1,338,000 employed twelve months earlier, a decline of 3.3%. Employment in office-using categories did not record that steep of a decline. Financial Activities fell 2.5%, Professional and Business Services fell 2.0%, while Information increased 1.7%. Employment is deemed to be a lagging indicator of the economy, meaning further loss of employment is to be expected. And office occupancy lags employment change. An indicator of what is to come is a 70,000 square foot increase in sublease space.

Meridian 4 and 5 and Express Scripts II were the only new office buildings completed in the first quarter. Three buildings under construction are scheduled for completion in the second quarter. Highlands Plaza II with 69,000 square feet has only 1,900 square feet available. 3030-3050 West Clay in St. Charles, with 30,000 square feet, has 27,000 square feet available. A 146,000 square foot build-to-suit office building in Riverport will be occupied by Elsevier. Later in the year the 116,000 square foot Lakeside Crossing II will be completed and occupied by Monsanto. The year's construction trends demonstrate the conservative nature of St. Louis development.

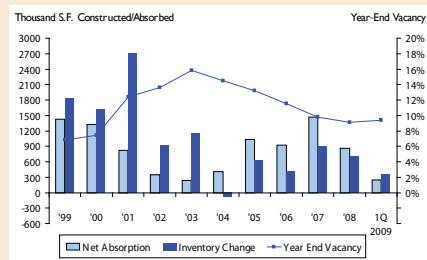


### MARKET INDICATORS TRENDS GOING FORWARD



### UPDATE

ST. LOUIS OFFICE MARKET TRENDS/  
INVENTORY CHANGE, ABSORPTION  
AND VACANCY

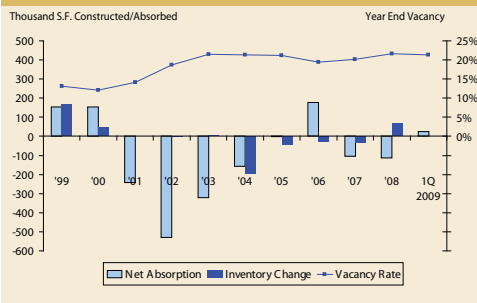


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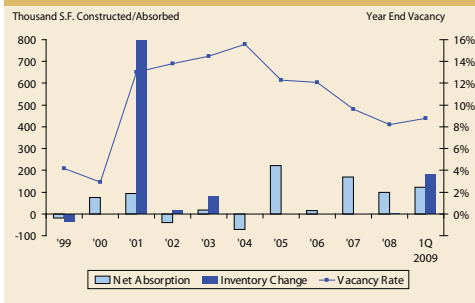
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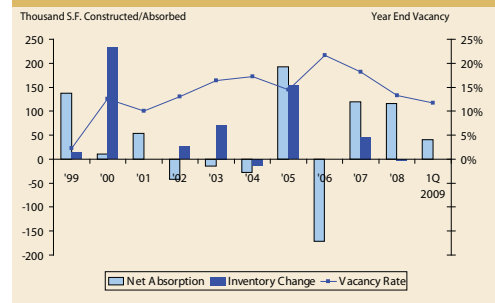
### Downtown Office Market Trends Inventory Change, Absorption and Vacancy



### Clayton Office Market Trends Inventory Change, Absorption and Vacancy



### Mid-County Office Market Trends Inventory Change, Absorption and Vacancy



## Downtown

Class A buildings recorded 24,000 square feet of absorption in the first quarter while Class B gains offset losses. Osborn & Barr was the largest advance for Downtown. In a move from Clayton, they expanded and will occupy 33,000 square feet in Ballpark Lofts II while their permanent location in Ballpark Lofts I is completed. Swan Corporation downsized with its move from One City Centre to Millennium Center, and UMB Bank downsized by 17,000 square feet in conjunction with extending its lease at 10 South Broadway.

Class A vacancy decreased to 21.3% from 21.6% at the end of 2008. Class A space had been as low as 15.8% at the end of 2006, but absorption in the two years that followed totaled negative 340,000 square feet. Class B vacancy remained unchanged at 21.5%. It has decreased from a high of 29.1% at the end of 2004.

Several Downtown tenants are actively considering their options as leases approach expiration. Two of the largest, the 90,000 square foot Polsinelli law firm and brokerage firm Stifel Financial, looking for 150,000 square feet, have expressed preferences for the proposed Ballpark Village. The law firm of Lewis Rice is also seeking approximately 100,000 square feet of office space. Ballpark Village would be the first Downtown multi-tenant office construction in 20 years. Notwithstanding the lack of recent construction, Downtown offers the greatest number of large blocks of contiguous space among St. Louis submarkets. Five Class A buildings and two Class B buildings have contiguous spaces of 100,000 square feet or larger.

