

St. Louis Office Market

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1. **St. Louis Office Market**

Good Morning, it is an honor to be here today and it is my objective to give you a "snapshot" of the St. Louis Office Market at this point in time.

2. **2009 Review**

A summary of what I would like to talk about includes:

Market Stats
The Challenges
The Positives
Conclusion & Prediction

3. **Committee Members**

But before I get started today I want to thank my committee members who are some of the best commercial real estate Practitioners in the St. Louis Area.

Lynn Schenk
Tripp Hardin
Terry McCaffrey
Whit Varley
Mike Wolken
Ed Dinan

4. **Additional References**

Tim Alexander - RCGA
Joe Monteleone - Q10 Triad Capital Partners
Molly Mastin – Research Gateway Commercial

We are very fortunate to have a broad range of perspective on our office market and after gathering and processing all of the information. I was provided this best describes the results.

5. **Irving Quote**

6. **Market Statistics**

Now for some real estate statistics.

We have an office investor of around 50 million square feet in our metro area. (This excludes owned corporate headquarters buildings, government buildings and medical buildings).

Over the last 12 months we have had just under 1.0 million square feet of negative absorption. And the vacancy rate has gone from around 12% to 16%.

These increases in the vacancy rate are primarily due to a decrease in office jobs and not over building.

7. **Market Statistics - Un-employment**

National rate is in green and St. Louis is in yellow thus the un-employment rate has gone from 5% to 6% to about 10% over the last 3 years.

8. **Office Statistics - Direct Asking**

So look what has happened to Direct Office Asking Rates. The CBD is down but Suburban rates are up.

The reason for this is we now have some suburban office space on the market.

9. **Office Stats - Size Available**

What is available?

- 100,001 sf plus 16 spaces

- 80,000 sf to 100,000sf 18 spaces
- 60,001 sf to 80,000 sf 22 spaces
- 40,001 sf to 60,000 sf 51 spaces
- 20,001 sf to 40,000 sf 124 spaces

10. **The Challenges**

So now that we have seen the statistics - what does this mean and what are the challenges?

This really depends on your perspective in the market.

Landlords and Sellers are challenged. Tenants and Buyers seem to be pretty happy.

11. **The Challenges - Office Overview Perspective**

If you are trying to sell an empty office building

- 1) Buyers have numerous options
- 2) Buyer are expecting bargains
- 3) Buyers need real equity in order to finance

If you are a Landlord

- 1) Tenants have numerous options
- 2) Limited Leasing Activity
- 3) Availability of Tenant Improvement Dollars

12. **Challenges - Vacancy Rate**

How to fix this.

- a) Eliminate Product - (conversions/tear downs)
- b) Create Office Jobs
- c) Both

Office space is different than industrial and retail space because about the only way you can fill office space is with **OFFICE JOBS**

As a point of clarification we are talking about general office space here and not medical office space. I have not included medical space in my statistics because in order to fill medical space you need doctors, nurses and sick people and that would be an entirely different dynamic.

13. **Challenges - Fixing the Vacancy Rate**

Current Rate 16%

The Rate Total 12%

Delta 4% or about 2 million square feet

Employed office worker use about 200 sq. ft. per person.

Need about 10,000 jobs - to get the office vacancy rate back to 12%

14. **Office Job Growth**

I think this slide speaks for itself.

15. **Market Defining Factors**

Will the Stimulus Package work? That could be debated for weeks, months and years as it is on CNN and Fox News.

Probably not - according to Stimulus Watch we have recorded about \$323 million in the metro area and it has created about 391 jobs.

(About \$826,000 per job*)

Ronald Reagan once said "The governments view of the economy could be summed up in a few short phrases. If it moves tax it , if it keeps moving regulate it and if it stops moving subsidize it.

16. **The Positives**

So what is the good news and what are the positives?

Although our region recently lost Anheuser Busch and May Co. we have some great companies that are committed to our area and have been expanding include:

Monsanto
BJC and the other hospitals
Scott Trade
Edward Jones
Express Scripts
Centene

The following is rather extensive list of what I will call significant transaction (50,000 SF or better) that have either been completed in the last 12 months or will be completed in the next 6 months.

Lots of good news but we need to go over it fast.

17. **Positive Significant Sales**

Monsanto is buying back their 1.3 million SF west campus from Pfizer.

