

ST. LOUIS OFFICE MARKET

The St. Louis office market is all good, if you are an owner of a quality office building in almost any major submarket. In 2007, downtown St. Louis was the only submarket that experienced negative absorption, and that was only -85,000 square feet. Steady tenant demand and a limited amount of new deliveries over the past 5 years are the primary factors feeding the city's strong office market.

The development community has taken note of this favorable market and has responded by breaking ground for a number of new office projects. There are currently eight significant office projects under construction totaling approximately 1 million square feet which will all be delivered this year.

PROJECT	SUB-MARKET	SIZE	PRE-LEASED
Lakeside Crossing	Westport	125,000 SF	100%
Meridian	Hanley & I-64	150,000 SF	50%
Express Scripts	Airport	181,000 SF	100% BTS
Safety National	Westport	138,000 SF	100% BTS
Central Park Square	Chesterfield	100,000 SF	90%
Highlands Plaza III	Hampton & I-64	80,000 SF	100%
825 Maryville	I-64	80,000 SF	40%
Highlands Plaza Two	Hampton & I-64	67,000 SF	80%

A number of significant deals were executed in the suburban market in 2007. A summary of the major deals follows:

COMPANY	PROJECT	RENTABLE SQUARE FEET
Edward Jones	Westport & Des Peres	650,000
Express Scripts	North Park	181,000
Enterprise Rent-A-Car	Weldon Spring	150,000
Monsanto	Lakeside Crossing	125,000
Vatterott College	Northpark	90,000
Westar	Missouri Research Park	81,000
Moneta Group	Park Place	72,000
Furniture Brands	Shaw Park Plaza	55,000
Time Warner	Summit Point	50,000
Laird Technologies	Chesterfield Ridge	44,000
AEP MEMCO	Central Park Square	41,000
Savvis	575 Maryville	40,000

The above deals were a big part of a wave of activity that saw the St. Louis office market absorb close to 1 million square feet in 2007, which was well above historical absorption levels. In addition to the very healthy absorption activity, the overall occupancy rate for the Class A and B markets has increased to 90 percent. Below is the breakdown of the individual submarkets:

	TOTAL RSF	PERCENT OCCUPIED	NET ABSORP (SF)
CBD	12.2 million	81%	(85,000)
Clayton, Missouri	7.1 million	90%	105,000
West St. Louis County	17.3 million	92%	480,000
North St. Louis County	5.9 million	91%	225,000
St. Charles County	3.85 million	91%	149,000
South St. Louis County	2.7 million	95%	40,000
Metro East (Illinois)	22.08 million	91%	6,000
TOTAL	71.13 million	90%	920,000

For the remainder of the year, pay special attention to tenant activity in the urban core. A number of large law firms are currently evaluating existing opportunities, as well as exploring new development alternatives downtown and in Clayton. There are no fewer than five major law firms actively in the market and seeking spaces from 80,000 to 250,000 square feet. When the music stops, not everyone will get the chair they prefer. Some will be forced to sign long-term leases at new construction rents. Rental rates in the low to mid-\$30 per square foot range are necessary to justify new construction in the downtown and Clayton submarkets. It will be interesting to see where the shifting tenants will end up when all is said and done.

— Michael Donovan is a principal with St. Louis-based Balke Brown & Associates.