## Clayton

The completion of the two Meridian buildings with 114,000 square feet occupied assured that absorption was positive for the first quarter in the Clayton submarket. Absorption totaled 123,000 square feet, with 103,000 square feet occurring in Class A buildings. The loss of Osborn & Barr in 27,000 square feet of Class A space was not the setback it might have been. However, absorption fell short of construction, which added 180,000 square feet to the Clayton inventory. Thus the Class A vacancy rate increased from 5.8% to 7.2%. Class B vacancy decreased from 13% to 12.1%.

Although not yet affecting vacancy, sublease space increased in Clayton in the first quarter. Class A buildings' sublease space increased from 5,000 to 25,000 square feet, and 7,000 square feet of Class B sublease space became available. Of the 32,000 square feet of sublease space available, 24,000 square feet are vacant.

Clayton remains one of the tightest office markets due to a lack of large blocks of contiguous space. The Meridian 4 building with 66,000 square feet remaining is one of only two buildings capable of accommodating a tenant needing 35,000 square feet or more. The top two floors of the Interco Tower offer 36,000 square feet. Some relief will be provided by the headquarters for Centene, currently under construction. Only 50,000 square feet of its 481,000 square feet is projected to be available for lease. Completion is expected at the end of 2010. Other proposals for new office space remain on hold as the ability to secure financing for speculative office space remains difficult.

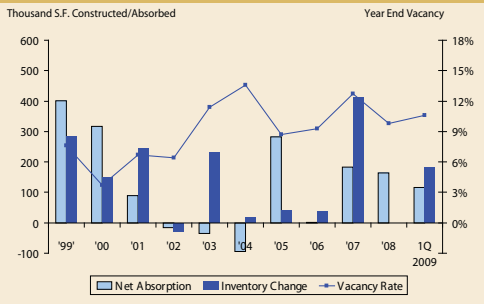
## Mid-County

Mid County is predominantly a Class B market covering Richmond Heights, Ladue, Olivette, and University City. With only ten Class A buildings totaling 241,000 square feet, activity is dominated primarily by Class B users in the Olivette submarket. With little inventory of Class A space, the Class A vacancy in Mid County remained under 1%. Class B buildings absorbed 40,000 square feet in the quarter, and vacancy fell significantly, from 14.8% to 12.9%. No absorption occurred in Class A buildings. The most significant change of the quarter was the lease-up of the Louis London building in University City. U. City Lions and Announce Media each took a floor to fill the 22,000 square foot building.

Only two multi-tenant buildings have been completed in the last five years: The Village at Schneithorst with 18,000 square feet of office space was completed in 2004, and Conway Centre with 17,000 square feet was completed in 2007. Both incorporated first floor retail and are fully occupied. No construction is underway, nor is any new construction proposed.

Nineteen Class B buildings have blocks of 5,000 square feet or greater, but only one has more than 50,000 square feet. One of the largest contiguous blocks being marketed in the suburbs is 82,000 square feet available at 2650 South Hanley Road in the former Cupples Manufacturing facility which is suited primarily for back office users. Currently a total of three buildings in Corporate Square have 35,000 to 50,000 contiguous square feet available for lease.

### North County Office Market Trends Inventory Change, Absorption and Vacancy



### North St. Louis County

Express Scripts vacated 47,000 square feet in Riverport as it moved into the 181,000 square foot second building of its headquarters on University Park Drive. North County recorded 117,000 square feet of net positive absorption. The large contiguous block created by Express Scripts' move, provided the space needed for Es-

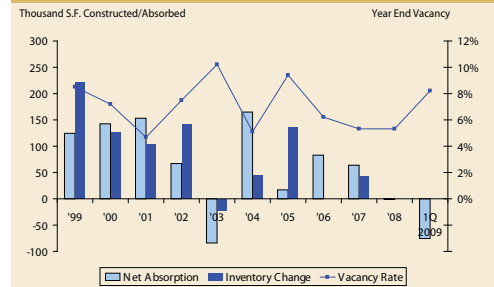
sence Health Care to move its headquarters into that 105,000 square feet of space.

For some years, North County has offered some of the largest blocks of contiguous space. Four Class A blocks of 50,000 square feet or larger remain available in North County, and two Class B buildings have the same capacity. With virtually no speculative office construction, and few markets offering large blocks, North County is well-positioned to attract larger tenants in the near future.

The new construction exceeded absorption for the quarter, pushing the vacancy rate up from 9.8% to 10.6%, Class A vacancy rose from 8.4% to 9.5%. The Earth City submarket of North County had a 15.5% vacancy rate, while the Hazelwood submarket was 6.4% vacant. Also pend-

ing for second quarter completion is the 146,000 square foot headquarters for Elsevier in Riverport. Elsevier will vacate approximately 150,000 square feet in four buildings in Westport.