Scott Trade purchased 380,000 SF of space expansion in Maryville.

18. **Positive Significant Sales**

Code Consultants purchased the former Safety nation building in Westport. (DID I mention Safety National expansion was a few years ago)

The former Mosby (Reed Elsevier) Campus was sold to Summit Westline Investors to accommodate DeVry University Expansion.

19. **The Positives - Significant New Lease**

Fireman's Fund leased 110,000 SF at Progress Pointe in O'Fallon, MO.

Monsanto took 116,000 SF at Lakeside Crossing.

(If you are keeping score that is over 1.4 million SF for Monsanto).

20. **The Positives**

Husch Blackwell Sander renewed and expanded into 212,000 SF at the Plaza in Clayton.

And our understanding is Panera will end up in around 110,000 SF in and around the Sunset Hills area.

21. **Positives - New Lease**

Essence Healthcare took 104,000 SF in Riverport and BJC leased about 120,000 SF in the Meridian for administration space.

22. **Positive - New Lease**

The new 470,000 SF Centene Plaza development in Clayton.

Centene took 195,000 SF

Armstrong Teasdale took 131,000 SF

Stinson Morris took 48,000 SF

23. **Positives - New Lease**

In the City

Confluence Academy leased 125,000 SF

Lewis Rice took about 100,000 SF at One City Centre

24. **Positive - New Lease**

Also in the City

80,000 SF expansion and extension for Posinelli

And the CMS Software leased 53,000 SF in Riverport

25. **The Positives - Investment Sale**

Lakeside Crossing I after leased to Monsanto in 2008 sold in 2009.

(Again, if keeping track Monsanto is now north of 1.5 million SF)

I-170 Office Centre sold for about \$101/SF

26. **The Positives - Investment Sale**

Lakeside Crossing II after leased to Monsanto sold for about \$162/SF.

And Woods Mill Pointe sold for just under \$100/SF

27. **Positives - Investment Sale**

The Reed Elsevier Investment Building in Riverport brought \$144/SF from

Bank of America Plaza a 750,000 SF CBD office building sold for about \$64/SF

28. **Positives - Investment Sale**

Creve Coeur

2 older Class "B" buildings sold one for \$20.000/SF and the other for \$29/SF.

Showing signs of a soft market but activity.

29. **Positives - Investment Sales**

In Clayton we had the Sale of Pierre Laclede for \$74,250,000 - about a month ago and it is interesting to note it sold for \$75,000,000 in 2006. Clayton is holding up pretty well.

30. **The Positives - New Development**

The positives continue with new developments. Although some mention previously

Edward Jones (Maryland Heights)	372,000 SF
Edward Jones (Des Peres)	311,000 SF
Express Script (Buidling II)	181,000 SF
Reed Elsevier	146,000 SF
Centene	470,000 SF
	1,480,000 SF

31. Positives - Summary

	<u>Size</u>	<u>Estimated Value</u>
Significant Office Sales	1,892,000 SF	\$505 Million
Significant Office Leases	1,400,000 SF	\$413 Million
Significant Office Investment	<u>2,226,000 SF</u>	<u>\$190 Million</u>
Total	5,518,000 SF	\$1.108 Billion
New Office Development	1,488,000 SF	\$370 Million
Total	7,006,000	\$1.478 Billion

32. The Positives

When we pull out investors and focus on office space users we have about 4,275,000 million in transaction and this chapters shows the type of users currently taking space.

33%	Plant Science (Monsanto)
25%	Financial
14%	Healthcare Administrative
13%	Legal
8%	Education
7%	Other

33. Conclusions

So what can we conclude?

- Only office jobs will solve the office vacancy problem.

- There is a lot of positive news in the St. Louis Region.
- We will need financing to assist with the recovery.
- People and business' cannot rely on government to solve the economic problems
- There are more real estate opportunities than ever before.
- Need to revisit the basics ---Square 1.

34. **Predictions**

Solid companies will continue to take advantage of Real Estate Opportunities

We will require less Government to get us out of the Resession.

(Reagan quote: "If you are afraid of the future, then get out of the way and stand aside, the people of this country are ready to move again.")

Banks and other Financial Institutions will get back in the game but with much more conservative products and underwriting.

Lastly, pretty sure about this one: St. Louis Rams will have a better year in 2010 than 2009.