### South County Office Market Trends Inventory Change, Absorption and Vacancy



### South County

Several South County buildings recorded occupancy losses in the first quarter. The

## UPDATE

MARKET COMPARISONS - FIRST QUARTER 2009

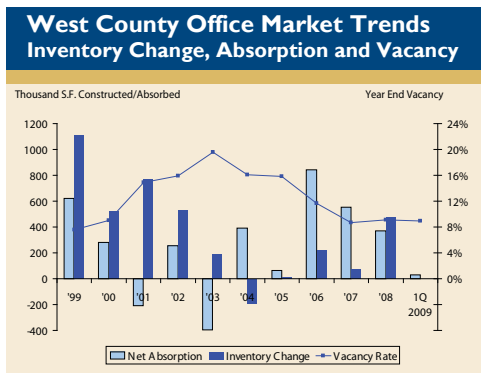
Market	Existing Properties				Absorption		Construction		Rental Rate		
	Bldgs	Total Inventory Sq. Ft.	Direct Vacancy Rate	Sublease Vacancy Rate	Vacancy Rate Current Qtr	Vacancy Rate Prior Qtr	Net Absorption Current Qtr	Net Absorption YTD-Sq. Ft.	Inventory Change Current Qtr Sq. Ft.	Under Construction Sq. Ft.	Asking Full Service Rent \$ Per Sq. Ft.
<b>Downtown:</b>											
A	23	6,842,000	19.9%	0.4%	21.3%	21.6%	24,000	24,000	0	0	\$18.47
B	40	4,559,000	21.5%	0.0%	21.5%	21.5%	0	0	0	0	\$14.59
Total	63	11,401,000	21.2%	0.2%	21.4%	21.6%	24,000	24,000	0	0	\$16.66
<b>Clayton:</b>											
A	30	4,783,000	6.8%	0.4%	7.2%	5.8%	103,000	103,000	180,000	0	\$26.06
B	42	2,226,000	12.0%	0.1%	12.1%	13.0%	20,000	20,000	0	0	\$19.83
Total	72	7,009,000	8.5%	0.3%	8.8%	8.2%	123,000	123,000	180,000	0	\$22.16
<b>Mid-County:</b>											
A	10	241,000	0.5%	0.0%	0.5%	0.5%	0	0	0	0	\$21.00
B	62	2,169,000	12.9%	0.0%	12.9%	14.8%	40,000	40,000	0	0	\$13.53
Total	72	2,410,000	11.7%	0.0%	11.7%	13.3%	40,000	40,000	0	0	\$13.83
<b>West County:</b>											
A	109	10,456,000	6.1%	1.7%	6.8%	6.5%	(33,000)	(33,000)	0	116,000	\$22.33
B	164	6,244,000	12.5%	0.0%	12.5%	13.5%	64,000	64,000	0	0	\$18.13
Total	273	16,700,000	8.5%	0.4%	8.9%	9.1%	31,000	31,000	0	116,000	\$19.77
<b>North County:</b>											
A	26	3,840,000	8.8%	0.7%	9.5%	8.4%	123,000	123,000	118,000	146,000	\$19.80
B	41	1,852,000	12.4%	0.5%	12.9%	12.6%	(7,000)	(7,000)	0	0	\$13.82
Total	67	5,692,000	9.9%	0.7%	10.6%	9.8%	116,000	116,000	118,000	146,000	\$16.01
<b>South County:</b>											
A	21	1,100,000	4.4%	0.0%	4.4%	3.7%	(8,000)	(8,000)	0	0	\$21.16
B	48	1,554,000	7.5%	0.4%	10.9%	6.5%	(68,000)	(68,000)	0	0	\$18.68
Total	69	2,654,000	6.2%	0.0%	8.2%	5.3%	(76,000)	(76,000)	0	0	\$19.18
<b>St. Charles County:</b>											
A	58	3,578,000	9.0%	0.9%	9.9%	10.3%	14,000	14,000	0	30,000	\$17.16
B	22	631,000	8.7%	0.0%	8.7%	8.7%	0	0	0	0	\$13.10
Total	82	4,209,000	9.1%	0.7%	9.8%	10.1%	14,000	14,000	0	30,000	\$15.77
<b>Suburban Total:</b>											
A	254	23,998,000	7.0%	0.6%	7.6%	7.0%	199,000	199,000	361,000	292,000	\$22.06
B	381	14,676,000	11.7%	0.5%	12.2%	12.5%	49,000	49,000	0	-	\$17.54
Total	635	38,674,000	8.8%	0.6%	9.4%	9.1%	248,000	248,000	361,000	292,000	\$19.23
<b>Grand Total</b>											
A	277	30,840,000	10.0%	0.6%	10.6%	10.3%	223,000	223,000	361,000	292,000	\$21.10
B	421	19,235,000	14.0%	0.4%	14.4%	14.7%	49,000	49,000	0	0	\$17.06
Total	698	50,075,000	11.6%	0.5%	12.1%	12.0%	272,000	272,000	361,000	292,000	\$18.71
<b>QUARTERLY COMPARISON AND TOTALS</b>											
Q1-09	698	50,075,000	11.6%	0.5%	12.1%	12.0%	272,000	272,000	361,000	292,000	\$18.71
Q4-08	695	49,714,000	11.0%	0.5%	12.0%	11.8%	158,000	751,000	309,000	573,000	\$18.55
Q3-08	691	49,405,000	11.0%	0.5%	11.8%	12.2%	338,000	593,000	138,000	900,000	\$18.33
Q2-08	690	49,267,000	11.6%	0.4%	12.2%	11.9%	65,000	255,000	262,000	993,000	\$18.39
Q1-08	687	49,005,000	11.3%	0.4%	11.9%	12.2%	190,000	190,000	59,000	1,037,000	\$18.39

The information contained in this report was provided by sources deemed to be reliable, however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.

most significant was the 69,000 square feet vacated by Anheuser-Busch on Landmark Parkway, which is being marketed for sublease. The net for South County was a 76,000 square foot net negative absorption for the quarter.

Anheuser-Busch has placed an additional 197,000 square feet of sublease space on the market in three South County buildings. Laumeier Office Park I has 114,000 square feet available, Laumeier IV has 46,000 square feet, and Laumeier III has 37,000 square feet. In addition, Progressive Casualty Insurance will vacate 17,000 square feet in June at Sunset Place. Class A vacancy in South County stood at 3.7% at the end of 2008, moving up to 4.4% in the first quarter. With just 1.1 million square feet of Class A space, it will not take much new vacancy to push the rate higher. Class B buildings with over 1.5 million square feet, including the space vacated by A-B, increased from 6.5% to 10.9% vacant.

Prior to the availability of the A-B sublease space, only two South County spaces offered over 30,000 square feet; two others had blocks in the low 20,000 square foot range. The long-term attractiveness of the South County market should serve well in bringing tenants to the sublease space.



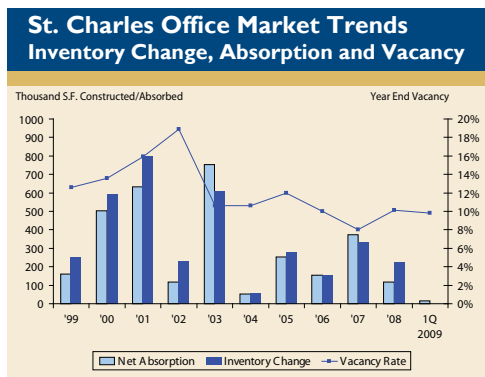
## West St. Louis County

West County recorded a modest 31,000 square feet of net absorption for the first quarter. Class A absorption was negative 33,000 square feet. The single largest Class B gain was 32,000 square feet at the Crossings at Westport. Class B vacancy decreased from 13.5% to 12.5% in the first quarter.

Verizon Wireless vacated 100,000 square feet in the IBM Building, accounting for the majority of net occupancy loss for Class A build-

ings. The building will become part of Scottrade's expansion West County retains the lowest Class A vacancy rate, at 6.8%, other than the much smaller Mid County market.

With nearly 300 buildings, West County boasts a large number of blocks of contiguous space. Seven Class A buildings and seven Class B buildings could accommodate tenants requiring 30,000 contiguous square feet. Buildings currently under construction in West County are all fully leased. Lakeside Crossing Office Two with 116,000 square feet is to be completed in the fourth quarter and occupied by Monsanto.



## St. Charles County

St. Charles County recorded 14,000 square feet of absorption, and vacancy decreased from 10.1% to 9.8%. All gain was in Class A buildings, where vacancy dropped to 9.9%. The largest gain was in 64 West Business Park, where E-Sponder leased the full 10,500 square feet. Stifel Financial leased 7,000 square feet at Summit Place I. A 30,000 square foot office building at 3030 West Clay is scheduled for second quarter completion; it has 27,000 square feet available.

Fireman's Fund has signed a lease for 116,000 square feet at Progress Point Center. Occupancy is scheduled January 2010. St. Charles County has eight Class A buildings offering 10,000 square feet or more of contiguous space available. The largest contiguous block is the former Westar Headquarters with 70,000 square feet available for sublease. Interthinx subleased 11,000 square feet of the original 81,000 square feet in the building. The 370 Corporate Center IV follows with 26,000 contiguous square feet available. Three Class B buildings offer 10,000 contiguous square feet available.

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